

ALASKA STATE LEGISLATURE  
**SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE**

February 7, 2001  
1:30 p.m.

**MEMBERS PRESENT**

Senator John Torgerson, Chair  
Senator Alan Austerman  
Senator Randy Phillips

**MEMBERS ABSENT**

Senator Georgianna Lincoln  
Senator Pete Kelly

**COMMITTEE CALENDAR**

**SENATE BILL NO. 4**

"An Act relating to a mandatory exemption from municipal property taxes for certain residences and to an optional exemption from municipal taxes for residential property; and providing for an effective date."

HEARD AND HELD

**SENATE BILL NO. 48**

"An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs; and relating to incorporation of second class boroughs in the unorganized borough and to annexation of portions of the unorganized borough to boroughs and unified municipalities."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

SB 4 - No previous action recorded.  
SB 48 - See minutes dated 1/31/01.

**WITNESS REGISTER**

Senator Therriault  
State Capitol Building, Room 121  
Juneau, AK 99801

**POSITION STATEMENT:** sponsor SB 4

Kevin Ritchie  
Alaska Municipal League  
217 2nd Street  
Juneau, AK 99801  
**POSITION STATEMENT:** Supports SB 4

Dan Dickinson, Director  
Dept. of Revenue  
550 W. 7th Ste 500  
Anchorage, AK 99501-3566  
**POSITION STATEMENT:** Explained impacts of SB 4

Steve Van Sant  
State Assessor  
550 W. 7th Ste 1790  
Anchorage, AK 99510-3510  
**POSITION STATEMENT:** Explained impacts of SB 4

Burt Cottle, Mayor  
P.O. Box 307  
Valdez, AK 99686  
**POSITION STATEMENT:** Supports SB 4

Nadine Hargesheimer  
Fairbanks North Star Borough  
Fairbanks, AK 99701  
**POSITION STATEMENT:** Supports SB 4

Mr. Pat Poland, Director  
Community and Business Development  
550 W. 7th Ste 1790  
Anchorage, AK 99510-3510  
**POSITION STATEMENT:** Explained revenue impacts of SB 48.

Wayne Schaffer  
P.O. Box 538  
Gakona, AK 99586  
**POSITION STATEMENT:** Against SB 48.

Dianne Jenkins Achman  
P.O. Box 149  
Tok, AK 99780  
**POSITION STATEMENT:** Asked questions about SB 48.

Mayor Ed Zeine  
P.O. Box 34  
Cordova, AK 99574  
**POSITION STATEMENT:** Supports SB 48.

R.J. Kopchak  
P.O. Box 1210  
Cordova, AK 99574

**POSITION STATEMENT:** Explained Cordova's economic position.

Michael Nelson  
P.O. Box 375  
Tok, AK 99870

**POSITION STATEMENT:** Against SB 48

Dave Dengel  
P.O. Box 307  
Valdez, AK 99686

**POSITION STATEMENT:** Opposed to Section 2 of SB 48.

MR. Joseph Riley  
Box 540  
Gakona, AK 99586

**POSITION STATEMENT:** Commented on SB 48 issues.

Ms. Debbie Muir  
P.O. Box 333  
Tok, AK 99780

**POSITION STATEMENT:** Opposed to SB 48.

**ACTION NARRATIVE**

**TAPE 01-3, SIDE A**

Number 001

**CHAIRMAN JOHN TORGERSON** called the Senate Community & Regional Affairs Committee meeting to order at 1:30 P.M. Present were Senators Austerman, Phillips and Chairman Torgerson. Senator Kelly was expected to arrive late and Senator Lincoln was represented by staff because she was ill.

The first order of business was SB 4.

#SB 4

**SB 4-MUNICIPAL PROPERTY TAX EXEMPTION**

**CHAIRMAN TORGERSON** called Senator Therriault forward to give an overview of the bill.

**SENATOR THERRIAULT** said the bill was introduced under his name as a reaction to a request from the Fairbanks North Star Borough

Assembly because more local flexibility is desired with respect to the residential property tax exemption.

The interest stems from the proposed 10-mill cap on property taxes and the feeling that property owners bear an unreasonable portion of the government expenses. SB 4 proposes to raise the ceiling from \$10,000 to \$50,000 on the amount a municipality may offer in residential property tax exemptions. The exemption is subject to local taxing authority discretion, as is currently the case. The current cap has been in effect since 1974 so it is time to revisit the issue.

Number 47

SENATOR THERRIAULT said that it was also brought to his attention that the mandatory exemption for senior citizens and veterans provides no mechanism for local governments to assess property taxes mid year if a property changes hands from an exempt party to a non-exempt party. SB 4 allows municipalities to prorate taxes after such transfers of ownership but there is no wording for prorating in the other direction, from non-exempt to exempt. He suggested that this is something the committee might want to consider and he welcomes the discussion. However, it is time to address the issue of prorating taxes.

Number 84

SENATOR THERRIAULT said that the state assessor was on line and available to answer questions about the bill's impact on state revenues. Although it was not his intention to impact the state treasury, a borough raising the exemption cap to \$50,000 and then raising the mill rate to make up the revenue loss, would impact state revenues. At the same time, he wanted committee members to realize that the estimates of the revenue losses are just that, estimates. Exact figures are very difficult to establish.

Members of service areas in the Fairbanks North Star Borough have contacted Senator Therriault asking if adjusting their mill-rate up is the only way to capture lost revenue. He has been in discussion with his local government and is looking at ways to structure the bill so that service areas are not adversely affected. This could mean that the exemption can be offered on the portion of the mill rate that covers general government services, or things offered area wide. Service areas could be picked out saying they operate outside that exemption.

SENATOR THERRIAULT said he realizes that the provision of the bill that allows the senior citizen property tax mechanism to be

modified for prorating collection of property tax opens the bill to include that section of the statutes. He said he would understand if the committee chose not to address that area of the statutes.

CHAIRMAN TORGERSON agreed but said it was something that needed review. With small governments, a floating date for tax exemption, rather than a January 1 eligibility cut off for the entire year, could have a large impact causing budget shortfalls.

CHAIRMAN TORGERSON asked for anyone else wanting to testify on SB 4.

MR. KEVIN RITCHIE from the Alaska Municipal League came forward to state his endorsement of the bill. He said this bill allows municipalities an additional tool for local control of property tax equity.

CHAIRMAN TORGERSON asked his opinion on the impact on service areas or small governments if a floating date for property tax exemption was adopted.

MR. RITCHIE said he was not in the room during that discussion and couldn't comment.

SENATOR PHILLIPS had the same concern.

Number 193

CHAIRMAN TORGERSON explained that the concern was the impact on small governments or service areas where a relatively large number of properties may be exempted and revenue would be lost. The only choice to recover that revenue would be to adjust the mill rate upward. With this in mind, the committee would be charged with the task of trying to exempt some service areas. As the local government representative, he was interested in Mr. Ritchie's thoughts on the matter.

MR. RITCHIE said that Steve Van Zant might be a better person to answer the question but that he didn't feel that the amount of money involved would be substantial.

CHAIRMAN TORGERSON asked whether Steve Van Zant was on line and had he heard the question.

MR. STEVE VAN ZANT, state assessor, said he had asked all assessors for their input on the exemption issue. They didn't think that the impact would be substantial but service areas weren't asked specifically, just municipalities in general.

SENATOR PHILLIPS asked for the Anchorage figures. He had the figures for Fairbanks, Kenai, North Slope and Valdez and wondered if Anchorage might not be affected.

MR. VAN ZANT referred the question to Dan Dickinson.

MR. DAN DICKINSON, Director of the Tax Division, Department of Revenue, said that Anchorage plays a very small roll in terms of the effect this legislation plays on state revenues.

CHAIRMAN TORGERSON thought the fiscal note was fairly self-explanatory.

SENATOR THERRIAULT addressed Senator Phillips' question saying that there are just five municipalities that currently exercise the optional exemption: Bristol Bay, Fairbanks North Star Borough, Kenai Peninsula Borough, North Slope Borough and City of Valdez. Anchorage doesn't show on the spreadsheet because they aren't currently exercising the option.

CHAIRMAN TORGERSON asked "If the state is faced with another 10-mill cap initiative and that was to pass, that would, I'm assuming, preclude the taxing jurisdictions from increasing the mill rates so this would, actually, come right off the bottom line. Is that the way to read this?"

MR. VAN SANT said that this is very different than a 10-mill cap. In fact, in the situation discussed here, it is assumed that the municipalities affected would try to make up the state revenue some other way such as by increasing the mill rate. If a 10-mill cap were layered over that the affect would be different. The revenue shortfall would have to be made up with alcohol taxes, bed taxes and others that are not property tax.

CHAIRMAN TORGERSON asked that the record show that Senator Kelly arrived during the previous discussion.

SENATOR THERRIAULT wanted to clarify for committee members that the real concern for service areas comes from the second portion of the bill dealing with the cap increase from \$10,000 to \$50,000. To make up for budget shortfalls, local government would have to increase the mill rate and therefore shift more of the local property tax burden to undeveloped land and businesses and there would be local pressure not to do that.

SENATOR THERRIAULT wanted to make clear that current wording in the statute says that voters would have to ratify the ordinance.

CHAIRMAN TORGERSON asked if the laws outlining the meeting dates for the Board of Equalization (BoE) would have to be changed.

MR. VAN SANT said he didn't anticipate any problem because property values would be set by the time the BoE meets in April.

CHAIRMAN TORGERSON called on Nadine Hargesheimer from Fairbanks.

MS. NADINE HARGESHEIMER with the Fairbanks North Star Borough supports SB 4, particularly the increase in the cap from \$10,000 to \$50,000. She said that people are generally comfortable with the level of service received but perhaps not with the funding source. About 80 percent of the Fairbanks North Star Borough revenues are derived from property tax. They have created an alternative revenue task force that communicates with the public to determine how services will be funded. Although the increase in the residential exemption may or may not be used, they actually view the exemption as a tool in the process. If there is another revenue source available, they might not increase the residential exemption but they aren't ready to do without the revenue. There would still need to be passage by the assembly and public ratification.

She said there would be an impact on service areas. They have every intention of keeping fire, emergency and road services whole. If more residential land is exempted then the mill rate will have to go up. They have widely varied population densities in different service areas and they don't know how business will be affected in each of these areas if the residential exemptions are increased. It could range from onerous to a non-event but they won't know until they begin looking at the specifics in each area.

CHAIRMAN TORGERSON asked if she had the spreadsheet prepared by Steve Van Sant titled "Estimated Revenue Loss Due to Increased Allowance for Residential Exemption". He said it looks as though the state would lose money if the borough wide mill rate were increased.

MS HARGESHEIMER agreed and said they were looking at implementing revenue sources separate from property tax so that revenue stays the same and people are paying less property tax. They are looking at alcohol, sales, and personal property taxes, not the mill rate. They want to shift the burden from the property owners.

CHAIRMAN TORGERSON commended those efforts, but said there was still the possibility that if the mill rate were increased, the state would lose \$1.6 million in revenue.

MAYOR BURT COTTLE of Valdez testified that they too were in support of SB 4. It is their belief that they would have greater local control and taxes would be stabilized with passage of SB 4.

CHAIRMAN TORGERSON said that SB 4 would be set aside and heard again.

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Number 326

#SB48

**SB 48-MUNICIPALITIES:INCORP/PROPERTY VALUATION**

CHAIRMAN TORGERSON read the full title of SB 48. He said Senator Wilken had given the sponsor's statement and the Boundary Commission had given their initial reaction in the 1/31/01 hearing.

CHAIRMAN TORGERSON asked Pat Pollen to come forward and address the revenue impacts of SB 48 to municipalities.

MR. PAT POLAND, Director of Community and Business Development, said that in an effort to explain the possible fiscal impacts of SB 48 he had summarized the statewide programs and the potential impacts of each. There are extreme variations by region, so to have a meaningful discussion about a particular region, calculations for that region would have to be addressed. He said that Bill Rolfzen was available to answer technical questions on the following programs.

- **National Forest Receipts Program:** Distributes federal funds for education and roads only to organized boroughs, REAAs, and cities within national forests. If both national forests in Alaska were wholly included in organized boroughs, four REAAs and 16 cities located within the unorganized portion of the Tongass and Chugach National Forests would become ineligible for funding.

Potential Impact: The \$5,567,748 currently received each year by the four REAAs and 16 cities would be shifted to organized boroughs. The organized boroughs would assume responsibility for education in the areas previously served by the four REAAs and in 9 of the 16 cities that currently provide education services. The revenue is redistributed, not lost.

- **Payment in Lieu of Taxes (PILT):** This program provides payments to local governments containing federal lands (national forest, national parks, etc.). Due to a special Alaska provision, 96 cities in the unorganized borough receive

PILT funds amounting to \$5.1 million annually.

Potential Impact: If the unorganized borough became incorporated as boroughs, the cities located within those boroughs would become ineligible for PILT funds. Those funds would subsequently be distributed directly to the new boroughs. Again, this is a shift in revenue, not a loss.

- **State Revenue Sharing:** Unincorporated communities and volunteer fire departments (VFDs) located within the unorganized borough qualify for funding under the state revenue sharing program. Currently, 65 unincorporated communities receive a total of \$241,000 annually and 21 VFDs received a total of \$12,000 annually.

Potential Impact: Upon incorporation of a borough, these entities would no longer be eligible for funding. Their allocations would be redistributed to all municipalities under the existing revenue sharing formulas. Monies would be redistributed.

- **Unincorporated Capital Match Grant:** There are currently two state capital matching grant programs. One program provides funding for municipalities that share available funding through a formula-based allocation. A second program provides fixed \$25,000 capital matching grants for unincorporated communities located within the unorganized borough. Currently, 74 unincorporated communities participate and receive a total of \$1,850,000 annually.

Potential Impact: If the unorganized borough were incorporated entirely as boroughs, the unincorporated communities would no longer be eligible for direct participation in the program. Funding for the unincorporated community program would be rolled into the municipal capital match program in which the newly incorporated boroughs would participate.

- **Fisheries Business Tax:** Under the Department of Revenue Shared Fisheries Business Tax Program, cities located within the unorganized borough retain one-half of the state fish tax collected based on fish processing that occurred within their respective city boundaries. Last year, 30 cities located in the unorganized borough received a combined total of about \$7.7 million.

Potential Impact: Cities located within a borough are required to split the local share with the borough. Consequently, after

incorporation of a new borough, half of this locally shared amount would be distributed to the new borough in which the city is located. This change in distributing fish tax funds would occur over a five-year period.

MR. POLAND stressed that this was a quick review but that analyzing a particular region is necessary in order to draw accurate conclusions about impacts.

CHAIRMAN TORGERSON asked about needing feasibility studies before boroughs are enacted.

MR. POLAND said there is no such requirement. Rather, there is a provision in statute allowing regions to request grants of about \$100,000 to do feasibility studies. The fiscal note reflects that amount being spent for an on the ground contractor to collect feasibility data such as potential revenue sources and financial impacts.

CHAIRMAN TORGERSON asked where the responsibility lay for determining titles and boundaries.

MR. POLAND said they anticipate spending up to one-half of the \$100,000 in that area. They would take a professional sampling to determine the nature of the property in an area. Their expectation is that in the majority of the cases, property tax isn't going to be the mechanism used to generate revenue to support a borough. If it were, it would come from a principle source such as oil and gas properties.

CHAIRMAN TORGERSON asked, "If they did oil and gas property would they require them to levy a tax on all the residents of the borough?"

MR. POLAND said yes, they would.

CHAIRMAN TORGERSON asked whether a title search would be required on all properties before the tax is levied.

MR. VAN SANT said that, in most cases, some title searches would have to be done to determine ownership, which properties are taxable and where tax bills should be mailed.

CHAIRMAN TORGERSON asked for the fiscal note prepared several years ago on this issue. He was particularly interested in the provision for oil and gas property valuations if property taxes were instituted.

He also wanted information on land grants available to each borough.

MR. POLAND said 10 percent of the vacant, unreserved, unappropriated property is available for land grants to boroughs. Any land that is resource rich is already reserved by the state and not selectable.

SENATOR AUSTERMAN asked Mr. Poland about cities around the state that have dropped their classification because they couldn't afford to keep the city or municipality going.

MR. POLAND said there were several communities that dissolved about six or seven years ago. Although the small governments were struggling, the primary motivation in these cases was a desire to embrace tribal government.

SENATOR AUSTERMAN wanted to know the impact this bill would have on these types of communities.

MR. POLAND said there shouldn't be direct financial impacts. He pointed out that one of the strengths of a regional government is that issues that are difficult to deal with on an individual community level are more easily addressed on a regional level.

SENATOR KELLY asked why there were no longer any 3rd class boroughs.

MR. POLAND said that 3rd class boroughs were basically incorporated school districts with no planning power. It was thought that if there was going to be a regional government they should have planning power. Through legal amendments, the 2nd class borough became more flexible and the 3rd class boroughs were no longer needed.

Number 593

CHAIRMAN TORGERSON called for public testimony.

Side B

MR. WAYNE SCHAFFER from Slana, outside Tok, said that people in his area see no reason for boroughs or taxation since there was no tax base in the area.

MS. DIANNE JENKINS AKIN from Tok spoke for the chamber of commerce and herself. She said there is no tax base and most lands in the area are either federal or native. She said that they want to know

where the seat of government would be located and what benefits they could expect to receive.

MAYOR ED ZEINE of Cordova said the Cordova City Council has given unanimous approval for SB 48. Two years ago, they conducted a study to review the economic benefits of forming a borough and how Cordova and Prince William Sound would be affected. The Boundary Commission has a copy of that study.

MR. R.J. KOPCHAK said Cordova and other Prince William Sound communities had studies done beginning in the early 1970s. In 2000, there was an economic profile of Prince William Sound done documenting the economies of the region. It was determined that there are sufficient resources to fund a borough government.

Cordova favors SB 48 due to frustration relating to regional government over the last several decades. This bill removes many obstacles and makes it possible for a motivated community to bring a borough government to regional attention. They see borough government as beneficial to education, land use, and long-term resource management.

Number 526

CHAIRMAN TORGERSON asked why Cordova didn't petition to form a borough without the bill.

MR. KOPCHAK said that a regional petition relating to borough government is fairly complicated and drawn out and that Cordova is a very small town without the human resources to bring a petition to fruition.

CHAIRMAN TORGERSON thought that perhaps the petition process should be studied if it presented such difficulties.

MICHAEL NELSON from Tok testified that he couldn't see that taxes are justified in areas that are small and without many job opportunities.

DAVE DENGEL, City Manager of Valdez, said the city council hasn't taken an official position on SB 48 but that, in the past, they have objected to any legislation requiring formation of boroughs. Section 2 of SB 48 causes the most concern because Valdez wants to be able to vote on whether or not they form or join a borough. The city willingly pays a substantial amount for education and they will continue to do so. However, it is important to note that the tax base in Valdez is declining from five to ten percent per year due to devaluation of pipeline properties. Understanding the

implications of the decline in valuation is important for not just Valdez but the entire Prince William Sound when considering borough organization.

Number 466

CHAIRMAN TORGERSON asked whether Mr. Dengele anticipated the council taking a vote for or against as a resolution.

MR. DENGEL said they probably would.

SENATOR PHILLIPS asked Mr. Shafer from Slana if he felt he should pay something toward the cost of education.

MR. SHAFER said the revenue base in his area was zero and that imposing taxes on the residents would cause the businesses in town to fail and jobs to be lost.

SENATOR PHILLIPS said that the unorganized areas of the state were going to have to pay something toward education even if it was a reduced amount.

MR. JOE RILEY of Gakona asked if the lands belonging to Native corporations would be taxed.

CHAIRMAN TORGERSON said that Congress exempts undeveloped Native lands from taxation.

MR. RILEY asked if they would have a say in the type of tax to be levied if this bill were to pass.

CHAIRMAN TORGERSON said that this bill lets the department nominate areas to go before the Boundary Commission. There would be plenty of opportunity for public comment.

MR. RILEY said he would like to see more than the one required public hearing.

CHAIRMAN TORGERSON said that was a good point. He then reminded everyone that the purpose of this meeting was to take public testimony and not to debate the merits of the bill.

MS. DEBBIE MUIR from Tok said that the community isn't ready to pay taxes and they are particularly unhappy at the prospect of having the right to vote on annexation or borough formation taken away.

CHAIRMAN TORGERSON asked for any other public comment. There was

none so he closed the public comment portion of the meeting.

Number 345

CHAIRMAN TORGERSON asked Mr. Poland whether the \$300,000 grant for incorporation expenses should be adjusted upward. He referenced Cordova's comment that they couldn't afford the current petition application for borough formation.

MR. POLAND said some clarification was in order. It was his understanding that the city of Cordova commented that with their existing resources they don't have the capacity to fully explore and develop a petition. Separate from that, there is an organizational grant providing \$300,000 the first year, \$200,000 the second year and \$100,000 the third year that would go to a region after it had formed a borough.

He also said that a law was put on the books a number of years ago allowing a region to apply for up to \$100,000 in grant monies to explore the feasibility of establishing a borough but to his knowledge, that program was never funded.

CHAIRMAN TORGERSON asked if they had funded the Prince William Sound study.

MR. POLAND didn't believe so; that Coastal Zone Management was involved there.

SENATOR PHILLIPS asked what "each area having the opportunity for public comment" meant.

MR. POLAND said the general practice is to go to population centers but that the department and commission makes an effort to allow everyone to appear in person and be heard.

CHAIRMAN TORGERSON said that issue had been addressed previously but it might warrant revisiting. He asked for other comments or questions. There were none.

CHAIRMAN TORGERSON announced that the bill would be held over. Public testimony would be taken on Saturday February 10, 2001 from 1:30 to 3:30 p.m. Senator Phillips would be available via teleconference.

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There being nothing further to come before the committee, the meeting was adjourned at 2:45 p.m.

