

ALASKA STATE LEGISLATURE
SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

April 24, 2002
2:00 p.m.

MEMBERS PRESENT

Senator John Torgerson, Chair
Senator Alan Austerman
Senator Randy Phillips
Senator Pete Kelly

MEMBERS ABSENT

Senator Georgianna Lincoln

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 27

Relating to urging the Local Boundary Commission to adopt standards and procedures to enable the commission to return a petition for a local boundary change to the petitioner when the commission determines the petition is substantively deficient or in need of substantial amendment or supplementation.

MOVED HCR 27 OUT OF COMMITTEE

SENATE BILL NO. 365

"An Act relating to municipal improvement areas."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

HCR 27 - No previous action to record.

SB 365 - No previous action to record.

WITNESS REGISTER

Representative Drew Scalzi
Alaska State Capitol Room 13
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HCR 27

Abigail Fuller
No address provided
Homer, AK 00603

POSITION STATEMENT: Testified on HCR 27

Vi Jerrell, PhD.
No address provided
Homer, AK 00603

POSITION STATEMENT: Testified on HCR 27

Pete Roberts
P.O. Box 1134
Homer, AK 00603

POSITION STATEMENT: Testified on HCR 27

Kristy Tibbles
Staff to Senator Ben Stevens
Alaska State Capitol, Room 119
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced SB 365

Steve Van Sant
State Assessor
Department of Community & Economic Development
550 W. 7th Ave Suite 1770
Anchorage, AK 99701-4589

POSITION STATEMENT: Testified on SB 365

Mark Pfeffer
425 G Street
Anchorage, AK 99501

POSITION STATEMENT: Testified on SB 365

Devon Mitchell
No address provided

POSITION STATEMENT: Testified on SB 365

ACTION NARRATIVE

TAPE 02-10, SIDE A

CHAIRMAN JOHN TORGERSON called the Senate Community & Regional Affairs Committee meeting to order at 2:00 p.m. Present were Senators Kelly, Austerman and Chairman Torgerson.

#HCR 27

HCR 27-LOCAL BOUNDARY COMMISSION PROCEDURES

REPRESENTATIVE DREW SCALZI, bill sponsor, introduced the legislation by stating the following:

The Local Boundary Commission (LBC) is charged with the review of petitions seeking local boundary changes,

approval or denial of those petitions as submitted or as the LBC sees fit to modify them.

What happened recently in my area is that the City of Homer asked for an annexation petition that was very excessive as to what was finally ratified and agreed to by the LBC. In asking for 25 square miles of new property, they were essentially more than doubling the size of the community. They felt that it was up to the LBC to make that determination. The LBC did so after two years of very tense and contentious public testimony. Having been involved in that, my attitude was I'm glad we had a third independent party, which was the LBC, to make that decision. However, it did drag a lot of people through an unnecessary process when this was excessive in nature. The City of Homer finally was satisfied with a 4.5 mile are that the LBC had modified it down to.

What this resolution asks is that the LBC adopt new regulations that would allow them, early in the process, to remit a petition that is significantly deficient. If it was too excessive they could have a hearing and they could find it was way out of line or if it was too small and they would be able to send it back to the city and say, do your homework again, we're not going to do it for you. Nor are we going to drag the public through an arduous process.

He said the LBC is in support of the resolution.

CHAIRMAN TORGERSON called for testimony.

ABIGAIL FULLER testified in support of HCR 27. Although it doesn't address all the concerns she has about the process of changing boundaries, the LBC does need to be able to reject petitions out of hand and send them back for revision when there clearly is a problem. "This bill is a small step in the right direction."

VI JERRELL, PhD. testified in support of HCR 27, which urges the LBC to adopt standards and procedures to enable them to return a petition when they determine the petition is substantially deficient or in need of substantial supplementation.

PETE ROBERTS, President of the Citizens Concerned About Annexation, testified in support of HCR 27. He believes that:

- Cities shouldn't be able to select the manner in which an annexation is held. That decision should be made by the LBC.
- Major hearings should be held mid way through the process so what is said at the hearing can have some affect on the process.
- The LBC should set the regulations to use due process

CHAIRMAN TORGERSON agreed with the testifiers, it is a small step, but this is a start in the right direction.

There was no further testimony.

He asked for the will of the committee.

SENATOR AUSTERMAN made a motion to move HCR 27 and attached fiscal note from committee with individual recommendations.

There being no objection, it was so ordered.

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#SB 365

SB 365-MUNICIPAL IMPROVEMENT AREAS

KRISTY TIBBLES, legislative assistant to Senator Ben Stevens, introduced SB 365 and read the following into the record:

Current statute allows a municipality to issue bonds for the redevelopment of blighted areas funded only by the tax revenues generated by the increased tax base that occurs as a result of the development. This financing tool is referred to as tax increment financing.

Senate Bill 365 has been introduced to provide greater flexibility for municipalities to finance public improvements to blighted areas.

Senate bill 365 is written to essentially do three things:

It clarifies statute so that municipalities may use tax increment financing (TIF) with general obligation bonds or revenue bonds, or a combination of both. The current provision is silent, leaving the matter to judicial interpretation.

It allows the tax increment financing to be used to improve both public improvements and private improvements of blighted areas.

It also creates the definition of "improvement area" which broadens the earlier restriction that tax increment financing be used only with blighted areas, to give municipalities a better and more flexible financial tool.

This enhancement in statute will allow and encourage municipalities to shape development of town centers as outlined in Anchorage's 2020 Comprehensive Plan.

The municipality supports SB 36

SENATOR AUSTERMAN asked for an explanation of proposed amendment #1.

MS. TIBBLES replied there is a companion bill in the House and the municipality of Anchorage suggested removing "or private" on page 1, line 6.

SENATOR AUSTERMAN made a motion to adopt amendment #1. There being no objection, amendment #1 was adopted.

He said his question was in reference to how far the taxing ability could be taken. Reading on page 2, subsection (b), beginning on line 2 it doesn't talk about obligating the municipality that has issued the bonds. When it says, "and other area" it made him wonder whether they could go to a different area to collect revenue if they weren't able to collect enough tax in the "improved" area.

STEVE VAN SANT, state assessor, said he too was a bit concerned about that language and Mr. Pfeffer could offer explanation.

MARK PFEFFER testified via teleconference. He said he was currently working on a town center plan in Anchorage and had been working with the municipality of Anchorage on this bill.

CHAIRMAN TORGERSON asked whether Devon Mitchell was on line.

DEVON MITCHEL, debt manager for the State of Alaska, explained the ability to pledge taxing authority of a community would be up to that community. The local assembly or council would determine whether or not they wanted to pursue a general obligation bond or revenue bond for the particular improvement or area they wanted to improve. If they decided on a general obligation bond there would have to be a vote of the general population of that

community. If it were a revenue bond then they would pledge the incremental tax-- the increase in tax that you would get from the improvement as well as the increased property values in that area. He said they probably have to pledge an additional "back stop" to give investors sufficient security, but that would be a local decision.

CHAIRMAN TORGERSON rephrased Senator Austerman's question. With respect to a revenue bond, if the property is worth \$500.00 because it is blighted and with the improvements you think it'll rise to \$1,000.00, you can pledge the \$500.00 and that's the definition of a tax increment in this bill.

MR. MITCHELL said that's correct. The community might choose to pledge something in addition to that, but that would be a community-by-community evaluation to determine whether or not investors were secure enough with the increase in property tax value and increased tax collection as their security of repayment.

CHAIRMAN TORGERSON then asked whether it was correct that the general obligation (GO) bond pledges the full faith and credit of the municipality because it's an area wide vote.

MR. MITCHELL said GOs do pledge the full faith and credit of the municipality, but they would plan to use the additional revenues received from the improved area's increased tax collection.

SENATOR AUSTERMAN said he didn't get an answer to his question regarding values when using the revenue bond in an improvement area. If the incremental tax proved not to be enough and revenue bonds were the mechanism, couldn't they tax other entities or bring money in from other parts of the borough to help with payment?

MR. MITCHELL replied that would depend on how the community decided to structure the revenue bond. However, an investor would be buying a rather high risk or speculative bond if all that was pledged was the incremental increase in taxes that might result after the area was improved. Knowledgeable investors would require either additional compensation for the risk or a greater pledge than the incremental increase.

SENATOR AUSTERMAN asked for verification that there would be no state liability since this is strictly a municipal issue.

MR. MITCHELL replied there is no way this could tie back to the State of Alaska.

CHAIRMAN TORGERSON asked if it wouldn't be the bondholders that would assume the risk rather than the municipality.

MR. MITCHELL agreed that if the municipality said they would only pledge the incremental increase in taxes then the investors would assume all the risk.

CHAIRMAN TORGERSON asked for the difference between this and the Local Improvement District (LID) approach.

MR. MITCHELL replied it is his understanding that with the LID, the people within a service area approve public improvements so there is an increase in mil rate. When the public improvement is completed not only do property taxes increase but payment is made at the higher mil rate, which is a double hit. With the tax increment, there is no increased mil rate. The tax from the increased value of the property goes to repay the bonds.

CHAIRMAN TORGERSON referred to page 1, line 10 and asked whether "payments made by borrowers of the proceeds of the bonds," meant that it was anticipated that this money might go to a third party other than the municipality.

MR. MITCHELL thought that by taking the words "or private" out of the bill [amendment #1] removed that concern.

CHAIRMAN TORGERSON then referred to page 2, line 21 and asked whether the words "and delinquencies in payment of real property taxes;" meant that if someone didn't want to pay their municipal property taxes, that area could be designated an improvement area, which would artificially inflate the area so property values would go up then that incremental amount would be pledged.

MR. MITCHELL said he reads that as providing a developer an exemption to go in and improve the property because the increase in value that will occur in that area is going to be used to pay for those improvements rather than having to put your money into a piece of property and the increased tax might not necessarily go directly to the improvements that were made in that area.

CHAIRMAN TORGERSON understood that but didn't agree with Mr. Mitchell's interpretation.

STEVE VAN SANT, State Assessor, explained there are certain factors that determine what a blighted area is. One is an area with excessive vacant land, another could be an area with delinquent taxes, which could tend to make you believe that the area is not desirable and people don't care if it is foreclosed upon and taken over by the city. That's one factor that you look at for a blighted area.

SENATOR PHILLIPS asked who requested the bill.

MS. TIBBLES replied Mr. Mark Pfeffer had been working with the municipality and then presented the idea to Senator Stevens. He was on line to answer any questions.

MR. PFEFFER replied his firm is currently involved in the redevelopment of a town center area in the Muldoon area of Anchorage. They support SB 365 and believe it enhances the existing tax increment financing laws for redevelopment of blighted areas. With relation to planning, social and financial issues, redevelopment of blighted areas is difficult. Anchorage has dealt with the planning issues through the implementation of the Anchorage 20-20 plan. They have been with the municipality on social issues involved. With regard to financial issues, redevelopment usually involves a balance between private and public investment. The existing TIF law recognizes this required balance, but has some ambiguities that this bill would clarify. This would primarily be the different forms of bonding and a definition of what constitutes a blighted area.

SENATOR PHILLIPS told Mr. Pfeffer he didn't recall receiving a sponsor request and Muldoon is in his Senate district. He asked if there was a reason.

MR. PFEFFER replied there was no particular reason.

SENATOR PHILLIPS expressed displeasure because he wasn't approached first.

MR. PFEFFER apologized.

SENATOR AUSTERMAN asked Mr. Pfeffer to respond to how the amendment affected his project.

MR. PFEFFER said they believe that in other jurisdictions the TIF laws have been used for private improvements, but they haven't identified any specific private application at this point. Without knowing which private improvements were appropriate, they agreed with the municipality that "or private" should come. Once they identify appropriate specific use, they might ask for that to change.

GEORGE CANNELOS, Director of the Heritage Land Bank and Real Estate Services for the Municipality of Anchorage, testified via teleconference. He said the Muldoon Town Center would be their first test case for a public private partnership.

He suggested adding ", or other forms of indebtedness." on page 1, line 8 after "general obligation bonds." Second, he suggested a reduction in the extended definition of improvement areas

beyond the traditional notion of blighted areas.

CHAIRMAN TORGERSON asked Mr. Mitchell for his response to the suggestion on page 1, line 8.

MR. MITCHELL replied he would agree that flexibility is always a good thing.

CHAIRMAN TORGERSON asked him to list several other forms of indebtedness for the record.

MR. MITCHELL said, "We heard certificate of participation, which are a form of unique financing. There would be different lease revenue bonds as a different form of lease financing so in addition to a straight revenue bond where you have a revenue stream that can be specifically pledged, if you have a situation where you might have revenue streams that you can't pledge for some reason, then it would apply for one of these other forms of financing."

There was no further testimony.

CHAIRMAN TORGERSON announced he would hold the bill in committee so they would have the opportunity to look at that language.

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ADJOURNMENT

There being no further business before the committee, the Community and Regional Affairs Committee meeting was adjourned at 2:40 pm.