

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS
STANDING COMMITTEE
February 26, 2004
8:04 a.m.

MEMBERS PRESENT

Representative Carl Morgan, Chair
Representative Kelly Wolf, Vice Chair
Representative Pete Kott
Representative Ralph Samuels
Representative Sharon Cissna

MEMBERS ABSENT

Representative Tom Anderson
Representative Albert Kookesh

COMMITTEE CALENDAR

HOUSE BILL NO. 431

"An Act relating to the municipal dividend program; and providing for an effective date."

- MOVED HB 431 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 431

SHORT TITLE: MUNICIPAL DIVIDEND PROGRAM

SPONSOR(S): REPRESENTATIVE(S) MOSES

02/04/04	(H)	READ THE FIRST TIME - REFERRALS
02/04/04	(H)	CRA, STA, FIN
02/26/04	(H)	CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE CARL MOSES
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as the sponsor of HB 431.

ADAM BERG, Staff
to Representative Carl Moses

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding HB 431.

CHRIS HLADICK, Manager
City of Unalaska
Unalaska, Alaska

POSITION STATEMENT: Testified in support of HB 431.

KEVIN RITCHIE, Executive Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Testified on HB 431.

BRUCE BOTELHO, Mayor
City & Borough of Juneau
Juneau, Alaska

POSITION STATEMENT: Urged enactment of HB 431.

JEANNIE JOHNSON, Finance Chair
City & Borough of Juneau Assembly
Juneau, Alaska

POSITION STATEMENT: During discussion of HB 431, announced support of the [municipal dividend] concept.

GARY LEWIS, Member
City Council
City of Wrangell
Wrangell, Alaska

POSITION STATEMENT: Urged the committee to pass HB 431.

ACTION NARRATIVE

TAPE 04-6, SIDE A

Number 0001

CHAIR CARL MORGAN called the House Community and Regional Affairs Standing Committee meeting to order at 8:04 a.m. Representatives Morgan, Wolf, Kott, Samuels, and Cissna were present at the call to order.

HB 431-MUNICIPAL DIVIDEND PROGRAM

CHAIR MORGAN announced that the only order of business would be HOUSE BILL NO. 431, "An Act relating to the municipal dividend program; and providing for an effective date."

Number 0074

REPRESENTATIVE CARL MOSES, Alaska State Legislature, sponsor, remarked that HB 431 is simple legislation that should've been taken care of a number of years ago. He emphasized that Alaska has many communities that are hurting and although the [legislature] expends a lot of effort encouraging rural communities to incorporate, there is no incentive for them to do so. This legislation would go a long way toward encouraging incorporation. Numerous communities, he noted, are on the verge of bankruptcy. Representative Moses opined that if the desire is to have healthy, local governments, then [the legislature] should do something like [HB 431]. He further opined that this should be done with no strings attached due to the differing needs of the communities in Alaska. For example, in some communities a washeteria is of the highest importance while in others a boardwalk is the priority. Representative Moses expressed hope that the committee would forward HB 431 from committee today and that the legislation would become part of the state's long-range fiscal plan.

Number 0325

REPRESENTATIVE CISSNA inquired as to why communities can't fill needs, such as for a washeteria, through private industry.

REPRESENTATIVE MOSES responded that he was sure [that private industry does fill those needs] in communities if it's profitable. However, he was sure that in some of the smaller communities [a washeteria] wouldn't be profitable.

REPRESENTATIVE CISSNA inquired as to the advantages a washeteria would provide in terms of survival.

REPRESENTATIVE MOSES recalled that in the past there wasn't running water or sewer facilities, and consequently folks didn't have washing machines at home.

CHAIR MORGAN added that sometimes the washeteria is the only place to obtain fresh water. Furthermore, in some communities there are certain conditions, such as permafrost, that [prevent] private businesses from coming in to provide particular needs of a community.

REPRESENTATIVE SAMUELS pointed out that the only structural problem is that if there are no earnings, then the cities would be in the same boat they are now. He highlighted that the point

of the percent of market value (POMV) is to stabilize the cash flow, no matter its purpose. Therefore, he asked if Representative Moses envisioned HB 431 being used in conjunction with some mechanism to stabilize [the cash flow]. He noted that at one point in the last 12 months that there were no earnings because of the way "we" operate. Representative Samuels said that he didn't have a lot of "heartburn" with the idea of HB 431. However, without fixing the underlying structure [the state] will potentially be in the same boat it is now.

Number 0612

ADAM BERG, Staff to Representative Carl Moses, Alaska State Legislature, agreed. He explained that under HB 431 [the municipal dividend] would provide a set amount to each community based on population. If the balance of the earnings reserve, after distribution of the permanent fund dividends and inflation-proofing, is less than the full amount going to the communities, then that lesser amount would be used.

REPRESENTATIVE SAMUELS posed a situation in which there were no permanent fund dividends. If there are no earnings, then the cities that have been trying to budget will [face] a year in which they receive nothing. "I don't know how you fix it in here, or if it has to be this, or if it has to be part of POMV, or if you're just willing to take your chances [and] if we don't do anything else, you still want to do this," he remarked.

MR. BERG commented that he didn't know if [HB 431] is necessarily "trying to fix it." If there is money left in the earnings reserve, it would allow the cities the opportunity to know how much money they will receive. Therefore, it will help them in their budgeting and planning. He agreed that if there is no money going to the cities, the cities would be in the same situation as every citizen in the state.

REPRESENTATIVE MOSES interjected that hopefully the above won't be a problem under the POMV.

Number 0745

REPRESENTATIVE CISSNA related her impression that there is the state economy and the small communities that have been around since long before statehood. She opined that the state's oil money is better divested to local governments because local governments do a better job of spending it. Representative

Cissna expressed the need to discuss what good it does to divest money to the local governments.

MR. BERG opined that one of the benefits of giving the money to the local communities is related to the communities' ability to tax its citizens now. Therefore, as assistance from the state has decreased, communities have had to ask for more from its citizens. When money returns to a community, the community has the option to decrease some of the costs passed on to its citizens.

Number 1041

CHRIS HLADICK, Manager, City of Unalaska, testified in support of HB 431. He opined that there are a lot communities in rural Alaska that are in trouble and if rural Alaska doesn't work, then Alaska [as a whole] doesn't work. Every dollar that is spent in rural Alaska returns to Anchorage in one form or another. Without the money to operate, these small communities aren't going to operate. Furthermore, these communities aren't going to file for dissolution, rather they are going to walk away. In some cases, [communities] will stop carrying the necessary insurance for their infrastructure [when monies dwindle]. Therefore, Mr. Hladick said he applauded anything that can be done to help these smaller communities.

MR. HLADICK emphasized that revenue sharing has "gone away." He noted agreement with Representative Samuels. He opined that POMV is something that needs to be done in order to ensure [stable funding]. Mr. Hladick concluded by saying that it would be great if the committee could develop some form of HB 431.

Number 1180

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), informed the committee that the adoption of a POMV approach to managing the permanent fund is part of AML's and the Alaska Conference of Mayors' platform this year. With that stable income some of the income could be allocated to the municipalities, as is done in other states. He noted that all states do, to some extent, allocate money to municipalities. Mr. Ritchie highlighted that the state is the only entity that equalizes resources around the state. As Mr. Hladick mentioned, most of that money returns to the larger communities in Alaska. In fact, a few years ago a study done by the North Slope Borough tried to estimate how much money returns to Anchorage from rural Alaska. The study estimated that about one-third of the jobs in

Anchorage were related to serving [rural] Alaska. Although many of the small communities may not have a large cash economy, these small communities have resources that are fairly sustainable from the federal government. Mr. Ritchie said that he likes to think of it as an ATM machine for urban Alaska, one which doesn't run out of money. In terms of that thinking, small communities, if for no other reason, are critical to the entire economy of the state.

Number 1317

MR. RITCHIE turned to the tool of distributing money to municipalities through a municipal or community dividend, and opined that the public will accept the concept of a dividend to their community from the earnings of the permanent fund. Where the money would go would be decision-making at the local level. Mr. Ritchie pointed out that Governor Walter Hickel introduced the community dividend, which was the same concept as that embodied in HB 431. Governor Hickel also created the capital matching grant program for municipalities so that municipalities could have funds to match federal funds and other funds in order to build infrastructure. However, that program as well as revenue sharing is slated for no funding this year.

MR. RITCHIE drew attention to the document that specifies the fiscal year 2003 operating budget of the municipalities in Alaska. He commented that it's stunning that a city can be run for \$65,000 a year or \$103,000 a year. "In rural Alaska, you're getting probably the greatest bang for the buck in government," he remarked. Mr. Ritchie stated that often small communities are the glue that holds the entire structure together, which is the definition of government. Therefore, what these communities accomplish with their budgets is fairly efficient. Mr. Ritchie concluded, "That kind of stable revenue coming in through commonly owned resources, which would be the earnings of the permanent fund in this case, certainly is something that the Alaska Municipal League not only supports but thinks is very, very important."

Number 1519

REPRESENTATIVE CISSNA turned to the issue of rural community survival and the needs that the state provides to rural communities. Representative Cissna opined that there is more to investing in the survival of [rural] communities than just the money that comes to Anchorage.

MR. RITCHIE reminded the committee that he believes that most people think of rural Alaska as a key component of Alaska when they think of Alaska. Therefore, maintaining Alaska as it was found was a critical responsibility at statehood. Although he acknowledged that towns come and go, many of Alaska's communities may predate statehood by thousands of years. In today's world, things such as oil, utilities, washers and dryers, health care, and transportation are incredibly important to everyone no matter their location. Therefore, maintaining a basic level of services is a responsibility of state government and that means doing so where the citizens live. Mr. Ritchie pointed out that Appalachia, poor communities throughout various states, is a good example of communities that need additional [financial] support beyond what can be created with their own local resources.

REPRESENTATIVE CISSNA turned to the future with world population expansion and the warming of Alaska. She predicted that with the worldwide growth of the population there will be a lot of people living in Alaska. She characterized small communities as the placeholders, which create a healthy place to come.

Number 1750

REPRESENTATIVE KOTT turned to the amount of the municipal dividend, which specifies a minimum of \$40,000 per community. He asked if \$40,000 is enough or too much. He also inquired as to what should be an individual's stake in the community. For instance, the City of Kupreanof has a budget of \$41,400. Under HB 431, the municipal dividend would provide \$40,000, and therefore leave \$1,400. When the \$1,400 is divided by the City of Kupreanof's population, each resident of Kupreanof should contribute \$50 toward the city's government. He asked if that is reasonable.

MR. RITCHIE opined that AML would endorse stair stepping some of the impacts. Mr. Ritchie acknowledged that \$40,000 isn't much to a community of 3,000 people, but pointed out that it may be more than appropriate for a community of 25 people. Mr. Ritchie asked the committee to imagine a community of 200-300 people on a river in the Yukon-Kuskokwim delta region where there isn't enough money to make it with an \$80,000 budget of which \$40,000 is [funded] from the state. If that \$40,000 goes away, the community can't insure its infrastructure. Furthermore, there has to be a strong government in order to dissolve and negotiate with the state. In most cases, most [communities] just walk away. In talking with state officials, Mr. Ritchie related his

understanding that 17 communities didn't hold elections, which is a bad sign. Furthermore, a number of small communities are cutting road maintenance and public safety. Mr. Ritchie opined that \$40,000 may be too much for a small community while for a larger community of 200-300 people it would be too little, especially in the context of \$6-\$10,000 increases every year for the foreseeable future for PERS [Public Employees' Retirement System] and TRS [Teachers' Retirement System] as well as increased insurance costs. He noted that the average insurance cost for a small community to insure liability and infrastructure is \$25-\$40,000, which is a significant cost that won't go away. For a small community of 150-300 people, he suggested that \$70,000 would be a sustainable amount [for a municipal dividend].

Number 1964

BRUCE BOTELHO, Mayor, City & Borough of Juneau, spoke in favor of HB 431. Mr. Botelho returned to Representative Cissna's earlier question regarding the role state government should play in the survival of small communities and offered that the basic response is that [smaller communities] are where people live. Mr. Botelho mentioned that perhaps he tends to approach this more from a legal standpoint due to his professional training. In the federal constitution, the state is viewed as the fundamental building block of the federal republic. Simultaneously, the towns, villages, and cities are the building blocks of the state. At the local level, is where the "rubber meets the road." When people experience government it's not at some distant location, rather it's near their home, in their neighborhood, and work place. It's at the local level, where people expect to receive police and fire protection, clean water, and the existence of schools, libraries, and health care facilities.

MR. BOTELHO recalled the first decade of the State of Alaska's existence, well before oil was flowing. [During that time] there was a partnership between state and local governments in the form of revenue sharing. These state dollars were intended to help local governments in performing their tasks as well as providing some level of fiscal stability. However, these forms of unrestricted revenue sharing have all but disappeared. Mr. Botelho acknowledged that the state's fiscal instability has had devastating impacts to various local governments. At the same time, because of good planning and management, Alaska is the envy of most of the nation because of its almost \$28 billion fund. Still, the cuts at the state level have resulted in some

combination of tax increases or dramatic reductions in services. He highlighted that some local governments are better able to tax than others. However, those taxes can only occur when there is economic activity to tax.

MR. BOTELHO pointed out that citizens aren't telling [government] that they want less fire service or police protection, rather citizens want these things, and they want their communities to survive as well as thrive. The aforementioned can only happen, he opined, if there is some financial bridge to better times. Mr. Botelho related his belief that HB 431 is a good foundation for that bridge, although it's only part of a larger picture. Still, it's an essential element. Mr. Botelho concluded by urging the enactment of HB 431.

Number 2291

REPRESENTATIVE SAMUELS mentioned the discussion that there is a disconnect in Alaska between it's people and the state due to the various funding mechanisms. Therefore, he asked if a community [those in the community] should be required to pay some nominal amount [to fund their local government] so that [the residents of the community have] some ownership in the [local government].

MR. BOTELHO related his general view that where there is an ability to contribute to government, that should take place. The [ability to contribute] is going to vary from community to community. Ultimately, he hoped that the committee would look to legislation that would benefit the greatest number of people, recognizing that there will be some inequities in which some small communities may receive proportionately more than one might believe is just. Mr. Botelho remarked that HB 431 provides a good paradigm for going forward to provide support. He related that for him the specific dollar amount is less essential than the principle that it reflects, which is to provide predictability and stability to communities. He recalled the earlier question regarding [the municipal dividend] being something that could or could not be tied to POMV [which could place] "us" at the whim of the market, and said, "Clearly that's a risk." Both AML and the City & Borough of Juneau have endorsed "that model" because it will provide greater stability over all. Mr. Botelho said, "But I believe the program commends itself under either the current format -- it puts us at greater risk because of that absence of taking a look at the overall value of the fund." He said that if he were the person writing

history, he would like to see [the municipal dividend] as part of the overall reform of the management of the fund itself.

Number 2459

JEANNIE JOHNSON, Finance Chair, City & Borough of Juneau Assembly, related that in her role she has been sitting in on departmental meetings with the city manager. Ms. Johnson said that it's difficult to determine from where more cuts will come. Therefore, she announced support of the [municipal dividend] concept.

Number 2517

GARY LEWIS, Member, City Council, City of Wrangell, related that he was thinking about HB 431 this morning, noting that when he awoke this morning the water ran, the toilet flushed, the streets were plowed, and the electricity worked. The aforementioned are the services being discussed today. These services are supplied by local governments. Mr. Lewis related that this morning he recalled that this is the twentieth year he has talked with the legislature and in those 20 years, the main theme has been to stabilize revenue to municipalities which provide the earlier-mentioned services. For about half of the 20 years, Mr. Lewis said he has been supporting Representative Moses' legislation for a community dividend. Therefore, Mr. Lewis requested that the committee give HB 431 serious consideration and pass HB 431.

Number 2589

REPRESENTATIVE KOTT asked if Mr. Lewis believes that individual citizens in various municipalities should have some ownership in their municipality by providing some form of payment for the services that have been mentioned.

MR. LEWIS answered that in most cases [the citizens] do [pay for the services]. For instance, individual citizens pay for utilities. He noted that there is no way to charge for the general services of police and fire protection.

Number 2635

REPRESENTATIVE CISSNA recalled that in a meeting with Mr. Lewis, he related various ways in which Wrangell has come up with ways to generate revenues. She said she understood [Wrangell] to be trying to build a healthy, productive, and safe community. She

asked if it would be an impediment to the community's desire to build industry, if it used a portion [of the revenue generated by the community] to pay for both state and local government.

MR. LEWIS highlighted that Wrangell is a very depressed community that is in survival mode and [the community] is feeding off the public savings in order to develop industry to get something happening in the area. Furthermore, Wrangell taxes at the highest sales tax rate in the nation at 7 percent, along with a 12-mill property tax. This community is in dire straights, and therefore he was very appreciative of the people in the community who are putting forth the effort to change.

REPRESENTATIVE CISSNA commented that she sees a dual disconnect, which she explained as the citizens of the state not understanding what they receive from the state government as well as the [state government] not understanding what a small local community faces in trying to survive.

MR. LEWIS acknowledged that there may be many services provided by the state that may not be recognized at the local level. However, every person that [the legislators] represent benefit from the services provided by that community. He indicated that now the services provided by the state are coming more into focus as some of the rural communities are losing public safety officers.

CHAIR MORGAN announced that public testimony was closed.

Number 2836

REPRESENTATIVE KOTT announced that he supports the concept of HB 431. However, he expressed concern with the way in which the legislation delineates the \$40,000 and "how that percent equates to the bottom line." Again, he turned to the budget of the City of Kupreanof. In 2003, revenue sharing for the City of Kupreanof was \$22,000, which leaves a balance of about \$19,000 that he assumed the population of 23 picked up. Representative Kott reiterated his belief that the concept of HB 431 is good, adding that he believes the House Finance Committee will, at some point, have the opportunity to review it. He indicated that there may be another way to reach the same end, without establishing a minimum because, "to some extent, it does penalize those municipalities that ... reach the plateau that would allow them, on an as-needed case-by-case citizen basis, that is to have the requisite number at \$250 to reach that \$40,000 plateau." He further expressed the hope that there

would be some encouragement for municipalities to consolidate so that they could [reach the \$40,000] rather than the state provide it for every city. Representative Kott concluded by expressing the hope that this legislation would be moved from committee.

CHAIR MORGAN announced his intention to pass HB 431 from committee.

Number 2993

REPRESENTATIVE KOTT moved to report HB 431 out of committee with individual recommendations [and the accompanying fiscal notes].

TAPE 04-6, SIDE B

[Not on tape, but reconstructed from the committee secretary's log notes, was the following:

CHAIR MORGAN, upon determining there were no objections, announced that HB 431 was reported from the House Community and Regional Affairs Standing Committee.]

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:52 a.m.