

HOUSE FINANCE COMMITTEE
April 23, 2004
8:42 A.M.

TAPE HFC 04 - 95, Side A
TAPE HFC 04 - 95, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 8:42 A.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Representative Ralph Samuels; Representative Samuels Rick Eckert, Homer Electric Association; Ben Mulligan, Staff to Representative Stoltze; Pete Ecklund, Staff to Co-Chair Williams

PRESENT VIA TELECONFERENCE

Steve VanSant, State Assessor, Division of Community Advocacy, Department of Community & Economic Development, Anchorage; Jeff Judd, Director of Operations, Cook Inlet Housing Authority; Howard Levine; Rick Eckert, Homer Electric Association.

SUMMARY

HB 515 An Act relating to the regulation of municipal water and sewer utilities not in competition with other water and sewer utilities.

HB 515 was REPORTED out of Committee with individual recommendations and with two previously published fiscal impact notes.

HB 241 An Act relating to optional exemptions from municipal property taxes on residential property.

CSHB 241(FIN) was REPORTED out of Committee with a "do pass" recommendation and with two previously published fiscal impact notes.

HB 366 An Act relating to rat racing charitable gaming; and providing for an effective date.

CSHB 366(FIN) was REPORTED out of Committee with individual recommendations and with one previously published fiscal impact note.

HB 453 "An Act exempting from regulation under the Alaska Public Utilities Regulatory Act wholesale agreements for the sale of power by joint action agencies and contracts related to those agreements, and joint action agencies composed of public utilities of political subdivisions and utilities organized under the Electric and Telephone Cooperative Act."

HB 453 was heard and HELD in Committee for further consideration.

HB 338 An Act relating to attendance at public school; and providing for an effective date.

CSHB 338(HES) was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

#HB515

HOUSE BILL NO. 515

An Act relating to the regulation of municipal water and sewer utilities not in competition with other water and sewer utilities.

Representative Foster MOVED to report HB 515 out of Committee with individual recommendations and the accompanying fiscal note.

Representative Stoltze voiced a brief objection, noting that he had raised some concerns with the Regulatory Commission of Alaska, but he stated that he would bring those to the House Floor. He removed his objection.

There being NO OBJECTION, it was so ordered.

HB 515 was REPORTED out of Committee with individual recommendations and with two previously published fiscal impact notes.

#HB453

HOUSE BILL NO. 453

An Act exempting from regulation under the Alaska Public Utilities Regulatory Act wholesale agreements for the sale of power by joint action agencies and contracts related to those agreements, and joint action agencies composed of public utilities of political subdivisions and utilities organized under the Electric and Telephone Cooperative Act.

Co-Chair Williams noted that testimony on HB 453 had been taken previously and that it was his intention to hear and hold the bill today.

Co-Chair Williams asked Mr. Eckert if he had been asked to be part of the joint action agencies (JAA) program.

RICK ECKERT, HOMER ELECTRIC ASSOCIATION, replied that he believed a JAA is being negotiated between Chugach Golden Valley Electric Association (CGVEA) and Anchorage Municipal Light & Power, and the group did not extend a formal invitation to Homer Electric Association (HEA) to become a member.

Co-Chair Williams asked Mr. Eckert to present his views on the bill.

Mr. Eckert stated that the HEA is opposed to HB 453. Its primary concern is the governance of the cost of wholesale power for its members. The HEA currently purchases its power from the CGVEA through its generation and transmission subsidiary, Alaska Electric & Energy Cooperative. The contract with Chugach will expire in 2013.

Mr. Eckert explained that in a recent case before the Regulatory Commission of Alaska, CGVEA asked for a ratemaking method that had not been used by electric cooperatives involved in the proceeding. The CGVEA also requested a substantial increase in the profit margin that HEA would pay to CGVEA, above the cost of operations and maintenance of the facilities. The request applied to NEA in Seward as well. The HEA, Mat-Su Electric Association (MEA) and Seward opposed this request and the Commission ruled in their favor following the precedent established in late 1980s.

Mr. Eckert stated that CGVEA informed its members that the rest of its members now subsidize HEA, NEA and Seward, and HEA became concerned over the use of the undefined possibilities in HB 453. The Railbelt energy needs are best

provided by a joint effort. The Railbelt is a relatively small market. New projects providing power are easily identified and limited in number.

Mr. Eckert expressed concern that if the bill passed, the largest utilities would have the ability to control the best projects without Regulatory Commission of Alaska oversight. The HEA does not have to join a JAA if the participation is not satisfactory, and it would look for power from that JAA at a negotiated price. If a JAA is not regulated, a JAA member that HEA purchases power from will charge based on what the JAA charges it. The Regulatory Commission of Alaska will have ability to review the wholesale agreement between the JAA member and the HEA, but would have no ability to review or regulate the agreement between the JAA and its member. Mr. Eckert noted that the HEA could create its own sources of power and it is driven by the incentive to produce the lowest cost for its members rather than profits for stockholders. The HEA believes that exemption from regulation should be requested for a specific project and its economic participants. Exemption should only happen when a unified system operation by the utilities is demonstrated.

Representative Stoltze asked if the crux of the bill is removal of Regulatory Commission of Alaska oversight on consumer protection due to its decisions in favor of the consumer. He pointed out that the HEA is a consumer.

Mr. Eckert said that HB 453 is a significant result of Chugach Electric Association's concern over the Regulatory Commission of Alaska ruling in the rate case he referred to earlier. He explained that the HEA, Mat-Su Electric Association, and the City of Seward represent 50,000 to 60,000 consumers of power through wholesale power agreements. Their rate is cost-plus and there is limited ability to affect that cost, so the Regulatory Commission of Alaska has become its only advocate.

Representative Stoltze asked if the bill would remove an important element of current consumer protection. Mr. Eckert affirmed that it is the Homer Electric Association's concern.

Representative Croft asked for clarification of whether the Regulatory Commission of Alaska would retain jurisdiction to determine the merits of an initial wholesale power contract within the JAA at a later date. Mr. Eckert said that if the bill passed, the Regulatory Commission of Alaska could not modify the internal agreements of the JAA.

Representative Croft asked if the Regulatory Commission of Alaska could take another number as the allowable rate base rather than the agreed contract within the JAA. Mr. Eckert

answered that the Regulatory Commission of Alaska could do that, and he discussed its review.

Representative Croft asked if the Regulatory Commission of Alaska would have legal authority but practical difficulties later on. Mr. Eckert agreed that there would be practical difficulties.

Vice-Chair Meyer began chairing the meeting and noted that Co-Chair Williams requested to hold HB 453. He stated that testimony would be postponed until this afternoon's hearing.

Representative Heinze pointed out that she had worked with Mr. Eckert and she amended the bill at his request. She had involved several electrical associations in the effort to craft a good bill.

Representative Hawker noted a letter in the HB 453 packet in opposition to the bill that contains his typewritten name but not his signature. He stressed that he did not endorse the letter, saying that he had requested the carrier remove his name prior to being entered into the record. He asked that the letter be expunged from the record until his name was removed. Representative Hawker pointed out that he is on record having made no commitment on the bill.

Mr. Eckert commented that the Homer Electric Association still opposes the bill after the drafting change Representative Heinze made reference to.

HB 453 was heard and HELD in Committee for further consideration.

#HB338
HOUSE BILL NO. 338

An Act relating to attendance at public school; and providing for an effective date.

Representative Chenault MOVED to report CSHB 338(HES) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 338(HES) was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

#HB241
HOUSE BILL NO. 241

An Act relating to optional exemptions from municipal property taxes on residential property.

Representative Chenault MOVED to ADOPT Work Draft #23-LS0851, Version S, Cook, dated 4/22/04. There being NO OBJECTION, it was so ordered.

REPRESENTATIVE MIKE CHENAULT, SPONSOR, explained that HB 241 contains three different provisions. The first provision in Section 1 gives municipalities the option to provide an exemption of up to \$25 thousand on residential property taxes. This must be done by ordinance within a municipality. Currently, five municipalities take advantage of a \$10 thousand tax exemption, and this bill would provide an option of increasing it to \$25 thousand. The five municipalities are Bristol Bay Borough, Kenai Peninsula Borough, Fairbanks North Star Borough, North Slope Borough and the City of Valdez.

Representative Chenault said that Section 2 deals with municipalities' ability by ordinance to partially or totally exempt all types of deteriorated property from taxation. The properties would be exempt only if located within a city center or an urban center identified in a comprehensive plan.

Representative Chenault noted that he has an Amendment #1 relating to the third section of the bill. The bill currently reads that a municipality could exempt within its boundaries up to \$10 thousand of the assessed value for property owned and occupied in a high crime area by a law enforcement officer.

Representative Stoltze asked the protections for a property owner who has to pay the insurance rates in a high crime area. Representative Chenault noted that it is not his section of the "catch-all bill." He explained the wording change in Amendment #1 removing a high crime area because of concern that the terminology would lead to insurance rate increases. The language was changed to "an eligible" area and a subsection in Amendment #1 deals with an eligible area.

REPRESENTATIVE RALPH SAMUELS spoke to Section 2 giving municipalities the choice to offer tax rebates as additional options in financing mechanisms to implement their town centers. The language is straightforward and gives the mayor and the assembly leeway to move forward with a town plan.

STEVE VANSANT, STATE ASSESSOR, DIVISION OF COMMUNITY ADVOCACY, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT, VIA TELECONFERENCE, ANCHORAGE, discussed that the State assessors found Section 2 of the Work Draft confusing because it appears to give two different exemptions. The primary change seems to extend the exemption to ten years. If that were true, he suggested that the first sentence be

entirely removed, and to replace the words "five years" with words "ten years" on line 9.

Mr. Vansant agreed with all the other changes. He supported the change in Section 3 regarding the high crime area because it could have increased insurance premiums and decreased the values in that area.

HOWARD LEVINE, VIA TELECONFERENCE, stated that the bill would be a catalyst for redevelopment. Changing the tax abatement period from five to ten years would allow developers and property owners to invest capital into prime redevelopment areas that would otherwise be too costly to develop. This unique community revitalization would not be possible without the additional tax abatement.

JEFF JUDD, DIRECTOR OF OPERATIONS, COOK INLET HOUSING AUTHORITY, VIA TELECONFERENCE stated that the regional nonprofit strongly supports the provisions of the bill, especially the ability for local municipalities to abate property taxes for deteriorated property for up to ten years. This would promote urban revitalization in underutilized, deteriorated property. The amendment would be beneficial to the efforts of local government, profit or nonprofit organizations to revitalize these areas. He said that these revitalization efforts are extremely cost prohibitive without substantial State support, with the end result generally that quality development cannot take place. The ultimate long-term gain is in assessed values and property taxes. The bill is about economic development and creating healthy neighborhoods and Mr. Judd strongly recommended its passage.

PETE ECKLUND, STAFF TO REPRESENTATIVE WILLIAMS, referred to the 3-page fiscal note to the original bill, FN #3. He explained that the estimated revenues diverted from the State General Fund to municipalities could be up to \$1.6 million under the original bill. The revised fiscal note, which hasn't been received yet, should change the figure to about \$589 thousand.

Representative Croft referred to the suggestion to amend Section 2. He asked Mr. Judd if deleting the first sentence and changing the "five" to "ten," on page 2, line 24 would carry any collateral problems. Mr. Judd did not believe there would be negative consequence to the suggestion by the State Assessor to amend line 6. The first sentence in Section 2 targets the additional abatement period to deteriorated properties specifically located within an urban center identified in a comprehensive plan or other document adopted by a municipality. However, he said that it would open up the ten-year abatement period for any deteriorated property not specifically located within the town center.

Representative Croft agreed that Section 2 appears to give two separate and distinct exemptions. He asked if it was intended to be two different ones. Mr. Judd said the intent was to distinguish the period of abatement possibility for properties either inside or outside of a city center identified in a comprehensive plan. He was not opposed to deleting the first sentence if it didn't diminish the bill's support by local governments. Changing from five to ten in the current law wouldn't deteriorate local governments' ability to revitalize deteriorated sites but he questioned if local governments would support the bill if it were opened to any deteriorated property within or outside the city center.

Representative Chenault MOVED to ADOPT Amended Amendment #1 with conforming changes as follows: "Page 3, line 2: Amend bill section 3 to read:" [Page 1, line 11 to page 2, line 4: Amend bill section 2 to read:]

There being NO OBJECTION, the Amended Amendment #1 was adopted.

Sec. 2. AS 29.45.050 is amended by adding a new subsection to read:

(s) A municipality may by ordinance designate an area within its boundaries as

HIGH CRIME] an eligible area and exempt from taxation an amount not to exceed \$10,000 of the assessed value of real property within the area that is owned and occupied as a permanent place of abode by a law enforcement officer. The ordinance must include a definition of "law enforcement officer." A municipality that adopts an ordinance under this subsection may not request state funds to cover any municipal budget shortfall caused by the ordinance. In this subsection, "eligible area" means an area within the municipality that would be eligible for designation as an urban empowerment zone under the urban empowerment zones program of the federal department of housing and urban development, as a HUB zone under the HUB zone empowerment program of the federal small business administration, a neighborhood revitalization area as designated by the federal department of housing and urban development or as an eligible neighborhood under the weed and seed program of the federal department of justice, whether or not the area is actually so designated, or an area within the municipality with a statistically higher occurrence of crime than other areas of the municipality.

Representative Croft proposed a conceptual Amendment #2 that would delete the first sentence on page 1, lines 13-14, delete language on page 2, lines 1-3 and part of line 4 up

to "municipality," and add the word "ten" instead of "five" on page 2, line 24.

There being NO OBJECTION, conceptual Amendment #2 was adopted.

TAPE HFC 04 - 95, Side B

Representative Foster MOVED to report CSHB 241(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered

CSHB 241(FIN) was REPORTED out of Committee with a "do pass" recommendation and with two previously published fiscal impact notes.

The meeting was recessed at 9:33 A.M.

TAPE HFC 04-96, Side A

House Finance Committee reconvened at 10:11 A.M. with Vice-Chair Meyer chairing the meeting. All members were present with the exception of Co-Chair Williams and Co-Chair Harris.

#HB366

HOUSE BILL NO. 366

An Act relating to rat racing charitable gaming; and providing for an effective date.

Representative Stoltze MOVED to ADOPT Work Draft Version H There being NO OBJECTION, it was so ordered.

BEN MULLIGAN, STAFF TO REPRESENTATIVE STOLTZE, explained that the intent of the Committee Substitute is to include only charitable gaming in existence before Nov. 1, 2002, and it would not allow new forms of gaming. It is for nonprofit groups that supply money toward charities.

Representative Fate referred to the definition of animal classics, and asked if there are other games using rats or gerbils. Mr. Mulligan said that he was not aware of any other games. Both Palmer and the Tanana Fair have rat racing.

Representative Fate asked if this bill would provide for a new animal classic game. Representative Stoltze replied that the intent of the bill is a narrow focus allowing continuation of events having an historic precedent and to limit gaming and gambling to charitable operations.

Representative Fate asked if a true rat race would be illegal under this bill. Representative Stoltze replied that

it would have to be handled on a case-by-case basis as legislative policymakers. He expressed that the Legislature has a duty to ensure that big loopholes are not created and that the gaming activities are controlled by the Department of Revenue. By keeping the focus narrow, that goal would be accomplished.

Representative Fate expressed concern that there could be other gaming events but agreed that the bill seems narrowly worded.

Representative Joule commented on having a gaming commission versus legislative control.

Representative Croft understood why it was narrowly drafted but asked if a separate statutory change would be needed for each game other than manure-related games.

Representative Stoltze thought it was a good point, but the Department of Revenue (DOR) wouldn't be able to control the activities if the bill was too broadly crafted.

Representative Croft moved to enter a photograph into the record.

Representative Stoltze MOVED to ADOPT Amendment #1. Several OBJECTIONS were voiced simultaneously.

Amendment #1 reads:

Page 2, line 19
Delete "a"

Page 2, line 19 following "chicken" insert manure

Representative Joule and Representative Croft both asked how (b) would read.

Representative Stoltze explained on page 2, line 19, (b) would read: "concerning an activity involving chicken manure and a numbered or lettered grid."

Representative Chenault removed his objection. Amendment #1 was adopted.

Representative Stoltze MOVED to report CSHB 366(FIN) out of Committee with individual recommendations the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 366(FIN) was REPORTED out of Committee with individual recommendations and with one previously published fiscal impact note.

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ADJOURNMENT

The meeting was adjourned at 10:23 a.m.