

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 28, 2006
8:05 a.m.

MEMBERS PRESENT

Representative Kurt Olson, Co-Chair
Representative Bill Thomas, Co-Chair
Representative Gabrielle LeDoux
Representative Mark Neuman
Representative Sharon Cissna
Representative Woodie Salmon

MEMBERS ABSENT

Representative Pete Kott

COMMITTEE CALENDAR

HOUSE BILL NO. 391

"An Act relating to a limit on the amount by which the assessed value of property may be increased for purposes of municipal property taxation."

- HEARD AND HELD

HOUSE BILL NO. 478

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

- MOVED CSHB 478(CRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 391

SHORT TITLE: LIMIT ANNUAL INCREASE OF MUNI PROP ASSESS

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

01/25/06	(H)	READ THE FIRST TIME - REFERRALS
01/25/06	(H)	CRA, FIN
02/28/06	(H)	CRA AT 8:00 AM CAPITOL 124

BILL: HB 478

SHORT TITLE: MUNICIPAL HARBOR FACILITY GRANTS

SPONSOR(S): REPRESENTATIVE(S) THOMAS

02/13/06 (H) READ THE FIRST TIME - REFERRALS
02/13/06 (H) CRA, FIN
02/28/06 (H) CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 391.

RON LONG
Seward, Alaska

POSITION STATEMENT: Expressed concerns with HB 391.

JOHN HOLST
Sitka, Alaska

POSITION STATEMENT: Expressed concerns with HB 391. Speaking as a member of the Assembly of the City & Borough of Sitka, characterized HB 478 as a good bill.

SHANE HORAN, Assessor
Kenai Peninsula Borough;
President, Alaska Association of Assessing Officers
Soldotna, Alaska

POSITION STATEMENT: Expressed concerns with HB 391.

STEVE VAN SANT, State Assessor
Division of Community Advocacy
Department of Commerce, Community, & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During hearing of HB 391, informed the committee of a volunteer group that he has formed to review the issues associated with the municipal property assessment.

MARTY MCGEE, Assessor
Municipality of Anchorage (MOA)
Anchorage, Alaska

POSITION STATEMENT: Characterized HB 391 as far too simplistic and in need of a stringent legal review with regard to consistency with other parts of law.

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

POSITION STATEMENT: Identified the basic problem with the construct of HB 391 to be its inequity.

LISA VON BARGEN, Community and Economic Development Director
City of Valdez
Valdez, Alaska
POSITION STATEMENT: Related the City of Valdez' opposition to
HB 391.

IAN FISK, Staff
to Representative Thomas
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented HB 478 on behalf of the sponsor,
Representative Thomas.

SCOTT RANSOM, Harbormaster
City of Seward
Seward, Alaska
POSITION STATEMENT: Testified in support of HB 478.

ALAN SORUM, Port Director/Harbormaster
City of Valdez
Valdez, Alaska
POSITION STATEMENT: Encouraged the committee's support for HB
478.

MARTY OWEN, Harbormaster
City of Kodiak
Kodiak, Alaska
POSITION STATEMENT: Characterized HB 478 as a good bill that
will help all of Alaska.

JIM STROMDAHL, Harbormaster
City of Petersburg
Petersburg, Alaska
POSITION STATEMENT: Testified in support of HB 478.

JOHN STONE, President
Alaska Association of Harbormasters and Port Administrators
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 478.

JOHN MACKINNON, Deputy Commissioner of Highways & Public
Facilities
Office of the Commission
Department of Transportation & Public Facilities
Anchorage, Alaska
POSITION STATEMENT: Characterized HB 478 as good legislation.

ACTION NARRATIVE

CO-CHAIR KURT OLSON called the House Community and Regional Affairs Standing Committee meeting to order at [8:05:41 AM](#). Representatives Olson, Thomas, Neuman, and Salmon were present at the call to order. Representatives LeDoux and Cissna arrived as the meeting was in progress.

HB 391-LIMIT ANNUAL INCREASE OF MUNI PROP ASSESS

CO-CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 391, "An Act relating to a limit on the amount by which the assessed value of property may be increased for purposes of municipal property taxation."

[8:06:03 AM](#)

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, sponsor, explained that HB 391 is a vehicle to address the rising cost of property taxes through the assessment side. He related that many of his constituents have no desire to sell their home, and therefore the increased assessments are an increased cost of the privilege of living in one's home. Representative Stoltze said although the assessments may be an accurate reflection of the increased property values, it's within the power of the legislature to address the escalating costs of owning one's home. In fact, in many of the state's larger municipalities, property taxes are the sole taxpayer funding a broad range of government services. He acknowledged that there are questions with regard to how this legislation will impact school funding. He then noted that he had meant to include in the legislation that at the point of sale there is an automatic reassessment ability.

REPRESENTATIVE STOLTZE related that this legislation is partly borne out of frustration. He recalled that some older constituents who have lived in his community since the 1950s are struggling to stay in their home. Representative Stoltze concluded by relating that he wants people to be able to afford to live in their homes and this legislation offers a "blunt instrument" to address the matter.

[8:10:41 AM](#)

REPRESENTATIVE NEUMAN, in regard to the point of sale problem, asked if the sponsor would consider language specifying that property will be reevaluated prior to the point of sale.

REPRESENTATIVE STOLTZE answered that Representative Neuman's suggestion would be his intent, but the lending communities and the municipalities would know how to address the matter appropriately. He said he didn't want to address the matter "on the fly," but the intent is for the city to be able to reassess the property and catch up [with regard to its value in the current market] before the house is sold.

CO-CHAIR OLSON announced that it is not his intent to move HB 391 from committee today.

REPRESENTATIVE STOLTZE commented that HB 391 is serious policy that requires a deliberative process.

[8:12:28 AM](#)

CO-CHAIR THOMAS asked if the primary target of HB 391 is to help seniors. He related his belief that in a growing community, people move to an area for a reason.

REPRESENTATIVE STOLTZE replied that the seniors have been one of the more vocal groups on this matter, although he offered that escalating property values hits all groups of property owners.

[8:13:46 AM](#)

RON LONG clarified that the opinions he presents today are his own. He remarked that this legislation needs some serious work because it turns on its head the current state mandate that local governments assess properties at their full and true value. Furthermore, the legislation doesn't recognize the reality of the market in which real estate values have increased rather rapidly, which is outside the control of local or state government. Moreover, as the assessed value/real value of property increases, so does the owner's wealth. Therefore, the levy is the problem rather than the assessment, he surmised. He suggested that if the desire is to constrain local government and deny it the ability to tax sufficiently to provide the necessary services, then the amount the levy could increase would be limited. For those younger and middle-aged families, the [assessment] is an instrument that's negotiable at the bank as a leverage that could be used for various things, including for a vacation, college tuition, et cetera.

MR. LONG then turned attention to the senior exemption. In some municipalities, all senior properties are exempt beyond the \$150,000 state mandate. Relief for the local governments and the taxpayers could be for the state to reimburse the municipalities for the revenue not received due to the mandated senior property tax exemption. Furthermore, the legislation doesn't recognize the different assessment methods, such as the income approach. The legislation, he said, places municipalities "behind the eight ball," and creates an inequality amongst taxpayers if those living in areas in which the property appreciates rapidly are given a "free ride" while the others bear a disproportionate burden of the taxes necessary to support the services delivered to everyone. Mr. Long concluded by stating that HB 391 needs much work. He suggested that more relief could be provided in the form of a community dividend and trusting local governments to live up to the state mandates required.

[8:18:27 AM](#)

CO-CHAIR OLSON inquired as to how much [Seward] is losing to the senior property tax exemption.

MR. LONG responded that [Seward] is losing a little over \$2.5 million.

[8:18:35 AM](#)

REPRESENTATIVE LEDOUX asked if Mr. Long said that if HB 391 passed, it would be more difficult for folks to obtain loans for high values on their homes.

MR. LONG replied no, adding that it makes no difference to the lenders. He explained that he merely pointed out that the increase in the assessed value reflects the true market forces. Therefore, folks could obtain the loan because the property is truly worth the assessed value, but the local municipality couldn't tax it.

[8:19:19 AM](#)

REPRESENTATIVE SALMON asked if Mr. Long believes there should be a difference between business and residential taxes.

MR. LONG said he didn't know. He noted that although both commercial and residential property is taxed at the same mill

rate, the methodology to arrive at the assessed value is sometimes different. He related his belief that there probably should be a difference between business and residential taxes because the structure of the business is being taxed rather than its earning potential.

[8:20:23 AM](#)

CO-CHAIR THOMAS inquired as to the cities that allow higher property exemptions than state law provides.

MR. LONG answered that the Kenai Peninsula Borough currently exempts all senior and disabled veterans.

[8:20:51 AM](#)

MR. LONG, in response to Representative Salmon, said that if property sells for lower than assessed, then there has been a poor assessment and that methodology should be reviewed. He opined that property shouldn't be taxed beyond what it is worth. He noted that there are appeal processes available for those who believe their property has been assessed too high.

[8:22:11 AM](#)

JOHN HOLST reminded the committee that the [proposal embodied in HB 391] was voted down by the electorate because they recognized the inequities created by such a change would be far reaching and difficult to unravel in the future. Therefore, he expressed surprise that it is before the committee. Mr. Holst then expressed concern with regard to the impact on school funding, especially for those communities operating at the cap because this legislation would further exacerbate the problem those communities face. He suggested that by the way of solutions, the already specified \$150,000 exemption is where the changes should occur. He further suggested that it be done in a way in which the money is being given from the legislature to the communities to offset the exemption. Mr. Holst opined that [HB 391] is an unfunded mandate with which he disagreed because such decisions should be made at the local level. He suggested that if the desire is to give a break to homeowners, then the \$150,000 exception could be increased and the money given to the municipality to pass on the benefit. He concluded by informing the committee that although he sits on the City & Borough of Sitka's Assembly, he is speaking today as an individual.

[8:24:47 AM](#)

REPRESENTATIVE CISSNA related that in her travels throughout the state she has been struck by the different challenges various communities face, which doesn't seem to be considered in HB 391 because it refers to all communities [in the same fashion].

REPRESENTATIVE STOLTZE recognized that there are differences between communities. He reiterated that there are some issues that need to be fine tuned with this legislation.

REPRESENTATIVE CISSNA characterized "this" as a survival issue for the community.

REPRESENTATIVE STOLTZE commented that it's often a survival issue for those who are struggling to live in their homes. He further commented that a stable population makes for a more stable community, whether young or old.

[8:28:04 AM](#)

REPRESENTATIVE STOLTZE, referring to the 2000 vote on this matter, acknowledged the comments that the voters have spoke on this matter and thus the legislature shouldn't tinker with this issue again. He questioned whether the same standard would apply to legislation regarding the use of the permanent fund dividend.

[8:28:49 AM](#)

SHANE HORAN, Assessor, Kenai Peninsula Borough; President, Alaska Association of Assessing Officers, said that HB 391 could have substantial and far-reaching impacts on the taxing scheme, bonding, and school funding of all municipalities throughout the state. Furthermore, HB 391 could lead to a substantial and significant rewrite of the full and true value assessment law as it currently exists in AS 29.45.110. He offered the assistance of the Alaska Association of Assessing Officers to work with the legislature on this matter. He then related the following 10 points in HB 391 that should be addressed or clarified: what constitutes an improvement; what increases by 2 percent; if an improvement is made, would the total assessed value be increased to current market value; how do market value fluctuations interact with the 2 percent increase; would HB 391 promote full disclosure at the point of sale; at what point is there a base year for HB 391; local funding for schools requires such be based on full and true value; what impact does the 2 percent increase have on the municipalities' ability to bond; and how

would a municipality make assessment corrections when the assessments are only tied to a 2 percent [increase].

8:32:27 AM

REPRESENTATIVE STOLTZE acknowledged that Mr. Horan made some good points that should be considered during the process of HB 391.

8:33:05 AM

REPRESENTATIVE LEDOUX posed a situation in which HB 391 exists without a cap on property tax rates, and inquired as to how it would accomplish what the sponsor desires.

REPRESENTATIVE STOLTZE opined that local public officials are cautious with regard to increasing mill rates due to what he characterized as voter control. Furthermore, a large number of the charters of the community require voter approval of mill rate increases or tax increases. He related his experience that the political pressures placed on public officials will be the prevailing force.

8:35:30 AM

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development (DCCED), informed the committee that the Kenai Peninsula Borough senior citizen property tax exemption amounts to about \$3.5 million for the \$150,000 exemption that currently exists. He then pointed out that municipalities do have the authority to increase the exemption beyond the \$150,000 for senior citizens. The aforementioned is utilized by the Kenai Peninsula such that all personal property [of senior citizens] is exempt. Other municipalities have that opportunity as well. He opined that one of the primary issues is that some assessments do increase more than average, most of which he attributed to mistakes [in the original assessment] that needed to be corrected. Mr. Van Sant informed the committee that he has gathered an unofficial group of experts in the tax field, including several assessors and municipal attorneys across the state, to work on ideas to propose to policymakers. One of the problems is that municipalities probably need a tool to assist with the large and rapid increases in values such that an increase could be limited to no more than the average increase in a given municipality. He expressed the hope that the group would have some alternatives that it could bring forward for review. In

response to Co-Chair Olson, Mr. Van Sant related that there is no timeline for this group since it consists of volunteers.

[8:39:57 AM](#)

MARTY MCGEE, Assessor, Municipality of Anchorage (MOA), pointed out that the actual tax revenue is very restricted in MOA by the municipal tax cap, and therefore the idea that the municipality wouldn't tax to the cap isn't a valid idea. Looking historically at limiting the value growth with no limit on the mill rate would result in a mill rate of about 19 for the MOA if this was implemented in 2000. Therefore, such a concept merely shifts the reason for the increase in tax and doesn't limit the amount of growth in the tax. Furthermore, it could potentially limit MOA's ability to fund local services. Mr. McGee said that MOA recognizes the disconnect in the community such that individual taxpayers are burdened by increasing valuations and taxes. Furthermore, MOA also recognizes that the intent of the entire system of taxation is not to move people out of their homes or property but rather to fund local government in an equitable manner. To that end, Mr. McGee opined that the property tax is as stable and predictable as the real estate market upon which it's built. He related that in principle, Anchorage would support HB 391 in order to recognize that rapid increases in value and growth place a burden on those with fixed means in a way that wasn't intended nor anticipated. Mr. McGee informed the committee that he is involved with the group to which Mr. Van Sant referred. He characterized HB 391 as far too simplistic and in need of a stringent legal review with regard to consistency with other parts of law. Mr. McGee concluded by informing the committee that Anchorage has lost almost \$19 million in taxes related to the senior and veteran exemptions and both face an exponential growth from the current 9,000 participants. In response to Co-Chair Olson, Mr. McGee confirmed that the cap is [\$150,000].

[8:44:32 AM](#)

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), agreed with Representative Stoltze in regard to the following: that people should be allowed to stay in their homes, rising property taxes should be addressed, and people shouldn't have to sell their homes due to taxes. However, HB 391 is part of the tax cap proposition issue that was heavily rejected by voters in 2000. He acknowledged that people and views can change. Mr. Ritchie identified the basic problem with the construct of HB 391 to be its inequity. If this legislation

were in place in 2000, Anchorage's mill rate would need to be 19 in order to provide enough money for schools. The aforementioned would potentially place a heavier burden on business or people whose property [value] had not risen as fast.

MR. RITCHIE surmised that municipalities would be very interested in working with the state assessor in order to develop ways in which to reduce mistakes that happen in assessments that create undue impact to individuals. He then suggested really reviewing why property taxes have increased, which is related in AML's letter included in the committee packet. Mr. Ritchie highlighted that revenue sharing has been eliminated statewide and the amount lost to the senior exemption is \$39 million. He then turned to the shift between school funding at the local level versus the state level over the last 15 years or so. According to the records from the Department of Education and Early Development (EED), in 1986 municipalities paid 28 percent of the cost of schools while now they pay 36 percent. Therefore, the increased local contribution amounts to about \$89 million. Furthermore, there has been a significant decrease in various municipal programs, ranging from community jails to community schools. He then highlighted the PERS increase prior to last year that amounted to about \$20 million. Last year, the state provided \$20 million to offset the aforementioned additional increase. Summing all of the aforementioned, the cuts since 1986 just about equal the cuts in property taxes. Therefore, a community dividend or some sharing of the oil revenues is necessary in order to create permanent property tax relief for all taxpayers.

CO-CHAIR OLSON clarified that, depending upon the city, part of the \$20 million to which Mr. Ritchie referred went to property tax rather than PERS/TRS.

MR. RITCHIE noted that a number of communities paid the 5 percent increase. However, the letter from the Division of Retirement & Benefits specified that the desire was to keep cities from paying the 5 percent increase and thus the funds could be used elsewhere. He recalled that 20 communities kept paying the 5 percent increase, assuming that they had enough money to buy down the debt. He characterized it as a choice.

[8:51:44 AM](#)

REPRESENTATIVE NEUMAN related that over the last several years school funding has increased over 30 percent. He asked if AML's school funding chart includes all the money spent on the Public

Employees' Retirement System and Teachers' Retirement System (PERS/TRS) for schools, which will amount to almost \$160 million a year for 20 years to cover the \$6 billion loss. He asked if all the money that goes toward repairs in schools that were funded by the legislature was included in the school funding. With regard to references to a stable revenue source, he asked if that includes spending the permanent fund dividend (PFD) on state government.

MR. RITCHIE clarified that the chart only includes operation funds. He said that it's well recognized that the state has been putting extra funds into schools. He explained that he was merely referring to the cost increases that local taxpayers have had to bear. The state, he opined, has been a great partner with regard to repairs and consistently sharing funding with municipalities for new schools. He emphasized that this isn't a criticism of current or past legislatures because they have to address issues as they arise. The point is that local communities have faced significant pressures in terms of the money that has been reduced over the last several years. In further response to Representative Neuman, Mr. Ritchie said that AML does favor spending PFD monies as one of its options for funding as well as the other options that are being brought forward for funding with community dividends. The options, he specified, would be sharing some of the state's current oil revenue, the Amerada Hess funding, funding placed in the general fund, and using part of the earnings reserve or constitutional budget reserve.

[8:55:20 AM](#)

MR. RITCHIE, in response to Representative Stoltze, clarified that in terms of AML's standpoint, AML as a body hasn't taken a position on the meaning of the 2000 vote.

[8:56:55 AM](#)

LISA VON BARGEN, Community and Economic Development Director, City of Valdez, related that the City of Valdez concurs with the prior testimony. She informed the committee that the City of Valdez passed resolution 06-16 in opposition to HB 391 due to many of the aforementioned reasons, such as funding to the cap for schools, assessment contracts, the contradiction between HB 391 and AS 29.45.110, and the rising cost of service delivery.

[8:58:10 AM](#)

CO-CHAIR OLSON, upon determining no one else wished to testify, closed public testimony and announced that HB 391 would be held over.

HB 478-MUNICIPAL HARBOR FACILITY GRANTS

8:58:33 AM

CO-CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 478, "An Act relating to the municipal harbor facility grant program; and providing for an effective date."

8:58:56 AM

IAN FISK, Staff to Representative Thomas, Alaska State Legislature, pointed out that the committee packet should include a proposed committee substitute.

8:59:22 AM

REPRESENTATIVE NEUMAN moved to adopt CSHB 478, Version 24-LS1694\G, Cook, 2/24/06, as the working document. There being no objection, Version G was before the committee.

MR. FISK informed the committee that HB 478 is a companion to SB 291 sponsored by Senator Stedman. He explained that for about the past 15 years the Department of Transportation & Public Facilities (DOT&PF) has been transferring harbor ownership from the state to the municipalities. In so doing, the state has provided grants to the municipalities in order to address some of the deferred maintenance issues that were transferred as well. The legislation was brought forward by the Alaska Association of Harbor Masters and Port Administrators and is supported by municipal government officials who recognize the deferred maintenance needs for the harbors. He explained that the legislation proposes a 50:50 matching grant and creates the municipal harbor facility grant fund into which the legislature can appropriate money from whatever source it sees fit. The legislation spells out the watercraft fuel tax account. The change embodied in Version G is located on page 1, lines 9-11. The legislation, he added, would allow [the state] to take appropriations from the fisheries business tax revenue after the municipalities have been addressed through the sharing program. Furthermore, DOT&PF is established as the agency that would administer grants from the fund. The legislation specifies eligibility criteria for grant applications, such as the criteria that the grant has to be for capital improvement

projects not preventative maintenance. Furthermore, municipalities would have to demonstrate that they hold adequate insurance for their harbor facilities and have a preventative maintenance plan in place. The legislation also specifies the criteria for the award of grants. The intent, he explained, is to prioritize, repair, and [perform] major maintenance versus new projects. However, once much of the deferred maintenance needs have been addressed, new projects can be considered eligible for grants under this proposed program. The legislation also specifies that a harbor can only receive one grant per year in an amount [not to exceed] \$5 million. Furthermore, the legislation specifies that municipalities must operate independent of state aid in the future. Mr. Fisk highlighted further criteria for the award of grants such as public safety needs, the amount spent by the municipality on maintenance of the harbor. Moreover, DOT&PF may make suggestions and changes to the grant applicants.

[9:02:56 AM](#)

REPRESENTATIVE LEDOUX asked if there is any money attached to the mechanism that HB 478 seems to provide.

MR. FISK agreed that the legislation provides a mechanism to which the legislature may make appropriations, which is why the legislation has a zero fiscal note.

[9:03:44 AM](#)

REPRESENTATIVE NUEMAN inquired as to how much money would be available to the harbors. Therefore, he asked if there are any guidelines with regard to how much money would be distributed to the municipalities/harbors. He inquired as to how it's determined where the need is the greatest.

MR. FISK pointed out that the committee packet should include a list of the existing deferred maintenance needs, which are considerable. He suggested that DOT&PF could assess/prioritize the needs on a case-by-case basis.

[9:05:50 AM](#)

REPRESENTATIVE CISSNA asked if any ways have been identified to obtain funding without state revenues.

MR. FISK noted that for certain harbor projects federal dollars are available. He suggested that all three levels of government

could be utilized. In further response to Representative Cissna, Mr. Fisk clarified that the notion with HB 478 is to look at the large picture in a comprehensive approach.

[9:07:58 AM](#)

CO-CHAIR THOMAS moved that the committee adopt Conceptual Amendment 1, which read [original punctuation provided]:

p. 2, Line 17: after "grant;" and: "state funds shall not be used by municipality as their matching funds for grants under this program"

REPRESENTATIVE NEUMAN objected, and opined that "it" seems to tell the municipalities how to spend their funds. He further opined that [the legislation] seems to place a restriction on a municipality using state money on a grant.

CO-CHAIR THOMAS explained that Conceptual Amendment 1 would address the double dipping concern and encourage municipalities to put their own money forward.

REPRESENTATIVE NEUMAN withdrew his objection.

There being no further objection, Conceptual Amendment 1 was adopted.

[9:10:06 AM](#)

SCOTT RANSOM, Harbormaster, City of Seward, informed the committee that the City of Seward and its council support HB 478. He further informed the committee that Seward faces over \$6 million in deferred maintenance for its original floats. Mr. Ransom noted that the city has funded new floats. He also noted that Seward has already had two rate increases as well as a passenger fee increase as a means to help take care of the harbor facility.

[9:11:30 AM](#)

ALAN SORUM, Port Director/Harbormaster, City of Valdez, informed the committee that he became very involved with the issues of deferred maintenance and harbor transfers during his two years as president of the Alaska Association of Harbor Masters and Port Administrators. He noted that many communities have supported efforts to support the fund established in HB 478 in cooperation with DOT&PF. Mr. Sorum related his impression that

many communities have simply been overwhelmed with the prospect of repairing their facilities. Since there has been no maintenance funding for the state-owned harbors for many years, renovation of these facilities is a major undertaking. He discussed the increased costs, specifically in relation to construction itself. He highlighted that harbors represent a valuable and important transportation link for the state's coastal communities, tourism, commercial and recreational fishing, and subsistence gathering and hunting; and therefore, he encouraged the committee's support for HB 478.

[9:13:34 AM](#)

JOHN HOLST, Member, Assembly, City & Borough of Sitka, began by characterizing HB 478 as good legislation in that it provides a vehicle for funding local municipalities with large amounts of deferred maintenance. He reviewed some of the major projects in Sitka. He related that the Ports & Harbor Commission of Sitka has already recommended a \$.25 per foot increase in moorage rates each year for the next five years. The aforementioned will practically double Sitka's moorage rates, which will be very problematic for much of the local fishing fleet. He related his fear that if moorage fees increase too fast, it will cause local fishermen to leave and at the same time folks from down South may come in since they are accustomed to paying much more. Therefore, it could result in a situation in which the local fishing fleet is displaced, which isn't desirable. This legislation would help the local communities pay for some of the capital improvements because without it the struggle will be borne by local fishermen, he opined.

[9:16:12 AM](#)

MARTY OWEN, Harbormaster, City of Kodiak, said that he would discuss the economic benefits of harbors across the state. Mr. Owen characterized harbors as economic lifeboats in coastal communities because initially a high percentage of the wealth in a coastal community is created by harbor users, especially by commercial fishermen and tourism-related businesses, who are the economic foundation for almost every business. However, without modern docks and floats, businesses and fishing can't grow. Furthermore, economic activity becomes stagnate and populations decline. Mr. Owen highlighted that most of Alaska's harbors were built over 25 years ago, and since then the vessels have become longer, heavier, and wider and need more electrical support. To remain competitive in a global seafood market,

commercial fishermen upgraded their vessels, however the state's harbors haven't kept pace.

MR. OWEN then turned attention to the future and how the various rationalization schemes will impact harbor use and development. He explained that to some degree the fleets have consolidated and more [consolidation] seems inevitable. Still, fishing isn't going away. Therefore, Alaska needs to support and sustain the fleet as it matures and modernizes. He characterized the current period as an adjustment period, which state and local governments can help by supporting harbors to meet the needs of the modern fleet in order to stabilize the coastal economies. He then used Kodiak as an example. Just a few a years ago, DOT&PF offered Kodiak \$7.5 million and the deed to its two harbors. With the aforementioned funds, the smaller and older of the two harbors was replaced. He related that it will cost over \$14 million to replace the remaining harbor. He noted that although Kodiak's moorage fees were some of the highest in the state for many years, they barely covered operating and maintenance costs and nothing was left to set aside for major replacement projects. Since Kodiak has taken over ownership of the harbors, moorage rates have increased three times and two more increases have been authorized by the city council. He informed the committee that for the larger vessels, the moorage rate increased over a five-year period from \$25 per foot per year to nearly \$100 per foot per year, which is a 400 percent increase. In conclusion, Mr. Owen opined that HB 478 is good legislation that will be good for all of Alaska.

[9:22:10 AM](#)

JIM STROMDAHL, Harbormaster, City of Petersburg, spoke in support of HB 478. He related that since the City of Petersburg has taken over operation of its harbors, moorage rates have increased by 50-70 percent as well as an additional 10 percent in 2007 and 2008. Furthermore, the City Council of Petersburg has allocated a portion of the raw fish tax. The City of Petersburg plans to utilize the aforementioned for its 50 percent match to the proposed grant in HB 478. He opined that the funding [that can be leveraged] under HB 478 will help keep operations running in the future.

[9:23:57 AM](#)

JOHN STONE, President, Alaska Association of Harbormasters and Port Administrators (AAHPA), noted that his prepared statement is included in the committee packet. He informed the committee

that AAHPA represents 27 harbor systems throughout the state and is in strong support of HB 478, which will help fulfill the original intent of the transfer of the harbors to the municipalities.

[9:25:07 AM](#)

JOHN MACKINNON, Deputy Commissioner of Highways & Public Facilities, Office of the Commission, Department of Transportation & Public Facilities (DOT&PF), characterized HB 478 as good legislation. He commented that the use of the marine fuel tax and the fisheries business tax is almost a user fee, which is appropriate.

[9:26:13 AM](#)

CO-CHAIR OLSON, upon determining that no one else wished to testify, closed public testimony.

[9:26:21 AM](#)

CO-CHAIR THOMAS thanked everyone for helping put this together because it has taken a year to get this far.

[9:27:08 AM](#)

REPRESENTATIVE NEUMAN moved to report CSHB 478, Version 24-LS1694\G, Cook, 2/24/06, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 478(CRA) was reported from the House Community and Regional Affairs Standing Committee.

[9:27:27 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:27 a.m.