

HOUSE FINANCE COMMITTEE
April 29, 2005
2:18 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [2:18:16 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Bill Stoltze, Vice-Chair

ALSO PRESENT

Michael O'Hare, Staff, Representative Pete Kott; Tom Wright, Staff, Speaker John Harris; Chuck Harlamert, Revenue Audit Supervisor, Tax Division, Department of Revenue; Eric Yould, Alaska Power Association; Representative Beth Kertulla; Brad Reeves, CEO, Kotzebue Electric; Frank Corbin, Nushagak Cooperative, Dillingham; Vern Rauscher, Inside Passage Electric Cooperative; Jon Bittner, Staff, Representative Tom Anderson; Pat Carter, Lobbyist, Delta Western; Karla Schofield, Legislative Affairs Agency

PRESENT VIA TELECONFERENCE

Pete Hallgren, Delta Junction; Pete Fellman, Staff, Speaker John Harris; Steve Van Sant, State Assessor, Department of Commerce, Community and Economic Development

SUMMARY

HB 217 "An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

HB 217 was REPORTED out of Committee with a "no recommendation" recommendation and with zero

fiscal impact note #1 by the Department of Commerce, Community and Economic Development.

HB 148 "An Act relating to trafficking of persons."

CSHB 148 (JUD) was REPORTED out of Committee with a "do pass" recommendation and with five zero fiscal impact notes: #1 ADM, #2 COR, #3 CRT, #4 LAW, and #5 DPS.

HCR 6 Relating to the continuation of the Alaska Information Infrastructure Policy Task Force until the first day of the First Regular Session of the Twenty-Fifth Alaska State Legislature in January 2007.

HCR 6 was REPORTED out of Committee with a "do pass" recommendation and with a revised LEG fiscal impact note.

SSHB 157 "An Act clarifying the powers of electric or telephone cooperatives to become members of or own stock in other entities."

SSHB 157 was heard and HELD in Committee for further consideration.

CSSB 141(FIN)

"An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for non-vested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for non-vested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

CSSB 141 was scheduled but not heard.

CSSB 147(FIN)

"An Act providing for a sport fishing facility surcharge on sport fishing licenses; providing for the construction and renovation of state sport fishing facilities and for other projects beneficial to the sport fish resources of the state as a public enterprise; and authorizing the issuance of revenue bonds to finance those projects."

CSSB 147 was scheduled but not heard.

CSSB 139(L&C)

"An Act relating to termination and oversight of boards, commissions, and agency programs; extending the termination date of the Board of Marital and Family Therapy; and providing for an effective date."

CSSB 139 was scheduled but not heard.

SJR 11 Urging the United States Congress to amend the tax code to repeal the federal excise tax on communications.

SJR 11 was scheduled but not heard.

CSSSSB 16(TRA)

"An Act relating to the powers and duties of the Department of Transportation and Public Facilities; repealing the requirement for a long-range program for highway construction and maintenance; and repealing a requirement that public facilities comply with energy standards adopted by the Department of Transportation and Public Facilities; and providing for an effective date."

CSSSSB 16(TRA) was scheduled but not heard.

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HOUSE BILL NO. 217

"An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

TOM WRIGHT, STAFF, SPEAKER JOHN HARRIS, introduced Mr. Fellman.

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PETE FELLMAN, STAFF, SPEAKER JOHN HARRIS, (via teleconference) explained that under HB 217 communities forming boroughs that have gas and oil properties in their borough boundaries could exclude the value of that property as a means to raise new revenue.

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Representative Holm asked Mr. Van Sant why a borough would choose not to tax a large piece of property at 20 mills, so that it could then tax people at 4 mills.

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STEVE VAN SANT, STATE ASSESSOR, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, (via teleconference) explained that under current law requirements, the borough would have to come up with additional money for school funding and would need to levy a property tax. He related that the proposed legislation would lower the property tax by \$200 million. The bill would provide boroughs with the option to levy a property tax or not.

Representative Holm asked why that option is not given to any other large municipalities such as Fairbanks. Mr. Van Sant replied that under this scenario the borough would have that option. The property mentioned in the bill is singled out because it is "centrally accessed property" and crosses jurisdictional lines. HB 217 would apply to all such municipalities. Representative Holm asked if there is currently a property tax. Mr. Van Sant replied that there is no local tax being levied, but there is a state tax leveled against the pipeline.

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Co-Chair Chenault inquired where the cost to the state of \$1.9 million would come from. He asked about mill rates. Mr. Van Sant clarified that he was giving an example: at 4 mills, the proposed borough would receive a little less than \$800,000, and at 10 mills, they would receive about \$1.9 million.

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PETE HALLGREN, CITY ADMINISTRATOR, DELTA JUNCTION, (via teleconference) related that his city is currently looking at developing a borough proposal. There are currently four boroughs in the state, which have no property tax. The charter commission of Delta Junction has been looking at a petition, which would allow for funding for a proposed

borough, with a variety of taxes. He explained the differences in taxes and how the property tax would work. There would be no fiscal impact from this bill, but in the future there would be issues. He said that Fairbanks could also choose to do this. The bill would make the formation of new boroughs along the pipeline more feasible.

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Co-Chair Chenault inquired about the advantages of accepting this bill in order to assess a smaller tax. Mr. Van Sant said that it offers alternatives in taxation. He clarified what the bill would allow.

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Representative Hawker MOVED to report HB 217 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 217 was REPORTED out of Committee with a "no recommendation" recommendation and with zero fiscal impact note #1 by the Department of Commerce, Community and Economic Development.

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HOUSE CONCURRENT RESOLUTION NO. 6

Relating to the continuation of the Alaska Information Infrastructure Policy Task Force until the first day of the First Regular Session of the Twenty-Fifth Alaska State Legislature in January 2007.

MICHAEL O'HARE, STAFF, REPRESENTATIVE PETE KOTT, explained what the resolution would do. In 2003 the Alaska State Legislature passed HCR 31 in order to establish the Information Infrastructure Policy Task Force. The task force is charged with analyzing fiber optic cable, satellite, and other communications infrastructure. It is also charged with analyzing long-term needs of distance learning, telemedicine, homeland security, and economic development via Internet connectivity. The task force will define the state's role, act as advocates, and develop a long-term strategic plan. HCR 6 extends the termination date of the task force until January 2007.

Mr. O'Hare noted that the fiscal note reflects staffing and travel for task force members.

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Co-Chair Chenault asked for clarification of the fiscal note. Mr. O'Hare reported that the fiscal note reflects staff travel. Co-Chair Chenault asked if this bill is from last session. Mr. O'Hare referred to the handout, "Preliminary Report to the Alaska State Legislature on HCR 32", (copy on file) slide 6, and explained how the bill came about. Co-Chair Chenault said he was more interested in the amount of money that was spent last year. He suggested lowering the fiscal note.

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Representative Kelly questioned whether this bill should be passed.

[2:41:46 PM](#)

Representative Joule said he does not know about the expenditures from last year, but maintained that the bill has value.

Mr. O'Hare explained the fiscal note.

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Co-Chair Chenault MOVED to amend fiscal note LEG #2 to \$74,000. There being NO OBJECTION, it was so ordered.

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Representative Kelly suggested more outcome-based reports in the future.

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KARLA SCHOFIELD, LEGISLATIVE AFFAIRS AGENCY, addressed the fiscal note.

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Representative Foster MOVED to report HCR 6 out of Committee with individual recommendations and with the accompanying amended fiscal note. There being NO OBJECTION, it was so ordered.

HCR 6 was REPORTED out of Committee with a "do pass" recommendation and with a revised LEG fiscal impact note.

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#hb148

HOUSE BILL NO. 148

"An Act relating to trafficking of persons."

REPRESENTATIVE BETH KERTTULA, sponsor, explained that this bill is similar to HB 101 and addresses human trafficking in Alaska. It is estimated that there are up to 20,000 cases of human trafficking in the United States. Local shelters in Juneau have seen three cases. This bill would allow Alaskan prosecutors to prosecute this crime. She opined that HB 148 is easier to understand and more enforceable than similar bills in four other states.

Co-Chair Meyer noted that the five fiscal notes are all zero notes.

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Representative Hawker asked about human trafficking in the second degree, if the person obtains a benefit with reckless disregard. Representative Kerttula explained reckless disregard is an intent requirement.

Representative Hawker and Kerttula discussed legal aspects of reckless disregard. She emphasized that people have a duty to be aware of what is happening at their business establishment.

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Representative Kelly referred to Representative Croft's bill, HB 101, regarding transportation and advertising for overseas trafficking. Representative Kerttula explained that HB 148 does not refer to advertising, but trafficking.

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Co-Chair Meyer asked what the punishment for a class B felony is. Representative Kerttula agreed it is one to three years for a first offense.

Representative Croft explained the difference between HB 101 and HB 148, which were originally one bill. HB 148 deals with trafficking in Alaska, whereas HB 101 applies to trafficking elsewhere.

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Representative Croft MOVED to report HB 148 out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 148 (JUD) was REPORTED out of Committee with a "do pass" recommendation and with five zero fiscal impact notes: #1 ADM, #2 COR, #3 CRT, #4 LAW, and #5 DPS.

[3:00:12 PM](#)

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 157

"An Act clarifying the powers of electric or telephone cooperatives to become members of or own stock in other entities."

Co-Chair Meyer stated his intent to take public testimony and hold HB 157 over.

JON BITTNER, STAFF, REPRESENTATIVE TOM ANDERSON, explained the bill. As it currently exists, the Alaska Electric and Telephone Cooperative Act grants electric and telephone cooperatives broad powers to conduct various activities. Those powers include the ability to become a member of other cooperatives or corporations or own stock in them. These powers allow the formation of subsidiary corporations or cooperatives in which a cooperative can own all or a portion of another legal entity that conducts activities separate from the cooperative's utility operations. For example, some cooperatives provide Internet or cable television services.

Mr. Bittner related that recent court decisions have called into question a cooperative's ability to own subsidiary corporations. There is concern that those cases could be used in the future to help interpret Alaska's laws. HB 157 proposes to clarify AS 10.25.020 to make clear that a cooperative utility may own an interest in another entity organized for any lawful purpose. This amendment preserves and clarifies the current statute.

Mr. Bittner reported that the second change made in HB 157 is the addition of "limited liability company" to the list of entities a cooperative may become a member of or own stock in. He urged support for this legislation.

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Representative Croft asked if it would create unfair competition with private fuel operators. Mr. Bittner replied that it would not create unfair competition. The subsidiary corporations fall under the same tax codes and regulations as private operators.

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Representative Kelly discussed cooperatives and how they are organized related to lowering of fuel costs in the bush. He testified in support of the bill.

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Representative Hawker asked Mr. Bittner to explain the changes to the Labor and Commerce version of the bill. Mr. Bittner replied that Subsection 9 was removed. Representative Hawker asked if that solved a lot of problems. Mr. Bittner said it did not solve the problems of the fuel providers, but it did solve those involving the Department of Revenue. Without the removal of Subsection 9, coops would have directly been able to sell fuel, which was never their intention.

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Representative Hawker asked if the coops are tax-exempt. Mr. Bittner said yes. Representative Hawker asked if they are being allowed to capitalize a limited liability company as a tax-exempt entity. He suggested directing that question to Eric Yould of the Alaska Power Association.

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FRANK CORBIN, NUSHAGAK COOPERATIVE, DILLINGHAM, encourage passage of HB 157 because it offers cooperatives a chance to freely engage in alternative, legal business ventures. He suggested that competition is good. He gave an example from Bristol Bay Fuels. He clarified the tax-exempt issue as it applies to his cooperative.

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Representative Holm questioned a statement made by Mr. Corbin that profit should not restrain the ability to go forward. He asked where Mr. Corbin's fuel is bought. Mr. Corbin replied that the cooperative is part of the Western Alliance Fuel group and the fuel is put out to bid. Representative Holm restated the question. Mr. Corbin deferred to Mr. Reeves.

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BRAD REEVES, CEO, KOTZEBUE ELECTRIC, related the various recent increases in fuel price. He stated that last year the fuel was purchased through Yukon Fuel and this year the contract will go to Crawley Maritime. He described how the cooperative was formed in response to the changing economy. He gave an example of a limited liability corporation that his company is involved with. He spoke of his community's needs and how the bill would affect it.

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Representative Holm asked where Mr. Reeves would buy his fuel previous to developing a cooperative. Mr. Reeves related the history of his cooperative and how the community saved over \$20 million dollars by investing in a tank.

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Representative Holm made the point that no fuel is available to buy in the State of Alaska. Instead it is barged in. Mr. Reeves replied that they purchase fuel from Nikiski, and it has been 12 years since they have purchased out of state. He noted he would be willing to look at purchasing out of state if the price were lower.

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Representative Holm asked if Mr. Reeve's facility is subsidized. Mr. Reeves replied that they have received grants from the Department of Energy for the wind project, and some state and federal dollars. Some were direct appropriations from Senator Stevens.

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VERN RAUSCHER, INSIDE PASSAGE ELECTRIC COOPERATIVE, commented that the cooperative has an obligation to listen to requests of the customers. He spoke about fuel business concerns. The Board has discussed these concerns. He mentioned utility billing requests. He stated that they have the authority to diversify into other areas. He spoke in favor of HB 157.

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Representative Holm asked where they buy their fuel. Mr. Rauscher replied from Petro Marine out of Seattle, and also from one local wholesaler.

Representative Holm commented that the volume is predicated by the customers. If a wholesaler had volume removed then it would adversely influence the customer. Mr. Rauscher replied that it was not the intent to put anyone out of business, however, there is room for competition. He gave an example of paying 40 to 50 cents more than barge prices. With talk of competitors coming in, wholesale prices dropped by 25 cents. He stated he would welcome a competitor in any of his communities.

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Representative Holm pointed out, from the capital investment side, that he would be disturbed by allowing a non-taxable entity to enter into the market place for profit. He voiced concern with unintended consequences.

Mr. Rauscher responded that they purchase a minimum of 25,000 gallons to get the first price break. When the

wholesale price drops, he said he believes it is from competition.

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PAT CARTER, LOBBYIST, DELTA WESTERN, addressed competition. He spoke of a concern about an unlevel playing field with a heavily subsidized entity. There are certain markets, which are small and having trouble finding a buyer. Under certain circumstances, there are not problems going into certain businesses. He noted that there is an attempt to work out a compromise. He opined that the legislation is written too broadly. It should be limited to certain rural communities.

Mr. Carter thought that a government entity needed to be involved. An LLC does not get to use any of the subsidized assets of the coop. He stated that it should be limited to a specific geographical area and be revenue neutral for the state.

Mr. Carter mentioned the competition within the communities. Delta Western is sensitive to high costs in rural Alaska, however Delta Western's margins are not changing due to the high costs of crude oil. He presented an analogy. He concluded that the bill will drive the private sector investor out of business, which will result in no competition.

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Mr. Carter addressed accumulated tax-exempt wealth. The utilities have a limitation on how much revenue they can receive; 15% without losing tax-exempt status. He opined that the current bill was written too broadly.

Mr. Carter asked for consideration whether it is right to allow a subsidized entity to drive the private sector out.

Representative Hawker asked that the excise tax section be present to testify the next time the bill is before the Committee.

HB 157 was HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 3:38 P.M.