

**ALASKA STATE LEGISLATURE**  
**SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

May 6, 2005  
1:37 p.m.

**MEMBERS PRESENT**

Senator Gary Stevens, Chair  
Senator Bert Stedman  
Senator Thomas Wagoner

**MEMBERS ABSENT**

Senator Johnny Ellis  
Senator Albert Kookesh

**COMMITTEE CALENDAR**

HOUSE BILL NO. 293

"An Act relating to a borough sales tax exemption for a source that is taxed by a city in that borough."

MOVED HB 293 OUT OF COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 133(JUD) am

"An Act relating to incorporation of boroughs, to annexation by local action, and to regulations of the Local Boundary Commission to provide standards and procedures for municipal incorporation, reclassification, dissolution, and certain municipal boundary changes; and providing for an effective date."

HEARD AND HELD

HOUSE BILL NO. 217(title am)

"An Act relating to the determination of full and true value of taxable municipal property for purposes of providing planning assistance to the Department of Education and Early Development and the legislature, calculating funding for education, calculating school district participating shares for school construction grants, and calculating tax resource equalization payments and excluding from that determination the value of property in certain areas detached from a municipality and the value of certain property involved with oil and gas that is not taxed by a municipality."

MOVED HB 217 (title am) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 293

SHORT TITLE: BOROUGH SALES TAX EXEMPTIONS

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

04/29/05 (H) READ THE FIRST TIME - REFERRALS  
04/29/05 (H) CRA, FIN  
05/03/05 (H) CRA RPT 3DP 2NR  
05/03/05 (H) DP: KOTT, LEDOUX, OLSON;  
05/03/05 (H) NR: NEUMAN, SALMON  
05/03/05 (H) FIN REFERRAL REMOVED  
05/03/05 (H) CRA AT 8:00 AM CAPITOL 124  
05/03/05 (H) Moved Out of Committee  
05/03/05 (H) MINUTE(CRA)  
05/04/05 (H) TRANSMITTED TO (S)  
05/04/05 (H) VERSION: HB 293  
05/05/05 (S) READ THE FIRST TIME - REFERRALS  
05/05/05 (S) CRA  
05/06/05 (S) CRA AT 1:30 PM BELTZ 211

BILL: HB 133

SHORT TITLE: MUNICIPAL BOUNDARY CHANGES/ COMMISSION

SPONSOR(S): REPRESENTATIVE(S) COGHILL

02/09/05 (H) READ THE FIRST TIME - REFERRALS  
02/09/05 (H) CRA, STA  
02/16/05 (H) SPONSOR SUBSTITUTE INTRODUCED  
02/16/05 (H) READ THE FIRST TIME - REFERRALS  
02/16/05 (H) CRA, STA  
02/24/05 (H) CRA AT 8:00 AM CAPITOL 124  
02/24/05 (H) Heard & Held  
02/24/05 (H) MINUTE(CRA)  
03/03/05 (H) CRA AT 8:00 AM CAPITOL 124  
03/03/05 (H) Moved CSSSHB 133(CRA) Out of Committee  
03/03/05 (H) MINUTE(CRA)  
03/04/05 (H) CRA RPT CS(CRA) 5DP 2NR  
03/04/05 (H) DP: SALMON, NEUMAN, KOTT, THOMAS,  
OLSON;  
03/04/05 (H) NR: LEDOUX, CISSNA  
04/02/05 (H) STA AT 10:00 AM CAPITOL 106  
04/02/05 (H) Moved CSSSHB 133(STA) Out of Committee  
04/02/05 (H) MINUTE(STA)  
04/04/05 (H) STA RPT CS(STA) NT 3DP 2NR  
04/04/05 (H) DP: LYNN, ELKINS, SEATON;

04/04/05 (H) NR: GARDNER, GRUENBERG  
 04/04/05 (H) JUD REFERRAL ADDED AFTER STA  
 04/04/05 (H) JUD RPT CS(JUD) NT 2DP 3NR  
 04/13/05 (H) JUD AT 1:00 PM CAPITOL 120  
 04/13/05 (H) <Bill Hearing Postponed to 4/18>  
 04/18/05 (H) JUD AT 1:00 PM CAPITOL 120  
 04/18/05 (H) Moved CSSSHB 133(JUD) Out of Committee  
 04/18/05 (H) MINUTE(JUD)  
 04/19/05 (H) DP: COGHILL, MCGUIRE;  
 04/19/05 (H) NR: GRUENBERG, DAHLSTROM, GARA  
 04/25/05 (H) TRANSMITTED TO (S)  
 04/25/05 (H) VERSION: CSSSHB 133(JUD) AM  
 04/26/05 (S) READ THE FIRST TIME - REFERRALS  
 04/26/05 (S) CRA, STA  
 05/02/05 (S) CRA AT 1:30 PM BELTZ 211  
 05/02/05 (S) Heard & Held  
 05/02/05 (S) MINUTE(CRA)  
 05/06/05 (S) CRA AT 1:30 PM BELTZ 211

BILL: HB 217

SHORT TITLE: FULL & TRUE VALUE OF TAXABLE MUNI PROP.

SPONSOR(S): REPRESENTATIVE(S) HARRIS

03/14/05 (H) READ THE FIRST TIME - REFERRALS  
 03/14/05 (H) CRA, FIN  
 04/14/05 (H) CRA AT 8:00 AM CAPITOL 124  
 04/14/05 (H) -- Meeting Canceled --  
 04/26/05 (H) CRA RPT 1DP 6NR  
 04/26/05 (H) DP: THOMAS;  
 04/26/05 (H) NR: LEDOUX, SALMON, CISSNA, NEUMAN,  
 KOTT, OLSON  
 04/26/05 (H) CRA AT 8:00 AM CAPITOL 124  
 04/26/05 (H) Moved Out of Committee  
 04/26/05 (H) MINUTE(CRA)  
 04/28/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/28/05 (H) Scheduled But Not Heard  
 04/29/05 (H) FIN AT 8:30 AM HOUSE FINANCE 519  
 04/29/05 (H) Scheduled But Not Heard  
 04/29/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/29/05 (H) Moved Out of Committee  
 04/29/05 (H) MINUTE(FIN)  
 04/30/05 (H) FIN RPT 4DP 5NR  
 04/30/05 (H) DP: HAWKER, MOSES, FOSTER, CHENAULT;  
 04/30/05 (H) NR: HOLM, JOULE, WEYHRAUCH, KELLY,  
 MEYER  
 05/02/05 (H) TRANSMITTED TO (S)  
 05/02/05 (H) VERSION: HB 217(TITLE AM)

05/03/05 (S) READ THE FIRST TIME - REFERRALS  
05/03/05 (S) CRA, FIN  
05/04/05 (S) CRA AT 1:30 PM BELTZ 211  
05/04/05 (S) -- Meeting Canceled --  
05/06/05 (S) CRA AT 1:30 PM BELTZ 211

**WITNESS REGISTER**

Kaci Schroeder,  
Aide to Representative Bill Thomas, Jr.  
Alaska State Capitol  
Juneau, AK 99801-1182  
**POSITION STATEMENT:** Introduced HB 293

Rynniewa Moss  
Aide to Representative Coghill  
Alaska Capitol Building  
Juneau, AK 99801  
**POSITION STATEMENT:** Testified on HB 133

Steve Thompson, Mayor  
800 Cushman Street  
Fairbanks, AK 99701

Pete Roberts  
Citizens Concerned About Annexation  
Homer, AK  
**POSITION STATEMENT:** Supported HB 133

Mike Black, Director  
Division of Community Advocacy  
Department of Commerce, Community & Economic Development  
550 W. 7th Avenue Suite 1640  
Anchorage, AK 99501  
**POSITION STATEMENT:** Outlined DCCED interpretation of HB 133

Alan Lemaster  
P.O. Box 222  
Gakona, AK 99586  
**POSITION STATEMENT:** Opposed HB 133

Tom Wright  
Staff to Speaker John Harris  
Alaska State Capitol  
Juneau, AK 99801-1182  
**POSITION STATEMENT:** Available for questions on HB 217

Pete Fellman  
Staff to Speaker John Harris  
Alaska State Capitol  
Juneau, AK 99801-1182  
**POSITION STATEMENT:** Introduced HB 217

Steve Van Sant, State Assessor  
Department of Commerce, Community & Economic Development (DCCED)  
550 W. 7th Street, Suite 1770  
Anchorage, AK 99501-3510  
**POSITION STATEMENT:** Testified on HB 217

**ACTION NARRATIVE**

**CHAIR GARY STEVENS** called the Senate Community and Regional Affairs Standing Committee meeting to order at [1:37:28 PM](#). Present were Senators Wagoner, Stedman, and Chair Gary Stevens.

**HB 293-BOROUGH SALES TAX EXEMPTIONS**

CHAIR GARY STEVENS announced the first order of business to come before the committee to be HB 293.

[1:37:53 PM](#)

KACI SCHROEDER, Aide to Representative Bill Thomas, Jr., noted that the committee heard the bill previously. She said that she was available for questions.

CHAIR GARY STEVENS asked for the reasoning behind not stacking taxes.

MS. SCHROEDER responded the bill clarifies statutory language that allows a borough to avoid stacking taxes in areas that are already taxing themselves.

CHAIR GARY STEVENS asked for a motion.

[1:38:59 PM](#)

SENATOR THOMAS WAGONER motioned to report HB 293 and attached fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.

**CSSSHB 133(JUD) AM - MUNICIPAL BOUNDARY CHANGES/ COMMISSION**

CHAIR GARY STEVENS announced the next order of business to be HB 133.

[1:39:34 PM](#)

RYNNIEVA MOSS, Aide to Representative Coghill, stated that she had an amendment, which would accommodate the petition that the City of Petersburg has been working on for some time. She explained that the Petersburg petition is by aggregate vote and without the proposed amendment this legislation would stop that particular petition process.

CHAIR GARY STEVENS called a brief at ease at [1:40:58 PM](#).

[Due to technical difficulties no recording occurred for HB 133 between 1:40:58 PM and 2:02:00 PM. The full, uninterrupted audio for HB 133 may be found at the end of the recording between [5:56:40 PM](#) and [6:21:37 PM](#).]

SENATOR STEDMAN motioned to adopt amendment 1.

24-LS0512\IA.2  
Cook  
10/31/05

**A M E N D M E N T 1**

OFFERED IN THE SENATE  
TO: CSSSHB 133(JUD) am

Page 3, lines 15 - 20:

Delete all material.

Insert "the effective date of this Act and that has been initiated before the effective date of this Act remains valid and subject to AS 29.05.100(a), AS 29.06.040(c), AS 44.33.812(a), and regulations adopted under those provisions, as those provisions and regulations read on the day before the effective date of this Act."

There being no objection, Amendment 1 was adopted.

MS. MOSS explained that the amendment deals with a pending but not completed petition. If a petition is pending on the effective date the old rules would apply.

CHAIR GARY STEVENS called on Fairbanks Mayor Thompson.

STEVE THOMPSON, Fairbanks Mayor, said he had three concerns with the bill and he had stated them during the previous hearing.

1. History: Some of the earliest lawsuits in Fairbanks were over annexations and the same probably holds true in Anchorage. Nonetheless, local adjacent annexations do in fact work out to be the best for the communities.
2. Fairbanks has run out of property and is looking at adjacent areas amounting to between 500 and 1,000 acres for community expansion. The borough would like to improve the area to the point that it could be developed as an industrial area or a housing subdivision. Under the proposed legislation, if just one person lived in an area and he or she voted no that would effectively put an end to the expansion.
3. Services: In Fairbanks 30,000 people live inside the city limits, but 80,000 people live in the immediate area. Jobs are inside the city limits so about 50,000 people travel into the community where they work every day. They expect to have police, fire and ambulance protection and they want the roads plowed and maintained. However, those 50,000 people provide none of the funding that it takes to provide the services. Many people coming into town to work in the community work for employers in buildings that are tax-exempt. The Fairbanks Memorial Hospital, the federal building, state court house, borough buildings, school district headquarters, and schools are all big employers of people that live outside the city and the city is left with no way to recover any costs. Annexing the immediate areas around the town that really are part of the community would help solve the problem.

MAYOR THOMPSON referenced testimony from the previous hearing in which Ms. Moss said that people living outside the city limits contribute by buying drivers licenses and such things. He asserted that the city sees none of that money. People living outside the city pay nothing toward general city operation or for police, fire or public safety officials. Those things must be considered when trying to restrict sensible annexation and growth.

In conclusion he said that annexation can take place in about five different ways and border annexation simply makes sense.

CHAIR GARY STEVENS called on Mr. Roberts from Homer.

PETE ROBERTS, President, Citizens Concerned About Annexation, said Mayor Thompson has some good points but he misses major points in the American system. In particular, he's missing the importance of the citizen, he said.

He related what happened in Homer when politicians decided to triple the size of the original city. Neither the citizens of Homer nor the people in the area to be annexed were adequately informed or included in the process, which resulted in a major and costly fight. He opined that the people living in the area to be annexed need to be a part of the process and the city needs to offer those people something other than just a tax bill.

In Homer sales taxes account for two-thirds of the general revenue budget so anybody who says the "out-of-towners" don't shoulder a burden and provide for the cost of running services in the area is sorely mistaken, he said.

MR. ROBERTS urged passage of SB 133.

CHAIR GARY STEVENS asked Mike Black if he had testimony.

MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community & Economic Development (DCCED), said he would summarize the May 6, 2005 letter he sent to Chair Stevens. [Copy in file.]

MR. BLACK advised that DCCED has a somewhat different interpretation of the bill than the sponsor. DCCED characterizes HB 133 as providing the Local Boundary Commission (LBC) with another option for conducting local action elections in relation to municipal annexations.

The provisions described in Section 3 of AS 29.06.040(c) provide a list of methods for conducting local action elections and HB 133 adds the provision that a majority of the votes cast by voters residing in the annexing municipality may be required for approval. The department views all the provisions set forth in AS 29.06.040(c) as being independent of one another and it is confident of the interpretation based upon the historical record of the use of Section 3 provisions related to LBC actions.

Referencing Section 5 he said there was an issue with the Petersburg petition, but it was addressed with the amendment. [24-LS0512\IA.2] However, under the DCCED interpretation it wouldn't have affected Petersburg because the proposal only provides another option.

Based upon DCCED's interpretation of the bill, the department has no objection, he said.

CHAIR GARY STEVENS asked for his response to Mayor Thompson's concern that one person could stop economic development in an annexation.

MR. BLACK replied he would have some of those same concerns if the department had interpreted the bill to mean that a municipality could not annex an area based on the vote of the people in the area to be annexed. "Certainly that would put a severe restriction upon the ability of the municipality to provide services to areas and still get some reimbursement for the use of those services. However, I don't believe that this bill will present that problem," he concluded.

CHAIR GARY STEVENS called on Mr. Lemaster.

ALAN LEMASTER, Gakona resident, explained that Copper Valley is surrounded by Valdez, Delta, and Mat-Su all of which are either a borough or looking at becoming a borough. He stated concern with the bill for reasons that are different than the previous testimony. The local REAA is large and if the bill were to pass it's conceivable that the area could be "cherry-picked to death up here." It would be extremely problematic if the pipeline and pump station were picked up by another borough and the rest of the area were left to become something on its own.

He said he has discussed the concern with the LBC and they have said he's not too far off the mark.

MS. MOSS said she'd like to respond to several statements. She suggested that the situation in the Copper Valley wouldn't change with passage of HB 133. Under existing law Mr. Lemaster's concerns could be realized.

Referencing the LBC interpretation of Section 3, she directed attention to page 2, line 22. Following the third provision at the end of line 22 is the word "and". The legislative drafting manual says that "and" or "or" should be included only between the last two items in a list and not between each item.

Therefore, each item should be read as though it is a comma and the word "and" that is just before the last item is inclusive.

Most of the roads in Fairbanks are maintained by DOT and the people who live 40 to 50 miles from Fairbanks have, for the most part, built their own homes over a period of time. A good many of those people also live on fixed incomes. If the borough were allowed to annex property all the way to the Yukon River and begin charging property tax, many of those people would lose their homes.

She concluded, " Mayor Thompson - I understand his concerns, but what this bill is dealing with is an aggregate vote regulation that is not covered statutorily. In fact it is contrary to statute."

CHAIR GARY STEVENS called a brief at ease.

MS. MOSS asked that the bill be moved to the Senate State Affairs Committee. Senator Therriault had similar legislation moving through the process and she wanted him to have the opportunity to review the legislation.

CHAIR GARY STEVENS said he appreciated her comments and he was sure that the State Affairs Committee would have legitimate concerns. However, the Community and Regional Affairs Committee also has responsibility in what happens to communities.

CHAIR GARY STEVENS held CSSSHB 133(JUD) AM in committee.

**HB 217-FULL & TRUE VALUE OF TAXABLE MUNI PROP (TITLE AM)**

[2:05:27 PM](#)

CHAIR GARY STEVENS announced HB 217 to be up for consideration and asked Mr. Wright to come forward.

TOM WRIGHT, Staff to Speaker John Harris, advised that he would defer testimony to Mr. Fellman who works out of Speaker Harris' Delta office.

[2:06:56 PM](#)

PETE FELLMAN, Staff to Speaker John Harris, spoke via teleconference to explain that communities that are forming boroughs with oil and gas properties within the proposed

boundaries might not want to tax property as a means of raising revenue. Under HB 217, such communities could exclude the value of oil and gas properties from the total value of the borough property. This would allow those communities to explore other forms of taxation to raise revenue needed to operate the borough and to pay the required 4 -mills to fund schools.

HB 217 would provide opportunity and choice to communities that want to form local government. The opportunity is to form and fund affordable boroughs and the choice is to raise revenue in new and creative ways, he said.

[2:08:32 PM](#)

CHAIR GARY STEVENS called on Mr. Van Sant.

STEVE VAN SANT, State Assessor, Department of Commerce, Community & Economic Development (DCCED), testified via teleconference to concur with the previous statement. If HB 217 were to pass, the value of oil and gas properties would be excluded from a municipality's full value if the municipality elected not to levy a property tax.

In the proposed Deltana Borough there is approximately \$200 million in oil and gas properties for which the state receives 20-mills or about \$4 million. If that property were included in the borough's full valuation, 4-mills or \$800,000 would have to be raised for the required education contribution. It wouldn't be easy to raise that amount of money with just sales tax so the borough would almost be forced into levying a property tax.

He pointed out that it's more than likely that the property tax levy would be more than just 4-mills. If the levy were 10-mills, then the borough would take almost \$2 million in revenue that the state is already receiving.

In the instance of a detachment from a borough, the bill directs DCCED to place the valuation at the level it was two years prior to the detachment. The reason for this is that the education formula uses the prior two years for funding.

[2:10:45 PM](#)

CHAIR GARY STEVENS asked if he sees this bill as being a detriment to borough formation.

MR. VAN SANT replied not at all. In fact DCCED believes it would assist in borough formation. Most people in the Deltana area are very clear that they don't want a property tax. HB 217 would allow a borough to form without forcing a property tax on the residents. "To me it's an incentive," he said.

[2:11:31 PM](#)

CHAIR GARY STEVENS called on Mr. Hallgren.

PETE HALLGREN, City Administer, City of Delta Junction, reported that the city has sponsored the Deltana Borough Charter Commission and it is nearly ready to submit a borough formation petition to the LBC for review and permission to circulate. The hope is that this will lead to a public election in which all citizens in the area participate.

As previously stated, the Trans Alaska Pipeline System (TAPS) is valued at \$200 million in the proposed borough. The statutory tax level is 20-mills so the state receives about \$4 million a year from the pipeline. Upon borough formation, the City of Delta Junction would like to dissolve and turn its assets over to the new borough to avoid redundant local government.

Local governments craft services and a tax structure to meet local conditions. Currently four boroughs have no property tax, two boroughs have a raw fish tax, the Denali Borough has a mineral severance tax and a bed tax, and the Northwest Arctic Borough has a goldmine PILT agreement, which pays over 95% of the borough's tax income.

State statute requires a 4-mill education contribution based on the value of all taxable property in a borough. He reiterated Mr. Van Sant's testimony saying that the proposed borough would be forced to levy a property tax if it is required to contribute 4-mills or \$800,000 on the value of TAPS.

Instead of a property tax, the Deltana Borough Charter Commission would like to propose to the local voters a mix of funding sources. That would include a fuel and energy tax and a goldmine PILT agreement with the POGO Mine.

We view this bill as an enhancement to potential new borough formation throughout the unorganized borough, he said. Local areas would be free to craft measures that would fit the people and businesses that are being taxed better than a straight property tax. "In the proposed Deltana Borough, non-passage of

this bill would cost the state at least \$800,000 a year in lost revenue when we were forced to enact a property tax," he concluded.

CHAIR GARY STEVENS noted there was no further testimony.

[2:16:13 PM](#)

SENATOR WAGONER motioned to report HB 217 (title am) and attached fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.

There being no further business to come before the committee, Chair Gary Stevens adjourned the meeting at [2:16:24 PM](#).