

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

January 18, 2006

1:46 p.m.

**MEMBERS PRESENT**

Senator Gary Stevens, Chair  
Senator Bert Stedman  
Senator Johnny Ellis  
Senator Albert Kookesh

**MEMBERS ABSENT**

Senator Thomas Wagoner

**OTHER LEGISLATORS PRESENT**

Representative Carl Moses  
Representative Bill Thomas

**COMMITTEE CALENDAR**

SENATE BILL NO. 219

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

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 219

SHORT TITLE: COMMUNITY DIVIDEND PROGRAM

SPONSOR(S): SENATOR(S) WILKEN

01/09/06	(S)	PREFILE RELEASED 12/30/05
01/09/06	(S)	READ THE FIRST TIME - REFERRALS
01/09/06	(S)	CRA, FIN
01/18/06	(S)	CRA AT 1:30 PM BELTZ 211

**WITNESS REGISTER**

Senator Gary Wilken  
Alaska State Capitol  
Juneau, Alaska 99801-1182

**POSITION STATEMENT:** Sponsor SB 219

Wayne Stevens, President  
Alaska State Chamber of Commerce  
217 Second Street  
Juneau, Alaska 99801

**POSITION STATEMENT:** Stated support for a sustainable community dividend program

James Hornaday, Mayor  
City of Homer  
491 E. Pioneer Ave.  
Homer, Alaska 99603

**POSITION STATEMENT:** Supported some kind of community revenue sharing

Randy Frank  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of sustainable community revenue sharing

Tim Beck  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of reinstating municipal revenue sharing in some fashion

Kevin Ritchie  
Alaska Municipal League  
217 Second Street  
Juneau, Alaska 99801

**POSITION STATEMENT:** Spoke in support of sustainable revenue sharing programs

Valerie McCandless, Mayor  
City of Wrangell  
P.O. Box 531  
Wrangell, Alaska 99929

**POSITION STATEMENT:** Testified in support of a sustainable community dividend

Jennifer Yuhas  
Fairbanks North Star Borough  
PO Box 71267  
Fairbanks, Alaska 99707

**POSITION STATEMENT:** Read supporting testimony into the record

Dave Talerico, Mayor  
Denali Borough  
P.O. Box 480

Healy, Alaska 99743

**POSITION STATEMENT:** Testified in support of the program and asked that a minimum base amount for small community operations be included

Gary Hennigh, City Manager  
City of King Cove  
P.O. Box 37  
King Cove, Alaska

**POSITION STATEMENT:** Supported the effort represented in SB 219

#### **ACTION NARRATIVE**

**CHAIR GARY STEVENS** called the Senate Community and Regional Affairs Standing Committee meeting to order at [1:46:45 PM](#). Present were Senators Stedman, Kookesh and Chair Gary Stevens. Senator Ellis arrived as the meeting was in progress.

#### **SB 219-COMMUNITY DIVIDEND PROGRAM**

CHAIR GARY STEVENS announced SB 219 to be up for consideration and noted that the committee would hear a number of community dividend plans during the course of the legislative session.

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Senator Gary Wilken, sponsor of SB 219, introduced the bill as a community dividend suggestion and then reviewed the material in the packets.

CHAIR GARY STEVENS asked for a motion to adopt the committee substitute (CS).

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SENATOR STEDMAN motioned to adopt \Y version CS for SB 219.

SENATOR WILKEN read the following sponsor statement into the record:

Senate Bill 219 creates a sustainable community dividend program to share state revenue with Alaska's local municipal governments and unincorporated communities. The proposed community dividend program is in response to concerns expressed by communities throughout Alaska. Higher costs of basic living and government needs, coupled with diminished traditional

state support, have placed greater financial burdens on all local governments, large and small alike.

Under Senate Bill 219, the funding source for the new community dividend program is structured to be sustainable, the most important aspect of any meaningful state revenue sharing plan. One-third of the funds come from each of the following sustainable sources: 1) the earnings on the Amerada Hess sub-account of the Permanent Fund, 2) the Constitutional Budget Reserve, and 3) the Permanent Fund Earnings Reserve Account.

Senate Bill 219 provides \$70 per person for all local municipalities and unincorporated communities. Additionally, each municipality that is a school district and is meeting the 4-mill local contribution school requirement will receive an additional \$30 for a total of \$100 per resident.

The Department of Commerce, Community, and Economic Development will issue the dividends to Alaskan communities on July 1 of the year following the actual legislative appropriation. This one-year delay will allow local governments to build an operating budget based on firm numbers. There will be no need for the budget writers to wait for the legislature to take action before drafting and passing their annual budgets.

Alaskans have enjoyed the benefit of their individual Permanent Fund dividend for many years; the time has come to share the state's wealth with our communities. Senate Bill 219 utilizes three robust and sustainable revenue sources to provide each Alaskan community an annual dividend.

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SENATOR WILKEN remarked he introduced SB 219 as an effort to equally share the state's wealth. Furthermore, he would hope that everyone sees the folly of funding a community dividend program from the general fund because there will be budget deficit problems again. He encouraged using the assets that are available and sustainable.

In conclusion, Senator Wilken posed the following questions:

1. Do we want a community dividend?
2. If we want a dividend, to what level?
3. Once the level is determined, what is the funding source?

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CHAIR GARY STEVENS opened public testimony.

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WAYNE STEVENS, President, Alaska State Chamber of Commerce, stated support for SB 219. The state chamber supports "a sustainable community dividend using an endowment management method to provide local tax relief to business and families and to assist in providing basic public services throughout Alaska."

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CHAIR GARY STEVENS asked Senator Wilken to comment on the rationale for using funds from the three proposed sources.

SENATOR WILKEN responded those sources are sustainable and robust and they provide flexibility. First, he likes the idea of setting Amerada Hess aside for a specific purpose. Taking \$26 million from that source still allows it to grow. Second, revenue from the CBR would be available unless the draw would pull the fund below \$1 billion. Current estimates indicate that drawing \$20 million would amount to just one-third to one-fourth of the earnings of the CBR. The third source is the earnings reserve. According to a Department of Revenue report, taking \$20 million to \$23 million out annually over the next 10 years would reduce Permanent Fund Dividend checks by just \$49 spread over the 10-year period.

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CHAIR GARY STEVENS asked if one-third would actually come from each revenue source.

SENATOR WILKEN replied the bill currently contemplates one-third from each source, but a wiser course would be to take some amount greater than one-third from Amerada Hess and the balance from the other two sources in equal portions.

CHAIR GARY STEVENS recognized that Representative Carl Moses and Representative Bill Thomas, Jr. were also in attendance.

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SENATOR BERT STEDMAN suggested that the discussion include the state's overall fiscal position with respect to using a portion of the earnings reserve as well as the issue of the nearly \$6 billion in under funded pension and benefits liability. He pointed out that some of that liability sits in lap of the communities, cities, and boroughs.

He asked whether the proposed help to the communities is targeted for pension liability or whether the proposal is an entirely separate issue, which would require the creation of an entirely different funding mechanism.

SENATOR WILKEN replied how to use the money is a local option. Municipalities that contribute to schools are targeted with a school support supplement, but that's as far as he is willing to go in directing how the funds are used.

SENATOR STEDMAN clarified his questions by saying that direct appropriations could be made into the trust or direct appropriations could be made to communities and cities. He then asked whether the \$63 million allocation to communities would relinquish the state's voluntary help to communities to fund the payroll increases they face for the next 15 years or more.

SENATOR WILKEN responded it isn't his intention to mix the PERS/TRS responsibilities with SB 219. How to use the funds is a local issue. "If my borough wants to spend their \$8 million on their PERS/TRS then that's their decision and they're held accountable," he said.

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CHAIR GARY STEVENS asked about double payments. He referenced the community dividend estimates for Fairbanks and the Fairbanks North Star Borough and asked how the figures were derived.

SENATOR WILKEN acknowledged the question had arisen earlier. Using a visual aid, he demonstrated that Fairbanks, North Pole and the Fairbanks North Star Borough would each receive the \$70 per capita dividend. Because the borough operates the school district, it would receive the \$30 per capita school support supplement.

CHAIR GARY STEVENS remarked the borough wouldn't get a \$70 dividend for those people living in Fairbanks or North Pole.

SENATOR WILKEN agreed and added the CS clarifies that point.

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CHAIR GARY STEVENS questioned whether a dividend program might discourage some communities from moving on to form boroughs.

SENATOR WILKEN replied he certainly hopes that wouldn't be the outcome. He mentioned the discussion regarding minimum payments to small communities and said his response is that everyone should be treated the same. He recommended that conversations take place regarding how to make the money go farther. If the bill brings local governance, that's good but it's not a large part of this bill, he concluded.

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JAMES HORNADAY, Mayor, City of Homer, testified via teleconference and read a city council resolution into the record urging the state to establish a sustainable program to share revenue with all Alaskan communities. Furthermore, the resolution suggested that each community receive no less than \$75,000 beginning in 2007. [A copy of the full resolution may be found in the bill file.]

MAYOR HORNADAY outlined some of the anticipated City of Homer projects and concluded his remarks by reiterating support for some type of community revenue sharing.

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CHAIR GARY STEVENS informed him that four or five revenue sharing bills have been introduced. He encouraged Mayor Hornaday to watch closely.

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RANDY FRANK, Fairbanks North Star Borough Assembly member, testified via teleconference as a private citizen in support of some sort of community dividend program. In particular, he said he likes the term "sustainable" so the program could be counted on in years to come. Also, it's helpful if a program is set up so that a community knows what it will receive before the budget is prepared.

He stated support for spreading the burden among the three revenue sources because it allows needed flexibility and sustainability. I really like this idea, he concluded.

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TIM BECK, Fairbanks North Star Assembly member and Alaska Municipal League member, testified via teleconference to answer the three questions Senator Wilken posed. Yes, we do want a program and its size should be large enough to be meaningful rather than a token effort. Finally, the funding source should be sustainable. That is key to the entire program, he asserted.

In conclusion he thanked Senator Wilken and other legislators who are working to reinstate municipal revenue sharing in some fashion.

CHAIR GARY STEVENS noted that Bill Rolfzen, Division of Community Advocacy, Department of Commerce, Community, & Economic Development (DCCED) was available for questions.

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KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), opened his remarks by stating appreciation for the bill then referenced the 2006 AML policy statement, which supports use of Permanent Fund earnings. He agreed with the sponsor that using a portion of the Permanent Fund wouldn't noticeably affect the value of the dividend. In fact, the per capita payment could be viewed as \$70 to \$100 of tax relief each year. Because the money would be taken from government and given to government there wouldn't be a federal income tax issue, which makes this an efficient way to offer relief to communities and businesses.

The proposed bill would not only provide substantial tax relief, it would also keep small communities viable. As a business issue, that is good for all of Alaska. "We're actually brought closer together economically by our great distances," he said. Citing the Anchorage Economic Development Corporation he pointed to the number of jobs in urban areas that exist to serve rural areas.

The community dividend is a sustainable concept. The former revenue sharing program existed in dwindling form for 35 years and AML is enthusiastic about helping to develop a sustainable

program that provides long-term tax relief and helps small communities.

He suggested that further conversations are needed to provide substantial relief to very small communities. They have certain record keeping and meeting requirements to "keep the lights on." We'd like to work with you in that area, but this is a good start in the discussion, he concluded.

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CHAIR GARY STEVENS referenced a data sheet prepared by the Division of Community Advocacy and noted that a number of small communities are experiencing serious difficulties.

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SENATOR STEDMAN asked Mr. Ritchie to address the issue of double or triple dipping as the state makes an effort to help communities in financial difficulty. In particular he asked him to address the question in terms of the PERS/TRS liability and the AML flier that talks about a maximum contribution rate of 20 percent of payroll. Who's going to pay the liability, he asked.

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MR. RITCHIE responded all the liability facing communities would have to be addressed in another committee and that approximately half of the \$6 billion unfunded liability falls on local government, school districts and the university. For years municipalities contributed 5 to 10 percent of salary and didn't give much thought to the retirement system and now the actuaries say that on average 40 percent of all salaries paid must go to the retirement system. Over the last several years the state has responded by raising the PERS rates for employers by 5 percent per year. That means that a municipal government is likely to spend 60 to 75 percent of its budget on salaries and in school districts, salaries probably represent closer to 85 or 90 percent of the budget.

With regard to paying the bills, he said the Constitution envisioned state and local government working together to minimize the impact on taxpayers. I can't answer Senator Stedman's question directly, he said, but the Legislature is working on the problem and the retirement management board is also working on the issue.

In November the AML passed a resolution stating that PERS/TRS shouldn't be more than 20 percent of payroll. How to pay the amount in excess of 20 percent will be the subject of much discussion but the Alaska Retirement Management Board has said that it will discuss that point with the Legislature.

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SENATOR STEDMAN stated his concern is that cities need revenue help from the state. Clearly there is a PERS liability that rests with municipalities and not the state, but it's a state obligation to help municipalities when their revenue is squeezed and they are in financial crisis. However, tying up revenue streams that the state may need either partially or wholly to tackle this problem is a dangerous road to take.

He suggested that it is preferable to look at help for municipalities in its entirety rather than in a segmented fashion. If the piecemeal approach is taken, municipalities will be back in a few months asking for more help with their PERS/TRS liability. Certainly, some communities are having trouble grasping the fact that they have this liability.

He summarized his concern with the bill relates to the unfunded liability and dealing with the Permanent Fund in an era of expected revenue excesses over expenditures.

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JENNIFER YUHAS, Fairbanks North Star Borough representative, testified via teleconference and read Chief Finance Officer, Michael Lamb's, supporting testimony into the record. The borough supports a sustainable community dividend program and in particular the provision that recognizes communities that support their schools. [A copy of the letter may be found in the bill file.]

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CHAIR GARY STEVENS noted that Leslie Ridle with the Anchorage Mayor's Office and Elaine Price from Coffman Cove were listening online.

DAVE TALERICO, Mayor, Denali Borough, testified via teleconference in support of the bill.

A key feature is that funds may be used for any municipal or community purpose. Furthermore, he considers the funding mechanism to be appropriate and sustainable.

Finally, he voiced concern that a minimum base amount for small community operations is not included. If a minimum were included he could be "incredibly supportive." He then expressed appreciation to the sponsor and said the proposal is working toward a resolution.

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GARY HENNIGH, Manager, City of King Cove, testified in support of the effort represented in SB 219. As city manager he said he understands and supports the sustainability features of the program.

He outlined the measures the City of King Cove instituted when revenue sharing and municipal assistance disappeared in 2003. That included increasing sales taxes 25 percent and initiating a fisheries business impact tax on the lone fish processor.

He voiced support for the financial parameters found in Representative Moses' House Bill 28 because that amount more closely anticipates what the city projects its' needs to be. With anticipated need in mind, he suggested averaging the three highest years from when there was revenue sharing to establish a base amount. This is a compromise between SB 219 and what might ultimately pass, he concluded.

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VALERIE McCANDLESS, Mayor, City of Wrangell, testified via teleconference in support of a sustainable community dividend program with a minimum established for smaller communities. We will be following all the bills as they go forward, she concluded.

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SENATOR STEDMAN stated that legislators do recognize the need for help for communities and the discussion will center on what will be encompassed in giving that help. He assured participants that at the end of the day the Legislature will take some action.

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CHAIR GARY STEVENS asked the sponsor if he had closing comments.

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SENATOR WILKEN referenced the report by legislative research dated October 10 titled "Revenue Sharing in Alaska" and commented that it is a good summary and indicates that Alaska has done a good job.

He noted that there are 11 different proposals on revenue sharing, but he wanted to recognize Representative Moses' efforts in particular because he's kept the idea in front of the Legislature year after year.

CHAIR GARY STEVENS announced he would hold SB 219 in committee.

CHAIR GARY STEVENS adjourned the meeting at [2:44:34 PM](#).