

MINUTES
SENATE FINANCE COMMITTEE
January 17, 2006
9:03 a.m.

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately [9:03:53 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: REPRESENTATIVE JOHN HARRIS; PETE FELLMAN, staff to Representative Harris; AMY SEITZ, Staff to sponsor of the bill, Senator Tom Wagoner;

Attending via Teleconference: From Anchorage: STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community and Economic Development; LAMAR COTTON; From Delta Junction: PETE HALLGREN, City Administrator, City of Delta Junction; From an offnet location: DICK MYLIUS, Acting Director, Division of Mining, Land and Water, Department of Natural Resources; From Kenai: FRANK MILLER; ROSWITHA MILLER; CHARLES GRAHAM

SUMMARY INFORMATION

HB 217-FULL & TRUE VALUE OF TAXABLE MUNI PROP.

The Committee heard from the sponsor, the Department of Commerce, Community and Economic Development, and the City of Delta Junction. The bill was held in Committee.

SB 55-AGRICULTURAL LAND

The Committee heard from the sponsor, the Department of Natural Resources and the impacted parties. The bill was held in Committee.

#hb217

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."

This was the first hearing for this bill in the Senate Finance Committee.

REPRESENTATIVE JOHN HARRIS, Sponsor of the bill, testified this bill is an effort to allow for unorganized areas of the state to become organized. He spoke of Co-Chair Wilken's efforts in this endeavor.

Representative Harris explained this bill would allow the residents of an unorganized area in which the Alyeska TransAlaska Pipeline crosses, to form a borough and provide school funding but not impose property taxes. This would exempt the new borough from the requirement that a minimum of four mils be levied on all privately owned property within its boundaries. The intent is for the Delta area to incorporate.

Representative Harris stressed he opposed mandatory incorporation.

PETE FELLMAN, staff to Representative Harris, remarked that this bill is about "choice". It would provide an exemption of oil and gas properties when the State assessor determines the overall value of the borough. The borough would be allowed to fund its local contribution for education through sources other than property taxes, such as a sales tax, or a utility tax.

[9:08:36 AM](#)

Senator Bunde assumed that revenues generated by the borough would be substantially higher if property taxes were collected on the pipeline.

[9:08:55 AM](#)

Mr. Fellman affirmed.

[9:08:59 AM](#)

Senator Bunde surmised that without property taxes, the local contribution to schools would likely be "token".

[9:09:06 AM](#)

Mr. Fellman agreed. The amount would be "relative to what school districts and the borough chose to pay". The local government would have the option of operating schools with the amount it could generate in the equivalent of four mils property tax, if it deemed the amount was sufficient. He noted that the revenues from a property tax on the pipeline that would otherwise be appropriated to the borough would be retained by the State.

[9:09:39 AM](#)

Representative Harris stated that a significant portion of the privately owned land in the Delta region is agricultural and has a low value. Although revenue would be generated from the property housing the pipeline, other property owners would be levied a minimum of four mils as well. These residents would therefore not likely vote in favor of implementation of a property tax. This legislation would provide a mechanism for a community to form a borough without the imposition of a property tax. He preferred a property tax himself because it would generate significant funds from the pipeline for school operations.

[9:11:10 AM](#)

Senator Bunde acknowledged the realism that many communities would resist borough formation to avoid paying a property tax. He asked if other sufficient tax revenue sources would be locally available to fund education.

[9:11:52 AM](#)

Representative Harris replied that the residents would "reach an agreement" with the Pogo Mine located in the area and would also need to implement other forms of taxation, such as on tourism activities. As reflected in the charter application to the Local Boundary Commission these concepts have been investigated. Officials at the Pogo Mine do not support having the mine be the sole source of revenue for the borough. Taxes collected from the company should not be so onerous as to hamper operations.

[9:12:37 AM](#)

Senator Bunde commented he empathized with the operators of the Pogo Mine, as "some in the state are getting tired of being the sole source of income for some organized areas."

[9:12:48 AM](#)

Senator Dyson requested a summary of the foreseen impact of this legislation on State funding.

[9:13:27 AM](#)

Representative Harris explained that if a local community in which the pipeline traverses within its boundaries imposes a property tax, the pipeline property could be taxed at the same rate as other private property would be taxed. The State collects a property tax of 20 mils for all pipeline property in Alaska and transfers to the local government, funds in the amount of the mil rate levied by that government for the portion of property located within the borough boundaries. The State retains the full amount for areas in which a local government does not impose a property tax.

[9:14:34 AM](#)

Senator Dyson understood that if the newly organized borough imposed a property tax of 20 mils for the privately owned land within its boundaries, the State would receive none of the revenues it currently generates from the pipeline property in that area. Conversely, the amount of funding the State contributes to local education in that borough would be reduced. However, the loss of revenues would be considerably larger than the reduction in education funding. He asked if the sponsor had considered the trade-offs.

[9:15:34 AM](#)

Representative Harris responded that if the Delta region formed a borough and levied a 20-mil property tax, it would generate significantly more revenue than required to fund schools. A concern of local residents is a potential loss of control in the event that a government entity was created and the taxes it imposed were too high. This is a particular concern in relation to agricultural properties.

Harris pointed out that the City of Valdez collects a rate of 20 mils on all private property. The residents of Delta do not favor this for their community.

[9:16:59 AM](#)

Senator Dyson asked the amount the State currently appropriates to Delta area schools.

[9:17:07 AM](#)

Mr. Fellman did not have the exact amount. He noted that school districts request funds from the legislature and the legislature determines the amount to appropriate.

[9:17:36 AM](#)

Senator Dyson asked the amount of lost revenue to the State if a borough formed and levied taxes on the pipeline.

[9:17:53 AM](#)

Representative Harris deferred to the Department of Commerce, Community and Economic Development. He reiterated that the State currently generates more funds from this area than the proposed borough would require for its operations. He noted that in a local government that imposed four mils the State would continue to receive 16 mils.

[9:18:45 AM](#)

Co-Chair Wilken reported that the State appropriates approximately \$8.9 million annually for education purposes to the Delta/Greely Rural Education Attendance Area (REAA).

Co-Chair Wilken furthered that the 20-mil rate collected for the pipeline in that area equals approximately \$3.8 million.

[9:19:45 AM](#)

Co-Chair Wilken referenced a spreadsheet titled, "Upper Tanana Borough Valuation Summary Page" [copy on file] that details the estimated values of the Delta/Greely REAA and the Alaska Gateway REAA, in the Tok area.

[9:20:07 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community and Economic Development, testified via teleconference from Anchorage that the total value of the Delta area is \$501,578,000. Of that amount \$182,078,000 is in

local property, and \$125 million is the estimated value of the Pogo Mine, which is 50 percent complete. The pipeline value is \$194.5 million. If the proposed borough levied a property tax of the minimum allowable four mils, it would generate approximately \$800,000. A levy of 20 mils would generate almost \$4 million. The local funding requirement for education would be \$2.3 million including revenues from the pipeline and \$1.2 million without the inclusion of the pipeline.

[9:21:53 AM](#)

Co-Chair Green asked if the witness had other information to share with the Committee pertaining to this issue.

[9:21:59 AM](#)

Mr. Van Sant stated that the Department supports this bill as an incentive for borough formation. A borough formed under this provision would have no negative fiscal impact to the State. If the borough imposed a property tax, State revenues would be reduced.

[9:22:28 AM](#)

Co-Chair Green asked if a community elsewhere in the state could misuse the provisions of this legislation.

[9:22:39 AM](#)

Mr. Van Sant was not aware of any opportunity for this to occur. The provisions are specific to only three regions.

[9:22:52 AM](#)

PETE HALLGREN, City Administrator, City of Delta Junction, testified via teleconference from Delta Junction that he collaborated with the state assessor on this matter for one and one-half years. He stressed that a formal petition for borough formation has been submitted and is under review by the Department of Commerce, Community and Economic Development. The area includes two large commercial stakeholders: the pipeline and the Pogo Mine. Current statute requires that a borough formed in an area in which the pipeline traverses impose a minimum of a four-mil rate property tax.

Mr. Hallgren relayed that the supporters of the petition contend that a property tax would reduce revenue to the State and that more than four-mils would be required because of the operating costs involved with administration of the tax. He estimated the rate

would be five to eight mils. Therefore, the reduction in revenue to the State would be greater than the amount the borough would contribute to education.

Mr. Hallgren informed that the borough commission entered into a payment in lieu of taxes (PILT) agreement with the Pogo Mine to collect from the mine an amount equal to a ten-mil valuation of the mine.

Mr. Hallgren continued as follows.

That would bring us in the money necessary on Pogo to contribute toward the local school contribution. So it's not a token local tax if we take out the tax here if you pass this bill. We're still paying the four mils on all the private taxable property in the borough plus the Pogo value, which is probably going to be well in excess of \$200 million as of this point per year. So with the Pogo PILT agreement, the second thing we need to do is figure out how to handle the \$200 million value in tax. Without a property tax on the current statute, the local citizens would have to pull that money out of their own pockets to contribute to the school district because the State's currently getting all 20 mils from the tax value.

[9:27:26 AM](#)

Co-Chair Wilken understood that \$1.2 million would be garnered from the Pogo Mine to essentially fund the local contribution to education. Any additional services the borough provides, such as platting and animal control, would be funded from others means, such as a sales tax or a utility tax.

[9:28:32 AM](#)

Mr. Hallgren affirmed and told of a proposed fuel tax and a proposed power tax, neither of which would "target" the Pogo Mine.

[9:28:55 AM](#)

Co-Chair Wilken applauded Mr. Van Sant's efforts to establish the value of the REAA. The previous valuation was made before the construction of a prison, the Pogo Mine and other developments.

Co-Chair Wilken divided 963, the number of residents, into the total value of the region of \$501 million and calculated the capacity to support local government and schools at \$520,000 per resident. The average amount of organized boroughs is \$99,000;

Anchorage is \$82,000 and Fairbanks is \$71,000. The Delta/Greely area would be the second highest in the State next to the North Slope Borough.

Co-Chair Wilken expressed frustration that residents of some areas are "not stepping up and carrying their weight" in funding education. He warned that if the vote to incorporate into an organized borough were to fail, a "full blast attempt" would be made for a mandatory formation. This could result in a borough that the Delta area residents may not have chosen. Local residents should contribute to the betterment of their schools. Not all unorganized areas are unable to make this contribution.

[9:32:15 AM](#)

Co-Chair Wilken supported this bill, noting he had offered an amendment to legislation considered during a previous session that would have provided the same option as this bill. Four organized boroughs fund its government with revenue from sources other than property taxes.

[9:32:52 AM](#)

Senator Bunde listed the combined earned income of residents of unorganized areas in 2004 as \$504 million. He asked the earned income of the residents of the Delta region.

[9:33:24 AM](#)

Co-Chair Wilken stated he would provide this information. He noted that the \$504 million was earned by approximately 18,000 wage earners.

[9:33:47 AM](#)

Senator Bunde noted other pending legislation he sponsored that would require residents of unorganized areas to pay for schools by other means if they chose not to organize.

[9:34:07 AM](#)

Senator Bunde noted that the contribution to the local schools would be paid almost entirely by the Pogo Mine. Mine operations are finite. He asked the plan for school funding after the mining operations cease.

[9:34:42 AM](#)

Representative Harris reported that the projected life of the mine is approximately 20 years. He did not know the community's plan for generating revenue after the mine closure. The concern is with the formation of a government entity that over-taxes. Stipulations must be made to prevent this. He would oppose the over-taxation of any private sector entity.

[9:35:46 AM](#)

Senator Olson remarked that the title of the bill is broad enough to allow insertion of other provisions relating to boroughs. He asked how such additions could affect boroughs that are already organized.

[9:36:14 AM](#)

Representative Harris assured this bill would have no impact on existing organized boroughs. Rather it provides another option for the formation of new boroughs.

[9:37:04 AM](#)

Senator Olson clarified that the North Slope Borough would be unaffected, and this bill could not be amended to insert provisions that would impact it.

[9:37:32 AM](#)

Representative Harris shared that officials of the North Slope Borough are aware of this legislation and do not object to its passage. The Borough already has the option to tax the oil industry.

[9:37:53 AM](#)

Senator Olson asked how borough formations would be possible without a private sector entity operating in the region.

[9:38:11 AM](#)

Representative Harris stressed the need to understand the mindset of Delta area residents. Co-Chair Wilken has tried to educate legislators and residents of the value of organized boroughs. However, the residents of this region do not want to pay property tax and do not want additional government. It is unfair for the State to contribute all education funding when the community has the means to contribute as well. This legislation would allow the new borough to forgo property taxes. If property taxes were levied,

the tax must be fair.

Representative Harris asserted that the House of Representatives did not intend to insert additional provisions in this bill.

[9:40:03 AM](#)

Co-Chair Green noted the bill title of the original version of this legislation was broader and was amended specifically to prevent insertion of provisions affecting existing boroughs.

[9:40:59 AM](#)

Senator Hoffman understood the current valuation of the Pogo Mine, which is 50 percent completed, was \$125 million. He asked the projected valuation of the completed facility.

[9:41:06 AM](#)

Representative Harris expected an announcement soon of the pouring of the first gold bar. By the end of this year, the mine should be in full operation.

[9:41:27 AM](#)

Senator Hoffman asked if the full value of the completed mine would be \$250 million.

[9:41:37 AM](#)

Mr. Van Sant estimated the completion value would be between \$250 and \$300 million. A full review would be required to determine the exact amount.

[9:42:10 AM](#)

Senator Stedman quipped, "The only person who likes property taxes is the king." Like most Alaskans, Senator Stedman pays property taxes. He spoke of the struggle ongoing since statehood to organize residents into boroughs. He was willing to be flexible in accomplishing this to provide more local contribution to schools. The closure of the mine in 20 years would have a significant impact on the local economy and he was concerned that the petitioners for this borough formation did not have a long term plan to address this. The community of Sitka lost two large commercial enterprises, which had supported the local structure. Twenty years is a relatively short period. He asked whether any provisions exist to address these issues in the event the residents of this proposed

borough attempt to dissolve the local government.

[9:44:07 AM](#)

Representative Harris replied that the State has the ability to mandate that the area remain a borough. He hoped that as infrastructure is formed, locals would recognize the better delivery of services and would choose to retain the borough government. These residents already value the services received from the State government including Alaska State Troopers and the snowplowing of roads; however, these residents do not want to pay for these services. He recommended addressing this issue with "baby steps."

[9:45:52 AM](#)

Senator Stedman commented on the debate about whether the State should be entitled to the entire 20 mils from property taxes on the pipeline.

[9:47:08 AM](#)

Representative Harris responded that the community of Valdez has dealt with this issue extensively for many years. The 20-mil property tax collected by that city on pipeline property comprises a significant portion of its tax base. This bill addresses a fear of property taxation, which must be overcome.

[9:47:56 AM](#)

Senator Bunde recalled hearings held on another Senate bill he referred to as providing for a "borough lite". He asked how this legislation interrelates to that bill and whether the two bills had any "cross purposes".

[9:48:23 AM](#)

Representative Harris did not think so. The other legislation would provide a different opportunity for borough formation. The two bills compliment each other.

[9:48:40 AM](#)

LAMAR COTTON testified via teleconference from Anchorage that he was available to respond to questions.

[9:49:08 AM](#)

Representative Harris informed that Mr. Cotton was employed by the City of Delta Junction in the past and could still be in its employment.

[9:49:22 AM](#)

Co-Chair Green ordered the bill HELD in Committee to allow any additional questions to be brought forward.

#sb55

[9:49:33 AM](#)

SENATE BILL NO. 55

"An Act instructing the commissioner of natural resources to issue a patent for the remaining interest in certain state land to the owner of the agricultural rights to that land."

This was the first hearing for this bill in the Senate Finance Committee.

AMY SEITZ, Staff to sponsor of the bill, Senator Tom Wagoner, testified that this legislation was introduced to settle ownership of a parcel of land near the community of Hope. The Miller family homesteaded 27 acres and leased grazing rights on another 15 acres from the federal government. During the 1964 earthquake, 18 of the acres owned by the Miller family became part of a riverbed and were unsuitable for use. The federal government compensated this loss of 17 acres with one acre of federal land. The State deemed this exchange unfair and leased grazing rights on 15 acres of Forest Service land to the family. These rights were amended to agricultural rights in 1978. However, the family should have full rights to this land.

Ms. Seitz informed that a statutory provision is required to allow the conveyance of this property. Former Senator John Torgerson had sponsored similar legislation during his tenure. The legislation before the Committee is limited to the one parcel of land and it contains detailed provisions for the exchange.

[9:52:40 AM](#)

Senator Bunde asked the total dollar amount of the proposed land sale and whether the proceeds would be deposited into the State general fund or the Lands Disposal Account fund.

[9:53:05 AM](#)

Ms. Seitz assumed the monies would be deposited to the general fund. The final price would not be determined until a final appraisal was completed.

[9:53:26 AM](#)

DICK MYLIUS, Acting Director, Division of Mining, Land and Water, Department of Natural Resources, testified via teleconference from an offnet location that the value of the property would not be assessed if and until this legislation passed. The proceeds would be deposited to the Land Disposal Fund account and would be utilized for other land disposal activities.

[9:54:19 AM](#)

Senator Bunde surmised that the amount of the fiscal note should be indeterminate rather than zero.

[9:54:33 AM](#)

Senator Bunde assumed that the cost to process the sale of the land would not exceed the selling price.

[9:54:55 AM](#)

Mr. Mylius replied that the fiscal note could be amended to reflect an indeterminate amount. The expense would be less than the proceeds from the sale.

[9:55:13 AM](#)

FRANK MILLER testified via teleconference from Kenai that he and his sister are co-owners of the property in question. They inherited the land from their parents. He supported this legislation, as it would solve problems encountered for many years. Currently the property could not be subdivided and subsequently passed along to their children.

[9:56:20 AM](#)

ROSWITHA MILLER testified via teleconference from Kenai also in support of this bill. She is married to Frank Miller.

[9:56:40 AM](#)

CHARLES GRAHAM testified via teleconference from Kenai, as the spouse of Linda Miller, Frank Miller's sister and co-owner of the

property. This legislation is necessary to resolve the title to the property.

[9:57:14 AM](#)

Senator Bunde spoke to efforts of the community of Hope to attract new families in order to continue its school operations. He understood that the intent of transferring ownership of this land is to allow the property to be subdivided. He asked the possibility that this could assist the community's goal.

[9:57:44 AM](#)

Mr. Graham acknowledged the possibility, although he could not provide a definitive answer. Currently the property could not be subdivided. The intent is to share the land with family members.

[9:58:21 AM](#)

Mr. Miller shared that his daughter would like to reside on the property, which has necessitated resolution to the ownership issue. He admitted that the decision as to whether she would assist in increasing the student body was not his to make.

[9:58:48 AM](#)

Senator Stedman assumed that this transaction would not include subsurface rights.

[9:59:03 AM](#)

Ms. Seitz responded that as with any land disposal, the subsurface rights would be retained by the State.

[9:59:27 AM](#)

Senator Stedman supported this bill. However, he did not support establishment of a precedent of providing compensation for coastal properties in which useable land was eliminated. He spoke to the global warming phenomena causing significant ice melt and subsequent changes to mean high tide marks. Although this legislation is specifically directed to land lost because of an earthquake, he cautioned against the precedent that property boundaries could be expanded but not reduced from natural causes.

[10:00:41 AM](#)

Senator Stedman explained that property located in an area in which

the land plate was sinking could be reduced in size. If that property were located in an area in which the high tide mark receded, the amount of property could increase.

[10:01:20 AM](#)

Mr. Mylius replied that such coastal occurrences would not apply to this parcel because the property is inland. The initial land that was lost in the earthquake became a part of the Turnigan Arm water body.

Mr. Mylius also affirmed that the subsurface rights of the Hope property would be retained by the State.

[10:02:08 AM](#)

Senator Bunde noted that the provisions of this legislation would be repealed at the end of the current year and could not be applied in other situations.

[10:02:22 AM](#)

Senator Olson asked the relevancy of this legislation to communities experiencing extensive erosion.

[10:02:48 AM](#)

Mr. Mylius responded that erosion is not the issue with this parcel. A well-established principle exists regarding boundary changes caused by erosion. Compensation is not provided in these instances that occur gradually. Because the earthquake was an immediate occurrence, compensation was warranted. Loss from a flash flood could be another exception.

[10:04:35 AM](#)

Senator Olson asked the number of other landowners affected by the 1964 earthquake who received compensation.

[10:04:50 AM](#)

Mr. Mylius replied that many property owners in Anchorage were granted parcels on the Anchorage Hillside after their low lying land slipped into Turnigan Arm. Land was also granted for land lost in Girdwood, Portage and Kachemak Bay. Few properties in Hope were affected.

[10:05:29 AM](#)

Senator Olson asked why the Department anticipated that other property owners affected by the earthquake would not qualify for compensation under the provisions of this bill.

[10:05:44 AM](#)

Mr. Mylius responded that most of the originally compensated property owners were granted fee simple rights. The Millers received agricultural rights to National Forest land that is subject to limited applicability. Also, the federal government was the grantor of the other properties. The rights to the property addressed in this legislation were awarded to the Millers as a substitution for the compensation the federal government did not award.

[10:07:02 AM](#)

Co-Chair Green ordered the bill HELD in Committee to await a revised fiscal note.

#

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at [10:07:44 AM](#)