

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

April 11, 2006

3:36p.m.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Senator Thomas Wagoner, Vice Chair
Senator Charlie Huggins
Senator Bettye Davis
Senator Kim Elton

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 234

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

MOVED SB 234 OUT OF COMMITTEE

Confirmation Hearing: Alaska Human Rights Commission - Randy Eledge

CONFIRMATION ADVANCED

PREVIOUS COMMITTEE ACTION

BILL: SB 234

SHORT TITLE: COMMUNITY DIVIDEND PROGRAM

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/13/06	(S)	READ THE FIRST TIME - REFERRALS
01/13/06	(S)	STA, FIN
04/11/06	(S)	STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Randy Eledge

Alaska Human Rights Commission

POSITION STATEMENT: Confirmation candidate

Mike Black, Director

Division of Community Advocacy

Department of Commerce, Community & Economic Development

PO Box 110800
Juneau, AK 99811-0800

POSITION STATEMENT: Introduced SB 234 on behalf of the administration

John Boucher, Senior Economist
Office of Management & Budget
Office of the Governor
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Answered questions related to SB 234

Ron Long
Kenai, AK

POSITION STATEMENT: Testified on SB 234 & supported a community dividend program

Paul Fuhs, Lobbyist
Kuskoquim Corporation
1635 Sitka STE 301
Anchorage, AK

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

John Hozey, City Manager
City of Valdez
P.O. Box 307
Valdez, AK 99686

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

Kevin Ritchie, Executive Director
Alaska Municipal League
217 Second Street STE 200
Juneau, AK 99801

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

Mark Hickey, Lobbyist
Lake and Peninsula Borough
211 Fourth Street STE 108
Juneau, AK 99801

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

Luke Hopkins, Assembly Member
Fairbanks North Star Borough

P.O. Box 71267
Fairbanks, AK 99707

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

Peggy Cowan, Superintendent
Juneau School System
Juneau, AK 99801

POSITION STATEMENT: Testified on SB 234 & supported revenue sharing

ACTION NARRATIVE

CHAIR GENE THERRIAULT called the Senate State Affairs Standing Committee meeting to order at [3:36:13 PM](#). Present were Senators Thomas Wagoner, Charlie Huggins, Kim Elton, Bettye Davis, and Chair Gene Therriault.

Confirmation Hearing: Alaska Human Rights Commission - Randy Eledge

CHAIR THERRIAULT announced the confirmation hearing of Randy Eledge to the Alaska Human Rights Commission to be the first order of business.

[3:37:12 PM](#)

RANDY ELEDGE introduced himself and presented his background information. [Resume information may be found in the committee packet.] He advised that this is a reappointment confirmation.

CHAIR THERRIAULT asked if he held a professional license.

MR. ELEDGE said no.

CHAIR THERRIAULT questioned how long he had served on the commission.

MR. ELEDGE replied he finished his first year in March.

SENATOR THOMAS motioned to advance the name of Randy Eledge for confirmation to the Alaska Human Rights Commission.

CHAIR THERRIAULT announced that without objection the name Randy Eledge would be forwarded, but doing so did not commit any member to vote for or against the actual confirmation.

SB 234-COMMUNITY DIVIDEND PROGRAM

CHAIR GENE THERRIAULT announced SB 234 to be up for consideration.

[3:41:47 PM](#)

MIKE BLACK, Director of the Division of Community Advocacy in the Department of Commerce, Community & Economic Development, introduced SB 234 on behalf of the administration. He explained that the Community Dividend Program would provide a sustainable community dividend using the estimated \$27.6 million in annual earnings of the Alaska Capital Income Fund {"Amerada Hess" account} as the funding source. The bill proposes to establish an annual \$10 million base grant for distribution to all cities and boroughs as follows:

- Cities with less than 100 residents receive \$25,000
- Cities with 100 to 249 residents receive \$30,000
- Cities with 250 to 500 residents receive \$35,000
- Cities with more than 500 residents receive \$40,000
- Boroughs receive \$50,000
- Balance of funds distributed on a per capita basis

The bill also provides financial incentives for areas to organize into boroughs. Incorporation grants would be provided as follows: 1) a \$1 million grant in year one; 2) a \$1 million grant in year two; 3) a \$500,000 grant in year three.

SB 234 also provides supplemental grants to organized boroughs such that approximately \$16.6 million would be distributed to each organized borough on a per capita basis.

The bill describes the essential public services for which the money could be used including: public safety, infrastructure maintenance, education, and fuel.

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SENATOR WAGONER questioned what interest rate the Alaska Capital Income Fund is earning.

MR. BLACK said he'd get the information.

SENATOR WAGONER mused the earnings would be about the same as the Permanent Fund.

CHAIR THERRIAULT added that fund has averaged a bit better than 10 percent.

SENATOR WAGONER said he was thinking that 6.5 percent would keep up with inflation over time so as the dollar devaluates needed increases could come from the interest income.

MR. BLACK said the fiscal note indicates that the annual interest earnings on \$424 million have been about 6.5 percent so that's where the \$27.6 million came from.

SENATOR WAGONER countered he thought the money was invested along with the Permanent Fund and earned more than that.

CHAIR THERRIault remarked the way the particular instruments are invested could be a factor.

SENATOR WAGONER mentioned the Amerada Hess court case and counseled using caution to avoid past pitfalls.

JOHN BOUCHER, Senior Economist with the Office of Management & Budget, explained that the \$27.6 projection is based on the mid case scenario earnings projections for the Permanent Fund. The actual return could vary up or down.

SENATOR ELTON questioned why the administration decided to identify Amerada Hess as the funding source.

MR. BLACK responded he couldn't explain the thought process but he did know that the administration wanted a funding source that was sufficient.. Furthermore, Amerada Hess is identifiable and has no direct connection to the Permanent Fund.

SENATOR ELTON said he would prefer to appropriate general funds on an annual basis. The problem with using a Permanent Fund sub-account is that the amount that can be spun off each year may prove to be constraining.

MR. BLACK argued that using the earnings from the Alaska Capital Income Fund is more predictable than general fund appropriations.

SENATOR ELTON responded this creates problems. For the first time a Permanent Fund sub-account would be used for annual expenditures and this may constrain future Legislatures if the earnings aren't sufficient to fund the program.

CHAIR THERRIault advised that the proceeds from Amerada Hess are general fund.

SENATOR ELTON said he didn't disagree, but this establishes it as a funding source. You could say the same thing about the earnings and everyone knows about the political risk associated with spending Permanent Fund earnings.

CHAIR THERRIAULT said the difference is that the money that spins off from the retained earnings increases the annual dividend while the money that spins off from Amerada Hess doesn't increase the annual dividend.

SENATOR ELTON pointed out two anomalies: First, unincorporated boroughs are left out of the program and second a system of inequity is created for unincorporated communities and cities that haven't consolidated with borough governments. He asked for an explanation.

MR. BLACK replied the department believes that boroughs and cities are the proper recipient for revenue sharing. They have specific requirements under state law to provide services and to meet operation requirements. Unincorporated communities don't have the same requirements and that's the reason for excluding them from this formula.

SENATOR ELTON questioned whether there couldn't be a formula to qualify unincorporated communities that provided certain public services.

MR. BLACK replied if that approach is taken the department would recommend that the money flow through the borough so that the decisions are made at that level.

SENATOR ELTON offered a comparison. Ketchikan has a city and a borough government and Juneau has a consolidated government. As currently written, Ketchikan would receive \$90,000 and Juneau would receive \$50,000. He asked if there had been discussion of that anomaly.

MR. BLACK said he was unaware of any direct discussions related to unified boroughs, but it could be argued that the base overhead is higher when separate city and borough governments serve the same area. Except for the \$10 million base amount, the money would be distributed based on population.

SENATOR ELTON responded some governments have unified to keep from spending public dollars on excess overhead.

CHAIR THERRIAULT noted that the \$2.5 million provides incentive for unorganized areas to become organized, but there is no allowance for funds to flow to an unorganized municipality.

MR. BLACK responded the per capita amount would be provided to boroughs and unincorporated areas would be included in the per capita count. Then the boroughs could distribute money based on services that are provided.

CHAIR THERRIAULT asked him to address municipalities that are organized under federal law.

MR. BLACK replied that provision addresses the Metlakatla Indian Reservation.

[4:02:28 PM](#)

RON LONG, Kenai, stated that he was representing himself. He asked the committee to consider a sustainable funding mechanism for communities and suggested that SB 234 is a good start.

He described the Kenai Peninsula Borough. As a Second Class Borough, it provides basic mandated services with additional levels of service being available within the various cities. He opined that the bill would offset some of the taxes that are imposed on citizens to carry out the state mandates. It also provides meaningful tax relief for residential property owners and businesses. He expressed the hope that the Legislature and the administration identify a funding source that is sustainable and transparent so that it's possible to build a better budget for citizens.

He asked members to keep in mind that the unincorporated areas have no unfunded mandates. That is an important distinction and it's another reason that SB 234 makes sense, he concluded.

CHAIR THERRIAULT asked for his perspective on which unfunded mandates might not be provided if there were no mandates.

MR. LONG responded the \$150,000 senior property tax exemption is the first that comes to mind and another is the reduction of school debt reimbursement from 90 percent to 60 percent.

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PAUL FUHS, Lobbyist for the Kuskokwim Corporation, described the corporation, which includes 10 villages on the Kuskokwim that value self-determination. He informed members that the people in the area have formed an exploratory committee for the purpose of

petitioning to become a borough. Although the area is poor, it has promise because of the Donlin Creek Mine. However, the mine has said it won't go forward until some kind of government is formed so that a tax rate can be negotiated. That situation is a catch-22, but SB 234 helps provide a solution. He encouraged the committee to pass the bill on to the Finance Committee.

Speaking for himself and as a former mayor he said that Title 29 is one of the strongest elements of democracy in the state and it's sad that some local governments are going by the wayside because they can't afford basic administration.

[4:09:26 PM](#)

JOHN HOZEY, Valdez City Manager, spoke in support of revenue sharing in general. Observing that times are tough for local municipalities, he informed members that communities need help at a level that will make a difference. SB 234 is a good start, but you need to find a larger funding source than Amerada Hess can provide, he said.

Responding to earlier comments, he urged caution in penalizing communities like Valdez for not forming a borough if there isn't any discussion about making Title 29 changes to make forming a borough more user friendly.

SENATOR HUGGINS asked him to describe three rules that ought to be changed.

MR. HOZEY replied the Model Borough philosophy is a stranglehold on forming new boroughs. If a proposed borough doesn't conform to the model boundaries the proposal won't go forward. He mentioned the task force that worked through the Alaska Municipal League to recommend changes to Title 29 to give the Local Boundary Commission increased authority to amend petitions. The main difficulty is that there is no flexibility for putting petitions together that make sense from a municipal point of view.

[4:15:12 PM](#)

KEVIN RITCHIE, Executive Director for the Alaska Municipal League (AML), introduced himself and explained that the 75/75 button his lapel describes a method for crafting a revenue sharing program. \$75,000 is the minimum amount necessary to run a local government regardless of size. The second number represents \$75 million, which is the recommended overall funding level for the program.

MR. RITCHIE noted that when Governor Murkowski spoke to AML he discussed putting more money into a revenue sharing program than is provided under SB 234. Using the earnings from Amerada Hess would provide enough to save small communities, but it isn't enough to provide substantial tax relief and assistance to larger communities. He further noted that the State Chamber of Commerce chose revenue sharing and PERS as its top lobbying priorities because of the strong connection between having a strong business community and affordable taxes. Taxation in communities is becoming more of an issue with business and the public, he said.

Referencing Mr. Long's testimony related to mandates, he suggested that it's more about partnership and shared responsibility between the state and its political subdivisions. Whether citizens are paying state or local taxes, it clear that it takes a certain amount to maintain an appropriately high quality of life. Sharing revenue with municipalities to reduce taxes or to provide better services or to keep small communities viable is a high constitutional priority of the state, he asserted.

With regard to Senator Elton's question about the difference between unified and non-unified boroughs, he opined that the issue is addressed the best in the bill that came from the local government commission. Essentially it has three levels of funding: \$75,000 for cities; \$150,000 for non-unified boroughs; and \$300,000 for unified boroughs.

[4:19:46 PM](#)

SENATOR HUGGINS asked for the total amount under 75/75 as well as the funding source.

MR. RITCHIE reiterated AML recommends that \$75 million is an appropriate amount for a revenue sharing program and \$75,000 is the minimum to allow a small city to operate. With regard to the source, AML urges that it be sustainable. Because there is no dedicated funding source under the constitution, there must be a political will to fund any program annually. Discussions have included: Amerada Hess earnings, constitutional budget reserve (CBR) earnings, and general fund appropriations. He noted that the latter sustained the program for 30 years. He agreed to provide the committee with a briefing paper, which would answer the question more fully.

CHAIR THERRIAULT asked Mr. Ritchie to comment on the issue of the unincorporated communities.

MR. RITCHIE used the six cities in the Lake and Peninsula Borough as an example. Under the AML proposal for revenue sharing each community would receive \$75,000. He noted that if the borough were to receive \$75,000 to take care of the other half of the population it would be inequitable. What makes sense and what is reflected in SB 247 is to provide a larger amount of base funding for boroughs than for cities.

Revenue sharing under SB 247 proposes \$75,000 for municipalities, \$150,000 for non-consolidated boroughs and \$300,000 for consolidated boroughs. Allowing that the last two numbers might be low, he said there are two advantages in providing sufficient base funding for boroughs. First it would provide incentive for boroughs to form and second it would address the inequities that have been described.

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MARK HICKEY, Lobbyist for the Lake and Peninsula Borough (LPB), stated support for a meaningful and sustainable revenue sharing program. Although the borough hasn't endorsed a particular option, it recognizes that the AML 75/75 program has merit. Of particular importance is minimum funding for cities.

He referenced his April 11 memo discussing unincorporated communities within the borough boundaries and said that LPB has 16 communities: 6 cities and 10 unincorporated communities that are primarily Native villages with populations of 200 or less. Many of the unincorporated communities have been in existence for years and provide services such as fire protection, emergency medical service, search & rescue, and sewer & water. Typically the services are administered through a village administrator and a tribal council.

Citing aspects of different bills he cautioned against the unintended consequence in which it's actually a disincentive in the future to be a borough. He noted that SB 234 doesn't suffer that deficiency and that Mr. Ritchie's idea of increasing the base for boroughs provides a simple approach.

MR. HICKEY cited Senator Elton's suggestion as another solution. That is to establish a standard such that unincorporated communities receive money only if they are real and if they provide certain services. The issue is confusing, but you need to look at the basic question of what's equitable, he concluded.

[4:29:30 PM](#)

LUKE HOPKINS, Fairbanks North Star Borough Assembly Member and AML Board Member, described the bill as a good starting point. He expressed the view that the overall funding level ought to be increased and that the 75/75 proposal would work. He asked the committee to consider a \$75,000 floor.

With regard to the funding source he agreed with others that Amerada Hess wouldn't provide sufficient funds. He suggested that those funds could be combined with CBR earnings and/or a general fund appropriation.

[4:32:07 PM](#)

PEGGY COWAN, Superintendent of the Juneau School District, reminded members that a strong community makes strong schools. Juneau is fortunate, she said, because the borough traditionally funds schools to the cap. She encouraged the committee to support revenue sharing.

CHAIR THERRIAULT proposed holding the bill to give members time to consider amendments.

SENATOR ELTON responded his understanding is that one committee would review all the revenue sharing proposals at one time so he'd prefer to move the bill.

CHAIR THERRIAULT said if members didn't anticipate any amendments then he would entertain a motion.

SENATOR ELTON motioned to report SB 234 and attached fiscal note(s) from committee with individual recommendations.

CHAIR THERRIAULT announced that without objection SB 234 would move to the Finance Committee.

There being no further business to come before the committee, Chair Therriault adjourned the meeting at [4:38:18 PM](#).