

HOUSE FINANCE COMMITTEE
May 12, 2007
3:25 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [3:25:35 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

Representative Gabrielle LeDoux; Representative Paul Seaton; Representative Bryce Edgmon; Representative Nancy Dahlstrom; Tim Grussendorf, Staff, Senator Lyman Hoffman; Fred Fisher, Staff, Senator Bert Steadman; Shawna Crondahl, Alaska Municipal League (AML), Juneau; Denise Michels, Mayor, City of Nome; Bill Rolfzen, Local Government Specialist, Department of Commerce, Community and Economic Development

PRESENT VIA TELECONFERENCE

Dick Wyland, Mayor, City of Seldovia; Jerome Selby, Mayor, Kodiak Island Borough; Dan Coffey, Assembly, Municipality of Anchorage

SUMMARY

CS SB 53(FIN)

An Act making and amending appropriations, including capital appropriations, supplemental appropriations, and appropriations to capitalize funds; ratifying certain expenditures; and providing for an effective date.

CS SB 53 (FIN) was HEARD & HELD in Committee for further consideration.

CS SB 72(FIN)

An Act relating to the community revenue sharing program; and providing for an effective date.

CS SB 72 (FIN) was HEARD & HELD in Committee for further consideration.

[3:26:13 PM](#)

#SB72

CS FOR SENATE BILL NO. 72(FIN)

An Act relating to the community revenue sharing program; and providing for an effective date.

TIM GRUSSENDORF, STAFF, SENATOR LYMAN HOFFMAN, explained that SB 72 would establish a sustainable revenue sharing program based on the owner-state concept. The resources of the State belong to all Alaskans. Cities and boroughs were formed by the State as political subdivisions to provide services to the people. Without revenue sharing, the entire cost of basic services is borne by local taxpayers.

Mr. Grussendorf continued, skyrocketing fuel and retirement system costs and inflation, in conjunction with severe cuts in revenue sharing over the past several years have local governments trying to continue to provide even basic services such as snow removal, road maintenance, public safety and education.

SB 72 provides a means for sustainable revenue sharing in order to allow communities to continue providing basic services. SB 72 allows the Legislature to allocate 3% of certain natural resource revenues or up to \$50 million dollars for community revenue sharing each year. Basing revenue sharing on the State's annual income allows for the flexibility needed to continue the program during lean years when State revenues are down. Without a consistent & dependable revenue sharing, provisions of basic services will continue to decline. Some small communities have already closed their doors. SB 72 provides the tool to solve the problem of helping local governments fund basic services.

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Representative Hawker asked if the bill before the Committee was for the \$50 thousand dollars. Mr. Grussendorf explained that it initially was intended to be \$75 thousand dollars and he requested the Committee to amend that language.

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Mr. Grussendorf overviewed handout 1, Senate Finance Committee (SFC) numbers. (Copy on File). All numbers from communities within a borough were backed out in order that there be no "double dipping". He pointed out the base support per capita column, giving Anchorage \$3.5 million dollars with the percent column tying it to SB 125 [cost share]. Of the \$66 million dollars spent by the State to get communities to the 22% mark, Anchorage receives \$26 million, which represents 39.76% of the total.

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Mr. Grussendorf noted that SB 72 attempts to proportionately apply that number to the revenue sharing bill, a lesser amount. If an area does not participate in the Public Employees Retirement System (PERS) and/or is under the 22% amount, a zero will be indicated.

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Mr. Grussendorf referenced the redistribution of the PERS capita column, which is the total equaling \$6.1 million dollars and redistributed to the communities either fewer than 22% or those that did not participate in the PERS. That action was incorporated to keep it accurate & in proportion to SB 125. State assistance pays to get to the 22% column and places Anchorage at \$26 million dollars for a total PERS assistance and revenue sharing of \$34.3 million dollars, equaling 30% of the two programs combined. A population determination was made with the FY06 numbers and has not been confirmed yet.

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Representative Thomas inquired if there would be a review of changes made during the hearing in the House Community and Regional Affairs (HCRA) Committee. Mr. Grussendorf explained in that Committee, the unincorporated communities that reside within boroughs addressed. He understood that there are 30 communities meeting qualifications for essential services. The Senate Finance Committee (SFC) decided that should be a policy call and that those areas have not been included since revenue sharing was started. They do not receive a base amount & are usually covered within the borough allocation. He discussed, those changes add another \$1 million dollars to the program.

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Representative Thomas asked if the PERS/TRS contributions made within a borough had been "backed out". Mr. Grussendorf noted such calculations had not been made in the previous committees. If the populations were backed-out and

put in with the unincorporated communities, the PERS number would decline, contributing at a different amount, changing the formula.

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Representative Gara questioned how that compared to last year. Mr. Grussendorf replied it was the same.

Representative Gara inquired if the amount adds more unincorporated communities this year. Mr. Grussendorf said that the unincorporated communities had not been included last year. Representative Gara voiced concerns that some communities will receive less than last year; he recommended inflation proofing and capping.

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Co-Chair Meyer interjected that last year, it was called Energy Assistance and was in the amount of \$65 million dollars. He understood that the version passing out of the HCRA Committee included more communities than the SFC version.

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Representative Nelson noted the fiscal note had increased by \$1 million dollars, however, the amount of money for the unincorporated communities had been diluted by adding the 30. She questioned if the additional funding had been allocated to the incorporated communities.

Co-Chair Meyer requested that someone from the HCRA Committee explain the fiscal impact. Vice Chair Stoltze pointed out that the SFC did not have many legislators from Anchorage; he recommended that the House Finance Committee (HFC) scrutinize it more closely.

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Representative Hawker discussed taking the absolute amount that the communities received as a percentage of the entire benefit. The absolute number is being reduced by a per capita formula. He argued that within the PERS solution, there is concern with the equity of the conclusion. He was worried with the distribution formula and did not think it was fair. Mr. Grussendorf explained it had been done proportionately to pay assistance in order to get the rate reduced to 22%. He hoped it was fair & that all communities would be included.

Representative Hawker commented that the formula was meant to "punish" communities that provide for themselves. He pointed out that the PERS school districts had been factored

in at 22%. Mr. Grussendorf maintained that the legislation was not punishing but rather including. Having a statewide revenue sharing program including all the communities is fair. It is important to include them all through the per capita shared in the State resource revenue. Representative Hawker pointed out that Fairbanks was a good example of a case in dispute. Mr. Grussendorf emphasized that the bill is all inclusive.

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Representative Hawker recommended discussing the fund source change.

Representative Nelson addressed the issues of revenue sharing versus PERS/TRS. Revenue sharing and municipal assistance had been removed during the operating budget discussions. She voiced concern that communities that do not participate in PERS, will be receiving nothing, which is unfair. With a PERS/TRS fix to communities that have a 33% rate, adjusting it, others will be paying more than they should and would be placed on a "hero's list". She believed that communities on the list should not be punished because of their foresight & planning.

Representative Kelly pointed out that even though Fairbanks has a high number of public employees, they have never missed a payment; they were placed on the "hero's list". Mr. Grussendorf pointed out that Fairbanks had been included in statewide revenue sharing.

Representative Gara questioned the amount of revenue sharing last year. Co-Chair Meyer remembered that the total amount last year was \$65 million dollars including the PERS increased amount and some energy assistance. Representative Hawker concurred.

Representative Gara asked if those funds were distributed along the revenue sharing formula. Co-Chair Meyer discussed adding more dollars for PERS/TRS this year; he thought Anchorage was being reduced from 40% to 22% PERS.

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Representative Hawker spoke to equity. He referenced the spreadsheets and the State assistance amount of \$65.9 million dollars, approximately \$100 dollars per head. He thought the amounts were being disproportionately reduced. Mr. Grussendorf acknowledged that, however, pointed out that Anchorage makes the mean at \$94 dollars per capita.

Representative Nelson recommended that in order to make the discussion "fair", the Committee should apply the Institute of Social and Economic Research (ISER) study on area cost

differentials, stressing that the cost of living is greater the further "out" one goes in the State.

Representative Gara pointed out that the proposed amount of revenue sharing is less than when the State was in a "budget deficit mode"; it has not been adjusted for inflation, which is inadequate.

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Co-Chair Meyer asked about discussion heard in the HCRA Committee.

REPRESENTATIVE GABRIELLE LEDOUX distributed the spread sheets from HCRA and addressed policy concerns. (Copies on File). She commented on disincentives for organizing into a borough, stating that the 30 communities were being punished and not providing fire protection, emergency medical, water & sewer, and/or the four other criteria. The HCRA Committee version included those communities.

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REPRESENTATIVE PAUL SEATON added that the HCRA version did address concerns voiced by Representative Hawker, incorporating a cap of \$50 thousand dollars. He referenced the spreadsheets from the Department of Community & Economic Development.

Representative Seaton stated that the unincorporated communities only count if they supply three criteria and not those supplied outside the boroughs. Everyone will gain by adopting that version. The municipalities went from a per capita amount to a per capita distribution of 47.60%. The unincorporated per capita is equalized among both inside and outside the boroughs.

Representative Seaton indicated that there would be no double-dipping. Also, the difference between the unincorporated is that there would be no PERS distribution and no revenue sharing in the PERS formula for any of those communities.

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Representative Thomas inquired if the unincorporated communities would have to provide for the education fund. Representative Seaton said yes but do not provide for the actual school, which is provided by a school district or by a borough.

Representative Thomas hoped that the bill would provide funding for those not receiving the PERS/TRS. Representative Seaton noted that the PERS adjustment goes

toward school district borough assistance and that revenue sharing is different from the TRS, offsetting the cost increase. Revenue sharing provides support to provide basic local services.

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In response to Co-Chair Chenault, Representative LeDoux outlined the seven criteria:

- Fire protection
- Emergency medical service
- Water & sewer
- Solid waste management
- Public road maintenance
- Public health
- Search and rescue

Co-Chair Chenault asked if his area qualified, noting that they had not been included in the list. Representative Seaton asked if they were classified as a second class city and recommended a reassessment.

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Vice Chair Stoltze mentioned concerns with his district & the criteria. Representative Seaton said if they were provided for independently, the bill as written does not remove from a municipality; it can be adjusted for cities.

Representative LeDoux added it does not address road service areas, communities, which are managed through grants or paying into a central community entity to provide benefits.

Co-Chair Chenault commented his area has elected to tax in order to provide services. Representative LeDoux did not understand why that district had not been included.

Vice Chair Stoltze spoke to the reality of local government frustration. Representative LeDoux reiterated that most of the areas are remote with few road system accessibility.

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Representative Gara pointed out that \$48.1 million dollars was equal to the amount paid last year in energy assistance.

Vice Chair Stoltze stated that past per head capita revenue sharing had been generous.

Representative Gara referenced the language on Line 10, Page 1, version \L, that the amount could not be greater than \$50

million dollars. Unless statute is changed, the amount can never increase beyond \$50 million dollars. Representative LeDoux concurred. Representative Gara questioned placing the language in statute because it prevents inflation proofing.

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SHAWN CRONDAHL, ALASKA MUNICIPAL LEAGUE (AML), JUNEAU, testified that AML supports SB 72 - revenue sharing. She pointed out that revenue sharing began in 1969 with the intent to assist local governments financially so that they could provide adequate levels of services. The lack of revenue sharing for the past several years along with increases to the PERS contributions have destabilized local property sales tax rates and threatened the provisions of basic public safety and other critical services.

Ms. Crondahl advised that SB 72 & SB 125 are an acceptable compromise to the municipalities. She stated that the \$50 million dollar cap is less than the Legislature provided in previous years. She read from prepared statements.

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Ms. Crondahl pointed out that SB 72 only asks 3% of certain natural resource revenues and a small share of royalties. She maintained that stable local governments provide the best atmosphere to live, work and do business.

Vice Chair Stoltze noted that previously, revenue sharing had been funded through the Permanent Fund & asked AML's position on that. Ms. Crondahl responded that the Permanent Fund could be politically sensitive.

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Representative Gara spoke to the future year's funding cap. Ms. Crondahl pointed out that the original bill offered a flat 6% certain of all natural resource revenues and in FY08, the amount was estimated to be \$120 million dollars.

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DENISE MCHELS, MAYOR, CITY OF NOME, spoke on behalf of the legislation, pointing out that it would be a "good beginning" for revenue sharing. The City of Nome has dipped into reserves for the past several years. Rural villages are hurting and cannot sustain basic services.

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DICK WYLAND, (TESTIFIED VIA TELECONFERENCE), MAJOR, CITY OF SELDOVIA, stressed the importance of revenue sharing. He

noted services provided by the City had been reduced. The legislation will provide a great asset, acknowledging that Seldovia could "survive" with the \$48 million dollar addition to the PERS/TRS funding.

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Representative Gara pointed out that there is a cap preventing future revenues from exceeding the \$50 million dollars. Mayor Wyland hoped the level would increase next year. He acknowledged the importance of capital projects, hoping that revenue sharing could provide planning for extended projects. He noted that his area has one of the highest sales taxes in the State. The community is moving toward becoming a retirement community and is struggling as are most other coastal communities.

In response to a question regarding property tax by Vice Chair Stoltze, Mayor Wyland said they are paid year-round; however, some properties are not residential and not taxed.

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JEROME SELBY, (TESTIFIED VIA TELECONFERENCE), MAYOR, KODIAK ISLAND BOROUGH, testified in support of the legislation, including the unincorporated communities. The legislation accomplishes a number of important items. The money received from the State is based on natural resource income, which is a critical factor in that it is the "people's money". He felt it was appropriate to return some of those revenues to help on the local level. He acknowledged that the help of the PERS/TRS would shift more than 3% to rural communities. It takes \$100 to \$125 thousand a year to have a functioning government community and shifting the PERS adjustment, small communities could be in the range of \$85 - \$125 thousand. The legislation accomplishes the objective of getting money to all communities, particularly the smaller ones. He addressed unincorporated borough distribution of money.

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DAN COFFEY, (TESTIFIED VIA TELECONFERENCE), CHAIRMAN, ANCHORAGE ASSEMBLY, spoke in support of SB 72. Anything received from the State in Anchorage goes "dollar for dollar" toward property tax relief. He maintained that new programs would not be started through additional funding. He mentioned that this year's tax assessment has been held in order that it can be adjusted in accordance of legislative action. He pled for a revenue sharing bill that could be counted on.

In response to a question by Co-Chair Meyer, Mr. Coffey advised that relief from PERS/TRS would also go toward property taxes.

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Responding to Vice Chair Stoltze, Mr. Coffey noted that Anchorage bares a large burden for social services from people moving in from small towns & villages. He did not know enough to debate the value of the legislation for Anchorage. The Anchorage Assembly is looking for a level of certainty and hopes the Legislature is able to find a fair dynamic. He preferred "any relief to no relief". Vice Chair Stoltze mentioned the difficulty in making statutory changes. Mr. Coffey acknowledged the risk of "going down a road that the direction cannot be changed", reiterating the importance of tax relief.

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Representative Nelson referenced the social service burden existing in Anchorage, stressing that if the Legislature does not recognize the economic crisis of rural Alaska, the migration to Anchorage is going to create an even greater social service burden. She noted that Anchorage has a high level of municipal services. She stated she would support paying sales tax while visiting Anchorage. Co-Chair Meyer interjected that Anchorage currently pays high property taxes.

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Representative Gara observed that North Slope oil has resulted in many benefits for Anchorage. Mr. Coffey maintained that the reliance on property tax outstrips the ability of property to ultimately meet the burden.

Co-Chair Chenault asked the property tax rate in Anchorage. Mr. Coffey replied 13 to 16 mills, depending on the service area. Co-Chair Chenault noted that Kenai pays 12.5 to 13 mills with a 2.5 percent sales tax in order to provide equal services. Mr. Coffey observed the reluctance of Anchorage residents to accept a sales tax; each election has over a 70% "no" vote when on the ballot. Co-Chair Chenault noted that taxes can help provide property tax relief. He pointed out that Kenai provides \$14 million toward schools, not paid through property taxation.

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Co-Chair Chenault asked the percentage of property owners versus population. Mr. Coffey thought about 66% of Anchorage citizens own their own homes, with a declining

availability of land. He stressed that Anchorage would need other specialty taxes or cut services.

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Representative Gara asked for more information regarding the cap.

BILL ROLFZEN, LOCAL GOVERNMENT SPECIALIST, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that 6% is roughly \$126 million dollars.

Representative Nelson asked how the HCRA version would affect small unincorporated communities. Mr. Rolfzen noted that there are an estimated 30 communities that would be funded, the first time in the history of revenue sharing that unincorporated communities within boroughs are funded. Those communities have not been part of the formula since they were in an organized borough and were then calculated within the borough's determination. Borough assemblies have been responsible for that funding. Co-Chair Meyer noted that boroughs do not always distribute their funding equitably.

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CSSB 72 (FIN) was HEARD and HELD in Committee for further consideration.

#SB53

CS FOR SENATE BILL NO. 53(FIN)

An Act making and amending appropriations, including capital appropriations, supplemental appropriations, and appropriations to capitalize funds; ratifying certain expenditures; and providing for an effective date.

Co-Chair Meyer stated that the Senate version of the capital budget had been received in Committee. He advised that the House Finance Committee version preparation would be prepared by late evening.

FRED FISHER, STAFF, SENATOR BURT STEADMAN, spoke to the CS SB 53(FIN)\N version outline.

- Sections 1-6 are capital projects and grants
- Section 7 is the FY08 operating line for the monetary terms of the collective bargaining agreements
- Sections 10-24 indicates FY07 supplemental appropriations

- Sections 25-31 provides the language sections pertaining to the FY08 capital appropriations
- Sections 32-45(a) indicates reappropriation items
- Section 45(b) provides an FY08 operating item
- Section 46 indicates a reappropriation item
- Section 47 is a supplemental appropriation item
- Sections 48 & 49 are reappropriations
- Section 51 is a reappropriation item
- Sections 52 & 53 are appropriations to the remaining FY07 surplus to the Constitutional Budget Reserve (CBR) & the Alaska Housing Finance Corporation (AHFC) components

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Mr. Fisher noted the total capital budget grants from General Fund sources are \$458.6 million dollars, of which \$240.6 million were Governor request items; \$218 million SFC additions including Railbelt Energy and National Petroleum Reserve-Alaska (NPR-A) impact grants, totaling an additional \$85 million dollars.

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CS SB (FIN) was HELD in Committee for further consideration.

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Representative Gara inquired about the outstanding bills remaining in Committee.

#

ADJOURNMENT

The meeting was adjourned at 5:15 P.M.