

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 22, 2007

4:23 p.m.

MEMBERS PRESENT

Senator Donny Olson, Chair
Senator Joe Thomas
Senator Thomas Wagoner

MEMBERS ABSENT

Senator Albert Kookesh, Vice Chair
Senator Gary Stevens

COMMITTEE CALENDAR

SENATE BILL NO. 72

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

MOVED CSSB 72(CRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 72

SHORT TITLE: COMMUNITY REVENUE SHARING

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

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|----------|-----|---------------------------------|
| 02/02/07 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/02/07 | (S) | CRA, FIN |
| 02/13/07 | (S) | CRA AT 3:30 PM BELTZ 211 |
| 02/13/07 | (S) | Heard & Held |
| 02/13/07 | (S) | MINUTE(CRA) |
| 02/22/07 | (H) | CRA AT 3:30 PM BUTROVICH 205 |

WITNESS REGISTER

KATHIE WASSERMAN, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Supported SB 72.

MELANIE LESH, Legislative Liaison
Department of Natural Resources (DNR)
Juneau, Alaska

POSITION STATEMENT: Answered questions about SB 72.

LISA VON BARGEN

Valdez, Alaska

POSITION STATEMENT: Stated that the City of Valdez was in support of SB 72.

DAVE TALERICO, Mayor

Denali Borough

Healy, Alaska

POSITION STATEMENT: Spoke in favor of SB 72.

MICHAEL CATSI, Co-Chair

Alaska Municipal League

City of Skagway Council member

Skagway, Alaska

POSITION STATEMENT: Spoke in favor of SB 72.

SCOTT BRANDT-ERICHSEN, Co-Chair

Alaska Municipal League Legislative Committee

Attorney for the City of Ketchikan

Ketchikan, Alaska

POSITION STATEMENT: Spoke in favor of SB 72.

VALERIE MCCANDLESS, Mayor

City of Wrangell

Wrangell, Alaska

POSITION STATEMENT: Spoke in favor of SB 72.

VERNON MARSHAL, Representative

Public Safety Employees Association

Anchorage, Alaska

POSITION STATEMENT: Spoke in favor of SB 72.

BILL ROLFZEN

Department of Commerce, Community & Economic Development

Juneau, Alaska

POSITION STATEMENT: Answered questions about SB 72.

ACTION NARRATIVE

CHAIR DONNY OLSON called the Senate Community and Regional Affairs Standing Committee meeting to order at [4:23PM](#). Senators Olson, Thomas, and Wagoner were present at the call to order.

SB 72-COMMUNITY REVENUE SHARING

CHAIR OLSON announced that SB 72 would be the only order of business.

SENATOR WAGONER moved Amendment 1, labeled 25-LS0506\A.1, Cook, as follows:

25-LS0506\A.1
Cook

AMENDMENT 1

OFFERED IN THE SENATE
TO: SB 72

BY SENATOR OLSON

Page 1, line 10, through page 2, line 8:

Delete all material.

Insert "year from all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses."

SENATOR THOMAS seconded the motion. Hearing no objection, Amendment 1 carried.

[4:24:41 PM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), said the amendment clarifies which natural resources the revenue will be derived from. The original bill funded municipalities in a much bigger way than what is being requested now. Amendment 1 restricts the natural resources to those defined in Alaska's constitution for the permanent fund. It doesn't dip into the fund, she said, it simply defines those resources in the same way. The disbursement under the amendment is consistent with Alaska's owner-state concept, she explained.

[4:26:32 PM](#)

SENATOR WAGONER said he is in favor of municipal assistance and revenue sharing; he has been a mayor in Alaska. But he is concerned about the legality of SB 72, because funds can't be dedicated in the state. Discussions on the POMV (percent of market value) had the same problem. He asked them to seriously consider what will get started with SB 72. He noted that the Governor put \$463 million into the budget for PERS/TRS to hold communities, schools, "and everybody harmless this year."

He said he would not vote against SB 72, but he advised that the revenues be consistent so revenue sharing doesn't have the same spikes and valleys it has had recently. He said he doesn't know

if this is the right bill and asked if the budget had other funding for municipalities.

[4:28:43 PM](#)

MS. WASSERMAN replied yes - there was a one-time revenue-sharing for PERS/TRS, but that funding was not carried forward.

SENATOR WAGONER again asked if anyone had asked about the legality of SB 72.

MS. WASSERMAN replied that the AML knows dedicated funds are not allowed in Alaska and they understand that this money should and must be set aside and then disbursed by the act of the legislature.

[4:29:34 PM](#)

SENATOR WAGONER said he thought there should be a dedicated fund someplace so future legislators wouldn't cut municipal sharing in the future. He asked if anyone had asked the governor to consider setting up an endowment fund similar to what has been done for power cost equalization where the principle would stay in place and the interest would provide municipal assistance instead of putting \$1.8 billion into the constitutional budget reserve. That would take the issue of the legislature's and the governor's control. SB 72 just didn't do that.

MS. WASSERMAN responded that the AML devised SB 72 last year because it was told: "It's up to you people to help us decide where this revenue sharing is going to come from and how it's going to be funded." She noted that AML came up with other ideas, but there were always 10 people in opposition. If there is something that everyone could agree on "you won't find us pooh-poohing it," she noted.

[4:32:01 PM](#)

SENATOR WAGONER said he just now thought about an endowment like power cost equalization, and he asked how that was done.

MELANIE LESH, Legislative Liaison, Department of Natural Resources (DNR), said the original endowment of \$100 million came in the form of an amendment from Senator Austerman in the Finance Committee on the budget bill about six years ago. The most recent endowment was also in the form of an amendment from Senator Hoffman in the Senate Finance Committee.

[4:33:38 PM](#)

CHAIR OLSON said he believed that the proceeds from the Four-Dam Pool sale funded the original power cost equalization endowment.

SENATOR WAGONER said he thought that a legislative endowment could be taken away, because that is what happened to the science endowment.

CHAIR OLSON explained that that was a foundation.

SENATOR WAGONER said either way, if an endowment is not set up constitutionally, it can't be protected.

[4:34:39 PM](#)

LISA VON BARGEN, Valdez, said the City of Valdez has sent a resolution in support of SB 72.

DAVE TALERICO, Mayor, Denali Borough, said he wants the bill to move forward. Over the years the municipalities have been delivering more services, and revenue sharing is important for Alaska's future and future generations.

CHAIR OLSON asked his thoughts about the disparity between the incorporated and unincorporated communities within a borough.

MAYOR TALERICO said, "Our services are delivered borough-wide, and we certainly have to define those as good as we can." He added:

We do deliver our services borough wide through emergency medical services, and our fire departments, and our educational system. So speaking for the municipality, it's a very equal split for us. There is an advantage to us, as well, as we operate our municipality to have a second class city within our municipality that deals with a lot of issues too. But that is a very good question and probably a tough one to work out. I like the way it's set up right now, and potentially, in the future, we can figure that out to make sure that we've done an even distribution for everyone.

[4:37:22 PM](#)

MICHAEL CATSI, economic developer and council member, City of Skagway, and co-chair of the Alaska Municipal League, said he would like to reframe the way revenue sharing is discussed. The state needs to reinvest some of its revenue into its fundamental core, which is made up of Alaska people and businesses. Using

the term "investment" instead of "revenue sharing" changes the relationship between the state and the municipalities. He suggested using 6 percent of Alaska's natural resource revenues to invest back into its core foundation. He said there would be an expectation that the municipalities will wisely use the investment funds to improve basic services, relieving the tax burden of the taxpayers and move the municipalities away from having to beg for a dividend.

MR. CATSI said companies that fail to invest in themselves are subject to failure. The current closure of several communities is the result of the state not reinvesting in itself. This bill is a long-term sustainable mechanism that can change that. The increasing tax burden is a serious concern for small businesses, and running a business is even more difficult in rural Alaska. There have been significant increases in fuel and construction costs, and the increasing property taxes can make a difference in making it or not.

[4:40:22 PM](#)

SCOTT BRANDT-ERICHSEN, Co-Chair, Alaska Municipal League Legislative Committee, and Borough Attorney for the City of Ketchikan, said the impact of revenue sharing on Ketchikan is the same as for other cities. The revenue sharing the Ketchikan Borough received last year was equivalent to 12 percent of its general fund expenditures. Over the past 20 years four main types of transfer payments were received by the borough - revenue sharing, forest receipts, fish tax receipts, and federal payment in lieu of taxes - and those equated to about one mil of property tax savings. He said that last year everyone seemed to agree on finding a reliable, sustainable funding source for revenue sharing and the 6-percent solution has a lot of appeal. It provides for an automatic proportional reduction in revenue sharing based upon what the state has taken in.

The distribution methods of the revenue have significant issues and one is payments to unincorporated settlements in the unorganized boroughs. He explained that it is necessary to provide some level of funding for services to these areas but it is also important to retain an incentive for those areas to develop and organize into cities or boroughs.

[4:45:14 PM](#)

MR. BRANDT-ERICHSEN said that there is a difficult balance because some of the organized boroughs contain unorganized communities that could benefit from some of these same funds. But there is a definitional difficulty where some organized

boroughs have regions or neighborhoods that may have all of the same attributes, and providing funds to some but not all of those may be difficult. He said the method that SB 72 uses to address this - providing a larger amount to boroughs than to cities - allows those boroughs to have their own system for sharing those funds with the unorganized communities. He believes that is a good solution to the problem.

The other population question that the bill resolves, he said, is the question of double-counting if a city is established inside a borough. He concluded that SB 72 is a good solution to a long-standing problem.

[4:46:16 PM](#)

VALERIE MCCANDLESS, Mayor, City of Wrangell, said she supports the bill, which has had statewide scrutiny and support.

[4:46:59 PM](#)

TIM BECK, Vice President, Alaska Municipal League, and member of the Fairbanks North Star Borough assembly, said the bill represents a clearly-defined revenue source and is sustainable. It shares the state's resource income with local government, which is the kind of government that is closest to Alaska residents, and it provides recognition that money invested in local government is compounded many times over with community participation.

VERNON MARSHAL, Public Safety Employees Association (ASEA), said his group supports the restoration of revenue sharing. He supports the end result of SB 72 but has not analyzed the "means to get there." He said the association wants safe communities with good infrastructure, and he noted that "all politics is local."

[4:49:15 PM](#)

SENATOR THOMAS asked if the formula on spreadsheet 3 determines the per capita distribution and if it is already in statute some place else.

MS. WASSERMAN replied that the formula is calculated by taking 6 percent of estimated revenues for a year and disbursing it in the core base amounts and then dividing what is left over among the population. So, she said the per capita amount would go up and down each year depending on the amount of resource revenue available and some years there might be no per capita.

SENATOR THOMAS said the spreadsheets have different numbers.

MS. WASSERMAN said some spreadsheets were done under different scenarios on how to count people.

[4:51:37 PM](#)

SENATOR THOMAS commented that the gross differences between the Aleutians East Borough spreadsheets 1 and 3 must be a typo, because there is a 2,600-person difference.

MS. WASSERMAN agreed that was probably a typo.

SENATOR WAGONER said he hoped to establish a revenue program. But his problem with SB 72 is that separate sums of money go to boroughs and cities and some major cities in this state have never funded education to the cap. He had a real hard time giving those cities revenue-sharing without something being in this bill that would require them to fill that gap and fund education to the cap. He emphasized, "It is very unfair for them to come to us crying for money every year, and not funding education to the cap."

[4:53:39 PM](#)

CHAIR OLSON said there have been a good number of discussions by legislators that represent both incorporated and unincorporated boroughs and also those communities within the boroughs, especially which are unincorporated, about the disparity between the amounts of money that they are getting compared to the incorporated ones to run their municipalities.

MS. WASSERMAN responded that the AML knows that is a point that comes up quite often when revenue sharing is discussed. She explained that this bill specifically targets municipalities in boroughs and outside of boroughs. How they're treated in the bill has been left for the legislators to consider, because there are differing views. She said, "And I may regret that answer."

[4:55:00 PM](#)

SENATOR THOMAS said he is having trouble understanding the dramatic difference between the two spreadsheets. The difference for Fairbanks and the Fairbanks North Star Borough is minor, but Anchorage goes from \$41 million to \$55 million.

[4:57:08 PM](#)

BILL ROLFZEN, Department of Commerce, Community & Economic Development, said there were no typos in the spreadsheets and explained that for borough populations one spreadsheet used the

entire population of the borough including people within the cities. The other spreadsheet indicates the non-areawide population which subtracts the city populations from the total borough number. "So, for instance, the Aleutians East Borough, if you subtract out Akutan, Sand Point, King Cove, et cetera, you are left with 72 residents that actually live outside any city within the borough, which is the population that is used in SB 72."

SENATOR THOMAS said that answers the question and he asked if that explains the difference between the Fairbanks and Anchorage numbers also.

[4:58:40 PM](#)

MR. ROLFZEN replied that was exactly correct and added that Anchorage is a unified municipality so there are no cities within its boundaries, but the Fairbanks North Star Borough has the cities of Fairbanks and North Pole; so the population of those two cities is deducted from the borough to come up with a number to use in the formula.

SENATOR THOMAS noted that both spreadsheets have Fairbanks and the Fairbanks North Star Borough, but he was still concerned about the cumulative number. He then suggested talking to Mr. Rolfzen later.

[5:00:01 PM](#)

SENATOR THOMAS moved CSSB 72(CRA) from committee with individual recommendations and attached fiscal note(s). There being no objection, CSSB 72(CRA) passed out of the Senate Community and Regional Affairs Standing Committee. There being no further business to come before the committee, Chair Olson adjourned the meeting at [5:00:33 PM](#).