

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

May 8, 2007

3:36 p.m.

MEMBERS PRESENT

Senator Donny Olson, Chair
Senator Albert Kookesh, Vice Chair
Senator Joe Thomas
Senator Gary Stevens
Senator Thomas Wagoner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 20

Urging the United States Congress to intervene to eliminate or reduce the planned parcel post and bypass mail rate increases adopted by the United States Postal Service because of the severe effect the rate increases will have on rural Alaska.

MOVED HJR 20 OUT OF COMMITTEE

CS FOR HOUSE BILL NO. 67(FIN) am

"An Act relating to a mandatory exemption from municipal property taxes for certain college property, to a mandatory exemption from municipal property taxes for residences of certain widows or widowers, and to optional exemptions from municipal property taxes for property of certain fraternal organizations and for certain residences of law enforcement officers; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 20

SHORT TITLE: BYPASS MAIL RATE INCREASE

SPONSOR(S): REPRESENTATIVE(S) NELSON

04/25/07	(H)	READ THE FIRST TIME - REFERRALS
04/25/07	(H)	STA
04/27/07	(H)	STA REFERRAL REMOVED
05/01/07	(H)	STA AT 8:00 AM CAPITOL 106
05/01/07	(H)	<Bill Hearing Canceled>

05/02/07 (H) RLS AT 5:00 PM CAPITOL 106
05/02/07 (H) Moved Out of Committee
05/02/07 (H) MINUTE(RLS)
05/03/07 (H) RLS RPT 4DP
05/03/07 (H) DP: HARRIS, SAMUELS, JOHNSON, COGHILL
05/03/07 (H) TRANSMITTED TO (S)
05/03/07 (H) VERSION: HJR 20
05/04/07 (S) READ THE FIRST TIME - REFERRALS
05/04/07 (S) CRA
05/08/07 (S) CRA AT 3:30 PM BELTZ 211

BILL: HB 67

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTIONS

SPONSOR(S): REPRESENTATIVE(S) GRUENBERG, CHENAULT

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) CRA, FIN
02/06/07 (H) CRA AT 8:00 AM CAPITOL 124
02/06/07 (H) Heard & Held
02/06/07 (H) MINUTE(CRA)
02/20/07 (H) CRA AT 8:00 AM CAPITOL 124
02/20/07 (H) Moved CSHB 67(CRA) Out of Committee
02/20/07 (H) MINUTE(CRA)
02/21/07 (H) CRA RPT CS(CRA) 7DP
02/21/07 (H) DP: CISSNA, DAHLSTROM, NEUMAN, OLSON,
SALMON, LEDOUX, FAIRCLOUGH
03/06/07 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/06/07 (H) Heard & Held
03/06/07 (H) MINUTE(FIN)
04/10/07 (H) FIN AT 1:30 PM HOUSE FINANCE 519
04/10/07 (H) Scheduled But Not Heard
04/11/07 (H) FIN AT 1:30 PM HOUSE FINANCE 519
04/11/07 (H) Moved CSHB 67(FIN) Out of Committee
04/11/07 (H) MINUTE(FIN)
04/13/07 (H) FIN RPT CS(FIN) NT 1DP 6NR 3AM
04/13/07 (H) DP: STOLTZE
04/13/07 (H) NR: GARA, CRAWFORD, NELSON, KELLY,
Joule, MEYER
04/13/07 (H) AM: HAWKER, THOMAS, CHENAULT
05/02/07 (H) TRANSMITTED TO (S)
05/02/07 (H) VERSION: CSHB 67(FIN) AM
05/03/07 (S) READ THE FIRST TIME - REFERRALS
05/03/07 (S) CRA, FIN
05/08/07 (S) CRA AT 3:30 PM BELTZ 211

WITNESS REGISTER

KATE SANGSTER
Staff to Representative Mary Nelson
Alaska State Capitol
Juneau, AK
POSITION STATEMENT: Sponsor of HJR 20.

REPRESENTATIVE MAX GRUENBERG
Alaska State Legislature
Juneau, AK
POSITION STATEMENT: Sponsor of HB 67.

DR. DOUGLAS NORTH, President
Alaska Pacific University (APU)
Anchorage AK
POSITION STATEMENT: Supported HB 67.

STEVEN VAN SANT, State Assessor
Department of Commerce, Community & Economic Development
Anchorage, AK
POSITION STATEMENT: Commented on HB 67.

STEVE SMITH
Anchorage Police Department
Anchorage, AK
POSITION STATEMENT: Supported HB 67.

ACTION NARRATIVE

CHAIR DONNY OLSON called the Senate Community and Regional Affairs Standing Committee meeting to order at [3:36:00 PM](#). Senators Kookesh, Stevens, Olson, Thomas, and Wagoner were present at the call to order.

HJR 20-BYPASS MAIL RATE INCREASE

[3:36:00 PM](#)

CHAIR OLSON announced the consideration of HJR 20.

KATE SANGSTER, staff to Representative Mary Nelson, sponsor of HJR 20, said this resolution urges Congress to intervene to eliminate or reduce the rate increase to bypass mail. The increase goes into effect in rural Alaska on May 14, 2007 and will increase overall fourth class parcel post rates by 30 to 60 percent. This increase will be reflected in bypass mail rates.

SENATOR THOMAS asked if the state gets any of the money.

MS. SANGSTER replied no; it is all federal.

CHAIR OLSON said bypass mail is a significant issue in his district. He asked if local carriers support the increase.

[3:38:09 PM](#)

MS. SANGSTER replied that the local carriers and the urban ones that do most of their shipping via bypass mail to rural areas have supported the request to intervene to reduce these rates.

CHAIR OLSON asked if it has support from any of the stores that would be affected by the bypass mail increase.

MS. SANGSTER said there is a letter of support from AC Commercial.

CHAIR OLSON asked if there was any opposition to the resolution.

MS. SANGSTER replied none that she had heard. They had been in contact with Senator Steven's office, and his staff assured them that this is a live issue and that they had no opposition to this resolution - but no concrete answers either.

[3:39:08 PM](#)

SENATOR STEVENS moved to report HJR 20 from committee with individual recommendations and attached fiscal note(s). There being no objection, the motion carried.

CSHB 67(FIN) AM -MUNICIPAL PROPERTY TAX EXEMPTIONS

[3:39:27 PM](#)

CHAIR OLSON announced the consideration of HB 67. [Before the committee was CSHB 67(FIN).]

REPRESENTATIVE MAX GRUENBERG, sponsor of HB 67, said the bill has several stand-alone provisions that deal with municipal property tax exemptions that are quite important. He said Section 1 deals with municipal property tax exemptions for private, non-profit, accredited colleges and universities. Currently a mandatory exemption exists for the University of Alaska and its property even if it is income producing. HB 67 adds private universities to that law. It also adds tax credits for municipalities for contributions to private universities. He said the issue was raised by Alaska Pacific University (APU), which has an office building in Anchorage that is occupied by a spinal clinic. The bill applies to the underlying real estate of

the leasehold interest only. The money the university obtains from the rent goes to support it. The spinal clinic staff are adjunct professors at the university, and the students who are taking health care administration classes actually go into the spinal clinic as part of their studies.

[3:42:22 PM](#)

REPRESENTATIVE GRUENBERG said the second section adds a provision for widows/widowers of disabled veterans until they get remarried to the disabled veterans' mandatory tax exemption. The exemption is up to \$150,000. He said the third provision is an optional exemption for fraternal organizations that says the municipality must adopt an ordinance that is ratified by the local voters. These fraternal organizations, particularly in smaller communities, provide the main meeting hall for social functions and they also provide a lot of the social services.

[3:43:55 PM](#)

REPRESENTATIVE GRUENBERG explained that Section 4 is designed to allow a municipality to pass an ordinance defining a high-crime area and allow a peace officer who buys a home in that high crime area to get a property tax exemption. He said if his district of Mountain View could get one or two officers living there it would cut crime and save money and lives.

[3:44:58 PM](#)

SENATOR WAGONER commented that the same issue also applies in Sterling where there have been burglaries, but the population is so spread out that neighborhood watch groups don't work. So he supported it.

SENATOR STEVENS said he was once a borough mayor and he would feel more comfortable making this an option for communities rather than mandating that they do it. He asked why this piece of legislation is needed and if municipalities don't already have the power to do it. He also raised the issue of who would make up the tax shortfall that would result from the exemptions.

[3:47:01 PM](#)

REPRESENTATIVE GRUENBERG responded that language on page 4, line 14, states the "the cop in the neighborhood" is [optional].

SENATOR STEVENS asked if municipalities can already do this.

REPRESENTATIVE GRUENBERG said this is a very unusual part of state law. To get a right to have a local property tax exemption, state law requires that Title 28 has to be amended;

the Constitution says that "a legislature may, by law, permit a local ordinance." This part of the law, AS 29.45, contains several statutes that do not allow municipalities to make the exemption without specific authorization. He said the "cop in the neighborhood" part is optional; the fraternal exemption in Section 3 is also optional and would be by ordinance ratified by local voters. He said the feeling is that not many police will take advantage of the tax exemption and it is estimated to cost only \$2,200 a year per police officer -- a very modest amount considering what is at stake.

REPRESENTATIVE GRUENBERG said that the other provision on educational property is mandatory already, but it puts private universities on par with public universities. It was added in the Finance Committee. The final provision, Section 2, dealing with disabled vets was added on the floor of the House by the speaker. The senior citizen and disabled veteran provision is currently mandatory, and the bill just adds the widow or widower until remarriage provision to that.

[3:51:36 PM](#)

CHAIR OLSON asked if the widow/widower has to be 65 years or older.

REPRESENTATIVE GRUENBERG replied yes.

SENATOR KOOKESH asked the cost of the college and widow exemption.

REPRESENTATIVE GRUENBERG replied that the state assessor is on the phone.

[3:52:45 PM](#)

SENATOR STEVENS said the only colleges affected would be Sheldon Jackson and Alaska Pacific University.

REPRESENTATIVE GRUENBERG replied that Whalen Baptist College is a third one. There is one in Glennallen, but Glennallen doesn't charge property taxes.

SENATOR KOOKESH asked if he had seen the Alaska Municipal League's (AML) letter in opposition.

REPRESENTATIVE GRUENBERG said the concerns in that letter go to Sections 1 and 2 on colleges and widows, an exemption he wanted to remain mandatory, because it would put colleges on an equal playing field with universities so that students would have the

choice of good private colleges in Alaska. And, he reasoned, if the state can keep its students in Alaska and offer a broad range of good college programs, it is to its benefit.

[3:54:42 PM](#)

SENATOR KOOKESH asked if he actually had a chance to talk to the AML about this issue.

REPRESENTATIVE GRUENBERG replied that he hadn't had a chance to talk to them and that he had just received it today. It is a valid point of view, but he hoped to keep the mandatory exemption on its merits. That is a policy call. But in this day and age, men come back from overseas wounded and may not live very long. They may leave young families and little babies who will have a tough time making it.

CHAIR OLSON suggested that he wait until the AML testifies before responding further.

SENATOR STEVENS said he is very concerned about unfunded mandates. If this is such a good idea, he thought the sponsor should find a way to fund it through the state instead of demanding that Sitka, for example, pay the tax for Sheldon Jackson. That makes more sense than forcing a small community to pay a tax they might not choose to.

[3:56:22 PM](#)

CHAIR OLSON said he doesn't see the connection between relieving people of property tax and increasing the number of students at a private university.

REPRESENTATIVE GRUENBERG explained if you relieve them of the property tax that means more money will go to support and strengthen the university.

CHAIR OLSON commented that it's a theoretical idea.

SENATOR WAGONER mentioned that his and Senator Stevens' boroughs are second class and don't have police powers, but he thought this could induce some state police to go out into some of those areas. That's why he supported that portion of the bill.

[3:57:51 PM](#)

DR. DOUGLAS NORTH, President, Alaska Pacific University (APU), said APU had the tax exemption for 47 years before it was reinterpreted by the assessor's office two years ago. The municipality now supports adding the mandatory exemption to

accredited four-year colleges and universities. He said a letter from Mayor Begich expressed support. He said it is important to note that all of the revenue from the building goes to the educational services that are provided by his non-profit university, and there is a direct connection between the spinal clinic and APU's curriculum in health services administration.

DR. NORTH said Alaska Pacific University strives to make itself as self sufficient as possible. Tuition and fees cover about 60 percent of the cost of operations and any reduction in the revenue means it would be more difficult for it to do what it does now. It gives almost \$2 million a year in institutional aid, much of which is passed on to Alaska students. Any reduction simply puts pressure on their ability to make private education more affordable to residents of the state. From the state's point of view, every student who comes to APU is an Alaskan who is able to get the benefits of higher education without cost to the state; so it's important for the state to look at it from that financial perspective as well.

[4:01:41 PM](#)

SENATOR STEVENS referenced a letter from Steve Van Sant, State Assessor, which said one of the university's properties is not used for educational purposes and is on the Mat-Su tax rolls. The letter indicated that property would become exempt regardless of its use because it belongs to APU, and anyone who donates to APU would become exempt. Leased properties such as the Alaska Spine Institute would also be exempt.

DR. NORTH replied that APU doesn't own the Mat-Su property which consists of about 700 acres; it is held by a non-profit trust that pays agricultural taxes on most of the property. APU leases property from the trust, and only that small portion that is used for education is tax exempt.

[4:04:07 PM](#)

SENATOR STEVENS asked about the Alaska Spine Institute.

DR. NORTH replied that the building belongs to APU and the lease-hold interest is still subject to tax by the municipality. The building, itself, would not be taxed by the municipality - as buildings of this sort haven't been taxed for 47 years.

SENATOR STEVENS asked him if the City of Anchorage could not provide him with this sort of freedom from taxes.

DR. NORTH said the state thinks this is the cleanest way to do it, because it levels the playing field between the universities and colleges and it keeps the non-profits from forming a long line seeking to get some kind of tax exemption as well.

SENATOR STEVENS asked about making it optional, because the City of Anchorage supports exempting APU from taxes.

DR. NORTH that it would be a problem. The municipality doesn't want it to be optional; it wants it to be state-wide legislation dealing with four-year accredited regional universities. It would be more problematic for them if they had to decide to do it. They are in favor of the legislation as it is.

[4:06:07 PM](#)

CHAIR OLSON said Mayor Begich's letter indicated he didn't object to it, but he didn't sound exactly supportive either.

DR. NORTH said he interpreted that to mean that it's okay with the municipality not to get this tax income, which it has not received in the past and that it would like the exemption solved on the state level.

SENATOR WAGONER said he had a great uncle who put all of his money in a trust to Whitman College in Walla Walla. Whitman College is one of the best endowed colleges west of the Mississippi and it is one of the largest land holders in Walla Walla County. The problem he has is this could grow into endowments of property something like Whitman College has and take the property off the public tax rolls. Therefore, the municipality would automatically lose larger amounts of income from productive land that is no longer taxable. He wanted to do some more research on this happening in Alaska before he would vote for this resolution.

[4:08:22 PM](#)

DR. NORTH said private universities can't make it on tuition alone. He thought it was in the best interest of Alaska to have strong private universities and colleges, because it gives options to citizens of the state. APU doesn't compete with the University of Alaska, because it can't compete unsubsidized, but APU puts together high-quality programs that serve the Alaskans. Many states understand that the non-property tax exemption for private universities helps the citizens of their state to receive a high-quality education without cost to the state.

[4:09:57 PM](#)

CHAIR OLSON turned the gavel over to Senator Stevens.

STEVEN VAN SANT, State Assessor, Department of Revenue (DOR) said Dr. North is mistaken. APU has five small pieces of recreational properties in the Mat-Su Borough (total value less than \$50,000), and it has paid taxes on them since 1985. The portions used for agriculture are closer to the Palmer area. The other issue APU has is the Alaska Spine Institute that Dr. North stated had been exempt for 47 years. "The fact is it shouldn't have been exempt. Any property of any exempt organization that's not being used for the exempt purpose should be on the assessment roll and should be taxed." The assessor found that the Alaska Spine Institute would be taxable - both land and buildings - even under this bill. Existing statutes, as well as this bill, require the exclusive use be made to a property in order to be exempt and only one of the pieces qualifies.

MR. VAN SANT said the widow/widowers issue is more of a fix-it amendment. He explained that the disabled veteran exemption was added after the senior citizen exemption, but the problem was that they had to be 60 years old; however, most disabled veterans are far below that age. So if the legislature wanted widows/widowers to have the exemption upon the death of the disabled veteran, the age had to be lowered. It is not a new idea, but one that he has recommended for quite a while.

MR. VAN SANT said that typically his department does not support exemptions simply because assessors just don't believe in them. The need for the tax does not go away simply because of an exemption; the burden gets shifted to somebody else. The Municipality of Anchorage supports the law enforcement exemption because it provides a good benefit and the section on fraternal organizations requires ratification by the voters.

[4:15:03 PM](#)

SENATOR WAGONER said at one point UAA had its planning offices in a building owned by APU. He asked how tax liability is calculated if only part of a building is rented.

MR. VAN SANT replied if APU leases out any property for non-educations purposes, that property would be subject to taxation.

SENATOR STEVENS asked if the exemption should be optional.

[4:16:56 PM](#)

MR. VAN SANT replied that most states exempt educational properties from tax. He said the difference between mandatory

and optional exemption from a municipality's point of view is if the state mandatorily exempts all university property regardless of its use, that value is withheld from the full value determination, which the assessors determine each year for educational purposes. If it is optional, that value will be added back into the full value so it would be used against the municipality for its 4 mil equivalency for education. The Mat-Su Borough has small numbers and it would not make a difference, but in Anchorage it amounts to \$11 million to \$13 million. Out of a \$25 billion full value, that would make some difference. It would cost Anchorage tax payers a little more if it were an optional exemption compared to a mandatory one.

[4:18:37 PM](#)

STEVE SMITH, Anchorage Police Department, stated that they supported HB 67 and believed if Anchorage used the optional provision in Section 4 it would provide a modest incentive for officers to live in higher crime neighborhoods. While he thought their presence would probably have a chilling effect on some of the crime and disorder, he didn't think many would avail themselves of that opportunity.

VERNON MARSHAL, Public Safety Employees Association, supported Section 4 of HB 67. It will allow a municipality to provide some tax incentive for an officer to relocate into a high crime area.

[4:20:45 PM](#)

SENATOR STEVENS said he would like to hear from the City of Anchorage because, on a personal basis having been a borough mayor, he had found mandatory exemptions to be problematic.

SENATOR WAGONER said he would call the assessor in Walla Walla to see how its exemption worked. He liked the optional section.

SENATOR STEVENS said he would hold the bill over.

REPRESENTATIVE GRUENBERG asked what was said about the vote of the people.

SENATOR STEVENS clarified that he said he would feel more comfortable with an ordinance and ratification by the voters. Some issues in the bill require that and some don't, but he thought the public should have a chance to weigh in because they are the ones who will pick up the tab for exemptions.

[4:23:24 PM](#)

REPRESENTATIVE GRUENBERG said not many police will take advantage of the exemption in Anchorage - maybe one or two. Putting that small a number before the people for a vote might be too cumbersome and expensive to make it worthwhile. He asked that this provision not be added to it.

SENATOR STEVENS said there were issues to further explore on HB 67, and he adjourned the meeting at [4:24:39 PM](#).