

**ALASKA STATE LEGISLATURE**  
**SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

February 12, 2008

3:32 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 204

"An Act relating to an optional exemption from municipal property taxes for residences of widows and widowers of certain members of the armed forces of the United States; and providing for an effective date."

MOVED SB 204 OUT OF COMMITTEE

SENATE BILL NO. 235

"An Act relating to shipping, sending, transporting, or bringing alcohol to a local option area and providing alcohol to others in the local option area, including penalties for violations; relating to furnishing alcohol to a minor and to civil penalties for licensees whose agents or employees furnish alcohol to a minor; relating to manslaughter as a direct result of ingestion of alcoholic beverages brought in violation of a local option prohibition; relating to reports of the court concerning certain alcohol violations by minors; making conforming amendments; and providing for an effective date."

MOVED CSSB 235(CRA) OUT OF COMMITTEE

SENATE JOINT RESOLUTION NO. 15

Disapproving the Local Boundary Commission recommendation regarding the annexation of territory to the Ketchikan Gateway Borough.

MOVED CSSJR 15(CRA) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 204

SHORT TITLE: MUNI TAX EXEMPTION: COMBAT DEATHS

SPONSOR(S): SENATOR(S) THERRIAULT

01/16/08 (S) PREFILE RELEASED 1/4/08  
01/16/08 (S) READ THE FIRST TIME - REFERRALS  
01/16/08 (S) CRA, FIN  
01/31/08 (S) CRA AT 3:30 PM BELTZ 211  
01/31/08 (S) -- MEETING CANCELED --  
02/05/08 (S) CRA AT 3:30 PM BELTZ 211  
02/05/08 (S) Scheduled But Not Heard  
02/12/08 (S) CRA AT 3:30 PM BELTZ 211

BILL: SB 235

SHORT TITLE: ALCOHOL: LOCAL OPTION/LICENSING/MINORS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/08 (S) READ THE FIRST TIME - REFERRALS  
01/18/08 (S) CRA, JUD, FIN  
01/31/08 (S) CRA AT 3:30 PM BELTZ 211  
01/31/08 (S) -- MEETING CANCELED --  
02/05/08 (S) CRA AT 3:30 PM BELTZ 211  
02/05/08 (S) Scheduled But Not Heard  
02/07/08 (S) CRA AT 3:30 PM BELTZ 211  
02/07/08 (S) Heard & Held  
02/07/08 (S) MINUTE(CRA)  
02/12/08 (S) CRA AT 3:30 PM BELTZ 211

BILL: SJR 15

SHORT TITLE: DISAPPROVING KETCHIKAN ANNEXATION

SPONSOR(S): SENATOR(S) KOOKESH

01/30/08 (S) READ THE FIRST TIME - REFERRALS  
01/30/08 (S) CRA, FIN  
02/12/08 (S) CRA AT 3:30 PM BELTZ 211

**WITNESS REGISTER**

SENATOR GENE THERRIAULT  
Alaska State Legislature  
Juneau AK

**POSITION STATEMENT:** Presented SB 204.

ERNEST PRAX, Staff  
to Senator Therriault  
Alaska State Legislature  
Juneau AK

**POSITION STATEMENT:** Presented SB 204.

STEVE VAN SANT, State Assessor  
Division of Community and Regional Affairs  
Anchorage AK

**POSITION STATEMENT:** Answered questions about SB 204.

SUSAN STACY HERNANDEZ, Widower  
Fairbanks AK

**POSITION STATEMENT:** Spoke in support of SB 204.

ANNE CARPENETI, Criminal Division  
Department of Law  
Juneau AK

**POSITION STATEMENT:** Spoke in favor of SB 235.

KACI SCHROEDER, Staff  
to Representative Bill Thomas  
Alaska State Legislature  
Juneau AK

**POSITION STATEMENT:** Presented SJR 15.

LYNN CHRYSTAL, Member  
Local Boundary Commission  
Department of Community & Economic Development

**POSITION STATEMENT:** Spoke in opposition to SJR 15.

SCOTT BRANDT-ERICHSEN, Attorney  
Ketchikan Gateway Borough  
Ketchikan AK

**POSITION STATEMENT:** Spoke in opposition to SJR 15.

SHERRI HAYWARD  
Annette Island School District  
Metlakatla AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

DICK COOSE  
Ketchikan AK

**POSITION STATEMENT:** Spoke in opposition to SJR 15.

RONALD ERIKSON, Superintendent of Schools  
Craig City School District  
Craig AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

DON JOHNSON, Superintendent of Schools

Hydaburg AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

KAREN CLEARY, President  
Klawock City School Board  
Klawock AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

JAMES GOULD, Mayor  
Thorne Bay AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

DENNIS WATSON, Mayor  
Craig AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

BRETT AGENBROAD, Superintendent  
Annette Island School District  
Annette Island AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

ERIC GEBHARDT, Superintendent and Principal  
Kake City Schools  
Kake AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

BUD BURNETT, President  
Hollis Community Council  
Hollis AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

JOE WILLIAMS, Mayor  
Ketchikan Gateway Borough  
Ketchikan AK

**POSITION STATEMENT:** Spoke in opposition to SJR 15.

RACHEL WITTY, Attorney  
Civil Division  
Department of Law  
Anchorage AK

**POSITION STATEMENT:** Answered questions regarding SJR 15.

LAUREN BURCH, Superintendent  
Southeast Island School District  
Thorne Bay AK

**POSITION STATEMENT:** Spoke in favor of SJR 15.

## **ACTION NARRATIVE**

**CHAIR DONALD OLSON** called the Senate Community and Regional Affairs Standing Committee meeting to order at [3:32:15 PM](#). Senators Olson, Kookesh, Wagoner, and Thomas were present at the call to order.

### **SB 204-MUNI TAX EXEMPTION: COMBAT DEATHS**

CHAIR OLSON announced the consideration of SB 204.

[3:32:41 PM](#)

SENATOR GENE THERRIAULT, Alaska State Legislature, said SB 204 provides a partial or whole property tax exemption for the widow or widower of a member of the armed forces who dies in the line of duty. The deceased has to have been in active duty when killed or fatally injured. The language said the death has to occur within 90 days of the injury, and it was dropped in the House. It applies only to permanent residents and allows the municipalities to use the exemption or not. He doesn't anticipate every municipality using it, but it would empower them to make the decision. The structure of the exemption could have time limits. There are a number of Alaskans in the armed services deployed overseas. The suggestion for SB 204 came from an Alaskan whose spouse was killed.

[3:35:36 PM](#)

SENATOR WAGONER said 80 soldiers have died, and some have families in Alaska. He asked how many people this will affect.

ERNEST PRAX, Staff to Senator Therriault, said he can get that information.

SENATOR WAGONER said it wasn't worth holding up the bill for, but it would be interesting to know.

SENATOR THERRIAULT said he can find the number of people who would be eligible, but local governments can shape the program as they wish.

CHAIR OLSON asked about someone living outside Alaska who moves to the state after their spouse's death.

SENATOR THERRIAULT said the bill allows the municipality to shape the exemption, or the committee could do that. The current language could be interpreted to allow that or not.

[3:38:57 PM](#)

STEVE VAN SANT, State Assessor, Division of Community and Regional Affairs, said the language allows a person who becomes a permanent resident of Alaska to qualify. A widow or widower of a senior citizen or disabled veteran loses a similar exemption by remarrying. HB 204 could be worded so that the exemptions continue "even if they remarried and came up from the state of Texas, if the local ordinance read that they could get remarried ... as long as they become a permanent resident."

CHAIR OLSON asked if suicides are covered.

SENATOR THERRIAULT said he is not sure if that would be an injury from battle.

CHAIR OLSON asked if the Alaska Municipal League (AML) or any municipalities have a position.

MR. PRAX said he doesn't know.

SENATOR THERRIAULT said he asked municipalities with army installations. He received resolutions from North Pole, the North Star Borough, and Fairbanks, and he thinks that AML would support giving a municipality the latitude to shape the exemption. It is drafted to give them the maximum amount of flexibility. Local governments can give no exemption, a whole or partial exemption, or a limit on years, for example.

[3:42:26 PM](#)

SUSAN STACY HERNANDEZ, Widower, Fairbanks, said she is a widower of Sergeant Hernandez who was killed in action in 2006. A widower of a disabled veteran can get a tax exemption. She supported her husband in his military career, and she would like help as the wife who stayed behind. She is not from Alaska but decided to stay. It is a great place to raise her kids. Wives of lost soldiers should receive a tax exemption.

CHAIR OLSON expressed his sorrow and gratefulness.

[3:44:21 PM](#)

SENATOR KOOKESH moved to report SB 204 from committee with individual recommendations and attached fiscal note(s). There being no objection, SB 204 passed out of committee.

The committee took an at-ease from [3:44:58 PM](#) until [3:46:21 PM](#).

**SB 235-ALCOHOL: LOCAL OPTION/LICENSING/MINORS**

CHAIR OLSON announced the consideration of SB 235.

ANNE CARPENETI, Criminal Division, Department of Law, said SB 235 includes suggestions from three sources to try and curb alcohol abuse, particularly in rural areas with a local option. The bill prohibits sending alcohol to local option communities in plastic bottles. It provides for mandatory civil penalties on licensees whose agents or employees have been convicted of furnishing alcohol to a minor. It will adopt a Class C felony for a third offense of bringing alcohol into a local option area with a look-back period of ten years. It adopts mandatory terms for bootleggers, similar to drunk driving. The bill amends the manslaughter law so that a person who knowingly sells alcohol in a local option area may be charged with manslaughter if the alcohol is a direct cause of someone's death. It provides for a database of children cited for minor consuming, so that police officers and courts will know a person's alcohol history. Bootleggers who are charged with the crime will be eligible for therapeutic courts if warranted.

[3:48:50 PM](#)

SENATOR THOMAS moved Amendment 1, labeled 25-GS2035\A.1, as follows:

Page 1, lines 3 - 4:

Delete **"furnishing alcohol to a minor and to civil penalties for licensees whose agents or employees furnish alcohol to a minor"**

Insert **"when a conviction occurs for certain purposes relating to alcoholic beverage licenses"**

Page 2, line 12, through page 3, line 23:

Delete all material.

Re-number the following bill sections accordingly.

Page 3, line 25:

Delete **"(b) of"**

Page 4, line 4, through page 5, line 2:

Delete all material.

Re-number the following bill sections accordingly.

Page 8, line 10:

Delete "Sections 1, 8, and 9"  
Insert "Sections 1, 5, and 6"

Page 8, lines 12 - 14:  
Delete all material.

Reletter the following subsections accordingly.

Page 8, line 15:  
Delete "Section 3"  
Insert "Section 2"

Page 8, line 17:  
Delete "Sections 6 and 7"  
Insert "Sections 3 and 4"

Page 8, line 20:  
Delete "Sections 10 and 11"  
Insert "Sections 7 and 8"

CHAIR OLSON objected.

SENATOR THOMAS said Amendment 1 deletes furnishing alcohol to a minor and civil penalties for licensees whose agents or employees furnish alcohol to a minor. It does not remove from statute "the concept that furnishing alcohol to a minor that there are civil penalties to the licensee. There already exist such penalties in the existing statute." He said Page 2, line 13 (a), of the bill speaks of permits being suspended or revoked if the board finds: "and then it lists paragraphs (1) through (12), (12) being the additional language that was part of this bill." That is what Amendment 1 would remove -- language that holds the licensee responsible for the acts of their employees. "In this land we are held responsible for what we do, not for what other people do." He read parts of (11) of the bill regarding suspending or revoking a license if a licensee knowingly or recklessly violates the law.

[3:51:52 PM](#)

SENATOR THOMAS said, "We hold people responsible, licensees, and we also require them to post signs in their establishment that are available telling the employees what they should do. Not only do they have classes on what they should do, but they also are required to place a sign that reads: Warning. A person who provides alcoholic beverages to a person under 21 years of age, if convicted under AS04.16.051, could be imprisoned for up to five years and be fined up to \$50,000. That seems like a pretty

fair warning, and it is required by law that the person does it." The licensee shouldn't be held responsible for the actions of another person. "Last year we had discussions about a particular bill that would have allowed three men in a particular situation to leave the premises where a woman was being beaten to death, and there was found, at that point in time, no reason to change that law, and that bill was set aside, or that aspect of the bill was taken out that would have held those people responsible for not reporting that crime." It is incongruent to let someone walk away from a homicide, versus this situation when someone does not even know that a violation is taking place.

[3:54:00 PM](#)

SENATOR WAGONER said the Senate made a terrible mistake last year on that legislation based on one person's legal opinion without getting a legal opinion from the Attorney General's office. Two wrongs don't make a right.

MS. CARPENETI said Amendment 1 would remove the civil penalties for licensees. There are other provisions in SB 235 that are not dependent on that being there, "so the bill could stand alone without it." But the DOL opposes Amendment 1, because ... of the experience seen with tobacco enforcement. If store owners have responsibility for their employees, they will be much more responsible. It is a good tool to discourage sales to minors.

[3:55:57 PM](#)

SENATOR WAGONER asked if that law on tobacco sales caused the graph "to do that."

MS. CARPENETI said, "We believe so."

A roll call vote was taken. Senators Thomas, Kookesh, and Stevens voted in favor of Amendment 1, and Senators Wagoner and Olson voted against. Amendment 1 passed on a vote of 3-2.

[3:57:02 PM](#)

SENATOR THOMAS moved to report SB 235, as amended, from committee with individual recommendations and attached fiscal note(s). There being no objection, CSSB 235(CRA) moved out of committee.

The committee took an at-ease from [3:57:44 PM](#) to [4:00:35 PM](#).

**SJR 15-DISAPPROVING KETCHIKAN ANNEXATION**

[4:00:45 PM](#)

CHAIR OLSON announced the consideration of SJR 15 and said he wanted to move it.

The committee took an at-ease from [4:02:11 PM](#) to [4:03:11 PM](#).

SENATOR STEVENS moved to adopt the committee substitute (CS) for SJR 15, labeled 25-LS1393\C, Cook, as a working document. Hearing no objections, Version C was before the committee.

[4:03:39 PM](#)

KACI SCHROEDER, Staff to Representative Bill Thomas, said there is a similar resolution in the House. The changes in the CS only correct some dates.

SENATOR KOOKESH said the Ketchikan Gateway Borough (KGB) submitted an application for the annexation of 4,731 square miles in 2006, increasing the size of its landholding by three times. The application was approved by the Local Boundary Commission (LBC) despite the outcry of the surrounding unorganized boroughs and the impacts it will have. The report by the LBC glosses over the fact that the current application is similar to the one submitted by the KGB in 1997, which was denied. Those findings only had a de minimis affect on the 2006 decision. Any annexation by any borough is controversial, and every effort must be made to be clear, fair, and methodical. The unorganized boroughs believe that proper steps were not taken regarding a possible conflict of interest by an LBC commissioner who wrote the 1997 decision, reversed it in 2007, and then accepted a job as the KGB manager before the final decision was written. An independent review was requested and denied. Due to the lack of public support, the inconsistency in decisions, and other abnormal circumstances surrounding the KGB annexation process, annexation should not be allowed to go forward.

MS. SCHROEDER said the annexation will have a \$1.2 million impact on the unorganized borough from the loss of forest receipts. If the receipt program is not reauthorized by Congress, it will continue at a lower rate. Additionally, there is a payment in lieu of taxes (PILT) that unorganized boroughs get, and \$200,000 of that will be transferred. It will be felt by 16 cities, 12 school districts, and 2,700 students. In exchange, there will not be any additional services because it is mostly uninhabited land that the KGB is annexing. There are a few lodges but no towns. The 1999 petition and the recent petition were substantially similar, except for annexing Myers Chuck and Union Bay, "but in the end the LBC did not require

them to annex them, instead they required them to annex Hyder within five years, and Hyder has nothing in common with the Ketchikan Borough." The president of Hyder's community association said that the relationship is nonexistent, and it doesn't want to be part of the borough. During public testimony 36 people spoke against the annexation and no one spoke for it, except for those on the assembly or borough staff.

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SENATOR STEVENS asked if there are schools that will be annexed.

SENATOR KOOKESH said the annexed part has no people or schools, "and the way the formula is set up in the district - it's by mile, you receive your income, and because they are selecting only those areas without any students or any schools, they're going to get the money but no responsibility."

SENATOR WAGONER asked about children living in Myers Chuck.

MS. SCHROEDER said there are people there, but it is not part of the annexed area.

SENATOR KOOKESH said he thinks that area will go into Wrangell.

[4:09:39 PM](#)

LYNN CRYSTAL, Member, Local Boundary Commission, Department of Community & Economic Development, said there are three elements to an annexation decision: the procedures and standards defined by law and the facts. The LBC decision reflects those. He said the LBC submitted a letter opposing SJR 15, and it notes several misstatements in the resolution. The letter addresses the dissimilarities of the borough's 1999 and 2007 annexations, especially regarding the reliance of model-borough boundaries. It addresses national forest receipts as well. Those receipts are temporary and may change over time, whereas the formation of a borough is permanent. The LBC is guided by Alaska's constitution and statutes, which make little or no provision for the fiscal affects from such transitory programs. He noted that the loss of the forest receipts was the focus of written and oral public comments. "The commission is very sympathetic to that loss. It is a factor that was analyzed when considering the best interests of the state. The [assertions] that the commission did not consider the impact of the annexation on the surrounding unorganized borough is simply not true." The Secure Rural Schools Act is sunset, which is what drives the funding that is being shifted to Ketchikan. The reauthorization of that act is before Congress. The legislature is aware of this matter

through its joint Legislative Education Funding Task Force, which recommended that the standing committees on education monitor federal actions regarding the national forest receipts program. To date, the funding has not been reauthorized by Congress. If it is, the earliest that Ketchikan will receive the money is 2010.

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SENATOR STEVENS asked what Ketchikan gets out of the annexation.

MR. CHRYSTAL said obviously it will have more control regarding timber harvesting or recreation in the surrounding lands. What they want to do with their own land is up to them.

CHAIR OLSON asked about the conflict of interest.

MR. CHRYSTAL said he hasn't been on the commission long but doesn't feel that there were improper actions. When Mr. [Dan] Bockhorst transferred to Ketchikan, he recused himself from any activities with the LBC. Mr. Chrystal sees no possibility of a conflict. There are so many laws and regulations the LBC has to follow that he doesn't feel it is an issue, "although obviously some people are trying to make it one."

[4:14:56 PM](#)

SCOTT BRANDT-ERICHSEN, Attorney, Ketchikan Gateway Borough, said the KGB opposes SJR 15. The legality of LBC's actions is subject to an appeal before the courts. LBC has to look at the facts and the standards, and the court reviews that. The legislative review process gives the legislature the opportunity to veto the action. Rejecting this annexation petition sends a bad message to others seeking to form or expand a borough. KGB followed the process, and the area sought to be annexed is substantially similar, with the exception of Hyder, to the model borough boundaries that were proposed for the region. KGB began the process about 10 years ago and sought to exclude Hyder and Myers Chuck, but the LBC said it would approve the application if it included those two communities. The KGB chose not to include them then, but was leaving it up to the LBC to add them if it wanted to. The LBC rejected the petition. This time Myers Chuck was included, a geographic error was corrected for Hyder, and KGB made a much stronger case for excluding Hyder based upon Hyder's connection to Canada. The LBC did not approve the blanket exclusion of Hyder, but it said it expected a petition to include Hyder within five years.

MR. BRANDT-ERICHSEN said the Department of Education objected to the first effort, but it is not doing so now. The objections are based on timber receipts, but they are not a reliable stream of funds. The objections are coming from people who are not being annexed. They aren't going to be charged taxes by the KGB. The KGB is not seeking to add or take away services, but it is seeking to better protect the interests and concerns of the people of Ketchikan. The 2,700 students in the unorganized borough are currently receiving the equivalent of over \$1,000 per student from the national forest receipts, and the 2,000 students in the KGB are getting \$157 per student. Annexation will make it more equitable. The unorganized borough per-student receipts - if the funding stays at the same level -- will still be more than twice the amount that each Ketchikan student gets.

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SENATOR KOOKESH said he sees clearcuts on Prince of Wales Island - they have clearly been impacted by forest cutting. There are no clearcuts near Ketchikan. "Why would you have this analogy that says we want more impact aid, and it's not correct that we get less than Prince of Wales students, when you had no impact in Ketchikan?" That is where that money comes from.

MR. BRANDT-ERICHSEN said the receipt program has been around for 100 years, "and it's based upon the revenues from timber cutting being distributed." The current high level of funds is a separate Congressional appropriation. There are clearcuts in the Ketchikan area. The ones on Prince of Wales Island provided revenues that were distributed in the past. There will have to be additional logging to directly tie the money to forest service receipts. The KGB hopes to see more of those clearcuts.

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SENATOR KOOKESH asked why Ketchikan's attorney is making this presentation instead of the mayor.

MR. BRANDT-ERICHSEN said the process has been going on for some time, and there has been turnover in staff. Mr. Brandt-Erichsen said he has been with the borough for 13 year, and so he is the institutional knowledge. The current manager of KGB used to work for the LBC so he is insulated from the process.

SENATOR KOOKESH said it would be nice to see someone on the council or the mayor.

SHERRI HAYWARD, Annette Island School District, Metlakatla, said she has two children who are members of the Annette Island

Reserve, and she is not here to talk about the effects of the annexation on that district, but she wants to advocate for all the children in the Southeast islands. She has researched and testified on this topic. She has heard accusations of money and land grabs, and "this is wrong." Every child matters. Denying this annexation will not affect Ketchikan or anyone else, but if it is approved it will affect the education and future of all children in the Southeast.

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SENATOR STEVENS asked how it affects children.

MS. HAYWARD said, "I think with the forest receipts and the loss of money and the dependency they need in these small communities."

SENATOR STEVENS asked if the receipts that have been going to those children will now be going to Ketchikan children.

MS. HAYWARD said she is under the impression that one of the districts will lose \$83,000.

SENATOR KOOKESH said the amount of money from forest receipts is \$1.2 million, and there is also PILT money that will go to Ketchikan instead of Prince of Wales Island and Metlakatla. "So it is almost \$1.5 million."

[4:24:42 PM](#)

SENATOR WAGONER said it is mixing apples and oranges to mix PILT and timber receipts. "It's not about affecting one group of children over another group of children, but how much each group of children are affected, because I don't know what the per child is in the unorganized borough versus the per-child cost in Ketchikan - I haven't had time to weed through this -- but it seems to me like this money is what we're going to do if annexation takes place - we're going to have a reapportionment of the funds that are currently available through the timber receipts. Is that correct?"

MS. HAYWARD said she is not aware of that.

SENATOR KOOKESH said that is what is going to happen; "we're going to lose \$1.2 million in forest receipt money that's going to go to the Ketchikan borough. That's not all the money that's available, but it's a good portion of it."

SENATOR WAGONER said he understands that, but the money is not being taken away from children; it's shifting to the Ketchikan children. "So we're talking about the fairness of that." He asked how much each student gets in the unorganized borough and in the KGB.

[4:26:46 PM](#)

SENATOR KOOKESH said the school districts can provide that.

DICK COOSE, Ketchikan, said he opposes SFR 15. He is a retired forest service employee. He served two terms on the borough assembly from 1997 to 2003, and that is when he started pushing for annexation. Local governments can impact national forest uses, and the bigger the borough the better. The borough is just trying to expand to the model-borough boundary. "We didn't try to go land grabbing or anything like that; it was strictly following the state constitution." He doesn't think the secure rural schools will get "re-upped." It will go down to basically nothing because the national forest is cutting less than 10 percent of what was cut in the "good days." "All of us are going to be bitten by a lack of receipts." He thinks every piece of land in the state should be in a borough to be able to influence what happens on federal land.

[4:28:50 PM](#)

MR. COOSE asked about the signal it sends to other boroughs if this annexation is denied. He is now on the city council.

RONALD ERIKSON, Superintendent of Schools, Craig City School District, said he supports SJR 15. Craig is a small community with a very low tax base. It doesn't have much land or revenue-generation; much of its money comes from the forest service and the logging, which no longer exists. The forest receipts were put in place to help correct that. That bill has sunsetted, but if it does come back, the impact will be a loss of \$165,000 to the community. That is 35 percent of the local match. He doesn't know if the community will get that money in the future. If there is an expansion of logging in the Tongass, the annexation will allow the KGB to take advantage of it and less will go to the unorganized borough.

[4:31:08 PM](#)

DON JOHNSON, Superintendent of Schools, Hydaburg, said last year cuts were made and the superintendent and principal became one position and one elementary teacher will be cut - decisions made before any of this came about. There is one vocational tech program, which has been instrumental to many students. It

includes a diving program that has turned out certified divers and instructors. That program might be lost. Hydaburg has high unemployment. It would be very devastating to take something away from the kids who actually have a chance to succeed in something that they have been taught in school.

SENATOR WAGONER asked how many students are in Hydaburg.

MR. JOHNSON said there are 72, and there are 450 in Craig.

[4:33:17 PM](#)

KAREN CLEARY, President, Klawock City School Board, said she is the vice president of the Prince of Wales Island Chamber of Commerce, which represents 10 communities that are impacted by the annexation. Losing the forest receipts will cost her school district \$60,000, which may not sound like a lot but it is one teaching position. For a school with 135 students, losing one teacher is losing one program. It could be the vocational, music, or other program. The small amounts of money "mean a lot to us." As a chamber of commerce person, she knows that the schools are the major employers. A loss of employees is a loss to the business, "and it damages the whole fabric of our society." She doesn't begrudge Ketchikan the land, but she wishes they wouldn't take the money. The money is what the little schools need to give a good opportunity to the children and it is what the communities need to stay vibrant.

[4:35:20 PM](#)

SENATOR STEVENS asked how the money fits into the match.

MS. CLEARY said nearly the entire local match does come from this because Klawock is not wealthy. Klawock has a sales tax, but it doesn't come close to covering community services, let alone the match. The municipality uses a chunk of the money for the match. "Where they're going to find that if this goes away, I can't even imagine."

JAMES GOULD, Mayor, Thorne Bay, said he has been there for 21 years, and he is retired from the forest service. He said he is quite familiar with forest receipts and PILT payments. He will speak to the impact to small communities. Thorne Bay has 467 people. The school has gone from 92 to 60 students in the last few years. The numbers look very small, "but they are so important to us." The \$28,000 that Thorne Bay receives is extremely critical. It is a maintenance position, he said. There are 21 miles of road that the \$23,000 helps maintain.

[4:37:55 PM](#)

MR. GOULD said Thorne Bay's economy has been devastated since the loss of "the contract." Thorne Bay got the short end of the stick when it came to helping communities at the end of that contract. The national forest receipts are important to the Southeast Island School District, "and we have a number of families associated with that. I can't speak to exactly how that affects them." But speaking as the Mayor, one thing the community can't afford to lose is more families. It would be simple for Ketchikan to take the lands and not the money, "so I urge you to pass this joint resolution." Whether or not the LBC met all of the legal requirements, it certainly goes against the grain of the people that it affects. It is a money grab.

[4:39:41 PM](#)

DENNIS WATSON, Mayor, Craig, said he supports SJR 15. The primary issue is the redistribution of forest receipts. What kind of policy would allow financial gain to a singular municipality to the detriment of schools and roads for 16 small Southeast communities? This is a money grab, and it is particularly egregious because the KGB is not increasing services or school enrollment. Ketchikan is the number two economy in Southeast, and they have touted the large amount of sales tax they have collected. "People are lining up to help them spend it." They have two competing forms of municipal government. "What is it that compels a municipal unit of this size and affluence to take money from smaller communities?" The economies of nearly all 16 communities are hanging by a thread or already in financial trouble. If this money is taken away from these school districts and road programs, those needs won't change but there will be no way to fund them. Craig and other Prince of Wales communities have no means to recoup this funding. Becoming a borough is not an option for Craig because it cannot generate enough revenue to fund very basic borough services. Prince of Wales Island was dropped from the recently passed mandatory "boroughization" legislation. The legislature is the assembly of the unorganized borough communities, "and if you do the right thing and protect from what is nothing more than a bald-faced expansionism by voting to move this resolution out of this committee, and if you should feel that there is merit in letting the annexation proceed, that you hold the impacted rural communities financially harmless."

[4:43:03 PM](#)

BRETT AGENBROAD, Superintendent, Annette Island School District, said the concern is the money grab and the best interest of the state. He doesn't understand why Ketchikan enclaved and

eliminated Hyder and Myers Chuck in its 1998 application. They are the only two communities within the 5,000 square miles that would benefit from borough services. The KGB was offered a chance to amend the application, and it chose not to. It came back in 2006 and chose to annex Myers Chuck with no school children, and the LBC took it and gave it to Wrangell. The application remains about the same as in 1998. "They excluded Hyder; they don't have to worry about Myers Chuck anymore, and as the mayor previously said they incur about \$1.5 million in new revenues, and they are not required by law - to my understanding -- to apply those new revenues to school-aged children." It is not fair if the money is not earmarked for education. There is an appearance of a conflict of interest in the 2006 preliminary report. One of the senior staff is making a six-figure salary as a manager of Ketchikan. He has heard people say it wasn't a conflict, but it hasn't been proven by an independent investigation. It looks like a conflict of interest. Without the annexation of Hyder, the responsibility to educate those students will still be left to the Southeast Island School District, which will lose \$83,000. "We'll lose \$161,000." Ketchikan gets a windfall with no new students to care for.

[4:46:34 PM](#)

ERIC GEBHARDT, Superintendent and Principal, Kake, Kupreanof Island, said his district will lose about \$40,000 in education funding. The school has trimmed administrative personnel to keep services for kids. Every little bit helps provide for the students. With Ketchikan not taking on any new children, and no new money, it becomes reapportionment of existing money. "Our kids are losing and giving money to the Ketchikan Gateway Borough for their kids." It doesn't make sense and isn't in the best interest of the state.

[4:48:41 PM](#)

SENATOR WAGONER asked how many students are in Kake.

MR. GEBHARDT said there are 101.

SENATOR WAGONER said he is from an area similar to Kake, except he is from a second-class borough. He has 9,000 students borough wide, with 22 schools and one superintendent. He asked about forming a second-class borough.

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MR. GEBHARDT said Kake has talked with other communities, has written a borough charter, and has sent it to the LBC for an opinion. "So we realize that it is certainly worth looking

into." He said he heard that Southeast Island was taken out because it would not be profitable to form a borough. Kake is in the process, but he doesn't know if it will be approved.

[4:51:16 PM](#)

BUD BURNETT, President, Hollis Community Council, said he supports SJR 15. The LBC decision favoring the KGB annexation is not equitable and it is poor public policy. It benefits only one community and collectively robs \$1.2 million in educational funding yearly from 16 cities, 12 school districts, and 2,700 students in Southeast Alaska. It doesn't sound like much, but it means a great deal to these communities and schools. It will adversely affect the quality of education, which is the governor's top priority, as it should be. He asked the committee to put education at the top of the list and pass the resolution.

[4:53:10 PM](#)

JOE WILLIAMS, Mayor, Ketchikan Gateway Borough, gave his Tlingit name and said the process is to expand the borough "so that we can do more things for our community as a borough." This language of expansion was put in long ago; "it was done within the realms of what's allotted us - and we're taking that." He said several communities will be hurt because of what Ketchikan is asking for, and they are all legitimate. It is unfortunate that the topic is money. Talking about money always creates a problem, but people should think outside the box. He has heard that it is about educational dollars. The fix might be in the Department of Education -- not here. He said he supports giving the best education to our children, because as a child his aunties and uncles said when they were donating money that is was for their grandchildren and great grandchildren. The grandchildren are 20 years old, and education is important. The fix is not in this room, but in the Department of Education. "We're talking about funding that has a lifeline of maybe six years at best - if it's even approved." The communities talking about Ketchikan taking their funding will be back looking for more educational funding anyway.

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MR. WILLIAMS said he was asked to come to the meeting because there was an outcry asking for Ketchikan's mayor. "I'm here." But there are folks who spoke on behalf of the KGB who are more educated regarding the process. When applying to expand the borough, it never occurred to him that it would create a financial challenge for other communities. "You're sitting in the seat that could correct that challenge, and that's fixing the educational funding."

[4:57:56 PM](#)

SENATOR WAGONER asked if these funds are exclusively for education.

MR. WILLIAMS said no.

SENATOR WAGONER said each district that has come before the committee today is funded through the same formula as every other school in Alaska. Is the formula reduced when a school receives the [forest receipt] funds?

MR. WILLIAMS said it would seem to him that it would have to be added, because other districts would protest.

SENATOR WAGONER said all schools are funded at 100 percent through the formula by the state or locally. Does this give these schools 105 percent of funding or will it be adjusted?

[4:59:57 PM](#)

RACHEL WITTY, Attorney, Civil Division, Department of Law, Anchorage, said she doesn't know.

SENATOR KOOKESH said he didn't think there was an outcry to hear from Mr. Williams, but he wanted to see the face of Ketchikan not an attorney. The mayor should have been present from the beginning, but he is glad to see him there now. He asked if the mayor would have gone forward with the application if he had known the impacts on other children.

MR. WILLIAMS said he doesn't believe that a financial impact was discussed at the time.

SENATOR KOOKESH said some witnesses said it would be okay for KGB to annex the land without getting the money. Have you considered waiving the money?

MR. WILLIAMS said no.

SENATOR KOOKESH said the question of being a good neighbor comes up. Surrounding communities are offended and hurt by Ketchikan's actions. Is that the direction the KGB wants to go?

MR. WILLIAMS said he never intended to offend his neighbors. By thinking outside the box, some of the funding that is being discussed can be recaptured.

[5:02:48 PM](#)

SENATOR THOMAS asked if there is another resolution now that the impacts are known.

MR. WILLIAMS said the fix is in the Department of Education, and he doesn't support SJR 15. Six years from now the timber receipts will be gone. The leaders who spoke today should think in those terms. He will support those schools trying to get funding from the Department of Education.

[5:04:15 PM](#)

SENATOR KOOKESH said most school districts are worried about surviving now, and the six-year window is far in the future.

LAUREN BURCH, Superintendent, Southeast Island School District, said there are eight schools in his district, and the annexation will directly impact them. "Hyder is one of our schools ... It sits over to the side there, not including that, it takes about \$82-83,000 in timber receipts from us, but leaves us with the obligation of the school." He would like to maintain that school. "The community is happy with us. Parents are happy with us ... they don't want to go to school in Canada." Hyder is not interested in joining Ketchikan. His eight schools meet AYP [adequate yearly progress] and there are two in the top ten in the incentive program. "We do small schools very well. We're very proud of that, and were Ketchikan to take it, that's a different beast than having a school of 1,500 kids." The timber receipt money is additional resources and doesn't impact the foundation formula. The ISER [Institute of Social and Economic Research] money is helpful, "but we're pretty much on the ropes." There was a time when the district had 20-some schools with their own plane - those days are long gone. Students are down 20 percent. There is no administrative fat. Combining school districts would not bring much of a cost savings. There are plenty of principals within 50 miles that make more money than he makes, so somebody has to be sitting in his chair, whether it is a superintendent or someone else. "I drive the bus and I cleaned more than one toilet and do principal duties as well." There's no fat. There are 160 students in his schools.

[5:08:37 PM](#)

MR. BRANDT-ERICHSEN said in the hearing on HJR 30 there was a spreadsheet of enrollments and funding. The KGB wants to be a good neighbor and has had a good relationship with the communities on Prince of Wales Island in the past. Ketchikan posted security for a ferry, jointly pursued timber issues with the forest service with the city of Craig, and it has a long

history of cooperation. It doesn't want to damage that relationship, "but at the same time we're concerned about things that are going on just outside of our boundaries." Activity in Misty Fjords is impacting Ketchikan. There are legitimate reasons, completely independent of timber receipts, to be pursuing this annexation, and the community wants to move forward with it.

SENATOR WAGONER said the two communities that stand to lose the most are Petersburg and Wrangell. Why aren't they here?

MR. BRANDT-ERICHSEN said he doesn't know. In terms of the \$1.2 million that has been mentioned, about one third represents funds that currently go to Wrangell and Petersburg. Wrangell will take about \$250,000 of timber receipts above its current level if its petition to form its own borough is accepted. Petersburg is trying to form a borough, as well. That might be why they didn't object to Ketchikan's petition.

CHAIR OLSON removed his objection.

[5:11:40 PM](#)

SENATOR KOOKESH moved to report the CS for SJR 15, labeled 25-LS1393\C, from committee with individual recommendations and attached fiscal note(s).

SENATOR WAGONER objected. He said he has been here for six years and he continues to hear about the LBC forming boroughs, "and here's a borough willing to go out - they've already formed a borough -- and take in more land to be responsible for, and I don't know what's going to be on that land in the future." It may be developed and cost that borough money or increase its tax base. The borough might help develop the land for mining or other things. He said that is what "we" have been trying to do for years. A lot of the rural areas resist forming boroughs. Kenai would have been a mess without a borough. The communities were very small at that time, and it grew and prospered. "We pay our borough taxes and we have borough services, so I think that's the way to go."

[5:13:43 PM](#)

A roll call vote was taken. Senators Kookesh, Thomas, Stevens, and Olson voted in favor and Senator Wagoner voted against. Therefore, CSSJR 15(CRA) moved out of committee on a vote of 4 to 1.

The committee adjourned at [5:14:22 PM](#).

