

HOUSE FINANCE COMMITTEE
March 16, 2009
1:36 p.m.

1:36:08 PM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas, Jr., Vice-Chair
Representative Allan Austerman
Representative Harry Crawford
Representative Anna Fairclough
Representative Richard Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Sharon Long, Staff, Senator Charlie Huggins; Representative Max Gruenberg, Sponsor; Dr. Douglas North, President, Alaska Pacific University (APU)

PRESENT VIA TELECONFERENCE

Mike Couturier, Anchorage Police Department Association;
Steve Van Sant, State Assessor, Department of Commerce,
Community and Economic Development

SUMMARY

SB 50 "An Act relating to Iditarod finisher special request license plates."

SB 50 was REPORTED out of Committee with a "do pass" recommendation and with zero fiscal note #1 by the Department of Administration.

HB 10 "An Act authorizing a borough to charge a city for costs of collecting certain taxes; relating 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, for certain college property, and for certain residential property; and providing for an effective date."

CSHB 10 (FIN) was REPORTED out of Committee with "no recommendation" and with zero fiscal note #1 by the Department of Commerce, Community and Economic Development.

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#sb50

SENATE BILL NO. 50

"An Act relating to Iditarod finisher special request license plates."

SHARON LONG, STAFF, SENATOR CHARLIE HUGGINS, noted that SB 50 has a zero fiscal note. It authorizes the Department of Administration to issue special request Iditarod finisher license plates. Qualification as a finisher will be determined by the Iditarod Trail Committee. Design work must be approved by the Department of Administration who will work with the Trail Committee and the Official Finishers Club to come up with a design. The race finisher must have an automobile registered in the state of Alaska on which the plates will be displayed. The legislation honors mushers who have endured the challenges and shown the courage and ability to compete in the Iditarod Trail Sled Dog Race.

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Co-Chair Stoltze noted that the Committee heard the companion bill to SB 50 last week.

Co-Chair Stoltze pointed out the zero fiscal note by the Department of Administration.

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Co-Chair Hawker MOVED to REPORT SB 50 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 50 was REPORTED out of Committee with a "do pass" recommendation and with zero fiscal note #1 by the Department of Administration.

AT-EASE: [1:42:10 PM](#)

RECONVENED: [1:44:29 PM](#)

#hb10

HOUSE BILL NO. 10

"An Act authorizing a borough to charge a city for costs of collecting certain taxes; relating to a mandatory exemption from municipal property taxes for residences of certain widows or widowers, and to optional exemptions from property taxes for property of certain fraternal organizations, for certain college property, and for certain residential property; and providing for an effective date."

REPRESENTATIVE MAX GRUENBERG, SPONSOR, explained that CSHB 10 (CRA) is an omnibus property tax exemption. He related that the first section in the bill was proposed by Representative Chenault and provides that a borough may charge a city a fee for the actual costs of collecting a tax that is not also levied by a majority of the cities in the borough or by the borough on an area-wide basis. He understood that this section was at the request of the Kenai Peninsula Borough.

Representative Gruenberg reported that Section 2 of the bill is an amendment that was added on the House Floor in HB 67. It would allow a widow or widower of a disabled veteran who had qualified for an exemption for taxes on a residence to continue to qualify for a property tax exemption. The exemption would terminate if the widow or widower remarried prior to age 60.

Representative Gruenberg described Section 3 as a provision for Alaska Pacific University (APU); however other institutions would also qualify. The section was previously mandatory, and now it is optional.

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Representative Gruenberg referred to page 2, line 18. He reported that the purpose of this section is to permit the municipality to continue to collect tax on the leasehold interest, if the property itself is exempt from taxation by ordinance. He pointed out that the statutory reference on page 3, line 10, was incorrect. He noted that a proposed amendment would clear up the ambiguity.

Representative Gruenberg related that Section 4, which deals with fraternal organizations, was offered by Co-Chair Stoltze. Section 5 is the "cop in the neighborhood" bill that encourages police to move into high crime areas.

Representative Gara noted that the bill was heard last year. He had a question about the proposed amendment.

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DR. DOUGLAS NORTH, PRESIDENT, ALASKA PACIFIC UNIVERSITY (APU), informed the Committee that last December 16 the Anchorage Assembly passed a resolution urging the legislature to put forward legislation that would allow APU to level the playing field between APU and UAA regarding property tax exemption. He related that APU has been providing enormous services to Anchorage and Alaska for the last fifty years. In addition to running a park in the middle of Anchorage and providing sports services, APU has contributed \$200 million to the Anchorage economy. He noted letters in support of the bill from former Anchorage mayor Mark Begich, Mark Hamilton, President, University of Alaskan, and the state and municipal assessors. All parties are in favor of the legislation.

Dr. North agreed with the proposed amendment.

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Representative Gara wanted to know if Amendment 1 addresses the issue of property that is for-profit, leasehold interests. He was concerned about a medical office building on the APU campus that was leased to physicians. He maintained that it should not be exempt from taxation. Dr. North agreed.

Co-Chair Hawker asked for clarification of the \$200 million amount APU has contributed to Anchorage's economy. Dr. North explained that it was money put into the economy of Anchorage; half in salaries to employees and half from goods, services, and construction. Co-Chair Hawker asked if other entities that have contributed more to Anchorage's economy deserve higher tax breaks. Dr. North thought that idea carried weight with the Anchorage Assembly.

Dr. North explained APU's status as a land grant university. He pointed out that APU only provides services which bear no cost to Anchorage or to the state.

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Representative Austerman referred to Representative Gara's question about lease agreement buildings. He wondered how many other lease agreements there were. Dr. North reported that there were no others. He explained that it was a former concern that APU would become a massive property owner and disadvantage the private sector in the development of land. He pointed out that the current legislation is optional on the part of any municipality responsible for property taxation, and APU owns no other property.

Representative Austerman asked if the building was for-profit and if APU turned that income back into services. Dr. North said that was correct. Required within the Bureau of Land Management agreement is that any income from the development of campus land be put back into educational expenses that are tied to the medical building itself.

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MIKE COUTURIER, ANCHORAGE POLICE DEPARTMENT ASSOCIATION, testified in support of HB 10. He pointed especially to Section 5, which deals with tax exemptions for officers who live in high crime areas.

Representative Fairclough asked what entails a high crime area in Anchorage. Mr. Couturier did not know the exact definition.

Representative Fairclough asked how many police officers live in the Anchorage area. Mr. Couturier reported that there were 418 police officers, of which 385 are members of the Association, with about 30 who live in the Valley.

Representative Fairclough inquired if "law enforcement officer" would change that answer. Mr. Couturier replied that four members are Community Service Officers or Peace Officers. Representative Fairclough asked if the intent is for any officer who moves into a high crime area to qualify for the exemption. Mr. Couturier thought the legislation was intended for police officers holding a certificate, not support staff. There are approximately 180 support staff. Representative Fairclough thanked Mr. Couturier.

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Representative Salmon asked Dr. Nelson how Section 3 of the bill would benefit APU. Dr. Nelson explained that money from the property lease goes to APU to support its budget. If those monies are taxed, it would reduce the amount APU would receive that could be put toward educational purposes. Representative Salmon asked if private physicians were renting from APU. Dr. Nelson said they were. He emphasized that only APU would benefit from this tax exemption. Representative Salmon asked if this legislation would be financially beneficial to APU. Dr. Nelson said it would.

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Representative Gruenberg answered Representative Fairclough's question about what consisted of a high crime area in Anchorage. He pointed to page 4, lines 17 - 26, where a high crime area is defined.

Representative Gara added that the city can choose to include subsets of high crime areas, according to subsection (e) on page 4. Representative Gara pointed out that the city can choose whichever level of police officer they want to include.

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Representative Fairclough referred to Mr. Van Sant's letter where he stated that the exemption was unusual because tax bills would now be sent to the lessee rather than the property owner.

STEVE VAN SANT, STATE ASSESSOR, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that currently all university property used for education is exempt. Under this legislation, any APU land or property leased out would be treated like the University of Alaska's land where the lease holder is taxed. The amendment would not allow Anchorage to foreclose on the property if the tax were not paid.

Representative Fairclough referred to the Sectional Analysis of the bill. She noted that in Section 1 a borough is permitted to charge a fee for costs of collecting a tax. She wondered if "borough" and "municipality" could be used interchangeably. Mr. Van Sant explained that municipalities in Alaska are boroughs or cities. A borough collects property tax and sales tax and gives the money to the city. Section 1 says if a city charges a different tax, the borough can charge a collection fee. Representative Fairclough requested further clarification.

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Co-Chair Stoltze asked if any municipalities have subunits in Alaska. Mr. Van Sant explained that borough and municipality are used interchangeably. He reiterated his interpretation of Section 1. Representative Fairclough wanted to be sure that the municipality of Anchorage can charge lessees or the university a fee for managing their accounts. She requested that if APU has leases which cause expense to Anchorage taxpayers, those expenses should be recouped.

Mr. Van Sant pointed out that Section 1 deals with cities and boroughs only. The municipality of Anchorage is a unified municipality. Anchorage would have to have individual assessments for APU's leases, and the legislation prohibits Anchorage from taxing APU for any land leased to the university. The bill states that every lessee would receive an individual tax bill. It could cost slightly more; however, if there are collection problems it could cost a lot more. If there are collection problems,

Anchorage cannot foreclose on the property, it can only go after each individual lessee.

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Representative Fairclough opined that the City of Anchorage would have to incur additional costs. She shared an example where that happened with condos. She asked if Section 1 could provide an opportunity for a municipality to recoup additional charges, including potential court costs.

Representative Gruenberg pointed out that Section 1 was offered by Speaker Harris. He saw the point Representative Fairclough was making. He thought it would require an amendment. He did not wish to delay the bill further.

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Dr. North clarified that there was only one private lease holder on the property. Representative Fairclough pointed out that UAA was also trying to generate income from rentals.

Representative Fairclough questioned the effects of the exemption on the student base allocation. Mr. Van Sant referred to page 3, line 5, subsection (E), which talks about how an assessor would treat properties that are not exempt, such as the Spine Institute at APU. Any educational property is exempt.

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Representative Fairclough cautioned that even though all exemptions look like worthy causes, in the Chugiak/Eagle River area, there is unrest about the property tax cap, which needs to be upheld in a different way. She related a personal story about her own high tax situation. She wondered about the cost of the tax credit to Anchorage. She noted she supported the bill during the last session. Now the bill seems to shift costs to Anchorage. She wondered what it would cost Anchorage should the bill pass.

Mr. Van Sant addressed the exemption for APU. The exemption for university property exists whether the bill passes or not. He gave a hypothetical example of what happens if the bill passes. The property tax will be taxable to the lessee, not the university. The bill just assigns who the amount is taxable to.

Representative Fairclough asked if educational facilities were tax exempt. Mr. Van Sant said they were. Representative Fairclough wondered why in 2005 the municipal assessor issued tax assessments. Mr. Van Sant reported that

the Spine Institute, which is not used exclusively for educational purposes, is taxable.

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Representative Fairclough asked Dr. North if the bill applies exclusively to the Spine Institute property. Dr. North said it did. Representative Fairclough asked where APU is in the appeal process. Dr. North related that APU asked the assembly to urge the legislature to pass this bill because only the legislature can approve an exemption. Representative Fairclough suggested that the contract could be rewritten. She wondered if APU had paid any of the tax on the property. Dr. North reported that they have escrowed that amount.

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Representative Austerman explained that the legislation gives the municipality the option of making this exemption. Co-Chair Stoltze agreed.

Co-Chair Hawker asked if the municipality avails itself of the options the bill offers, how much tax burden would be shifted. Representative Gruenberg replied that with the exception of the "cop in the neighborhood", very little tax burden would be shifted. He thought it would be about \$500 per year for Section 1. He pointed out that Section 2 is mandatory. Section 3 relates to one piece of property. Section 4, which is the provision for fraternal organizations, is optional and must be ratified by the voters. He spoke of another amendment that was removed that would have raised the optional residential property tax from \$20,000 to \$40,000. He concluded that he did not know how much tax burden would be shifted.

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Co-Chair Hawker described the unknown outcome of this legislation as de minimis. He was reluctant to support the bill and upset constituents in Anchorage.

Representative Gara spoke to the issue of too many tax exemptions in Anchorage. He called it an issue of local control. He asked about Section 3 regarding the medical building on the APU campus. He wondered if the building was taxable under existing law. Dr. North explained that the amendment would shift the tax burden to the medical building rather than APU. There is a difference between lease hold interest and direct property tax.

Representative Gara agreed that the building should be taxed, as it currently was, because it is not being used for

education purposes. Dr. North said it was being taxed. He clarified that the amendment provides the exception.

Representative Gara asked what the bill means without the amendment and how it differs from current law.

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Representative Gruenberg restated that the intent of the amendment was to confirm that the underlying structure should be tax exempt, but the leasehold interest should be taxable. The amendment corrects a drafting error.

Representative Gara wondered if there was a problem letting the city tax APU, which would then adjust the tenant's rent. Dr. North explained that there was a difference between lease hold interest and direct property assessment.

In response to a question by Representative Gara, Representative Gruenberg clarified that Representative Fairclough's concern was not specific to Section 1, but was whether the concept "should there be a provision that would allow other recoupments" should be added as an amendment. He hated to delay the bill further.

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Representative Gara said he had misunderstood.

Representative Austerman returned to the question about collecting the tax through the lease holder, versus the owner of the property. Dr. North clarified that there is a diminishment over time with a lease, whereas there is not with the owner. He shared that he was very surprised the first time APU was taxed. Under the current lease, taxes were not included. APU is seeking, under the BLM mandate, to take the lease money and dedicate it to educational purposes.

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Co-Chair Stoltze asked how Providence Health Care System's properties are dealt with for tax purposes. Mr. Van Sant said those are taxed directly to Providence Health Care System. For any exemption, if a portion of the land is used for anything but the exempt purpose, that portion is pro-rated and taxed.

Representative Kelly pointed out that the bill had grown considerably. He asked why Section 3 (E) was even necessary. Representative Gruenberg explained that the provision was added by the former House Finance Co-Chair, Representative Meyer. Each of the sections is a stand-alone provision. He related that the APU building is unusual.

Representative Kelly interjected that the reason Section 3 (E) was added was to give APU a tax advantage. He questioned if the BLM provision attempted to make the tax on APU the same as the university's tax.

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Dr. North shared his understanding of the situation. The municipality of Anchorage was wrestling with the problem of how to grant the exemption. The answer was to involve the legislature. The function of the bill is to convey the same kind of tax exemption to APU as the University of Alaska would receive. Representative Kelly asked whether that was the only way to accomplish the exemption. Dr. North thought the amendment was necessary because the property is private.

Representative Gruenberg reiterated that the APU building is unique because classes are taught there and students train there. Dr. North affirmed that it has a partial educational function.

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Representative Fairclough wished for further clarification of the consequence of this legislation upon Anchorage. She asked if Anchorage were to bill APU directly for the property, if the tax bill would be higher or lower due to the amendment. Mr. Van Sant did not know the term of the lease. Currently, the annual tax bill is around \$200,000. If the lease was long term, such as 50 years, it would still be \$200,000; if the lease was for 15 years, it would be half that amount.

Representative Fairclough asked for Dr. North's opinion whether the tax would be higher if the city assessor directly billed APU on the lease, or if the city assessor issued individual assessments per lease. Dr. North reiterated that there was only one lease. He related that the lease hold interest tax is a lower tax than the direct property tax that is currently being charged.

Representative Fairclough summarized that the net effect to the property taxpayers in Anchorage would be reduced income from a piece of property that has not been taxed for 47 years, plus additional cost for collection. Dr. North thought there were no additional costs. Representative Fairclough understood Mr. Van Sant to say there was more than one lease. Dr. North maintained that it was a single corporation, the Alaska Spine Institute.

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Co-Chair Stoltze MOVED to ADOPT Amendment #1:

Page 3, lines 10 - 11:

Delete all material.

Insert "a private leasehold, contract, or other interest in the property is taxable to the extent of the private interest;"

There being NO OBJECTION, it was so ordered.

Vice-Chair Thomas suggested if the concern of the Committee is loss of property tax revenue, the state senior citizen tax exemption could be repealed. He suggested letting local municipalities deal with such issues. He spoke of how cap limits and bonds are related as they pertain to the senior citizen tax exemption.

Co-Chair Stoltze noted one zero fiscal note from the Department of Commerce, Community and Economic Development.

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Vice-Chair Thomas MOVED to REPORT CSHB 10 (FIN) out of Committee, as amended, with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 10 (FIN) was REPORTED out of Committee with "no recommendation" and with zero fiscal note #1 by the Department of Commerce, Community and Economic Development.

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ADJOURNMENT

The meeting was adjourned at 2:49 PM.

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