

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

March 24, 2011

8:07 a.m.

MEMBERS PRESENT

Representative Cathy Engstrom Munoz, Chair
Representative Neal Foster, Vice Chair
Representative Alan Austerman
Representative Alan Dick
Representative Dan Saddler
Representative Sharon Cissna
Representative Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 196

"An Act relating to the power project fund and to the bulk fuel revolving loan fund; establishing a bulk fuel loan account and making the bulk fuel loan account and the bulk fuel bridge loan account separate accounts in the bulk fuel revolving loan fund; providing for technical assistance to rural borrowers under the bulk fuel bridge loan program; relating to the administration and investment of the bulk fuel revolving loan fund by the division in the Department of Commerce, Community, and Economic Development responsible for community and regional affairs; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 170

"An Act relating to municipal property tax exemptions on residences of certain volunteer emergency services personnel and the widows and widowers of volunteer emergency services personnel; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 196

SHORT TITLE: BULK FUEL LOANS/POWER PROJECT FUND

SPONSOR(s): REPRESENTATIVE(s) EDGMON

03/16/11 (H) READ THE FIRST TIME - REFERRALS
03/16/11 (H) CRA, FIN
03/24/11 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 170

SHORT TITLE: MUNI TAX EXEMPTION FOR CERTAIN VOLUNTEERS

SPONSOR(s): REPRESENTATIVE(s) FEIGE

02/23/11 (H) READ THE FIRST TIME - REFERRALS
02/23/11 (H) CRA, FIN
03/24/11 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

REPRESENTATIVE BRYCE EDGMON

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 196.

KATHIE WASSERMAN, Executive Director

Alaska Municipal League (AML)

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 196.

DEL CONRAD, CEO

Rural Alaska Fuel Services (RAFS)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 196.

PATRICK PLETNIKOFF, Mayor

City of Saint George

Saint George, Alaska

POSITION STATEMENT: Testified in support of HB 196.

MEERA KOHLER, President & CEO

Alaska Village Electric Corporation (AVEC)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of the intent of HB 196.

DOUG IHLY, Tribal Administration

Chignik Lake Traditional Council

Chignik Lake Village

Chignik Lake, Alaska

POSITION STATEMENT: During hearing of HB 196, expressed support for the proposal to [combine the bulk fuel loan] programs.

SCOTT RUBY, Director
Division Programs
Division of Community & Regional Affairs
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Provided information on HB 196.

SARA FISHER-GOAD, Executive Director
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During hearing of HB 196, answered questions.

ADAM BERG, Staff
Representative Bryce Edgmon
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During hearing of HB 196, answered questions.

REPRESENTATIVE ERIC FEIGE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 170.

MICHAEL PASCHALL, Staff
Representative Eric Feige
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During hearing of HB 170, answered questions.

TIMOTHY ROONEY, Borough Manager
City of Wrangell
Wrangell, Alaska

POSITION STATEMENT: Testified in opposition to HB 170.

KATHIE WASSERMAN, Executive Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 170.

PAUL DELAS, President

Board of Directors
Chena Goldstream Fire & Rescue (CGFR)
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 170.

JEFF TUCKER, President
Alaska Fire Chiefs Association;
Fire Chief, North Star Volunteer Fire Department
North Pole, Alaska

POSITION STATEMENT: Characterized HB 170 as a good tool.

PAT CARLSON, Assessor
Fairbanks North Star Borough
Fairbanks, Alaska

POSITION STATEMENT: Expressed concerns with HB 170.

ACTION NARRATIVE

[8:07:15 AM](#)

CHAIR CATHY ENGSTROM MUNOZ called the House Community and Regional Affairs Standing Committee meeting to order at 8:07 a.m. Representatives Foster, Austerman, Dick, Saddler, Cissna, and Gardner were present at the call to order.

HB 196-BULK FUEL LOANS/POWER PROJECT FUND

[8:07:46 AM](#)

CHAIR MUNOZ announced that the first order of business would be HOUSE BILL NO. 196, "An Act relating to the power project fund and to the bulk fuel revolving loan fund; establishing a bulk fuel loan account and making the bulk fuel loan account and the bulk fuel bridge loan account separate accounts in the bulk fuel revolving loan fund; providing for technical assistance to rural borrowers under the bulk fuel bridge loan program; relating to the administration and investment of the bulk fuel revolving loan fund by the division in the Department of Commerce, Community, and Economic Development responsible for community and regional affairs; and providing for an effective date."

[8:07:53 AM](#)

REPRESENTATIVE BRYCE EDGMON, Alaska State Legislature, sponsor of HB 196, explained that HB 196 would [move the] Bulk Fuel Revolving Loan Fund Program (BFRLF) to the Division of Community

& Regional Affairs (DCRA), which already houses the Bulk Fuel Bridge Loan Program, in order to make it easier for applicants to access the BFRLF. Currently, if an applicant is denied by the BFRLF, the applicant would have to submit a separate application for the Bulk Fuel Bridge Loan Program. However, under the proposal in HB 196 both programs would be housed in DCRA and an applicant could submit one application for both. Furthermore, housing both programs with DCRA provides the ability to use local government specialists that are scattered throughout the state. Representative Edgmon pointed out that HB 196 does have a fiscal note, the detail for which he deferred to staff.

[8:10:26 AM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), related that AML is in favor of HB 196 as it has actually experienced the problems HB 196 addresses. In fact, AML has observed that much of the hindrance in getting fuel to some of the communities was because of the gap in time between obtaining information from the Alaska Energy Authority and getting it to DCRA/DCCED, which resulted in fuel being shipped in via plane at an increased cost. Ms. Wasserman mentioned that AML has a good relationship with DCCED and is able to discuss municipalities, but that same type of relationship doesn't exist with AEA. Therefore, AML encourages the passage of HB 196 to make things more efficient and effective for municipalities.

[8:12:10 AM](#)

DEL CONRAD, CEO, Rural Alaska Fuel Services (RAFS), provided the following testimony:

I am here today to speak in favor of HB 196. Since its inception in 2004 RAFS has managed the Bulk Fuel Bridge Loan Program, helping roughly 30 communities finance their annual fuel supplies. These borrowers are in significant financial distress, and therefore ineligible for loans from other sources. As part of the program, we not only provide funding for fuel purchases, we actively engage with the borrowers - assisting them in setting appropriate pricing, establishing credit and collection policies, and even holding community meetings to explain fuel and power costs to the residents. There are currently 11 loans for about a total of \$1.6 million outstanding in the Bridge Loan Program. We believe that combining the

two state fuel loan programs will provide more efficiency by reducing administrative costs and complexity for both the loan program and the borrowers. By combining the program [there would be] one application and one review process instead of two as we do now. Essentially, the Bridge Loan Program would become similar to a work out group in a bank, working with the distressed borrowers to improve their pricing, collections, and cash flow. Equally important, we believe, is the provision that allows for the program administration to be outsourced. The case for this was best made by the Institute for Social and Economic Research (ISER) at the University of Alaska in their report titled "Components of Alaska Fuel Cost: An Analysis of the Market Factors and Characteristics that Influence Rural Fuel Prices." This report was prepared at the request of the Senate Finance Committee and released in February of 2010. In their discussion of fuel financing programs, it stated the following: "Consolidating the Bulk Fuel Revolving Loan and RAFS bulk fuel program would improve operational efficiency, which could free administrative costs and be shifted to loan capitalization." The Bulk Fuel Bridge Loan Program appears to be both a more effective and efficient program. It's more effective because of the condition of receiving a state subsidized loan, the community, borrower, receives fuel sales operations and management training to help the community learn how to collect sufficient revenues to purchase fuel without a loan in the future. It appears to be more efficiently administered through a contract with a not-for-profit organization.

[8:14:45 AM](#)

REPRESENTATIVE SADDLER inquired as to what specific community or situation this proposed change would help.

MR. CONRAD explained that currently, a community must file an application for the BFRLF with AEA. If that applicant is rejected by AEA, the applicant must file another application with RAFS, the manager of the program, for review. Upon RAFS forwarding the application to DCRA, it's approved and financed. Therefore, both the state and borrower proceed through the process twice and at times a considerable amount of time is required. In further response to Representative Saddler, Mr.

Conrad said he wasn't aware of any circumstance in which fuel had to be flown in because of the delay. However, he did recall situations in which there was a rush to approve Bulk Fuel Bridge Loans before the barge left.

[8:16:42 AM](#)

REPRESENTATIVE GARDNER related her understanding that using RAFS to administer the program isn't anything new.

MR. CONRAD noted his agreement, and reiterated that RAFS has managed the Bulk Fuel Bridge Loan Program since it began in 2004.

[8:17:15 AM](#)

REPRESENTATIVE CISSNA recalled that in 2008 Nikolai had to fly in fuel due [to the delay in funding].

MR. CONRAD recalled that that the situation with Nikolai was some time ago and that the community obtained funding from elsewhere, [not from the BRLF].

[8:18:25 AM](#)

PATRICK PLETNIKOFF, Mayor, City of Saint George, related his support for HB 196. The City of St. George has worked with the RAFS program as the city and the surrounding community has struggled to improve the city's position in terms of its economic base. Although St. George sits in the middle of the greatest fishery in the world, it doesn't have an economy. Therefore, the city has to utilize programs that may be difficult with which to work. He related support for the proposed consolidation of the DCRA and RAFS programs because it would simplify the process. Currently, the City of St. George has to first go through the AEA process, which usually rejects the city because of fiscal constraints or other issues. The City of St. George then prepares another application to submit to RAFS. If there's a delay, the city and its residents face a hardship because they don't have the credits/or money available to purchase the fuel to keep the city's power plant going. The city has been working with RAFS and since 2010 the city has attempted to correct its problems. He noted that although the City of St. George hasn't participated in the power cost equalization (PCE) program for some time, it's critical to the community and its ability to purchase fuel for its power plant. Mayor Pletnikoff related that there have been times when the

City of St. George had to have fuel flown in from Anchorage, which ultimately costs \$12-\$14 per gallon. In conclusion, Mayor Pletnikoff reiterated his support for HB 196 and pointed out that utilizing a program such as RAFS would provide the necessary flexibility to design financing packages and a program that helps get the community on its "fiscal feet."

8:21:42 AM

CHAIR MUNOZ inquired as to the fuel storage capacity for St. George and the length of time that capacity generates energy.

MAYOR PLETNIKOFF informed the committee that Delta fuels and the village corporation in joint venture manage the fuel operations. Although there is a million gallons of storage capacity available, it was taken out of service and only about 120,000 gallons in capacity is available. The joint venture tries to keep the capacity full. However, bad weather can be an obstacle for delivery and can create a hardship.

8:22:53 AM

MEERA KOHLER, President & CEO, Alaska Village Electric Corporation (AVEC), began by relating that AVEC is a utility that serves 53 villages throughout Western Alaska and is an energy partner with the Denali Commission. She further related that in the last 10 years, AVEC has built energy infrastructure totaling over \$200 million in villages that AVEC serves. Ms. Kohler informed the committee that AVEC was instrumental in establishing the Rural Alaska Fuel Services in 2003. The intent of RAFS was to provide fuel tank farm services and support in rural Alaska throughout the state. In May 2004, AVEC was approached by the administration and established the original Bulk Fuel Bridge Loan Program, primarily to deliver fuel to those communities that had a week or two left in the season otherwise the fuel would have to be flown in. At that point, AVEC identified RAFS as its partner to administer the program. Two years later, AVEC withdrew from the program, which allowed RAFS to operate the program entirely. She noted that RAFS has done a fine job administering the program. As a regional organization that involves Western Alaska, she chaired a committee reviewing the fuel supply situation for village Alaska. Early on, the complex and laborious process communities must follow in order to participate in the BFRLF Program was targeted. As was mentioned earlier, there is a duplicative process whereby a community has to apply to AEA first, although it knows it will be rejected because it has an outstanding loan

balance or something of that nature. At that point, the same process has to occur with RAFS. Therefore, it's sensible to combine the two programs and streamline them such that a community can file a single application. In conclusion, Ms. Kohler related support for the intent of HB 196, and offered her assistance with the process.

[8:26:10 AM](#)

REPRESENTATIVE SADDLER pointed out that the committee packet includes materials relating that combining the two programs would provide additional efficiencies and advantages. Therefore, he asked if she would characterize HB 196 as a step toward that.

MS. KOHLER answered that HB 196 is a good step in that direction and would move toward streamlining operations, the process, and make it easier for the communities. Ms. Kohler related her hope that DCRA will ultimately take over both programs and contract out [the administration of it] to an entity such as RAFS, an entity that's definitely qualified to administer the program.

[8:28:19 AM](#)

DOUG IHLY, Tribal Administration, Chignik Lake Traditional Council, Chignik Lake Village, informed the committee that Chignik Lake has been working with RAFS for a couple of years and it has been a pleasant experience. In fact, Mr. Conrad has worked with the village to help determine the necessary charges for fuel and gas as well as working on the electric utility. He, too, agreed with the proposal to combine [programs] and eliminate duplication. He recalled when Chignik Lake applied with AEA for a loan, the village was fairly sure it wouldn't get one. However, they knew it was necessary to do prior to applying with RAFS. Still, it takes time. In fact, this last year he was concerned that the process wouldn't be completed in enough time to have the fuel delivered. Mr. Ihly explained that the village has to wait for its commercial fishermen to finish with the fishing season before fuel can be hauled in, which results in a limited window between that time and when the river freezes. Therefore, it's critical that the loan is in place and the village is able to purchase the fuel necessary to sustain it through the winter. He noted that recently the village was two to three weeks away from having no fuel, but the river broke up and the village was able to have fuel delivered.

[8:31:36 AM](#)

SCOTT RUBY, Director, Division Programs, Division of Community & Regional Affairs, Department of Commerce, Community & Economic Development (DCCED), reminded the committee that the division currently administers the Bulk Fuel Bridge Loan Fund Program and has since its inception. Furthermore, the division works closely with AEA on the BFRLF. He explained that there were two loan programs because in 2004 communities didn't qualify for the BFRLF program and were in danger of not having fuel. At that time, those communities that couldn't get fuel would be placed in an emergency situation and thus the state would spend resources in a more critical situation to provide for the health and safety of the communities. The notion was to help these communities normalize such that they receive the fuel and are more responsible for having their own fuel. At that time, rather than amending the BFRLF, funding was made available for the Bulk Fuel Bridge Loan Program. The name, Bulk Fuel Bridge Loan, was derived from the fact that the funding provided a bridge such that a community's management capacity could be built to qualify for the AEA loan or regular commercial loan programs. The program operated that way for several years and was funded through several grants, including grants from the U.S. Department of Agriculture (USDA), the Denali Commission, and the state. When the Bulk Fuel Bridge Loan Program began, the administration of that program was contracted out to AVEC and ultimately to RAFS. Therefore, the state approved all the loans, while RAFS serviced all the loans. A couple of years later, a legislative audit was performed that determined the situation was unacceptable because state funds were being used, but there were no state regulations for the program. In 2008, there was a statutory change such that funds were brought into the state system and regulations, similar to what AEA has for BFRLF, were adopted. Furthermore, the state contracts with RAFS, which provides the outreach and technical assistance such as invoicing. The loan disbursements and tracking of the loan balances is done by the Division of Economic Development. Mr. Ruby highlighted that over the years AEA and DCRA have worked on the two applications and they have reached a point at which they are almost identical. In fact, applicants are told to make a photo copy of the AEA application. The only difference between the two applications is the promissory note and the fuel loan agreement where the entity with which the community is making the agreement is either AEA or DCRA. He acknowledged though that there is redundancy since communities have to submit two different applications to two different entities and it's burdensome that the communities have to certify and the board has to consider two different submissions of two different

applications. Therefore, HB 196 would address the aforementioned such that there would be only one application that's filed.

MR. RUBY informed the committee that a major point in previous legislation was the interest rate. Under the BFRLF, AEA charges an interest rate for its loans. He explained that AEA uses a statutory formula with an indexed rate and those communities with multi-year loans are given a discount. The Bulk Fuel Bridge Loan, on the other hand, has a 0 percent interest rate. The Bulk Fuel Bridge Loan is going to communities that are a bad credit risk or are having management difficulties in financing their loans. Therefore, the notion behind the Bulk Fuel Bridge Loan was that the 0 percent loan would help such communities and as the Bulk Fuel Bridge Loan Program built capacity, these communities would qualify for other loans. Mr. Ruby noted that there has been discussion that the 0 percent interest loan is a disincentive to improve management. To address the aforementioned, under HB 196 both loans would have an interest rate such that a first-time borrower would have an interest rate of 0 percent while a second-year borrower would have a 4 percent interest rate. If the borrower has good credit in subsequent years, the interest rate is reduced by 1 percent each year with a floor of 2 percent, so long as the borrower remains in good standing. Therefore, the legislation creates an incentive to maintain good management. Mr. Ruby told the committee that currently both programs fund their administration from the general fund (GF), but HB 196 proposes to fund the administration of the programs from the loan fund itself and thus it's a self-supporting system. The interest rate was set such that the interest from the repayment of the loans or from the interest generated by the funds is more than enough to cover the administrative costs.

MR. RUBY then turned to the earlier remarks regarding Nikolai. He informed the committee that the earlier discussed situation in Nikolai was one in which the barge couldn't get there because the water level was too low. At the time, Nikolai had management capacity issues as the community hadn't been holding municipal elections for some time and thus hadn't qualified for its community revenue sharing payments. The DCRA regional office staff worked with Nikolai to complete an election, file paperwork, and got the city's budget and financial statements filed. The aforementioned resulted in the release of Nikolai's community revenue sharing funds, which provided a way in which to pay for the fuel since it had to be flown in. He emphasized that the situation in Alaska is unique since the fuel is

delivered once a year by water or plane. Therefore, these communities require very large capacity to store fuel, which results in a large cost to fill up. He related that North Star Fuel has been tracking fuel prices, which it reported as the highest in the last three years. Mr. Ruby concluded by stating that fuel loan programs for rural Alaska are critical in maintaining their infrastructure.

8:42:00 AM

REPRESENTATIVE AUSTERMAN pointed out that AEA's fiscal note relates a decrement of \$53,000 and DCRA's fiscal note relates a cost of \$80,000, which results in a \$30,000 increase in cost to achieve the earlier discussed streamlining and efficiencies to the loan programs.

MR. RUBY explained that currently DCRA receives \$219,000 in GF each year, although none of it is used by DCRA to administer the program. Those funds are either provided through a reimbursable services agreement (RSA) to the Division of Economic Development for management servicing of the loans or it's contracted out to RAFS to provide technical assistance. Therefore, the fiscal note is misleading because DCRA staff time that is used to administer the program is not reflected in the administrative funds DCRA specifically receives to administer the program. He deferred to AEA staff to explain its fiscal note and how the program is administered. Mr. Ruby related that in actuality the funds received from the GF to administer the program is less than what is used by the agencies to administer the program currently. He opined that the aforementioned is the difference. Furthermore, all the funds are coming from the GF. He reiterated that under HB 196 the program would be funded and paid for from the loan fund and its interest, and thus there would be a decrement of about \$260,000 to the GF.

8:45:20 AM

REPRESENTATIVE CISSNA pointed out that the situation in Nikolai reflects what is happening in many communities. She related her understanding that the lowering of the water table has been attributed to the reason the Kuskokwim River doesn't reach as far as it once did, which has resulted in even the community of McGrath experiencing problems with receiving barges.

MR. RUBY acknowledged that over the last two summers McGrath has experienced problems receiving barges late in the season. However, he said he didn't know to what to attribute that. He

noted that there have been some significant challenges receiving barges in the Dillingham region, particularly to Ekwok.

REPRESENTATIVE CISSNA pointed out that why these changes are happening isn't being reviewed. She also highlighted the environmental and technical changes and the out migration from villages that are occurring as well. There's enough change occurring that the state needs to determine how to review the entire fuel issue, she opined. Although the state helps with these difficulties, the state does things that aren't sustainable. For instance, to these communities the state sends equipment that requires diesel fuel. The state isn't looking at the long-term and being analytical about it, she charged. Therefore, she inquired as to what is being done to understand this situation.

MR. RUBY deferred to the energy experts to answer the question regarding the efforts to supplant diesel. However, he related a critical piece of that is the technical assistance that builds management capacity, which doesn't discriminate based on the type of energy being used. Whether it's diesel or wind energy, there is turn over in technical staff with basic management skills for those systems. Through DCRA and its local governance specialist as well as through the contract with RAFS, technical capacity is built so that the local [staff] know how to price fuel properly, no matter the type of energy being used. Therefore, [the program] includes building the technical capacity in communities, which is transferrable to running any energy source or a local government, for that matter.

[8:51:28 AM](#)

REPRESENTATIVE SADDLER referred to ISER's analysis of rural Alaska's fuel markets. The analysis makes some recommendations, including co-locating the BFRLF and the Bulk Fuel Bridge Loan programs. He asked if the legislation includes the ISER recommendation to make applications valid for three years. He then asked if communities routinely have an application on file for the program. The ISER analysis also recommends that expansion of the RAFS training could avoid communities becoming dependent on the loan programs. He asked if anything in HB 196 accomplishes the aforementioned. Representative Saddler then inquired as to the effect of HB 196 removing the requirement of the local governing body to endorse an application for the loan programs.

MR. RUBY specified that HB 196 would require an annual application. Since it's the same application year-after-year, communities are encouraged to refer to the prior year's application and they don't keep a copy on file. He informed the committee that AEA deals with about 60 communities under its loan program; communities that are more capable and credit worthy and which no one hears about. The communities with problems who have been referred to the Bulk Fuel Bridge Loan Program vary from 11-18 communities. He noted that for a large number of communities serviced under this program [the process] is routine and there aren't issues. With regard to the recommendation to expand RAFS training, Mr. Ruby anticipated the continuation of the technical assistance program under HB 196. Although the legislation doesn't specifically relate that the training will be expanded, he related the potential of expanding, particularly since DCRA is continually reviewing the program to improve service. However, an expansion would be dependent upon the resources available and the need. Speaking to the removal of the requirement of the local governing body to endorse an application for the programs, Mr. Ruby related his understanding that it was removed because it was an extra step. To his knowledge, there has been only one application that wasn't approvable by AEA because the application didn't receive the local governing body's endorsement. He said the removal of the endorsement was part of the streamlining effort, particularly since it was such an infrequent problem.

[8:55:48 AM](#)

SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development, explained that part of an employee's time is utilized to manage this program, which is seasonal. The late summer and fall is when the bulk of the applications for the program arrive. With regard to AEA's fiscal note, she explained that AEA has had a long-standing funding source for the BFRLF in the amount of \$53,000. The aforementioned funding would be reduced and no longer be included in AEA's operating budget. The fiscal note also reflects the proposal in HB 196 to remove the ability for the loan program to have a fee structure associated with it. Therefore, the \$25 application fee and the loan origination fee of the BRLF would no longer be part of the program. Ms. Fisher-Goad then thanked the sponsor for working with AEA and Mr. Ruby to develop a consolidated program, which was highlighted in the governor's energy report as was the elimination of the incongruent interest rates between the two programs.

[8:58:33 AM](#)

CHAIR MUNOZ asked then if what Ms. Fisher-Goad described accounts for the \$80,400 difference in the fiscal note.

MS. FISHER-GOAD said that she didn't believe that was quite the connection. The AEA fiscal note merely reduces the funds AEA would have available to it in its operating budget and the [lack] of fees as well. With regard to interest rate estimates, Ms. Fisher-Goad related that the intent is for the interest earnings from the program to fund the program.

CHAIR MUNOZ related her understanding that AEA's fiscal note shows a reduction in revenue in the amount of \$53,000 and DCCED shows an increase in revenue in the amount of \$80,000 by 2013. She inquired as to the difference.

[8:59:49 AM](#)

REPRESENTATIVE AUSTERMAN said that the \$53,000 in AEA's fiscal note is for services. Therefore, he inquired as to who is paying the \$53,000.

MS. FISHER-GOAD explained that the \$53,000 is a BFRLF funding source in AEA's operating budget, and thus the expenses pay for staff time devoted to managing the program. The funding source is the BFRLF.

[9:00:47 AM](#)

MS. FISHER-GOAD then pointed out that HB 196 references the Power Project fund. She informed the committee that prior to AEA receiving a significant capital appropriation to capitalize the BFRLF structure, AEA was concerned that it would run out of money to commit to loans. At the time, the Power Project Fund had significantly more cash available than it would use. Therefore, AEA structured a process by which the BFRLF could borrow from the Power Project Fund if necessary. Shortly after that, AEA received an injection of cash and thus there is no need for the BFRLF to borrow from the Power Project Fund. Therefore, HB 196 deletes that portion of statute as it's no longer necessary.

[9:02:04 AM](#)

REPRESENTATIVE CISSNA pointed out that the state doesn't have a long-term fiscal program and the state isn't looking at rural

areas in terms of the resources that could be developed in those areas. She expressed interest in analyzing fuel cost increases in terms of the health and social impacts to those in rural Alaska. She asked if there are any efforts to address the long-term problems [related to fuel costs and heating rural Alaska].

MS. FISHER-GOAD, regarding long-term programs, pointed out that AEA manages the Renewable Energy Fund Program. That program and AEA's effort on energy planning identifies where there are available local resources that could be developed to provide an alternative to the importation of diesel fuel. However, diesel fuel is an important part of the energy resource for rural Alaska, particularly in those areas with no other alternative. For those communities that must use diesel, AEA ensures that the powerhouses run as efficiently as possible and that the communities have access to the BFRLF or the Bulk Fuel Bridge Loan Program in order to ensure the communities have a long-term supply of fuel. Ms. Fisher-Goad opined that although she didn't believe 100 percent diesel displacement will be achieved in the communities eligible for the bulk fuel programs, efforts are being made to ensure there is less dependency on diesel fuel where possible.

[9:07:48 AM](#)

CHAIR MUNOZ inquired as to how long it will take to make the changes proposed in HB 196.

[9:08:01 AM](#)

ADAM BERG, Staff, Representative Bryce Edgmon, Alaska State Legislature, pointed out that the transition provision in Section 10 of HB 196 would allow DCRA to start adopting regulations in order to meet the January 1, 2012, effective date.

[9:08:43 AM](#)

REPRESENTATIVE GARDNER expressed concern with the elimination of the requirement to receive an endorsement from the governing body. If a utility can take on debt that impacts everyone in the community, there should be a process by which the members of the community would at least be made aware of it and participate in the decision.

MR. BERG said that he doesn't disagree. That particular language was suggested by DCCED. If the committee wishes to

change the provision, the sponsor wouldn't have a problem with it, he said.

9:09:55 AM

REPRESENTATIVE CISSNA noted her agreement with Representative Gardner. She then questioned if someone could discuss further why the requirement was eliminated.

MR. RUBY informed the committee that originally the requirement to have an endorsement from the governing body was included because the BFRLF had limited funds. There was concern that there would need to be prioritization, over which the local government would have some influence. The requirement was also adopted for the Bulk Fuel Bridge Loan Program because it utilized the existing statutory language for the BFRLF. He noted that not all of these loans are awarded to a governmental entity; some loans are private entities. He recalled a situation in which a private entity sought a loan, but the local government refused to pass the resolution. Therefore, the private entity wasn't eligible to receive the loan and had to seek funding elsewhere. Mr. Ruby said that although DCCED isn't necessarily opposed to the requirement to have an endorsement from the governing body, one of the mandates was to streamline the bulk fuel program.

9:12:25 AM

REPRESENTATIVE GARDNER inquired as to Representative Dick's opinion on the elimination of the requirement of the utility to have an endorsement of the governing body.

REPRESENTATIVE DICK said that it would be nice if the local utility didn't have to work with the local government because sometimes there is an impasse between the two.

REPRESENTATIVE GARDNER opined that an individual who objects to the actions of the utility would have no recourse if there is no governmental involvement.

REPRESENTATIVE CISSNA reminded the committee of the earlier discussed situation in Nikolai when it had failed to hold an election. She interpreted that as supporting the need to be sure that communities have the democratic process so that there is broad representation of the community. The state, she emphasized, is pouring money into these communities such that they can't make their own decisions.

REPRESENTATIVE DICK remarked that he is struggling because he can see both sides. He agreed that it's important to have the utility responsive to the community, but there are some communities that have such dysfunction and the utility needs to continue to function.

[9:17:06 AM](#)

CHAIR MUNOZ announced that HB 196 would be held over and public testimony would remain open.

[9:17:31 AM](#)

REPRESENTATIVE CISSNA suggested that perhaps the legislation could specify that a private entity would not have to have that community buy-in. She then asked if the passage of HB 196 has an element of timeliness.

[9:18:16 AM](#)

REPRESENTATIVE SADDLER recalled testimony in the House Special Committee on Energy from the Denali Commission relating that there are communities in the state with bulk fuel farms that are operated by private enterprise as well as publicly supported. He said he could see the inherent conflict the aforementioned would raise.

[9:18:34 AM](#)

REPRESENTATIVE DICK said that he would call his communities.

[9:18:45 AM](#)

CHAIR MUNOZ announced that HB 196 would be held over.

HB 170-MUNI TAX EXEMPTION FOR CERTAIN VOLUNTEERS

[9:18:55 AM](#)

CHAIR MUNOZ announced that the final order of business would be HOUSE BILL NO. 170, "An Act relating to municipal property tax exemptions on residences of certain volunteer emergency services personnel and the widows and widowers of volunteer emergency services personnel; and providing for an effective date."

[9:19:54 AM](#)

REPRESENTATIVE ERIC FEIGE, Alaska State Legislature, speaking as the sponsor of HB 170, provided the following testimony:

House Bill 170 addresses an issue that is one of the more consistent problems faced by volunteer emergency service organizations, that is recruitment and retention of volunteer firefighters. With little or no incentive to volunteer, individuals find something else to do with their time. Those that do volunteer receive little or no recognition, except for the satisfaction of helping a neighbor in need. At times, this is not enough. House Bill 170 provides for an exemption to municipal property tax on the primary place of abode for a resident who serves as an active volunteer with a fire department, or emergency medical or rescue services agency, or widow or widower of a similar person who was an active volunteer at the time of their death. The exemption applies to the first \$200,000 of assessed value of real property.

REPRESENTATIVE FEIGE then explained that Sections 1-4 provide clarification and a definition for the term "volunteer" as stated in AS 18.15.250, as follows: "(4) "volunteer" means that the person is an active volunteer of a first responder service, a rescue service, an ambulance service, or a fire department that provides emergency medical or rescue services as part of its duties." The exact numbers of individuals who will qualify for this exemption are almost impossible to quantify. Based upon information from state agencies, he estimated that statewide there are less than 2,000 volunteers living within taxing municipalities. Of those 2,000, no data exists to determine the number of property owners. However, informal conversations with fire departments suggest that about half of the membership of most departments own property. Representative Feige expected the exemption to primarily help with the retention of stable community members that provide the core leadership in a department. As noted in the letters of support for HB 170, many of the volunteers are relatively young and don't own property. The exemption would help the department in terms of those volunteers in middle management positions. He pointed out that HB 170 doesn't make the exemption optional, although he said he wasn't opposed to it being optional. However, if the exemption being elective is important to the passage of the legislation, it could be amended such that it's the responsibility of the local taxing entity to vote not to extend the exemption. Representative Feige said he anticipated

that with the passage of HB 170, [fire] departments will experience reduced turnover, improved training and capability, which will ultimately lower their insurance rating and result in lower home insurance rates in the area.

[9:25:24 AM](#)

CHAIR MUNOZ noted that the mill rate in Juneau is about 12 mills. She inquired as to the mill rate in Fairbanks and Anchorage.

REPRESENTATIVE FEIGE replied no, but related that in his district the areawide mill rate is 11 mills and the non areawide mill rate is 2 mills for a total of about 13 mills in the Mat-Su Valley.

[9:25:54 AM](#)

REPRESENTATIVE AUSTERMAN directed attention to page 1, line 7, and inquired as to the use of the term "may."

REPRESENTATIVE FEIGE clarified that "may" doesn't speak to the entire exemption, but rather it refers to the fact that a municipality may require that individuals receive a permanent fund or that the individuals would be eligible for the permanent fund.

[9:27:03 AM](#)

REPRESENTATIVE DICK said that he likes the idea, but asked if this would be a disincentive for people who are renters to volunteer.

REPRESENTATIVE FEIGE answered that he wasn't sure it was a disincentive, but it certainly wouldn't apply to volunteers who rent rather than own property.

[9:27:27 AM](#)

REPRESENTATIVE GARDNER related her understanding that Chugiak has a volunteer firefighter force that receives a retirement benefit and workers' compensation. There are also volunteer firefighters who receive stipends and pension benefits. Would the aforementioned volunteer firefighters be "volunteers," she asked. She also inquired as to the definition of "active."

REPRESENTATIVE FEIGE clarified that Representative Gardner is referring to a paid on-call volunteer firefighter versus the separate category of volunteer that doesn't get paid. He related that HB 170 would apply only to volunteers. With regard to the definition of "active," Representative Feige pointed out that the legislation specifies municipalities determine how to apply that term. He suggested he would leave it to the local fire chief to determine who the "active" volunteers are because every year fire departments that want to be recognized as such by the state fire marshal have to submit rosters to the state. The rosters specify the various personnel and whether they are full-time, paid on-call, or volunteer.

REPRESENTATIVE GARDNER asked if a firefighter who isn't paid but receives benefits would be considered a volunteer.

REPRESENTATIVE FEIGE informed the committee that state law allows fire departments to extend workers' compensation benefits to volunteer firefighters, even though they are not being paid. He explained that an annual salary of \$2,000 is used to determine the workers' compensation benefit. Regarding whether workers' compensation would qualify as a benefit, Representative Feige said he didn't believe it would.

REPRESENTATIVE GARDNER then asked if those volunteer firefighters who participate in pension plans would still qualify as a volunteer [under HB 170].

[9:31:00 AM](#)

MICHAEL PASCHALL, Staff, Representative Eric Feige, Alaska State Legislature, related that some states have enacted specific pension programs for volunteers. Therefore, he expected that receipt of a pension plan doesn't eliminate one from being classified as a volunteer.

[9:31:28 AM](#)

CHAIR MUNOZ asked whether there would be a legal problem with providing a benefit to one class of individuals and not to a similar group performing the same work but for which they are paid.

REPRESENTATIVE FEIGE said that didn't come up with his discussion with Legislative Legal and Research Services. He highlighted that the state already has exemptions for certain classes of people. Furthermore, these are volunteers who

support their community. He recalled starting a volunteer fire department in his community. Prior to the existence of the volunteer fire department, his community was losing a structure every year. Having volunteer firefighters present in a community provides a certain measure of relief. Furthermore, having the volunteer fire department resulted in lower home insurance rates for residents who subscribed to the department's services, which more than offset the cost of subscribing to the fire department for most residents.

[9:34:12 AM](#)

REPRESENTATIVE SADDLER expressed concern with an expansion of the property tax exemption, particularly since he's heard complaints from various local government entities that the state property tax exemption is an unfair burden on local communities. Although the proposal in HB 170 would benefit emergency medical services personnel and volunteer firefighters, others in the community will face increased property taxes to pay for it. He also expressed concern that offering salary, benefits, or exemptions as proposed in HB 170 would seem to [change the volunteer's status] and muddies the line. To extend this proposed benefit to widows makes it a multi-generational exemption, which he indicated is of concern as well. Representative Saddler related that he might view the exemption more favorably if it were provided to [volunteer] firefighters upon retirement, which he likened to the exemption for senior citizens and disabled veterans.

REPRESENTATIVE FEIGE reminded the committee that he is proposing an incentive program to assist the local fire chiefs with obtaining and maintaining staff at fire departments. He opined that generally, most communities want to have some sort of fire protection as it's more economical to do so with volunteers. As mentioned earlier, one of the biggest problems for fire chiefs is recruiting volunteers, which would ultimately result in the area losing the service or having to pay for it, which is more expensive in the long term.

[9:37:55 AM](#)

REPRESENTATIVE AUSTERMAN inquired as to why the sponsor chose an exemption in the amount of \$200,000 rather than staying in line with the other exemption amounts of \$150,000. He also inquired as to whether the sponsor would oppose changing the exemption amount to \$150,000. He then recalled that the sponsor said he

was open to making the exemption optional rather than making it a state law.

REPRESENTATIVE FEIGE noted that legislation, HB 190, has been introduced to increase the senior property tax exemption to \$200,000. However, he said that he didn't have a problem if the committee decided to lower the volunteer emergency services personnel exemption to \$150,000. With regard to the optional aspect of HB 170, the legislation is currently written under the mandatory exemptions [of AS 29.45.030]. Placing the proposal under AS 29.45.050 would place it with the optional exemptions. If the committee decides to include language in HB 170 that makes the election of this exemption optional, Representative Feige recommended that the language relate that the local taxing authority has to vote not to extend the exemption in order to provide the local fire chiefs more weight in the argument.

[9:39:58 AM](#)

REPRESENTATIVE FOSTER expressed interest in the impact of this proposed exemption on a typical community. He related that in his community with a mill rate of 12 mills, a \$200,000 exemption would result in about \$2,400 per home. If one was to assume 30 firefighters and that 20 have homes, the [exemption] would result in about \$48,000. Spreading that cost over 3,500 people results in about \$13 per person.

[9:40:59 AM](#)

TIMOTHY ROONEY, Borough Manager, City of Wrangell, testified in opposition to HB 170. Although he related support for volunteer firefighters, the community of Wrangell cannot take any more hits to its tax base. Wrangell is an aging community, and therefore the number of people moving into the category of the senior exemption is always increasing. Wrangell has a strong volunteer firefighter department of 38 members. If each received a \$200,000-value tax exemption, it would cost the city \$96,000 a year. Wrangell raises \$1.4 million in property taxes, so this proposed exemption could result in a 7 percent reduction. Mr. Rooney said that although it may be noble to provide an exemption to volunteer firefighters, he questioned where one would stop because there are plenty of volunteers that could be recognized. Since Wrangell is a small community, it takes volunteers on many levels to make it successful. Therefore, he didn't believe it's appropriate to single out one volunteer group. Mr. Rooney related, "As a volunteer I don't need incentive to volunteer, I do so to give back to my

community and to the state." He opined that passage of HB 170 would open a door that will be impossible to close and one that would greatly impact Wrangell in the future. In closing, Mr. Rooney suggested that if each municipality is charged with determining who is a volunteer, each municipality should be allowed to vote to participate in this exemption rather than to opt out.

[9:43:14 AM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), related that AML has opposed mandatory exemptions all along because it has to consider the impact cumulatively. She reminded the committee that last year there was legislation to provide an exemption for all fraternal organizations, the year prior there was legislation proposing an exemption for teachers occupying homes for religious schools. Currently, municipalities lose approximately \$50 million per year on the senior citizen property tax exemption. She pointed out that the total loss is \$10 million less than they receive for revenue sharing. Furthermore, although statute specifies the state is to reimburse [the municipality for the senior citizen property tax exemption], that's not the case. Therefore, AML is leery of doing any exemption. Mr. Wasserman related her complete agreement with Representative Feige's comments regarding firemen. She noted that AML's board includes a seat for the Alaska Fire Chief's Association. Municipalities, she related, must take care when allowing more exemptions as it leaves less people to carry the load. Therefore, Ms. Wasserman suggested that either this proposal be an optional exemption that municipalities vote to opt into, or the state should pay for the exemption.

[9:46:14 AM](#)

PAUL DELAS, President, Board of Directors, Chena Goldstream Fire & Rescue (CGFR), testified in support of HB 170. He informed the committee that he has been a volunteer with Chena Goldstream Fire & Rescue since 1989. Last year, 63 volunteers at CGFR spent nearly 42,000 hours on shift, which is an average of 660 hours each. The 11 highest performing volunteers, 20 percent of the department, contributed 43 percent of the hours or 18,000 hours total. Seven of those volunteers are homeowners who would be positively impacted by HB 170. Mr. Delas told the committee that beyond the hours volunteers spend on shift, they are required to participate in a minimum of 100 hours taking classes and attending training. The CGFR draws its volunteers from

college students who are fairly transient and established residents. Since the college students and a few other young volunteers are normally with CGFR for only a few years, the backbone of CGFR are the volunteers who are permanent residents. Mr. Delas estimated that it takes about five years of training and experience to become an effective lead volunteer. The long-term volunteers have the knowledge and ability to teach other volunteers how to respond, he pointed out. Mr. Delas related that the minimally accepted commitment at CGFR is 600 hours annually. However, some of CGFR's volunteers actually contribute over 2,000 hours, which is the equivalent of a full-time job. He acknowledged that many of the hours spent on shift are hours in which the volunteer is sleeping or at work, but being on shift is a promise to take care of others. This legislation, he opined, is a powerful incentive. Without volunteers, either the service will be eliminated or paid professionals would have to be hired. A minimally staffed fire department with four responders every day of the year would cost about \$1 million in salaries and benefits. A \$70,000 salary and benefit package for each paid responder is equivalent to 23 volunteers receiving the proposed exemption, which he estimated would amount to about \$3,000 for each volunteer in his area. He characterized this as "Wall Street style leveraging of resources." In conclusion, he related that the volunteers who own property in his area are excited about the possible passage of HB 170 and has generated local interest for those who have been contemplating becoming a volunteer.

[9:51:30 AM](#)

CHAIR MUNOZ announced that Mr. Van Sant, State Assessor, Department of Commerce, Community & Economic Development, is available for questions.

[9:51:54 AM](#)

JEFF TUCKER, President, Alaska Fire Chiefs Association; Fire Chief, North Star Volunteer Fire Department, characterized HB 170 as a good tool for the recruitment and retention of volunteer firefighters throughout the state. He, too, mentioned that returning volunteers are the backbone of volunteer fire departments.

[9:53:21 AM](#)

PAT CARLSON, Assessor, Fairbanks North Star Borough, said that although everyone supports volunteers, the service and

commitment levels of these volunteers aren't recognized. Furthermore, there's clearly difficulty with attracting new volunteers. This needs to be addressed on a statewide level. He pointed out that with a mandatory exemption there is no option for the local jurisdiction to create an option that works for it. Currently, Fairbanks provides a homeowner exemption that the [borough] voted on and tailored to ensure that it is fair, equitable, and documented. The struggle with HB 170 is the language "active" versus "volunteer," "rescue service," and "widow" and "widower." He expressed concern with the exemption for senior citizens and disabled veterans, which is increasing in his jurisdiction by about 8 percent per year, which may call for the higher exemption amount in HB 170. He expressed further concern because this forces an exemption against the borough's base levy as well as against the fire and road service area levies. He then pointed out that in some jurisdictions there is no property tax, and therefore he questioned what volunteers in those areas will receive. Mr. Carlson opined that the only way to fairly address this matter is for the fire chiefs and that the state to develop a statewide stipend that offsets the tremendous cost for volunteers. He then reiterated concern with regard to the definition of "volunteer" as it's from the vaccination program section of statute. Moreover, using the term "rescue service" provides an opportunity for abuse.

[9:56:24 AM](#)

CHAIR MUNOZ announced that HB 170 will be held over for further committee work. She asked if the sponsor wanted to work with the ideas brought forward today to develop a committee substitute (CS).

REPRESENTATIVE FEIGE answered that he is amenable to that.

[9:57:03 AM](#)

REPRESENTATIVE FEIGE pointed out that HB 170 primarily benefits the middle management volunteers in these [volunteer fire departments]. With regard to the number of members in a fire department, that is set by the community. Therefore, if a community wants to limit its tax exemption exposure, they can limit the number of people they consider active volunteers in their department. With regard to Mr. Carlson's comments about the property tax exemption in the Fairbanks North Star Borough, Representative Feige clarified that the exemption is only for the first \$10,000 of property tax value.

9:58:42 AM

CHAIR MUNOZ reviewed the concerns expressed by the committee.

10:00:09 AM

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 10:00 a.m.