

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

March 1, 2012

8:06 a.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Sharon Cissna

**COMMITTEE CALENDAR**

HOUSE BILL NO. 219

"An Act exempting certain emergency medical and fire department services from regulation as insurance."

- MOVED HB 219 OUT OF COMMITTEE

HOUSE BILL NO. 40

"An Act relating to an optional exemption from municipal property taxes for residential property."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 219

SHORT TITLE: FIRE AND EMERGENCY MEDICAL SERVICES

SPONSOR(S): REPRESENTATIVE(S) FEIGE

03/31/11	(H)	READ THE FIRST TIME - REFERRALS
03/31/11	(H)	CRA, STA
02/16/12	(H)	CRA AT 8:00 AM BARNES 124
02/16/12	(H)	Heard & Held
02/16/12	(H)	MINUTE(CRA)
03/01/12	(H)	CRA AT 8:00 AM BARNES 124

BILL: HB 40

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTION

SPONSOR(s): REPRESENTATIVE(s) KAWASAKI, PETERSEN

01/18/11 (H) PREFILE RELEASED 1/7/11  
01/18/11 (H) READ THE FIRST TIME - REFERRALS  
01/18/11 (H) CRA, FIN  
03/01/12 (H) CRA AT 8:00 AM BARNES 124

**WITNESS REGISTER**

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

**POSITION STATEMENT:** Presented HB 219, on behalf of the sponsor,  
Representative Feige.

REPRESENTATIVE SCOTT KAWASAKI  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Spoke as one of the joint prime sponsors of  
HB 40.

REPRESENTATIVE PETE PETERSEN  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Spoke as one of the joint prime sponsors of  
HB 40.

STEVE VAN SANT, State Assessor  
Division of Community and Regional Affairs  
Department of Commerce, Community & Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 40, answered  
questions.

**ACTION NARRATIVE**

8:06:10 AM

**CHAIR CATHY ENGSTROM MUNOZ** called the House Community and  
Regional Affairs Standing Committee meeting to order at 8:06  
a.m. Representatives Foster, Austerman, Dick, Saddler, and  
Gardner were present at the call to order.

**HB 219-FIRE AND EMERGENCY MEDICAL SERVICES**

8:06:28 AM

CHAIR MUNOZ announced that the first order of business would be HOUSE BILL NO. 219, "An Act exempting certain emergency medical and fire department services from regulation as insurance."

8:06:47 AM

MICHAEL PASCHALL, Staff, Representative Eric Feige, Alaska State Legislature, speaking on behalf of the sponsor, Representative Feige, first disclosed that he is an assistant chief of a volunteer fire department and Representative Feige is a chief of a volunteer fire department that could be impacted by HB 219. Mr. Paschall opined that the last hearing on HB 219 became a bit sidetracked pertaining to certification under Alaska statute. The sponsor's opinion is that statute doesn't specifically state that certification is required. He noted that the committee packet should include a legal opinion from Legislative Legal Services dated February 29, 2012, which relates the conclusion that the language is ambiguous regarding certification. Mr. Paschall pointed out that HB 219 isn't about certification, but rather exempts nonprofit municipal organizations that provide fire, ambulance, and emergency medical services (EMS) from the requirements of Title 21 of statute.

MR. PASCHALL informed the committee that although the Division of Insurance provides exemptions similar to those proposed in HB 219, those existing exemptions don't reach fire, ambulance, and EMS providers that aren't a municipality, nonprofit association, or nonprofit medical services corporation. He opined that the provisions in AS 21.87, which were referenced at the last hearing, were designed to apply to medical service corporations that provide health care across a broad range such as Blue Cross. He further opined that the intent of that statute wasn't to deal with small municipal or nonprofit ambulance services. He noted that creating a nonprofit medical services corporation is much more difficult than simply creating a nonprofit. For example, a medical services corporation has to have available a minimum of \$100,000 in assets to cover six months of operations in order to be certified by the Division of Insurance. Most of the organizations HB 219 seeks to help don't have the \$100,000 and are struggling to get by. The goal is to provide a mechanism for an organization, large or small, to entice donations and financial support by allowing them to waive fees to those who provide an agreed upon level of financial support in advance of services. He emphasized that there is no guarantee the organization will provide those services, just as

there is no guarantee today that the same organization would provide those services. This legislation would allow the organization to waive fees in order to literally keep the doors open by paying day-to-day expenses. With regard to the concern regarding these organizations receiving funds from multiple sources, Mr. Paschall said that's already the case for many of the ambulance services that are municipally run or funded through tax revenue. For instance, when the City of Fairbanks fire department, which is supported by city taxes, responds to a wreck within the city, the owner of the vehicle will be billed for the call. Therefore, the scenario of concern already occurs and won't be changed by HB 219.

[8:12:16 AM](#)

REPRESENTATIVE GARDNER asked if it's possible for a fire department that's supported by property taxes to also have subscriptions.

MR. PASCHALL said that they would have to review a department that's run by a municipality and one that's contracted through a service area. For example, he presumed that the City of Fairbanks could enact a program for subscriptions such that when they run a call for which they would normally bill, they wouldn't bill for [when there is a subscription]. In the case of most service area departments, they are nonprofits under contract with the municipality to provide services. Although the revenue generates from property taxes, it's not necessarily paid to them in the form of a percentage of a property tax but rather is based on a budget that they submitted. He opined that both fire and EMS would be able to do the aforementioned.

REPRESENTATIVE GARDNER expressed concern with the aforementioned because a property taxpayer is already paying for service, albeit that it might be inadequate.

MR. PASCHALL acknowledged the concern, but pointed out that the legislation doesn't change the types of funding [certain emergency medical and fire department services] can obtain. The legislation merely allows them to accept the funding upfront to defer the fee, as a way to place more operating funds in the department's budget in advance. "From a practical standpoint, I think what you're looking at there is what works in each individual community," he opined.

[8:14:54 AM](#)

REPRESENTATIVE SADDLER asked if the emergency medical and fire departments keep records for those who pay for the subscription service so that people only receive service up to the amount paid.

MR. PASCHALL responded that he isn't aware of any subscription service that is based on the amount of the subscription. However, he suggested that the amount of funding [subscription] could be based on the amount of property. Often, the [subscription fee] for an average home is \$100 while a home over 3,000 square feet would have a [subscription fee] of \$150. For a business, the [subscription fee] might be \$200. The [subscription fee], he said, is based upon the perceived level of need in the event of an emergency or the likelihood of an emergency. When the actual response occurs, the [level of service] isn't based on the amount paid. From the prior hearing on HB 219 he recalled the question regarding whether the subscription department responds to everyone or only subscribers and specified that it depends upon the department's structure.

[8:16:45 AM](#)

REPRESENTATIVE SADDLER inquired as to how the department establishes the amount of the subscription fee.

MR. PASCHALL confirmed that the amount of the subscription fee is determined by the department's annual budget and the estimated number of folks who will subscribe as well as what the market will bear. Common subscription fee amounts that have been in place for a number of years have been \$75-\$100.

[8:17:25 AM](#)

MR. PASCHALL, in response to Chair Munoz, said that the certification issue only arose in terms of the current statute and this proposed statute wouldn't require certification. He maintained that the issue of certification is for a different debate.

[8:19:11 AM](#)

CHAIR MUNOZ, upon determining no one else wished to testify, closed public testimony.

[8:19:50 AM](#)

REPRESENTATIVE AUSTERMAN moved to report HB 219 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 219 was reported from the House Community and Regional Affairs Standing Committee.

[8:20:13 AM](#)

The committee took a brief at-ease.

**HB 40-MUNICIPAL PROPERTY TAX EXEMPTION**

[8:21:56 AM](#)

CHAIR MUNOZ announced that the final order of business would be HOUSE BILL NO. 40, "An Act relating to an optional exemption from municipal property taxes for residential property."

[8:22:05 AM](#)

REPRESENTATIVE SCOTT KAWASAKI, Alaska State Legislature, speaking as one of the joint prime sponsors of HB 40, reminded the committee that currently Alaskans face some of the highest costs of energy. A recent Fairbanks cost of living index relates particularly high utility costs, at 211 percent when all other communities are considered at a median of 100 percent. Anchorage is at 98.2 percent. Furthermore, colder winters, as is the case this year, increase the burden. By exempting a higher amount of property taxes, the burden on families can be offset immediately and allow more income/spending in communities. He related that years of studies indicate that property owners of homes in the \$400,000-\$500,000 range would benefit the most from this proposed \$100,000 municipal exemption. He noted that the average home price in Fairbanks is approximately \$225,000. An additional benefit of HB 40 is a boost in home sales that may be lagging across the state. Representative Kawasaki then related that inflation was a large impetus in the introduction of HB 40 as the purchasing power of the existing \$20,000 exemption has eroded to about \$16,000. With regard to why the state is getting involved in an optional municipal tax exemption, the state statute outlines how municipalities and local governments manage their taxing authority. This legislation, he emphasized, doesn't mandate any changes at the local level rather it's permissive language to allow individual communities, boroughs, and cities to increase the municipal property tax exemption to the level desired. Representative Kawasaki noted that in 2004 the Fairbanks North

Star Borough passed similar legislation that increased the exemption rate to \$20,000 as soon as the statute was changed.

8:27:18 AM

REPRESENTATIVE PETE PETERSEN, Alaska State Legislature, speaking as one of the joint prime sponsors of HB 40, began by suggesting that the legislation would allow municipalities to provide property tax relief for homeowners. He noted that during his door-to-door visits one of the most frequent comments from his constituents is the need to lower property taxes. Therefore, he opined that property tax relief would be popular in his district and in most of the state. He related that he has heard from assembly members who would like to provide more property tax relief. This legislation would increase the authority for municipalities to provide property tax relief to homeowners while not requiring it. He reminded the committee that municipalities have many different service areas with varying tax rates. For example, Anchorage has 56 different tax districts. Therefore, he said he would provide examples with average tax data for 2011 from the Alaska Tax Table 2011, which was prepared by the Department of Commerce, Community & Economic Development (DCCED). For a home assessed at \$250,000, increasing the exemption to \$100,000 would save a homeowner in Juneau \$949.50; in Kodiak \$1,150.20; in Nome \$900; in Nenana \$1,080.00; in Municipality Anchorage - Muldoon, Government Hill, Downtown, Midtown - \$1,393.20; in Eagle River area \$1,377.00.

8:30:11 AM

REPRESENTATIVE GARDNER surmised that if the proposed ordinance in HB 40 passed, municipalities would have to cut other services or find other sources to fund it. She asked if the sponsors anticipated the funds would come from revenue sharing.

REPRESENTATIVE KAWASAKI again reminded the committee that the proposed tax exemption is optional. As a member of the Fairbanks City Council for six years, he recalled discussions regarding property tax relief to the average family. There aren't many options. He told the committee that in Fairbanks a home assessed at \$400,000-\$500,000 would likely experience benefit [from the proposed tax exemption]. He acknowledged that if the mill rate was increased, there would be property taxpayers who would pay more. Still, he characterized it as a win-win situation because the money saved from the tax exemption would stay in the community and help generate a better economy in the community. He confirmed that Wal-Mart would have to pay

a slightly larger tax if the mill rate was increased, but countered that Wal-Mart would be a beneficiary of the benefits middle income homeowners would receive. Furthermore, small businesses would likely experience a huge impact, he opined.

REPRESENTATIVE PETERSEN added that most often all the take-home income of the middle class is allocated to bills and have very little discretionary income. Therefore, lowering property taxes would provide more discretionary income to spend within the community, which would create an economic boost that may even create jobs.

[8:33:36 AM](#)

REPRESENTATIVE AUSTERMAN related his understanding that the objective of HB 40 is to save citizens' money. However, every municipality has the ability to increase or decrease its mill rate to effectuate the same benefit across the board rather than selecting individuals that may obtain an exemption. Therefore, he questioned why there should be a blanket exemption when municipalities already have the ability to do what they need to do for their citizens.

REPRESENTATIVE KAWASAKI agreed that municipalities could reduce their mill rate, but it has a different effect. Property taxes have to be leveled equally; there can't be differential property taxes per statute. For example, when a mill rate is reduced, it's being reduced for a residential home as well as large commercial buildings such as Wal-Mart. Therefore, he questioned whether that's the type of policy desired. He also questioned who would be the beneficiary of [reducing the mill rate].

REPRESENTATIVE PETERSEN reiterated that HB 40 is optional.

[8:35:55 AM](#)

REPRESENTATIVE SADDLER asked whether municipalities have come to the sponsors seeking ways in which to decrease property tax revenues, which he characterized as counterintuitive. He further asked who is requesting HB 40.

REPRESENTATIVE KAWASAKI, recalling being a member of the Fairbanks City Council and looking for options for property taxpayers, said HB 40 is one of the best options to ensure funds are returned to families. He reminded the committee that the Fairbanks North Star Borough has petitioned the legislature numerous times for this proposal. In fact, at one point the

proposal advanced all the way to the Senate Finance Committee, where the proposal was eventually eliminated. At this point the Fairbanks North Star Borough has spent funds to place an initiative regarding the proposal on the ballot. He related his belief that the initiative will be on the August ballot. Therefore, there has been a call from some folks to have this option so that their taxes can be managed at a local level.

[8:38:00 AM](#)

REPRESENTATIVE KAWASAKI, in further response to Representative Saddler, clarified that as a local city council member, many options were tried and one option was to decrease services that [were returned] once municipal revenue sharing was reinstated.

REPRESENTATIVE SADDLER acknowledged that individual property owners would certainly like to pay less property tax, but he suspected that municipalities wouldn't want to lose funding from property taxes to run their services.

[8:38:53 AM](#)

CHAIR MUNOZ expressed concern with HB 40 regarding the impact it would have on local school funding in terms of the requirements for local contributions. She asked if the sponsors had considered what the state would have to cover to maintain the true and full value calculation [for education funding] for the Fairbanks North Star Borough were the proposal in HB 40 implemented in the borough.

REPRESENTATIVE KAWASAKI replied no, but added that this proposal was a request from the Fairbanks North Star Borough. Therefore, he assumed that the Fairbanks North Star Borough Assembly has somewhat committed in the future that it would cover those education expenses. In further response to Chair Munoz, Representative Kawasaki related that the Fairbanks North Star Borough School District recently announced that it has about a \$9 million deficit, assuming the borough didn't increase any payments to the school district. He related his understanding that an increase in payments to the school district is still an option until the April meetings.

[8:40:10 AM](#)

REPRESENTATIVE GARDNER related her understanding that HB 40 doesn't reduce property tax income to a community, but rather shifts it. Therefore, the benefit would be greatest to those

whose property is worth less. "It's shifting the tax burden to raise the same amount of money," she concluded.

REPRESENTATIVE KAWASAKI agreed that's one way to view it. He then said that a borough also has the option to not increase the property tax mill rate; the Fairbanks North Star Borough has room within its mill rate to increase or decrease it.

[8:41:10 AM](#)

REPRESENTATIVE FOSTER opined that a reduction in the mill rate would benefit the homeowner with a home that's worth more, say \$1 million. He related his assumption that HB 40 attempts to make the situation more advantageous for the middle class individual with a home worth say, \$200,000.

REPRESENTATIVE KAWASAKI clarified that the sponsors don't want to establish the mill rate by statute, but want to provide the proposed exemption as an option. If the Fairbanks North Star Borough had to raise its mill rate to recoup the revenue it lost, an individual with a home assessed at \$500,000 would be at a break even. Again, it's left to the local municipalities to make these decisions.

[8:43:50 AM](#)

REPRESENTATIVE FOSTER recalled a comment that adopting this proposed statute creates an expectation that it will occur at some point, while at the same time there is a deficit in the education funding. He inquired as to what tools are available to the City of Nome to backfill a loss in funds besides adjusting the mill rate and increasing the sales tax.

REPRESENTATIVE KAWASAKI reiterated that HB 40 merely provides another option. Currently, a community that wants to exempt more property taxes can't do so. Basically, it's a philosophical decision regarding whether to place a \$20,000 limit on the exemption or leave it to the community to decide the amount of the exemption up to \$100,000.

[8:45:49 AM](#)

REPRESENTATIVE AUSTERMAN requested examples of how the \$20,000 exemption is being used across the state currently.

REPRESENTATIVE KAWASAKI explained that within the City of Fairbanks a homeowner with a home worth \$120,000 would pay taxes

on the \$100,000 times the mill rate. If the proposal in HB 40 is adopted, the homeowner would be taxed on the \$20,000. This legislation provides the option of an exemption that may not exceed \$100,000. In further response to Representative Austerman, Representative Kawasaki clarified that the exemption would only be applicable to primary residences. Therefore, businesses wouldn't be able to apply for this residential exemption.

REPRESENTATIVE PETERSEN stated that the exemption would work like a standard deduction. In Anchorage, residents are allowed the \$20,000 exemption, and thus paperwork has to be filed with the municipality to specify the address of the property to which to apply the \$20,000 exemption. The exemption can only be taken on one property. In further response to Representative Austerman, Representative Petersen related his belief that every residential owner in Anchorage receives a \$20,000 exemption.

REPRESENTATIVE SADDLER interjected his understanding that in Anchorage the exemption isn't automatic, one must apply for it.

[8:48:43 AM](#)

REPRESENTATIVE GARDNER inquired as to when the \$20,000 exemption was enacted. She then inquired as to the proportion of communities in Alaska that avail themselves of the full \$20,000 exemption.

REPRESENTATIVE KAWASAKI recalled that this law was last changed in 2004, but deferred to Mr. Van Sant regarding the number of communities in Alaska that take advantage of the entire \$20,000 exemption.

[8:50:18 AM](#)

STEVE VAN SANT, State Assessor, Division of Community and Regional Affairs, Department of Commerce, Community & Economic Development, informed the committee that currently six municipalities in the state take advantage of the \$20,000 residential exemption. Those six communities are the following: Anchorage, Bristol Bay, Fairbanks, Kenai, North Slope, and Valdez. However, only the North Slope, Bristol Bay, and Kenai take the full \$20,000. Anchorage has a 10 percent residential exemption up to \$20,000; Fairbanks has a 20 percent residential exemption up to \$20,000; and Valdez has a 30 percent residential exemption up to \$20,000.

8:51:34 AM

REPRESENTATIVE GARDNER commented that it seems the concern about municipalities being pressured to enact the full amount of the exemption seems not to be well founded, as illustrated by the aforementioned examples with the current exemption.

[HB 40 was held over.]

8:52:21 AM

**ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 8:52 a.m.