

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

January 31, 2013

8:04 a.m.

MEMBERS PRESENT

Representative Gabrielle LeDoux, Co-Chair
Representative Benjamin Nageak, Co-Chair
Representative Neal Foster
Representative Kurt Olson
Representative Lora Reinbold
Representative Harriet Drummond

MEMBERS ABSENT

Representative Bob Herron

COMMITTEE CALENDAR

HOUSE BILL NO. 28

"An Act exempting solicitations or voluntary agreements to provide ambulance, emergency, or fire department services from regulation as insurance."

- MOVED HB 28 OUT OF COMMITTEE

HOUSE BILL NO. 40

"An Act establishing a municipal tax exemption for certain farm structures."

- MOVED CSHB 40(CRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 28

SHORT TITLE: FIRE AND EMERGENCY MEDICAL SERVICES

SPONSOR(S): REPRESENTATIVE(S) FEIGE

01/16/13	(H)	PREFILE RELEASED 1/7/13
01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	CRA
01/31/13	(H)	CRA AT 8:00 AM BARNES 124

BILL: HB 40

SHORT TITLE: MUNICIPAL TAX EXEMPTION: FARM USE LAND

SPONSOR(S): REPRESENTATIVE(S) HUGHES

01/16/13 (H) PREFILE RELEASED 1/7/13
01/16/13 (H) READ THE FIRST TIME - REFERRALS
01/16/13 (H) CRA
01/31/13 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

REPRESENTATIVE ERIC FEIGE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Speaking as the sponsor, presented HB 28.

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

POSITION STATEMENT: During hearing of HB 28, answered questions on behalf of the sponsor, Representative Feige.

MIKE TVENGE, City Administrator
City of Delta Junction
Delta Junction

POSITION STATEMENT: Testified in support of HB 28.

JEFF TUCKER, Fire Chief
North Star Volunteer Fire Department;
Past President, Alaska Fire Chiefs Association (AFCA)
North Pole, Alaska

POSITION STATEMENT: Related AFCA's support for HB 28.

MARTY HESTER, Deputy Director
Division of Insurance
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Testified that the Division of Insurance has no objection to the language of HB 28.

REPRESENTATIVE SHELLEY HUGHES
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 40.

GINGER BLAISDELL, Staff
Representative Shelley Hughes
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During hearing of HB 40, provided information on HB 40.

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

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

DON DYER
Economic Development Director
Department of Economic Development
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Characterized HB 40 as a significant help for farmers.

LARRY DEVILBISS, Mayor
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 40.

ACTION NARRATIVE

[8:04:23 AM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Community and Regional Affairs Standing Committee meeting to order at 8:04 a.m. Representatives Olson, Reinbold, Drummond, LeDoux, and Nageak were present at the call to order. Representative Foster arrived as the meeting was in progress.

HB 28-FIRE AND EMERGENCY MEDICAL SERVICES

[8:05:58 AM](#)

CO-CHAIR NAGEAK announced that the first order of business would be HOUSE BILL NO. 28, "An Act exempting solicitations or voluntary agreements to provide ambulance, emergency, or fire department services from regulation as insurance."

[8:06:13 AM](#)

REPRESENTATIVE ERIC FEIGE, Alaska State Legislature, speaking as the sponsor of HB 28, paraphrased from the following written statement [original punctuation provided]:

HB 28 addresses an issue important to many organizations: Money.

It is great to be able to look to someone, such as the State of Alaska, for money. However, even if money is available for projects, such as buying new equipment or repairing a building, money is very rarely available for operating expenses.

Fire Departments, ambulance services, and other emergency service organizations often struggle to keep the doors open. In many communities, the power to levy taxes often provides sufficient funding to operate these departments. When it doesn't, or isn't an option, organizations turn to other types of sources for money. Sometimes it's a pancake supper or a fish fry. Maybe it's a bake sale or some other project. How about BINGO? In different communities, different things work. The problem with these types of activities is they take even more of the emergency volunteer's time. Time they need to spend training and responding to emergencies.

Donations also are very helpful. But, it is becoming increasingly difficult to convince people to give money to an organization.

One alternative to encourage people to help support fire and EMS services in the community is to offer a "no charge" policy to those that give to the organization. Unfortunately, such a simple concept is considered insurance in Alaska and subject to numerous laws and regulations.

If you just charge the individual for an ambulance transport, it's not a problem. But, if you ask for money up front to keep gas in the ambulance and the station heated in exchange for not charging the individual if you transport them it's insurance and subject to all of the regulations of the Division of Insurance.

In a similar situation, a community that has no fire department might want to start one. Often, organizations charge if they have to come help you. Others ask for donations. In some areas, you might hear it referred to it as a subscription. In a subscription department, if you pay in advance to

receive the service, then the organization that agrees to provide you with that service doesn't charge you additional fees, you are providing insurance if others are charged for the service.

This bill is fairly simple, it exempts municipalities and community non-profit organizations from regulation if they receive money in advance and then don't charge for services offered to those that give donations.

Our intent is to provide a mechanism for an organizations to entice donations and financial support by allowing them to waive fees to those that provide an agreed upon level of financial support in advance of the possibility that services might be provided at some time in the future. There is no guarantee that the organization will be able to provide the needed services, just as there is no guarantee now.

This bill simply allows the organization, if it so choses, to waive its fees to those that support the organization and keep the doors open, the lights on, the building heated, and fuel in the trucks - without being regulated by the Division of Insurance.

I am happy to answer any questions you may have.

REPRESENTATIVE FEIGE then disclosed that he started the Chickaloon Fire Service Department, of which he is currently the chief. He noted that the Chickaloon Fire Department is a subscription department that provides a basic level of fire service for the Chickaloon community.

[8:10:24 AM](#)

CO-CHAIR LEDOUX inquired as to how the fire departments came to know that [subscription service] is considered insurance and should be regulated by the Division of Insurance.

REPRESENTATIVE FEIGE stated that the [Chickaloon Fire Department] had no idea that subscription service wasn't something it could do and other fire departments, including Deltana and Salcha, did it as well. Representative Feige clarified that HB 28 simply exempts [ambulance, emergency, or fire department services] from regulation as insurance. In further response, Representative Feige said that the violation was brought to the attention of the Chickaloon Fire Department in discussions with other departments. He noted that the Division of Insurance really hasn't contacted the [Chickaloon Fire Department] about this.

8:12:51 AM

MICHAEL PASCHALL, Staff, Representative Eric Feige, Alaska State Legislature, began by disclosing that he is the assistant chief and secretary to the Rural Deltana Fire Department, which could be impacted by this legislation. In response to Co-Chair LeDoux, Mr. Paschall clarified that the City of Delta Junction asked the Division of Insurance for an interpretation [of the subscription service] and the division responded that it was insurance, and thus couldn't continue.

8:13:40 AM

REPRESENTATIVE DRUMMOND inquired as to how a subscription fire and ambulance service works.

REPRESENTATIVE FEIGE explained that volunteer fire departments have operating expenses for which they have to raise funds. Under the subscription method, people would sign up and pay a fee to the fire department; the fee would be good for perhaps a year. In Chickaloon, the fire department would respond/provide services to those who subscribed and paid the fee. The Chickaloon Fire Department also decided to respond to all wild land fires in the community. Although only responding to those calls from subscribers is a liability, it reflects the reality that it costs money to keep equipment in a state of readiness.

8:15:02 AM

REPRESENTATIVE DRUMMOND related her understanding that frequently the cost of ambulance service is reimbursed to those individuals with medical insurance. However, if HB 28 passes and there is no charge to the individual with medical insurance for receiving ambulance service, then there would be no reimbursement by their medical insurance company.

MR. PASCHALL clarified that the scenario is one in which there is an agreement between the individual patient and the insurance company. He further clarified that the most common scenario in this type of arrangement is one in which only the individual is released from paying. With the ambulance service, the insurance company is charged and from whom the funds are collected because they are a third party. Again, it's a fundraising mechanism, he remarked.

8:16:28 AM

REPRESENTATIVE FOSTER inquired as to whether this method of raising funds is fairly common in other states.

MR. PASCHALL informed the committee that the subscription service is actually how most fire departments started in the late 1700s. The situation is one in which the interpretation of Alaska statute has been that [subscription service] is insurance. The intent of HB 28 is to allow organizations to continue [subscription service] without having to bond, hire an insurance agent, a broker, etcetera. He specified that this exemption is for small nonprofit municipal organizations not for private companies.

[8:17:49 AM](#)

CO-CHAIR LEDOUX asked whether other states have a statute such as this. If so, have insurance companies attempted to avoid reimbursing for ambulance service, she further asked.

MR. PASCHALL answered that he wasn't familiar with such situations, but noted that he hasn't done extensive research on that. He suggested that representatives of the North Star Fire Department and the Division of Insurance may be able to provide an answer.

[8:18:46 AM](#)

REPRESENTATIVE REINBOLD thanked the sponsor and his staff for starting and being a part of volunteer fire service. She asked whether the volunteer fire departments have to have insurance.

MR. PASCHALL explained that the departments maintain a certain level of insurance and HB 28 doesn't impact that. This legislation only impacts the fee transaction between a donor to the department and someone who later becomes a customer of the department, HB 28 doesn't pertain to any of the rules that govern the insurance of the organization itself.

[8:22:01 AM](#)

CO-CHAIR NAGEAK opened public testimony on HB 28.

[8:22:45 AM](#)

The committee took an at-ease from 8:22 a.m. to 8:24 a.m.

[8:24:22 AM](#)

MIKE TVENGE, City Administrator, City of Delta Junction, began by relating the mayor and city council's support for HB 28. He informed the committee that in 2008 when the city learned of the subscription service and insurance conflict, it made an inquiry to the Division of Insurance. Upon request, the division made a clear legal response to the city that resulted in the city amending its ordinance to reflect the state's position. After amending the ordinance, there was an approximate 50 percent decrease in voluntary donations. The aforementioned is why the City of Delta Junction asked its representative to introduce legislation addressing the matter. The intent of HB 28 is to assist volunteer emergency services in the collection of revenue to continue providing these volunteer services. Mr. Tvenge opined that HB 28 could help smaller communities across the state.

[8:25:52 AM](#)

JEFF TUCKER, Fire Chief, North Star Volunteer Fire Department; Past President, Alaska Fire Chiefs Association (AFCA), related AFCA's support for HB 28. With regard to the medical insurance question, Mr. Tucker explained that nationally the subscription fees typically pay for the upfront personal costs of the individual, but third party billing of the insurance companies is typical. This just relieves the obligation of the individual to pay the insurance, he further explained.

[8:26:48 AM](#)

CO-CHAIR LEDOUX posed a situation in which the fire department bills the insurance company for an individual who isn't obligated to pay the insurance company. If the insurance company pays the fire department, she asked whether the fire department reimburses the funds to the individual who had a subscription.

MR. PASCHALL explained that it's a situation in which an individual who lives in a rural community supports the local fire/ambulance service through a donation. In return, the fire/ambulance service doesn't hold the individual personally responsible for the charges, but will bill the insurance company. The aforementioned typically isn't a formal written contract for a defined service with a specified fee, which is what the insurance laws were written to address. He further clarified that this is not a situation regarding how to regulate

the provision of specific services for specific fees at certain rates rather the individual is being rewarded for helping the community provide a service on an ongoing basis. The fact that a third party insurance company is involved is merely a result of the fact that the individual has insurance that provides medical transport coverage. The risk for the [fire/ambulance service] is that some individuals have such insurance and some do not. In most of these cases the cost of running a call is relatively small, while the operating costs makeup the bulk of the expenses.

[8:30:54 AM](#)

MARTY HESTER, Deputy Director, Division of Insurance, Department of Commerce, Community & Economic Development, related that the Division of Insurance does not have any objection to the language in HB 28.

[8:31:21 AM](#)

CO-CHAIR NAGEAK closed public testimony.

[8:31:35 AM](#)

MR. PASCHALL closed by characterizing HB 28 as a good bill that helps organizations with a current practice and refines the statute as necessary.

[8:32:05 AM](#)

CO-CHAIR LEDOUX moved to report HB 28 out of committee [with individual recommendations and the accompanying fiscal notes]. There being no objection, HB 28 was reported from the House Community and Regional Affairs Standing Committee.

[8:32:41 AM](#)

The committee took an at-ease from 8:32 a.m. to 8:35 a.m.

HB 40-MUNICIPAL TAX EXEMPTION: FARM USE LAND

[8:35:22 AM](#)

CO-CHAIR NAGEAK announced that the final order of business would be HOUSE BILL NO. 40, "An Act establishing a municipal tax exemption for certain farm structures."

[8:35:36 AM](#)

REPRESENTATIVE SHELLEY HUGHES, Alaska State Legislature, speaking as the sponsor of HB 40, began by highlighting the beginnings of agriculture in Alaska and the potential for increased agriculture in the state. The purpose of HB 40 is to strengthen agriculture in the state even though it's currently a small sector of the state's economy. This legislation, HB 40, would provide municipalities the option to exempt specific food storage and production buildings for those farmers who derive at least 10 percent of their income from farming activities. The aforementioned would benefit farmers by relieving the tax burden. Furthermore, it would benefit Alaskans because residents would have increased access to locally grown food. Representative Hughes told the committee that the need for HB 40 came to light after learning from farmers that at the end of the harvest season they were turning produce back into the soil because it was too expensive to pay the taxes to store it. Therefore, residents lose the opportunity for that produce to be available for purchase. Moreover, the less local food there is in Alaska, the more food from the Lower 48 must be transported to Alaska. The food from the Lower 48 is likely to have been harvested seven to nine days before it reaches store shelves in Alaska, and thus that food has lost some of its nutritional value.

[8:39:57 AM](#)

GINGER BLAISDELL, Staff, Representative Shelley Hughes, Alaska State Legislature, explained that HB 40 is fairly specific in its municipal tax exemption of farm food storage and production buildings for which at least 50 percent of the building must be used for farm food storage and production. The building has to be owned or leased by an individual that is actively engaged in farming. This exemption also includes dairy production and milking facilities. However, HB 40 does not include slaughter houses, basic ranching, or fishing.

[8:42:08 AM](#)

CO-CHAIR LEDOUX moved to adopt CSHB 40, Version 28-LS0229\N, Bullard, 1/28/13, as the working document.

CO-CHAIR LEDOUX objected for purposes of discussion.

[8:42:54 AM](#)

REPRESENTATIVE FOSTER acknowledged that it's an optional program, but asked if there has been any opposition to HB 40, including from the Alaska Municipal League (AML) or any communities.

REPRESENTATIVE HUGHES said that she was not aware of any opposition, but deferred to her staff.

MS. BLAISDELL informed the committee that she has placed calls to AML, but not heard from them. However, she said she has spoken with many city officials in various locations and the local assessors are very much in favor of HB 40. In fact, the Matanuska-Susitna Borough is drafting a resolution in support of HB 40.

[8:44:20 AM](#)

REPRESENTATIVE REINBOLD spoke positively regarding HB 40, but acknowledged that the exemption will result in municipalities/boroughs receiving less money from taxes. She then asked if the Matanuska-Susitna Borough is okay with that reduction in tax revenue.

REPRESENTATIVE HUGHES related that her region is fine with the proposal as they deem it as important enough to provide relief to the farmers.

[8:45:37 AM](#)

REPRESENTATIVE REINBOLD highlighted that HB 40 has a zero fiscal note.

[8:45:45 AM](#)

CO-CHAIR LEDOUX pointed out that the language of HB 40 is permissive as it uses the term "may."

[8:46:13 AM](#)

REPRESENTATIVE DRUMMOND, speaking as a recent Anchorage Assembly member, related that although a property tax exemption may be optional, there is great difficulty in not offering it. Therefore, she expressed interest in the comments of municipalities and boroughs in the state. She opined that as a member of a borough assembly she would question whether the significant amount of tax burden not received by the local government will be shared with the remaining property taxpayers

in the borough or wiped from the books. She explained that the senior property tax exemption and disabled veteran's property tax exemption in Anchorage has been offered for 25-30 years. Although initially the state reimbursed communities for those property tax exemptions, the state began to reimburse less and less until the state doesn't reimburse any of the exemptions. For Anchorage, the total of those property tax exemptions is around \$25 million, which is a sum that can't be ignored by the municipal governing body. Therefore, that \$25 million is shared among all the other property taxpayers in the municipality and costs each municipal resident a little more to provide these exemptions. She inquired as to the amount of property tax this would total were all the farmers who qualified took advantage of the proposed exemption.

REPRESENTATIVE HUGHES reminded the committee that [Version N] specifies that farming activity must constitute at least 10 percent of the farmer's income, which is a protection from abuse. She recalled that the amount of property tax the Matanuska-Susitna Borough wouldn't receive were HB 40 to pass is estimated to be \$3.5 million.

MS. BLAISDELL informed the committee that under the original legislation, which specified that to qualify for the proposed exemption 50 percent of the food storage or production building had to be used for farming, the state assessor estimated that property tax in the Matanuska-Susitna Borough to be about \$3.6 million. However, in Version N the qualification was changed to require the food storage or production building to be used almost exclusively for farming, and thus the estimated tax exemption may be less than anticipated under the original version. She related that Fairbanks felt the impact of the proposed exemption would be negligible and Delta Junction doesn't tax the farming industry so there would be no fiscal impact to them.

[8:52:05 AM](#)

CO-CHAIR LEDOUX pointed out that the legislation uses the term "person" rather than "individual." Therefore, she surmised that if an individual formed a LLC or S corporation and [its building] was used exclusively for farming activity, even if the income from the LLC didn't constitute more than 10 percent of the individual's gross income the exemption would still be available to the LLC.

REPRESENTATIVE HUGHES replied yes, it would be 10 percent of the LLC's income.

[8:53:10 AM](#)

REPRESENTATIVE FOSTER inquired as to who determines that a person derives at least 10 percent of their income from farming activity.

MS. BLAISDELL related her belief that it would be the local assessor.

[8:54:30 AM](#)

STEVE VAN SANT, State Assessor, Division of Community and Regional Affairs, Department of Commerce, Community & Economic Development (DCCED), explained that typically the local assessor calculates whether 10 percent of the person's yearly gross income is from farming activity. However, the farmer has the option of letting the state assessor's office know whether the farming income reaches 10 percent of the farmer's yearly gross income. He estimated that about half a dozen farmers send their income tax returns to the state assessor's office rather than the local assessor.

[8:55:13 AM](#)

CO-CHAIR NAGEAK opened public testimony.

[8:55:24 AM](#)

DON DYER, Economic Development Director, Department of Economic Development, Matanuska-Susitna Borough, related that the cost of property tax is a large portion of the cost for farming, particularly for dairies. Dairies operate with a very thin profit margin and thus the proposed tax exemption would make them more profitable and provide an incentive to expand. Mr. Dyer, as an owner of a vegetable farm, related that because of Alaska's weather, one of the significant costs is storage that will keep vegetables from freezing until they're sold. Therefore, HB 40 would be a significant help with that.

[8:57:08 AM](#)

LARRY DEVILBISS, Mayor, Matanuska-Susitna Borough, began by noting that he was the director of the Division of Agriculture for a few years. He then stated his support for HB 40 as it

provides another strategic tool to incentivize and increase food production in the state. He was supportive of it being an optional exemption, which if administered as the other property tax exemptions would be by an application process during which it's scrutinized closely. With regard to the senior and veteran's property tax exemptions, Mayor DeVilbiss reminded the committee that those are mandatory exemptions. The proposal in HB 40 is an optional and flexible tool for which he has heard no negative feedback. He informed the committee that although a resolution in support of HB 40 is on the Matanuska-Susitna Borough's upcoming agenda, he expressed the need to ensure that the use of the term "person" does include those farmers who operate as an LLC, which is the case for most farmers.

[8:59:32 AM](#)

CO-CHAIR NAGEAK closed public testimony.

[8:59:48 AM](#)

MS. BLAISDELL pointed out the following changes encompassed in Version N. In Version N, the term "individual" was changed to "person" at the request of farmers and Legislative Legal Services. The term "individual" means that a single person owns and operates the farm and its structures and would've been the only people eligible under HB 40. In Version N, the use of the term "person" means that the legislation applies to individuals, LLCs, and other types of financial corporations such as S corporations. While that language change broadens who could benefit from the legislation, the sponsor felt the change was important because of the current structure of farming organizations.

[9:01:27 AM](#)

CO-CHAIR LEDOUX withdrew her objection to the adoption of Version N. [There being no further objection, CSHB 40, Version 28-LS0229\N, Bullard, 1/28/13, was adopted as the working document.]

[9:01:37 AM](#)

CO-CHAIR LEDOUX moved to report CSHB 40, Version 28-LS0229\N, Bullard, 1/28/13, out of committee [with individual recommendations and the accompanying fiscal notes]. There being no objection, CSHB 40(CRA) was reported from the House Community and Regional Affairs Standing Committee.

9:02:12 AM

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:02 a.m.