

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 1, 2014

8:07 a.m.

MEMBERS PRESENT

Representative Gabrielle LeDoux, Co-Chair
Representative Benjamin Nageak, Co-Chair
Representative Neal Foster
Representative Bob Herron
Representative Lora Reinbold
Representative Sam Kito III

MEMBERS ABSENT

Representative Kurt Olson

COMMITTEE CALENDAR

HOUSE BILL NO. 379

"An Act relating to the limitation on the value of property taxable by a municipality; and providing for an effective date."

- MOVED OUT OF COMMITTEE

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 238

"An Act relating to the state and municipal procurement preferences for agricultural products harvested in the state and fisheries products harvested or processed in the state; relating to legislative oversight of those procurement preferences; and providing for an effective date."

- MOVED CSSSHB 238(CRA) OUT OF COMMITTEE

HOUSE BILL NO. 317

"An Act relating to official traffic-control devices at schools and in school zones."

- MOVED CSHB 317(CRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 379

SHORT TITLE: OIL & GAS PROPERTY TAX

SPONSOR(s): COMMUNITY & REGIONAL AFFAIRS

03/28/14 (H) READ THE FIRST TIME - REFERRALS
03/28/14 (H) CRA
04/01/14 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 238

SHORT TITLE: PROCUREMENT PUF: AK GROWN FISH/AG PRODS
SPONSOR(s): TARR, GARA

01/21/14 (H) PROFILE RELEASED 1/10/14
01/21/14 (H) READ THE FIRST TIME - REFERRALS
01/21/14 (H) CRA, FIN
02/21/14 (H) SPONSOR SUBSTITUTE INTRODUCED
02/21/14 (H) READ THE FIRST TIME - REFERRALS
02/21/14 (H) CRA, FIN
03/18/14 (H) CRA AT 8:00 AM BARNES 124
03/18/14 (H) -- MEETING CANCELED --
03/27/14 (H) CRA AT 8:00 AM BARNES 124
03/27/14 (H) Heard & Held
03/27/14 (H) MINUTE(CRA)
04/01/14 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 317

SHORT TITLE: TRAFFIC CONTROL DEVICES NEAR SCHOOLS
SPONSOR(s): TUCK

02/19/14 (H) READ THE FIRST TIME - REFERRALS
02/19/14 (H) CRA, TRA
03/13/14 (H) CRA AT 8:00 AM BARNES 124
03/13/14 (H) Heard & Held
03/13/14 (H) MINUTE(CRA)
03/27/14 (H) CRA AT 8:00 AM BARNES 124
03/27/14 (H) Heard & Held
03/27/14 (H) MINUTE(CRA)
04/01/14 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

JOHN BITNEY, State Government Liaison
North Slope Borough
Barrow, Alaska

POSITION STATEMENT: Testified in favor of HB 379.

ROB ELKINS, Deputy Director
Administration and Finance
North Slope Borough
Barrow, Alaska

POSITION STATEMENT: Answered questions with regard to HB 379.

STEVE VAN SANT, State Assessor
Alaska Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Answered questions with regard to HB 379.

SCOTT BRANDT-ERICHSEN, Attorney
Ketchikan, Alaska

POSITION STATEMENT: Testified with regard to HB 379.

ANGELA RODEL, Commissioner
Alaska Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Testified with regard to HB 379.

MATT FONDER, Director
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Answered questions with regard to HB 379.

REPRESENTATIVE GERAN TARR
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As sponsor of HB 238, reviewed changes in Version N.

DANNY CONSENSTEIN, State Director
Department of Agriculture, Farm Service Agency, Alaska
Member, Alaska Food Policy Council
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 238.

REPRESENTATIVE CHRIS TUCK
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 238.

REPRESENTATIVE CHRIS TUCK
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as sponsor of HB 317.

CONNIE MCKENZIE, Legislative Liaison
Department of Transportation & Public Facilities (DOT)
Juneau, Alaska

POSITION STATEMENT: Reported on the fiscal note for CSHB 317.

JEFF STARK, Chief Assistant Attorney General
Department of Law, Transportation Section
Anchorage, Alaska

POSITION STATEMENT: Expressed concerns regarding CSHB 317.

KENDRA CLOSTER, Staff
Representative Chris Tuck
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding HB 317.

ACTION NARRATIVE

[8:07:48 AM](#)

CO-CHAIR GABRIELLE LEDOUX called the House Community and Regional Affairs Standing Committee meeting to order at 8:07 a.m. Representatives Reinbold, Kito III, LeDoux, and Nageak were present at the call to order. Representatives Herron and Foster arrived as the meeting was in progress.

HB 379-OIL & GAS PROPERTY TAX

[8:08:34 AM](#)

CO-CHAIR LEDOUX announced that the first order of business would be HOUSE BILL NO. 379, "An Act relating to the limitation on the value of property taxable by a municipality; and providing for an effective date."

[8:08:57 AM](#)

CO-CHAIR NAGEAK introduced HB 379, which is sponsored by the House Community and Regional Affairs Standing Committee of which he is a co-chair. He said the North Slope Borough is seeking a legislative change that will provide more flexibility in managing its own budget, while providing a sliding scale for municipalities to lower taxes on oil and gas properties. He summarized the history of the North Slope Borough. Beginning in the late 1960s oil was discovered in Prudhoe Bay, and his people were excited, but also apprehensive, because if anything happened in areas of traditional hunting and gathering, it would have tremendous impact on the people and their way of life, so, initially, residents were against development in that area. He

recalled coming home from serving in the Army in 1972 and seeing a completely different world. "It is an opportunity for our people to move forward; to build things; but first we had to form some sort of instrument to help us do that." He noted that the leaders, like Eben Hobson, Jake Adams, and others, started the land claims and the formation of the borough. The people were uneasy, he said, but over the years they came to believe that the oil industry and the people's way of life, including the animals and the environment, can coexist. "That was a new thing for us; we've seen the oil industry be a good neighbor in the State of Alaska," he said, but it was not always like that.

CO-CHAIR NAGEAK said that when the borough was being formed, there was considerable anxiety from the industry and the state, and he recalled hearing that the Inupiaq were ignorant and could not govern a municipality. They were told that they were not far from the Stone Age and the area was so vast and there were no family ties within the area. But for a millennia, his people lived and traveled together, and he pointed out that his grandfather was an Inupiaq missionary with a parish that went from Barrow to Kaktovik and to the Canadian border. He has relatives everywhere: Point Hope, Kotzebue, Anaktuvuk Pass, Wiseman, and maybe even in Russia, he noted. Inupiaq and other Alaska Natives have always had a form of government, but they were characterized as ignorant and unable to run their own affairs, and if they had a borough and money started coming in, they would "go crazy and spend everything on frivolous things."

[8:16:32 AM](#)

CO-CHAIR NAGEAK said, "The reality is another story." His people organized and became a home rule government in a fashion like no other, and "from the get-go they knew what they were doing." He spoke of the charter of the North Slope Borough: to take care of the land, give everyone a say, and consider the wildlife, and it was written by young men chosen by Eben Hobson. To this day, it is one of best charters in the state—it even has a department of wildlife management, he said, because it is important to have viable animal populations. He noted that he was the director of that department for about six years. He asked, "What has happened since 1972?" He recalled waking up some mornings, freezing-cold, and heading to the warmth of the school mechanical room to wash up before walking in the front door of school. Today, there are beautiful schools, airports, runways, roads (although still dusty and filled with potholes), clinics, and an educational system that is equal to anywhere in the state. Co-Chair Nageak attributed it all to what the North

Slope Borough has provided. He repeated that the state and the oil industry were against forming the borough, and so the state sued the people of the North Slope, because "they didn't trust us." The borough has been very successful and he is proud. He has been an assessor and a mayor, and he recalled that at the age of 24 he was talking with oil industry people about billions of dollars. "We didn't back down. We got the valuation that we thought was enough for the North Slope," he said.

[8:23:41 AM](#)

CO-CHAIR NAGEAK said, "Forty-some years later, we're in the same dang boat." He said HB 379 would amend "the way the valuation is." The same people who sued the people of the North Slope are keeping the borough from making the desired changes. One accusation is that the borough would make Alaska lose money, he said. Since the borough was formed, it has operated on an 18.5 mill rate, although it is allowed a 20 mill rate, and "we didn't use it all because we're good people," he said. The 1.5 mill is \$30 million annually, and it goes to the State of Alaska. The state has benefitted from the borough, and since it was formed, the borough has given the state \$1.2 billion, and "that's being a good steward," he said.

[8:27:50 AM](#)

JOHN BITNEY, State Government Liaison, North Slope Borough, noted the importance of knowing the history in terms of "where did this come from and why are we talking about it." Under current law, the state assesses a property tax on oil and gas properties at 20 mills, and the municipalities have authority to set a tax rate that can capture some of that, up to 20 mills. The North Slope taxes 18.5 mills, which leaves 1.5 mills to the state, he explained. He said the North Slope Borough is trying to amend a formula that was crafted in the early 1970s in state law that puts a cap on what a municipality, with oil and gas property, can use from those revenues for its operations budget. He said the formula essentially caps the amount of oil and gas property tax revenue that can be used for an operating budget. This is not a bill to raise taxes, but rather to raise the cap that limits what municipalities can use for their operations budget, he clarified.

[8:30:48 AM](#)

CO-CHAIR LEDOUX asked if all municipalities have the cap.

MR. BITNEY said the cap is a general law of applicability that applies to all oil and gas properties, and there are different formulas that a municipality can choose. He stated that the law applies to all, but there are two municipalities where the oil and gas revenues are the most significant form of income, by far, and that is the North Slope Borough and the City of Valdez.

[8:32:26 AM](#)

CO-CHAIR LEDOUX inquired as to why the state should even care how a municipality spends its funds.

MR. BITNEY answered that "somebody did care," and "that is the frustration that brings us here today." He said that when the state was beginning to develop its gas and oil resources, a limitation was placed in statute.

REPRESENTATIVE FOSTER requested an explanation of how [the statute] works.

[8:33:39 AM](#)

MR. BITNEY pointed to a 2013 annual report produced by the state assessor called, "Alaska Taxable," and he said there is a good explanation of the formula on page 34. It shows two formulas, and one sets the operating cap (which is the focus of HB 379), and there is also the actual tax rate, he said. The formula takes the average per capita of the full value of the municipality, multiplies it by 225 percent, and then multiplies that by the population, and the product is the operating cap. In 2013 it was \$174.6 million. "Once you have that number calculated by the state assessor's office, you then move down to the formation of the borough's budget and the actual tax levy amount that the borough puts in place," he explained. The borough sets that \$174.6 million as the operating budget, and that works out to be 9.08 mills of tax. He said that the borough taxes at 18.5 mills, so the difference between that and the 9.08 mills of property tax equals what the borough is allowed to use for the debt service for its capital needs. Over all of these years, the North Slope Borough has built up its infrastructure to a point where it does not need the debt service amount, he stated. What it needs is flexibility to spend more on operations to maintain the existing facilities. It is an inefficient system to try and pay for things with debt, considering its interest charges and issuance costs, he added. He said that HB 379 changes the formula for the operations cap by increasing the 225 percent multiplier.

[8:37:41 AM](#)

CO-CHAIR LEDOUX asked about eliminating the formula altogether. "Why does anybody have to regulate ... how much they can spend for this and how much they can spend for that?" She suggested that the borough be allowed to tax at 20 percent and leave it at that.

REPRESENTATIVE FOSTER said that is a great idea.

MR. BITNEY said what he wants to emphasize is that it is the borough's full intent to stay at 18.5 mills.

[8:39:34 AM](#)

REPRESENTATIVE FOSTER asked if there was a number, or a cut off on the sliding scale, that the borough would prefer. He asked if the borough would like to make that decision each year and what they wanted the legislature to do.

MR. BITNEY said it is a sliding scale in HB 379. The intent was to alleviate concerns that, if a formula were eliminated, it would leave unlimited headroom for taxes to go up, and "we have tried to craft something here that shows that that's not our intention." That is why it is crafted as a sliding scale. In fact, if [the tax] goes above 19 mills there will be no benefit of an increased multiplier, but if [the tax] goes below 18.5 mills, there would be a higher multiplier than what is being proposed for the borough. He said there may be an incentive to lower taxes, which would remit more of that revenue to the state. In essence, by lowering taxes there is a gain in flexibility with the higher multiplier, he explained. At a 300 percent multiplier within the 18 mill range, there will be about \$50 to \$55 million of flexibility for the borough. This is an annual exercise of the mayor and the assembly, but in looking at the history of budgets and taxation, 18.5 is a steady number by the borough. He added that state law requires that the mill rate apply equally to all taxpayers, so anyone raising taxes will have to face the local constituency.

[8:42:40 AM](#)

REPRESENTATIVE FOSTER surmised that the borough does not intend to increase the 18.5 mill rate, because the state has a concern that an increase would leave the state with less [money]. If the borough decreases that rate, the state would get more

[money], because "if you go down to 18, well now the state picks up 2 mills instead of 1.5, so that's better for the state, but the intent, though, is maybe to stay at 18.5 or go lower, and however that sliding scale within how the borough wants to spend that money, part of it goes to debt, part of it goes to operations—I'm totally fine with that."

[8:43:31 AM](#)

REPRESENTATIVE REINBOLD said she is not sure that she fully understands the intent of HB 379. She noted that she was part of an initiative in Anchorage to cap taxes, so she finds this really, really interesting. "Our operating budgets were getting out of control—they still are, but at least this helped," she explained. She said a 9 percent operating budget is impressive, if that is how much the borough is spending. She said she wants to ensure that nobody is paying more, even on existing structures.

MR. BITNEY said that was true.

[8:44:21 AM](#)

REPRESENTATIVE REINBOLD surmised that, right now, the municipality collects 18.5 [mills], but only 9 percent is used for the operating budget. "It sounds like you think that you have enough capital projects, so the capital projects are not going to suffer in this, is that correct?"

MR. BITNEY said that is correct.

[8:44:34 AM](#)

REPRESENTATIVE REINBOLD said it is a good example if the borough is able to keep a low budget and living affordable. The schools are not going to be impacted; the roads are not going to be impacted; none of the infrastructure is going to be impacted—"is that correct?"

MR. BITNEY answered that what is needed is maintenance, so the impact would be to keep it all in good shape for years to come.

[8:45:02 AM](#)

REPRESENTATIVE REINBOLD said she believes that a lot of people use capital money for maintenance, and she really thinks that maintenance and improvement should be in the capital budget.

REPRESENTATIVE KITO III declared that he has a conflict because of a contract with the North Slope Borough on another issue. He then pointed to the formula in the taxation manual and asked about the 30 mills identified in the first calculation.

[8:46:35 AM](#)

ROB ELKINS, Deputy Director, Administration and Finance, North Slope Borough, said the first thing that the North Slope Borough uses is the formula in AS 29.45.080, which allows the borough to choose between either developing a budget of \$1,500 per person or 225 percent per capita value of assessed property, multiplied by the borough population. He said that the borough uses the second figure. It provides an equivalent tax base, so in the current year, the North Slope Borough has a total assessed tax base of \$17.9 billion, he explained. Because of the calculation required under AS 29.45.080(c), the borough takes the per capita average full property tax value, which is \$146,000, and multiplies it by the 225 percent allowed in statute and comes up with an average modified full value of \$330,152. That number is then multiplied by the population (18,637), which provides an equivalent tax base. "So rather than being able to tax for operations that entire \$17.9 billion, we have a modified tax base of \$6.153 billion—that number then has a 30 mill limit as identified under statute, applied to it, which gives, this year, the North Slope Borough \$184 million to use for operations and leaves a leftover of \$146 million for debt service."

[8:49:16 AM](#)

REPRESENTATIVE KITO III asked where the 30 mills is in statute.

MR. ELKINS said he will have to get back to the committee.

CO-CHAIR NAGEAK noted his conflict of interest as he is a resident of the North Slope Borough.

[8:50:21 AM](#)

CO-CHAIR LEDOUX said he [and Representative Kito] will be required to vote, and she opened public testimony.

STEVE VAN SANT, State Assessor, Alaska Department of Commerce, Community & Economic Development, said that the 30 mill language is in AS 28.45.090(a), and it restricts the maximum operating budget to 30 mills or 3 percent.

8:52:27 AM

SCOTT BRANDT-ERICHSEN, Attorney, Ketchikan, said he is only representing himself and that he worked on a case several years ago related to the statute being discussed. He originally believed that HB 379 was special interest legislation to give the North Slope Borough and Valdez a larger portion of the oil and gas tax revenues, but after reviewing the bill, he sees it as an opportunity to fix something that has annoyed him. Firstly, the fiscal note will likely relate whether the amount of revenues going to the state will be impacted by HB 379, but the sections of law that he has had concern with, AS 29.45.080(b), 090(b)(1) and (c)(1), deal with the limit of \$1,500 per capita. He noted that the 2013 "Alaska Taxable Report," pages 24-25, shows per capita revenues by municipality. The North Slope Borough is \$45,340 per capita and Juneau is \$2,420 per capita, and better than half of the municipalities are above the \$1,500 per capita limit. "I would submit that that \$1,500 a year per capita limit serves no purpose and is ineffective." He said the state assessor's office has treated those two limits as disjunctive—meaning that the municipality only has to comply with one or the other. Since the \$1,500 limit has no real meaning, he suggested eliminating it. He said he also sees a benefit from eliminating both limits altogether. A better limitation on the levy of taxes would be what the local community would be willing to pay, he opined. From a public policy standpoint, both the 225 percent limit and the \$1,500 limit should be eliminated for all municipalities and then decided by voters.

8:57:08 AM

ANGELA RODEL, Commissioner, Alaska Department of Revenue, said she would like to give the state's perspective on oil and gas property tax. It is important to know that the tax is a mechanism for Alaska to receive revenue from areas that greatly benefit from oil development and to allow the money to spread to other parts of the state. Additionally, oil and gas property tax affects Alaska's oil production tax calculations, "so when you take off limitations on oil and gas property tax, that's a deduction on the oil production tax, which feeds 90 percent of the state budget." She said the state is supportive of the borough's need for more funds to its operating budget, and the bill before the committee has created a mechanism that allows the borough to adjust mill rates to account for more operating budget revenue if needed, but "we have a \$10 million potential

negative affect, and that's simply to recognize the fact that if the borough does in fact ... raise its tax rate and take the full 20 mills, the state would have an impact of about \$10 million as opposed to \$30 million, which you heard Representative Nageak speak to earlier." She noted that there is no reason to believe that the borough will do that.

[8:59:19 AM](#)

CO-CHAIR LEDOUX asked if the borough could do that now--increase the tax rate from 18.5 mills to 20 mills.

COMMISSIONER RODEL said, "They could increase it and it would have an impact of \$30 million; the reason they don't is because they haven't--and they don't intend to--and they're fully using their operating budget now, and I think that's the beauty of the creation of the sliding scale is that it does minimize the impact on the state at this time."

[8:59:59 AM](#)

REPRESENTATIVE FOSTER spoke to the sponsor statement, which says that the municipality would gain more flexibility by lowering the taxes, and lowering the taxes appears to increase the multiplier. The goal is to be able to spend more on operations, and, right now, the borough is being restricted by the formula. "I was a little bit concerned when I saw the \$10 million here because I thought it's not the intent of the borough, I guess, to increase their mill rate."

COMMISSIONER RODEL agreed. That is her understanding. "We try to make a point to outline the impacts for you so that you understand when you're making decisions about the bill."

[9:01:18 AM](#)

REPRESENTATIVE HERRON noted that Commissioner Rodel called it "the beauty of the sliding scale," and he asked if the scale could be modified to be more advantageous for the state.

COMMISSIONER RODEL said the state worked hard to find a mechanism that did not impact the state, but [the statute] applies to any municipality with oil and gas property tax. To have zero impact on the state would force municipalities with higher mill rates to cut them, she explained. "We think the sliding scale is as neutral as we're going to be able to get," she added.

[9:02:32 AM](#)

REPRESENTATIVE KITO III asked why a limit was placed on operating funds originally.

COMMISSIONER RODEL said she does not know, but she knows there is the 30 mill rate that applies to all municipalities, and this multiplier was to equalize property values with areas without oil and gas property tax.

[9:03:30 AM](#)

MATT FONDER, Director, Tax Division, Alaska Department of Revenue, said he believes that is the basic premise [of the statute], but he does not have the exact legislative intent. The statutes are about 40 years old, he noted.

CO-CHAIR NAGEAK said it has been more than 40 years, and the borough has never gone above 18.5 mills. It never will because people understand that "we have to be good stewards of not only our municipality, but we need to be good citizens of the state." Being good citizens means sharing some of the wealth—"we could go all the way to 20; we could have, but we choose not to and we will continue to choose not to," he stated.

[9:05:25 AM](#)

CO-CHAIR LEDOUX closed public testimony. She said HB 379 is good legislation, but if she had drafted it, she may have eliminated the entirety of the formula, but she does not want to slow the bill down to do that.

REPRESENTATIVE HERRON moved to report HB 379 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, it was so ordered.

[9:06:33 AM](#)

The committee took an at-ease from 9:06 a.m. to 9:10 a.m.

HB 238-PROCUREMENT PREF: AK GROWN FISH/AG PRODS

[9:10:30 AM](#)

CO-CHAIR LEDOUX announced that the next order of business would be the SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 238, "An Act

relating to the state and municipal procurement preferences for agricultural products harvested in the state and fisheries products harvested or processed in the state; relating to legislative oversight of those procurement preferences; and providing for an effective date."

[9:11:21 AM](#)

REPRESENTATIVE FOSTER moved to adopt the CS to SSHB 238, labeled 28-LS1167/N, as the working document.

CO-CHAIR LEDOUX objected for purposes of discussion.

REPRESENTATIVE GERAN TARR, Alaska State Legislature, said the bill in front of the committee contains the changes that were adopted at the last meeting. She said that the first change to HB 238 removes the audit section, and the second change moves the effective date up. She noted that there is a handout related to the fiscal note.

[9:12:46 AM](#)

REPRESENTATIVE FOSTER said he totally supports the idea of supporting Alaska industries. He asked if a school district would be required to purchase [Alaska] products, as long as the price did not exceed the price of Outside goods by 12 percent, and then that would increase school costs. He pointed out the issues of [base student allocations] and school funding.

REPRESENTATIVE TARR said that school food purchases are funded by the Farms-to-School program, and HB 238 merely provides purchasing flexibility. She added, "We would hope that with that additional price flexibility that for products that are available, they would purchase them."

[9:14:15 AM](#)

REPRESENTATIVE FOSTER asked if the [Farms-to-School program] fund needs to be increased.

REPRESENTATIVE TARR noted that the timeline she just provided to the committee will show where the costs might show up. In May or June of this year, she said, the bill could be signed into law, and then in the summer and fall, "we" would work with the Department of Agriculture Farm Service Agency and its networks. There are electronic newsletters and the Alaska Grown Booklet to communicate with purchasers and sellers, she said. As budgets

are finalized in the fall—and if new products and vendors come in through the program—that is when there might be changes in the budget. But, she added, "it could be true that it's just a shifting in costs, where some of the purchasing is now Alaska-grown products that replace products that were purchased Outside." There may not be an overall increase from HB 238, it just might be that [the state] is paying a little bit more for Alaska products, she explained.

[9:15:45 AM](#)

CO-CHAIR LEDOUX said if [the state] is paying a little more for the products, why would there not be an increase?

REPRESENTATIVE TARR said it would be part of overall food purchasing, and the buyers could shift purchases so that there would not be an overall increase.

[9:16:36 AM](#)

CO-CHAIR LEDOUX asked about the school districts, because they would be required to buy those Alaska items that are less than 12 percent over the cost of non-Alaska foods—so it would impact those budgets.

REPRESENTATIVE TARR said it would for those particular items, but it would not necessarily impact the overall budget. "It may mean that they are buying Alaska-grown products that they weren't buying before, because the price was a limiting factor. It doesn't necessarily mean that they didn't find efficiencies in their other purchases that allowed them to just essentially cost shift around in their overall items that they buy."

[9:17:26 AM](#)

REPRESENTATIVE FOSTER inquired as to the position of the school districts regarding HB 238.

REPRESENTATIVE TARR said she worked with the Division of Agriculture, which is the sponsor of the Farm-to-School program, and it has been supportive of the bill.

REPRESENTATIVE HERRON asked if the calculation is pre or post FOB. If a school district wants to buy a product "and it is bid FOB—in other words, you have to deliver it to us.... "

REPRESENTATIVE TARR said she assumes it would be pre FOB.

REPRESENTATIVE HERRON said there is a significant difference.

[9:18:41 AM](#)

REPRESENTATIVE HERRON asked if Representative Tarr has "actually looked at what it costs to buy product outside of the delivery system of agricultural products harvested in the state and fisheries products harvested in the state comparing when we buy it from outside. Is that comparable?"

REPRESENTATIVE TARR said large-scale purchases tend to be less expensive through the large companies like Cisco. It has been a challenge for Alaskan farmers to get into those distribution chains and be able to provide that reliable amount each week. She recalled the comments that were made [in the last hearing] that the hope is to build more reliability in the food system.

[9:20:16 AM](#)

CO-CHAIR LEDOUX said this is not a new program, it just changes the percentage from 7 percent to 12 percent, "so whatever it's doing with the FOB, et cetera, it's no change." She asked where the 12 percent figure came from.

REPRESENTATIVE TARR said it came from conversations with farmers regarding prices, and this is a 5 percent increase, which seemed to be a reasonable first step. This was a priority of the Alaska Food Policy Council, because it views HB 238 as a way to achieve the goal of strengthening food systems and security in Alaska and to increase Alaska-grown purchases.

REPRESENTATIVE HERRON asked if Representative Tarr would consider HB 238 as Alaskan-hire legislation.

REPRESENTATIVE TARR said she had not thought about it, but she does believe there are great opportunities and more Alaska hire.

[9:22:11 AM](#)

REPRESENTATIVE REINBOLD said she does not want to increase school budgets. She said she is a huge supporter of Alaska Grown, especially if Alaska encounters a food crisis. She noted that Alaska food is a lot fresher and healthier—and tastes better. She said she thinks HB 238 could decrease shipping, and that is important. The legislation may increase jobs in Alaska.

Her understanding of the bill, she said, is it just allows 5 percent more flexibility to purchase Alaska-grown products.

REPRESENTATIVE TARR agreed, and it allows for that increased price flexibility, and we will see if the market can meet that demand, otherwise, foods will keep being purchased from Outside.

[9:23:35 AM](#)

REPRESENTATIVE REINBOLD stated that if the program works, there is potential for the prices to decrease.

REPRESENTATIVE FOSTER noted that HB 238 is supposed to provide more flexibility, but on page 1, Section 1(a), it says "shall".

REPRESENTATIVE TARR said, "shall to the extent that those products are available," and "that's what we're trying to accomplish here is creating more product availability that would fulfill the needs of those larger institutional purchasers and by having additional price flexibility that can help accomplish that goal."

[9:24:37 AM](#)

CO-CHAIR LEDOUX gave an example of a limited budget, like \$100, and Alaska-grown sweet potatoes are 12 percent over the market price, and then she suggested prices might increase if Alaska-grown food can be sold at 12 percent over market price. Then municipalities might buy less Alaska-grown products, she surmised.

REPRESENTATIVE TARR said she had not considered that as a potential outcome. The Alaska-grown produce that is available has established prices, and to increase prices would work against those sellers. She believes there will be market pressure to keep prices reasonable, but the prices reflect that Alaska-grown products come from smaller farms, she said.

REPRESENTATIVE KITO III said that it seems like HB 238 will provide an opportunity for smaller Alaska businesses to be competitive.

[9:27:50 AM](#)

DANNY CONSENSTEIN, State Director, Department of Agriculture, Farm Service Agency Alaska and member of the Alaska Food Policy Council, said the Alaska Food Policy Council has the goal of

strengthening food stability in the state. He noted that probably 95 percent of foods Alaskans eat come from Outside. If Alaska purchased more Alaskan food, the economic benefits would include job opportunities, supporting small entrepreneurs who are in the food business, and keeping more food dollars in the community, he added. He noted the health benefits and spoke of the costs of health-related diseases and the lack of fresh vegetables in village markets. He said the bill will have educational benefits as school children can see that food comes from the ground, not from a package. He said that one out of five children go to school hungry, and Alaska is not prepared for emergencies, so there is lack of food security because of the lack of a food system. The bill is just one little piece of building a stronger food system by having the state play a larger role as a purchaser, he noted. If the state can become more of a driver, then it can create more of a market for Alaska-grown food, and, thus, there will be incentive to expand and to add new entrants. As the supply increases, there will be an economy of scale, he said, and prices will come down. The larger vegetable producers in Alaska will currently match outside prices, and "so why wouldn't a state agency or a school district purchase that?"

[9:34:45 AM](#)

REPRESENTATIVE CHRIS TUCK, Alaska State Legislature, recalled some of the past agricultural resolutions in the legislature, and on this subject alone, every single member in the House spoke, because it is a passionate issue and something where all Alaskans want to see more done. He said this is a step in right direction, to sustain the state and to provide better nutrition in Alaska schools. He noted that attempts for local hire preferences have been found unconstitutional, but one thing that has been successful is Alaska's procurement policies for Alaska businesses. This step is to make sure that products grown and produced in Alaska have a preference with state procurement, and such policies have been proven and tested. He said he likes HB 238; Alaska needs to be self-reliant with food.

[9:37:20 AM](#)

CO-CHAIR LEDOUX closed public testimony and removed her objection, therefore Version N was before the committee.

CO-CHAIR NAGEAK moved to report the committee substitute to SSHB 238, labeled 28-LS1167/N, out of committee with individual recommendations and the accompanying fiscal notes. There being

no objection, CSSSHB 238(CRA) was reported from the House Community and Regional Affairs Standing Committee.

[9:38:07 AM](#)

The committee took an at-ease from 9:38 a.m. to 9:40 a.m.

HB 317-TRAFFIC CONTROL DEVICES NEAR SCHOOLS

[9:40:05 AM](#)

CO-CHAIR LEDOUX announced that the final order of business would be HOUSE BILL NO. 317, "An Act relating to official traffic-control devices at schools and in school zones." She noted that Version U was previously adopted and is before the committee as a working document.

REPRESENTATIVE CHRIS TUCK, Alaska State Legislature, said the CS to HB 317 has new fiscal notes.

[9:41:07 AM](#)

CONNIE MCKENZIE, Legislative Liaison, Department of Transportation & Public Facilities (DOT), said that there are fiscal notes for each of the three DOT regions. Statewide, the cost is \$624,000 to implement HB 317 for the schools that are now included in the definition. Approximately 30 percent will be on state roads, she added.

[9:42:01 AM](#)

CO-CHAIR LEDOUX noted the huge change in the fiscal note.

MS. MCKENZIE said the change is due to allowing the traffic safety practitioners to be able to review all the various signs, crosswalks, and signals for each school, instead of just flashing signals. "By being able to look at the different kinds of signs and signals that might be practical for any one school, we were able to reduce the fiscal note down to \$624,000."

[9:43:05 AM](#)

REPRESENTATIVE TUCK thanked DOT and said there will be appropriate, cost-effective signage to bring public awareness of school locations.

CO-CHAIR LEDOUX opened public testimony.

9:43:53 AM

JEFF STARK, Chief Assistant Attorney General, Department of Law, Transportation Section, said he works a great deal with DOT, and he still has concerns with Version U. The requirements in current law are that the state adopt a uniform system of traffic safety devices, and that requirement is in two sections, AS 19.10.040 and AS 19.10.050, he said. Currently, DOT engineers have discretion as to where traffic control devices are placed. He said his concern with Version U is that Alaska statutes indicate that the uniform system adopted by the state must include provisions for both posting traffic control signals and marking and posting traffic control devices. He believes, based on the fiscal note, that DOT is interpreting a great deal of discretion under the new bill, but he does not read it as liberally as DOT does. "I know that DOT is fully on board with what I believe is the intent of the sponsor, which is to treat private schools, charter schools, [and] religious schools all the same as public schools, and this bill does that, but I am concerned that it still restricts the discretion of the traffic and safety engineers in terms of what sort of signage, what sort of signals they use more than it should." He said that language can be worked out, but it is not yet done.

9:47:07 AM

REPRESENTATIVE KITO III asked if current statute needs changing.

MR. STARK said no, the current statute is probably fine, although it is not terribly well written. It dates back to pre-statehood. He said AS 19.10.040 deals with marking and posting of highways, and AS 19.10.050 deals with providing signals. He said he would rather the two be combined and just address "installing traffic control devices." But under current law, the state has adopted the Manual on Uniform Traffic Control Devices, which originates with the Federal Highway Administration and is adopted by the American Association of Highway and Transportation Officials. It is then incorporated by the state into the Alaska Traffic Manual, which is approved by the Federal Highway Administration. That manual provides a great deal of discretion to the traffic and safety engineers as to the placement of traffic control devices, so his concern with CSHB 317 is the use of the term "must" on page 1, line 14, and page 2, line 5. He noted that safety engineers do not believe that signals are required in all school zones as it would be an unnecessary expense and can even decrease safety. "Having these

requirements split and saying that they must use both in school zones, I think they've lost the necessary discretion that they have under current law," he concluded.

[9:50:10 AM](#)

REPRESENTATIVE KITO III pointed to Section 5 of Version U, requiring the municipality to erect traffic control devices in school zones "in conformance with the Alaska Traffic Manual." It seems that there is discretion, he said.

MR. STARK said Section 5 addresses municipalities, and it does give that discretion under current law, but Sections 1 and 2 deal with DOT, "and I would read it saying you must provide traffic control devices ... and that, again, would remove the discretion from the municipality."

CO-CHAIR LEDOUX asked Mr. Stark if he would be willing to work with the sponsor of HB 317 to develop the appropriate language.

MR. STARK said absolutely.

REPRESENTATIVE FOSTER asked about committee referrals.

[9:52:00 AM](#)

KENDRA CLOSTER, Staff, Representative Chris Tuck, Alaska State Legislature, said the bill will go to the House Transportation Standing Committee next.

REPRESENTATIVE FOSTER said the concept is good, and if HB 317 were going to the finance committee, it could be fixed there.

CO-CHAIR LEDOUX said it might go to the finance committee now that it has a fiscal note.

[9:52:39 AM](#)

MS. CLOSTER noted that she has been working with Doug Gardner [Attorney for Legislative Legal Services], traffic engineers, and people from the Office of the Attorney General, and there have been some differences of opinions. There have been multiple requests from traffic engineers to reference both sections of the statute, she said. The transportation committee could address current statute and what might need to be changed, because markings, postings, and signage are all under different sections.

[9:54:05 AM](#)

CO-CHAIR LEDOUX closed public testimony.

REPRESENTATIVE HERRON said if "must" was changed to "may" on the first page, the committee could move the bill along and it may not need a fiscal note.

REPRESENTATIVE FOSTER said he supports moving the legislation along. The transportation committee can look at some of the detailed questions, but, overall, he said he likes the concept.

[9:55:22 AM](#)

CO-CHAIR LEDOUX stated that she would like to move HB 317 out of committee but with the proviso that the House Transportation Standing Committee work on Mr. Stark's concerns.

REPRESENTATIVE REINBOLD asked if Representative Herron had made a conceptual amendment.

REPRESENTATIVE HERRON said it was just a suggestion.

CO-CHAIR LEDOUX noted that changing "must" to "may" guts the entire bill because DOT could do what it wanted.

[9:56:42 AM](#)

REPRESENTATIVE REINBOLD said the change would help with the fiscal note.

REPRESENTATIVE TUCK said he does not have a problem with the fiscal note as it exists. "The department has been working really well with us," he added. Without "must" there will not be the public awareness for charter, private, and religious schools. He said he wants action on this.

[9:57:49 AM](#)

REPRESENTATIVE HERRON said he disagreed because both DOT and the assistant attorney general "disagree with your statement." Given all of the other changes, he said, HB 317 could become a reality, but if "must" and the fiscal note remain, "I am not as hopeful."

CO-CHAIR LEDOUX asked if he would like to offer an amendment.

REPRESENTATIVE HERRON said, "My colleague from the Eagle River Valley has offered to make that conceptual amendment."

[9:58:44 AM](#)

REPRESENTATIVE REINBOLD said she does not want to gut the bill, because it is really, really important, but she does not want to make it mandatory if it includes all Headstart programs and preschools.

CO-CHAIR LEDOUX stated that she prefers passage of HB 317 without amendment.

REPRESENTATIVE HERRON said he supports the co-chair.

[9:59:45 AM](#)

REPRESENTATIVE FOSTER moved to report CSHB 317, Version U, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 317(CRA) was reported from the House Community and Regional Affairs Standing Committee.

CO-CHAIR LEDOUX reiterated the proviso stated earlier.

[10:00:26 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.