

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

March 29, 2016

8:04 a.m.

**MEMBERS PRESENT**

Representative Cathy Tilton, Chair  
Representative Paul Seaton, Vice Chair  
Representative Shelley Hughes  
Representative Benjamin Nageak  
Representative Lora Reinbold  
Representative Harriet Drummond  
Representative Dan Ortiz

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

OVERVIEW: COMMUNITY SERVICES BLOCK GRANT

- HEARD

HOUSE BILL NO. 370

"An Act relating to municipal tax exemptions."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 370

SHORT TITLE: MUNICIPAL TAX EXEMPTIONS

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

03/09/16	(H)	READ THE FIRST TIME - REFERRALS
03/09/16	(H)	CRA
03/24/16	(H)	CRA AT 8:00 AM BARNES 124
03/24/16	(H)	Heard & Held
03/24/16	(H)	MINUTE(CRA)
03/29/16	(H)	CRA AT 8:00 AM BARNES 124

**WITNESS REGISTER**

PAULETTA BOURNE, Grants Supervisor  
Fairbanks Regional Office

Division of Community and Regional Affairs (DCRA)  
Department of Commerce, Community & Economic Development (DCCED)  
Fairbanks, Alaska

**POSITION STATEMENT:** Presented the draft state plan for the Community Services Block Grant Program for Federal Fiscal Year 2017 (FY 17).

SARAH SCANLAN, Acting Executive Director  
Rural Alaska Community Action Program (RurAL CAP)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented an oversight of the Community Services Block Grant.

ELLEN KAZARY, Development Director  
Rural Alaska Community Action Program (RurAL CAP)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented how Community Services Block Grant (CSBG) funds are used.

FRED PARADY, Deputy Commissioner  
Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Offered input during the overview of the Community Services Block Grant.

HEATH HILYARD, Staff  
Representative Cathy Tilton  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Explained proposed Version H, during the hearing on HB 370, on behalf of the Chair of the House Community and Regional Affairs Standing Committee, sponsor.

RON LONG, Assistant City Manager  
City of Seward  
Seward, Alaska

**POSITION STATEMENT:** Testified in support of HB 370, and answered questions.

CHRIS SHUTTE, Director  
Office of Economic and Community Development (OECD)  
Municipality of Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 370.

MARTY MCGEE, State Assessor

Division of Community and Regional Affairs (DCRA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing of HB 370, answered questions.

JOHN BITNER, Vice President  
Anchorage Economic Development Corporation (AEDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 370.

KATHIE WASSERMAN  
Alaska Municipal League  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 370.

#### **ACTION NARRATIVE**

[8:04:21 AM](#)

**CHAIR CATHY TILTON** called the House Community and Regional Affairs Standing Committee meeting to order at 8:04 a.m. Representatives Reinbold, Ortiz, Drummond, Seaton, Nageak, and Tilton were present at the call to order. Representative Hughes arrived as the meeting was in progress.

#### **OVERVIEW: COMMUNITY SERVICES BLOCK GRANT**

[8:05:17 AM](#)

CHAIR TILTON announced that the first order of business would be an overview of the Community Services Block Grant.

[8:06:12 AM](#)

PAULETTA BOURNE, Grants Supervisor, Fairbanks Regional Office, Division of Community and Regional Affairs (DCRA), Department of Commerce, Community & Economic Development (DCCED), paraphrased from her written testimony, which read as follows [original punctuation provided]:

Thank you, Chair Cathy Tilton and other members of the Community and Regional Affairs Committee.

I am pleased to participate in this hearing concerning the Draft State Plan for the Community Services Block Grant Program for Federal Fiscal Year 2017.

The Department of Commerce, Community, and Economic Development would like to accept comments from the public on the proposed use and distribution of these funds.

Community Services Block Grant funds are allocated to the Department from the U.S. Department of Health and Human Services. Federal requirements restrict the grantees to Community Action Agencies. Rural Alaska Community Action Program, better known as RurAL CAP is the only recognized Community Action Agency in the state of Alaska. We anticipate receiving approximately \$2.5M in FFY 2017 although that number could increase or decrease slightly. By statute, ninety five percent of CSBG funds received are granted to RurAL CAP. The Department is authorized to keep 5% funds to cover administrative costs.

The purpose of the Community Services Block Grant is to impact the causes and conditions of poverty. The Draft State Plan, on which we are accepting comment today, outlines how the Department administers the CSBG program and the activities which RurAL CAP proposes to undertake during fiscal year 2018. Because the State Plan is lengthy, I will briefly outline the major components which the Department and RurAL CAP have identified for the program.

RurAL CAP will utilize CSBG funds to serve low-income people throughout the State in several program components. These include Administrative Services and Communication; Child Development; Community Development; Development Services; Planning and Construction; and Supportive Housing. Each of these components are described in detail in the State Plan.

Also included in this year's Plan are Outcome Measures for each of the program components. Program results are tracked and reported on a quarterly basis in terms of the number of clients who achieve a given milestone. Progress is reviewed by staff who use it to evaluate results and make changes when necessary.

Both the Department and RurAL CAP place a strong emphasis on promoting maximum participation by rural residents in the elimination of the causes and

conditions of poverty. I have personally worked with Rural CAP in the daily administration of the CSBG grant for five years. They have demonstrated a sincere interest in helping low income Alaskans and are recognized nationally as a leader in providing not only innovative programs which meet the needs of their clientele, but also in developing commendable Outcome Measures. They are to be applauded for their hard work and their success. I recommend when you have the time to read the Village Voice newsletter, which is on Rural CAP's website.

Thank you for your time today. My purpose today is to educate the public about the program and to accept comment on the proposed use and distribution of funds. If you have any questions, I would be happy to answer them.

MS. BOURNE noted that there were copies of the aforementioned newsletter available to the committee.

[8:10:09 AM](#)

MS. BOURNE related that on 4/4/2013, the state plan was brought before a legislative committee, and she commented that the requirement is every three years.

[8:10:37 AM](#)

REPRESENTATIVE SEATON, regarding purposes and construction, directed attention to page 5 of the state plan [included in the committee packet], to language, which read as follows [original punctuation provided]:

**Funding Limitation:** No CSBG funds will be used for the purchase or improvement of land or the purchase, construction, or permanent improvement of any building or other facility (other than low-cost residential weatherization or other energy-related home repairs).

MS. BOURNE explained that weatherization is considered construction; therefore, a lot of the funding helps with weatherization.

REPRESENTATIVE SEATON concluded, then, that "the state plan and what's being done" are synonymous; under construction is the

category of low-cost weatherization, and "that is the only purpose."

MS. BOURNE responded that is correct.

[8:12:09 AM](#)

SARAH SCANLAN, Acting Executive Director, Rural Alaska Community Action Program (RurAL CAP), explained that RurAL CAP is currently in the process of conducting a search for a director. She added to Ms. Bourne's comment about bringing the report to the legislature every three years by noting that a public hearing is held annually. She said she oversees the Community Services Block Grant (CSBG). She paraphrased her written testimony, as follows: [original punctuation provided]

The CSBG federal funds to the State of Alaska provide core funding to empower low income families towards self-sufficiency and revitalizing communities through community-based activities. These funds provided critical services in over **60** communities throughout Alaska last year.

The funding comes to the Division of Community and Regional Affairs of the Alaska Department of Commerce, Community and Economic Development and is administered by Grant Manager Pauletta Bourne who we are here with today. RurAL CAP has had a long and healthy partnership with the State which is responsible for preparing and monitoring the State Plan.

As the only Community Action Agency in Alaska, RurAL CAP is the single eligible recipient of 95% of the state's CSBG funds. For FY 2017, RurAL CAP has applied for **\$2,500,000** million in CSBG funds to support programs and services for low-income people in Alaska.

RurAL CAP is a private, statewide, non-profit organization with 501(c) (3) tax exempt status. RurAL CAP is one of more than 1,000 Community Action Agencies in the nation which work to build self-sufficiency among low-income people.

RurAL CAP is governed by a 24-member Board of Directors representing every major region of the state. The tripartite board meets quarterly and is a balance of target area village representatives,

elected public officials, and private sector organizations.

The Board identifies major issues affecting low-income people and sets agency policy. The staff implement board policy through a strategic plan and oversight of agency programs and services.

RurAL CAP, founded in 1965, marked its 50<sup>th</sup> Anniversary last year; we have had the honor of past leaders in the positions of Board Presidents or Executive Directors that include Marlene Johnson, Byron Mallott, Gordon Jackson, Ben Nageak, Dewey Skan, Andy Ebona, John Shively, and Jeanine Kennedy, among others.

These leaders and current Board members and staff have built RurAL CAP into the organization it is today: an organization with an FY15 budget of \$35 million dollars that employed 727 Alaskans in 60 communities and paid **\$15.3 million** in wages. These employees provide services as determined by community needs assessments that include basic needs in early childhood education and related services, affordable childcare, weatherization, self-help housing, access to affordable housing, health, youth resiliency and leadership development, and solid waste and other improvements in local communities.

The goal of the CSBG funds to the State of Alaska is to reduce poverty through community-based activities which lead to a greater degree of self-sufficiency for low-income people.

I would now like to introduce Ellen Kazary, RurAL CAP's Development Director who leads the fund development plans for the organization and who will speak in more detail about how these CSBG funds are used to deliver services to the thousands of Alaskans impacted.

[8:16:49 AM](#)

ELLEN KAZARY, Development Director, Rural Alaska Community Action Program (RurAL CAP), paraphrased her written testimony, which read as follows: [original punctuation provided]

Good morning and thank you again for the opportunity to speak with you. As mentioned earlier, CSBG's funds leveraged approximately **\$33** million in other public and private sector funds to benefit low-income Alaskans. The agency employs over **350** people annually in **regular** positions in rural and urban communities across Alaska through Head Start, Early Head Start, Parents as Teachers, Child Development and Childcare, Housing, Youth Development, and Weatherization programs. As noted in total numbers hired, we actually employ over twice that number when we include temporary and seasonal hires who work to implement our programs.

As an organization focused on improvements in the lives of low-income people, RurAL CAP prioritizes addressing needs in rural Alaska, where poverty rates are often three times higher than in urban Alaska.

Examples of how RurAL CAP meets its mandate to serve people statewide include:

- Head Start, Early Head Start, and Parents as Teachers services are provided to pre-school children and their parents in 28 communities statewide;
- Home weatherization and home modifications for those experiencing disabilities are provided to qualifying low-income residents in Juneau, Anchorage, and six additional communities in Northwestern and Western Alaska;
- Affordable housing opportunities are provided to income-qualified families and individuals in Anchorage and on the Kenai; and
- Child care and Housing First services are provided to low-income residents in Anchorage.

The State Plan before you today contains detailed examples of outcome measures for each of RurAL CAP's CSBG-supported programs. This system of Results Oriented Management and Accountability, or ROMA, has received national recognition within the network of social service and community action agencies as a model of comprehensive outcome evaluation.

Other initiatives that RurAL CAP has undertaken in the past year to ensure quality delivery of services include a new Community Needs Assessment, compliance with stringent Organizational Standards, undergoing

the process for Accreditation, and implementation of an agency wide database to track results and progress towards Strategic Plan targets.

With attention focused on identifying and documenting measurable changes in the conditions of the people we serve, RurAL CAP's system of program evaluation and accountability keeps both our human and financial resources focused on improving the lives of low-income Alaskans in ways that produce measurable results.

Examples of these measurable impacts include:

- **496** homes were weatherized in **8** communities in Western and Northwest Alaska, Anchorage and Juneau.
- With the addition of Safe Harbor Muldoon and Sitka Place, RurAL CAP owns and operates **251** units of affordable and supportive housing in Anchorage, providing safe and affordable housing to Anchorage residents, many of whom might otherwise be homeless.
- With the completion of **6** new homes in Soldotna, **50** Self-Help homes have been completed to-date for families in Kenai with **11** more homes funded for this year.
- The **Child Development Center in Anchorage** serves **64 children**.
- Statewide, **1,455** children were provided early childhood education services in **28** communities.
- AmeriCorps Members will administer **Youth Development and Culture programs in 20 communities this coming year** to reduce the high incidence of suicide, substance abuse, and focus on enhanced protective factors that increase youth resiliency.
- **450** people were engaged in substance abuse prevention, treatment and wellness education at the 2015 Rural Providers Conference co-hosted by Kawerak in Nome.
- RurAL CAP builds capacity statewide through partnerships with over **400** funders, local governments and tribal councils, school districts and the University of Alaska, regional and statewide health organizations, parent committees, and membership organizations.
- Last year, CSBG funds leveraged an additional **\$33** million for programs operated by RurAL CAP.
- Looking ahead, RurAL CAP's combined capital and operating budget for FY16 is \$33M and we are

projecting an FY17 budget of \$23M. The biggest factor in these budget decreases is the dramatic reduction in Weatherization funds from \$19M three years ago to just under \$2M this year.

RurAL CAP strives to be a responsible steward of public funds and be a grantee in good standing for all of our programs. From Head Start to AmeriCorps to Alaska Housing Finance Corporation (AHFC) funded programs, we run some of the most scrutinized federal and state programs in the nation. We place a high value on getting clean financial and program audits, and we strive to provide cost-effective services that get results.

This concludes our testimony for the FY 2017 Community Services Block Grant State Plan.

Thank you; we are happy to answer any questions.

[8:22:07 AM](#)

REPRESENTATIVE ORTIZ referred to a list of communities served by "community development" and those served by "planning and construction" in 2016 [on page 10 of the aforementioned handout]. He asked for an example of the process of getting funds to those seeking them.

MS. KAZARY answered that it depends on the program. For example, in terms of the planning construction's weatherization program, when RurAL CAP applies to AHFC, it already has determined with the corporation and the other weatherization service providers which providers serve which areas. If someone from Southwest Alaska contacts RurAL CAP and that is not a region that RurAL CAP serves, then the agency would refer the person to a weatherization provider in his/her region. She continued paraphrasing, as follows:

For something like AmeriCorp, we do a statewide recruitment; it goes out to all tribal and city councils offering the year-long positions and the program, and they apply - with an individual who wants to be an AmeriCorp member and the tribal council who wants to be involved - to us, and they're selected that way based on their interest.

For something like Head Start, that's harder to move around, because we have a Head Start facility in 27 communities. So, it's ... us providing the service in those communities; parents contact us, and we have a Head Start program there; we work with them in that way. And if it's a parent in a community where we don't have the Head Start, we might refer them to a Head Start or a similar program that another organization runs. It really helps to have those 400 partners out there, so ... if we have clients that we can't serve, because we're not in that particular community with that service, we can refer them to someone who does.

[8:24:02 AM](#)

CHAIR TILTON asked for confirmation there are no overlapping services.

MS. KAZARY responded that RurAL CAP works hard to ensure there are none, because it knows the funds are limited and wants to work in partnership to deliver services. For example, she said in Anchorage RurAL CAP is involved as a network, community coalition to address homelessness. Regular meetings are held to determine who provides each type of service.

[8:24:40 AM](#)

REPRESENTATIVE DRUMMOND said although she appreciated the verbal executive summary, she would like a summary of the information in the document provided. For example, she asked, "Where do I find the 1,500 preschoolers served?"

MS. KAZARY said there was a 2015 annual report [subsequently included in the committee packet], which provides a summary.

MS. SCANLAN offered that the presenters could provide a written copy of their testimonies.

[8:25:51 AM](#)

REPRESENTATIVE ORTIZ questioned how a community person discovers the resources available.

[8:26:30 AM](#)

MS. KAZARY responded that it would depend on "how we get the questions." Many requests for services come through RurAL CAP's web site, some come via the toll-free number, and another option is through United Way's "211 Service," whereby people who need help with food, shelter, and/or childcare can obtain a list of services. Further, she said RurAL CAP gets referrals.

[8:27:31 AM](#)

CHAIR TILTON noted that the [report] provided by the presenters was large, and she suggested that some questions may be forthcoming regarding it. She asked when RurAL CAP would be closing its public comment period.

MS. BOURNE answered that RurAL CAP would be conducting one more public comment process at 2 p.m. on April 25, at which time it would allow people to call in to get questions answered. In response to Chair Tilton, she said the event would be announced on the web site, as well as advertised in local papers.

[8:28:38 AM](#)

FRED PARADY, Deputy Commissioner, Department of Commerce, Community & Economic Development (DCCED), stated his support of the RurAL CAP program. He explained that DCCED is essentially the conduit for the Community [Services] Block Grant funds, since RurAL CAP is the designated community action agency for Alaska. He said when he worked in Barrow for the North Slope Borough, he and Representative Nageak were involved in a project to build childcare capacity across the North Slope, and RurAL CAP was a very effective consultant for them as they figured out what standards had to be met and the ways in which those services can be delivered and which pitfalls [to avoid]. He explained the importance of structuring childcare such that people secure availability, instead of coming and going, and creating a sliding scale to provide the service. He said RurAL CAP was involved in that effort as consultants and lent structure to the desired program. He expressed appreciation for the services provided by RurAL CAP.

REPRESENTATIVE NAGEAK related his lengthy involvement with RurAL CAP, as a board member and president, and said he had worked with Ms. Scanlan and others. He commented on the scope of the board, its tendency to ask a lot of questions, and the good job of the staff of RurAL CAP. He said RurAL CAP held statewide meetings to address the issue of subsistence. He related that RurAL CAP was the first organization to take on the fight on

drugs and alcohol, which he indicated resulted in people committing to quit using. He offered further details. He said RurAL CAP has representatives all over the state, and he commended its staff for its good work, which he indicated had been going on for over 50 years.

[8:33:03 AM](#)

REPRESENTATIVE SEATON said [RurAL CAP] was a good example of local coordination, involvement, and representation in local projects rather than the State of Alaska trying to do it all. He mentioned a 5 percent administration fee, which he said was good and could be held as an example when [the legislature] considers other programs. He said he looks forward to the continuation of RurAL CAP.

[8:34:39 AM](#)

The committee took an at-ease from 8:34 a.m. to 8:36 a.m.

#### **HB 370-MUNICIPAL TAX EXEMPTIONS**

[8:36:06 AM](#)

CHAIR TILTON announced that the final order of business would be HOUSE BILL NO. 370, "An Act relating to municipal tax exemptions."

[8:36:48 AM](#)

REPRESENTATIVE SEATON moved to adopt the proposed committee substitute (CS) for HB 370, Version 29-LS1551\H, Shutts, 3/25/16, as a work draft.

CHAIR TILTON objected for discussion purposes.

[8:37:50 AM](#)

HEATH HILYARD, Staff, Representative Cathy Tilton, Alaska State Legislature, on behalf of the House Community and Regional Affairs Standing Committee, sponsor of HB 370, on which Representative Tilton serves as chair, stated that the proposed legislation would amend AS 29.45.050, which pertains to optional municipal tax exemptions for economic development projects. He explained that the current statute is too narrow for municipalities to effectively use, particularly for larger economic development projects.

MR. HILYARD said Version H has a "tightened" title. Other changes were recommended by Legislative Legal and Research Services to restructure some provisions. He directed attention to [inserted] language on page 2, lines 13-18, and [deleted] language on page 3, lines 3-10, and he said, "Essentially what is now Section 1 was previously ... Section 3 of the existing statute." The most significant change, he explained, is that the original bill version provided that the tax exemption could exist for only five years; Version H would require municipalities to determine on a case by case basis how long they want to extend the property tax exemption for projects they want to incentivize. He said there were testifiers via teleconference and in the room who could testify regarding the proposed legislation.

[8:40:15 AM](#)

REPRESENTATIVE DRUMMOND observed that the designated time period was up to five years, and she asked if there would be a limit under Version H on what the time period could be.

MR. HILYARD clarified that the new language [on page 2, line 3, of Version H], states simply, "a designated time period"; therefore, it would be up to each municipality to determine what time period of necessary for a particular project.

[8:40:46 AM](#)

REPRESENTATIVE HUGHES directed attention to language [beginning on page 1, line 10, through page 2, line 1], which read as follows:

The municipality may provide for renewal of the exemption under conditions established in the ordinance. However, [UNDER RENEWAL,] a municipality that is a school district may only exempt for more than five years all or a portion of the amount of taxes if that amount exceeds the amount levied on other property for the school district.

REPRESENTATIVE HUGHES, regarding the use of the word "However", asked, "Is the exemption per school district somehow tied to the economic development concept also or is it separate?"

MR. HILYARD deferred to Ron Long from the City of Seward.

[8:41:56 AM](#)

RON LONG, Assistant City Manager, City of Seward, in response to Representative Hughes' question, related that the City of Seward does not have a school district; its schools are managed by the Kenai Peninsula Borough. He offered his understanding that "this relates to the local effort requirement throughout statutes for municipalities that have school districts," and he said that protection needs to be built in "so as not to affect the calculation for determining the ... required local contribution to education."

REPRESENTATIVE HUGHES surmised then that there would be no economic development component in which the school must participate, but rather there would be just a five-year limit.

MR. LONG responded that is correct according to his understanding.

[8:43:05 AM](#)

REPRESENTATIVE SEATON queried whether there was anyone available to address the issue of school districts and property tax. Referring to the language previously highlighted by Representative Hughes, he said he was trying to figure out "if that's meaning 50 percent or we're talking about tax rates."

MR. HILYARD deferred to Chris Shutte.

[8:43:55 AM](#)

CHAIR TILTON removed her objection to the motion to adopt the proposed committee substitute (CS) for HB 370, Version 29-LS1551\H, Shutts, 3/25/16, as a work draft. There being no further objection, Version H was before the committee.

CHAIR TILTON opened public testimony on HB 370.

[8:44:39 AM](#)

CHRIS SHUTTE, Director, Office of Economic and Community Development (OECD), Municipality of Anchorage, in response to the question from Representative Seaton, stated that OECD is thrilled to see the proposed legislation. He explained that for a number of years his office has struggled with how to implement AS 29.45.050(m) and has "come up short." He said the proposed, relatively simple changes would provide the opportunity to be

more proactive in the community development effort. He offered the example of a proposed distribution facility that is being brought forward by the Odom Corporation, which has two distribution facilities in Anchorage and is looking to combine them into a single site. Because of the scarcity of suitable large industrial land in Anchorage, the site that the Odom Corporation has selected is less than desirable and would require tremendous amounts of infrastructure and investment to bring on line. The facility will cost \$48-\$49 million, and the corporation must invest up to \$4 million just to improve the underlying infrastructure. He stated that for that project and a number of others in Anchorage, that amount of infrastructure investment can make or break particular projects, and there are no tools in place for the city to proactively partner with some of its private sector investors to facilitate that infrastructure investment.

MR. SHUTTE said the changes being proposed under Version H would allow the Municipality of Anchorage to create local incentives that allow the city to participate in these infrastructure investments, which in turn foster increased private sector development investment in the community. He said being able to offset some of the infrastructure investment up front through the tax abatements that would be allowed through the proposed legislation would provide an opportunity to create "an exciting and dynamic program" that could not only facilitate development with existing investors in Anchorage, but also encourage investors outside Anchorage and the state of Alaska to do business with the Municipality of Anchorage.

[8:47:59 AM](#)

REPRESENTATIVE DRUMMOND asked Mr. Shutte to describe more particularly how the Odom Corporation would use the tax exemption proposed under HB 370.

MR. SHUTTE answered that the Municipality of Anchorage would enact local ordinance; it would create the criteria by which the Odom Corporation and others would demonstrate the need, the economic impact, and the return on investment (ROI) for any particular project so that the city has a strong sense of the value of its investment. He said the investment would typically come through a tax abatement - a reduction in the corporation's taxes - over a set amount of time to recoup the upfront investment that the Odom Corporation is required to spend for the infrastructure. For example, if the corporation has a requirement for \$3-\$4 million-worth of roads and sewer work, the

city would tailor a tax abatement such that over five or six years most of, if not all, the upfront investment could be recouped by the corporation through reduced property taxes. In response to follow-up questions, he said the abatement is not a permanent tax reduction, but rather is designed to offset the initial investment and to help lessen the upfront capital outlay of the corporation and allow it to be spread out over a longer period of time. He said the time it takes the city to replenish or refund the infrastructure investment on the Odom Corporation's behalf would be the duration of the tax abatement, and after that period of time the taxation would resume at its full level.

[8:51:23 AM](#)

REPRESENTATIVE SEATON offered his understanding that Mr. Shutte was not talking about tax deferral.

MR. SHUTTE confirmed Representative Seaton was correct; [the tax abatement] would be a partial or total exemption of a total of the capital investment.

REPRESENTATIVE SEATON surmised that the abatement could apply not just to the roads and infrastructure, but also to the development of the project itself.

MR. SHUTTE answered that as currently worded, [Version H] focuses on the actual physical infrastructure required for a potential development. He offered his understanding that it would be up to the individual municipalities, once they enact their local ordinances, "to determine the extent of that." He said for Anchorage, the focus would be on public infrastructure that services the sight rather than the actual development of the building or project itself.

REPRESENTATIVE SEATON asked Mr. Shutte, "You're not reading this - the bill the way it is - as limiting it to that; it could be the entire project. Is that correct?"

MR. SHUTTE offered his understanding that was correct and that it would be up to the individual jurisdictions "to set the criteria or the definitions."

[8:53:52 AM](#)

REPRESENTATIVE HUGHES asked how specific the ordinances would be. For example, one entrepreneur is going to start a winery

and another is going to start a brewery. She asked if a city council, preferring beer to wine, could chose to give the exemption to the brewery but not to the winery. She explained her concern was regarding whether cities would be picking winners and losers or if the ordinance would encompass any developing business that met the criteria under the proposed legislation.

MR. SHUTTE answered that he thinks that would be an issue for individual municipalities to address. For Anchorage, the criteria used to evaluate projects would be much more quantitative rather than qualitative. He said he did not think it would be fair for a council to determine who to give an exemption to, based solely on the product or service provided. He said, "The end goal is to look at this as an investor would look at it, so that the decisions that are being made by the local assembly or the local government ... are directed by the numbers rather than the qualitative aspects."

REPRESENTATIVE HUGHES asked Mr. Shutte to confirm that he envisions the local ordinance could be written to support certain businesses or in a way that would accommodate any business that fit the city's criteria.

MR. SHUTTE reiterated that it would be up to the local government to determine how it would like to structure its incentive program. He added that from a community development standpoint, having the flexibility to craft either a broad program or a neighborhood program has positive appeal, but he opined that the ultimate decision should be up to the individual jurisdiction.

[8:57:02 AM](#)

REPRESENTATIVE DRUMMOND remarked that it is difficult to ask questions about a theoretical project. Notwithstanding that, she speculated that under HB 370 the Odom Corporation would be allowed to build the roads and do drainage and sewer work around its project that would normally be done by the municipality's Department of Public Works, and it would be able to pay for it by means of the tax abatement. She asked if that was also Mr. Shutte's understanding.

MR. SHUTTE answered yes. He said, "This is essentially municipally required infrastructure ...." He explained that a lot of times the private sector investor is required to develop publically owned pieces of infrastructure as part of its

development agreement. He indicated that the Municipality of Anchorage has witnessed this requirement be a "make-or-break" for certain deals. Mr. Shutte stated that because of the way the tare system works, for the utilities in particular, the "cost causer" is the "cost payer." He explained, for example, that [Anchorage Water & Wastewater Utility] (AWWU) cannot proactively create water and wastewater infrastructure in anticipation of a future development, because the cost has to be borne by the cost causer; therefore, the responsibility for spending the money on the infrastructure ultimately falls to the private sector developer.

MR. SHUTTE said the proposed legislation is a tool that would allow the municipality to partner, in essence, with the private sector developer in exchange for the temporary tax relief to the private sector. The municipality, at the end of the tax abatement, would still acquire the public infrastructure. He concluded, "It's essentially a tool that will allow us to further build out our city and our infrastructure."

REPRESENTATIVE DRUMMOND mentioned the construction of the new Natural Pantry [in Anchorage]. She offered her understanding "that firm" was required to shoulder the burden of building the entire road used by people to access the U.S. Post Office, a library, and to travel through a neighborhood. She asked, "Is this the kind of public infrastructure that this statute would support in the future?"

MR. SHUTTE answered that is correct. He said often there is significant capital requests placed on private sector developers to meet the municipality's development standards. In the case of the Natural Pantry, [the developer] had to improve the street to a higher standard and connect it to existing transportation network in order to move forward with development.

REPRESENTATIVE DRUMMOND said she had heard a lot of grumbling when "they were required to build that public infrastructure." She asked if [that developer] would, [under HB 370], be allowed to retroactively apply for a tax abatement.

MR. SHUTTE offered his understanding that the proposed legislation would only apply to future development.

[9:02:20 AM](#)

CHAIR TILTON asked Mr. Shutte if he was able to address Representative Seaton's previous question about the language in the bill regarding school districts.

MR. SHUTTE responded no, but suggested that Mr. McGee would be able to address the question.

[9:02:48 AM](#)

MARTY MCGEE, State Assessor, Division of Community and Regional Affairs (DCRA), Department of Commerce, Community & Economic Development (DCCED), responded as follows:

This particular portion of the existing law has never been tested in court, and there isn't much in the way of legislative intent to understand the meaning of the original language. The interpretation has been that it's intended to protect the school districts' source of revenue, so that these exemptions don't reduce the amount of required local contribution, but hold it stable, even though the new development is subject to the exemption .... The language is not very clear as to exactly what was intended or how to interpret the specific language in the existing code.

Also, to add any optional exemption, the exempt value's added back to the full value of determination, which is then a component of the required local contribution for schools. ... That's true in any of the optional exemptions and true ... of everything exempted under the proposed changes to the current code.

[9:04:43 AM](#)

REPRESENTATIVE SEATON said he is confused. He said, "If it gets added back into the school district formula, then it's not applicable there." He continued:

And so, I'm not sure why there's a 50 percent -- I mean, I think it's 50 percent. ... As I read page 1 ..., you can exempt ... all or a portion of it if it exceeds the amount levied on other property of the district. ... Is your reading of that ... the new development is more than 50 percent of the tax base or are we talking about the tax rate would be less than that levied on other property in the school district?

MR. McGee offered his interpretation that [under Version H], the tax rate would change for the area. He said in terms of public infrastructure there is the potential that the special service area would be created, which would change the tax rate. He said he cannot explicitly answer Representative Seaton's question, because the law is not clear and has never been tested. He said, "The language, to me, could be improved, but I don't know the intent." He said normally, when talking about a levy, the discussion is about the amount of tax - not the tax rate. However, both components could be included in that term.

REPRESENTATIVE SEATON proposed that the committee may wish to clear up the language, considering that even the state's assessor could not determine "whether we're talking about the tax rate or the tax amount."

[9:06:56 AM](#)

REPRESENTATIVE DRUMMOND asked which municipality in Alaska is also a school district.

REPRESENTATIVE SEATON offered that Juneau is, and he indicated that in Anchorage there are municipal boroughs that also are school districts.

CHAIR TILTON suggested that Representative Drummond could get an answer from Kathie Wasserman, whose testimony would be forthcoming.

[9:07:29 AM](#)

JOHN BITNER, Vice President, Anchorage Economic Development Corporation (AEDC), testified in support of HB 370. He said, "As an economic development organization in the Southcentral area for over 30 years, we're always excited to get new tools in the economic development tool box." He said Mr. Shutte did a great job of explaining the excitement of municipalities over the proposed extension of the timeline for the property tax exemption. He said AEDC works with a variety of private sector businesses - over 230 companies make up its membership - and the corporation has heard repeatedly over the past years the difficulties that have arisen when trying to make deals, particularly for new construction in the Anchorage area. He said giving local governments the ability and power to tailor economic development tools and tax reductions to a specific level of economic development needs in their communities is "a

wonderful way to incentivize growth on a local level, without impacting the state budget."

9:08:59 AM

MR. BITNER, in response to a question from Representative Seaton, said his understanding of the proposed legislation is that it would be up to the local government to determine the scope of the exemption. He said he does not know if there would be any upward limitations on that scope, but nothing he read in the language limited the application to utilities.

REPRESENTATIVE SEATON asked Mr. Bitner, "Would the intent of your group be that this should be to public infrastructure and that being abated, or would it be other elements of the project, as well?"

MR. BITNER answered that the goal of AEDC has always been to generate and expand new businesses, and whatever tools can be used to accomplish that will be supported, as long as it is part of a fiscally responsible solution. He said in this case, when looking at national trends and incentives of this kind that are implemented in the Lower 48, in the short term the municipality or local government has a reduced tax income from the property, but benefits in the long term from newer construction and expanded infrastructure, utilities, and transportation. He said it would be up to the local governments to determine their risk profile and tolerance to reduced tax rolls, which he indicated is what makes the proposed legislation interesting.

9:12:31 AM

MR. LONG observed that the proposed legislation would introduce two new provisions. First, it would remove the five-year limitation on the original term of the exemption or deferral, which recognizes that a five-year initial limit is not something that a larger, more capital-intensive project can build into a business plan with any certainty about its renewal. He said the proposed provision would remove the uncertainty. He noted that the second new provision would be to add an additional level of protection, which would require that at the end of the deferral or exemption, the project expands the tax base, thus increasing tax revenue to the local government. He offered his understanding that the requirement for it to be public infrastructure is not in existing language and is not built into the bill language, but, as Mr. Shutte pointed out, is a creative use for finding a way to offset some costs.

MR. LONG suggested there may be projects developed in municipalities that don't require a public infrastructure component or there may be a project that already has all the public infrastructure "at its doorstep" and needs only to develop the private side. He stated, "The exemption here or the deferral is for taxable property that is private property, and then the local government would need to pass the needs test in the eye of their public ... to find the right measure that's ... politically and socially acceptable locally." He opined that that determination is best made at the local level. He stated the City of Seward's support for HB 370. He reminded the committee that other than the two provisions he outlined, everything else mentioned in the bill is part of already existing statute.

9:15:15 AM

REPRESENTATIVE SEATON, regarding expanding the five-year time period, said, "Previously the bill has up to five years and then the municipality may provide for renewal." He asked, "If we're doing something that may be a 20-year tax deferral or tax exemption, is there a need to retain this renewal exemption here if we eliminate the five years?"

MR. LONG responded that he would agree that there is no need to retain it. He said, "If it is up to the local municipality to determine the initial terms, it would be up to them to determine subsequent terms if needed."

9:16:26 AM

KATHIE WASSERMAN, Alaska Municipal League, testified that AML supports HB 370. She outlined a couple issues that are important to AML. The first, she said, is local control. She said AML believes municipalities are best situated to make decisions that will affect them and their tax payers. She said that is why the proposed legislation is inviting, because it would give that local control. Further, she said that "in light of some of the bills that were dropped yesterday by Senate," she thinks municipalities need "every single tool they can get." She said she thinks municipalities will not be able to invite much economic development "if we are totally broke."

MS. WASSERMAN echoed Mr. Long's comments about language in the bill being in current statute, and she concurred with Mr. McGee's statement about the language being confusing, but

remarked that that is how current statute read. To Representative Seaton, she said, "Back to this full and true value that we talked about on another bill, it's all to make sure that the school contribution is dealt with in a way where it's clear to us. This is not necessarily clear, but I think that was the intent." Regarding Representative Drummond's question about school districts, she said all 18 boroughs in Alaska have control over their schools and have school boards, "so, those are the municipalities they're talking about." She added that there are also "about 20-something first-class cities in the unorganized borough, which also have school districts," for example, the City of Craig, the City of Pelican, the City of Klawock, and the City of St. Mary's.

[9:19:08 AM](#)

REPRESENTATIVE SEATON asked Ms. Wasserman if she thinks the proposed legislation should include a renewal time related to the municipalities being given the ability to make exemptions.

MS. WASSERMAN answered that she sees no reason to make a date, because she opined that should be the call of the community, which knows what it can afford. She expressed certainty that if a municipality does not do something correctly, then their voters will respond.

CHAIR TILTON closed public testimony on HB 370 after ascertaining no one wished to testify.

[9:20:58 AM](#)

The committee took an at-ease from 9:21 a.m. to 9:23 a.m.

[9:23:12 AM](#)

REPRESENTATIVE HUGHES said she thinks there are still questions that need to be answered in Section 1. She said she believes the committee wants to ensure the bill will allow the economic development exemption option that is the intention of the proposed legislation; therefore, she expressed concern about moving HB 370 out of committee before that issue has been addressed.

[9:23:49 AM](#)

REPRESENTATIVE SEATON offered his understanding that Mr. McGee, as state assessor, had said that "although this is exempt, it is

part of the tax base for ... the school district, but it's unclear in here." He said he would like the committee to "bring back an amendment" that clearly states that the money that is exempt would still be used for "the calculation of ... local required effort." He said he thinks such an amendment would clear up both existing and modified language, and it would be helpful before HB 370 is sent to the House floor. He said, "We've got this other thing that's superfluous in there now - that they may provide for a renewal - when we've taken away the five-year timeframe." He indicated that the amendment he desires would address language on page 1, lines 10-11, and on page 2, lines 3-4. He opined that would clarify [existing] statute.

[9:25:29 AM](#)

REPRESENTATIVE HUGHES offered concern about the clarity of HB 370 in that she understands the House Community and Regional Affairs Standing Committee is the only committee of referral for the proposed legislation.

[9:26:00 AM](#)

REPRESENTATIVE SEATON clarified that some testimony addressed public infrastructure; but HB 370 is not limited to public infrastructure. He reviewed that HB 370 would address local options, wherein local governments would determine time frames and decisions could include economic development properties having deferrals, as shown on page 2 of Version H, or exemptions, as shown on page 1. He said there would be, under HB 370, a tremendous amount of flexibility for local communities, which he appreciates.

[HB 370 was held over.]

[9:27:31 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:27 a.m.