

HOUSE FINANCE COMMITTEE

April 14, 2016

9:09 a.m.

9:09:32 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Lyman Hoffman, Sponsor; Shirley Marquardt, Mayor, Unalaska; Kathie Wasserman, Alaska Municipal League; Senator Anna MacKinnon, Sponsor; Alexi Painter, Analyst, Legislative Finance Division, Alaska State Legislature; Laura Cramer, Staff, Senator Anna MacKinnon; Jane Pierson, Staff, Representative Steve Thompson; Representative Cathy Tilton, Sponsor; Christopher Clark, Staff, Representative Cathy Tilton.

PRESENT VIA TELECONFERENCE

Rick Koch, City Manager, City of Kenai; Dr. Jon Erickson, Manager, City and Borough of Yakutat; Richard Carr, Owner, Bema Construction; Andre Spinelli, President, Alaska Home Builders Association; Patrick Dalton, Contractor, Delta Junction; James Squyres, Self, Rural Deltana; Terry

Dusynski, Member, Alaska State Homebuilder's Association;
Al Nagel, Department of Labor and Workforce Development.

SUMMARY

HB 81 EXEMPTION: LICENSING OF CONTRACTORS

CSHB 81(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the House Finance Committee for the Department of Commerce, Community and Economic Development and one new zero fiscal note from the Department of Labor and Workforce Development.

HB 194 AK SECURITIES ACT; PENALTIES; CRT. RULES

HB 194 was SCHEDULED but not HEARD.

CSSB 196(FIN)

POWER COST EQ FUND: RESERVE ACCT;DIVIDEND

CSSB 196(FIN) was HEARD and HELD in committee for further consideration.

CSSB 210(FIN) am

COMM. REV. SHARING;PROP. TAX EXEMPTIONS

CSSB 210(FIN) am was HEARD and HELD in committee for further consideration.

[9:10:06 AM](#)

AT EASE

[9:12:45 AM](#)

RECONVENED

#sb196

CS FOR SENATE BILL NO. 196(FIN)

"An Act relating to the amount appropriated for power cost equalization; relating to the use of certain unexpended earnings from the power cost equalization endowment fund; and providing for an effective date."

[9:13:26 AM](#)

SENATOR LYMAN HOFFMAN, SPONSOR, thanked the committee for hearing the bill. He relayed that he had introduced the bill due to ongoing dialogue about how to utilize the excess earnings in the Power Cost Equalization (PCE) fund. The legislation was designed to strengthen and save the PCE fund. He recounted that the program existed for over 30 years and initially relied on general funds but evolved into a true endowment that currently did not rely on appropriations. Several years ago the legislature changed the way the fund was invested due to the high rate of return of 7 percent. He indicated that SB 196 addressed two issues; how much could be taken from the earnings of the fund and how excess earnings were dealt with. The withdrawable amount was changed from 7 to 5 percent. He elaborated that the legislation identified two ways the excess earnings were made available; 50% not to exceed 30 million of the excess earnings were distributed to the Community Assistance Program and 20% not to exceed 25 million were distributed to the Renewable Energy Fund, the Bulk Fuel Revolving Loan Fund, and the Rural Power System Upgrades. He pointed out that in the last 12 or so years the earnings would have met the needs for PCE and the provisions for excess earnings. He recounted that the program funded up to the first 500 kilowatts of energy. He spoke to the high power costs in rural areas. The program only addressed the first 500 kilowatts and many residents in urban Alaska utilized much more than that. He believed it was good legislation that ensured the solvency of the fund by changing the payout from 7 percent to 5 percent. In addition, the bill reduced the dependency on General Fund (GF) appropriations for the revenue sharing and rural energy programs.

[9:18:39 AM](#)

Representative Gara spoke to lowering the payout and asked whether the amount was taken from the corpus of the fund. Senator Hoffman replied in the affirmative. Representative Gara asked for the current total of the fund. Senator Hoffman replied that the amount was approximately \$1 billion. Representative Gara stated that 5 percent amounted to \$50 million. Senator Hoffman replied in the affirmative and stated that currently PCE cost approximately \$43 million. Representative Gara deduced that \$7 million would be available for excess funding. Senator Hoffman replied in the affirmative.

[9:21:21 AM](#)

Representative Edgmon asked the sponsor to address how the PCE program would remain the underlying purpose of the endowment. He wondered about how bundling the items together were mutually beneficial for all programs. Senator Hoffman answered that the legislation authorized that the first use of the funds were for PCE. He explained that if the earnings were less than \$43 million the earnings would be depleted and the remainder would be taken out of the corpus of the fund. He provided a scenario that in the second year, if the fund earned 100 million then \$43 million would pay PCE, the excess earnings would be appropriated and the remainder would be deposited into the corpus of the fund to protect it in case of lower than expected earnings again in the future. The bill ensured that the primary purpose was to protect the fund itself. Senator Hoffman elaborated that bundling the items were mutually beneficial by assisting the revenue sharing program that would fund up to the 30 percent for rural and urban Alaska and reduced the need for GF as well as assist with other energy programs. He summarized that the bill ensured a solid endowment for PCE and in good years offered assistance to GF in the areas of energy and revenue sharing.

[9:24:20 AM](#)

Co-Chair Neuman recounted that the PCE paid for the first 500 kilowatts of power. He asked what the average usage in rural Alaska was. Senator Hoffman answered that average use was between 500 and 600 kilowatts; many residents kept usage at 500 kilowatts due to the high expense.

Representative Pruitt addressed the community assistance portion. He asked whether the intent was that the bill would help supplement the normal level of revenue sharing funding or replace some of the GF appropriation. Senator Hoffman answered that the intent was to relieve the pressure on the general fund from the community revenue sharing by replacing some GF. Representative Pruitt favored the legislation and endorsed the renewable energy portion of the bill.

[9:26:18 AM](#)

Representative Munoz asked about the 500 kilowatt threshold. She asked whether the legislation raised the threshold. Senator Hoffman replied in the negative. He believed it was more important to protect the endowment.

Representative Kawasaki asked what the current PCE payout was. Senator Hoffman replied the amount was \$43 million. Representative Kawasaki pointed to page 2 of FN 2 (CED) and read the following analysis:

- 1) 50% or \$30,000,000, whichever is less, to a community revenue sharing or community assistance fund;
- 2) 30% or \$25,000,000, whichever is less, to the renewable energy grant fund (AS 42.45.045), to the bulk fuel revolving loan fund (AS 42.45.250), or for rural power system upgrades; and ...

Co-Chair Thompson noted that David Teal, Director, Legislative Finance Division would be available to answer fiscal note questions.

Representative Kawasaki did not think that much excess funds would be available on a "6 percent draw." Senator Hoffman answered that in past years the fund had earned 13 percent but also experienced losses. He noted that there were years in the past that the earnings had been in the double digits. Representative Kawasaki observed that Mr. Teal had provided the actual PCE earnings rates (Power Cost Equalization Endowment Fund - Impacts of SB 196 - (copy on file). He was bewildered about the fund earning 24 percent one year and negative 13 percent within two years. He asked whether money had been added to increase the earnings rate. Senator Hoffman answered that it did not matter if money was added in relation to the earnings rate. He delineated that in 2007 when the Four Dam Pool was sold \$182.7 thousand was added to the fund. The last infusion had been \$400 million in 2012 in order to make it a true endowment. A few years ago the fund had become a true endowment. Representative Kawasaki was confused by the linkage between SB 196 and SB 210 (Community Revenue Sharing/Assistance). Senator Hoffman responded that there had been discussion about combining the two bills, but due to the single topic rule they had been introduced as two bills.

Representative Wilson stated that the two bill's linkage made the current discussion difficult to follow. She

reiterated the provisions in SB 196 to confirm she understood how the legislation worked. She surmised that the committee needed to pay attention when SB 210 was addressed due to the fact that the specific payouts or whether any excess PCE funds were available in a given year was based on a "good" or "bad year" in the stock market. She noted that in a bad year no additional funds were available for community sharing as all of the fund's earnings were needed for PCE. She stated that the fund's corpus was available to access for the PCE payout in a low earnings year but not the other programs. Senator Hoffman answered in the affirmative. He mentioned that in good years 30 percent of the earnings would be added back to replenish the corpus due to the fact that funds from the corpus could be spent in bad years. Representative Wilson clarified that in low earnings years the other programs would not receive funding from the PCE endowment. Senator Hoffman answered in the affirmative.

[9:34:06 AM](#)

Representative Gara spoke to a book by Willy Hensley stating that electricity in rural Alaska brought "one of the biggest transformations" to the bush. He believed that the PCE "was an extension of that" and the provision to spend excess funding on other state needs was historic. He asked why the bill proposed depositing 30 percent of the excess funds back into the corpus. Senator Hoffman restated that the deposits were needed to replenish the fund when money were withdrawn in low earning's years in order to "protect" the corpus of the fund.

Senator Hoffman provided closing comments on the bill. He felt that PCE made life better for residents in rural Alaska. He thanked the committee for hearing the legislation.

Co-Chair Thompson OPENED public testimony.

[9:37:08 AM](#)

SHIRLEY MARQUARDT, MAYOR, UNALASKA, spoke in support of the bill. She thanked Senator Hoffman for his work on the bill. She stated that PCE and revenue sharing were very important to her region. She appreciated that the bill created a new funding vehicle for revenue sharing, realizing the funding would ebb and flow depending on the earnings in a given

year. She asked the legislature to help relieve some of the financial strain on municipalities by finding more alternative funding avenues for communities.

KATHIE WASSERMAN, ALASKA MUNICIPAL LEAGUE, testified in support of the bill. She relayed her confidence and trust in Senator Hoffman's custodial role over PCE and community revenue sharing. She believed the legislation stabilized the funds as best as possible under the state's current fiscal crisis.

Co-Chair Thompson CLOSED public testimony.

CSSB 196(FIN) was HEARD and HELD in committee for further consideration.

#sb210

CS FOR SENATE BILL NO. 210(FIN) am

"An Act relating to the community revenue sharing program; and changing the name of the community revenue sharing program to the community assistance program."

[9:40:23 AM](#)

SENATOR ANNA MACKINNON, SPONSOR, spoke to the bill. She related that the legislation changed the program's name from Community Revenue Sharing Program to the Community Assistance Program due to the fact that the state currently "did not have anything to share." She discussed that SB 210 was a step to continue providing assistance to rural communities. She shared that some members of urban communities were pointing to rural communities reproving them of not contributing their fair share in the form of taxes. In response, she engaged in a dialogue with Senator Hoffman regarding finding a way PCE could help support community revenue sharing. She related that the result was SB 196 proposing the mechanism to provide the support. She recounted that 50 percent of the extra earning on the PCE endowment would support community assistance. She reiterated that the bill changed the name of the program from revenue sharing to community assistance. She pointed to page 5, line 3 and explained that the bill changed the amount from \$220 thousand based on the population formula to \$300 thousand in order to create an equitable spread to account for years of high or low investment and ensure that

the larger communities would still receive assistance in the same "proportionate way as the smaller communities." She added that if the revenue sharing program remained unchanged, she believed her hometown would receive up to 40 percent of revenue sharing and was not attempting to "harm" her constituents, but felt that the bill struck a "balance" between rural and urban areas. She stated that SB 196 provided a revenue stream dependent on earnings and safeguarded that rural communities were contributing to help with community assistance; the bill reduced the state's obligation by \$30 million. She detailed that the bills took a \$180 million program stepped it down to \$90 million within three years, provided \$30 million in assistance and shared the assistance equitably throughout the state.

Representative Wilson spoke to a handout titled "SB 210: Community Assistance Payments FY 16-18 with \$300,000 Base" (copy on file) and remarked that the payments were not based on population. She asked how the percentages were formulated. Senator MacKinnon answered that the payouts were based on a mathematical equation on page 5, line 3 of SB 210. She delineated that the sponsors evaluated the current distribution under the \$220 thousand multiplier for population and developed a formula that was included in the original version of the bill. The Senate did not believe the proportional spread was fair because the new formula significantly reduced the payment to larger communities and actually increased assistance to rural communities. The sponsors chose a formula that spread the proportional distribution of the reduction more fairly. Under a \$20 million, \$30 million and \$50 million program, the amount of \$300 thousand was the "ideal" number where the decreases were spread most proportionately.

[9:46:27 AM](#)

Representative Wilson pointed out that the city of Fairbanks received a 66 percent reduction while the North Star Borough received a 64 percent reduction, and the city of North Pole was reduced by 44 percent and the North Slope Borough received a 32 percent reduction. She indicated that the North Slope Borough was capable of generating more money than the North Pole. She was having trouble making sense of the distribution. Senator MacKinnon answered that the sponsors did not "mess" with the underlying existing formula that prorated the distribution of a revenue sharing

plan. She stated that the \$300 thousand figure created "the appropriate fairness spread in the reduction" of the program while creating "the least impact" on small communities because they possessed "the least ability to respond" to the reduction in the program. She stated that the Legislative Finance Division (LFD) was available for questions.

ALEXI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, ALASKA STATE LEGISLATURE, explained that the community assistance program provided two payments; a per capita payment and a basic amount. The basic amount was distributed to all communities regardless of population, the \$300 thousand was the base amount, cities and unincorporated municipalities received differing fractions of that amount. Additionally, there was a per capita distribution. The bill reduced the base amount from \$384 thousand to \$300,000 and changed the manner of the proration. In the current formula, the base began at \$384 thousand but if the distribution was below \$60 million the base was reduced pro rata to a floor of \$220,000. He recounted that the bill changed the base to \$300 thousand, the exact middle amount, and did not prorate as long as a sufficient amount of funding was available to pay the basic amount.

Representative Wilson did not have a problem with the bill due to the fact that she did not think excess funds would be available except in years experiencing exceptional returns. She asked that based on the numbers on the chart provided, what was the assumption regarding the amount that was distributed into the program "first."

[9:50:29 AM](#)

Senator Mackinnon replied that in FY 2016 the state distributed \$57.3 million. In SB 210, the distribution was proposed at \$38.2 million. She explained that the \$300 thousand figure was a new multiplier. She pointed to page 5, line 1 of the bill that designated deletion of the \$384 thousand number. She reiterated that two formulas were employed. The "larger communities may feel like" the distribution was "unfair." The state did not have enough revenue to share and based on a comparison exclusively of the changes of the percentages it would be difficult to find a rational reason for the distribution. She delineated that two formulas applied between the borough and the

population and a different spreadsheet was necessary to show how it worked. "Larger communities were impacted to a greater degree." The Senate believed that "larger communities' had a way to react" to reduction in revenues. The Senate wanted to ensure smaller communities could retain firefighters or police officers and therefore, offered additional assistance while transitioning into the reality of state budget shortfalls.

Mr. Painter elaborated that most of the distribution larger communities received were through the per capita payment. Altering the formula reduced the amount of the per capita payment and proportionately increased the payment through the base amount. A larger community that mostly received its distribution from the per capita payout received a larger reduction than a smaller community that mostly received payments from the base amount.

Representative Wilson noted that North Pole only had 2,100 people. She pointed to the North Slope Borough with a population of 2870 and "a lot of infrastructure, business, oil, and gas" and compared it to the North Pole that lost a big industry but received a higher reduction. She did not believe the numbers "seemed fair." Senator MacKinnon replied that the numbers for the unorganized boroughs were "very different." She relayed that the Senate Finance Committee discussed that boroughs received more money. She warned that the population numbers were not actual and were not included in the borough population. She stated that a percentage of borough money was also distributed to the North Pole based on the formula for boroughs. Another formula used for boroughs shared revenues with its cities in another portion of the revenue sharing program.

Mr. Painter delineated that the population count in the formula did not double count citizens. The population within the North Pole city limits was counted in its population but not in the borough. The North Slope Borough received its distribution from the full base figure. The city of North Pole received one quarter of the base set in statute but also received funding from the borough formula.

[9:56:03 AM](#)

Representative Wilson announced that most of the cities had charters that limited the amount of property tax it could raise and some already charged a sales tax. She wondered

why the reduction discrepancy between the City of Fairbanks and the North Star Borough of 2 percent existed in the new formula.

Co-Chair Thompson noted that the bill would be heard before the committee again.

Mr. Painter answered that a borough received a distribution from the full base of 300 thousand and the city received one quarter of the base. The different treatment was due to the split between the per capita amount and the base amount.

Senator MacKinnon elaborated that the program was at a "stair step down stage." She recounted that the legislature did not recharge the fund with the yearly \$60 million appropriation and the fund dropped to a \$57.3 million program. She expounded that currently, the program was in the second stair step down headed towards elimination and eventually the cities will not receive anything. The stair step had dropped from \$57.3 million to \$38.2 million for the current fiscal year's budget. The largest factor affecting the proration was the reduction in the distribution in FY 16 of \$57.3 million down to \$38.2 million currently. The proration was not the significant portion of the change to municipalities it was the stair stepping reduction to the program.

Co-Chair Thompson interjected that "otherwise" revenue sharing was being eliminated.

Senator MacKinnon agreed and restated that SB 196 was an effort to support the program outside of general fund appropriations.

Co-Chair Neuman asked how equitably the current version distributed revenue sharing dollars to communities. Senator MacKinnon answered that the new program gained more equity through lowering the base amount to \$300 thousand. She indicated that the formula would still work if additional appropriations were made to the community assistance program. She restated that the bills were "a way to stabilize a program in recognition" that there was no revenue to share.

Co-Chair Neuman asked why the provisions did not allocate 100 percent of excess PCE funds into revenue sharing, since

PCE was funded via general fund dollars, and further preserve the draw on GF. He voiced that his goal was to reduce GF draws.

[10:01:18 AM](#)

Senator MacKinnon responded she shared the same goal but employed a different method to attain it. She detailed that LFD determined that \$17 million was the amount of excess earnings of the PCE fund from FY 2018 through FY 2022. Through discussions with Senator Hoffman and the entire Senate in an effort to stimulate support for some of the programs rural Alaska received, 50 percent up to the maximum of \$30 million would support community assistance. She emphasized that \$30 million would fund the assistance program at 100 percent and larger communities would be receiving a profit from the PCE receipts. She believed the provisions were "a good compromise." She explained that historically the PCE fund was founded because a significant amount of money was invested in large hydro projects that exclusively benefitted urban areas and rural communities did not see relief from energy costs. She mentioned that her goal was to reduce general fund spending with the bills. She noted that the state was spending GF on Alaska Energy Authority (AEA) programs. She remarked that the bill was a compromise and that the initial bill did assign all of the excess to the GF but rural Alaska's needs were different than urban Alaska's needs and the current version attempted to strike a balance.

Co-Chair Neuman understood the rationale. He spoke to the population in the Mat-Su region growing at "an extraordinary rate." He cited a figure of 100 thousand from "state economists." He noted that the Mat-Su school district experienced an increase of 708 students but its revenue sharing was going down "disproportionately compared to how other communities were affected." He had issues with the bill. His goal was to get the excess funds to go back into communities with lowered GF. He stated that the bill did not contain a mechanism that adjusted for communities with a high growth rate. He felt that the amount of people affected by the reduction in revenue sharing was "very disproportionate compared to the needs" in a rapidly growing community.

[10:05:15 AM](#)

Representative Pruitt favored the program's name change to community assistance. He wanted to better understand the impact to his community. He asked about how the change affected the individual tax payer. Senator MacKinnon replied that she was uncertain. She offered that the other choice eliminated the program completely. The result would be a cost to everyone's community and her community would lose \$7.8 million directly. She said there was simply no revenue and the legislation's intention was not to shift costs. In FY 18, only \$8 million was left to share and urban areas would take 40 percent to 50 percent of the funds. The sponsors were not attempting to impact local communities but wanted to sustain the program in "perpetuity." She commented that \$8.5 million out of the projected \$17 million of excess PCE funds would "standup" the community assistance program. She acknowledged that the issue was contentious. She reiterated that she and Senator Hoffmann had been searching for a way that some of the receipts from the \$1 billion PCE fund would be utilized fairly while protecting the \$1 billion balance in the fund. She stated that once the PCE fund was spent it would be impossible to replenish the fund.

[10:09:10 AM](#)

Representative Kawasaki asked about additional changes to the revenue sharing program listed on page 5 of the bill. He noted that the provision that changed the base to \$300 thousand rounded the amount off to the nearest dollar instead of nearest thousand. He wondered whether the provision was the only change besides the total amount. Senator MacKinnon replied that was the only change in addition to the name change of the program.

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, affirmed that they were the only changes. She confirmed that the rounding was changed to the nearest \$1.00 so the fund would not go negative. Representative Kawasaki agreed that the distribution formula between rural and urban communities was disproportionate. He spoke to the revenue sharing change to community assistance. He did not favor the name change and thought it sounded like public assistance.

Representative Edgmon stated that he supported the bill even though it was not a "perfect." He viewed the legislation as a measure that incorporated urban and rural members of the Senate working together to find a solution

in times of downsizing the budget. He pointed to page 6 of the spreadsheet handout and noted that after the first six listed communities the rest of the 59 communities had a population under 10 thousand. He thought the program saved the state money. He maintained that without revenue sharing, costs would shift from the operating budget to the capital budget. He voiced that in all of the other revenue measures there were disparate numbers as well.

Representative Munoz stated that Fairbanks, Ketchikan, and Kodiak were listed twice on the spreadsheet, as municipalities and as parts of boroughs. Juneau and Wrangell were also municipalities that were part of boroughs and were only listed once. She wondered why Juneau and Wrangell were only listed once. Co-Chair Thompson clarified that boroughs contain cities inside it such as the Mat-Su borough that contained Palmer and Wasilla. He added that cities did not exist inside municipalities. Representative Munoz ascertained that Juneau was incorporated as one municipality with one city government and therefore, was only listed once. Co-Chair Thompson replied in the affirmative.

Senator MacKinnon referenced Representative Kawasaki's concern that some of the rural payments were very high relative to the low population numbers. She reminded the committee that some of the rural communities were listed separately and were also part of a borough where some of its population existed within a borough. She reiterated that the formula did not double count population and cautioned against using population numbers to compare proportionality. She offered to send an analyst from LFD to member's offices to explain the breakdown in each member's district.

Co-Chair Thompson noted that the Fairbanks North Star Borough listed population along with the listed populations of Fairbanks and North Pole on the spreadsheet equaled the actual population of the Fairbanks North Star Borough.

[10:16:37 AM](#)

Representative Gara stated that the revenue sharing program had changed many times over the years. He asked why the current formula was eventually stepped down to zero by FY 2019. Senator MacKinnon answered that most likely the reason was due to the legislature's decision to not

recharge the fund. She recounted that the fund was originally set up at the full allocation of \$180 million; \$60 million was drawn and paid according to the pro rata formula.

Mr. Painter expounded that annually one-third of the balance was distributed which amounted to \$60 million. The previous year the legislature appropriated \$52 million into the fund; not the full \$60 million and distributed \$57.3 million. Without another appropriation, one third of the funds balance of approximately \$115 million was \$38 million and eventually decreased to \$25 million. Current statute prohibited any distribution if the fund's balance was below \$20 million. Representative Gara asked for further clarification. Mr. Painter replied that the legislature did recharge the fund during the last fiscal year in the amount of \$52 million. He added that the formula using progressivity was no longer in effect. Representative Gara asked what amount was necessary to recharge the current fund. Mr. Painter answered that the balance was currently \$115 million and an appropriation of \$75 million was necessary.

Co-Chair Thompson OPENED public testimony.

SHIRLEY MARQUARDT, MAYOR, UNALASKA, believed the name change was very significant and agreed that the state did not have the revenue to share anymore. She opined that the revenue sharing program had always been assistance to communities to "keep the lights on." She referenced the community of Atka that literally had a difficult time keeping the lights on and the money they received under the continuation of the program assisted them with power generation. She noted the difficulty in providing services in rural communities. She supported the bill.

KATHIE WASSERMAN, ALASKA MUNICIPAL LEAGUE, relayed that the league examined the formula regularly and the inequities shifted between all areas. The previous version contained larger decreases to the Fairbanks North Star Borough. Manipulating the formula was very difficult and she opined that at some point it had to become acceptable with existing inequities. Her only concern was the absence of an effective date and the league "was not certain that the SB 210 formula can operate" under the \$38.2 million provision that was effective in July 2016. She recommended using the old formula to distribute the \$38.2 million in FY 18.

10:24:22 AM

RICK KOCH, CITY MANAGER, CITY OF KENAI (via teleconference), voiced that currently a variable base was built into the formula and the legislation did not contain a variable base. He believed eliminating the variability created the problem with the calculation. He deduced that at \$30 million the base of \$300 thousand worked but noted that as the distribution dropped the formula "went completely out of whack." He cited that at an allocation of \$30 million with the base of \$300 thousand the distribution for Fairbanks was roughly \$877 thousand but at a \$20 million distribution it would drop to \$78 thousand which was a 91 percent drop. He added that Anchorage would experience a 95 percent drop from a distribution of \$7.8 million to \$406 thousand under the same allocations. A small community of 322 would receive \$83 thousand or \$75 thousand and only experience slightly less than a 10 percent reduction under the same distribution factors. He believed the disparity was too wide and a variable distribution provision would resolve the issue. He offered to provide a proposed plan to the committee members.

10:27:11 AM

DR. JON ERICKSON, MANAGER, CITY AND BOROUGH OF YAKUTAT (via teleconference), spoke in support of SB 210. He stated that revenue sharing made up 16 percent of the borough's budget. He reported that Yakutat collected \$350 thousand in property tax and in order to make up the difference he needed to increase property tax two and one half times. In addition, Yakutat was funding the school at the full contribution rate at \$503 thousand. Yakutat had been using revenue sharing to make up the differences in its various budgets. He indicated that if revenue sharing was eliminated he would be forced to reduce the administrative staff from 6 to 3 employees. He understood that "everyone had to pitch in and make it work somehow."

Co-Chair Thompson CLOSED public testimony.

CSSB 210(FIN) am was HEARD and HELD in committee for further consideration.

#hb81

HOUSE BILL NO. 81

"An Act relating to an exemption from the regulation of construction contractors."

10:30:21 AM

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 81, Work Draft 29-LS0346\P (Bruce, 4/12/16). There being NO OBJECTION, it was so ordered.

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, explained the changes in the Committee Substitute and read from a prepared statement:

HB 81 Version P differs from CSHB 81 (L&C), HB 81 Version H, in three ways:

1. Deletes "in order" from the legislative intent language from page 1, line 6, of HB 81 Version H because the words are not needed, as many grammarians often say.
2. Adds a new section 2 (page 1, lines 8 through 14) that adds a new subsection to AS 08.18.116 to require the Alaska Department of Commerce, Community, and Economic Development or the Alaska Department of Labor and Workforce Development to investigate and take appropriate action if an owner-builder tries to sell a structure while not licensed as a contractor during the time of constructing the building or two years after construction begins. See "begins" on line 11.
3. Replaces language in section 3 (page 3, lines 2 through 6) to require an owner-builder to notify the Alaska Department of Commerce, Community, and Economic Development on a form provided by the agency when advertising or selling a home built if an owner-builder tries to sell it while not licensed as a contractor during the time of constructing the building or two years after construction begins. See "begins" on line 4.

The previous versions of the bill would have required the owner-builder to get permission from the department to sell a building. HB 81 Version N changes this to require disclosure.

Representative Wilson asked for clarification regarding the two year provision. Ms. Pierson answered that the two year provision was consistent with current law. Representative Wilson asked when the two year period began. Ms. Pierson deferred the question to the sponsor.

REPRESENTATIVE CATHY TILTON, SPONSOR, replied that the question had been asked the prior session and was something the sponsors struggled with over the interim and extensively researched. The two year period began at the start of construction because the start was the point that defined the permitting process. She discussed the legislation. She relayed that HB 81 provided stronger protection to homebuyers that required an unlicensed builder to disclose the fact that the building was constructed by an unlicensed builder. The intent was to allow individuals to continue to construct their own homes. Unfortunately, there were people who built with the intent to sell and avoided attaining the required licensures. She stated that contractor law had been on the books in Alaska since 1968. She detailed that the current homeowner/builder exemption was enacted in 1982 and modified in 2006. The current law provided an exemption allowing a person to build their own home or commercial building every two years without a license. A growing number of individuals were exploiting the provision to build and operate construction businesses without attaining required licensure. Homeowners who purchase a home from the unlicensed builder had no recourse in the law if the home had issues and was not built properly. She declared that the bill provided for transparency and disclosure.

Co-Chair Thompson OPENED public testimony.

RICHARD CARR, OWNER, BEMA CONSTRUCTION (via teleconference), spoke in support of the bill. He relayed that he specialized in restoration and remodeling. He had received many "frantic calls from insurance agents and homeowners" with serious issue due to faulty work. He shared personal experience with customers who had no financial recourse because the builder did not have a "performance bond." The bill would protect the consumers of Alaska from "unscrupulous builders" that "hide behind the two year allowance."

ANDRE SPINELLI, PRESIDENT, ALASKA HOME BUILDERS ASSOCIATION (via teleconference), stated his strong support of the

bill. He shared that the association worked on the issue for many years.

PATRICK DALTON, CONTRACTOR, DELTA JUNCTION (via teleconference), testified against Section 11 of the current version of the bill. He felt that the provision was extreme and "interfered with the right of private property." He agreed with the regulations for organized boroughs. He proposed an exemption for unorganized boroughs. He believed the provision protected a professional group at the expense of rural homebuilders.

[10:42:27 AM](#)

JAMES SQUYRES, SELF, RURAL DELTANA (via teleconference), testified against the bill. He believed the bill had unintended consequences for rural residents. He stressed that "the contractor lobby was tenacious and was terrorizing" regular Alaskans. He opposed the provision that required the owner/builder to fill out a form and provide proof to the Department of Labor and Workforce Development (DOL) and Department of Commerce, Community and Economic Development (DCCED) in order to sell their owner-built home. He opined that the provision increased the agencies bureaucratic functions and impinged on individual freedoms.

TERRY DUSYNSKI, MEMBER, ALASKA STATE HOMEBUILDER'S ASSOCIATION (via teleconference), testified in support of the bill. He shared that he was a home inspector since 1978 and had seen many owner-built homes. He voiced that the exemption in the bill allowed people to build their own homes. He explained that the bill merely required a person building a house and selling it before the two year period to notify the department and explain why the individual was selling the house. He emphasized that the bill did not prohibit constructing an owner built home.

Co-Chair Thompson CLOSED public testimony.

Representative Wilson asked who would enforce the issue - DOL or DCCED.

CHRISTOPHER CLARK, STAFF, REPRESENTATIVE CATHY TILTON, replied that the provision in Section 2 of the bill was enforced by both DCCED and DOL. He added that the provision

in Section 3 was enforced by DCCED. Representative Wilson wanted to know how the bill would be enforced.

10:48:12 AM

AL NAGEL, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT (via teleconference), answered that the details had not yet been worked out between the departments; the regulations would be written after the bill was adopted. He delineated that both departments had investigators that were dedicated to license enforcement.

Representative Wilson wondered whether the bill was necessary. She asked how the bill changed what was supposed to currently be done. Mr. Nagel replied that he was not sure what the department was not doing now. He stated that the bill offered more structure about when a two-year exemption period started. He emphasized that the department was seriously enforcing the existing statute. Representative Wilson asked what paper work would be required to prove the starting date of the two year construction period. Mr. Nagel answered that the statute would require notice that the homeowner was divesting herself of a property; not for a business reason. The department would investigate and determine whether the activity was unlicensed. Representative Wilson asked whether updated fiscal notes were forthcoming.

Co-Chair Neuman spoke to the fiscal notes. He noted that the Division of Corporations, Businesses, and Professional Licensing (DCBPL) submitted a zero note (FN 1 CED). He detailed that the division noted that the licensing costs covered the regulatory costs. He noted the Department of Labor and Workforce Development zero fiscal note (FN 2 DOL).

10:52:25 AM

Representative Wilson spoke to the fiscal notes. She believed the bill carried fiscal impacts to the agencies.

Co-Chair Neuman stated that according to the fiscal notes the department determined that its fees and staff were sufficient to enforce the legislation.

Co-Chair Thompson reminded the committee that investigations were presently happening on a regular basis.

Co-Chair Neuman MOVED to report CSHB 81(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Representative Wilson OBJECTED. She was concerned over how the regulations would be written and believed that the bill impacted personal property rights. She WITHDREW her OBJECTION.

CSHB 81(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the House Finance Committee for the Department of Commerce, Community and Economic Development and one new zero fiscal note from the Department of Labor and Workforce Development.

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ADJOURNMENT

[10:54:55 AM](#)

The meeting was adjourned at 3:58 p.m.