HB 338
Senior Property Tax Exemption

March 24, 2016
House Community & Regional Affairs

Presentation prepared by the Office of Rep. Paul Seaton

<u>Why is this bill needed?</u>

- Alaska’s $3.8 billion deficit is reducing state support and services previously provided to municipalities through programs such as community revenue sharing and subsidies.

- Municipalities will continue to see further reductions from the state for vital services.

- To balance their own budgets, cities and boroughs need flexibility to decide which measures will meet the needs of their communities.

- Local communities have different demographics, needs, and priorities which should be addressed at the local level.

- It is unfair of the state to restrict, without compensation, a municipality’s ability and choice on how they fund their own budget.

<u>Current statute creates a state unfunded mandate for municipalities</u>.

History of the Exemption

1972: property tax exemption of the total assessed value of real property provided to low income seniors whose gross annual income was $10,000 or less; state legislature reimburses municipalities 100% of mandatory property tax exemptions.

1973: eliminated the income requirement and extended eligibility to all seniors.

1984-1985: extended exemption to disabled veterans and the eligible surviving spouses of seniors and disabled vets.

1986: tax exemption was changed from the total assessed value of real property to the first $150,000 of the assessed value of the real property; allowed a municipality to exempt beyond the first $150,000 in cases of hardship; and allowed municipalities, by ordinance approved by voters, to exempt the value that exceeds $150,000 for all groups.
*due to state budget shortfall, reimbursements to municipalities are now prorated at a lesser amount.

1997: Legislature cuts all reimbursements to municipalities for mandatory property tax exemptions.

2008: extends the exemption either partially or wholly to a surviving spouse of a member of the US forces or national guard who dies from a service related injury.

Year	Number of Applicants: Seniors, Disabled Vets, & Widows	Total Exempt Taxes	Total State Reimbursement to Municipalities	Total Municipality Shortfall
1973	911 (needs based-Seniors only)	$197,050 (total assessed value)	$197,050	$0
1974	1,887 (needs based removed)	$631,891	$631,891	$0
1980	3,393	$1,899,611	$1,899,611	$0
1985	5,418 (includes Disabled vets & surviving spouses)	$4,005,075	$4,005,075	$0
1986	6,061	$4,977,451 (change: only first $150,000)	$3,958,567 (Prorated starts)	$1,018,884
1990	8,557	$8,627,081	$2,543,469	$6,083,612
1997	13,692	$20,371,389	$0 (all reimbursements stop)	$20,371,389
2000	15,836	$26,694,955	$0	$26,694,955
2005	21,044	$39,849,375	$0	$39,849,375
2010	27,049	$49,749,270	$0	$49,749,270
2015	35,561	$66,223,849	$0	$66,223,849

Data from DCCED – Alaska Taxable data base https://www.commerce.alaska.gov/web/dcra/OfficeoftheStateAssessor.aspx

Just Seniors & their qualifying Widows/Widowers Only

	2013	2013	2014	2014	2015	2015
Municipality	# Applicants	Taxes Exempt	# Applicants	Taxes Exempt	# Applicants	Taxes Exempt
Municipality of Anchorage	11,395	$25,110,478	11,787	$25,091,330	12,403	$26,053,943
Bristol Bay Borough	29	$46,574	31	$46,912	29	$45,943
Fairbanks North Star Borough	3,733	$7,863,194	4,045	$8,363,774	4,412	$9,416,877
Haines Borough	209	$269,062	239	$310,601	243	$322,122
City & Borough of Juneau	1,515	$2,288,227	1,699	$2,597,143	1,663	$2,554,598
Kenai Peninsula Borough	3,686	$4,369,842	3,899	$4,687,884	4,162	$5,092,557
Ketchikan Gateway Borough	811	$1,043,345	868	$1,135,529	906	$1,194,098
Kodiak Island Borough	463	$799,642	483	$840,299	510	$906,269
Matanuska-Susitna Borough	3,961	$7,420,787	4,524	$8,304,560	4,879	$9,304,468
North Slope Borough	110	$212,926	113	$228,231	134	$176,435
City of Petersburg	208	$314,735	250	$345,396	267	$375,597
City & Borough of Sitka	61	$48,532	490	$406,357	514	$433,524
Municipality of Skagway	508	$420,255	64	$50,606	74	$59,148
City & Borough of Wrangell	213	$310,288	204	$296,770	214	$308,330
City & Borough of Yakutat	47	$45,319	47	$36,118	51	$39,193
Cordova	97	$122,693	104	$170,221	112	$177,226
Craig	46	$30,535	47	$31,418	48	$33,256
Dillingham	72	$118,019	78	$122,236	87	$142,302
Nenana	26	$19,916	29	$20,511	29	$20,753
Nome	107	$141,204	101	$152,770	104	$132,180
Pelican	7	$5,097	9	$6,938	9	$7,403
Unalaska	16	$20,699	22	$31,144	26	$35,391
Valdez	127	$305,801	139	$315,003	140	$322,510
Whittier	15	$6,166	14	$4,705	13	$3,860
Totals-Seniors & Widows only	27,462	$ 51,333,336	29,286	$ 53,596,456	31,029	$ 57,157,982

Information provided by DCCED- State Assessor office.

Decreased State Services & Support for Municipalities

Community Revenue Sharing decreases

The Community Revenue Sharing Program is one of the most important sources of non-locally generated operating revenue for Alaska's communities. It provides Alaska's boroughs, cities, and unincorporated communities with funds vital to the delivery of basic public services.

The program was established in 2008. Annually on June 30, one-third of the amount available in the fund is withdrawn and distributed by the department during the following fiscal year with payments beginning in July. If the fund balance falls below $60 million, no payments may be made from the fund. Each fiscal year, the legislature may appropriate to the community revenue sharing fund money received by the state during the previous calendar year. The amount may not exceed $60 million or the amount that when added to the fund equals $180 million. The legislature may also appropriate less than $60 million annually or nothing at all. The legislature may also provide additional money for community revenue sharing payments independent of the fund. *(DCCED: Community Revenue Sharing website)*

Year	Appropriation to Fund	Community Payments (approx. 1/3 of Previous year balance)	Balance
FY13	$ 60 million	$ 60 million	$ 180 million
FY14	$ 60 million	$ 60 million	$ 180 million
FY15	$ 52 million	$ 60 million	$ 172 million
FY16	$ 0	$ 57.3 million	$ 115 million
FY17	$ 0 (maybe)	$ 38.2 million	$ 76 million
FY18	$ 0	$ 25.5 million	$ 51 million
FY19	$ 0	$ 0 – balance is below $60 million	$ 51 million

Chart provided by Legislative Finance.

Decreased State Services & Support

Leads to increased costs for municipalities.

Examples from FY17 budget:

- Dept. of Transportation cuts to road maintenance, equipment, and crew.
- Decreased funding for Council on Domestic Violence & Sexual Assault.
- Funding cuts to AK Land Mobile Radio will require local municipalities to pay user fees (ALMR is a reliable and secure wireless emergency communications system for all emergency responders in Alaska, especially for multi-agency responses to emergencies and critical situations.)
- Cuts for Troopers and crime lab services for police will require increased work and costs for local police needing to cover those services.

Current Statute

AS 29.45.030(e) Municipalities are required to exempt from property taxes the first $150,000 of the assessed value of the permanent home of a resident who is

(1) 65 years of age or older;
(2) a disabled veteran; or
(3) an eligible surviving spouse

Statute also states a municipality:

- may by ordinance approved by the voters grant the exemption to a disabled vet's eligible surviving spouse who is under 60 years of age or an eligible surviving spouse of a member of the United States armed forces or member of the National Guard who dies from a service connected cause;
- may, in case of hardship, provide for an exemption beyond the first $150,000 of assessed value.

HB 338 Statute Changes

Moves the Senior exemption from: AS 29.45.030(e) Municipalities are required to exempt from property taxes the first $150,000 of the assessed value of the permanent home of a resident who is

~~(1) [65 years of age or older;]~~

(2) a disabled veteran; or

(3) an eligible surviving spouse

Moved Into: AS 29.45.050(i) A municipality may by ordinance [~~approved by the voters~~] exempt from taxation

(1) the assessed value that exceed $150,000 of real property owned and occupied as a permanent place of abode by a resident who is a disabled veteran or their eligible surviving spouse;

(2) all or part of the assessed value of real property owned and occupied as a permanent place of abode by a resident who is a 65 yrs. or older or their eligible surviving spouse. A municipality may base an exemption on the hardship or need of a resident as determined by the municipality.

<u>HB 338 Changes</u>

With passage of HB 338:

- **Current Senior property tax exemptions on the first $150,000 <u>will remain in a municipality's ordinance</u> until the municipality takes action to remove or change the amount.**
  - Municipalities will be able to change their existing senior exemptions through an ordinance. Citizens could still challenge any ordinance through a voter initiative and exercise appropriate influence on their elected officials.
  - For those municipalities without an existing ordinance, Section 4 of the CSHB338 will maintain senior exemptions as is until the municipality takes action.

- **Municipality can decide to make the exemption based on hardship or need.**
  - Existing hardship exemptions above the first $150,000 will remain in a municipality's ordinance until the municipality takes action to remove or change the amount.
  - Municipalities will be allowed to decide how a needs based or hardship based exemption is determined. For example, a municipality could choose to use an income limit or an existing asset test such as qualifying for food stamps or other state needs based program.

- **Excludes the first $150,000 of an optional senior property tax exemption from the determination of the full and true property value used to calculate a municipality's required local contribution to their school district.**
  - This will maintain both state support and the current municipality required local contribution at current levels.

Closing

HB 338 will:

- Remove a state unfunded mandate on municipalities.
- Give municipalities the ability to balance their own budgets, through measures that will meet the needs of their communities.
- Give municipalities the choice on exempting all or part of a senior's property tax and choice of basing it on hardship or needs.
- Keep the current Senior property tax exemptions on the first $150,000 until the municipality takes action to remove or change the amount.
- Allow municipalities to accomplish changes to the senior exemptions though an ordinance.
    - Citizens could still challenge any ordinance through a voter initiative and exercise appropriate influence on their elected officials.