

AS 29.45.050 (m)

Optional exemption for economic development property.

Italic are comments by the state assessor

Bold and underline areas are new language added by the bill.

Capitals inside brackets are language removed by the bill.

## Section 1

Line 4: ...partially or totally exempt all or some types of economic development property from taxation for **a designated period of time** [UP TO FIVE YEARS].

*This is the operative change desired by this legislation removal of the five year limit.*

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Line 6: 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 that exceeds the amount levied on other property for the school district (current language in statute).

*This is talking about an exemption from taxes and indicates that the property should be taxed at the same rate (mill rate for schools) as all other taxable property, if the exemption is extended beyond the first five years.*

First problem, the language mixes up exemption of property (the assessed value) with exemption from tax (or levy), and additionally confuses an exemption from a portion of the tax rate (mill rate for schools also referred to as a levy). Most of the exemptions in 29.45.050 exempt property value from taxation. They do not speak to the tax rate or the amount of tax exempted.

The tax equation is: 1) assessed value X 2) tax rate=3) tax --- three distinct parts.

The original language of the bill protected the tax rate and associated tax revenue related to schools

The stated objective of the bill is to eliminate the required limitation of 5 years.

Per comments made at the hearing by committee members there appears to be support to remove any mention of renewal because with a longer original term, the exemption does not need to be renewed after five years.

Line 8 to 10 Potential Solution: **(Delete the following entirely)** [THE MUNICIPALITY MAY PROVIDE FOR RENEWAL OF THE EXEMPTION UNDER CONDITIONS ESTABLISHED IN THE ORDINANCE. HOWEVER, UNDER A RENEWAL, A MUNICIPALITY THAT IS A SCHOOL DISTRICT MAY ONLY EXEMPT ALL OR A

PORTION OF THE AMOUNT OF TAXES THAT EXCEED THE AMOUNT LEVIED ON OTHER PROPERTY FOR THE SCHOOL DISTRICT.]

*This would entirely eliminate the renewal language from the statute. This does not protect the revenue going to the school district.*

Under the school funding formula all value exempted by local option ordinance is added back to the Full Value Determination. However, the Required Local Contribution is calculated using a low mill rate of 2.65 mills.

As an example If a sample municipality has a mill rate associated with general government of 8.5 mills and a school district mill rate of 4.5 mills for a total mill rate of 13 mills. The current language in AS 29.45.050(m) would allow the whole value of the property to be exempted from taxation for the first 5 years. The whole value would be added back to the FVD and the RLC would be calculated based on 2.65 mills (an obligation of about half of the intended school mill levy). Under renewal it would be required to tax the whole value (including any improvements made in the five years) at 4.5 mills to support the schools.

Anchorage Schools 2015	6.84 mills
Bristol Bay Borough Schools 2015	4.5 mills
Fairbanks North Star Borough Education 2015	6.516 mills
Required local support for schools	2.65 mills

If the statute as amended makes no reference to five years or to the tax rate or revenue associated with schools then the local support for schools for optionally exempt property is reduced to the minimum required under the RLC (AS 14.17.510).

The local government gets to create code that specifies the exemption. The local government can restrict the exemption criteria they cannot expand the exemption beyond the statute. Therefore, a local government can set up the exemption so that the school mill rate is applied and the property is exempt from taxation only for general government millage. This has been done with the senior hardship exemption in different areas of the state (AS 29.45.030 (e)).