ALASKA STATE LEGISLATURE

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SPONSOR STATEMENT

SB 219 – An Act relating to the limitation on the value of property taxable by a municipality; and providing for an effective date.

The North Slope Borough is seeking a legislative change that will provide more efficient flexibility in managing its own budget while providing a sliding scale for municipalities to lower taxes on oil & gas properties.

Current law (AS 29.45.090) restricts the mill rate for the municipal operating budget for communities with oil & gas properties subject to property taxation under AS 43.56. The formula is based on assessed values, population, and a multiplier of 225%. Each municipality with oil & gas properties calculates this formula to establish their operating budget revenue picture. Following the calculation of this amount, the municipality then calculates the amount of revenue necessary to meet their annual bond debt payments.

For the North Slope Borough for example, property taxes are levied at 18.5 mills. However, the restriction under AS 29.45 only permits 9.08 mills of the levy to be applied toward the borough's operating budget. The remaining 9.42 mills of levy are applied to debt service on bonds for capital projects.

Over the last 34 years, the North Slope Borough has used a capital program funded primarily with general obligation bonds in order to develop public infrastructure (water, sewer, schools, roads, health facilities, etc.). That infrastructure requires an ongoing maintenance and operations program in order to remain viable and useful. However, the Borough faces an increasing challenge of addressing these maintenance issues in the context of the restriction in AS 29.45.090 that limits how much revenue can apply towards the operating budget.

Any community that taxes above 19.0 mills would continue to have the same limitation formula currently in place with a multiplier of 225%. A municipality that levies a tax between 18.0 and 19.0 mils would have a multiplier of 300%, and the multiplier would increase to 375% if taxes went below 18.0 mils. In other words, a municipality would gain more flexibility in the use of oil & gas property taxes by lowering taxes.

This approach is meant to help protect the State of Alaska's interest while giving municipalities with oil & gas properties a reasonable opportunity to provide for operations & maintenance without raising taxes.