

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 6(CRA)
 (H) Publish Date: 4/17/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Municipal Property Tax Exemptions BRU Revenue Operations
 Component Tax Division
 Sponsor Representative Davies
 Requester Community & Regional Affairs Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	(1,650.0)	(1,650.0)	(1,650.0)	(1,650.0)	(1,650.0)	(1,650.0)
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Page 2 for analysis.

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 Division: Tax Division
 Approved by: Larry Persily, Deputy Commissioner
 Agency: Department of Revenue

Phone 269-1033
 Date/Time 4/13/02 11:44 AM
 Date 4/13/2002

Department of Revenue Fiscal Note Explanation for CSHB 6(CRA) - FN#1

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This legislation would allow some municipalities to increase -- by a vote of the public -- the residential property tax exemption from the current \$10,000 per residence to \$40,000 per residence. This legislation also would allow municipalities to exempt from taxation up to \$10,000 in assessed valuation of real property for each owner and occupant of a residence who serves as a volunteer firefighter or emergency medical services volunteer.

This legislation could reduce state oil and gas property tax revenues if municipalities increase their residential property assessment exemption and then increase their overall mill rate to make up for the lost revenue rather than implement alternative taxes or reduce their spending.

Under AS 43.56, the state imposes a 20-mill tax on oil and gas property in the state. If the municipality in which the oil and gas property is located also has a property tax, the taxpayer is allowed a credit for any local taxes before paying the state tax. For example, assume oil and gas property valued at \$1 million is located in a borough with a 15-mill tax rate. The taxpayer would pay \$15,000 to the locality. When it files its state taxes it has an obligation of \$20,000 (the 20-mill rate), offset by a tax credit of \$15,000, so it would send a check for \$5,000 to the state. Therefore, if the mill rates increase because of this legislation in localities that have extensive oil and gas production property, oil and gas taxpayers will pay more to the localities and less to the state.

The projected \$1,650,000 annual cost to the state of this legislation assumes that all of the localities (with significant oil and gas properties) that already grant the \$10,000 residential exemption would increase it to \$40,000, and provide for the firefighter and emergency medical service volunteer exemption. The estimate also assumes that the municipalities would want to replace all of the revenues they would lose from the increased exemption. The \$1,650,000 cost also assumes that the municipalities would use an increased mill rate to replace the lost revenues -- thereby reducing state oil and gas property tax collections.

The \$1,650,000 estimate is a maximum. It exceeds prior fiscal notes for a similar bill, SB 4, for two reasons. First, this bill allows for the exemption to apply to both areawide and service area property tax levies. In order to account for this, the entire Nikiski service area levy was used in determining the effect on the Kenai property tax assessment. Second, the exclusion that tied eligibility for the increased residential exemption to bonded debt, which is included in SB 4, is not included in this bill, which necessitated that the effect on the North Slope Borough property assessment also be included in the calculation.

It should be noted that using reasonable assumptions as to the number of eligible firefighters and emergency medical service volunteers, it was concluded that the fiscal effect to state revenues of this specific provision in the legislation would be negligible.