

**ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS
STANDING COMMITTEE**

April 19, 2001
8:08 a.m.

MEMBERS PRESENT

Representative Kevin Meyer, Co-Chair
Representative Carl Morgan, Co-Chair
Representative Andrew Halcro
Representative Drew Scalzi
Representative Lisa Murkowski
Representative Gretchen Guess
Representative Beth Kerttula

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 217

"An Act relating to municipal property assessment and taxation;
and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 217

SHORT TITLE:MUNICIPAL PROPERTY ASSESSMENT AND TAX

SPONSOR(S): REPRESENTATIVE(S) KOHRING

Jrn-Date	Jrn-Page		Action
03/27/01	0742	(H)	READ THE FIRST TIME - REFERRALS
03/27/01	0742	(H)	CRA, JUD
03/27/01	0742	(H)	REFERRED TO CRA
04/19/01		(H)	CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE VIC KOHRING
Alaska State Legislature
Capitol Building, Room 24
Juneau, Alaska 99801

POSITION STATEMENT: Spoke as the sponsor of HB 217.

KAREN BRETZ, Staff
to Representative Kohring
Alaska State Legislature
Capitol Building, Room 24
Juneau, Alaska 99801

POSITION STATEMENT: Offered information on HB 217.

LOUISE KARI
Phillips Alaska
(No address provided.)

POSITION STATEMENT: Expressed concern that HB 217 could adversely impact Phillips Alaska as well as other members of the oil and gas industry.

STEVE VAN SANT, State Assessor
Division of Community and Economic Development
Department of Community & Economic Development
550 W 7th Ave Ste 1790
Anchorage, Alaska 99501-3510

POSITION STATEMENT: Discussed the fiscal note analysis.

DAN DICKINSON, Director
Tax Division
Department of Revenue
550 W 7th Avenue, Suite 500
Anchorage, Alaska 99501-3566

POSITION STATEMENT: Offered information regarding the fiscal note analysis.

BERT COTTLE, Mayor
City of Valdez
PO Box 307
Valdez, Alaska 99686

POSITION STATEMENT: Testified in support of HB 217 if it would [allow local control over the assessment and taxation of real property].

JULIE KRAFFT, Director
Member Services
Alaska Municipal League
217 Second Street, Suite 200
Juneau, Alaska

POSITION STATEMENT: Discussed AML's thoughts on HB 217.

JAKE JACOBSON

4010 Woodland Drive
Kodiak, Alaska 99615

POSITION STATEMENT: Expressed his hope that HB 217 would pass.

ACTION NARRATIVE

TAPE 01-21, SIDE A
Number 0001

CO-CHAIR CARL MORGAN called the House Community and Regional Affairs Standing Committee meeting to order at 8:08 a.m. Representatives Morgan, Meyer, Scalzi, Guess, and Kerttula were present at the call to order. Representatives Halcro and Murkowski arrived as the meeting was in progress.

HB 217-MUNICIPAL PROPERTY ASSESSMENT AND TAX

CO-CHAIR MORGAN announced that the only order of business before the committee would be HOUSE BILL NO. 217, "An Act relating to municipal property assessment and taxation; and providing for an effective date."

Number 0114

REPRESENTATIVE VIC KOHRING, Alaska State Legislature, spoke as the sponsor of HB 217. He explained that HB 217 addresses real taxes and property taxes. Currently, the state dictates how taxes are administered. This legislation [attempts] to give control to the municipalities for taxing. If municipalities had that local control, there would be greater efficiencies in terms of decision making.

REPRESENTATIVE SCALZI referred to the analysis attached to the fiscal note, which says, "this bill could also cost the State of Alaska millions of dollars of revenue received through assessment of oil and gas properties provided for under AS 43.56." Currently, there is a personal property/real property assessment that the municipality takes up and the state takes up the difference between that and the 20 mills. Therefore, he asked if the fear is that the state will not be able to collect the state tax on oil.

Number 0407

KAREN BRETZ, Staff to Representative Kohring, Alaska State Legislature, explained that HB 217 does not intend to change how oil and gas properties are taxed but rather addresses only

properties owned by individuals or corporations. She noted that she has spoken with several people regarding [the aforementioned concern with oil and gas properties] and thus she felt that would have to be determined later.

REPRESENTATIVE SCALZI commented that, to him, the legislation doesn't seem to impact the oil companies.

REPRESENTATIVE HALCRO inquired as to how one would address this concern later. He asked if there had been any work done to address the oil and gas properties.

MS. BRETZ reiterated that it wasn't the intent of this legislation to impact the oil and gas properties but rather to address the individual homeowners and the communities. However, she noted that she had spoken with a Phillips' representative who said that the oil and gas properties might be impacted by this legislation. In further response to Representative Halcro, Ms. Bretz related her understanding that the Alaska Municipal League (AML) wasn't taking a stance on this.

Number 0603

CO-CHAIR MEYER inquired as to whether HB 217 could run the risk of placing all the property tax burden on businesses in an attempt to provide residents property tax relief.

REPRESENTATIVE KOHRING affirmed that such could be a possibility. He pointed out that it would be to the municipality's discretion to determine how to balance that.

REPRESENTATIVE KERTTULA asked if Representative Kohring would be amenable to an amendment that clarified that it is not the intent of HB 217 to impact oil and gas properties. Thus, exempting those properties in Title 43.

REPRESENTATIVE KOHRING said that he was amenable to such an amendment.

Number 0779

LOUISE KARI, Phillips Alaska, testified via teleconference. She informed the committee that she is responsible for property taxes for Phillips Alaska. Ms. Kari expressed the company's concern that HB 217 could adversely impact Phillips Alaska as well as other members of the oil and gas industry. The majority of Phillips Alaska's property is taxed under the provisions of

[AS] 43.56 at a statutory rate of 20 mills on an assessment assessed by the state Department of Revenue. Ms. Kari said, "While this bill could result in a shifting of property tax revenues on these properties from state to local government, that would not directly impact Phillips Alaska." However, she pointed out that Phillips Alaska, as do other members of the oil and gas industry, does have property that is not subject to [AS] 43.56 and thus could directly be impacted by the change proposed in HB 217. These properties include Phillips Alaska's LNG plant and tankers as well as construction equipment and office facilities. Ms. Kari emphasized that HB 217 would provide certain communities with the opportunity to significantly shift the local tax burden to Phillips Alaska's industrial property. She posed the following example: "Theoretically, a community could tax oceangoing vessels at a 30 mills Section 43.56 property and any other industrial property at 20 mills and totally exempt all commercial and residential property." This bill potentially adversely impacts Phillips Alaska and could also adversely impact other industries. Therefore, Ms. Kari encouraged the committee to hold another hearing in order to provide an additional opportunity to hear from those parties that may currently be unaware of the impact of HB 217.

Number 0940

REPRESENTATIVE HALCRO mentioned that Valdez instituted a tax on tankers a few years ago. He asked if Ms. Kari could speak to how this legislation could potentially impact that situation in the future.

MS. KARI noted that [Phillips Alaska] is currently litigating the validity of that tax. Assuming that the tanker tax was held to be appropriate and legal, Ms. Kari expected that Valdez would be able to fully fund its property tax obligations with a combination of the tankers and the pipelines and pipeline terminal facilities. She also expected that to meet the requirements of AS 43.56, [Valdez] would have the additional ability to tax industrial properties such as the Petro Star refinery. Therefore, she believes that Valdez could conceivably not tax their local residents at all.

Number 1047

REPRESENTATIVE KERTTULA surmised that exempting all the property under AS 43.56 and some other property would essentially exempt all the oil and gas property that might be impacted. Representative Kerttula asked if she was correct that such an

exemption would satisfy the oil industry, although it may not satisfy other businesses.

REPRESENTATIVE KERTTULA imagined that such a change is possible with the use of "except for" language [that would be followed by language that would] define the property out of this legislation. She asked if the [oil and gas] industry would be satisfied if this legislation didn't apply to the oil and gas industry.

MS. KARI related her belief that the issue revolves around how the tax burden is shared among different categories of property. If [Phillips Alaska's] locally assessed property was exempted, but other properties were excluded from the tax base or given a lower mill rate, "we" would still be impacted because "we" would probably end up with a higher mill rate.

REPRESENTATIVE SCALZI explained that it would be a shift in the amount of taxes "needed" to collect rather than a change in the mill rate. In other words, if the mill rate on personal and real property was lowered and the municipality still needed that level of taxes, then the municipality would have to take it from the oil industry. He specified that up to 20 mills is not problematic because they would pay that anyway. However, he believes that Ms. Kari is referring to other properties owned [by Phillips Alaska] that wouldn't fall under the exemption or could have a different rate than that of personal and real property.

REPRESENTATIVE GUESS said that the [Phillips Alaska] building in Anchorage would be an example of the "other property."

REPRESENTATIVE SCALZI replied yes. He guessed that this would provide a municipality with enough options to differentiate between certain taxable oil properties and certain personal and real properties.

REPRESENTATIVE KOHRING indicated his agreement with Representative Scalzi's understanding.

REPRESENTATIVE SCALZI clarified that a different rate wouldn't be applied but rather a shift of the burden.

Number 1276

REPRESENTATIVE GUESS inquired as to how it would not be a change in the mill rate.

REPRESENTATIVE SCALZI remarked, "I guess ultimately it would probably would."

REPRESENTATIVE MURKOWSKI related her understanding that the mill rate couldn't be more than the full and true value of the property. Therefore, even if a municipality needs to make up "the gap," it could only be made up to a certain point that is to the value of the property.

REPRESENTATIVE SCALZI agreed that would be correct for "those properties." However, a municipality could choose to tax other properties at less than their market value and thus there would be a shift.

Number 1383

STEVE VAN SANT, State Assessor, Division of Community and Economic Development, Department of Community & Economic Development, testified via teleconference. Mr. Van Sant informed the committee that [the division] helped pen some of the [fiscal note] analysis that is included in the committee packet. As that analysis specifies, under a "worst case scenario," the state could lose around \$20 million. It is difficult to estimate what this legislation would cost the state because we are unsure what municipalities might do. However, he agreed that there would be a shift in the tax burden in some of these communities.

MR. VAN SANT informed the committee that currently there is a statute under Title 43 that limits the amount of money that a municipality can take from the state, which is referred to as the 225 percent formula. This formula is complicated and has been to the Supreme Court. To date, everything that has been done has been approved by the court. Mr. Van Sant explained that the state collects 20 mills on the entire oil and gas property and the state gives a credit to the oil companies for any dollars given to the municipality. He informed the committee that the following communities have the approximate mill rate specified: North Slope Borough - 18.5 mills; Valdez - 20 mills; Fairbanks - 16 mills; and Kenai - 10 mills. Therefore, there is some extra available and going to the state. However, the problem arises when a municipality wants to issue bonds, which would be exempt from the 20 mill cap and thus the reality is that the municipality can go above that mill rate. In fact, municipalities can go up to a total of 30 mills for operations, even though the state is only receiving 20 mills and

it can be taken from the unorganized borough where the state is receiving those revenues. Therefore, "it could potentially cost the state, actually, all of the revenue that it is getting," he said. He highlighted the fact that a number of areas such as Delta-Greely and Copper River are considering forming. Both of the aforementioned areas contain a substantial amount of oil and gas properties. If HB 217 passes, it would be to the benefit of those areas to impose a property tax and exempt most of the local property from the tax, thereby shifting the burden entirely to the oil and gas industry and businesses.

MR. VAN SANT mentioned that he hasn't had an opportunity to speak with the Attorney General's Office regarding the constitutionality of HB 217, specifically the inequity in taxation. He concluded by offering to answer any questions.

Number 1588

REPRESENTATIVE KERTTULA related her understanding that all property within a municipality is taxed the same; there is no flexibility. Committee members indicated agreement in Representative Kerttula's understanding. She said that seems "off," although she could see the other side as well.

REPRESENTATIVE HALCRO, in response to Representative Kerttula, said, "Yes. ... it's really based on fairness." He pointed out that that's why communities have to come to the legislature if they want to alter the tax rate in order to maintain a level of fairness. He identified the point to be: "Is it in the state's best interest?"

Number 1671

REPRESENTATIVE MURKOWSKI inquired as to the exemptions to the requirement that everything be taxed at the same rate.

MR. VAN SANT pointed out that there are two statutes for exemptions. One statute is mandated under AS 29.45.030, which refers to state, federal, and municipal property; education and charitable hospitals; and senior citizens. There is also AS 29.45.050, which contains the optional exemptions. For example, Fairbanks, Kenai, Valdez, North Slope, and Bristol Bay have the 10K residential exemption, which allows the exemption of up to \$10,000 worth of residential value. The optional exemptions also include historical sites, buildings and monuments, as well as the ability to choose which categories of personal property

to exempt. If HB 217 passes, the legislation would make AS 29.45.050 moot and thus should probably be removed.

REPRESENTATIVE MURKOWSKI remarked that it sounds as if there are a fair number of avenues that a municipality has for exemptions.

REPRESENTATIVE HALCRO asked if HB 217 renders the senior citizens' property tax exemption mandate moot because the local municipalities could address that on their own under HB 217.

MR. VAN SANT pointed out that the senior citizens' property tax exemption is mandated and thus would still be required. If the legislature wanted to change that mandate, the exemption would have to be removed from AS 29.45.030.

Number 1883

REPRESENTATIVE SCALZI inquired as to why the state would lose up to \$20 million with the oil and gas properties. He asked Mr. Van Sant to review the bonding again. Representative Scalzi understood that if the state can tax up to 20 mills and the municipality chooses to lower its rate on other things, the state would continue to collect up to 20 mills. Therefore, Representative Scalzi asked if Mr. Van Sant was referring to above [the 20 mills].

MR. VAN SANT agreed with Representative Scalzi, but he deferred to the Department of Revenue.

Number 1923

DAN DICKINSON, Director, Tax Division, Department of Revenue, testified via teleconference. Mr. Dickinson explained:

Up to 20 mills, the basic issue is a loss in state revenue. In other words, if a municipality chose to raise its mill rate - anything up to 20 mills - the industry would not be paying more, it would simply be paying it to the locality instead of to the state. And that's where we estimated ... the \$20 million loss in revenue. After that point, then it becomes an issue sort of with the industry because ... the municipality chose to raise its rates above 20, up to the 30 for operations or any place beyond that; if it chose to incur a lot of bonded indebtedness that would be money out of industry money that's no longer in the state's pocket.

MR. DICKINSON highlighted the point that both the North Slope and Valdez are capped at a rate below 20 mills. Therefore, the North Slope, for example, could go above the cap on bonded indebtedness. Due to the North Slope's low population, [the fact] is that the North Slope's cap is much lower than 20 mills, but with the bonded indebtedness it can be pushed to 20 mills.

Number 2044

BERT COTTLE, Mayor, City of Valdez, testified via teleconference. Mayor Cottle informed the committee that in a 1999 AML meeting, the cities of Fairbanks and Valdez requested that their current \$10,000 personal property tax exemption be raised. At that meeting, there was not enough time to get that before AML and passed. However, in 2000 it was a platform issue for AML and was adopted by AML. Therefore, AML passed that the personal property tax exemption could rise from the current \$10,000 level to \$50,000.

MAYOR COTTLE highlighted that local taxation is a local issue. Therefore, [this legislation] would allow municipalities to exercise self-governance and local control in regard to how the property is assessed and taxed within their jurisdiction. Mayor Cottle felt that if more cities had this option, then issues such as the 10 mill cap wouldn't come up. Mayor Cottle then turned to the comments made by the Phillips Alaska representative and pointed out that the employees of the oil industry would benefit from a personal property tax exemption.

Number 2269

REPRESENTATIVE MURKOWSKI related her understanding that in 2000 Valdez approached AML regarding an increase in the personal property tax exemption from \$10,000 to \$50,000. She assumed that a resolution passed, but that nothing more has happened.

MAYOR COTTLE replied, "That's correct." He explained that Valdez, Fairbanks, and others requested that the 1972 law be adjusted to meet inflation and other considerations so that there would be the option for personal property exemptions in an amount up to \$50,000.

REPRESENTATIVE MURKOWSKI pointed out that HB 217 goes above and beyond Mayor Cottle's request, which she understood was to make current the optional exemption available through AS 29.45.050. Therefore, Representative Murkowski inquired as to whether that

is still Mayor Cottle's preference or whether he would prefer to remove the total exemptions currently in statute.

MAYOR COTTLE said Valdez' aim was to make adjustments in the current \$10,000 personal property tax exemption that was written in 1972.

REPRESENTATIVE MURKOWSKI reiterated that HB 217 goes above and beyond that goal.

MAYOR COTTLE informed the committee that there is a Senate Bill and another House Bill that would address this. He said, "If this is the option that we do to get there, ... this is what we support."

Number 2343

JULIE KRAFFT, Director, Member Services, Alaska Municipal League, said that AML's Revenue and Finance Committee is meeting on Monday to discuss this and take a formal position. She turned to Mayor Cottle's comments regarding raising the residential [property] tax exemption to \$50,000, which has been reviewed by AML. Furthermore, Mayor Cottle is correct in that the Senate Bill has been heard while the House Bill has not.

MS. KRAFFT acknowledged that Representative Kohring's bill does go beyond what AML was seeking. She specified that AML has never sought to change the full and true value to be what is taxed for property. Furthermore, AML isn't interested in [an inequitable tax scheme] because if someone receives an exemption, then someone else has to make it up. Also the vote on the 10 mill tax cap illustrates that people aren't unhappy with the current system. Ms. Krafft reiterated that AML will be reviewing HB 217 and take a formal position. She mentioned that AML does support what Mayor Cottle is seeking and thus has been working to try to increase that property tax exemption to \$50,000.

Number 2452

REPRESENTATIVE GUESS inquired as to how other states deal with this. She recalled that most of the places she has lived have had flexibility in their tax structure.

MS. KRAFFT informed the committee that Seattle, for instance, has chosen a high sales tax. However, Alaska is much different because of our oil and gas property. She pointed out that the

senior citizen property tax exemption has been reviewed as an [option] only because it costs upwards of \$26 million now.

REPRESENTATIVE GUESS expressed her interest in obtaining some research in regard to flexibility and the entity that has the authority over this area.

MS. KRAFFT pointed out that many states have county governments, which is different in that the counties and the cities within the counties can tax different things.

REPRESENTATIVE HALCRO surmised that HB 217 is the result of the tax cap vote and the desire to provide communities with more flexibility. He asked if AML's members feel that the tax cap vote squashed the issue of property taxes and their unfair nature.

MS. KRAFFT said that AML interpreted the result of the tax cap vote to illustrate that people are willing to pay for the services that they are receiving. She pointed out that there is flexibility in that a sales tax can be utilized rather than a property tax.

Number 2619

JAKE JACOBSON, Kodiak resident, testified via teleconference. Mr. Jacobson turned to the oil and gas property, which is already taxed at a different formula with a lower maximum than other property in the state. Therefore, he felt that it would be reasonable to amend HB 217 so that oil and gas property, and perhaps other heavy industry as well, would continue to be dealt with separately. Currently, locally passed tax caps sunset in two years and can be easily overridden by a simple declaration of emergency, in the case of Kodiak. Mr. Jacobson related his understanding that HB 217 would allow local communities to set the property tax caps without the automatic sunset provision. Therefore, the local communities could specify that the local assembly could override the bill by well-defined parameters or that the cap couldn't be overridden at all. He explained that the current state law limits property tax exemptions on homes, other than those of senior citizens, to \$10,000. He echoed the earlier comments regarding the legislation that proposes raising the \$10,000 exemption to \$50,000.

MR. JACOBSON said that HB 217 would allow local communities to exempt homes, for instance, at whatever level they desire. That would be subject to changes per local community voter approval.

If, as was previously suggested, people are satisfied with the current status, then the passage of HB 217 will allow [a municipality] to maintain the current status or to tailor it to suit their local needs. Therefore, Mr. Jacobson felt that HB 217 is worthwhile and thus he hoped it would pass.

Number 2746

CO-CHAIR MORGAN announced that HB 217 would be held due to the unanswered questions surrounding the bill.

ADJOURNMENT

The House Community and Regional Affairs Standing Committee meeting took an at-ease at 8:50 p.m. in order to prepare for the overview from the Alaska Housing Authority. [The minutes for that overview can be found under the 8:59 a.m. meeting for the same date.]