

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 4  
 Bill Version: CSHB 241(FIN)  
 (H) Publish Date: 4/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Municipal Property Tax Exemption RDU Revenue Programs & Services  
 Component Tax Division  
 Sponsor Representative Chenault  
 Requester House Finance Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>	***	***	***	***	***	***
-------------------------------	-----	-----	-----	-----	-----	-----

**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)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\*\* See page 2 for discussion of possible revenue effects on the state.

Prepared by: Randall Hoffbeck, State Petroleum Property Assessor  
 Division: Tax Division  
 Approved by: Steve Porter, Deputy Commissioner  
 Agency: Department of Revenue

Phone 269-1029  
 Date/Time 4/23/04 11:52 AM  
 Date 4/23/2004

## FISCAL NOTE #4

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 241(FIN)

### **ANALYSIS CONTINUATION**

This legislation would allow municipalities to exempt – by a vote of the public – up to \$25,000 in annual assessed valuation of each parcel of residential property. In addition it would allow a \$10,000 exemption for the residence of a law enforcement officer in an "eligible area". Currently the optional residential exemption is capped at \$10,000. This legislation also extends the deteriorated property exemption from 5 years to 10 years and extends the exemption to include demolition and removal of the improvements.

This could have an indirect effect on state revenues if municipalities increase their residential property assessment exemption and then increase their overall mill rate to make up for the lost revenue.

#### Analysis:

Assuming all municipalities with oil and gas property took advantage of the provision in this legislation and adopted a \$25,000 exemption for residential property owners plus a \$10,000 law enforcement officer exemption, and assuming every affected municipality raised its property tax mill rate to fully recover the revenue loss from the lower assessment valuation on residential property, then there would be some annual revenue loss to the state.

The extension of the deteriorated property exemption is not expected to have an additional fiscal impact on the state.

#### However:

It is unknown which, if any, municipalities would adopt the higher exemption rate, if adopted, whether they would allow the maximum exemption, and if the municipalities would attempt to recover all lost revenue by increasing the mill rate.

Therefore the Department of Revenue cannot accurately project what effect this legislation would have on state property tax revenues. See attached spreadsheet for further analysis.

## HB 241- Residential \$25,000 Exemption. Estimated Effects with No Other Revenue Source

		Residential Property Value	Mill Rates	Residential Estimated Taxes	Residential Savings	Commercial Property Value	Commercial Estimated Taxes	Comm. Tax Increase	AS 43.56 Value	Oil & Gas Est. Taxes	Oil & Gas Revenues Diverted to Local Muni.
<b>Fairbanks North Star Borough</b>	Pre-HB 241	\$ 150,000	0.0154	\$ 2,310		\$ 500,000	\$ 7,702	\$	270,805,700	4,171,220.20	
	Post-HB 241	\$ 125,000	0.0162	\$ 2,019	(291.30)	\$ 500,000	\$ 8,077	\$ 375	270,805,700	4,374,380.56	\$ 203,160
<b>Kenai Peninsula Borough</b>	Pre-HB 241	\$ 150,000	0.0065	\$ 975		\$ 500,000	\$ 3,250	\$	638,617,190	4,151,011.74	
	Post-HB 241	\$ 125,000	0.0068	\$ 844	(131.02)	\$ 500,000	\$ 3,376	\$ 126	638,617,190	4,311,817.90	\$ 160,806
<b>North Slope Borough</b>	Pre-HB 241	\$ 150,000	0.0186	\$ 2,784		\$ 500,000	\$ 9,280	\$	10,463,871,080	194,209,447.24	
	Post-HB 241	\$ 125,000	0.0186	\$ 2,321	(463.43)	\$ 500,000	\$ 9,282	\$ 2	10,463,871,080	194,256,765.94	\$ 47,319
<b>City of Valdez</b>	Pre-HB 241	\$ 150,000	0.0200	\$ 3,000		\$ 500,000	\$ 10,000	\$	657,583,710	13,151,674.20	
	Post-HB 241	\$ 125,000	0.0203	\$ 2,534	(466.05)	\$ 500,000	\$ 10,136	\$ 136	657,583,710	13,330,265.73	\$ 178,592

**Estimated total revenue loss, by municipality, if exemption is increased to \$25K**

	Total	Oil & Gas Taxes	Local Tax	
<b>Fairbanks</b>	\$ 3,184,949	\$ 203,160	\$ 2,981,788	
<b>Kenai</b>	\$ 1,036,880	\$ 160,806	\$ 876,074	
<b>North Slope</b>	\$ 48,442	\$ 47,319	\$ 1,123	
<b>Valdez</b>	\$ 281,133	\$ 178,592	\$ 102,541	
	\$ 4,551,403	\$ 589,877	\$ 3,961,527	\$ 589,877

This worksheet estimates the effect of implementing an increase in the Homestead exemption from the current \$10K limit to \$25K. It does not include an estimate for the law enforcement officer section of the legislation as those numbers are not available. The deteriorated property exemption extends an existing exemption from 5 years to 10 years and would not increase the cost to the state.

The numbers provided for residential and commercial values are hypothetical, however, the resulting revenues are reflective of actual property tax increases/decreases if there are no other revenue sources to draw from or service are not cut to correspond with overall tax revenue drop based upon the increased local exemption. The values for oil and gas are actual numbers and represent actual estimated loss of state revenue, assuming all municipalities increase the local exemption to the \$25K and no other revenue sources are identified nor are existing services cut.

The mill rates used for the "Pre-HB 241" is actual mill rates from municipalities for 2003 tax year. The mill rate used for the "Post-HB 241" is a calculated rate. The calculation was done in such a manner to raise the same revenues as the "pre-exemption" mill rates. This assumes all lost tax revenue will be raised from the property tax with no revenue from other sources.