

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

February 12, 2004  
8:10 a.m.

**MEMBERS PRESENT**

Representative Carl Morgan, Chair  
Representative Pete Kott  
Representative Ralph Samuels  
Representative Sharon Cissna  
Representative Albert Kookesh

**MEMBERS ABSENT**

Representative Kelly Wolf, Vice Chair  
Representative Tom Anderson

**COMMITTEE CALENDAR**

CS FOR SENATE BILL NO. 63(STA)

"An Act relating to transition provisions related to municipal mergers, consolidations, dissolutions, reclassifications, annexations, detachments, and incorporations; and relating to municipal property taxation in annexed, detached, and newly incorporated areas."

- HEARD AND HELD

OVERVIEW OF LOW SULFUR DIESEL FUEL

- HEARD [See 8:30 a.m. minutes for this date]

**PREVIOUS COMMITTEE ACTION**

BILL: SB 63

SHORT TITLE: MUNICIPAL ANNEXATIONS AND DETACHMENTS

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

02/07/03	(S)	READ THE FIRST TIME - REFERRALS
02/07/03	(S)	CRA, STA
02/26/03	(S)	CRA AT 1:30 PM FAHRENKAMP 203
02/26/03	(S)	Moved Out of Committee
02/26/03	(S)	MINUTE(CRA)
02/28/03	(S)	CRA RPT 2DP 2NR
02/28/03	(S)	DP: WAGONER, TAYLOR;

02/28/03 (S) NR: STEVENS G, ELTON  
04/24/03 (S) STA AT 3:30 PM BELTZ 211  
04/24/03 (S) Heard & Held  
04/24/03 (S) MINUTE(STA)  
04/29/03 (S) STA AT 3:30 PM BELTZ 211  
04/29/03 (S) Moved CSSB 63(STA) Out of Committee  
04/29/03 (S) MINUTE(STA)  
05/01/03 (S) STA RPT CS 2DP 1NR NEW TITLE  
05/01/03 (S) DP: STEVENS G, COWDERY; NR: GUESS  
05/05/03 (S) TRANSMITTED TO (H)  
05/05/03 (S) VERSION: CSSB 63(STA)  
05/06/03 (H) READ THE FIRST TIME - REFERRALS  
05/06/03 (H) CRA  
05/15/03 (H) CRA AT 8:00 AM CAPITOL 124  
05/15/03 (H) Scheduled But Not Heard  
02/12/04 (H) CRA AT 8:00 AM CAPITOL 124

**WITNESS REGISTER**

REPRESENTATIVE PAUL SEATON  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Presented HCS CSSB 63, Version X.

**ACTION NARRATIVE**

**TAPE 04-3, SIDE A**

Number 0001

**CHAIR CARL MORGAN** called the House Community and Regional Affairs Standing Committee meeting to order at 8:10 a.m. Representatives Morgan, Kott, Samuels, Cissna, and Kookesh were present at the call to order. - HEARD AND HELD

SB 63-MUNICIPAL ANNEXATIONS AND DETACHMENTS

CHAIR MORGAN announced that the only order of business would be CS FOR SENATE BILL NO. 63(STA), "An Act relating to transition provisions related to municipal mergers, consolidations, dissolutions, reclassifications, annexations, detachments, and incorporations; and relating to municipal property taxation in annexed, detached, and newly incorporated areas."

Number 0084

REPRESENTATIVE KOTT moved to adopt HCS CSSB 63, Version 23-LS0489\X, Cook, 2/11/04, as the working document. There being no objection, Version X was before the committee.

REPRESENTATIVE KOTT, upon Representative Seaton being called to present Version S, questioned why a House member is presenting Senate legislation.

Number 0210

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, in response to Representative Kott, explained that there has been a lot of friction over this legislation, which impacts the district he represents. This is a taxation issue that needs clarification. He further explained that he has worked with the sponsor and thus he volunteered to carry the legislation. In further response to Representative Kott, Representative Seaton specified that the sponsor supports [Version X].

REPRESENTATIVE SEATON explained that when there is an annexation or incorporation there are almost always overlying service areas. Currently, the service areas lose a major portion of their budget when there is an annexation early in the year but after the service areas have their budgets in place. Furthermore, there is no way for the service areas to make up the loss. Therefore, this legislation specifies that the tax year begins January 1st [of the year immediately following the year an annexation takes effect]. Under the aforementioned scenario budgets can be planned without facing a disruption in service to the local areas. Furthermore, this legislation takes one of the objections of the local parties off the table.

Number 0477

CHAIR MORGAN posed a situation in which the public doesn't vote [on the annexation] until November. He asked if the new borough would begin charging and collecting taxes two months later on January 1st.

REPRESENTATIVE SEATON replied yes, but pointed out that many [annexations and incorporations] don't go through an election process, rather they go through a Local Boundary Commission (LBC) process. Therefore, it would depend upon when the LBC makes its decision. He informed the committee that currently if the annexation or incorporation takes place after June 15th, the taxation begins January 1st of the following year. However, if [an annexation or incorporation occurs] between January 1st and

June 15th, the taxation could start at any time. Therefore, such a situation is problematic, as discussed earlier.

Number 0636

REPRESENTATIVE SAMUELS suggested that it might make more sense to specify that the [taxation] would begin six or eight months after the [annexation or incorporation] decision is made. He asked if it would take time for a city to establish a tax structure to have a new service area.

REPRESENTATIVE SEATON reiterated that this legislation would let everyone know that [taxation] all begins or ends at a budgetary cycle in order that the entities can plan. In further response to Representative Samuels, Representative Seaton related his belief that all municipalities use a calendar year budget. However, he offered to check the statute. He noted that no municipalities or the LBC have made comments [similar to those of Representative Samuels].

Number 0881

MARY GRISWOLD urged the committee to support Version X and provided the following testimony:

The importance of this bill is that it eliminates long-standing ambiguities in existing law regarding when newly incorporated, annexed, and detached properties are subject to municipal property taxes. Your committee identified the need to resolve this issue as it debated Homer's annexation proposal in 2002. And the Local Boundary Commission has requested ... a resolution for at least the past four years. Alaska Statute established January 1 of an assessment year as the date property shall be valued. The statutes require municipalities to determine the rate of levy before June 15th and to mail tax statements setting out the levy by July 1st. These deadlines prevent municipalities from levying in the same year for any annexation or incorporation that becomes effective after July 1st. The question remains whether they can disrupt the established schedule to immediately tax properties annexed or incorporated between January 1 and July 1. To complicate the situation, the Local Boundary Commission is given broad powers to place conditions on boundary changes, but there is no clear authority for it to decide

property tax jurisdiction. This is a policy issue and it's better resolved through legislation than by the Local Boundary Commission on a case-by-case basis or by dragging it through the court. Clarifying, by statute in cases of incorporation, annexation, and detachment, that property taxes accrue in full each year on January 1 is consistent with existing policies and procedures across the state for assessing property and adding new property tax rolls. It is a practical approach that will simplify the transition planning process and be less disruptive to the effected governmental units and individual taxpayers. It is the approach the Mat-Su Borough has consistently used in all its annexations, and they have [completed] more than anyone else.

It is important to note that with many annexations and incorporations there is a corresponding, simultaneous detachment from another governmental unit. Using January 1 as the cutoff date to establish value and jurisdiction provides less disruption to that municipality's budget process and service delivery plans. This is a better approach than pro-rating taxes between governments for the remainder of the tax year because many services are provided on an areawide basis, the cost of which will not decrease proportionately to the territory affected by the simultaneous boundary change. It is also better because municipal governments have flexibility to establish levy dates and payment cycles within the statutory limit and are often different fiscal and budget preparation cycles, which makes pro-rating taxes cumbersome and disruptive.

Number 1113

Taxpayers expect property assessments and tax bills on an orderly schedule. The January 1 assessment date is the effective date for property tax liability. Set statutes allow up to six months to mail the bills is a practical necessity for sufficient time to create an assessment roll, notify property (indisc. -paper shuffling) board of adjustment hearing, develop budgets, certify the tax rolls, set the appropriate levy, and levy and prepare the tax bills. This schedule also allows taxpayers time to set aside sufficient funds to pay their bills. It is not fair

to surprise them with a big change in the middle of the assessment calendar. If the Local Boundary Commission were allowed to direct municipalities to levy taxes on property within their jurisdiction as of any date other than January 1, serious conflicts could arise. Exactly how close the effective date of a boundary change could crowd the tax mailing date is too open a question to leave unresolved until well into the petition analysis. Furthermore, realistic revenue projections are necessary at the beginning of an annexation, incorporation process for responsible evaluation and transition planning.

Some people have argued that this approach is unduly conservative, especially for areas undertaking incorporation because they will be required to immediately provide services for which they have no funding. After analyzing the consequences and trying to accommodate special situations, I realized that the conflicts created by more flexible approaches defeat their purpose. Municipalities are not expected to immediately provide the host of services typically associated with government. Services and delivery timelines should be made clear to everyone early in the consideration of to incorporate or annex territory. It is important to know that municipalities have revenue sources other [than] property taxes. An area deemed appropriate for incorporation or annexation has demonstrated sufficient economic and human resources to support government. Sales taxes could serve as [an] initial source of funding for government services while a municipality (indisc.) foundation. Organized boroughs may loan money to a newly incorporated city similar to a loan made by the Kenai Peninsula Borough to the service area formed in October of ... 2000 for which the borough did not levy taxes until June of 2001. The state offers significant financial incentives, including a \$600,000 organizational grant to areas of the unorganized borough willing to incorporate. Such payments would help bridge this revenue gap. Clear guidelines for municipal taxation authority will promote orderly municipal growth and will reduce the stress and contention associated with boundary changes. Please support your committee substitute for Senate Bill 63 so everyone understands the revenue rules before becoming involved in an annexation,

detachment, or incorporation procedure. Thank you.  
I'd be happy to try to answer any questions.

Number 1367

CHAIR MORGAN, upon determining no one else wished to testify, closed public testimony. Chair Morgan announced that he didn't intend to hold CSSB 63(STA) forever. However, there was a request to hold the legislation for another week and thus he announced that it would be scheduled for next Thursday.

#### **ADJOURNMENT**

The committee took an at-ease at 8:26 a.m. in order to prepare for the Low Sulfur Diesel Fuel Overview by the Department of Environmental Conservation. [For the overview on Low Sulfur Diesel Fuel, see the 8:30 a.m. minutes for this date.]