

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 2, 2003
1:37 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Robin Taylor, Vice Chair
Senator Gary Stevens
Senator Kim Elton

MEMBERS ABSENT

Senator Georgianna Lincoln

COMMITTEE CALENDAR

SENATE BILL NO. 136

"An Act increasing an optional exclusion or exemption from municipal taxation for residential property."

MOVED SB 136 OUT OF COMMITTEE

PREVIOUS ACTION

SB 136 - See CRA minutes dated 3/17/03

WITNESS REGISTER

Mary Jackson
Chief of Staff to Senator Thomas Wagoner
Alaska State Capitol, Room 427
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced SB 136

ACTION NARRATIVE

TAPE 03-9, SIDE A

CHAIR THOMAS WAGONER called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:37 pm. Present were Senators Gary Stevens, Taylor, Elton and Chair Wagoner. Senator Lincoln arrived momentarily.

He asked Mary Jackson to present SB 136.

#SB 136

SB 136-RESIDENTIAL PROPERTY TAX EXEMPTION

MARY JACKSON, Chief of Staff to Senator Thomas Wagoner, advised this bill was before the committee the previous meeting and the fiscal note was an outstanding issue.

She noted there was a new fiscal note and explained there may be a fiscal impact, but it is not certain because no one can predict what action municipalities would take.

She pointed out letters of support from the Kenai Peninsula Borough and the City of Valdez, both of which are communities that would potentially be affected.

She emphasized this is an issue of local determination. The municipalities could, by a vote of the public, exempt up to \$50,000 in assessed annual valuation of each parcel of residential property. Currently the allowable exemption limit is \$10,000. The community would review the issue each year as they prepare the budget.

Kenai believes their appraisal values increase enough to offset the increased exemption. Kenai also uses a sales tax to increase revenue and they believe municipalities have that option and others to utilize. Regardless of what each community chooses to utilize, it should be a local determination.

She opined the discussion regarding whether there is or isn't a fiscal implication should be a Finance Committee issue.

SENATOR ROBIN TAYLOR noted the state requires every municipal entity or borough to assess at 100 percent of market value. The exception is allowed in a home rule city and a first class borough to provide for different levels of taxation at a variable rate depending on the level of service provided. However, many communities tax at 50 percent of value if there is no electricity, no water, and no sewer then as utilities are extended, a greater percentage of true value would be paid. With this in mind, he asked if discussions had taken place with the state assessor as to what impact, if any, this would have on the education funding formula.

MS. JACKSON explained Eddy Jeans, school finance manager with the Department of Education, said it has no impact on the foundation formula because it is an exemption.

SENATOR TAYLOR remarked the assessor still makes the assessment and if Kenai's property is worth \$1 billion then it's still worth \$1 billion even though Kenai has decided to reduce each residential property by \$50,000.

MS. JACKSON agreed and added the \$10,000 exemption is in effect now and it isn't an issue in terms of the local share.

SENATOR TAYLOR asked how many communities were opting to utilize the exemption.

MS. JACKSON responded there are five.

SENATOR TAYLOR asked if it was the same five. [Bristol Bay Borough, Fairbanks North Star Borough, Kenai Peninsula Borough, North Slope Borough, Valdez]

MS. JACKSON nodded.

SENATOR TAYLOR remarked the municipality or borough would still need at least the same level of funding to sustain the level of services currently provided. This would allow them the option to exempt taxes on up to \$50,000 in value in their taxing district then seek other sources of revenue whether it's sales tax or something else.

CHAIR WAGONER added cutting expenditures was another option.

MS. JACKSON told the Senator he was correct and repeated this only applies to residential properties.

SENATOR LINCOLN asked whether residential property means the primary place of residence.

MS. JACKSON said that was correct; it is residential property that is exempt from taxation by ordinance and ratified by voters at an election.

SENATOR LINCOLN asked if there would be a positive effect to the state.

MS. JACKSON emphasized she didn't want her to believe the effect would be positive. She clarified, if there were an effect, it would be negative in terms of the revenues the state would receive. Potentially it would have an effect on the oil and gas

properties that fall into line with the 20-mil rate when the municipality is at 15 mills. The assessor's concern was that if the municipality offered the \$50,000 exemption then offset the exemption by increasing the mill rate by 1, the state's share of the oil and gas properties would be reduced. Her response to that is that local elected officials wouldn't benefit themselves by handing residents a carrot in one hand and hitting them with a stick with the other.

SENATOR LINCOLN said she didn't read it the same way and she didn't understand why the fiscal note was indeterminate because the Finance Committee would require something more specific.

MS. JACKSON replied that has been the concern all along; you can't make a determination on what the fiscal impact may or may not be because you're predicting what an entity other than the State of Alaska may or may not do. You cannot reasonably predict what communities will do and it's not the jurisdiction of the state to make that decision.

SENATOR LINCOLN read the following fiscal note analysis: "Assuming all municipalities with oil and gas property took advantage of the provision.... the annual revenue drop to the state could be approximately \$1.6 million." She said this shows there are some assumptions that can be made.

MS. JACKSON described that as the worst-case scenario. Although that fiscal information is still available, whether you could reasonably and accurately predict that would happen has always been the question. The department says they cannot predict because they don't have the jurisdiction over decisions municipalities make. That's part of the whole issue; it's a local determination.

SENATOR TAYLOR agreed it's a local determination, but the decision to take the carrot and stick approach certainly doesn't occur in the North Slope Borough. It might occur in Kenai where there is some ownership interest or some people working there that are concerned about that, but that isn't the case on the Slope. He noted the oil and gas property tax revenue from the four communities amounts to about \$24 million while the revenue from the North Slope Borough is about \$193 million. If they could utilize that and manipulate lower local taxes for their borough and in doing so increase the amount they take, that must be where the state is coming up with the possible loss of \$1.6 million.

MS. JACKSON agreed then directed him to the information regarding mill rates. Both Valdez and the North Slope Borough are close to the cap so the impact isn't as much as you might think it would be. The Kenai Peninsula Borough and the Fairbanks North Star Borough are not near that cap and they are the ones that would have an impact if there were to be one.

SENATOR KIM ELTON said part of the question is that it's not possible to predict what action a municipality might or might not take which makes the effect on state revenue uncertain. He asked whether the sponsor had considered adding that the exemption would be contingent on a ruling from the Commissioner of Revenue that it would have no impact on state receipts.

CHAIR WAGONER advised one of the problems he would have with that is that currently two boroughs have been given the latitude to max out and the state is receiving no revenue from any piece of property within their taxing jurisdiction. Realistically, the Kenai Peninsula Borough could assess up to 20-mills at any time and take the revenue. The state already allows for that to be done. We're saying, "On one hand we don't want them to be able to tax us additionally and draw down the revenue the state gets on the oil properties, but at the same time they already have that authority." He acknowledged the suggestion was well founded.

SENATOR ELTON stated he wouldn't offer an amendment because he didn't know all the implications and because it would be a discussion the Finance Committee could have.

MS. JACKSON advised capping the amount of money a municipality may take has been discussed any number of times over the years. SB 136 isn't about that discussion, it's about increasing a \$10,000 exemption that is already in place. There's already an exemption for senior citizens and for veterans and firefighters. SB 136 is to increase the residential property exemption to \$50,000.

SENATOR TAYLOR commented he couldn't imagine anyone in the Kenai Peninsula Borough surviving very long if they took the current mill rate of 6.5 and boosted it to 20 mills, but that is certainly what has gone on and is going on in the North Slope Borough.

Municipalities complain about the senior citizen exemption every year because of the large tax base that is unavailable and Legislatures have been asked repeatedly to remove that exemption. SB 136 doesn't exempt the elderly it exempts everyone.

He said it's an interesting question and he doesn't know what the real ramifications would be. He continued, "I would imagine when Senator Wilken sees this he will probably want to attach something that says, 'All people wherever situated in the state shall pay some taxes on their house.'" But if you give them a \$50,000 exemption there may be houses in some communities that don't have enough value to tax.

MS. JACKSON stated that was a topic of conversation when the bill came out and Senator Elton's point was discussed, as was the senior citizen exemption. She continued, "It's not inconceivable this very small one page bill could suddenly become very, very big."

There were no further questions.

CHAIR WAGONER called for a motion.

SENATOR TAYLOR made a motion to move SB 136 and accompanying vague fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.
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CHAIR WAGONER noted he had a letter from the Department of Environmental Conservation (DEC) recommending SB 118 go no further.

SENATOR KIM ELTON questioned, "The letter is from DEC, it's a Governor's bill and they want it killed?"

CHAIR WAGONER said that was correct. After the first hearing the department found there were far more questions than answers.

SENATOR ELTON remarked they could assume the committee was diligent in raising concerns.

CHAIR WAGONER agreed.

He announced the Local Boundary Commission would make their annual borough report the following week.

There being no further business to come before the committee,
the meeting was adjourned at 2:00 pm.