

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

April 26, 2005

8:12 a.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Co-Chair  
Representative Bill Thomas, Co-Chair  
Representative Pete Kott  
Representative Gabrielle LeDoux  
Representative Mark Neuman  
Representative Sharon Cissna  
Representative Woodie Salmon

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 217

"An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

- MOVED HB 217 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 217

SHORT TITLE: FULL & TRUE VALUE OF TAXABLE MUNI PROP.

SPONSOR(S): REPRESENTATIVE(S) HARRIS

03/14/05	(H)	READ THE FIRST TIME - REFERRALS
03/14/05	(H)	CRA, FIN
04/14/05	(H)	CRA AT 8:00 AM CAPITOL 124
04/14/05	(H)	-- Meeting Canceled --
04/26/05	(H)	CRA AT 8:00 AM CAPITOL 124

**WITNESS REGISTER**

PETE FELLMAN, Staff  
to Representative John Harris  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Presented HB 217, on behalf of the sponsor, Representative Harris.

STEVE VAN SANT, State Assessor  
Division of Community Advocacy  
Department of Commerce, Community, & Economic Development  
Anchorage, Alaska

POSITION STATEMENT: Discussed HB 217 and the current situation that it's trying to address.

MIKE SCHULTZ, Chairman  
Charter Commission  
Delta Junction, Alaska

POSITION STATEMENT: During discussion of HB 217, discussed the situation in Delta Junction with regard to the proposed Deltana Borough.

PETE HALLGREN, City Administrator  
City of Delta Junction  
Delta Junction, Alaska

POSITION STATEMENT: During discussion of HB 217, discussed the view of the proposed Deltana Borough.

#### **ACTION NARRATIVE**

**CO-CHAIR BILL THOMAS** called the House Community and Regional Affairs Standing Committee meeting to order at [8:12:20 AM](#). Representatives Thomas, Olson, LeDoux, and Neuman were present at the call to order. Representatives Kott, Cissna, and Salmon arrived as the meeting was in progress.

#### HB 217-FULL & TRUE VALUE OF TAXABLE MUNI PROP.

CO-CHAIR THOMAS announced that the only order of business would be HOUSE BILL NO. 217, "An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

[8:13:26 AM](#)

PETE FELLMAN, Staff to Representative John Harris, Alaska State Legislature, explained that HB 217 embodies a concept that has been around for some time in that it wouldn't tax pipeline properties. However, in the past the concept was buried in more complex legislation. This legislation provides opportunity and

choice to communities wishing to organize local governments and form boroughs. This legislation would allow communities to exclude a pipeline from property taxes while also not having a property tax, which would reduce the 4 mill requirement to pay for schools.

[8:16:11 AM](#)

REPRESENTATIVE NEUMAN related his understanding that currently unorganized areas of the state include [pipeline] property for the local 4 mill tax that is used for education funding. Therefore, if the 4 mill tax is eliminated as [is an option under HB 217], then that money would not go toward education.

[8:16:53 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development (DCCED), explained that currently in the Delta Junction area, for example, there is no borough and thus the pipeline value is not included in the value given for Delta Junction. If Delta Junction were to form a borough, the oil and gas properties in the area would amount to \$200 million and thus would be included in the full value and considered when [calculating the local contribution] for education. However, the problem is that currently the state collects 20 mills on all oil and gas properties, and therefore the aforementioned \$200 million would be subject to that 20 mills. If that \$200 million is included in the full value for the borough, the borough would almost be required to levy a property tax in order to obtain the 4 mill equivalency. Therefore, the impetus behind HB 217 is such that if a municipality doesn't levy a property tax, then the value of the oil and gas property won't be included in the full value of the municipality and thus it wouldn't be forced to levy a property tax. If the municipality decided to levy a property tax, the property tax would be levied against the local property as well as against the oil and gas property. At that time, the value of the oil and gas property would be included in the municipality's full value.

[8:18:59 AM](#)

CO-CHAIR THOMAS questioned why an area with a gas line running through it would form a borough and not want to tax that property and have a high property tax exemption.

MR. VAN SANT said that it's a choice that can be made at the local level. The impetus behind HB 217 is to not force the area to levy a property tax when it doesn't want to do so.

[8:19:39 AM](#)

CO-CHAIR THOMAS inquired as to the amount of the exemption that a borough can give to its property owners.

MR. VAN SANT answered that the maximum amount a borough can exempt for any individual for property tax is \$20,000 under the optional residential exemption. However, senior citizens are exempt from property tax in the amount of up to \$150,000. He explained that the \$20,000 that can be exempted under the optional residential exemption is added back into the full value and thus is included in the community's school funding contribution.

[8:20:30 AM](#)

REPRESENTATIVE LEDOUX referred to the language in HB 217 that refers to detached property.

MR. VAN SANT explained that the detachment language refers to the detachment of an area from a municipality. If an area is allowed to remove itself from the borough boundaries, the value will be excluded for two years prior to [detachment] because that value, not the current value, is used for school funding.

REPRESENTATIVE LEDOUX asked if detachment is similar to reverse annexation.

MR. VAN SANT said that's one way to look at it. Detachment basically allows an area to withdraw from a borough. He said he couldn't think of an area that has actually detached.

REPRESENTATIVE LEDOUX inquired as to the motivation behind the detachment language in HB 217.

MR. VAN SANT pointed out that there is the possibility of detachment, and therefore the department wants to ensure that when there is a detachment "we're dealing with apples and apples." He explained, "In other words, ... the full value borough that the borough has to consider for local school contribution would be the value two years ago, not today's value. So, we want to make sure we ... remove those values from that borough."

8:23:28 AM

REPRESENTATIVE NEUMAN inquired as to whether the pipeline that travels through unorganized areas is included in the full value of that area. He asked if there is a 4 mill tax that goes toward schools.

MR. VAN SANT replied no, and specified that [the value of the pipeline going through an unorganized area] is not connected to any municipality unless [the pipeline] runs through city boundaries. However, there are no city boundaries within unorganized areas. Mr. Van Sant pointed out that the pipeline from Prudhoe Bay to Valdez primarily passes through boroughs and the unorganized borough. Any portion of the unorganized borough through which it travels is not considered in any municipality's full value for local contribution to schools.

REPRESENTATIVE NEUMAN surmised then that by [providing the option] to take [the pipeline's value] out doesn't decrease local contributions into the school foundation formula.

MR. VAN SANT agreed.

8:24:41 AM

REPRESENTATIVE LEDOUX posed a situation in which an unorganized area with a pipeline passing through it wants to become a borough, although it's concerned [with doing so] because it doesn't want to levy a property tax. She asked if a solution to this problem would be to increase the amount of exemption from which a borough could exempt local property owners.

MR. VAN SANT pointed out that any increased exemption shifts the tax burden from one category to another. In the situation posed by Representative LeDoux, the increased exemption would shift the tax burden from the residential and commercial owners to a third party such as the pipeline. The state only receives 20 mills from that [pipeline] property and that's all that can be levied against that property. However, any time an optional exemption is exercised, those values are still included in the full value, which reflects the total taxable value of the borough. Therefore, any optional exemption is added back into the true and full value and subject to the 4 mill local contribution.

8:26:48 AM

CO-CHAIR OLSON inquired as to what the language "certain other programs" refers to in the title of HB 217.

MR. VAN SANT explained that in the past the full value has been used in the calculation of revenue sharing. Often, the measurement of wealth is used in different state share programs for grants, and therefore he characterized [the reference to "certain other programs"] as a catchall.

[8:28:13 AM](#)

MIKE SCHULTZ, Chairman, Charter Commission, informed the committee that the Charter Commission is charged with writing the charter for the future borough in Delta Junction. At the moment the Charter Commission is wrestling with the funding and proposed tax structure of the proposed borough; the 4 mill equivalence comes into play with that. Since the feeling is that the Delta Junction community won't accept a borough charter with a property tax, a taxing structure without a property tax has been designed. Part of the aforementioned is to exclude the value of the oil and gas properties in the borough area, which is what HB 217 allows.

[8:30:03 AM](#)

REPRESENTATIVE NEUMAN inquired as to how an area can form a borough without property taxes.

MR. SCHULTZ explained that the taxing structure to be used in the proposed borough consists of the following: 3 percent tax on the fuel; 10 percent tax on power sold in the borough; and a 2 percent severance tax on the gold of Pogo Mine.

REPRESENTATIVE NEUMAN related that the Mat-Su Borough has a fairly high property tax with an exemption for personal taxes. He asked if Mr. Schultz foresaw property taxes coming into play for the proposed borough.

MR. SCHULTZ characterized the aforementioned as a discussion [that would occur] in 15-20 years. He said he couldn't predict that far out into the future, but suggested that the proposed borough is tied to the life of the Pogo Mine.

[8:32:39 AM](#)

REPRESENTATIVE LEDOUX inquired as to the number of boroughs that finance themselves with funds other than property taxes.

MR. VAN SANT replied that currently 12 of the 16 boroughs in the state levy a property tax. The other four boroughs derive revenue through something other than property tax.

[8:33:35 AM](#)

PETE HALLGREN, City Administrator, City of Delta Junction, explained that the City of Delta Junction would dissolve at the same time the proposed borough came into existence. Therefore, there wouldn't be duplicate local government. Boroughs, he said, use a variety of taxes to meet their local situation. The \$200 million worth of Trans-Alaska Pipeline System (TAPS) pipeline inside the proposed Deltana Borough would result in the [proposed borough] having to come up with \$800,000 in taxes to pay that portion of the value toward the area's schools. Currently, the state receives about \$4 million from the pipeline that traverses through the proposed Deltana Borough. He explained that the proposed borough would have to take that \$800,000 from the money going to the state's general fund. Mr. Hallgren clarified that taxation on TAPS wouldn't change, merely where the money goes would. He opined that the desire is to develop a tax situation that better meets the needs of the area and its people. However, the current law forces the proposed borough to have a property tax. If HB 217 were passed, local people in the proposed borough would have the opportunity to not have an initial property tax and thus the aforementioned \$800,000 wouldn't have to be taken from the state general fund to give it to the schools. Ms. Hallgren said that he didn't see a downside to this legislation.

[8:35:43 AM](#)

CO-CHAIR THOMAS inquired as to where a borough's payment in lieu of taxes would go. He related his understanding that any revenue from the pipeline would be waived to pay for education.

MR. VAN SANT agreed, and added that under the aforementioned scenario the payment in lieu of taxes would go to the borough.

CO-CHAIR THOMAS said he thought the payment in lieu of taxes was to help with education.

MR. VAN SANT specified that boroughs receive a portion of that payment in lieu of tax. He deferred to Bill Rolfzen, DCCED, regarding the payment in lieu of taxes.

MR. HALLGREN interjected that he has spoken with Mr. Rolfzen for a number of years because the City of Delta Junction receives payment in lieu of taxes through the state program. If the proposed borough were to form, the borough would get the money albeit slightly less than the City of Delta Junction receives now. The amount of payment in lieu of taxes for Delta Junction is about \$467,000, which would decrease to \$380,000 or so under the proposed borough.

[8:37:47 AM](#)

REPRESENTATIVE NEUMAN related his understanding that the proposed borough intends to tax power use. Therefore, he asked if areas [in the proposed borough] are receiving power cost equalization (PCE) funds from the state. He further asked if those taxes would be levied against the PCE funds.

MR. HALLGREN answered that currently in the proposed Deltana area no one receives PCE funds.

[8:39:04 AM](#)

CO-CHAIR THOMAS, upon determining there were no further questions or individuals who wanted to testify, closed public testimony.

[8:39:16 AM](#)

REPRESENTATIVE NEUMAN commented that initially he had doubts about HB 217. However, upon understanding that the \$841,000 won't go into the general fund but rather be placed in local funds, he said he would support passage of HB 217.

[8:40:08 AM](#)

REPRESENTATIVE LEDOUX moved to report HB 217 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

**ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 8:40 a.m.