

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

January 30, 2007

8:03 a.m.

MEMBERS PRESENT

Representative Anna Fairclough, Co-Chair
Representative Gabrielle LeDoux, Co-Chair
Representative Kurt Olson
Representative Woodie Salmon

MEMBERS ABSENT

Representative Nancy Dahlstrom
Representative Mark Neuman
Representative Sharon Cissna

COMMITTEE CALENDAR

OVERVIEW(S): STATE ASSESSOR; ALASKA MUNICIPAL LEAGUE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided a presentation entitled,
"Municipal Revenue Myths & Realities."

TIM BOURCY, President
Alaska Municipal League
Skagway, Alaska

POSITION STATEMENT: Provided an overview of the Alaska
Municipal League.

ACTION NARRATIVE

CO-CHAIR GABRIELLE LEDOUX called the House Community and Regional Affairs Standing Committee meeting to order at [8:03:04 AM](#). Representatives LeDoux, Fairclough, Olson, and Salmon were present at the call to order.

State Assessor

[8:03:57 AM](#)

CO-CHAIR LEDOUX announced that the first order of business would be the presentation from the state assessor.

[8:04:18 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development (DCCED), informed the committee that he would discuss taxation for municipalities and the lack of alternatives for municipalities through the handout entitled, "Municipal Revenue Myths & Realities." The handout, he pointed out, begins by highlighting the various types of taxes, including property tax, head tax, motor vehicle registration tax, employment tax, bed/room tax, fuel transfer tax, business license tax, sales and use tax, value-added tax, severance tax, property transfer tax, and gross receipts tax. However, not all taxes may be levied by all municipalities. He informed the committee that in 2006, approximately \$1.1 billion in local taxes was collected by municipalities, of which \$223 million was sales and other special taxes and \$905 million was property taxes, including oil and gas. Of the \$905 million in property taxes, about \$220 million was collected from oil and gas property tax - the majority of which goes to the North Slope, Kenai, and Valdez.

MR. VAN SANT explained that taxes are necessary in order to distribute the tax burden for services rendered by the government as equitably as possible. In many cases, property taxes are thought to be the methodology. With regard to the page entitled "Have Municipal Tax Revenues Increased?", Mr. Van Sant acknowledged that municipal tax revenues have increased. In fact, from 1995-2005, sales tax revenues increased 63.5 percent; bed taxes and other tax revenues increased 68.4 percent; and local property tax revenues increased 75.4 percent. However, at the same time, the municipal full value determination has only increased 52.3 percent. Moreover, oil and gas property tax revenues decreased 15.3 percent over the same timeframe. The next page entitled, "A Major Reason Why Taxes Have Increased" uses a graph to illustrate that municipal

property tax increases coincide with state cuts and increases to the municipalities from the state. The burden to find revenue is being placed on the local municipalities, he opined.

[8:09:39 AM](#)

CO-CHAIR LEDOUX inquired as to how Alaska's municipal property taxes rank in comparison to other states.

MR. VAN SANT answered that Alaska's property taxes rank about 15-18 nationally and thus Alaska's property taxes are fairly high. However, when one views the overall tax, Alaska ranks 45-48. He then acknowledged that there have been accusations that the property tax system is broken, and in fact legislation has been introduced to fix the property tax system. However, he questioned whether the property tax system is really broken. He explained that property tax is a major source of revenue for state and local governments throughout the U.S. In Alaska the property tax accounts for about 80 percent of total revenue generated. He opined that there should be an effective way of distributing the tax burden. He then explained that the property tax is an ad valorem tax, and thus it's based on the market value of the property. Therefore, assessed values will vary as does the market. He noted that the property tax is one of the few taxes that has an appeal process. Mr. Van Sant acknowledged that the property tax is hated by everyone. However, it's widely used across the nation because mortgage companies and lending institutions use the information.

[8:13:53 AM](#)

MR. VAN SANT, in response to Co-Chair LeDoux, related that the federal income tax is the number one tax that folks hate and the property tax is second. He pointed out that the despise of the property tax often is associated to situations when the property tax has to be paid in two lump sums, such as when a homeowner's house is paid off. Furthermore, mortgage companies are increasing the amount withheld due to increases in property taxes. The reasons for the increase in property taxes is multi-faceted, including an increase in the cost of services and exemptions. Mr. Van Sant then noted that many believe that the assessed value drives the mill rates, although that isn't the case because mill rates are a mathematical calculation. In order to determine the mill rate, the budget is divided by the total taxable assessed value. "In theory, if the budget stays the same and the assessed values increase, the mill rate should

decrease," he relayed. The aforementioned does occur in many cases.

CO-CHAIR LEDOUX opined that in municipalities there may be pressure for the assessors to evaluate the assessed value more frequently when times are tight.

MR. VAN SANT pointed out that assessors are required to provide new market values each year, and furthermore statute requires that [assessors] make visits to property on a cyclical basis. Therefore, he said that pressure on the assessor to change values doesn't happen. The state assessor's office oversees all the assessors and thus the state office will intervene if it's found that municipalities are putting pressure on an assessor. Furthermore, assessors provide the state office with their total statistics, which allows the state assessor to see whether an assessor is not doing his/her job in accordance with state law. Mr. Van Sant said that he has found very little evidence of assessors trying to keep values high or low. Although everyone wants lower values, the problem is that Alaska is a nondisclosure state and thus not all data is available when a sale occurs. He then acknowledged that there's the misconception that an assessor who hasn't been to a house for a few years doesn't know the value of the property. However, the reality is that if the assessor has good sales data and there have been no changes to the house, the value can be re-determined through a statistical analysis every year.

[8:19:13 AM](#)

MR. VAN SANT directed attention to the pages entitled, "Here's What it Looks Like" and "Increase ONLY the Assessed Value, and ...", which relates how mill rates and taxes are determined in a hypothetical situation. Those pages illustrate the theory that if the value goes up while the budget/revenue requirement stays the same, the mill rate will decrease as will everyone's share. He then turned to the page entitled, "What Causes Changes in Assessed Values?", which specifies that such is caused by market shifts, increase in property demands, decrease in supply of properties, and income levels changing. With regard to the question and corresponding page in the presentation entitled, "What Causes Changes in Local Tax Bills?", Mr. Van Sant said that differences are created by local property tax exemptions, local services increases/decreases, budget changes, and state shared revenue increases/decreases. He then pointed out that cuts in state revenues directly correlate with increases in local revenues. He moved on to the graph entitled, "Senior

Citizens Tax Exemption", which amounted to over \$40 million in 2006. He mentioned that he's working on the proposed legislation that would increase the exemption to \$250,000. The proposed legislation, he said, will increase the loss to municipalities since the legislation doesn't include a corresponding funding amount.

[8:23:16 AM](#)

CO-CHAIR FAIRCLOUGH asked if there have been discussions regarding funding the senior property tax exemption to encourage [borough] incorporation versus revenue sharing.

MR. VAN SANT replied yes, but noted that it hasn't occurred at his level. He suggested that the commissioner and director of the Division of Community Advocacy could be asked this at the next meeting.

[8:23:51 AM](#)

MR. VAN SANT informed the committee that the senior tax exemption hasn't been funded since 1996. He also informed the committee that Anchorage bears about half the loss from the senior tax exemption. In fact, Anchorage probably lost a little over \$20 million due to the senior tax exemption. Mr. Van Sant clarified that he isn't saying that the senior tax exemption is a bad exemption, but merely that it costs every taxpayer in a municipality.

CO-CHAIR FAIRCLOUGH pointed out that the legislature has encouraged incorporation for decades. She then said that she didn't want to disenfranchise smaller communities that can handle property taxes. However, there seems to be a discussion and some fall out points that could help determine why revenue sharing is utilized rather than funding state mandates.

MR. VAN SANT related that from a property tax view, the senior tax exemption is of the most concern for municipalities. He noted that in smaller communities, the senior tax exemption isn't as problematic as in areas such as Anchorage. For some of the smaller communities, revenue sharing would over power funding of this program. Furthermore, revenue sharing helps every community whether it has a property tax or not.

CO-CHAIR FAIRCLOUGH asked if Alaska's exemptions are consistent with other allowable exemptions throughout the nation.

MR. VAN SANT clarified that in Alaska there are mandated exemptions, such as the senior tax exemption and optional exemptions. He explained that under the senior tax exemption, every municipality has to exempt the first \$150,000. However, Kenai offers an optional exemption that exempts everything over the first \$150,000. He relayed that at this point Kenai is reviewing potentially trimming its exemption because the municipality is losing a lot of money due to the exemption. With regard to other states, Mr. Van Sant specified that other states have mandated options, but Alaska is one of the few states with optional exemptions, such as the senior tax exemption beyond the \$150,000 and the residential exemption. He noted that the municipalities of Kenai, Anchorage, Fairbanks, North Slope, and Valdez all take advantage of the \$20,000 residential exemption, which is similar to the homestead exemption in other states.

[8:27:34 AM](#)

MR. VAN SANT continued his presentation with the page entitled, "Pro's of the Property Tax", which include that property taxes are a stable and reliable source of revenue, have more open and visible administrative systems than for other taxes, offers an appeal system, taxes are secured by property and thus they're difficult to evade, and collection costs are less expensive than other types of taxes.

[8:28:47 AM](#)

CO-CHAIR LEDOUX inquired as to how often property is taken due to nonpayment of taxes. She pointed out that her local newspaper includes lists of those subject to foreclosure, although there never seems to be a foreclosure sale and the individuals remain on the foreclosure list the next year.

MR. VAN SANT explained that people often don't pay their property taxes until they absolutely must as the penalties aren't very harsh. Furthermore, the individuals can use their property tax money to derive more revenue than if the money was given to the municipality and thus they may pay their property tax at the last minute. Some individuals, he noted, do this each year and some who let their property proceed to foreclosure don't want the property. In reality, Alaska has a very low foreclosure rate, he related.

[8:30:31 AM](#)

MR. VAN SANT moved on to the page entitled, "Con's of the Property Tax", which include that taxes increase proportionately more than income, property tax falls on unrealized capital gains and may be poorly related to cash flow, and large lump-sum payments often associated with property tax make the magnitude of the tax more apparent and unpopular.

CO-CHAIR LEDOUX inquired as to why municipalities use two lump-sum payments rather than monthly payments such as is utilized for utilities.

MR. VAN SANT said that it would be a bookkeeping nightmare for the municipality.

CO-CHAIR FAIRCLOUGH, drawing upon past experience, related that it's a cash flow issue because some municipalities have to borrow to provide monthly services for police and other public safety individuals. Therefore, unless the municipality could get "out in front of the collection," the municipality wouldn't have funds to pay for the aforementioned services.

MR. VAN SANT pointed out that another issue impacting this is the lump-sum bond payments that municipalities face. Mr. Van Sant opined that the private sector could develop a [fee schedule], but it will want to make money. The aforementioned is evidenced by mortgage companies that take monthly payments toward the property tax. Only those individuals with contracts or who don't have a mortgage have to make the lump-sum payments.

CO-CHAIR FAIRCLOUGH surmised that there are a limited number of individuals who own their own home, and thus consideration of those who own their home regarding property tax payments could occur. She then asked if Mr. Van Sant knew how many homeowners have to make lump-sum payments.

MR. VAN SANT said his office doesn't have such data. He reiterated that those who pay lump sums also include those who have private contracts with other individuals.

[8:35:46 AM](#)

MR. VAN SANT continued his review of the negative side of the property tax, which includes the fact that more organizations are requesting and receiving exemptions from the tax. The aforementioned causes a shift in the tax burden. Furthermore, the property tax system is an expensive system compared to other tax methods, although it's fairly efficient to maintain it.

With regard to whether the property tax system is broken in Alaska, Mr. Van Sant opined that the system isn't broken but rather is misunderstood. However, he confirmed that an increase in assessed value usually equals an increase in the tax burden. He highlighted that the effective tax burdens vary dramatically from household to household and shifting the burden guarantees a new group of aggrieved taxpayers. Mr. Van Sant then questioned what to do if the assumption is that the property tax system is broken and then reviewed the pages entitled, "Assessment Limitations." He explained that assessment limitations don't reduce the total tax burden, it merely redistributes it. In general, capping assessments benefits those with rapidly increasing values. However, lower valued properties tend to pay more in taxes due to tax shifting. Therefore, capping assessments only creates an appearance of limiting the tax, it actually falls short of helping the needy whose values may not increase in value as rapidly as other properties. Moreover, assessment limitations create winners and losers because like any property tax exemption, nonlimited parcels will pay for the tax relief of assessment-limited parcels. He highlighted that the biggest policy surprise is that value limits will increase taxes on value limited parcels if their limitation is proportionately smaller than that of the average limitation. He related that some 19 states currently have limits on assessment growth, although some are now questioning its effectiveness. Tax rate limitations constrain the amount of tax that can be collected and offers marginal protection from rising taxes. The ramifications of any approach is merely a shift in the tax burden, he emphasized. Although the incidence of valuation limits isn't yet clear, it may be regressive because rapid valuation growth likely occurs in more desirable, high income areas forcing low income taxpayers to subsidize high income taxpayers.

[8:43:30 AM](#)

MR. VAN SANT turned to the page entitled, "Alternatives", of which the top alternative is to reinstate the state revenue sharing program. He informed the committee that there is a direct correlation between municipal property tax increases and the cuts in state revenue sharing. Another alternative is to fund the senior exemption program, which cost municipalities \$40.3 million in 2006. The senior exemption program is paid by property owners who aren't seniors. He also pointed out that allowing an increase in the local residential exemption from the present \$20,000 is another alternative. In fact, Valdez and the North Slope would like to increase the residential property tax

exemption in order to shift more to their commercial and industrial property owners. Since Valdez and the North Slope have much oil and gas property, an increase in the residential property tax exemption would shift the burden to the oil and gas property owners.

[8:44:51 AM](#)

MR. VAN SANT, in response to Co-Chair LeDoux, specified that local municipalities currently have the option of a \$20,000 residential exemption. However, if that exemption is increased to "not to exceed \$50,000", then a municipality could choose whether it wanted to shift the burden more. In further response to Co-Chair LeDoux, he specified that the limitations of the exemption are made be state law, but the municipality has the option to utilize the exemption. However, he explained that if a community does increase the exemption but doesn't have anything to which the tax burden could be shifted, then the value would've been exempted and the mill rate increases. Therefore, the taxes would essentially be the same.

[8:46:11 AM](#)

CO-CHAIR FAIRCLOUGH requested a history illustrating how industry and commercial entities responded to the residential exemption. She related her understanding that valuations are based on commercial and residential property and thus the exemption shifts the burden of collection of those property taxes to the commercial developments.

MR. VAN SANT said that from the oil and gas industry's viewpoint, [the residential exemption] isn't of concern because the industry will pay 20 mills regardless of whether it's to the state or the municipality. However, it does make a difference for local commercial property. The history that's available is when there was a change from the \$10,000 to the \$20,000 exemption, and there wasn't much resistance in Fairbanks, Kenai, or Anchorage. From one perspective, the property taxes will be written off and the commercial property owners can pass that on to the individuals, although that's not done on a dollar-for-dollar basis. Mr. Van Sant said he wasn't sure how the commercial industry would view increasing [the residential property tax exemption] to \$50,000.

CO-CHAIR FAIRCLOUGH inquired as to the constitutional challenge threshold for a fair taxation argument. She surmised that at the \$20,000 exemption one can make the case that commercial

property uses greater police service, roads, et cetera and cause additional costs that residential property owners aren't paying.

MR. VAN SANT said that he hasn't reviewed such.

[8:48:40 AM](#)

MR. VAN SANT continued his presentation and informed the committee of the alternative of "Circuit Breaker" programs, which are utilized in many states. He explained that under a circuit breaker program the tax bill doesn't exceed a certain percent of a household's income and thus tends to help lower income individuals. Many of these circuit breaker programs utilize the poverty level as the threshold. He noted that Alaska has one deferral program in its laws and it's set at the federal poverty guidelines, which is fairly low to be able to own a home and pay taxes. He said to his knowledge, no one in Alaska has taken advantage of that deferral program. Mr. Van Sant then highlighted the alternative of allowing property tax deferrals for those who simply can't pay the property tax. Currently, municipalities have no alternative when people can't pay their property taxes. Therefore, deferral and circuit breaker programs will provide municipalities with tools in these situations.

CO-CHAIR LEDOUX opined that a circuit breaker program, since it's based on income, would seem to increase the senior exemption.

MR. VAN SANT noted his agreement. However, he recalled his time as the assessor in Anchorage and being faced with individuals who couldn't pay their property taxes for a couple of years. The municipality was unable to offer any help in such situations. Therefore, the circuit breaker programs provide a tool for municipalities who want to offer help to someone who has fallen on bad times. Mr. Van Sant then continued his presentation and related, in regard to alternatives, that any new programs should have realistic eligibility criteria so those needing to participate can. Also any new program should have some sort of inflation indexing.

[8:52:34 AM](#)

MR. VAN SANT emphasized that municipalities are struggling to maintain expected service levels to residents; need to be encouraged to spread the revenue burdens; and need assistance from the state with shared revenue. "Any type of deferral,

limitation, circuit breaker, abatement, or exemption expansion will do little except shift the tax burden, thus creating a different category of aggrieved taxpayers, however, local municipalities should have the tools they need to make their own decisions. Any new state mandated exemptions should be accompanied by state funding," he concluded.

The committee took an at-ease from 8:54 a.m. to 9:02 a.m.

Alaska Municipal League

9:02:32 AM

CO-CHAIR LEDOUX announced that the final order of business would be the presentation from the Alaska Municipal League.

9:02:39 AM

TIM BOURCY, President, Alaska Municipal League (AML), informed the committee that he is also the Mayor of the City of Skagway. He then reviewed his background with AML over the last seven years, during which revenue sharing has been and continues to be a priority for AML. He pointed out that Alaska is an owner state and the revenue from resources belong to the residents of the state. The AML is passionate about revenue sharing because it desires for the future of the state to be bright and thus the resources to provide the basic services in communities. Revenue sharing is a way to achieve the aforementioned, he stated. He related that AML views itself as a partner of the state in that both desire for the state to be organized with healthy communities and educated children.

MR. BOURCY then recalled last year when the legislature provided funding for revenue sharing, and mentioned his agreement in comments he heard regarding the need to find a long-term solution. Therefore, AML has sought to review possibilities, which developed into a sustainable revenue sharing program that would provide an annual appropriation of 6 percent of the natural resource revenues for the state. The proposal is based on the existing revenue sharing program, he noted. He then explained that the proposed program has a base distribution formula of \$25,000 to unorganized communities, \$75,000 to all organized municipalities, and \$250,000 to all boroughs. The remaining revenue would be allocated on a per capita basis. He pointed out that he had provided the committee with a document entitled, "2007 Revenue Sharing Per Community," which lays out the distribution of the \$8 million in the governor's proposed

budget this year. The committee packet should also include a document entitled, "Revenue Sharing Comparison 6% Natural Resources," which relates how that revenue will be distributed throughout the state. In conclusion, he highlighted that the committee packet should also include draft legislation that AML would like introduced.

[9:09:44 AM](#)

CO-CHAIR LEDOUX returned to the unorganized communities with a population of 25 or more, and asked if they are required to provide at least rudimentary level services.

MR. BOURCY said that he agreed that [the use of the funds] should be defined and should be required to fund some services. In further response to Co-Chair LeDoux, he confirmed that the proposed legislation doesn't include a specific definition as to how the funds must be used.

CO-CHAIR LEDOUX then asked if this draft legislation includes [any funds] going to unincorporated communities in the organized borough.

MR. DORSEY related his understanding that [it would be left] to the borough to disseminate some of the \$250,000 to the unorganized communities within the borough. However, he said that he hadn't thoroughly reviewed the latest version of the proposed legislation.

[9:12:39 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:12 a.m.