

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 6, 2007

8:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Nancy Dahlstrom
Representative Sharon Cissna

COMMITTEE CALENDAR

HOUSE BILL NO. 60

"An Act relating to and increasing the municipal property tax exemption on residences of certain seniors and others; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 67

"An Act relating to an optional exemption from municipal property taxes on certain residences of law enforcement officers."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 60

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTION

SPONSOR(S): REPRESENTATIVE(S) KOHRING, NEUMAN, GRUENBERG

| | | |
|----------|-----|---------------------------------|
| 01/16/07 | (H) | PREFILE RELEASED 1/5/07 |
| 01/16/07 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/16/07 | (H) | CRA, FIN |
| 02/06/07 | (H) | CRA AT 8:00 AM CAPITOL 124 |

BILL: HB 67

SHORT TITLE: MUNI PROP TAX EXEMPTION FOR POLICE HOMES

SPONSOR(s): REPRESENTATIVE(s) GRUENBERG, CHENAULT

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) CRA, FIN
02/06/07 (H) CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE VIC KOHRING
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Spoke as the sponsor HB 60.

JOHN WILLIAMS, Mayor
Kenai Peninsula Borough
Kenai, Alaska
POSITION STATEMENT: Characterized HB 60 as an unfunded mandate.

MIKE ABBOTT, Assistant Municipal Manager
Municipality of Anchorage
Anchorage, Alaska
POSITION STATEMENT: Expressed concern with the unfunded aspect of the proposal embodied in HB 60.

STEVE VAN SANT, State Assessor
Division of Community Advocacy
Department of Commerce, Community, & Economic Development
Anchorage, Alaska
POSITION STATEMENT: Drew attention to DCCED's fiscal note for HB 60.

KATHY WASSERMAN
Alaska Municipal League
Juneau, Alaska
POSITION STATEMENT: Testified in opposition to HB 60 and in support of the intent of HB 67.

REPRESENTATIVE MAX GRUENBERG
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Spoke as a joint prime sponsor of HB 67.

ROB HEUN, Chief
Anchorage Police Department
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 67.

VERNON MARSHALL, Lobbyist
for Public Safety Employees Association, Inc.
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 67.

ACTION NARRATIVE

CO-CHAIR ANNA FAIRCLOUGH called the House Community and Regional Affairs Standing Committee meeting to order at 8:02 a.m. Representatives Fairclough, LeDoux, and Neuman were present at the call to order. Representatives Olson and Salmon arrived as the meeting was in progress.

HB 60-MUNICIPAL PROPERTY TAX EXEMPTION

8:02:03 AM

CO-CHAIR FAIRCLOUGH announced that the first order of business would be HOUSE BILL NO. 60, "An Act relating to and increasing the municipal property tax exemption on residences of certain seniors and others; and providing for an effective date."

8:03:04 AM

REPRESENTATIVE VIC KOHRING, Alaska State Legislature, sponsor, explained that HB 60 merely increases the senior and disabled veteran property tax exemption from the current level of \$150,000 to \$250,000. The current exemption was established in 1985. Representative Kohring opined that it's time to increase the exemption. He further opined that the proposed \$100,000 increase is a fairly modest increase, especially when inflation for the past 20 years is considered. He related concern with regard to the impact of greatly increased taxes based on assessed values and market values because the aforementioned has caused financial distress for some seniors and disabled veterans. In fact, Representative Kohring relayed that he has heard lots of concern from seniors and disabled veterans who can't afford to live in their houses and are forced to move out of Alaska. Unfortunately, [some seniors and disabled veterans] are being placed in the tough position of choosing whether to pay for their mortgage or taxes or medicine.

8:05:22 AM

REPRESENTATIVE NEUMAN noted that he, too, has received a tremendous amount of response from seniors on this legislation. However, he inquired as to the other side of this issue.

REPRESENTATIVE KOHRING acknowledged that municipalities don't like HB 60 because of the fear that the proposed exemption will take money away from other programs. However, he characterized HB 60 as legislation that allows seniors and disabled veterans to keep more of their own money. With regard to the charge that HB 60 is an unfunded mandate, Representative Kohring noted his disagreement because the municipalities have been able to make up the money lost to the exemption through the increase of assessed property values. Therefore, he opined that [this proposed exemption] isn't a major financial hit on municipalities.

8:07:32 AM

CO-CHAIR LEDOUX asked if a senior could end up in a worse situation with an increase in the value of his/her property and a larger mill rate on the value of the property beyond the exemption.

REPRESENTATIVE KOHRING acknowledged that such could happen, but emphasized that's exactly why he wants to increase the amount of the exemption.

CO-CHAIR LEDOUX inquired as to who is going to pay for this. She inquired as to how one would justify those wealthy seniors/disabled veterans who receive this exemption, when young families face higher property taxes because of the senior and disabled veteran exemption.

REPRESENTATIVE KOHRING said that one shouldn't automatically assume that taxes should increase to make up for this exemption. Perhaps municipalities should determine how to become more efficient, he suggested. He acknowledged that there are some wealthy seniors, although he felt they were the exception.

8:10:38 AM

REPRESENTATIVE OLSON asked if the Mat-Su Borough has taken a position on HB 60.

REPRESENTATIVE KOHRING replied no, although he assumed that the Mat-Su Borough would have concerns. In further response, Representative Kohring said that he isn't aware of any borough

or municipality that has commented on HB 60. However, he recalled that the Municipality of Anchorage did express concern with regard to the legislation.

[8:11:19 AM](#)

CO-CHAIR FAIRCLOUGH pointed out that the committee packet includes a letter from the Alaska Municipal League (AML), which is in opposition to HB 60 if there is no additional state funding.

[8:11:49 AM](#)

JOHN WILLIAMS, Mayor, Kenai Peninsula Borough, characterized HB 60 as an unfunded mandate. He then reviewed the history of the senior exemption, including the end of state support for the program in 1997. Mayor Williams said, "From that point forward, the inflation route, according to our schedule and under our present exemption, caused that loss in revenue to go from \$131,000 to the present position of \$4,382,000." A \$250,000 exemption today would result in a total loss of revenue to the [Kenai Peninsula Borough] of \$4.25 million and to the state \$56 million. With regard to the notion that [to make up this loss in revenue] boroughs merely have to increase taxes or the assessed value, Mayor Williams pointed out that the assessed value is mandated by state law to be assessed at 100 percent of full market value. If that's not done, then the state collects the difference between what isn't assessed and what should be assessed by removing funds from the local community's educational funding. Therefore, it's not correct to say that the \$250,000 exemption wouldn't cost the [municipalities] more money, he opined.

MAYOR WILLIAMS pointed out that there is no need for any senior to lose his/her property because the state hardship law specifies that if one can demonstrate a hardship, then taxes could be reduced to 2 percent of the individual's annual gross income. The aforementioned can be incorporated into the laws of any municipality. Mayor Williams then informed the committee that last year only 2 people applied for hardship in the Mat-Su Borough while 33 applied in Juneau. Mayor Williams highlighted that the \$4 million loss to the Kenai Peninsula Borough will have to be paid by other taxpayers.

[8:17:56 AM](#)

MAYOR WILLIAMS posed a situation in which there is a rural area within the borough that has a gravel road 8 miles from the fire department. On that gravel road live seven senior families and one young family with children. The gravel road has to be maintained for all and yet the entire cost of that road and other services is borne by the only taxpayer on the road, the young family. Mayor Williams related that he is a senior and in his conversations with seniors, the seniors believe it's unfair that they can vote for these programs or services without having to pay for them. Therefore, Mayor Williams opined that it would only be fair to allow boroughs to decide whether to offer this proposed exemption. He highlighted that the Kenai Peninsula Borough has offered a full exemption for seniors and it has created a hardship on the borough.

[8:21:02 AM](#)

REPRESENTATIVE NEUMAN opined that there seem to be some discrepancies with regard to how boroughs [implement] the hardship rule. Furthermore, most seniors don't seem to want to deal with the paperwork required to apply for such. Representative Neuman then opined that most seniors spend the majority of their money locally and face increases in expenses with which their income can't keep pace.

MAYOR WILLIAMS said that the form the state [requires] to apply for the hardship is a simple one-page document, although he acknowledged that municipalities may place other requirements. With regard to the charge that seniors pay taxes in other ways, he acknowledged that may be true in some municipalities but pointed out that so does every other citizen. The exemption is most unfair, he opined, because seniors who take advantage of a total exemption don't pay for any service or program. Mayor Williams emphasized that he isn't opposed to the exemption, but rather believes it should be a local option. He then recalled that the governor's budget includes \$43 million in revenue sharing to help struggling municipalities meet the needs of its local government, while the passage of this legislation would result in a loss of \$56 million from those same municipalities. Again, he encouraged the committee to allow local communities to make these decisions.

[8:26:43 AM](#)

MIKE ABBOTT, Assistant Municipal Manager, Municipality of Anchorage, related strong support for the senior and disabled veteran property tax exemption. However, he expressed concern

that it costs municipal taxpayers approximately \$20 million. Therefore, the municipality's support for HB 60 would be conditioned on the inclusion of an appropriate fiscal note. For Anchorage, approximately \$13-\$14 million in additional funds beyond the \$20 million the municipality currently expends would be necessary to implement this exemption. Mr. Abbott mentioned that in the past there has been discussion of alternatives, such as a state-funded rebate system whereby seniors could receive a rebate in the amount of the current exemption or the proposed expanded exemption.

[8:29:15 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development, drew attention to the fiscal note which shows that the increased exemption would cost [all the] municipalities approximately \$16 million more than the current exemption for a total cost of \$56 million statewide.

[8:29:46 AM](#)

REPRESENTATIVE NEUMAN inquired as to how many municipalities would be impacted by this. He then inquired as to the number of exemptions in each municipality and what those would equate to per household.

MR. VAN SANT estimated that the proposal in HB 60 would amount to about \$2,500 per household. However, he pointed out that it's an average and thus the range is quite wide.

[8:31:13 AM](#)

CO-CHAIR LEDOUX inquired as to how many communities have the hardship exemption.

MR. VAN SANT answered that it's available to all municipalities. However, the division doesn't get reports with regard to how many people apply for the hardship exemption. He said that he did know that the Mat-Su Borough and the City & Borough of Juneau offer the hardship exemption.

MR. ABBOTT said that Anchorage hasn't implemented the hardship exemption.

[8:33:15 AM](#)

KATHY WASSERMAN, Alaska Municipal League (AML), related that AML and the approximately 30 communities who impose property tax support the senior and disabled veteran tax exemption for those in need. However, AML is opposed to HB 60. Under the original exemption, the revenue lost due to the exemption was replaced/reimbursed by the state. That is not the case now as the property taxpayers, not municipalities have to reimburse the loss. Ms. Wasserman emphasized that difficulties for making ends meet is a difficulty for more than just seniors. In fact, many young parents and single parents are financially strapped. These exemptions could also attribute to the "brain drain" because if one can't afford to raise a family in Alaska perhaps they may choose to live elsewhere. Ms. Wasserman said, "Every year the legislature imposes more and more exemptions and the tax burden on those who do not qualify for those exemptions is growing and increasing. She echoed earlier testimony that HB 60 would impose a total of \$56 million in lost revenue on the residents of these 30 municipalities. While all those that fall under the exemption would still require the basic services, the number of people left to pay for those services will continue to fall." Furthermore, high fuel prices and retirement costs as well as the lack of revenue sharing result in communities not being able to cut costs and become more efficient by \$56 million. Therefore, she suggested following AS 29.45.030(g), which in part read: "The state shall reimburse a borough or city, as appropriate, for the real property tax revenues lost to it by the operation of (e) of this section." The aforementioned statute is mentioned in the fiscal notes for HB 60. If the state feels this exemption is appropriate, then the state should pay for the unfunded mandate, she opined. Ms. Wasserman then suggested another solution, which would be to provide municipalities the tools to help all low-income families. For example, the circuit breaker program could be utilized to allow local communities to establish their own criteria [for exemptions].

[8:37:32 AM](#)

REPRESENTATIVE NEUMAN inquired as to how Ms. Wasserman would see a property tax exemption not to exceed a percentage of income included in legislation such as HB 60.

MS. WASSERMAN suggested that there would have to be new legislation to allow such.

REPRESENTATIVE NEUMAN turned to the comments regarding the young families that face financial difficulties. He then opined that

young families have the ability to overcome hardships while seniors don't have the ability to obtain employment to raise additional income.

MS. WASSERMAN stressed that a circuit breaker or needs-based program would address those people in need rather than helping people based on age.

[8:39:56 AM](#)

CO-CHAIR LEDOUX inquired as to the difference between the circuit breaker and hardship programs.

MS. WASSERMAN said that there may not be much difference; these are programs that communities could enable.

CO-CHAIR LEDOUX related her understanding that local communities already have the option of adopting the hardship exemption.

MS. WASSERMAN pointed out that currently the hardship exemption only needs to kick in after the first \$150,000 of assessed value because that amount is already not included [due to the senior and disabled veteran exemption]. Therefore, if the [senior and disabled veteran exemption] was a local option, the circuit breaker program could be utilized from the beginning.

[HB 60 was held over.]

HB 67-MUNI PROP TAX EXEMPTION FOR POLICE HOMES

[8:41:19 AM](#)

CO-CHAIR FAIRCLOUGH announced that the final order of business would be HOUSE BILL NO. 67, "An Act relating to an optional exemption from municipal property taxes on certain residences of law enforcement officers."

[8:41:45 AM](#)

REPRESENTATIVE MAX GRUENBERG, Alaska State Legislature, a joint prime sponsor, explained that this legislation will assist neighborhoods that need additional police protection. He opined that merely having a police officer and a readily visible police vehicle in an area deters crime. This is recognized by the federal government and thus it provides loans to police officers in order to purchase homes in areas that need police protection. However, the aforementioned hasn't provided sufficient

incentives in a number of areas [of the state]. Therefore, HB 67 allows a municipality to pass an ordinance that will allow the proposed tax credit against the [police officer's] municipal property taxes. The ordinance must designate the area meeting the eligibility requirements discussed on page 2 and must define the term "law enforcement officer." He further explained that the amount exempt from taxation may not exceed \$150 million of the assessed value of the real property, not more than two exemptions can be granted at the same residence, and the parcel must be the primary place of abode. He pointed out that the committee packet includes letters of support.

8:46:03 AM

CO-CHAIR LEDOUX inquired as to how much an individual with a \$300,000 house would save.

REPRESENTATIVE GRUENBERG responded approximately \$2,200.

CO-CHAIR LEDOUX asked whether HB 67 would also apply to plain clothes policeman without a marked car.

REPRESENTATIVE GRUENBERG replied yes, and explained that a police officer can go on and off detective status. Further, it's helpful to have police whether [visibly] known as such because that officer can be in the neighborhood to observe and prevent crime. Also, it would be administratively difficult to offer the incentive only when the uniform is worn. He related his personal experience that regardless of whether the police officer is plain clothes or has an unmarked car, the word gets out.

8:48:58 AM

REPRESENTATIVE NEUMAN inquired as to who would receive the exemption when multiple police officers reside in an area. He then turned to the situation in rural Alaska in which the Department of Public Safety often owns the houses for its law enforcement. In such a situation who would receive the exemption, he asked. He then referred to page 1, lines 10-11, and inquired as to the amount of exemption when two officers are eligible for an exemption at the same residence.

REPRESENTATIVE GRUENBERG specified that if more than one officer resides in an area, each would be eligible for the exemption unless the municipal ordinance specified otherwise. In further response to Representative Neuman, Representative Gruenberg said

that the language takes into account couples who may both be police officers. He clarified that the legislation specifies that not more than two exemptions may be granted per parcel. With regard to the state-owned situation, this proposed exemption is irrelevant because the state provides the entire housing. This legislation was necessary because AS 29.45.050 requires that prior to a municipality granting a property tax exemption, the state must permit it.

[8:56:17 AM](#)

ROB HEUN, Chief, Anchorage Police Department, related his support of HB 67, which would provide an incentive for law enforcement officers to move into neighborhoods where it would be beneficial to the overall public safety mission. He said he couldn't estimate how many officers would be willing to take advantage of such an exemption.

[8:58:14 AM](#)

CO-CHAIR FAIRCLOUGH noted her appreciation of the local option that HB 67 provides. However, she expressed concern with regard to multiple exemptions on one parcel and at one household. She then inquired as to whether "law enforcement officer" is the appropriate language to utilize in statute. She also requested further discussion with regard to geographic location of this exemption and the use of the term "law enforcement officer" versus "peace officer." She then expressed interest in a fiscal note for HB 67 regarding the impact to municipalities.

REPRESENTATIVE GRUENBERG addressed the fiscal note, and pointed out that the legislature requires that impacted state agencies must provide fiscal notes. However, there is no such situation with municipalities, although he said he would be supportive of such. He recalled that the maximum number of officers in Anchorage would be 10-11, which he felt was very high. When HB 67 was drafted, the term "law enforcement officer" was utilized as it is broader and can be defined by the municipality. With regard to the geographic location, it's possible multiple officers could reside on the same street, he said. He acknowledged that the municipality could designate a geographic area, although it isn't possible to micromanage these people.

[9:04:23 AM](#)

REPRESENTATIVE NEUMAN inquired as to who decides who receives this proposed exemption. He then inquired as to a situation in

which the police officer is in a lease-purchase or rental agreement.

REPRESENTATIVE GRUENBERG stated that the intent is for the ordinance to specify the geographic area and the definition of "law enforcement officer." Any law enforcement officer who meets the aforementioned criteria and owns his/her own home would be eligible. He pointed out that on page 1, line 8, the legislation refers to ownership of the property not a lease-purchase agreement.

[9:08:39 AM](#)

CO-CHAIR LEDOUX expressed concern that the "eligible area" could be defined such that it's an area where [law enforcement personnel] are already living in a "nicer area."

REPRESENTATIVE GRUENBERG said that the ordinance would specify, by street, the eligible area for the tax exemption. In further response to Co-Chair LeDoux, Representative Gruenberg opined that the language on page 2 includes terms of art that are specifically defined to include areas of high crime.

[9:12:03 AM](#)

REPRESENTATIVE NEUMAN asked if the Mat-Su Borough would have the ability to grant a tax waiver to state troopers who already own property throughout the state.

REPRESENTATIVE GRUENBERG replied no, unless those areas met the requirements on page 2. He specified that the legislation isn't intended to allow specific addresses as a high crime area.

[9:13:40 AM](#)

REPRESENTATIVE OLSON inquired as to how the area of Spenard, which is a close mix of residential and commercial properties, would be handled.

REPRESENTATIVE GRUENBERG said that the legislation provides a certain amount of discretion to the municipalities. He said that there may be small pockets that would meet the requirements, but this legislation is meant to be utilized in neighborhoods not just one block areas. Moreover, he said he wasn't sure whether pockets of poverty in a neighborhood would be eligible for the federal programs specified in the legislation. However, much of that detail is left up to the

municipality. With respect to Spenard, Representative Gruenberg said that he didn't know how it would be handled.

[9:15:58 AM](#)

CO-CHAIR LEDOUX surmised that the legislation would apply to boroughs as well as municipalities.

REPRESENTATIVE GRUENBERG clarified that it would apply to any [governmental entity] with taxing authority.

CO-CHAIR LEDOUX inquired as to the situation when there is a city within a borough and the city has a sales tax and no property tax while the borough has a property tax. In such a situation, would the city be able to pass an ordinance that affects the borough's collection of the property tax, she asked.

REPRESENTATIVE GRUENBERG replied no, and specified that AS 29.45.050 deals with the taxing entity that imposes property taxes.

[9:17:43 AM](#)

VERNON MARSHALL, Lobbyist for the Public Safety Employees Association, Inc. (PSEA), pointed out that the PSEA supports HB 67. This legislation provides municipalities the option by ordinance for a property tax exemption in order to encourage law enforcement officers to reside in areas of high crime. This legislation provides communities a tool. He highlighted the need to remember that [living in a high crime area] impacts the families of police officers. Mr. Marshall opined, "If the quid pro quo is a neighborhood that is safer, the incentive will have been worth that and much more."

[9:21:01 AM](#)

KATHY WASSERMAN, Alaska Municipal League (AML), related AML's support of the intent of HB 67 and applauded the optional nature of this legislation.

[HB 67 was held over.]

[9:22:09 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:22 a.m.