

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 13, 2007

8:06 a.m.

MEMBERS PRESENT

Representative Anna Fairclough, Co-Chair
Representative Gabrielle LeDoux, Co-Chair
Representative Nancy Dahlstrom
Representative Mark Neuman
Representative Sharon Cissna
Representative Woodie Salmon

MEMBERS ABSENT

Representative Kurt Olson

COMMITTEE CALENDAR

HOUSE BILL NO. 23

"An Act relating to a limit on the amount by which the assessed value of property may be increased for purposes of municipal property taxation."

- HEARD AND HELD

HOUSE BILL NO. 24

"An Act prohibiting municipalities from charging a fee for an appeal of a residential real property tax assessment to the municipality's board of equalization."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 23

SHORT TITLE: LIMIT ANNUAL INCREASE OF MUNI PROP ASSESS

SPONSOR(s): REPRESENTATIVE(s) STOLTZE, NEUMAN

01/16/07	(H)	PREFILE RELEASED 1/5/07
01/16/07	(H)	READ THE FIRST TIME - REFERRALS
01/16/07	(H)	CRA, FIN
02/13/07	(H)	CRA AT 8:00 AM CAPITOL 124

BILL: HB 24

SHORT TITLE: PROPERTY ASSESSMENT APPEAL FEE

SPONSOR(s): REPRESENTATIVE(s) STOLTZE, NEUMAN

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) CRA, FIN
02/13/07 (H) CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as a joint prime sponsor of HB 23 and HB 24.

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

POSITION STATEMENT: Testified on HB 23 and HB 24.

SHANE HORAN, Assessor
Kenai Peninsula Borough
Soldotna, Alaska

POSITION STATEMENT: Expressed concerns with HB 23 and HB 24.

LARRY SEMMENS, Finance Director
City of Kenai
Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 23 and expressed concern with HB 24.

TAMMY WILSON

Fairbanks, Alaska

POSITION STATEMENT: Characterized HB 23 as a good starting point [to addressing the problem of rising assessments].

KATHY WASSERMAN
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 23 and with regard to HB 24, testified that recouping [the cost of appeals of property taxes] should remain a local decision.

ACTION NARRATIVE

CO-CHAIR GABRIELLE LEDOUX called the House Community and Regional Affairs Standing Committee meeting to order at [8:06:01 AM](#). Representatives LeDoux, Fairclough, and Dahlstrom were present at the call to order. Representatives Neuman, Cissna, and Salmon arrived as the meeting was in progress.

HB 23-LIMIT ANNUAL INCREASE OF MUNI PROP ASSESS
HB 24-PROPERTY ASSESSMENT APPEAL FEE

[8:06:56 AM](#)

CO-CHAIR LEDOUX announced that the only order of business would be HOUSE BILL NO. 23, "An Act relating to a limit on the amount by which the assessed value of property may be increased for purposes of municipal property taxation." and HOUSE BILL NO. 24 "An Act prohibiting municipalities from charging a fee for an appeal of a residential real property tax assessment to the municipality's board of equalization."

[8:07:12 AM](#)

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, a joint prime sponsor, explained that both HB 23 and HB 24 are similar in approach. However, HB 23 would cap the rate that assessments can increase annually. He informed the committee that his intent with HB 23 was to limit it to residential property only, and thus he expressed the desire for the committee to limit the legislation to speak to residential property only. Property taxes are both a state and local issue and one with which he said is often confronted. Prior to the 2006 election, he recalled that Mayor Begich, Municipality of Anchorage, approached him regarding the idea embodied in HB 23. The 2 percent limitation is a starting point and up for discussion, he said. He highlighted that the cost to live in a home is now a strain, particularly when accompanied with high energy costs. This limitation won't impact what municipalities do with mill rates or bonding votes, he noted. He then mentioned that although his constituents are impatient on this matter, he said he realizes that this is a deliberative process.

[8:11:13 AM](#)

CO-CHAIR LEDOUX asked Representative Stoltze if his constituents also have discussions with the local assembly regarding keeping property taxes down.

REPRESENTATIVE STOLTZE opined that his constituents don't differentiate between the levels of government, but rather talk to the first person they come upon to relate these matters. The impatience, he further opined, is with government.

[8:12:44 AM](#)

CO-CHAIR FAIRCLOUGH related her understanding that residents of her district, as well as other Alaskans, are concerned with the incremental increases in property taxes and thus question when it's enough. She noted her agreement with Representative Stoltze that the committee should proceed with caution on this matter.

REPRESENTATIVE STOLTZE commented that those who are pushed to the fringe are the youngest and the oldest of the population.

[8:15:05 AM](#)

CO-CHAIR FAIRCLOUGH asked if there could be a deferral mechanism on the increase for only the seniors and disabled veterans rather than forgiving it. She asked if there is a way to recoup lost funds to individual municipalities without forgoing it forever.

REPRESENTATIVE STOLTZE said that he wasn't sure that the municipality has an entitlement to "the piece of that action." He indicated that [Co-Chair Fairclough's proposal] is similar to a reverse mortgage, which he has seen some seniors do in order to pay their property taxes. Representative Stoltze related his reluctance to including a deferral mechanism, although he acknowledged the committee process.

REPRESENTATIVE NEUMAN pointed out that local governments can adjust the mill rate in order to raise funds for government.

[8:21:56 AM](#)

REPRESENTATIVE STOLTZE then addressed HB 24, which prohibits local governments from charging an appeal for a board of equalization process. Again, this is a policy call and due process issue. He related that he recently went through the appeal process, which was a fair amount of work, with his senior mother.

[8:25:22 AM](#)

CO-CHAIR LEDOUX asked if those municipalities with appeal fees refund the appeal fees for those who win the appeal.

REPRESENTATIVE STOLTZE replied that he believes that's the policy for most municipalities with appeal fees.

8:26:17 AM

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development (DCCED), speaking to HB 23, related that the current language of HB 23 refers to all property not just residential property. The aforementioned has far-reaching effects in that it may also impact oil and gas properties. The primary issue with HB 23 is that assessments are merely a tool to distribute the tax burden and thus capping it doesn't relieve the need for the revenue.

8:28:29 AM

REPRESENTATIVE NEUMAN inquired as to the impact of changing HB 23 to refer only to residential property.

MR. VAN SANT acknowledged that such a change would narrow the focus. However, any change such as proposed in HB 23 merely shifts the burden. He reminded the committee that studies have shown that caps often result in the lower assessed properties bearing the burden and paying more taxes. He offered the following solutions: reinstate municipal revenue sharing, fund the senior and disabled veteran exemption program, fund the homestead/residential exemption, institute circuit breaker programs that are based on one's ability to pay rather than the value of the property, and allow property tax referrals. However, the problem with all of those options is that each merely shifts the burden. Mr. Van Sant opined that placing caps on property could be problematic for municipalities because the local contribution for educational funding is calculated with a 4 mill equivalency, which is 4 mills multiplied by the local municipality's full and true value. If some values are artificially capped, the municipalities will have a lower assessed value while the full and true value will be higher. Consequently, the municipality's local contributions to schools will be higher than the property the municipality can assess, which will create a disparity. This legislation, he opined, will create inequity as illustrated in California with Proposition 13. Furthermore, HB 23 doesn't have a trigger mechanism to trigger a market value property assessment. The committee should consider some inflation-edging such that upon

the sale of a property, it's assessed at market value at that point.

[8:34:32 AM](#)

MR. VAN SANT, in response to Representative Cissna, said he would make available the graphs with regard to the results on property taxes when there is no revenue sharing.

[8:35:16 AM](#)

REPRESENTATIVE NEUMAN inquired as to how Mr. Van Sant would view the legislation if it included a trigger based on the federal poverty level or need.

MR. VAN SANT said that such a methodology sounds similar to the circuit breaker programs, which are usually based on the income level of residents. Mr. Van Sant acknowledged that there are situations in which individuals have difficulties paying property taxes, which is the situation in which circuit breaker programs would come into effect. However, currently municipalities don't have tools to address such situations and thus there is a need for such. However, the legislation, he reiterated, creates inequity with regard to spreading the burden. When the state has mandated exemptions such as senior property tax exemptions and revenue sharing is no longer provided, it makes it difficult for municipalities to make ends meet regardless of assessments, he stated.

[8:39:27 AM](#)

REPRESENTATIVE NEUMAN emphasized that the state, at the legislative level, has put a tremendous amount of funds into communities for various specific needs. For instance, the legislature appropriated funds for the purchase of a fire truck for the Big Lake area. He requested that Mr. Van Sant provide any information on the funds going into the communities in the aforementioned route.

[8:40:46 AM](#)

CO-CHAIR FAIRCLOUGH posed a scenario in which HB 23 was passed, and inquired as to how a community benefiting from population increases would be adversely impacted under the foundation formula by having a cap on the assessed property value.

MR. VAN SANT related his understanding that HB 23 would not apply to new construction. He explained that under HB 23 the difference between the assessed value, at the capped level, and the full market value is the amount the municipality can't assess and from which it can't capture property taxes in order to make its contribution to education. Therefore, the municipality would likely have to raise its mill rate in order to cover its minimum local contribution for education, which is based on the full market value of the property in the municipality.

CO-CHAIR FAIRCLOUGH commented that the legislature could change what the state assesses as full and true value.

MR. VAN SANT noted his agreement, but pointed out that any change must be equitable across the entire state. The full value doesn't include the value for seniors and disabled veterans, he noted.

CO-CHAIR FAIRCLOUGH surmised, "We could, under a policy consideration, ... look at including that as an exemption if we thought that was a fair policy for the entire state."

MR. VAN SANT clarified that currently any mandatory exemption is excluded from the full value and thus aren't included for the local education contribution calculation.

[8:45:49 AM](#)

MR. VAN SANT then turned to HB 24. He informed the committee that three municipalities currently collect an appeal fee. The Ketchikan Gateway Borough charges a \$25 appeal fee for the second appeal and does not reimburse those fees regardless of the outcome. Anchorage and Kenai basically charge the same appeal fee, which is: \$30 on property valued up to \$100,000, \$100 for property valued up to \$500,000, and \$200 for property valued from \$500,000 up to \$2 million, and \$1,000 for property valued greater than \$2 million. He related that prior to the implementation of the aforementioned appeal fee, Anchorage had about 3,000 appeals filed of which about 1,300 went to the board of equalization. However, after the fees for appeals were charged in 2004, there was a substantial decrease in the number of appeals filed as well as appeals that went to the board of equalization. The Municipality of Anchorage has changed its policy and now refunds the appeal fee if the individual filing follows up on the filed appeal. Mr. Van Sant related that many people in the state file an appeal simply in hopes of receiving

a reduction and don't do any work afterward. However, the assessor has to move through the entire process of finishing the appeal. For residential property, the appeal process costs municipalities approximately \$300-\$400 while it's substantially more for commercial properties. Mr. Van Sant highlighted that state law provides property owners 30 days to file an appeal and most seemed to wait until the last week or day to file an appeal. However, now it seems that most people take advantage of the entire 30 days. Mr. Van Sant specified that he isn't speaking in support of opposition to HB 24. He then reviewed the number of appeals and total amount in refunds for the various municipalities offering appeals.

[8:50:50 AM](#)

REPRESENTATIVE NEUMAN asked if there has ever been a considerable reduction in property taxes when the economy is in a downward trend.

MR. VAN SANT replied yes, and related that in 1988 when he was the assessor in Anchorage the assessed value decreased by about 50 percent. Furthermore, mill rates have decreased. However, just because values of property may increase or decrease, the cost/value of the services don't necessarily change commensurate with that change in [property] value.

REPRESENTATIVE NEUMAN remarked, "Although, as you stated, the value of those services are still there, the value of the ... citizen's property does considerably decrease. And I contend that I don't think that the value of those taxes have decreased, at times, at the amount of actual value of what property is worth." He related that he has experienced his properties decrease in value by 50 percent, although the taxes didn't. Representative Neuman asked if HB 23 would impact communities that pass bonds for schools.

MR. VAN SANT replied no.

[8:54:40 AM](#)

SHANE HORAN, Assessor, Kenai Peninsula Borough, provided the following testimony for HB 23:

This one-sentence bill, as proposed, will have major far-reaching fundamental impacts on the taxing scheme, bonding, and school funding of all municipalities throughout the state of Alaska. This bill would or

should lead to a substantial and significant rewrite of the full and true value assessment law as it currently exists in 29.45.110. It would have far-reaching effects as did Proposition 13 in California or the Truth in Taxation legislation in the State of Utah. I would like to offer our association's assistance, participation, and aide in any way to work with the legislature in the scripting and construction of legislation regarding this issue. Also, if there is to be a distinction between residential and commercial properties, the definition should be clearly established. The basic reality that will occur with capping assessed values is that mill rates will go up to achieve the revenue levels needed, in our budget-driven form of government, to meet needed and desired services.

MR. HORAN, paraphrasing from his written testimony, provided the following 11 points for the committee's consideration:

By the year 2016, a home with a market value of \$325,779 is only assessed at \$243,799. A new home constructed in 2016 would be assessed at the current market value of \$325,779.

What constitutes an improvement? (Paint job, new addition, new siding, etc.?)

What goes up 2%? Land, building, outbuildings?

If an improvement made, would total assessed value be brought to current market?

Remodeling or new home construction could be discouraged.

If the market increases 20% in 4 years and goes down 2% in the 5th year, does the value stay the same that 5th year? Can it still increase 2% in the 5th year?

The assessed value is no longer at market value. Will 29.45.110(a) be restructured?

Would HB 23 promote full disclosure?

Currently, it takes KP[B] [Kenai Peninsula Borough] Assessing 5 years to complete the valuation and

inspection cycle. What cycle becomes the base year for HB 23?

The Full Value Determination, which is used in the school funding formula is supposed to equalize values by reflecting the total market value. Under a 2% cap, there is no reflection of market value. If tax rates are limited to 2% and market value increases 5%, will the State make up the difference or will municipality be required to make contribution from other sources?

This may force municipalities to look at other revenue sources - sales tax, user fees, etc..

What does a 2% increase in value do to a municipality's ability to bond? Bond ratings are partly based upon a municipality's ability to pay the debt based on the full faith and credit of the municipality. If you have a dip in the market, like we did in the late 1980's, the municipality can never catch up to its actual market value, which will be sorely lacking in equitability too.

How does a municipality correct obvious errors in its assessments if the assessments are tied to only a 2% increase? For example, if it is found that a property should have been assessed at \$200,000 but was only assessed at, say, \$125,000, the equity issue is simply magnified.

9:00:00 AM

MR. HORAN then turned to HB 24. He provided the following testimony:

The Kenai Peninsula Borough Assembly instituted an appeal filing fee beginning in the 2005 assessment year that essentially mirrored that of Anchorage's. That is, as Mr. Van Sant stated, a \$30 filing fee for property assessed up to \$100,000, a \$100 for property assessed between \$100,000 to \$500,000, a \$200 fee for those properties assessed from \$500,000 to \$2 million, and \$1,000 for property assessed at \$2 million or higher. According to Kenai Peninsula Borough code, if the appeal results in a reduction from the original assessed value or if the appeal is withdrawn before evidence is due to the board of equalization, then the

filing fee is refunded in full. Additionally, the appeal fee may be waived based on one's annual income as provided by current Health & Human Services poverty guidelines for Alaska. The filing fee instituted has resulted [in decreasing] the number of frivolous appeals, as it was intended to do, and has helped our office become efficient and effective with the appraisers in the field canvassing the borough and assuring equity in assessment. Please remember that in state statute the burden is on the property owner to prove that the assessment is unequal, improper, excessive, or under valued. The many appeals filed in the past indicating "Oh, the value is just too high."; or "My taxes or going to go up."; or "You raised my values too much from last year." do not constitute sufficient evidence that the value is not reflective of full and true value. This office, that is the Kenai Peninsula Borough, as a policy and practice would inspect every appealed property, meet with the property owner, address the owner's concerns, prepare and print packets for presentation to the board of equalization only to find the property owner absent or not in attendance to present written or oral testimony. The fee, as instituted, gives the property owner more responsibility and ownership in the appeal process itself and that which is at stake. Because this fee is reimbursed to anyone who wins the appeal or withdraws and because of the hardship waiver for those that are indigent, I feel that we have made reasonable accommodations for property owners who have valid concerns to receive their due process. In assessment year 2006, ... Kenai Peninsula Borough did have 189 formally submitted appeals filed, with 15 heard before the board of equalization. We collected approximately \$10,200 in fees and retained only \$2,300. Lastly, I would like to share that we do offer, through ordinance, the opportunity for anyone receiving their assessment notice to first contact the assessor's office and we offer an informal meeting with the assessor or appraiser regarding his or her assessment. This itself has been successful in resolving numerous appeals in an informal format. I feel having no fee, as proposed in this bill, would not be a sufficient deterrent to those frivolous appeals and may consume more resources than necessary.

[9:04:21 AM](#)

LARRY SEMMENS, Finance Director, City of Kenai, related the City of Kenai's opposition to HB 23, which will limit local government's ability to make local decisions. Furthermore, property tax should be based on market value not on an artificial calculation that will cause great inequalities with property taxes over time. He requested that the legislature should be respectful of the local government's ability to manage its own resources. He then turned to HB 24 and noted that he is a member of the Alaska Retirement Management Board where he learned from one of the real estate managers that as a matter of policy that real estate manager always appeals local government assessments as a practice. The aforementioned is good business, especially if there is no fee. However, the local government faces a great deal of expense in dealing with those appeals, many of which are frivolous. He cautioned the state with regard to how the state's actions impact local government's ability to manage.

[9:06:48 AM](#)

REPRESENTATIVE NEUMAN commented that he, too, hears from citizens in his district who have to sell their homes because they aren't able to afford to live in them.

[9:07:56 AM](#)

TAMMY WILSON, referring to HB 23, said she was glad that someone is listening to residents [of the state]. She related that over 800 properties in the [Fairbanks North Star Borough] have faced assessments that have doubled. In fact, she noted that her home, to which she did nothing, increased 54 percent in value. She highlighted that this past year the [Fairbanks North Star Borough] had its mill rate decrease, but because the assessments increased considerably there was no real savings. Therefore, a cap may provide a better idea of how much the government is spending. She then indicated the need for the state to fund the senior property tax exemption, which she said she feels the pressure of funding. "I just think something needs to be done and maybe this is a good starting point, and I really appreciate you looking at this," she remarked.

[9:09:52 AM](#)

KATHY WASSERMAN, Alaska Municipal League (AML), acknowledged that taxes are increasing, but AML believes there are some solutions, including reinstating revenue sharing. In fact, the

mayors of the Kenai Peninsula Borough, the Municipality of Anchorage, and the Mat-Su Borough have committed to lowering property taxes if revenue sharing is reinstated. Municipalities, she related, have lost the ability to bring in revenue. The only way for municipalities to pay for basic services are fees and taxes. Therefore, capping those taxes removes one more option and thus AML would hope that the solution be found outside of HB 23. She then expressed concern that HB 23 doesn't specify a timeframe within which the full and true value would be realized on any property. She agreed with most of Mr. Van Sant's comments and the inequity that could ensue under this proposal. Furthermore, she questioned how this would impact education funding. For all those reasons, AML is opposed to HB 23, she said.

[9:13:01 AM](#)

MS. WASSERMAN then turned to HB 24. Although she recognized that communities may need a manner by which to recoup [the cost of appeals of property taxes], it should remain a local decision, she said.

[9:13:50 AM](#)

CO-CHAIR LEDOUX, upon determining no one else wished to testify, closed public testimony. She then reminded the committee that HB 23 and HB 24 would be held over.

[9:14:14 AM](#)

CO-CHAIR FAIRCLOUGH offered to summarize the questions raised today on HB 23 and HB 24 and distribute them to members for review and any additional questions, which would then be forwarded to the sponsor for consideration.

[9:15:29 AM](#)

REPRESENTATIVE DAHLSTROM noted her agreement with the intent of the legislation and expressed the need to allow the joint prime sponsor to adjust the legislation as he sees fit.

[9:16:13 AM](#)

REPRESENTATIVE SALMON related his experience with purchasing property in Fairbanks on which he has done no improvements, while the assessment has increased. This legislation is really meaningful, he opined.

9:17:49 AM

REPRESENTATIVE NEUMAN inquired as to how Representative Stoltze would view changing the legislation to only speak to residential property or a needs-based mechanism.

REPRESENTATIVE STOLTZE said that he is open [to any suggestions]. He recalled the request last year from local governments and the state assessor to have more time to work on this issue, although he never heard anything from them. Therefore, he expressed frustration with the situation.

9:20:26 AM

REPRESENTATIVE CISSNA said that although people want to keep their own money, she was proud to pay property tax because she saw what her children could enjoy due to it. She related that she wouldn't take the senior property tax exemption as long as she can work. She then recalled being in another country with a lack of a tax base, infrastructure, and services similar to rural areas in Alaska. Although the state makes a tremendous amount of revenue, it isn't shared with the local governments. Therefore, there's a real inequity in the money flow. In fact, a lot of private property owners are carrying the load in many of the communities in the state, particularly those without property or sales tax. This legislation isn't fair to all the communities and thus much care should be taken when crafting [legislation] at this level of government. Representative Cissna said that she would be in favor of this legislation if it was linked with revenue sharing.

9:24:46 AM

REPRESENTATIVE STOLTZE expressed concern with regard to references to "frivolous" [appeals] because he didn't want citizen's attempts to redress government characterized so unilaterally. He then expressed hope to work with the committee on this legislation.

9:26:44 AM

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:26 a.m.