

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

May 3, 2007  
8:05 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. 199

"An Act relating to an optional exemption from municipal property taxes for residential property."

- HEARD AND HELD

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

**PREVIOUS COMMITTEE ACTION**

BILL: HB 199

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTION

SPONSOR(S): REPRESENTATIVE(S) KAWASAKI

03/14/07	(H)	READ THE FIRST TIME - REFERRALS
03/14/07	(H)	CRA, FIN
05/03/07	(H)	CRA AT 8:00 AM BARNES 124

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  
02/06/07 (H) Heard & Held  
02/06/07 (H) MINUTE(CRA)  
05/03/07 (H) CRA AT 8:00 AM BARNES 124

**WITNESS REGISTER**

REPRESENTATIVE SCOTT KAWASAKI

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 199.

STEVE VAN SANT, State Assessor

Division of Community Advocacy

Department of Commerce, Community, & Economic Development

Anchorage, Alaska

POSITION STATEMENT: During hearing of HB 199 and HB 60,  
answered questions.

WOLFGANG FALKE

Fairbanks, Alaska

POSITION STATEMENT: During hearing of HB 199, testified in  
support of the exemption but suggested that it have no limit.  
Also testified in support of HB 60.

LISA PEGER

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 199 and  
testified on HB 60.

SHANE HORAN, Assessor

Kenai Peninsula Borough

Soldotna, Alaska

POSITION STATEMENT: Testified in opposition to both HB 199 and  
HB 60.

MARTY MCGEE, Assessor

Municipality of Anchorage

Anchorage, Alaska

POSITION STATEMENT: Testified that the Municipality of  
Anchorage isn't in opposition to HB 199.

LUKE HOPKINS, Member

Fairbanks North Star Borough Assembly

Fairbanks North Star Borough  
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 199 and answered questions during hearing of HB 60.

JAVEN OSE

Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 199 and in support of HB 60.

TAMMIE WILSON

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 199. Testified that she liked the concept of HB 60, but expressed some concerns.

REPRESENTATIVE VIC KOHRING

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 60.

JAMES SKINNER

Willow, Alaska

POSITION STATEMENT: Testified in support of HB 60.

EILEEN JOHNSON

Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 60.

ELEANOR RIENDL

Wasilla, Alaska

POSITION STATEMENT: Suggested changes for HB 60.

MARTY MCGEE, Municipal Assessor

Municipality of Anchorage (MOA)

Anchorage, Alaska

POSITION STATEMENT: Testified that MOA doesn't support HB 60, as written.

KATHY WASSERMAN

Alaska Municipal League

Juneau, Alaska

POSITION STATEMENT: Testified in opposition to mandatory exemptions as would be the case with HB 60.

REPRESENTATIVE BILL THOMAS

Juneau, Alaska

POSITION STATEMENT: During hearing of HB 60, offered an amendment.

**ACTION NARRATIVE**

**CO-CHAIR ANNA FAIRCLOUGH** called the House Community and Regional Affairs Standing Committee meeting to order at [8:05:57 AM](#). Representatives Fairclough, LeDoux, Dahlstrom, Neuman, and Salmon were present at the call to order. Representative Cissna arrived as the meeting was in progress.

HB 199-MUNICIPAL PROPERTY TAX EXEMPTION

[8:07:02 AM](#)

CO-CHAIR FAIRCLOUGH announced that the first order of business would be HOUSE BILL NO. 199, "An Act relating to an optional exemption from municipal property taxes for residential property."

[8:07:28 AM](#)

REPRESENTATIVE SCOTT KAWASAKI, Alaska State Legislature, sponsor, explained that HB 199 changes one number dealing with local municipalities in Title 29. He highlighted rising property taxes, adding that the property tax caps in place in many municipalities do very little to offset rising taxes. One way to address high property taxes is to offset them with an exemption. In 2005 [Fairbanks] voters voted to increase the tax exemption to \$20,000, which is the maximum level state law allows. This legislation, HB 199, would increase the property tax exemption to up to \$100,000. He acknowledged that there is a proposed committee substitute (CS) that would increase the property tax exemption to up to [\$50,000]. Representative Kawasaki said that he favors any increase in the amount of the exemption. A residential property tax exemption is fair, he opined. He explained that if [a community] is up against a tax or revenue cap and the same level of funding is desired every year and the community exempts properties, then the mill rate has to increase in order to recoup the cost of the exemptions. He opined that a residential property tax exemption is fair because those who are hit the hardest and need the exemption the most will keep their money in town. This legislation and its companion in the Senate are supported by the Alaska Municipal League. Representative Kawasaki informed the committee that HB

199 has received wide support. In fact, he said that he hasn't heard any opposition to the legislation.

[8:11:15 AM](#)

CO-CHAIR LEDOUX inquired as to how the \$100,000 exemption was determined.

REPRESENTATIVE KAWASAKI said he believes, upon review of rising property taxes, that the \$100,000 exemption is fair based on the level at which home values are rising. He related his belief that the \$100,000 exemption would keep pace with inflation.

CO-CHAIR LEDOUX asked if the sponsor has discussed HB 199 with those in the business community.

REPRESENTATIVE KAWASAKI pointed out that HB 199 is similar to 2003 legislation that passed both the House and the Senate. At that time there was very little opposition. Although the business community hasn't come out in opposition to HB 199, he related his belief that the burden will be shifted to higher valued homes, those [assessed] above the \$400,000 mark. This is good legislation because those who need the money the most will benefit from the exemption while large box stores, he assumed, would experience an increase in their taxes and bottom lines.

[8:15:06 AM](#)

REPRESENTATIVE KAWASAKI, in response to Representative Neuman, clarified that HB 199 proposes an optional exemption that provides second class boroughs and cities another tool. This legislation sets the limit at \$100,000. If a city decides to utilize the exemption, the mill rate could rise to that point or it doesn't have to increase the mill rate.

[8:16:36 AM](#)

CO-CHAIR FAIRCLOUGH explained that when a community values its property, there are residential, industrial, and commercial components. This proposal shifts the cost burden such that all residents could see a credit that reduces taxes, but doesn't increase the mill rate because it shifts to the commercial component in that it increases the amount the commercial component is taxed.

[8:17:31 AM](#)

REPRESENTATIVE NEUMAN surmised that the credit is paid by someone else. He asked Representative Kawasaki if he expects the City of Fairbanks to reduce residents' taxes by \$100,000.

REPRESENTATIVE KAWASAKI directed attention to the committee packet, which includes resolutions requesting exemptions of up to \$100,000. Representative Kawasaki explained that a \$100,000 decrease in valuation at 15 mills would be a \$1,500 exemption a year.

[8:19:15 AM](#)

CO-CHAIR LEDOUX inquired as to how HB 199 would impact leased property. She further inquired as to whether an individual operating a small business out of his/her home would be considered residential or commercial property.

REPRESENTATIVE KAWASAKI pointed out that state law merely says that a municipality can exempt or partially exempt residential property. Therefore, he surmised that it depends upon how the local municipality decides to address the exemption.

[8:20:47 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development, returning to Representative Neuman's earlier question, said that if a municipality provides an exemption on residential property, the mill rate will have to increase. Although there will be a decrease in the taxes of residential property owners, the taxes will be shifted to nonresidential property such as commercial, industrial, vacant land, and perhaps in some case to oil and gas property. The increase in mill rate will vary depending upon the exemption. Mr. Van Sant highlighted that in most municipalities, only owner-occupied residences receive the exemption. He then pointed out that the committee should have a fiscal note from the Department of Revenue illustrating a drop in state revenues in the amount of \$1-\$1.5 million for an exemption of up to \$50,000. He estimated that the loss in state revenues for an exemption of up to \$100,000 should be in the range of \$2-\$2.5 million.

[8:22:41 AM](#)

CO-CHAIR LEDOUX inquired as to how a single-family resident in which there is a business is taxed.

MR. VAN SANT answered that if it's owner-occupied, the [municipality] will probably give a partial exemption such that the exemption only applies to the residence.

[8:23:13 AM](#)

CO-CHAIR LEDOUX inquired as to why HB 199 would result in a decrease in state revenues since it provides an exemption for a municipal property tax.

MR. VAN SANT explained that in the North Slope area, Fairbanks, Valdez, and Kenai there are state oil and gas properties on which the state levies a 20 mill tax from which the municipal tax is deducted. For example, if in Fairbanks the mill rate is 15, the state would receive 5 mills of the oil and gas property and the borough 15 mills. If the mill rate increases to 17, the extra 2 mills will be applied to the oil and gas properties, which will be deducted from the state's share of the 20 mills.

[8:24:21 AM](#)

REPRESENTATIVE NEUMAN inquired as to how much this proposed exemption would impact the state's general fund.

MR. VAN SANT specified that when a similar proposal was brought up a few years ago with an exemption of up to \$50,000, the estimated cost to the state's general fund was about \$1.6 million.

[8:24:46 AM](#)

CO-CHAIR FAIRCLOUGH said that after discussions with Mr. Van Sant regarding the drop in state revenue, she decided to put forth the proposed CS with an exemption of up to \$50,000. Co-Chair Fairclough related that the local option aspect of this is more palatable to her. She then inquired, "Is there a nexus point between ... the cost shift from residential property owners to the taxation of commercial and industrial property in a different way? And is there a tipping point?"

MR. VAN SANT highlighted that the growth percentage of residential property has out paced that of commercial property. Therefore, there has been an abnormal increase in values of residential property in comparison to commercial property. The main thrust of legislation such as HB 199 is to slow that growth for residential property. Furthermore, it all depends upon how the municipalities implement it. At a \$50,000 exemption, those

properties in the \$400,000 range will see an increase in taxes paid, depending upon how much the mill rate is increased in order to make up the loss the municipality realizes.

CO-CHAIR FAIRCLOUGH further clarified her question. She pointed out that large stores, such as Fred Meyer, do use facilities and municipal services in a manner different than a residential property owner. The industrial/commercial community have a greater use of the system that [all property owners] are trying to pay for equally. She asked if there's a point at which the shift [in taxes] is unfair.

MR. VAN SANT reminded the committee that the largest component of any mill rate is the school budget, which typically accounts for 70-80 percent of the total mill rate. He said that he hasn't done a study on [such a tax shift].

[8:29:27 AM](#)

WOLFGANG FALKE began by characterizing the City of Fairbanks as a glorified service area that isn't taking care of education since it's a borough function. Mr. Falke opined that it doesn't matter whether there's a sales tax or a property tax because if there's a sales tax, the property tax will decrease. He further opined that Fairbanksans are proud of not paying a sales tax and thus don't seem to mind paying more in property tax. The businesses are writing off their [property] tax as a business expense, and therefore that property tax is reflected in the price. If the property tax decreased, the consumer pays less but has to pay a sales tax, which generates additional administrative costs. Mr. Falke said that he's opposed to any tax that creates more administrative costs. He then opined that citizens should receive an exemption rather than having an exemption in the form of a sales tax and a decrease in property tax because citizens would ultimately pay the property tax twice. They would pay the property tax to the city and indirectly at the store. He then highlighted Article X of the Alaska State Constitution, which specifies that the state should provide for maximum local self government. Therefore, the exemption should be in place without any limit and thus he suggested deletion of the last sentence of HB 199. He concluded by stating that HB 199 provides a little break from the double taxation he explained earlier.

[8:35:05 AM](#)

LISA PEGER noted her agreement with Mr. Falke that there shouldn't be an upper limit on this exemption because it should be [left up to] local control. She suggested that instead of having an upper limit, the \$100,000 could be inflation-proofed by the annual average statewide property assessment increase. Ms. Peger opined that she likes HB 199 as it is. She then highlighted the continuing financial hardships the average middle class citizen faces. Ms. Peger charged that politicians have created inflation by always increasing government wages annually by 3 percent. She then turned to the proposal for a 2 percent cap, which she characterized as not a good idea as it's artificial, cumbersome, and creates false evaluations. This legislation is perfect because it allows locals to craft exactly what they need and vote on it. She informed the committee that one problem is related to the growth percentage. She explained that in certain cities there isn't enough housing for the influx of military. In Fairbanks, for example, the military [housing] allotment has been increased to \$2,050. Therefore, the average person isn't chosen for rentals because the rents increase to the military limit. Ms. Peger, drawing upon her experiences as a landlord, related that the situation has resulted in families trying to live in efficiencies. The demand for housing makes the valuations real and true. She informed the committee that in Fairbanks houses are basically traded 800 times a year. However, there are only about 50 trades a year for commercial property and thus they don't experience the same inflationary pressure of residential property. This is unfair because business, commercial, and raw land property valuations aren't properly taxed. Ms. Peger said HB 199 would shift about 1-5 mills [in tax burden] to raw land.

[8:43:32 AM](#)

CO-CHAIR FAIRCLOUGH related her understanding that politicians' wages for Anchorage and the state have been frozen for over a decade.

[8:45:20 AM](#)

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

On behalf of the administration, we do not support this bill. The mayor believes that if House Bill 199 becomes law, it will put undue pressure on the assembly to pass an unfunded exemption. Currently, the Kenai Peninsula Borough does offer a flat \$20,000

residential exemption for residential properties that are owned and occupied as one's primary residence and permanent place of abode. Additionally, according to Kenai Peninsula Borough, one must occupy his/her home for at least 183 days per year for which the exemption is sought. The language of this bill merely states "a municipality may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election." I hope your intent is that it would apply to a home owned and occupied as one's primary residence and permanent place of abode. Currently, the assessed value of home owner-occupied primary residences and permanent places of abode that are exempt based on the \$20,000 residential exemption in the Kenai Peninsula Borough amounts to about \$185 million in assessed value or approximately \$2.2 million in taxes being exempted or shifted elsewhere. For example, to vacant lots, non owner-occupied homes, industrial, commercial, and our oil and gas properties. At [the] \$50,000 exemption, the assessed value exempted would approximate \$452 million or about \$5.4 million in taxes exempted or shifted elsewhere. Lastly, this additional available exemption would place political pressure on our municipality to go before the voters at a time when budgets are attempting to be managed with all due care and with all due fiscal responsibility. So, with that, thank you Madame Chair for your consideration.

[8:47:41 AM](#)

CO-CHAIR LEDOUX opined that usually the municipalities encourage the legislature not to establish unfunded mandates and to maintain local control. Therefore, she expressed confusion with Mr. Horan's testimony. Furthermore, she recalled that Kenai provides a 100 percent senior exemption, which is beyond what the state mandates.

MR. HORAN confirmed that Kenai does provide a 100 percent exemption for seniors. However, he informed the committee that the assembly is currently working to cap its senior exemption at \$300,000. He related his understanding that the mayor of Kenai merely wanted to relate that this legislation places another pressure to pass an ordinance and place it before the people even though it's an optional exemption.

CO-CHAIR LEDOUX related her understanding from a recent Anchorage Daily News article that Kenai is contemplating placing the senior property tax exemption before the voters. She suggested that perhaps coupling this proposed ordinance with a reduction in the senior exemption could result in a successful vote.

MR. HORAN acknowledged that [the proposed ordinance] may help. He then informed the committee that 60 percent of Kenai's general revenues are collected from property tax and about 20 percent from sales tax. Kenai is attempting to find a balance by reducing the mill rate and increasing the sales tax.

[8:50:24 AM](#)

REPRESENTATIVE CISSNA noted her agreement with the sponsor that in a state with so many differing communities, an array of options should be offered. Therefore, she questioned whether Kenai may need options some time in the future.

MR. HORAN related his belief that Kenai would like simplicity and less options because [more] options increase administrative pressure and public frustration.

[8:52:43 AM](#)

MARTY MCGEE, Assessor, Municipality of Anchorage, speaking on behalf of the mayor, announced that he doesn't oppose HB 199. He noted appreciation that what HB 199 proposes is a local option and a public process related to changing the limits on the amount of the exemption. Mr. McGee echoed earlier testimony that any change to a tax exemption is redistribution of the tax and thus other taxpayers will pay more when another group of taxpayers is given an exemption.

[8:54:03 AM](#)

LUKE HOPKINS, Member, Fairbanks North Star Borough Assembly, Fairbanks North Star Borough, related the assembly's support of HB 199, which he characterized as another tool for municipalities. Furthermore, it provides many levels for public input at the local level. The passage of this legislation could provide some homeowners with some relief from increasing property assessments and energy costs. Mr. Hopkins further related that earlier this year the Fairbanks North Star Borough Assembly supported, by resolution, a request for a \$50,000 exemption.

8:55:50 AM

JAVEN OSE related his opinion that HB 199 basically shifts the tax burden and creates a situation of hate amongst [those who receive the exemption and those upon whom the tax burden was shifted]. Therefore, he suggested that perhaps the exemption could be forgive. Mr. Ose recalled the last 50 years, and inquired as to how many instances of waste there have been. In conclusion, Mr. Ose stated his opposition to HB 199 because it shifts the balance of payment from one party to another.

8:59:28 AM

TAMMIE WILSON began by relating her support for HB 199. Ms. Wilson then informed the committee that the mill rate in Fairbanks has lowered every year since the \$20,000 exemption was established. However, she acknowledged that when there is a shift such as this, someone pays somewhere along the line. She then highlighted the local control aspect of HB 199, and pointed out that [the exemption in Fairbanks] is 20 percent of the assessed value or \$20,000, whichever is lower. Furthermore, the \$20,000 exemption isn't [utilized] in road service areas and thus the exemption doesn't place the fire and road services in detriment. She opined that the conflict is caused by not being able to tax/appraise commercial property differently. She echoed earlier comments regarding the stress created by the demand for military housing. She related that most [residential] property values have increased more than 10-20 percent [in Fairbanks]. Ms. Wilson acknowledged the desire to have large box stores pay more, but she cautioned the committee because small businesses do get caught up in this as well. However, she pointed out that most small business owners own homes and would hopefully be helped by this proposed exemption in that realm.

9:03:37 AM

CO-CHAIR FAIRCLOUGH, upon determining no one else wished to testify, closed public testimony. She then noted that a CS was prepared so that the committee could consider the exemption at the \$50,000 level as well. She reviewed questions and suggestions related to HB 199 and suggested that the committee consider those and any possible amendments.

9:05:03 AM

REPRESENTATIVE KAWASAKI, utilizing a pictorial, related that if the assessments decrease due to a higher portion being exempted, then the mill rates would have to increase in order to maintain the same level of revenue. The aforementioned would impact communities such as Fairbanks that are at the revenue cap. Communities that raise more than the cap would probably decide whether to increase the mill rate or not. In fact, the City of Fairbanks went through a mill rate reduction last year, although they could raise more since its not at the cap. Representative Kawasaki said he found it bizarre that Kenai wouldn't want a local option and the local community could determine how to specify the type of property. He noted that not every community has a property tax. In closing, Representative Kawasaki expressed his desire to work with the Chair to make HB 199 better legislation.

HB 60-MUNICIPAL PROPERTY TAX EXEMPTION

[9:08:04 AM](#)

CO-CHAIR FAIRCLOUGH announced that the final 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."

[9:08:15 AM](#)

REPRESENTATIVE VIC KOHRING, Alaska State Legislature, sponsor, explained that HB 60 would increase the property tax exemption for senior citizens and disabled veterans to \$250,000. The exemption was originally established in 1985 at the \$150,000 level. Representative Kohring highlighted that seniors have taken a real hit due to inflation, loss of the longevity bonus, and the floundering senior care legislation. Therefore, he related his desire to help the seniors by increasing their exemption.

[9:12:31 AM](#)

WOLFGANG FALKE said he supports HB 60. He then pointed out that the law specifies that an application for this exemption must be submitted by January 15. Therefore, he questioned whether an individual who turns 65 in May would qualify for the exemption for the next fiscal year, which begins July 1st.

LUKE HOPKINS Member, Fairbanks North Star Borough Assembly, Fairbanks North Star Borough, recalled that the borough recently

passed an ordinance that moved the deadline for exemptions to April 1st.

MR. FALKE pointed out that HB 60 refers to a state application. Mr. Falke opined that HB 60 proposes a fair increase. Returning to his earlier question, he emphasized that HB 60 should refer to an individual who is 65 upon the date of application in order to clarify when an individual qualifies and avoid the three different possibilities.

[9:18:42 AM](#)

LISA PEGER related her understanding that the average home in Alaska is [assessed at] \$187,000 and in the nation it's \$212,000. Therefore, she suggested that the senior and disabled veteran exemption be increased by no more than \$200,000 unless the remaining homeowners are given the \$100,000 exemption. Otherwise, the burden of the senior [and disabled veteran] exemption will be shifted on to the rest of the working class. She then spoke in favor of inflation-proofing the \$100,000 exemption or not having that [limit] at all.

[9:20:05 AM](#)

JAMES SKINNER, speaking at the request of a number senior citizens, related support for HB 60. He informed the committee that his taxes have increased \$60,000 in assessment in two years. If his property continues to be taxed at that rate and HB 60 is in place, he pointed out that he would be taxed in three years. Therefore, he suggested that HB 60 should be changed such that every year taxes are increased the exemption is increased by a comparable amount. He highlighted that seniors and disabled veterans spend money in the state. He concluded by commented that he doesn't want to be taxed out of his home, which he opined will happen if the exemption isn't increased and tied to inflation and the value of the properties.

[9:22:33 AM](#)

EILEEN JOHNSON explained her situation in which there is much [newer] development around her house, which has caused her property taxes to increase. Mr. Johnson related her support for HB 60, which she said would aid her in staying in her own home.

[9:24:02 AM](#)

ELEANOR RIENDL related much thanks for the introduction of HB 60. She then inquired as to how much land one can own [and receive the exemption] under HB 60. She suggested that the age at which this exemption should be available is 65.

[9:26:40 AM](#)

MARTY MCGEE, Municipal Assessor, Municipality of Anchorage (MOA), related that MOA doesn't support HB 60 as written. Although the municipality doesn't oppose the first \$150,000 as a mandatory exemption, anything over that should be left as a local option with voter approval. Furthermore, MOA would like to see an index on the amount of value indexed over \$150,000. He mentioned that the consumer price index (CPI) isn't a good index for real estate value. Mr. McGee related that the mayor of MOA would like this matter to be on the ballot as soon as possible if it's enacted as a local option requiring voter approval.

[9:27:58 AM](#)

CO-CHAIR FAIRCLOUGH asked if, currently, local municipalities can exempt whatever amount they desire.

MR. MCGEE replied no, municipalities are limited by the current state law. In further response to Co-Chair Fairclough, Mr. McGee related his understanding that the Kenai exemption preceded the enactment of the law.

[9:28:37 AM](#)

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community, & Economic Development, pointed out that under AS 29.45.050 a municipality has the ability to exempt all senior citizen exemption above the \$150,000, which is how the Kenai Peninsula Borough has exempted the total tax of property owned by senior citizens. In response to an earlier question, Mr. Van Sant specified that the effective date for senior citizens receiving the exemption is January 1. The tax year for all exemption determinations is made as of January 1.

[9:30:13 AM](#)

JAVEN OSE related his support for HB 60. He opined that if seniors are given these exemptions, then they'll stay in the state. He characterized [HB 60] as a simple matter to amend the

statute from the current senior exemption of \$150,000 to \$250,000-\$300,000, which would reflect the original intent of the law.

9:34:08 AM

SHANE HORAN, Assessor, Kenai Peninsula Borough, related that the Kenai Peninsula Borough doesn't support HB 60, which he characterized as an unfunded mandate. Based on the current forecast of the 2007 assessment rolls, the mandatory exempted assessed value for the Kenai Peninsula Borough would increase from \$3.6 million to \$4.5 million in revenue lost.

9:35:29 AM

KATHY WASSERMAN, Alaska Municipal League (AML), reminded the committee that AML has stated in its policy that it won't oppose any optional exemption. However, AML opposes mandatory exemptions as would be the case with HB 60. Based on the \$150,000 exemption, \$39 million is the amount exempted. If HB 60 were to take effect, even with the governor's \$48 million for revenue sharing, it would cost municipalities \$53 million to put the \$250,000 exemption in place. Ms. Wasserman said that AML doesn't understand why the legislature doesn't address those in need rather than all those of a certain age. She highlighted that there has been much discussion with regard to the "brain drain," which is impacted by proposed tax shifts from seniors with money to young families. The AML is all about local control, and therefore it desires addressing those in need. Ms. Wasserman emphasized that the drafters of the original program realized that in order to exempt seniors and disabled veterans and not create tax shift the state would need to agree to pay the municipalities that money, which the state did. However, the state eventually found that it couldn't provide those funds. The aforementioned is when the tax shifting started. Ms. Wasserman concluded, "I agree, if some members of the state think that this is the right thing to do, then I would suggest that the state, indeed, step out and do that right thing and fund this bill."

9:38:43 AM

REPRESENTATIVE NEUMAN pointed out that the state is mandated to fund schools, roads, and public safety. He asked if Ms. Wasserman has calculated the amount of other funds that go to communities in the state through other capital projects and revenue-type sharing programs.

MS. WASSERMAN said that would be difficult to do because depending upon where one lives, public safety may or may not exist. The AML hasn't done what Representative Neuman suggested.

REPRESENTATIVE NEUMAN related his assumption that the total [of other capital projects and revenue-type sharing programs] would be more than \$46 million.

MR. WASSERMAN said that she would agree if he was speaking of capital improvements. However, she pointed out that those capital improvements come at a cost due to the maintenance, fuel, and heating required to continue them and thus again raises costs to communities.

9:40:11 AM

TAMMIE WILSON said she likes the idea proposed in HB 60. However, she expressed concern because in the Fairbanks Northstar Borough there are fire and road service districts. She explained that more seniors are staying in the area. In fact, some areas are mainly comprised of seniors, which cause the mill rates to increase in order to keep the roads up to par. Therefore, those who aren't seniors and don't receive the exemption have to pay more. Ms. Wilson opined that revenue sharing doesn't necessarily help in this situation because the funds don't necessarily go toward making up the difference in the aforementioned situations. Another concern is that if this legislation mandates a certain amount, the community can't go lower.

9:42:52 AM

CO-CHAIR FAIRCLOUGH, upon determining no one else wished to testify, closed public testimony.

9:43:35 AM

REPRESENTATIVE BILL THOMAS explained that his amendment would, after two years [of an increased senior property tax exemption], grandfather in those seniors receiving the exemption and make the senior tax exemption a local option. He further explained that doing so would provide a tool to assist local communities and those [homeowners] not receiving the exemption. The proposed amendment [labeled 24-LS0299\A.1, Cook, 5/2/07] read as follows:

Page 1, line 1:

Delete "**and increasing the**"

Insert "**a mandatory and an optional**"

Page 1, line 4, through page 2, line 14:

Delete all material and insert:

"\* **Section 1.** AS 28.10.181(d) is amended to read:

(d) Vehicles owned by veterans with disabilities, including persons disabled in the line of duty while serving in the Alaska Territorial Guard, or other persons with disabilities. Upon the request of a person with a disability that limits or impairs the ability to walk, as defined in 23 C.F.R. 1235.2, the department shall (1) register one motor vehicle in the name of the person without charge; and (2) issue a specially designed registration plate that displays (A) recognition of the disabled veteran if the applicant's disability originated from the applicant's service with the Alaska Territorial Guard or the armed forces of the United States; (B) the international symbol of accessibility (the wheelchair logo); and (C) if the applicant is a veteran, the Alaska and United States flags and red, white, and blue colors. A person who is not otherwise qualified under this subsection, but who meets the qualifications of a disabled veteran under AS 29.45.050(i)(2) [AS 29.45.030(i)], may register one motor vehicle without charge, and the department shall issue a specially designed registration plate that displays recognition of the disabled veteran that does not display the international symbol of accessibility and does not carry with it special parking privileges. For purposes of this subsection, proof of disability may be provided by a person licensed as a physician or physician assistant under AS 08.64 or as an advanced nurse practitioner under AS 08.68.

\* **Sec. 2.** AS 29.45.030(a) is amended to read:

(a) The following property is exempt from general taxation:

(1) municipal property, including property held by a public corporation of a municipality, state property, property of the University of Alaska, or land that is in the trust established by the Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 709, except that

(A) a private leasehold, contract, or other interest in the property is taxable to the extent of the interest; however, an interest created by a nonexclusive use agreement between the Alaska Industrial Development and Export Authority and a user of an integrated transportation and port facility owned by the authority and initially placed in service before January 1, 1999, is taxable only to the extent of, and for the value associated with, those specific improvements used for lodging purposes;

(B) notwithstanding any other provision of law, property acquired by an agency, corporation, or other entity of the state through foreclosure or deed in lieu of foreclosure and retained as an investment of a state entity is taxable; this subparagraph does not apply to federal land granted to the University of Alaska under AS 14.40.380 or 14.40.390, to other land granted to the university by the state to replace land that had been granted under AS 14.40.380 or 14.40.390, or to land conveyed by the state to the university under AS 14.40.365;

(C) an ownership interest of a municipality in real property located outside the municipality acquired after December 31, 1990, is taxable by another municipality; however, a borough may not tax an interest in real property located in the borough and owned by a city in that borough;

(2) household furniture and personal effects of members of a household;

(3) property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes;

(4) property of a nonbusiness organization composed entirely of persons with 90 days or more of active service in the armed forces of the United States whose conditions of service and separation were other than dishonorable, or the property of an auxiliary of that organization;

(5) money on deposit;

(6) [THE REAL PROPERTY OF CERTAIN RESIDENTS OF THE STATE TO THE EXTENT AND SUBJECT TO THE CONDITIONS PROVIDED IN (e) OF THIS SECTION;

(7)] real property or an interest in real property that is exempt from taxation under 43 U.S.C. 1620(d), as amended;

(7) [(8)] property of a political subdivision, agency, corporation, or other entity of

the United States to the extent required by federal law; except that a private leasehold, contract, or other interest in the property is taxable to the extent of that interest unless the property is located on a military base or installation and the property interest is created under 10 U.S.C. 2871 - 2885 (Military Housing Privatization Initiative), provided that the leaseholder enters into an agreement to make a payment in lieu of taxes to the political subdivision that has taxing authority;

**(8)** [(9)] natural resources in place including coal, ore bodies, mineral deposits, and other proven and unproven deposits of valuable materials laid down by natural processes, unharvested aquatic plants and animals, and timber.

\* **Sec. 3.** AS 29.45.030(j) is amended to read:

(j) One motor vehicle **for each** [PER] household owned by a resident 65 years of age or older on January 1 of the assessment year is exempt either from taxation on its assessed value or from the registration tax under AS 28.10.431. An exemption may be granted under this subsection only upon written application on a form prescribed by the Department of Administration. **Nothing in this subsection affects a similar exemption from property taxes granted by a municipality on September 10, 1972. The department shall adopt regulations to implement this subsection.**

\* **Sec. 4.** AS 29.45.030(m) is amended to read:

(m) For the purpose of determining property exempt under **(a)(6)** [(a)(7)] of this section, the following definitions apply to terms used in 43 U.S.C. 1620(d) unless superseded by applicable federal law:

(1) "developed" means a purposeful modification of the property from its original state that effectuates a condition of gainful and productive present use without further substantial modification; surveying, construction of roads, providing utilities or other similar actions normally considered to be component parts of the development process, but that do not create the condition described in this paragraph, do not constitute a developed state within the meaning of this paragraph; developed property, in order to remove the exemption, must be developed for purposes other than exploration, and be limited to the smallest practicable tract of the property actually used in the developed state;

(2) "exploration" means the examination and investigation of undeveloped land to determine the existence of subsurface nonrenewable resources;

(3) "lease" means a grant of primary possession entered into for gainful purposes with a determinable fee remaining in the hands of the grantor; with respect to a lease that conveys rights of exploration and development, this exemption shall continue with respect to that portion of the leased tract that is used solely for the purpose of exploration.

\* **Sec. 5.** AS 29.45.030(n) is amended to read:

(n) If property or an interest in property that is determined not to be exempt under (a)(6) [(a)(7)] of this section reverts to an undeveloped state, or if the lease is terminated, the exemption shall be granted, subject to the provisions of (a)(6) [(a)(7)] and (m) of this section.

\* **Sec. 6.** AS 29.45.040(f) is amended to read:

(f) In this section "disabled veteran" has the meaning given in AS 29.45.050(i)(2) [AS 29.45.030(i)].

\* **Sec. 7.** AS 29.45.050(i) is amended to read:

(i) A municipality may by ordinance [APPROVED BY THE VOTERS] exempt from taxation the first \$150,000 of the assessed value or, if the ordinance is approved by the voters, the entire assessed value [THAT EXCEEDS \$150,000] of real property, including a mobile home whether classified as real or personal property for other municipal tax purposes, owned and occupied as a permanent place of abode by a resident who is

(1) 65 years of age or older;

(2) a disabled veteran; for purposes of this paragraph, "disabled veteran" means a disabled state resident who

(A) is separated from the military service of the United States under a condition that is not dishonorable, whose disability was incurred or aggravated in the line of duty in the military service of the United States, and whose disability has been rated as 50 percent or more by the branch of service in which that resident served or by the United States Department of Veterans Affairs; or

(B) served in the Alaska Territorial Guard, whose disability was incurred or aggravated [, INCLUDING A PERSON WHO WAS DISABLED] in the line of duty while serving in the Alaska Territorial Guard,

and whose disability has been rated as 50 percent or more; or

(3) at least 60 years old and a widow or widower of a person who qualified for an exemption under (1) or (2) of this subsection.

\* **Sec. 8.** AS 29.45.295 is amended to read:

**Sec. 29.45.295. Collection of delinquent taxes on certain governmental property.** AS 29.45.300 - 29.45.490 do not apply to property taxable under AS 29.45.030(a)(1)(B) or (C) or to federal property not exempted under AS 29.45.030(a)(7) [AS 29.45.030(a)(8)]. A municipality may bring an action in the superior court to compel payment of property taxes due from the state, municipal, or federal entity if the entity does not pay the amount due within six months after the date that the taxes are due.

\* **Sec. 9.** AS 29.45.030(e), 29.45.030(f), 29.45.030(g), 29.45.030(h), 29.45.030(i), and 29.45.030(k) are repealed.

\* **Sec. 10.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RESIDENTIAL PROPERTY TAX EXEMPTION TO BE MAINTAINED. Notwithstanding the repeal of AS 29.45.030(e) - (k) by sec. 9 of this Act, a person who, under AS 29.45.030(e) - (k), was entitled to receive the benefit of a real property tax exemption on the day before the effective date of the repeal of those subsections may continue to obtain a real property tax exemption for that real property under AS 29.45.030(e) - (k) as those subsections read on the day before the effective date of their repeal.

\* **Sec. 11.** This Act takes effect January 1, 2010."

[9:45:33 AM](#)

REPRESENTATIVE NEUMAN asked if Representative Thomas's amendment would make the senior exemption optional, whether it's \$150,000 or \$250,000.

REPRESENTATIVE THOMAS replied yes, for the municipalities.

[9:46:43 AM](#)

REPRESENTATIVE THOMAS, in response to Co-Chair LeDoux, clarified that his amendment would make the senior exemption optional to local governments after two years.

CO-CHAIR LEDOUX related her understanding then that [with the passage of this legislation and the proposed amendment] the senior exemption would be an unfunded mandatory exemption for the next two years and then become optional.

REPRESENTATIVE THOMAS replied yes.

CO-CHAIR FAIRCLOUGH surmised that Representative Thomas intends to provide notice to municipalities to take over local control and manage the exemption.

[9:47:30 AM](#)

REPRESENTATIVE CISSNA mentioned that as long as she is able she wants to pay her property taxes. If [the amendment] is adopted, would it mandate that a local community make the senior exemption mandatory, she asked.

REPRESENTATIVE THOMAS indicated that seniors could opt to continue to pay their property tax.

[9:48:53 AM](#)

CO-CHAIR LEDOUX related her understanding that currently the senior exemption is mandatory on the first \$150,000. She asked if it's the intention of the amendment not to increase the amount of the exemption, but simply to make it optional within two years.

REPRESENTATIVE THOMAS clarified that his amendment would make the senior exemption [at whatever level specified in the legislation] a local option after two years.

[9:50:10 AM](#)

CO-CHAIR FAIRCLOUGH noted that she had provided the committee with a visual regarding the cost shifting that occurs when there are properties that receive exemptions. She then informed the committee that in Alaska the average full value of a home is \$113,000. Once the oil and gas value is removed from that average, the average value of a house amounts to \$91,000. She highlighted that her documents list the average price of homes on the assessed value in various communities.

[9:53:16 AM](#)

REPRESENTATIVE NEUMAN suggested that the sponsor be given time to review the proposed amendment and provide comments at the next meeting on HB 60.

[9:53:24 AM](#)

REPRESENTATIVE THOMAS offered to speak with the sponsor. He then mentioned the concern [under the current situation] in which the burden is placed on younger people.

[9:54:41 AM](#)

CO-CHAIR FAIRCLOUGH requested that the sponsor research what happens in a down-turn market.

[HB 60 was held over.]

[9:55:51 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at [9:55:53 AM](#).