

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 19, 2007

3:32 p.m.

MEMBERS PRESENT

Senator Donny Olson, Chair
Senator Albert Kookesh, Vice Chair
Senator Joe Thomas
Senator Gary Stevens
Senator Thomas Wagoner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 122

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

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 122

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTION

SPONSOR(S): SENATOR(S) THOMAS

03/16/07	(S)	READ THE FIRST TIME - REFERRALS
03/16/07	(S)	CRA, FIN
04/19/07	(S)	CRA AT 3:30 PM BELTZ 211

WITNESS REGISTER

GRIER HOPKINS, Staff
Senator Joe Thomas
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 122 for Senator Thomas.

STEVEN VAN SANT, State Assessor
Division of Community Advocacy
Department of Commerce, Community & Economic Development
Anchorage AK

POSITION STATEMENT: Commented on SB 122.

CHARLIE REX
Fairbanks North Star Borough Assembly
Fairbanks AK
POSITION STATEMENT: Supported SB 122.

JERRY CLEWORTH
Fairbanks City Council
Fairbanks AK
POSITION STATEMENT: Supported SB 122.

SHANE HORAN, Assessor
Kenai Peninsula Borough
Soldotna AK
POSITION STATEMENT: Opposed SB 122.

TAMMY WILSON, Resident
Fairbanks North Star Borough
POSITION STATEMENT: Supported SB 122.

ACTION NARRATIVE

CHAIR DONNY OLSON called the Senate Community and Regional Affairs Standing Committee meeting to order at [3:32:50 PM](#). Senators Olson, Kookesh, Thomas, Wagoner, and Stevens were present at the call to order.

SB 122-MUNICIPAL PROPERTY TAX EXEMPTION

[3:33:15 PM](#)

CHAIR OLSON announced SB 122 to be up for consideration.

GRIER HOPKINS, Staff to Senator Joe Thomas, sponsor of SB 122, said it would allow a municipality to offer a residential property tax exemption up to \$100,000, but it does not mandate any action. Current law does not allow for state-mandated local methods of taxation or tax rates; it only allows local governments the option of increasing property tax exemptions. The intent behind this legislation is two-fold. First, SB 122 allows municipalities another tool for diversifying their revenue stream. Second, in recent years many of Alaska's local governments have dramatically increased property assessments, resulting in repeatedly increasing costs for homeowners and SB 122 could give homeowners much deserved tax relief.

MR. HOPKINS said there are 12 boroughs and 13 cities with a combined population of over 590,000 that levy property taxes. If

municipalities were to fully implement this proposed exemption, the tax relief for homeowners would be profound. SB 122 would not affect a smaller, revenue-strapped community's sources of tax income. Instead, it would give the municipalities with a large enough population the ability to relieve the tax burden largely borne by homeowners. He explained that SB 122 would allow these local governments to choose an exemption at any amount up to \$100,000. This local ordinance would then require a ratification at the polls before it could go into effect. SB 122 is a tool for municipalities to use at their discretion, potentially aiding both local governments and homeowners.

SENATOR KOOKESH asked how he "got to the \$100,000."

MR. HOPKINS said it was a request from Fairbanks, and the Fairbanks North Star Borough had put forward a similar resolution, but asking for a \$50,000 increase. "We decided to shoot for the top and see what we can get."

[3:36:02 PM](#)

SENATOR STEVENS said he is confused. The state had a \$250,000 exemption.

MR. HOPKINS said currently the state has a \$20,000 exemption for residential homeowners only. There is a \$150,000 mandated exemption for seniors and veterans. A proposed bill raises it to \$250,000. SB 122 is separate.

SENATOR STEVENS said he was a borough mayor for a couple of years and it was difficult to pay the bills. This is optional, but he asked why anyone would want to do this.

[3:37:13 PM](#)

MR. HOPKINS said it gives communities a tool to diversify their tax base. For example, they could take the burden off of the homeowners by instituting a sales tax.

SENATOR WAGONER said the two biggest communities in the state have refused continuously to do anything with a sales tax and they have also restricted themselves to a cap on their property tax. This bill was before the legislature two years ago when the exemption was increased from \$10,000 to \$20,000 at the request of the Kenai Peninsula Borough, and he was upset because it stayed at the \$10,000. He said this may create an entitlement that may work in reverse to what they want. It may become an entitlement demanded by the property tax. Sales tax takes a vote

in the community. The worry he has is that residents will force it, and the burden of taxation will then go to small businesses.

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CHAIR OLSON said it may also be passed onto large businesses.

SENATOR WAGONER said it would be passed on to all businesses, but Fairbanks has a preponderance of small businesses just like the Kenai Peninsula Borough. If Fairbanks implemented a \$100,000 forgiveness to each property, the difference between the \$10,000 they can now issue is \$90,000 per residence. The equivalent burden of that \$90,000 per residence will have to be made up either with a sales tax or by taxing small businesses - and they're having enough problems up there now.

SENATOR STEVENS said he had given up trying to understanding what goes on in Fairbanks and asked if he was bringing Fairbanks into the argument of installing a sales tax.

[3:40:52 PM](#)

SENATOR THOMAS responded that the City of Fairbanks has had a confused situation, but it voted recently to reestablish its tax structure as it existed prior to the October vote. It amounts to a two-year reprieve to come up with some resolution. This bill is not a result of that action. This is more of an issue regarding the assessed values of property which continue to rise. It creates quite a burden on some of the older people, not necessarily the ones that already have an exemption. Both the City and Borough support SB 122. He said the City of Fairbanks will be faced with a sales tax or some other tax option. Some people feel that the many visitors to Fairbanks make use of the roads and facilities, but contribute nothing because they don't have a sales tax. The only way to approach an exemption is by state statute.

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CHAIR OLSON asked if he believed this move would get them closer to having a sales tax.

SENATOR THOMAS replied if you take from one pocket it will have to come out of another pocket somewhere. "So, you will have to have a source of revenue." A sales tax has been argued quite a bit in the Fairbanks area - even a seasonal sales tax.

SENATOR WAGONER commented that Kenai looked at a seasonal sales tax and found that the largest collection of sales tax happens between Thanksgiving and Christmas. So, he wasn't sure a

seasonal tax would do that much. He looked forward to hearing from the Chamber of Commerce, because he was fearful that this tax burden would fall on its people.

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SENATOR STEVENS said this \$20,000 exemption is for everyone and wondered if the City and Borough had other options to reduce property tax. Couldn't the rates be changed?

MR. HOPKINS replied yes. One option that has been looked at is lowering the mil rate, which specifically targets residential homeowners and asks others "to fill the hole." This only affects the prime residence; a cabin in the woods is not exempted.

[3:46:22 PM](#)

SENATOR STEVENS said they could lower their mil rate, but then it would be lowering it for everyone including businesses.

MR. HOPKINS added that it would also reduce the amount of revenue that municipalities get from minerals and oil and gas properties. He explained that the state charges a 20 mil rate and when it goes through a municipality that has a property tax, that municipality takes its tax first. If the original mil rate were lowered, they would receive less money from the oil and gas property also. He said Table 3 A illustrated this point.

SENATOR KOOKESH asked him to explain the ratification process.

MR. HOPKINS said an assembly would have to decide to institute an exemption and then go to a vote of all citizens to ratify it.

SENATOR KOOKESH asked what happens if it is voted down.

MR. HOPKINS replied that then it doesn't happen.

SENATOR WAGONER reminded them that some communities tax up to the 20 mil level to get the maximum benefit. Others don't tax to that level and that should figure into their calculations when looking at revenue sharing. It allows municipalities to keep that taxable value.

[3:49:29 PM](#)

SENATOR THOMAS said the mil rates are in the packet and that some municipalities have no oil and gas properties.

CHAIR OLSON asked if this measure would transfer one portion of tax from property owners to another type of taxpayer.

STEVE VAN SANT, State Assessor, Division of Community Advocacy, Department of Commerce, Community & Economic Development, commented that having an exemption without another source of revenue, like a sales tax, would shift a portion of the burden from residential property to commercial and vacant property, and for Valdez, Kenai, the North Slope, and Fairbanks it will also take some revenues from the state because they will have to increase their mil rates to make up for that loss. He said a few years ago an analysis showed that a \$50,000 exemption would take about \$2 million from the state. So, if everyone took the \$100,000 that would make it \$4 million. However, the trouble with that calculation is that Fairbanks and Anchorage would have a percentage up to the maximum and not everybody would receive the maximum exemption.

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SENATOR KOOKESH asked if he supported the bill.

MR. VAN SANT replied that he couldn't speak for the administration, but it would be important to municipalities. Used by itself it shifts the burden, but if it's used with other revenues coming in, that would help. Fairbanks, for instance, has a revenue cap, so any other revenue stream they have would certainly lower their property taxes. He supports any tools that help municipalities with their revenue streams.

SENATOR WAGONER said he didn't understand his last statement.

MR. VAN SANT explained that there are many tools for municipalities to use to enhance their revenue streams and one is diversification of their tax revenues - a sales tax or maybe a gross receipts tax. This allows municipalities to shift burdens where residential values are increasing more than in other areas. In this case, residential values are increasing across the state more rapidly than commercial properties. Increasing residential exemptions would give some tax relief to residential property owners, but he didn't support any particular number.

3:55:20 PM

CHARLIE REX, Fairbanks North Star Borough, said he is on the borough assembly, and that this bill is not getting a lot of support from Kenai and Anchorage because both of those are served by natural gas. Fairbanks has to depend on fuel oil and those costs are going up exponentially and putting a crunch on

homeowners. People will soon be in the position of having to choose between paying a fuel bill or property taxes.

He brought a resolution forward to the Assembly to raise the exemption to \$50,000 with the idea that everyone would see a substantial decrease in property taxes. If this is implemented at the same time a sales tax is implemented, they would end up with a substantial decrease for those folks who own commercial properties and at the same time, a substantial decrease for those residential properties. This is a tool that Fairbanks needs. It takes a vote by the people, but he didn't think it would be implemented up to the highest level.

MR. REX said he felt the sales tax issue would get put on the ballot in Fairbanks, and voting for a \$100,000 exemption doesn't mean it would need to be implemented at that level. When they went from a \$10,000 exemption to a \$20,000 exemption, their mil levy decreased. So, from a revenue standpoint on the pipeline the state has seen a positive increase even with an increase in the exemption. Since he has been on the Assembly the mil rate has been lowered from approximately 14 mils to 12 mils, but with increased valuations, the home owners "have had enough."

MR. REX said any alternative tax other than raising the exemption has a cost for collecting it. If a sales tax is implemented, there is really no cost. You just push a different button on the computer.

[4:00:00 PM](#)

SENATOR WAGONER corrected Mr. Rex saying hundreds of thousands of gallons of home heating oil are sold on the Peninsula too. He asked if the municipality or the Fairbanks North Star Borough had a vote on a sales tax. If so, how many times has it failed?

MR. REX replied that the City of Fairbanks has had five or six votes. The Borough has never had a vote on sales tax. This would be the first time borough-wide it has gone to the ballot.

[4:01:05 PM](#)

SENATOR STEVENS asked Mr. Van Sant if boroughs can charge a differential rate of tax on commercial property as compared to home properties.

MR. VAN SANT replied that current statutes say all mil rates have to be the same for both residential and commercial properties except for different levels of service.

[4:01:59 PM](#)

CHAIR OLSON asked Mr. Rex if he was talking about the borough administration.

MR. REX replied yes and said that he supported the bill because it would enhance the chance that a sales tax would pass in his community.

SENATOR KOOKESH asked why go from \$20,000 to \$100,000.

MR. REX explained that the City of Fairbanks passed a resolution to raise the exemption to \$100,000. He brought a resolution forward at the borough level for \$50,000 because he thought it had a better chance of passing. A \$100,000 exemption would be more of a bitter pill to swallow for the chambers and some of the local small businesses that Senator Wagoner mentioned earlier. The \$50,000 is a realistic number.

[4:03:42 PM](#)

SENATOR WAGONER said he tried using \$50,000 before and it got whittled down to \$20,000. So he understands the process this has to go through. He asked what the population is outside the City of Fairbanks and if North Pole has a sales tax.

MR. REX replied that North Pole has a sales tax, and the population outside Fairbanks city proper is 32,000 and North Pole has approximately 1,500 residents. So, they would end up with approximately 55,000 residents that reside in neither city - for a total population of about 88,000.

[4:05:41 PM](#)

JERRY CLEWORTH, Fairbanks City Council, supports SB 122. He said the City of Fairbanks has three separate sales taxes for a total of approximately \$4 million out of a \$29 million budget. The property tax raises about \$12 million. The balance comes from other revenue sources and the city is diversified. He corrected Mr. Rex saying that the Borough voted a sales tax down in the late 80s. He said the City Council is always looking for ways to relieve the residential owner because of increasing borough assessments. Further, he said the combination of increasing fuel costs and assessments are a double hammer that people have been experiencing. The Council wants the opportunity to be able to juggle the residential exemption more than what it is right now. The \$20,000 was great and it overwhelmingly passed. They were hoping to have a tool that would allow it to go higher.

[4:07:51 PM](#)

SENATOR WAGONER asked if he was aware of a bill moving through the process that restricts the borough to an increase of 2 percent per year in assessed valuation. He hears that the rate of appreciation might be much higher than that in Fairbanks.

MR. CLEWORTH replied yes and recently home owners have been hit with assessments as high as 30 percent. His house fluctuated around the 10 to 13 percent rate each year and it would probably sell for its assessment. But the increases are too fast and too sudden for most people.

4:09:45 PM

MARTY MCGEE, Assessor, Municipality of Anchorage, said the municipality does not oppose this bill. He said it is true that residential property is rising about twice as fast as other types of property in Anchorage resulting in a redistribution of the tax. This bill would give them another tool to consider. He said the bill sets another fixed amount in terms of total exemption and every time that is done, it creates a problem over time, because property values increase not only with market, but with inflation. The historical fixed amounts sometimes depart from reality. In Anchorage the average home is selling for \$300,000. So \$100,000 will not exempt all property value for most home owners and it would provide relief. If Anchorage were to implement this to the limit, the shift would increase the millage and a redistribution of the tax not just to commercial property owners, but to higher value homeowners, as well.

He also agreed with Mr. Van Sant that fractional assessment is not allowed under Alaska law. The Anchorage mil rate is significantly affected by the tax cap. So they are limited in terms of total tax revenue and the mil rate can only raise enough money to meet the amount allowed by the tax cap.

4:12:30 PM

SENATOR STEVENS said they are redistributing the tax to commercial property, but in the end if tax is raised on McDonald's Restaurant, McDonald's would raise the price of its hamburgers and the public would pay that anyway. He asked for an overall view of what happens when the tax is redistributed on commercial property.

MR. MCGEE replied if they were to implement the exemption to the limit allowed, it would cause the remaining taxpayers, both commercial and residential, to pay more taxes. In terms of its distribution down the chain, the market elements of supply and demand don't always allow them to pass their increased tax down

to their customers. Some people have the option, especially in Anchorage, of going to Matsu to do business in a different tax environment. Sometimes local tax policy has consequences beyond the obvious. He said that apartment owners in Anchorage have not been able to pass all of their increased expenses to their customers and probably wouldn't be able to with this tax.

4:14:41 PM

SHANE HORAN, Assessor, Kenai Peninsula Borough, said the borough doesn't support SB 122. He said that Mayor John Williams believes it would pressure the assembly to pass an unfunded exemption. Currently the Kenai Peninsula Borough does offer the \$20,000 residential exemption for residential properties that are owned and occupied as a primary residence and permanent place of abode. In 2005 they went from a \$10,000 residential exemption up to a \$20,000 exemption. According to the Kenai Peninsula Borough code, one must occupy one's home for at least 183 days per year in the prior year for which the exemption is sought. This bill has no such requirements and merely states: "A municipality may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election." There is no language specifying ownership or occupancy.

MR. HORAN said that current exemptions amount to about \$185 million and approximately \$2.2 million in taxes being exempted or shifted elsewhere. A \$50,000 exemption would amount to approximately \$452.4 million or approximately \$5.5 million in taxes exempted or shifted elsewhere. At \$100,000, the assessed value exempted would be \$855 million or approximately \$10 million in taxes exempted. Lastly, this additional available exemption would place political pressure on the municipality to go before the voters at a time when budgets are attempting to be managed with all due care and fiscal responsibility.

4:17:32 PM

CHAIR OLSON asked how the sales tax provision would affect their current sales tax situation.

MR. HORAN replied that he didn't know, but he did know that the mayor and administration are considering lowering the mil rate. The Peninsula has a 2 percent sales tax and they wish to increase that to 3 percent and reduce property taxes by 1 mi.

SENATOR WAGONER said that would take place on January 1, 2008 if they do that.

TAMMY WILSON said she lives in the Fairbanks North Star Borough, and she thanked Senator Thomas for bringing this forward. As a homeowner, she gets a choice of \$20,000 or a percentage. She thought this would work the same way. If this passed, she didn't think Fairbanks would all of a sudden go up to \$100,000. They would go to \$30,000 or \$40,000 and see how that would be shifted to the businesses. She said, however, that the sales tax puts the entire burden on the residents who buy things. Shifting the responsibility to businesses will cause them to pass on the cost to the customer. They are lucky their mil rate has been lower each year, but most assessments have grown 30 percent and even doubled in the last year. SB 122 establishes a tool for boroughs to use. It is not forced on anyone.

4:20:09 PM

SENATOR WAGONER said he used to be a commercial property owner in Kenai and the ability to increase prices is directly proportional to the competition. Smaller communities don't have many new businesses coming in; they move within the community from one piece of property to another where they can get the lowest and best rate on their lease or rent. His rental rates were basically stagnant for 12 years.

MS. WILSON responded that while she understands that, as a residential homeowner, she has no way to pass it off to anybody. At least businesses have a chance.

SENATOR STEVENS requested that the committee contact the Alaska Municipal League since this would impact all Alaska communities.

CHAIR OLSON said that was an excellent idea.

SENATOR WAGONER asked the bill sponsor to consider including "and/or commercial property." He worries about small business owners at \$100,000. Maybe they would accept \$25,000.

4:23:43 PM

SENATOR THOMAS said he could look at that. His concern is that change would broaden the concept, which might draw even more concern about the direction they are headed. He said he would take a look and get back with more testifiers.

SENATOR WAGONER said in Kenai he pays about 1.5 percent of the value of his home in property taxes each year, but he paid 7 to 8 percent of the income from his commercial building for property taxes. He knows how tough it is for small businesses.

SENATOR STEVENS asked if the sponsor would look at clarification of ownership or occupancy requirements.

SENATOR THOMAS responded that he thought those terms were already defined in the bill.

[4:27:11 PM](#)

MR. HOPKINS said that the primary residence qualifications run along the same lines as applying for a Permanent Fund Dividend. It is in statute, not in the bill.

SENATOR THOMAS said the bill would make that clear.

CHAIR OLSON said SB 122 was held over for further work. There being no further business to come before the committee, he adjourned the meeting at [4:28:04 PM](#).