

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

February 4, 2010

3:31 p.m.

**MEMBERS PRESENT**

Senator Donald Olson, Chair  
Senator Joe Thomas, Vice Chair  
Senator Albert Kookesh  
Senator Linda Menard

**MEMBERS ABSENT**

Senator Hollis French

**COMMITTEE CALENDAR**

SENATE BILL NO. 43

"An Act adding a second verse to the official Alaska state song."

BILL HEARING CANCELED

SENATE BILL NO. 212

"An Act authorizing municipalities to designate energy improvements areas and to establish energy improvements programs and relating to those programs."

SCHEDULED BUT NOT HEARD

SENATE BILL NO. 120

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

HEARD AND HELD

SENATE BILL NO. 232

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

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 120

SHORT TITLE: MUNICIPAL PROPERTY TAX EXEMPTION

SPONSOR(S): SENATOR(S) THOMAS

02/20/09 (S) READ THE FIRST TIME - REFERRALS  
02/20/09 (S) CRA, FIN

02/04/10 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

BILL: SB 232

SHORT TITLE: MUNICIPAL RESIDENTIAL PROPERTY TAXES

SPONSOR(S): SENATOR(S) WIELECHOWSKI

01/19/10 (S) READ THE FIRST TIME - REFERRALS

01/19/10 (S) CRA, FIN

02/04/10 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

SENATOR THOMAS

Alaska State Capitol

Juneau, AK

**POSITION STATEMENT:** Sponsor of SB 120.

JOE HARDENBROOK

Aide to Senator Thomas

Alaska State Capitol

Juneau, AK

**POSITION STATEMENT:** Presented information for SB 120.

SENATOR WIELECHOWSKI

Alaska State Capitol

Juneau, AK

**POSITION STATEMENT:** Sponsor of SB 232.

GEORGE ASCOTT

Aide to Senator Wielechowski

Alaska State Capitol

Juneau, AK

**POSITION STATEMENT:** Presented information for SB 120

PATRICK CARLSON, Director of Assessing

Fairbanks North Star Borough (FNSB)

**POSITION STATEMENT:** Supported SB 232.

JOSEPH BLANCHARD, Assemblyman

Fairbanks North Star Borough (FNSB)

**POSITION STATEMENT:** Supported SB 120.

MARIE DARLIN

American Association of Retired Persons (AARP) Capital City Task  
Force

Alaska State Capitol

Juneau, AK

**POSITION STATEMENT:** Supported SB 120 and SB 232.

STEVE VAN SANT, State Assessor  
Division of Community and Regional Affairs  
Anchorage, AK

**POSITION STATEMENT:** Provided Information for SB 120 and SB 232.

MARTY MCGEE, Assessor/Property Appraisal Division Manager  
Municipality of Anchorage  
Anchorage, AK

**POSITION STATEMENT:** Testified on SB 120 and SB 232.

### **ACTION NARRATIVE**

[3:31:35 PM](#)

**CHAIR DONALD OLSON** called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:31 p.m. Present at the call order were Senators Thomas, Menard, Kookesh and Olson. He advised that the committee would postpone hearing SB 212 to allow the sponsor additional time for fine-tuning.

### **SB 120-MUNICIPAL PROPERTY TAX EXEMPTION** **SB 232-MUNICIPAL RESIDENTIAL PROPERTY TAXES**

[3:32:15 PM](#)

**SENATOR OLSON** announced the business to come before the committee would be SB 120 and SB 232.

**SENATOR THOMAS**, sponsor of SB 120, said the bill does not mandate any action, but gives municipalities the option to increase the municipal property tax exemption for a private residence from \$20,000 to up to \$100,000. He explained that 14 boroughs and 22 cities, with a combined population of 590,000, levy property taxes. He said the assessed value of residential property in many communities has dramatically increased in recent years and property taxes are skyrocketing. He reported that the Fairbanks North Star Borough assembly has repeatedly asked the state Legislature to grant them the authority to increase the residential property tax exemption. SB 120 would not affect the smaller revenue-trapped communities' source of tax income but would give those municipalities with a large enough population the ability to relieve the tax burden largely borne by homeowners. SB 120 allows for local control in setting the allowable exemption at any amount up to \$100,000. Local ordinance would then require voter approval before enactment. He explained that some people feel that allowing municipalities the

option of raising the residential property tax exemption would result in immediate adoption in every city and borough that collects property tax. However, since an initial \$20,000 exemption went into effect in 2004, only six of the 36 municipalities that collect property tax utilize the optional exemption and only two utilize the exemption to its maximum amount. An increased allowable exemption would help municipalities diversify their income base and respond to the needs of citizens struggling under rising energy costs.

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SENATOR MENARD said that the sponsor statement in front of her said "12 cities" but that Senator Thomas said "22 cities."

JOE HARDENBROOK, staff to Senator Thomas, said "22 cities" is correct.

CHAIR OLSON said the committee would hear SB 232 before opening public testimony for both SB 120 and SB 232.

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SENATOR WIELECHOWSKI, sponsor of SB 232, said it is similar to SB 120 but with a few minor differences. He said assembly members and people in the Anchorage Mayor's office have told him that the current law could apply to renters so Tam Cook [Director, Legal Services] helped put a provision in SB 232 to clarify. He said the exemption amount specified in SB 232, \$50,000, is lower than the amount in SB 120 but he would not object to a higher amount. He emphasized that this is an optional program. Even if SB 232 passes, it does not provide tax relief but gives local communities another tool to help residents.

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SENATOR OLSON said if one segment of the community gets an exemption, other taxes will go higher or other people will pay more.

SENATOR WIELECHOWSKI said ultimately that is what would happen; it is a reshuffling. He said SB 232 would be subjected to many steps including approval by the legislature, voter approval in the local community and passage of an ordinance by the local assembly. Some feel that the residential tax burden is high compared to the burden paid by others. He pointed out that the \$20,000 tax exemption, voted on in 2004, passed overwhelmingly in Anchorage in spite of heavy opposition.

SENATOR MENARD asked how many municipalities support this and asked specifically about the Matsu Borough.

GEORGE ASCOTT, staff to Senator Wielechowski, said the municipality of Fairbanks has requested the option for increased property tax exemption while the municipality of Anchorage recently rejected it as a public option; it is a local control issue. He did not have further numbers but said he would find out if other municipalities have a position.

SENATOR MENARD asked how other tax payers would be affected if one or more types of residential properties are exempted or partially exempted.

SENATOR WIELECHOWSKI said he cannot speak for other communities, however in Anchorage the people who get exemptions pay less and the people who do not get those exemptions pay more. In Anchorage, current law allows a 10 percent property tax reduction up to \$20,000. He said he hopes Anchorage would increase the percentage to 20 or 25 percent and put a vote before the people to increase the amount to \$50,000.

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SENATOR WIELECHOWSKI said the exemption is basically paid for by the people who are not subject to the exemption.

SENATOR THOMAS asked how the Change in Revenue amount on the fiscal note for SB 232, just under \$1 million, was deduced. He asked if it reflects approval by municipalities and implementation to the full amount.

SENATOR WIELECHOWSKI said he can guarantee that the exemption would not cost \$903,000 in fiscal year 2011 because the fiscal note assumes every community will allow this exemption up to the maximum. He said only six or seven municipalities have taken advantage of this tax exemption and only two have done so to the maximum amount. It is difficult to estimate an exact amount, but \$903,000 is a very high number. Under AS 43.56, it is a cost shifting agreement on how you tax oil and gas properties.

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SENATOR THOMAS reiterated that only two municipalities use the exemption at its maximum amount of 20 percent. Some municipalities use 10 percent, others use a percent of a percent and some use a flat rate. The other 21 or 22 municipalities do not do any tax exemption.

CHAIR OLSON asked if municipalities have insurmountable inhibitions about going to the maximum amount.

SENATOR WIELECHOWSKI said he does not know why some communities have chosen not to go to the full amount. He said the bulk of the loss would be in communities that do not have the tax exemption at all. For example, he did not think that that Valdez and the North Slope Borough, which have a huge amount of oil and gas tax structures or properties, take advantage of the property tax exemption. He reiterated that the fiscal note is very high.

CHAIR OLSON said a fiscal note of almost \$1 million did catch the committee's attention. He asked who is opposing SB 232.

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SENATOR WIELECHOWSKI said the Building Owners and Managers Association (BOMA) in Anchorage opposes SB 232 out of concern that it could cost-shift taxes onto them. The National Tax Payers League of Anchorage and the Alaska Manufactured Housing Association have expressed opposition. He explained that it is the people who might expect to pay slightly higher taxes who oppose SB 232, however; he reiterated that SB 232 does not impose or increase taxes but gives communities the ability to put the exemption before the local assemblies and voters.

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CHAIR OLSON opened public testimony for both SB 120 and SB 232.

PATRICK CARLSON, Director of Assessing, Fairbanks North Star Borough (FNSB), testified on behalf of the Mayor and the administration in support of SB 232. He said it is in the community's best interest to vote on this optional tax exemption. He said the borough believes strongly in local control and that issues need to be crafted to the population's needs and desires. He explained that many boroughs don't have a property tax but may have a wide variety of taxes on vehicles, aircraft, sales, business equipment, etc. FNSB has only a property tax and does not have the levy on the business and commercial side that other jurisdictions have.

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MR. CARLSON said FNSB has studied the shifting on the tax roll and the inevitable shifting from residential to commercial property. He said FNSB's best estimate was that the 20 percent up to \$50,000 cap rate is a shift of \$200,000 across the tax roll of \$7 billion. Employees and business owners who are also

homeowners would benefit from the homeowners exemption meant to foster homeownership. He explained that historically, the exemption was \$10,000 but that was a percentage of the median home value. Today, \$50,000 is comparable to that percentage of a median home value. He expressed the opinion that this tax exemption would return balance to the system and should be an option for jurisdictions and voters to consider.

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SENATOR OLSON understood that Mr. Carlson was supporting SB 232 but asked about SB 120.

MR. CARLSON said he is in support of an increase in the exemption consistent with the ballot initiative of \$50,000.

SENATOR OLSON asked if Mr. Carlson was "lukewarm" or opposed to SB 120.

MR. CARLSON said he is in support of increasing the exemption amount and the FNSB feels the \$50,000 exemption seems to be the best one.

JOSEPH BLANCHARD, Assemblyman with FNSB, said he signed up to support SB 120, but the ballot option for SB 232 is extremely attractive. He said local governments need options and flexibility, especially in hard economic times, to help their citizen base.

SENATOR OLSON asked Mr. Blanchard if he is in favor of SB 120 and SB 232.

MR. BLANCHARD said he would consolidate them; he would put the \$100,000 in SB 120 with the ballot initiative.

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MARIE DARLIN, AARP, Capital City Task Force, supported both SB 120 and SB 232. She said the bills allow municipalities the option of providing a little more support to people aged 50 and older who pay these taxes.

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CHAIR OLSON closed public testimony.

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At Ease until 3:58 p.m.

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SENATOR THOMAS asked Mr. Van Sant, who was on-line for questions, how he arrived at the change in revenue for the fiscal notes of SB 120 and SB 232.

STEVE VAN SANT, State Assessor, Division of Community and Regional Affairs, replied that the fiscal note was calculated according to the current practices of each municipality that contains "4356 property," which is how oil and gas property is labeled. These municipalities are Valdez, Fairbanks, Kenai, North Slope and Anchorage. Anchorage has set a 10 percent up to \$20,000 exemption, Fairbanks has set a 20 percent up to \$20,000 exemption, Valdez has set a 30 percent up to \$20,000 exemption, and Kenai has a flat \$20,000 exemption with no percentage.

He explained that the calculations for SB 120 and SB 232 were based on these percentages. For example, the new calculation for Fairbanks would be the same 20 percent, but up to \$50,000. The fiscal note was not calculated according to every borough applying the maximum exemption, but rather according to each borough's current use of the current program.

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MARTY MCGEE, Municipal Assessor, Anchorage, reported that Anchorage assembly members have expressed the feeling that shifting taxes is not the solution to Anchorage's tax problems and the assembly chose not to put forward a ballot proposition. He said every community's tax base is different, but the result of exempting property values is an increased tax rate for remaining tax payers. In Anchorage, only 50 percent of residential tax payers currently qualify for the exemption; an increased exemption would impact more than just commercial property owners.

SENATOR OLSON asked if he is in favor of the increased exemption.

MR. MCGEE said he is not taking a position for or against SB 120 and SB 232, but is just commenting on the potential impact of implementation in Anchorage.

SENATOR THOMAS asked if Anchorage is considering another form of tax as being more appropriate.

4:03:25 PM

MR. MCGEE replied that the community is debating implementation of a different form of tax, but no decisions have been made. The

assembly and the administration have reduced the budget by \$10 million, reducing tax revenue requirements.

SENATOR THOMAS wondered if a better solution was foreseeable in the future.

MR. MCGEE replied that neither the administration nor the assembly has taken a stance on an alternative form of revenue.

CHAIR OLSON asked Mr. Van Sant what effect SB 120 or SB 232 would have on the North Slope Borough or the Northwest Arctic Borough.

MR. VAN SANT replied that the increased tax exemptions would have no effect on the Northwest Arctic Borough and that the numbers in the North Slope Borough are small due to the amount of locally assessed property. He explained that the fiscal note only addresses oil and gas revenue and that the calculations show a raised requirement from oil and gas properties from \$76,000 to \$185,000 on the \$50,000 exemption and from \$76,000 to \$272,000 on the \$100,000 exemption. The total effect is not very large for the North Slope Borough considering a total tax base of about \$11 billion.

CHAIR OLSON asked if Mr. Van Sant thought those boroughs would not be in favor of either SB 120 or SB 232.

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MR. VAN SANT said he cannot speak for the boroughs. He said Northwest Arctic Borough probably would not have a position since it does not levy a property tax and the North Slope Borough might be in favor of it.

CHAIR OLSON said he would keep the public hearing for SB 120 and SB 232 open and keep the bills in committee.

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There being no further business to come before the committee, Chair Olson adjourned the meeting at 4:06 p.m.