

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

March 31, 2016

8:05 a.m.

MEMBERS PRESENT

Representative Cathy Tilton, Chair
Representative Paul Seaton, Vice Chair
Representative Shelley Hughes
Representative Benjamin Nageak
Representative Lora Reinbold
Representative Dan Ortiz

MEMBERS ABSENT

Representative Harriet Drummond

COMMITTEE CALENDAR

HOUSE BILL NO. 370

"An Act relating to municipal tax exemptions."

- MOVED CSHB 370(CRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 370

SHORT TITLE: MUNICIPAL TAX EXEMPTIONS

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

03/09/16	(H)	READ THE FIRST TIME - REFERRALS
03/09/16	(H)	CRA
03/24/16	(H)	CRA AT 8:00 AM BARNES 124
03/24/16	(H)	Heard & Held
03/24/16	(H)	MINUTE(CRA)
03/29/16	(H)	CRA AT 8:00 AM BARNES 124
03/29/16	(H)	Heard & Held
03/29/16	(H)	MINUTE(CRA)
03/31/16	(H)	CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

HEATH HILYARD, Staff
Representative Cathy Tilton
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the proposed committee substitute (CS) for HB 370, on behalf of Representative Tilton, Chair of the House Community and Regional Affairs Standing Committee.

MARTIN MCGEE, State Assessor
Division Programs & Key Staff
Division of Community and Regional Affairs
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Responded to questions during the hearing on HB 370.

ACTION NARRATIVE

[8:05:13 AM](#)

CHAIR CATHY TILTON called the House Community and Regional Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Nageak, Reinbold, Ortiz, Hughes, Seaton, and Tilton were present at the call to order.

HB 370-MUNICIPAL TAX EXEMPTIONS

[8:06:01 AM](#)

CHAIR TILTON announced that the only order of business would be HOUSE BILL NO. 370, "An Act relating to municipal tax exemptions."

[Before the committee was the proposed committee substitute (CS) for HB 370, Version H.]

[8:07:35 AM](#)

HEATH HILYARD, Staff, Representative Cathy Tilton, Alaska State Legislature, referred to language contained in Version H, page 1 line 11, and continuing to page 2, line 1, for which the committee requested clarification. Mr. Hilyard directed attention to the committee packet and the handout titled, "Part 3 - Property Taxation," to provide an explanation of the historical application, and mechanical function of the tax rate, as it pertains to the elimination of renewals under existing statute, which is the bill language in question. Using Anchorage as an example, he said the total mill rate is 14.7. Under a renewal for years 1-5, the statute allows a total

exemption of the 14.7; filing under a renewal, the amount identified for education would be set aside. The language which allows for this action can best be characterized as "an attempt at a secondary protection of education under a renewal." He reported that the State Assessor, Martin McGee, concurs with that characterization and has indicated that, "especially with the elimination of a renewal, it's completely unnecessary." He said an amendment labeled [29-LS1551\H.3, Shutts, 3/30/16, subsequently referred to as Amendment 1], contained in the committee packet, removes the renewal, removes the language pertaining to education funding under a renewal, and also removes the renewal for deferrals. The amendment is in keeping with the committee's intent as voiced during hearing discussions on HB 370. The proposed bill introduces new language dealing with unlimited time periods for exemptions, making renewal language irrelevant, he assured.

[8:10:10 AM](#)

REPRESENTATIVE ORTIZ asked whether businesses have ever received a property tax exemption from that portion which relates to education.

MR. HILYARD deferred to Mr. McGee.

CHAIR TILTON opened public testimony.

[8:11:27 AM](#)

MARTIN MCGEE, State Assessor, Division Programs & Key Staff, Division of Community and Regional Affairs, Department of Commerce, Community, & Economic Development (DCCED), responded that the required local contribution [for education] is a requirement for the entire tax base, based on a minimum of 2.65 mills. He said the contribution is not specific to an individual property, and the requirement has never been exempted.

[8:12:15 AM](#)

REPRESENTATIVE ORTIZ asked if the amount represents foregone revenue to the municipality particular for education, or would the business still contribute that portion of their property taxes directed towards education.

MR. MCGEE answered that an individual business is exempt and not required to provide tax revenue, however the municipality as a whole is still required to provide the revenue. He explained:

That's the way the add-back works with the full value determination for local option. In effect the school district and municipality does not forego the revenue required to support the school district.

8:13:37 AM

REPRESENTATIVE SEATON reported that a similar situation was dealt with regarding the senior property tax exemption, and he explained that the first \$150,000 of property value for a benefiting senior would be exempt from the tax base for the education calculation. He stated his understanding of the proposed legislation:

This is an optional, so that it is included in the tax base for the calculation of education. ... If a municipality would give a tax exemption for ... 10 years for a big economic development project, that might be ... 25 percent of their assessed valuation, then the other residents and the other businesses, if it was a full tax exemption, would owe the 2.65 mills of the entire project that was being exempted from the taxation. They would still owe that as required local contribution for education.

MR. MCGEE said, "You're statement is correct. That's exactly how it works - it shifts the tax burden."

8:15:36 AM

REPRESENTATIVE HUGHES questioned how this would affect businesses differently depending on a locale within or outside of a municipality that is part of a school district, due to the required education contribution.

MR. HILYARD responded that under current statute, which allows for a renewal, after year five the full mill for education must be returned. The amendment that will be proposed removes the renewal process and the necessity for the related language.

REPRESENTATIVE HUGHES referred to Amendment 1 [previously cited], and the language offered on line 7 indicating that "Insert THE MUNICIPALITY MAY PROVIDE FOR RENEWAL," which is

followed on line 9, with the verbiage, "HOWEVER, UNDER A RENEWAL, A MUNICIPALITY THAT IS A SCHOOL DISTRICT MAY ONLY EXEMPT ALL OR A PORTION OF THE AMOUNT OF TAXES THAT EXCEEDS THE AMOUNT LEVIED ON OTHER PROPERTY OR THE SCHOOL DISTRICT", and asked for clarification.

MR. HILYARD said it appears that the language is being proposed for insertion; however, it is just a function of drafting. He explained, "Because it's an amendment rather than a CS, [the drafters] have to delete the original insertion before they can insert the deletion."

[8:18:48 AM](#)

CHAIR TILTON closed public testimony on HB 370 after ascertaining no one wished to testify.

[8:19:07 AM](#)

The committee took an at-ease from 8:19 a.m. to 8:29 a.m.

[8:29:23 AM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 1, labeled 19-LS1551\H.3, Shutts, 3/30/16, which read as follows:

Page 1, line 10, through page 2, line 1:

Delete "YEARS]. The municipality may provide for renewal of the exemption under conditions established in the ordinance. However, [UNDER A RENEWAL,] a municipality that is a school district may only exempt **for more than five years** all or a portion of the amount of taxes **if** that **amount** exceeds the amount levied on other property for the school district."

Insert "YEARS. THE MUNICIPALITY MAY PROVIDE FOR RENEWAL OF THE EXEMPTION UNDER CONDITIONS ESTABLISHED IN THE ORDINANCE. HOWEVER, UNDER A RENEWAL, A MUNICIPALITY THAT IS A SCHOOL DISTRICT MAY ONLY EXEMPT ALL OR A PORTION OF THE AMOUNT OF TAXES THAT EXCEEDS THE AMOUNT LEVIED ON OTHER PROPERTY FOR THE SCHOOL DISTRICT]."

Page 2, lines 3 - 4:

Delete "YEARS]. The municipality may provide for renewal of the deferral under conditions established in the ordinance."

Insert "YEARS. THE MUNICIPALITY MAY PROVIDE FOR

RENEWAL OF THE DEFERRAL UNDER CONDITIONS ESTABLISHED
IN THE ORDINANCE]."

There being no objection, it was so ordered.

[8:29:59 AM](#)

REPRESENTATIVE SEATON emphasized the importance for notifying communities that this legislation does not exempt municipalities or boroughs from funding schools at the required education contribution of 2.56 mills. He said:

If a city council would enter a contract, for economic development of 10-15 years, that's going to be a contract that's going to be enforceable. ... If they give an exclusion of the full taxable value, the rest of the residents and businesses in that municipality are going to have to pick-up the 2.65 mill rate on that exempted value. If it's a large project, it could significantly increase over that full period of time, the tax liability of the current ... residents and businesses.

[8:31:55 AM](#)

REPRESENTATIVE SEATON moved to report CSHB 370, Version 29-LS1551\H, Shutts, 3/25/16, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 370(CRA) was reported out of committee.

[8:32:35 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 8:33 a.m.