

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 3, 2022

3:30 p.m.

MEMBERS PRESENT

Senator Shelley Hughes, Chair
Senator Robert Myers, Vice Chair
Senator David Wilson
Senator Elvi Gray-Jackson

MEMBERS ABSENT

Senator Lyman Hoffman

COMMITTEE CALENDAR

HOUSE BILL NO. 127

"An Act relating to the Alaska Municipal Bond Bank Authority."

- MOVED HB 127 OUT OF COMMITTEE

SENATE BILL NO. 13

"An Act relating to oil and gas exploration, production, and pipeline transportation property taxes; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 127

SHORT TITLE: MUNI BOND BANK: UA, LOAN AND BOND LIMITS

SPONSOR(S): REPRESENTATIVE(S) LEBON

03/05/21	(H)	READ THE FIRST TIME - REFERRALS
03/05/21	(H)	CRA, FIN
04/08/21	(H)	CRA AT 8:00 AM BARNES 124
04/08/21	(H)	Heard & Held
04/08/21	(H)	MINUTE(CRA)
04/15/21	(H)	CRA AT 8:00 AM BARNES 124
04/15/21	(H)	Moved HB 127 Out of Committee
04/15/21	(H)	MINUTE(CRA)
04/16/21	(H)	CRA RPT 6DP

04/16/21 (H) DP: MCCARTY, DRUMMOND, PRAX, MCCABE,
SCHRAGE, HANNAN
04/21/21 (H) FIN AT 1:30 PM ADAMS 519
04/21/21 (H) Heard & Held
04/21/21 (H) MINUTE(FIN)
04/26/21 (H) FIN AT 1:30 PM ADAMS 519
04/26/21 (H) Moved HB 127 Out of Committee
04/26/21 (H) MINUTE(FIN)
04/28/21 (H) FIN RPT 7DP 4NR
04/28/21 (H) DP: EDGMON, LEBON, CARPENTER, THOMPSON,
JOHNSON, WOOL, RASMUSSEN
04/28/21 (H) NR: ORTIZ, JOSEPHSON, MERRICK, FOSTER
05/05/21 (H) TRANSMITTED TO (S)
05/05/21 (H) VERSION: HB 127
05/07/21 (S) READ THE FIRST TIME - REFERRALS
05/07/21 (S) CRA, FIN
01/27/22 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
01/27/22 (S) Heard & Held
01/27/22 (S) MINUTE(CRA)
02/03/22 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

BILL: SB 13

SHORT TITLE: OIL AND GAS PROPERTY TAX
SPONSOR(s): SENATOR(s) BEGICH

01/22/21 (S) PREFILE RELEASED 1/8/21
01/22/21 (S) READ THE FIRST TIME - REFERRALS
01/22/21 (S) CRA, RES, FIN
02/25/21 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
02/25/21 (S) Heard & Held
02/25/21 (S) MINUTE(CRA)
02/03/22 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

REPRESENTATIVE BART LEBON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of HB 127.

SENATOR TOM BEGICH
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 13.

MERCEDES COLBERT, Staff
Senator Tom Begich

Alaska State Legislature
Anchorage, Alaska

POSITION STATEMENT: Read the sectional analysis for SB 13 on behalf of the sponsor.

COLLEEN GLOVER, Director
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Answered questions and provided information on SB 13.

NILS ANDREASSEN, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Presented historical property valuation and tax data related to SB 13.

CONOR BELL, Fiscal Analyst
Legislative Finance Division
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions on SB 13.

ACTION NARRATIVE

[3:30:21 PM](#)

CHAIR SHELLEY HUGHES called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Gray-Jackson, Myers, Wilson, and Chair Hughes.

HB 127-MUNI BOND BANK: UA, LOAN AND BOND LIMITS

[3:30:53 PM](#)

CHAIR HUGHES announced the consideration of HOUSE BILL NO. 127 "An Act relating to the Alaska Municipal Bond Bank Authority."

CHAIR HUGHES opened public testimony on HB 127, finding none, she closed public testimony.

CHAIR HUGHES asked Representative LeBon if he had any final remarks on HB 127.

[3:32:35 PM](#)

REPRESENTATIVE BART LEBON, Alaska State Legislature, Juneau, Alaska, sponsor of HB 127, stated he learns something new about the Alaska Municipal Bond Bank every time he presents the bill. He thanked Chair Hughes for the robust conversation in committee and the opportunity to present the bill.

CHAIR HUGHES referred Representative LeBon to her recently published newsletter that included an article about the Municipal Bond Bank. She liked that this bill would not impose extra costs on students or patients, and it has the potential to reduce the Medicaid budget. For those reasons, she supports HB 127.

CHAIR HUGHES solicited the will of the committee.

[3:33:57 PM](#)

SENATOR MYERS moved to report HB 127, work order 32-LS0629\A, from committee with individual recommendations and attached fiscal note(s).

[3:34:11 PM](#)

CHAIR HUGHES found no objection and HB 127 was reported from the Senate Community and Regional Affairs Standing Committee.

[3:34:15 PM](#)

At ease.

SB 13-OIL AND GAS PROPERTY TAX

[3:36:00 PM](#)

CHAIR HUGHES reconvened the meeting and announced the consideration of SENATE BILL NO. 13 "An Act relating to oil and gas exploration, production, and pipeline transportation property taxes; and providing for an effective date."

[3:37:20 PM](#)

SENATOR TOM BEGICH, Alaska State Legislature, Juneau, Alaska, sponsor of SB 13, stated he presented this bill to the committee last year and this presentation will focus on context which shifted over the past year and the history of the bill.

SENATOR BEGICH highlighted the following about SB 13:

- The current statutory mill rate for oil & gas property tax is approximately 2 percent or 20 mills. The state reserves up to ten mills, and municipalities reserve up to ten mills.

- SB 13 proposes this tax increase by ten mills, for a mill rate of 30 mills. Revenue reserved for the state would increase to 20 mills, and revenue reserved for municipalities would remain steady at ten mills.

- Legislative Finance estimates approximately \$217 million in new revenue in the first year. Over time it would average around \$221 million. That's additional resources inclusive of offsets for credits claimed against taxes.

SENATOR BEGICH distinguished between designation of funds and dedication of funds. Under state law, the legislature may not dedicate funds. SB 13 specifically designates funds, an extremely appealing component of the bill, to ensure stability across each of the following three areas:

1) SB 13 proposes to deposit half the funds into the Alaska Capital Income Fund, so the state can continue to meet deferred maintenance and capital construction needs. Recall that recently the legislature did not do a reverse sweep, so this fund was swept and drained to zero.

2) Twenty-five percent would reimburse municipalities for revenue losses incurred due to senior real property tax exemptions. The legislature gave the exemption to seniors as a reward. Over two decades ago, the legislature agreed to reimburse cities for lost revenue. The legislature has a contractual, statutory agreement to reimburse municipalities for this exemption. SB 13 would ensure the legislature fulfills its obligation to reimburse municipalities for this long-sought-after back payment to communities.

[3:40:43 PM](#)

3) The Higher Education Investment Fund would receive twenty-five percent to increase the state's investment commitment to education in the state.

SENATOR BEGICH summarized the merits of SB 13:

- The bill proposes to decrease municipal property taxes by reimbursing communities for the senior property tax exemption.
- The bill proposes maintaining a stream of income to deal with capital infrastructure.
- This bill proposes to increase investment in education and the state's future.

SENATOR BEGICH addressed the issue of letters the committee received that assert SB 13 lacked policy goals. He stated, to the contrary, SB 13 proposes two policy goals:

First, the sustainability policy goal outlined above; and

Second, policy goals as outlined in the Fiscal Policy Working Group (FPWG) plan (32nd Legislature, Final Report).

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At ease.

[3:42:26 PM](#)

CHAIR HUGHES reconvened the meeting.

[3:42:28 PM](#)

SENATOR BEGICH resumed explaining the policy goals of the FPWG. The work of the FPWG was a laborious, nonpartisan effort to lay the framework for solutions to the state's fiscal dilemma. The FPWG plan represented the efforts of both House and Senate majority and minority caucuses. He expressed his belief that the plan goals were laudable.

SENATOR BEGICH listed eight of the solution elements identified in the FPWG plan:

- 1) A constitutional single-account permanent fund structure with draws limited by a percent of market value (POMV).
- 2) Constitutional certainty for the dividend.
- 3) A new POMV-based formula.
- 4) A healthy capital budget. SB 13 addresses this issue by creating a sustainable stream of capital income fund.
- 5) New revenues. SB 13 addresses this issue by providing a new revenue stream.
- 6) Budget reductions.
- 7) Spending limits.
- 8) Ensures a transition period.

SENATOR BEGICH stated SB 13 attempts to incorporate solution elements of the FPWG. He described the bill as an arrow in the fiscal solution quiver. He stressed that success is dependent on bringing forth ideas that incorporate FPWG elements, without which a comprehensive solution will be hard to find.

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SENATOR BEGICH explained that Alaska's history with fluctuating petroleum prices and the need to act influenced bringing SB 13 forward:

First, during a series of conversations, the Alaska Oil and Gas Association (AOGA) reiterated that a revenue solution based on the instability of oil prices would probably never be satisfactory. The industry has requested fiscal certainty. Real estate and its valuation over time offer greater certainty in predicting revenue than revenue based on oil prices.

SENATOR BEGICH stated a year ago, the industry testified the low price of oil would damage the industry. That testimony has changed since last year. Now the price of oil is too high. He is unsure which is true. He is sure that Alaskans cannot make up revenue shortfalls themselves, but that is what the state has done. The fiscal burden has transferred to residents every single day. The state has reduced the permanent fund dividend (PFD) arbitrarily and has not reimbursed municipalities for senior property tax exemptions in two decades. The industry needs to be at the table to do its part. He repeatedly asked for proposals and solutions from the petroleum community and received none. The industry requested fiscal certainty and SB 13 proposes to satisfy the request with this revenue approach.

Second, and more importantly, the legislature must act. The reason for putting bills forward is not necessarily to see one pass and he doubts SB 13 will pass. Without ideas on the table, there is nothing to discuss. For this reason, he put forward constitutional amendments, revenue ideas, and this bill. SB 13 deserves full consideration. It deserves to advance to the next committee of referral. It deserves to count as part of the total package in the finance committee. He thanked the chair for the opportunity to dialogue and present the bill. He stated that he would not take offense if this bill failed to advance.

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CHAIR HUGHES asked Ms. Colbert to present the sectional analysis for SB 13.

[3:47:01 PM](#)

MERCEDES COLBERT, Staff, Senator Tom Begich, Alaska State Legislature, Anchorage, Alaska, read the sectional analysis for SB 13 on behalf of the sponsor.

[Original punctuation provided.]

Senate Bill 13
Oil and Gas Property Tax
Sectional Analysis

Senate Bill 13
Version: 32-LS0147\B

Section 1.

Amends AS 43.56.010(a) to include a new subsection (2) that increases the maximum mill rate an additional 10 mills. This only applies to taxable property as defined under AS 43.56.210.

Section 2.

Amends AS 43.56.010(d) with conforming language. This clarifies the municipal property tax under (a)(1) of the bill can only be credited to the taxpayer.

Section 3.

The estimated balance of the taxes collected under Section 1 of this bill may be appropriated by the legislature as follows:

1. 50 percent to the Alaska Capital Income Fund;
2. 25 percent to reimburse municipalities for real property tax revenue lost due to the Senior Citizen / Disabled Veteran Property Tax Exemption provided under AS 29.45.090(g); and
3. 25 percent to the Alaska Higher Education Investment Fund.

Section 4.

Establishes an effective date of January 1, 2022.

MS. COLBERT stated that this bill was drafted last year, so the effective date needs to be updated before the bill is reported from committee.

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SENATOR D. WILSON requested clarification about the \$275 million which SB 13 expects to net [according to the sponsor statement]. He asked whether the intent was to offset the Unrestricted General Fund (UGF), and what the UGF would save if this bill passed into law.

SENATOR BEGICH answered the bill could offset UGF if the Senate Finance Committee desired. SB 13 would provide certainty for capital construction needs, which means the legislature could

project funding availability. Right now, the capital budget expends a certain amount towards deferred maintenance so that those dollars would be offset and freed by this bill. The legislature cannot dedicate funds, so the designation of funds proposed by SB 13 would always remain discretionary; however, SB 13 intends to offset and free some UGF.

SENATOR BEGICH stated that in terms of the senior property tax exemption, money would go right back out as a relief to communities. The state could lower property taxes in several other ways and through other legislation, but SB 13 would have the direct effect of reducing property taxes.

SENATOR BEGICH stated that three or four years ago, this body took a POMV approach to the Alaska Higher Education Trust Fund so that the fund produced income. This means that the Alaska Higher Education Trust Fund would potentially offset UGF because SB 13 would boost the amount of money available to it. The bill would not necessarily provide \$272 million direct revenue, though the Finance Committee could choose to set it up that way.

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SENATOR MYERS commented that the oil production tax swings wildly with oil prices, whereas property tax is more stable. He noted that home valuations had fluctuated a fair amount and wondered if oil and gas property taxes had fluctuated similarly. He asked whether swings had been factored into the aforementioned numbers.

SENATOR BEGICH answered yes. There is always fluctuation. Property taxes are more stable at the state level than at the local assessment level. In Anchorage, residential property went up quite a bit. Oddly enough, most Anchorage commercial property assessments went down this year. Residential and commercial property present quite different scenarios. State property tax holders have access to a robust appeals process; the industry uses it often to appeal high assessments. The appeals process holds the system accountable. He acknowledged that property valuation shifts will always pose a problem; however, this is a more stable way of taxing additional revenue generated from the industry. It is more stable than betting on whether the price of oil will be higher or lower.

SENATOR BEGICH stated that in the last year and a half, the state saw that the price of oil oscillated from minus \$5 per barrel one day to \$90 plus per barrel today. One factor the state can rely on is that oil prices will always be a poor way

to identify a taxation basis and will always be volatile. He concluded that SB 13 might offer a better taxation basis.

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CHAIR HUGHES asked how SB 13 would affect property values based on historical assessment fluctuations.

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COLLEEN GLOVER, Director, Tax Division, Department of Revenue, Anchorage, Alaska, replied that the division could not speculate on future assessments because each valuation involves unique variables. The division is working on 2022 assessments now, so the total assessed property values are not yet available. Variables that affect assessments are inflation, changes in facilities, capital investments, new facilities, and decommissioned facilities. The Revenue Sources Book shows revenue has been fairly stable over the past few years, but that does not necessarily indicate a continued future trend.

CHAIR HUGHES clarified that her question pertained to the past to the present. She restated the question, asking whether oil and gas property values have historically been linked to oil production and oil price fluctuations or whether values have been fairly stable.

MS. GLOVER answered that assessments have changed over time. The Revenue Sources Book indicates property tax collection has increased over time on the North Slope and in Cook Inlet due to increased infrastructure. The basis for oil and gas property tax is the existence of installations like production facilities and pipelines. Increased production resulted in new infrastructure and new infrastructure resulted in a new tax base. The tax base has changed over time, and the value of those assets has changed.

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CHAIR HUGHES summarized that assessments typically increase over time with growth and new infrastructure. She sought confirmation that the oil and gas property tax fluctuations are less dramatic than the production tax fluctuations.

MS. GLOVER responded that was a fair statement. Page 97 of the 2021 Revenue Sources Book indicated from fiscal year 2012 to 2021, property taxes were in the \$100 million to the \$123 million range. So, property tax has been more stable than the oil and gas production tax in the recent past.

[3:58:03 PM](#)

SENATOR GRAY-JACKSON commented that after working for the [Anchorage] assembly for 18 years and serving for nine years, every single year through each legislative program, the Anchorage Assembly begged the state to reimburse the municipality for the senior citizens and disabled veterans' unfunded mandate. The Anchorage municipality has not been reimbursed, going on 27 years or more, for this property tax exemption. She asked how much money has been lost, in the municipality of Anchorage alone, due to this unfunded mandate.

SENATOR BEGICH referred to the publication titled Alaska Taxable 2021 from the Office of the State Assessor.

MS. COLBERT said Table 9B, Senior Citizen and Disabled Veteran Program Summary, Fiscal Year 2021 / Tax Year 2020, contains data for lost revenue. For this past fiscal year, the "total tax amount exempt" for the Municipality of Anchorage was just over \$41.1 million. She pointed out that Table 9B lists all the municipalities affected and the amount of revenue lost by the unfunded mandate. She deferred to the Alaska Municipal League to speak to the history of the property tax exemption.

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SENATOR BEGICH reinforced the division's comments on petroleum property tax, stating three factors are at play:

1) Appreciation. Taxes based on property are nowhere as volatile as taxes based on the price of oil. He cited the 2020 Revenue Sources Book, which reflected a tax revenue of \$111 million in FY12 and \$99 million in FY13. In 2014, the state set the rates, which resulted in the greatest fluctuation at \$128 million. Thereafter, revenue fluctuated between \$128 and \$119, which is the present year's property tax value.

2) Valuation. This has fluctuated to some degree over the years.

3) Predictability. A company knows which installations are under construction and that installation investments will incur new property tax. The industry has indicated that if tax rates are higher, it considers profit return before making investments, just like any investment.

SENATOR BEGICH stated that property taxes are significantly more predictable because a company is able to estimate the taxes and factor the costs into an investment model. It's not a surprise to a company when its property taxes increase after

infrastructure is added; the tax increase would be expected and would not come as a shock. It was a choice with known costs. This difference between property-based and price-based taxes is important.

SENATOR BEGICH explained that a company does not necessarily control the price of oil, nor does the company necessarily control whether or not there is a war in Ukraine. Yet, factors out of the company's control could significantly drive the price of oil up, just like independent operators in Texas or the Balkan oil fields could drive the price of oil down. On the other hand, oil companies control property taxes far more independently. So, these companies have a play in investment decisions because the tax is more predictable.

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CHAIR HUGHES acknowledged the point was valid. She asked whether Senator Gray-Jackson had follow-up comments or questions.

[4:02:12 PM](#)

SENATOR GRAY-JACKSON answered that she would get the information later to share the numbers with constituents in Anchorage.

[4:02:24 PM](#)

CHAIR HUGHES said she appreciated that Senator Begich included figures from the Fall 2020 Revenue Sources Book to illustrate the predictability of oil and gas property taxes. She emphasized that the state certainty is important and relevant to private sector fiscal certainty. Rather than the phrase "don't come to us for taxes," it is time the industry joined the conversation with constructive ideas to achieve fiscal certainty.

CHAIR HUGHES expressed her belief that the concept for a balanced budget has been to grab from a big cookie jar labeled PFD for the past seven years. The legislature has demonstrated this approach does not work, and it is not a viable way forward. The state needs all the pieces fitting together to form a comprehensive package, and to this end, the FPWG spent hundreds of hours finding solutions. The FPWG ran the gamut from some of the most conservative to some of the most progressive or liberal legislators. Surprisingly, where the group differed most was not the PFD, the group pretty much settled on a 50/50 draw, but on revenue streams and spending reductions. Therein lies the struggle.

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CHAIR HUGHES expressed appreciation for the oil industry. She was aware and mindful of these facts: the state had just come through a pandemic, the oil industry lost 3,000 jobs between 2020 and 2021, and the administration changed course a bit on resource development. These facts are all concerning. Right now, oil is the biggest industry and revenue producer in the state. The industry has provided billions of dollars for schools and vulnerable populations over the years. The impact needs to be seriously considered prior to making changes that affect the industry.

CHAIR HUGHES conversed with the industry about bridging financial gaps. Gaps can be transitioned in various ways. One option would be to raise taxes on businesses. Another option would be to take an actual five percent draw from the balance. This would not be a POMV draw from the permanent fund but a five percent draw from the balance, which would be considered reasonable and in the realm of prudent. Other sovereign wealth funds take an actual five or six percent draw. The draw could be based on the current balance, not a draw based on averaging the past five years. She stated that the summer/fall calculation indicated the five percent POMV draw was equivalent to a 3.7 percent draw straight off the current balance. A five percent draw would bridge the financial gap and eliminate the need for additional tax revenue to provide a 50/50 PFD. She expressed her belief that voter approval would be a necessary part of the package. All package pieces must work together; that is, what works mathematically should be considered, along with whether there are enough floor votes and enough votes at the ballot box.

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CHAIR HUGHES commented that the state was in the middle of the pandemic last year and was unsure of its duration. Hopefully, the state has shifted into management mode instead of crisis mode. The state should continue to examine the effects of the pandemic on the economy. She reviewed material that indicated the economic impact and losses from the pandemic proved to be worse in the oil industry than in the hospitality and tourism industries. Consider this factor before making changes that impact the oil industry. To dispel the notion that the industry pays a pittance of its earnings to the state, ConocoPhillips reported a \$450,000,000 net income, of which \$420,000,000 was paid in taxes as reported in its 2021 Fourth Quarter Alaska Earnings Review. The state received the bulk, but ConocoPhillips paid a portion of the \$420 million in federal taxes. During that same period, it invested \$284 million in Alaska. Over 14 years, ConocoPhillips alone contributed \$31 billion in revenue to

support the Alaska state government. That is considerable. It is good for Alaskans to realize just how much the industry pays in taxes.

CHAIR HUGHES said that University of Alaska Professor Mouhcine Guetabbi testified before the Judiciary Committee, stating Alaska is losing about \$1 billion in opportunity and capital investment due to a lack of state certainty. The legislature ought to pay attention to how the policies made in this building affect the industry. The legislature ought to pay heed to the fact that fiscal certainty is important to a strong state economy and the industry. Additionally, it would make sense for the industry to step up and work with legislators to pass a whole package.

CHAIR HUGHES agreed that an expanded mill rate on state property tax might be better than raising production taxes; however, the timing is concerning. Although Senator Begich may disagree, the state's per capita spending is too high. She conceded that Alaska will always have the highest per capita spending in the country due to its geographical size, the number of communities off the road system, and the fact that every community does not have a police department and never will. However, it is very much out of sync with the rest of country, and there is room for improved efficiencies.

CHAIR HUGHES expressed her belief that it is human to protect one's own and to defend one's staff. She stated that she would probably do the same. Ultimately, more could be done to root out waste than a system that necessitates commissioners defend department budgets at the finance table. Commissioners want their staff to be able to pay their mortgages and buy groceries for their families. The legislature needs a better process for understanding state spending; there is room for improvement. The state can reduce spending while continuing to have effective state services. It can be without decimating state services.

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SENATOR BEGICH stated that he appreciated the chair's comments for many reasons:

- He agreed with the importance of intelligent and strategic cuts. This was part of the FPWG fiscal plan.
- He agreed that accountability was critical and that it was lacking at present. Chair Hughes and he worked together on an education bill that was chock-full of accountability measures. He commended not just the chair's comments regarding

accountability, but the work jointly accomplished on the education bill's accountability measures.

- He agreed that the industry is disinclined but should be more inclined to offer ideas. The industry has a hands-off policy, not participating in taxation debates and revenue and budgetary issues.

- One of the merits of SB 13 is that it would generate revenue with direction, not revenue that would just be deposited into the UGF.

- He agreed that the industry suffered economically from the pandemic but pointed out that property owners also suffered. Many Alaskans, not just those in the industry, suffered from property tax issues and high assessments. This is especially true in Anchorage today and over the years. Many of those owners need property tax relief, so in a way, SB 13 would almost be like a relief package.

- Finally, the ConocoPhillips 2021 Fourth Quarter press release indicated that ConocoPhillips provided tax and royalty resources of \$31 billion, but it also netted \$22 billion. ConocoPhillips netted \$22 billion, not grossed but netted. He emphasized that Alaskans own these high-value resources. ConocoPhillips extracts these precious resources and with its first-rate business acumen, earns itself significant amounts of money. The relationship between ConocoPhillips and Alaska is symbiotic and a slight reduction in net revenue would provide for Alaskan citizens, be a good investment, and create a better environment for ConocoPhillips' employees living in Alaska.

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CHAIR HUGHES responded that most Alaskans earn more than they pay in taxes, so it is impressive that ConocoPhillips netted \$22 billion and paid \$31 billion.

CHAIR HUGHES clarified previous comments about a five percent draw:

First, a five percent draw would not be ongoing; it would be short-term only.

Second, there is a pervasive narrative surrounding the five percent draw. The narrative suggests it will be detrimental to the health of the permanent fund to take a penny more than five percent. Consequently, it would be bad for future generations of Alaskans. She expressed her belief this narrative is false because there are years the permanent fund gets \$120 - \$140 billion, and the draw would satisfy the needs of the operating budget, the capital budget, and the PFD. The draw could be a

financially viable, safe option for a couple of years. It is not true that a five percent draw is a terrible option and that it will hurt your great-grandchildren.

[4:16:13 PM](#)

NILS ANDREASSEN, Executive Director, Alaska Municipal League, Juneau, Alaska, presented historical property valuation and tax data related to SB 13. As a membership organization, the Alaska Municipal League (AML) responds to the interests of 165 local governments. AML has not taken a position on this bill. Of the 165 local governments that AML serves, 24 have a property tax, including all the boroughs except the Aleutians East Borough, Denali Borough, Northwest Arctic Borough and Lake and Peninsula Borough. Those rely on fish taxes, bed tax and a payment in lieu of tax formula. Nine of the 15 home rule and first-class cities within the Unorganized Borough have a property tax as well.

MR. ANDREASSEN noted the 24 local governments with a property tax all have required minimum contributions to their municipal school districts. This is a state mandate for all boroughs, home rule and first-class cities outside the organized borough.

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MR. ANDREASSEN stated, by statute, seven of those 24 local governments have property within their jurisdiction considered petroleum property. Last year, the total assessed value of this property was about \$25.9 billion. The seven local governments apply their property tax, the same property tax that is applied to all within their jurisdiction, to petroleum property. The state's take is the difference between the local tax and the state's property tax. Oil and gas property extends into the Unorganized Borough (valued at approximately \$3.1 billion) and the state's take on that is 100 percent or the full 20 mills.

MR. ANDREASSEN noted that the local property tax has applied since 1997, but the mill rate has fallen for local governments an average of 1.6375 mills by jurisdiction. That means the state's take has increased over that period, and overall property taxes have stayed stable, so the decrease is meaningful for property owners.

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MR. ANDREASSEN said that though AML cannot speak to industry decision making, it is worth noting that AML has passed these resolutions:

One resolution supports resource and economic development. Local governments have partnered with local economic actors, so there are strong arguments for maintaining the property tax as it applies to oil and gas property within municipal boundaries. The arguments include the ability of those local governments to pay for: debt obligations; construction and maintenance of schools on behalf of the state; state-managed pension system contributions; contributions to public education; investments and roads; port and harbor maintenance; police departments; emergency medical services (EMS); search and rescue; and health care. All the property tax collected at the local level goes into those local investments on which residents depend.

Another resolution opposes any changes to the current system. The resolution opposes preemption of local taxation that would impact economic activity within their jurisdiction. The extended state tax, proposed by SB 13, would not negatively impact the rates of local governments nor is there any direct impact to how local governments currently approach their taxation. The impacts to local governments would be felt to the extent that SB 13 might negatively impact investment decisions by property owners; just like a property tax increase anywhere else, a tax increase anywhere else might affect investment decisions.

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MR. ANDREASSEN stated that AML has a long-standing position that the state should fulfill its statutory responsibilities by appropriating the funds necessary to reimburse municipalities for the state's mandatory property tax exemptions. Local governments had seen applications for the state exemption increase by 20,000 since 2010. In 2011, there were 28,000 applications, and in 2021 almost 47,000, nearly doubling the number of applications by residents applying for this exemption. The tax amount exempted increased by \$40,000,000 in that same period. There was a question earlier about how this affected the municipality of Anchorage. He said that he cannot speak directly to that jurisdiction, but the exemption has almost doubled for all the jurisdictions that collect that tax.

MR. ANDREASSEN stated that Alaska Taxable 2021 identifies the value of "total exempt taxes" as slightly over \$95,000,000. To some extent, that is a reduction of \$95,000,000 available to fund local government obligations. More importantly, taxpayers are probably making up the difference. He reiterated that in 2021, slightly over \$95,000,000 was the amount the state was statutorily required to reimburse local governments; however, the state has not funded this reimbursement since 1997.

MR. ANDREASSEN listed which communities are most affected by the exemption according to Alaska Taxable. The top five local governments impacted by the exemption are Wrangell, Nenana, Petersburg, Haines, and the Mat-Su borough. For all five, the percentage of real property exempted is above ten percent. Of the total value of property in these jurisdictions, local governments apply the exemption to more than ten percent. It's important to understand that an exemption does not mean a reduced tax rate or a total amount of tax. The same needs exist within local governments, and they have the same obligations to residents. With regard to mandatory property tax exemptions the state has not reimbursed, it shifts the burden from one group of taxpayers to another.

MR. ANDREASSEN explained that the distributional impacts of the mandatory senior tax exemption might be felt more severely amongst residents, even though companies pay the largest amount of taxes in many jurisdictions. Interestingly, mandatory exemptions at the state level also reduce the full value determination, which affects the required local contribution. The amount that some local governments are required to pay into the state's public education system is affected. The state's senior property tax exemption reduces the required local contribution by \$17,000,000. Local governments are contributing well beyond the required local contribution, but there's definitely a connection between exemptions and available funding. When the state does not reimburse municipalities for property tax exemptions, the lost resource limits choices at the local level. AML members have passed a resolution in support of the state fully funding this mandatory exemption.

[4:25:21 PM](#)

SENATOR MYERS asked whether 25 percent of the new property tax, proposed by SB 13, would be sufficient to satisfy the full property tax exemption obligation as it stands right now.

MR. ANDREASSEN answered yes. The value of the exemption totals \$95 million. So, if this bill were to generate \$275 million that would more than reimburse the exemption.

[4:26:32 PM](#)

SENATOR GRAY-JACKSON asked if \$95 million represents this past year's statutorily required reimbursement amount for the senior property tax exemption.

MR. ANDREASSEN nodded, confirming that \$95 million was the "total exempt taxes" for one year.

CHAIR HUGHES clarified that Mr. Andreassen nodded his head "yes" in response to Senator Gray-Jackson's question.

MR. ANDREASSEN added that the "total exempt taxes" since 1997 is in the billions of dollars.

[4:27:13 PM](#)

CHAIR HUGHES suggested that whenever revenue bills, reductions, spending cap adjustments, or PFD talks come up, the legislature ought to start a trend of considering the whole package. It is critical for the state's future to settle the matter of fiscal certainty. It is essential for the economy. This problem has the legislature wrapped around the axel; it has hindered the legislature's ability to address important policies. She expressed her appreciation to the committee for the latitude to veer a little from SB 13 to have a broader discussion about fiscal policy.

CHAIR HUGHES encouraged those listening, including industries that might be impacted by a bill like SB 13, to step up and participate in resolving the fiscal certainty issue. She offered her understanding that the oil and gas industry policy position has been "do not tax us and we need fiscal certainty." For 17 years, this has been the industry policy. Yet these companies continue to be chased for dollars, increasingly by members of the public. The definition of insanity is doing the same thing over and over again and expecting a different result. If you've been doing the same thing for 17 years without results, it's time to make an adjustment. She encouraged the industry to engage in the conversation. Many of these companies are headquartered out of state and might be hesitant to get involved, but this is not a request for the industry to get in the weeds. This is a request to engage in and work towards fiscal certainty. The industry will be hounded until there is state fiscal certainty; that is just the way it works. Objectives will be achieved by working together, producing a package, and giving a little bit.

[4:29:49 PM](#)

CHAIR HUGHES stated SB 13 will be held in committee.

[4:29:57 PM](#)

SENATOR GRAY-JACKSON asked for a description of the assessment process used by the Department of Revenue (DOR) for petroleum property.

MS. GLOVER outlined the DOR assessment process:

- It is done annually.
- It is only done for oil and gas property, whether the property is on state land, municipal land, or an Unorganized Borough.
- Taxpayers file their property statements in accordance with strict statutory guidelines and deadlines.
- DOR analyzes filed data, reviewing inflation, depreciation, whether the property has new capital, and other factors.
- The department issues a preliminary assessment. A unique aspect of this program is that both the local jurisdiction and the taxpayer can appeal the assessed value. The department has an appealable position too.
- Appeals go through an internal appeals process and DOR issues an informal conference decision.
- The taxpayer or the local jurisdiction can appeal the conference decision.
- The State Assessment Review Board (SARB) hears appeals, usually in May. SARB decisions may be appealed to the Alaska Superior Court by all parties.

[4:33:08 PM](#)

SENATOR GRAY-JACKSON inquired about the status of the Higher Education Fund and the Capital Income Fund.

MS. GLOVER replied she did not have that information.

CONOR BELL, Fiscal Analyst, Legislative Finance Division, Legislative Affairs Agency, Juneau, Alaska, sought assurance that the question pertained to the Alaska Capital Income Fund and the Higher Education Fund.

SENATOR GRAY-JACKSON responded yes.

MR. BELL replied that both of those funds are subject to the sweep. The Division of Finance has yet to determine the size of that sweep. While those funds are committed to being swept, it actually has not happened. Funds generated by SB 13 could be appropriated to the Alaska Capital Income Fund and the Higher Education Fund. Currently, the legislature must obligate those funds by the end of the fiscal year, if not, they will be swept into the general fund. As SB 13 is currently written, the legislature would need to appropriate the funds by the end of

the fiscal year, if not, the funds would be swept into the constitutional budget reserve fund.

[4:34:43 PM](#)

SENATOR GRAY-JACKSON asked whether any numbers are available today even though those funds could be swept.

MR. BELL responded that he did not have those numbers offhand but would provide them after the committee adjourned.

SENATOR GRAY-JACKSON requested Mr. Bell provide the information to the committee.

CHAIR HUGHES asked Mr. Bell to send the numbers to her office and they would be distributed to the committee.

[CHAIR HUGHES held SB 13 in committee.]

[4:36:18 PM](#)

There being no further business to come before the committee, Chair Hughes adjourned the Senate Community and Regional Affairs Standing Committee meeting at 4:36 p.m.