

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

January 30, 2024

2:23 p.m.

**MEMBERS PRESENT**

Senator Forrest Dunbar, Chair

Senator Elvi Gray-Jackson

Senator Jesse Bjorkman

**MEMBERS ABSENT**

Senator Donald Olson, Vice Chair

Senator Cathy Giessel

**COMMITTEE CALENDAR**

SENATE BILL NO. 161

"An Act relating to municipal taxation of farm use land; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 161

SHORT TITLE: TAX EXEMPTION FOR FARM USE LAND

SPONSOR(S): SENATOR(S) BJORKMAN

01/16/24	(S)	PREFILE RELEASED 1/8/24
01/16/24	(S)	READ THE FIRST TIME - REFERRALS
01/16/24	(S)	CRA
01/30/24	(S)	CRA AT 1:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

LAURA ACHEE, Staff

Senator Jesse Bjorkman

Alaska State Legislature, Juneau, Alaska

**POSITION STATEMENT:** Presented the sectional analysis for SB 161.

CHARLIE JEANNET, Farmer

Porcupine Ridge Farms

Fairbanks, Alaska

**POSITION STATEMENT:** Testified by invitation on SB 161.

ROBERT GROSECLOSE, Farmland Owner  
Farmers Loop Area  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified by invitation on SB 161.

AMY SEITZ, Executive Director  
Alaska Farm Bureau  
Soldotna, Alaska

**POSITION STATEMENT:** Testified by invitation on SB 161.

#### **ACTION NARRATIVE**

[2:23:04 PM](#)

**CHAIR FORREST DUNBAR** called the Senate Community and Regional Affairs Standing Committee meeting to order at 2:23 p.m. Present at the call to order were Senators Gray-Jackson, Bjorkman, and Chair Dunbar.

#### **SB 161-TAX EXEMPTION FOR FARM USE LAND**

[2:24:01 PM](#)

**CHAIR DUNBAR** announced the consideration of SENATE BILL NO. 161 "An Act relating to municipal taxation of farm use land; and providing for an effective date."

**CHAIR DUNBAR** stated that the bill sponsor will introduce SB 161 today.

[2:24:43 PM](#)

**SENATOR BJORKMAN**, speaking as sponsor, introduced SB 161 as paraphrased below:

SB 161 helps farmers produce more food. Alaska faces the persistent challenge of food insecurity, relying heavily on food imports from outside of Alaska. A significant portion of Alaska's food is brought in through the Port of Seattle to the Don Young Port of Alaska. Disruptions in these central port locations could have severe consequences for local food availability. It is important that we take steps to ensure a more resilient food system in our state.

Alaska State law allows farms to be assessed at a farm use rate for property taxes to encourage farmers to keep their land in production rather than selling it or converting it for other more profitable uses. The

farm use rate can be lower than the highest and best use rate for the property, which provides a tax break to the farmer. However, this provision does not include the buildings that are used for farm operations and currently has a high bar for small or startup farms seeking to qualify for this program. The changes in SB 161 would address these issues so that the program is more supportive of Alaska's in-state farmers.

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Current statutory provisions require 10 percent of the farm operator's income come from farm operations to qualify for the tax rate. This unnecessarily links the farms tax status to the success of the farmers other employment or business interests. It can also be an invasion of privacy, as a farmer must provide information on all of their income and business interests to a local assessor in order to qualify for the current program. These privacy concerns would be alleviated by replacing this qualification with the USDA definition of farm:

- An operation that produces at least \$1,000 in annual sales.
- The products are produced on-site.
- An IRS Schedule F is filed for federal taxes.

This change would allow startup farmers and small operations to more easily qualify for the farmland use tax rate, encouraging growth in the number of in-state food producers.

SB 161 would also allow farm buildings to be assessed at the farm use rate if they are used for the operations of the farm. Barns and other buildings such as processing facilities for meat or vegetables are important to the operations of a farm and taxing them at the farm use rate makes the most sense. The changes in this bill come from the recommendations of farmers around the state. These recommendations are found in the Alaska Food Strategy Task Force 2023 Report.

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LAURA ACHEE, Staff, Senator Jesse Bjorkman, Alaska State Legislature, Juneau, Alaska, presented the sectional analysis for SB 161.

[Original punctuation provided.]

**SB 161 Tax Exemption for Farm Use Land  
Ver. S Sectional Analysis**

**Section 1** - Adds language to AS 29.45.060(a) allowing structures on farmland used for farm operations to what may be assessed at the farmland use tax rate.

**Section 2** - Amends AS 29.45.060(f) to conform to the changes in Section 3 and changes the paperwork submission deadline from February 1 to April 15.

**Section 3** - Changes the qualifying definition of a farm in AS 29.45.060(g) to an operation that provides or would ordinarily realize \$1,000 in annual sales of farm products, files an IRS Schedule F, and produces food for human consumption or to feed livestock.

**Section 4** - Repeals AS 29.45.060(c) as the new definition of a farm in Section 3 includes farms that are temporarily not operating.

**Section 5** - Provides an immediate effective date.

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SENATOR GRAY-JACKSON asked whether the structures are assessed at true value.

MS. ACHEE replied yes. All structures on a farm are assessed at the best and highest municipal rate.

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SENATOR GRAY-JACKSON brought up the Alaska Food Strategy Task Force 2023 Report, which she received on August 1, 2023. She drew attention to recommendation 5, "Encourage Tax Exemptions for Farmland," years 1 - 3 on page 32:

**Years 1 - 2:**

- **Conduct meetings/surveys to collect feedback from producers and local governments on the following:**
- the most beneficial tax exemption policies to support increased production on farms

- why farms choose to participate and for what reasons (e.g., for farms not participating, why are they not? For farms participating, what are recommendations to improve?)
- incentives for local governments to implement tax exemptions
- impact(s) of tax exemptions on other taxpayers/property owners (requires data collection/accessibility)

**Year 3:**

- **Introduce legislation with changes to tax exemptions.**

SENATOR GRAY-JACKSON wondered why the bill sponsor skipped the recommendations for years 1 and 2 to address the recommendation for year 3.

SENATOR BJORKMAN replied that constituents contacted his office on this issue in March 2023.

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MS. ACHEE replied that the bill sponsor started collecting information when constituents reached out and gathered enough to move forward with this legislation. She stated that the bill sponsor's office gathered enough necessary information to start the process, emphasizing that it was the right course of action. As this bill moves through the committee process, more data and testimony could influence the legislation. The boroughs cannot predict the effects of the tax exemption until the farms assessed under this program start submitting buildings for exemption.

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SENATOR GRAY-JACKSON commented that this is a really good bill and sought confirmation that the sponsor worked on the legislation before the Food Strategy Task Force issued its recommendations.

SENATOR BJORKMAN replied yes, that is correct. He engaged in conversations with the Fairbanks North Star Borough, the Mat-Su Borough, and the Kenai Peninsula Borough about SB 161, discussing potential effects on borough revenue and encouraging more farmers to get involved with food production.

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CHAIR DUNBAR sought clarification on whether this is an optional or mandatory tax exemption.

MS. ACHEE replied that the legislature established a mandatory tax exemption in the 1960s, and SB 161 proposes to adjust that tax program. Essentially, SB 161 proposes a tax reduction. A provision in State statute allows municipalities to present the option to their voters to extend the exemption further, whether partially or fully, which is up to individual municipalities and their residents to decide. She reiterated that this particular tax break is mandatory.

CHAIR DUNBAR expressed his understanding that the tax break on farmland is mandatory, but right now, no mandatory taxes on farmland buildings exist. He asked whether a borough could exempt those buildings through its own municipal code without SB 161.

MS. ACHEE replied yes, municipalities could do it if they utilized the statutory provision that allows them to employ the ballot initiative. She noted that the Fairbanks North Star Borough (FNSB) did it this past fall.

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SENATOR BJORKMAN stated that the statutory provision in AS 29.45.050 does not include all the farm buildings included in SB 161. The statutory provision leaves out barns for poultry and meat livestock. He said SB 161 is more inclusive, and the definitions ensure the maximum amount of food production is captured. He noted that the definition of livestock animals is not limited to the animals listed in the bill.

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CHAIR DUNBAR announced invited testimony on SB 161.

[2:35:03 PM](#)

CHARLIE JEANNET, Farmer, Porcupine Ridge Farms, Fairbanks, Alaska, gave invited testimony on SB 161, stating he farms 80 acres, separate from his home, on Farmers Loop Road. He and his wife have been farming for 20 years in hay production.

MR. JEANNET said that he has taken advantage of the farm use deferral program every year since he owned the farm. It has encouraged him to maintain the farm, keep farming, and maintain a profitable operation. He said that last year, for the first time, the application was not approved. FNSB denied it the year before last, but the Board of Equalization redetermined and

granted approval. This year, the board sided with the borough assessor and ruled against approval. He alleged that the state assessor intimidated the Board of Equalization. He said the state assessor intended to intervene in the process because the board erred last year in only counting farm-related income, not total income.

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MR. JEANNET argued that the income he makes from his day job and his wife's income from stock trading and inheritance are unrelated to farm income. He asserted that FNSB misapplied the statutory provisions for the past two years, as evidenced by its previous annual approval without his personal tax records. He said that he has only ever attached Schedule F to the application, which is essentially a profit and loss statement covering farmland profits, income, and expenses. He said it is his interpretation that the statutory provisions for farmland tax exemptions apply to profits from the land, not gross profits from other entities. The farm is a separate limited liability company (LLC) set on a separate parcel of land. He said there is no need to compare the farm income with his engineering business or other business endeavors.

MR. JEANNET said that he supports SB 161. It simplifies and clarifies the original intent of the statutory provisions, which is to promote open spaces, agricultural usage, and food security.

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ROBERT GROSECLOSE, Farmland Owner, Farmers Loop Area, Fairbanks, Alaska, gave invited testimony on SB 161, stating this legislation helps small farmers. He purchased land through a limited liability company (LLC) to grow hay to feed his daughter's horse. He said while this is not his day job, it became a vocation that intrigued him and has helped him understand the challenges of Alaskan farmers.

MR. GROSECLOSE said his comments align with those of the previous testifier. He stated that, lately, FNSB has interpreted the reporting requirements differently than in the past. Currently, the borough requests financial information beyond what the farm generates. This new interpretation affected his exemption eligibility. He lost a qualifying exemption for a farm in production for decades. Historically, FNSB required the Internal Revenue Service (IRS) Schedule F, which is specific to farm operations and income. A few years ago, FNSB required a fuller income disclosure. He said that he is a retired lawyer

and that if you considered his other sources of income, his farm would not meet the 10 percent threshold. It has been a viable farm and will continue to be a viable farm. In most years, it generates more than 100 bales of hay each season. The farm provides a source of local agriculture. People are discouraged from wanting to retain land that provides some margin of food security without the tax exemption.

MR. GROSECLOSE urged the committee to look favorably upon SB 161. It embraces the requirements for qualifying the property for farm use and confirms the existing practice of accepting the income statement used by the IRS.

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AMY SEITZ, Executive Director, Alaska Farm Bureau, Soldotna, Alaska, gave a brief overview of the bureau, stating it is a nonprofit organization whose mission is to improve and expand agriculture in Alaska. A major focus of the bureau is:

- Advocacy and support of agriculture-friendly policies that help Alaskan farmers and ranchers build businesses.
- Increasing production.
- Increasing the number of successful farms in Alaska.

MS. SEITZ said that the agriculture industry has significant potential and opportunities in Alaska, and developing this industry will benefit the state. Food security is a big concern. The bureau foresees increasing issues with food supply lines, whether due to closed roads, earthquakes, or pandemics. Increasing agricultural production in Alaska would benefit the state.

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MS. SEITZ said there are challenges in farming, mainly because Alaska is young and less developed than other states. SB 161 addresses some of the challenges that farmers face in Alaska:

- Access to capital.  
While efforts to find ways to expand access to loans and grants are underway, another way to get funding is through reduced input costs. An example of input cost is property taxes. She said that reducing the amount paid in property taxes allows farmers to invest those monies back into farm expansion and easier production. This results in increased sales and food availability.

- Lack of infrastructure.  
SB 161 incentivizes farmers to improve existing structures or build new ones, such as storage or processing facilities. These are two of the main infrastructure needs on a farm. Storage extends the availability of food throughout the year, while processing facilities enhance the ability to reach specific markets. Incentives to build farm infrastructure would help increase production and sales. The expectation is that growth will compound over the years. Each year, farmers could reinvest dollars saved through property tax reductions, thereby increasing livestock, crops, sales, and the number of successful farms. She conjectured that the committee would unanimously agree that this would be a good thing.

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- Qualifying for a property tax reduction.  
The 2017 Census of Agriculture indicated that “more than half of Alaska’s producers have off-farm jobs as their primary occupation and source of income.” She said access to healthcare and a high percentage of new and beginning farmers account for this statistic.

Other sources of income are necessary while individuals grow their farming businesses. Alaskan farmers compete with established markets. Grocery stores, restaurants, and institutions have established distributors who primarily source products outside Alaska. Although the number of Alaska-grown products is increasing in grocery stores and restaurants, the lack of infrastructure and services means that each farmer must navigate these systems individually. It takes time to figure out how to enter established markets and build a customer base.

SB 161 streamlines the process for farmers to qualify for the property tax reduction by tying qualification directly to the farm instead of off-farm income. An off-farm income does not mean an individual lacks commitment to farming; additional sources of income are needed for individuals to foster growth.

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MS. SEITZ pointed out that, according to the Census of Agriculture, there are around 1,000 farms in Alaska. Many of these farms are located in areas that do not impose property taxes, so the number of farms per municipality is not large.

MS. SEITZ thanked the bill sponsor for looking at ways to ease burdens on farmers and ranchers and help them expand. She thanked committee members for hearing SB 161.

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CHAIR DUNBAR asked about borough pushback and estimated amounts for property tax reductions.

MS. SEITZ replied that she has no firm estimate, especially with adding structures. She does not know whether the boroughs are pushing back on SB 161. She stated the FNSB recently passed a ballot initiative allowing farm structures, so it seems like there is support to ease the property tax burden. She said one hope is that increased agricultural sales would lead to higher revenues from sales tax.

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CHAIR DUNBAR drew attention to the zero fiscal note, which indicates the State will bear no cost. He noted, however, that the Mat-Su borough receives services from the State, suggesting a potential secondary effect of increased costs to the State. He asked whether the bill sponsor has any sense of that impact.

MS. ACHEE replied that she and the bill sponsor do not have an objective numerical sense of the impact of buildings assessed at the proposed rate. She and the bill sponsor met with the Mat-Su Borough because SB 161 will significantly affect it. The bill sponsor worked the borough's feedback into the bill draft before introduction, and the borough has not reached out with further concerns.

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CHAIR DUNBAR welcomed Mat-Su Borough feedback if they choose to provide it.

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MS. ACHEE said Fairbanks provided written feedback, which was generally supportive. The bill sponsor spoke with the Kenai Peninsula Borough; it has been aware of this legislation for over a year and has not provided any feedback. She assured the committee that she had contacted all six boroughs affected by SB 161, and they were aware of these hearings.

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CHAIR DUNBAR drew attention to the last section of SB 161, which expands the meaning of "farm use." He pointed out that \$1,000 in agricultural products is a small amount. He posed a hypothetical

question about an Anchorage resident with a chicken coop who sold eggs at the farmer's market. He asked whether this resident would qualify for the tax exemption with \$1,000 in egg sales.

MS. SEITZ replied that SB 161 requires farmers to file an IRS Schedule F for taxes. She noted that Schedule F is intended for farming businesses, so hobby farmers and personal use agriculturists would not qualify to file it.

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CHAIR DUNBAR asked for more details about what goes into Schedule F.

MS. SEITZ replied that to file a Schedule F, the farming business has to show a profit at some point. This indicates to the IRS that the farmer is trying to operate a business rather than farming solely as a hobby.

CHAIR DUNBAR asked whether the Municipality of Anchorage has any farms that would be affected by SB 161.

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MS. ACHEE drew attention to excerpts from the Department of Revenue, 2022 Alaska Taxable Report in the committee packet. She pointed out [Table 10B], which showed a farm use assessment breakdown by municipality. It indicated that one farm in the Municipality of Anchorage takes advantage of this program.

CHAIR DUNBAR said he believes that farm is in his district and it is a great farm. He brought up the expansion of definitions in the last section of SB 161, asking:

- whether this bill would enable more Anchorage farming businesses to take advantage of the property tax exemption, or
- would the legislation have no effect because farmers are not currently filing Schedule F.

MS. SEITZ replied that some hydroponic farms and smaller-scale market farms could try to become more of a business.

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CHAIR DUNBAR opened public testimony on SB 161; finding none, he closed public testimony.

[3:01:20 PM](#)

SENATOR BJORKMAN said learning more about Alaska's farming industry and challenges has been interesting. He emphasized the importance of local control. While SB 161 mandates farm buildings be assessed at the farm rate, municipalities are responsible for setting and adjusting that rate. After receiving feedback from the Mat-Su Borough, he retained the deferment provision. The provision states that an owner who stops using land for food production and as a farm must compensate the borough for forgone taxes it would have otherwise received. The Mat-Su Borough's feedback influenced his decision to retain the tax deferment provision because it encourages land to remain dedicated to farming and food production. He stated that farmers have to make an economic calculation to determine if farming is a financially viable choice.

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MS. ACHEE explained how the tax incentive works, emphasizing that recipients do not get a flat dollar amount or a flat percentage off taxes. She outlined the process as follows:

- The assessor evaluates the property at its highest and best use.
- If the highest and best use for a property on the edge of a borough, away from attractions like a big fishing river, is farming, the owner pays the farm tax rate.
- The owner does not receive a tax break; the owner just pays the farm tax rate.
- If the assessor's valuation exceeds the farm use tax rate, the owner must decide whether to keep the land for farming or pursue a more lucrative use.
- The difference in property taxes can influence that decision, encouraging owners to keep land as farmland rather than converting it to condos, a shopping center, or another higher-value use from a property tax perspective.

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CHAIR DUNBAR held SB 161 in committee.

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There being no further business to come before the committee, Chair Dunbar adjourned the Senate Community and Regional Affairs Standing Committee meeting at 3:04 p.m.