

HB

175

COPY OF STRAIGHT WIRE SENT APRIL 12, 1971 TO:

MR. JOHN E. LONGWORTH  
PETERSBURG, ALASKA  
PHONE NO. 772-4623

The Municipal Code was reported out of committee Saturday which clears our decks to consider additional worthwhile legislation. If you wish to appear before Local Government committee Thursday or Friday, we'll be happy to consider HB 175 at that time. Please advise.

Representative Mike Miller

Charged to 586-5460  
House Local Government Committee

**MEMORANDUM****State of Alaska**

TO:  The Honorable Mike Miller  
 Chairman, House Local Government Committee  
 Alaska State Legislator

DATE : April 16, 1971

FROM: S. Robert Dozier *SRD*  
 State Assessor  
 Local Affairs Agency

SUBJECT: Comments on H. B. 175, introduced  
 by E. J. Haugen 1/12/71

Enables boroughs and cities to establish on a voluntary basis separate rates of levy for land, improvements and personal property and permits a city of any class to exempt personal property, land or improvements from taxation. Alaska Statutes permits home rule cities to classify and exempt from taxation any class or all personal property. Alaska Statutes does not permit a borough or a city of any class to classify and exempt from taxation land or improvements.

H. B. 175 may be considered superfluous and unnecessary because of the apparent passage of C S for House Bill 208, a Revision of the Municipal Code Title 29. This Bill passed the House by a wide majority and is now before the Senate for approval.

C S For H. B. 208 permits municipalities to establish differential Tax Zones according to the various levels of services provided by the municipality.

For example: The Boat Harbor including all boats and vessels generally receives a different level of service and may be taxed at a different rate than that of other areas of the municipality.

There has been considerable research on the pro's and con's of the graded tax plan concept. Graded tax plan theory is to encourage residential and commercial development within a community through manipulation of the property tax rate.

There is no doubt that a high rate of tax on land will force land owners to put it to a higher use if possible, however, when a number of voters within a pilot city are adversely affected, as would be the case of ownership in open space tracts of land, legislators will be under pressure to exempt from general taxation certain classes of real property; homesteads, homesites, farms, grazing land, and privately owned open space holdings of important individuals and organizations.

As the property tax is reserved for use by municipalities for extracting local revenue and for balancing the budget, the tax base should not be further restricted by general law. Senate Bill 79 introduced 1/28/71 by the Legislative Council is an example of an attempt to further restrict the tax base of boroughs and cities by exempting business inventories from general taxation. The effect of this exemption, depending upon the definition could exclude as much as 30% of a borough or cities tax base.

Memo to:  
The Honorable Mike Miller

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April 16, 1971

The property tax is a major factor when considering a real estate investment. Changing the ground rules by lowering the tax rate on improvements and raising the tax rate on land may upset the established balance of existing financing.

A community will usually develop in proportion to the economic demand for facilities. Changing the ground rules may result in increased development of property which should be developed. On the other hand the owner of vacant or underdeveloped property which is not economically feasible, at the time, to develop, may be forced to sell at a loss or lose it for taxes. The owner must:

1. Pray for open space exemption.
2. Develop normal residential improvements.
3. Develop income producing improvements.
4. Sell to land speculators with substantial capital reserves.
5. Let the property revert to the municipality through foreclosure.

Highly developed properties usually demand the highest degree of municipal services and are in a better position to pay taxes, than is vacant or underdeveloped properties. It would seem that the graded tax plan is a legal method for large land holding companies to increase their tax loss open space holdings.

The following example is intended to point out the effect of a one mill decrease on improvement value compensated with an appropriate mill rate increase on land to produce the same amount of revenue.

Example 1, Petersburg: Petersburg has an overall land to building ratio of one (1) to five (5). A one mill decrease in the mill rate on buildings must be compensated by a five mill rate increase on land value to produce the same amount of revenue.

- A. A typical new single family home has a one (1) to five (5) land to building ratio. Therefore, the tax bill will remain unchanged.
- B. An older single family home with a land to building ratio of one (1) to two (2), the tax bill will increase 3%.
- C. A special use or under improved property with a land to building ratio of seven (7) to one (1), the tax bill will increase 24%.
- D. On vacant unimproved property, the tax rate would increase 28.5%.

SRD:cen

March 4, 1971

MEMORANDUM

TO: Joseph A. McLenn - Mayor

FROM: Billy G. Berrier & Attorney

RE: Amendment to Municipal Code (SB 113) Allowing Classification For Property For Tax Purposes.

You have requested that I prepare a suggested amendment to the revised Municipal Code (Senate Bill 113) to make it possible to tax land and improvements at different rates should the assembly decide it was good public policy to do so. You also pointed out that the 3% levy limitation applied to each class would seriously and unnecessarily restrict the policy alternatives available to the assembly. In order to accomplish these goals, I would suggest the following amendments:

1. Add language to 29.53.010 allowing three classes for purposes of taxation. Such section would then read:

Sec. 29.53.010. GENERAL PROPERTY TAX. Home rule and general law boroughs may levy (1) an areawide property tax for areawide functions, and (2) a property tax limited to the area outside cities for functions limited to the area outside cities. A property tax if levied must be assessed, levied and collected on real and personal property as provided in this chapter. The assembly or council may establish three classes of property for purposes of taxation: land, buildings and fixtures permanently affixed to the land, and personal property. The council may establish a separate rate of taxation for each class. Each class may be taxed at any rate, subject to the restriction on total amount of levy provided in AS 29.53.050. All property within each class must be taxed at the same rate.

2. Add language to 29.53.050 making the 3% limitation applicable only to the aggregate but not to each of the classes. Such section to read:

Sec. 29.53.050. TAX LIMITATION. Home rule and general law municipalities may levy property taxes to pay or secure the payment of principal and interest on general obligation bonds without limitation as to rate or amount. They may not levy property taxes

Joseph A. McLean

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for other purposes in excess of 3% of the assessed property valuation but if property is classified for purposes of taxation the levy on any class may exceed 3% of the assessed valuation for that class provided the aggregate levy does not exceed 3% of the total assessed valuation for all classes.

March 4, 1971

MEMORANDUM

TO: Joseph A. McLean - Mayor

FROM: Billy G. Berrier @ Attorney

RE: Amendment to Municipal Code (SB 113) Allowing Classification For Property For Tax Purposes.

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March 4, 1971

MEMORANDUM

TO: Joseph A. McLean - Mayor

FROM: Billy G. Berrier - Attorney

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You have requested that I prepare a suggested amendment to the revised Municipal Code (Senate Bill 113) to make it possible to tax land and improvements at different rates should the assembly decide it was good public policy to do so. You also pointed out that the 2% levy limitation applied to each class would seriously and unnecessarily restrict the policy alternatives available to the assembly. In order to accomplish these goals, I would suggest the following amendments:

1. Add language to 29.53.010 allowing three classes for purposes of taxation. Such section would then read:

Sec. 29.53.010. GENERAL PROPERTY TAX. Home rule and general law boroughs may levy (1) an areawide property tax for areawide functions, and (2) a property tax limited to the area outside cities for functions limited to the area outside cities. A property tax if levied must be assessed, levied and collected on real and personal property as provided in this chapter. The assembly or council may establish three classes of property for purposes of taxation: land, buildings and fixtures permanently affixed to the land, and personal property. The council may establish a separate rate of taxation for each class. Each class may be taxed at any rate, subject to the restriction on total amount of levy provided in AS 29.53.050. All property within each class must be taxed at the same rate.

2. Add language to 29.53.050 making the 5% limitation applicable only to the aggregate but not to each of the classes. Such section to read:

Sec. 29.53.050. TAX LIMITATION. Home rule and general law municipalities may levy property taxes to pay or secure the payment of principal and interest on general obligation bonds without limitation as to rate or amount. They may not levy property taxes

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C O P Y of straight wire sent to Mr. John Longworth, Petersburg  
4/16/71

John - have scheduled House Bill 175 for consideration tomorrow.  
If you wish to appear but tomorrow inconvenient, let me know  
and I'll reschedule.

Regards,

Mike