

FREE
CONFERENCE
REP.

AD VALOREM

HBI



Alaska State Legislature
Senate

JUNEAU, ALASKA

NOVEMBER 11, 1973

Honorable Terry Miller,
President of the Senate
Honorable Tom Fink,
Speaker of the House of Representatives

Gentlemen and Members of the Senate and House:

You have directed the attention of the members of the Free Conference Committee that considered Free Conference Committee Substitute for Senate Committee Substitute for Committee Substitute for House Bill No. 1 (ad valorem tax on oil and gas exploration, production and pipeline transportation property) to Section 5 of the bill.

Section 5 of the bill amends AS 29.53.055 to provide that the limitations on municipal taxation proposed in Section 45 as well as those existing limitations in Section 50 of AS 29.53 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonded indebtedness.

The language of Sec. 55 originally was adopted to avoid general obligation bonds being denominated as limited tax bonds which would result in higher interest costs. It is the intent of the Committee that Section 5 of the bill is not intended to expand local governments' right to tax facilities covered by this act but only to give local governments the right in case of default or pending default on bonds to exceed the limits in Sec. 45 and 50 of AS 29.53.

Bill Ray
Sen. Bill Ray, Chairman

Orin Freeman
Rep. Orin Freeman, Chairman

John Butrovich
Sen. John Butrovich

Bud Saylor
Rep. Bud Saylor

W. L. Garner
Sen. W. L. Garner

Glenn Mackney
Rep. Glenn Mackney

FREE CONFERENCE COMMITTEE REPORT

ON

FREE CONFERENCE CS FOR SENATE CS FOR
CS FOR HOUSE BILL NO. 1

The Free Conference Committee has had Senate CS for CS for HB 1 under consideration and recommends it be replaced with Free Conference Committee Substitute for Senate CS for CS for House Bill No. 1. The principal changes in the Free Conference Committee Substitute from the Governor's bill as introduced are as follows:

1. Sec. 43.56.010 (b) includes language stating "No municipality may exempt from taxation property authorized to be taxed under this chapter." The effect of this is to require Valdez and the North Star Borough to levy a personal property tax on pipeline related property. The same paragraph limits exceptions from municipal taxation to those currently allowed under the municipal code.
2. Sec. 29.53.045 The bill as introduced limited political subdivisions to levying a tax not to exceed 7 mills on the value of taxable property taxable under the Act. The Free Conference Committee Substitute changes this limitation to allow municipal flexibility in levying up to an amount equivalent to \$1,000 in total revenue per person residing within its boundaries or a tax on an amount up to 2.5% of the average per capita assessed valuation in the state multiplied by the number of residents in the taxing municipality. Assessment of the "taxable property" will be done on a state-wide basis by the Board established in the Act.
3. Sec. 43.056.030 (b) A definition of the word "properties" as relating to mineral interests was inserted to make it clear that things such as office buildings and other similar property not related to production could not be "interpreted" as being exempt from this tax.
4. Sec. 43.056.030 (7) and (8) allow municipalities to continue to tax property under existing law subject to the \$1,000 per person or 2.5% per capita assessed valuation limitations through the period preceding the "construction commencement date." Without this change it was the committee's fear that municipalities might be precluded from taxing property during this period. The committee left taxation of construction equipment to municipalities.
5. Sec. 43.056.040 (2) (A) and (C) The committee adopted both the House and Senate concepts of authorizing municipalities to levy a retail sales or use tax on the first \$1,000 of each sale.
6. Sec. 43.056.050 Members of the Assessment Review Board were required to be knowledgeable of assessment procedures and are subject to confirmation by the legislature.

7. Throughout the Committee Substitute, certain consistent language changes have been made to clearly divide the taxing authorities contained in this legislation. Thus you will find inserted specific references to "Sec. 10 (a)" of this chapter which means that the committee substitute restricts the particular provision to dealing with state assessment and taxing matters. The other consistent change is to delete the words "political subdivision" and substitute "municipality." "Municipality" is a more precise reference to a taxing entity of local government.
8. Sec. 43.056.060 (d) The Free Conference Committee Substitute would value production equipment on the basis of replacement cost. It was the feeling of the committee that the original proposed "actual cost" reduced by depreciation might preclude assessment on an appreciating value of the equipment. Depreciation of production equipment was changed from "units of production" to "economic life of proven reserves." This change would tie depreciation directly to the estimated useful life of the production equipment.
9. Sec. 43.056.210 (2) The definition of "construction commencement date" has been changed to provide two options. The construction commencement date for state taxing purposes is to be either April 1, 1974, or the date necessary permits or approvals, with no preventive injunctions or decrees, are received should this date occur earlier than April 1. The thinking here was that the state would not tax property taxable under this Act until such time as construction actually began. The fixed date was inserted to insure good faith on the part of the companies (if no permit were applied for, obviously none could be granted). Should it be clear by April 1 that further legal problems prevent the start of construction, the legislature would be in session and could amend the April 1 date to any other date of its choosing.
10. Sec. 43.056.210 (6) The definition of "taxable property" deleted reference to equipment used in the construction of the pipeline thus leaving this equipment taxable by municipalities. The definition was clarified to include drilling rigs and wells, whether producing or not. An additional definition of "taxable property" was added excluding "permanent residences, office buildings requiring substantial local government services, or gas pipeline systems operated as utilities and regulated by the Alaska Public Utilities Commission."
11. Sec. 2 amends AS 20.53.025 (a) to read: "Municipalities may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at a regular or special election. An exclusion or exemption authorized by this section may not exceed \$10,000 for any one residence."

12. Sec. 4. Adds a new subsection (B) to AS 29.53.050 to prevent the doubling up of tax receipts in taxing municipalities where municipal boundaries overlap or municipalities occupy the same territory.
13. Sec. 5. Language was added to AS 29.53.055 to make clear that the limitations on municipal taxing authority with respect to oil and gas properties taxable under this chapter do not apply to taxes levied or pledged to pay or secure the payment of principal and interest on bonds.
14. Sec. 6. The effective date is January 1, 1974, rather than immediately as proposed by the bill as introduced.


Senator Bill Ray


Representative Oral Freeman

(3) "department" means the Department of Revenue;

(4) "gas" includes all natural gas and all hydrocarbons produced at the wellhead not defined as oil;

(5) "intangible drilling expenses" means those expenses defined in sec. 263(c) of the United States Internal Revenue Code as defined on the effective date of this paragraph;

(6) "taxable property" means real and tangible personal property used or committed by contract or other agreement for use within this state primarily in the exploration for, production of, or pipeline transportation of gas or unrefined oil (except for property used solely for the retail distribution or liquefaction of natural gas), or in the operation or maintenance of facilities used in the exploration for, production of, or pipeline transportation of gas or unrefined oil, including machinery, appliances, supplies, equipment, drilling rigs, wells (whether producing, or not), gathering lines and transmission lines, pumping stations, compressor stations, power plants, topping plants, processing units, roads, tank farms, tanker terminals, docks and other port facilities, air strips and communication equipment and facilities, maintenance equipment and facilities, and maintenance camps and other related facilities; "taxable property" does not include permanent residences, office buildings, requiring substantial local government services, or gas pipeline systems operated as utilities and regulated by the Alaska Public Utilities Commission;

(7) "unrefined oil" includes crude petroleum oil and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form and the liquid hydrocarbons known as distillate or condensate recovered or extracted from gas other than gas produced in association with oil and commonly known as casinghead gas.

* Sec. 2. AS 29.53.025(a) is amended to read:

(a) Municipalities may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at a regular or special election. An exclusion or exemption authorized by this section may not exceed \$10,000 for any one residence.

* Sec. 3. AS 29.53 is amended by adding a new section to read:

Sec. 29.53.045. TAX ON OIL AND GAS PRODUCTION AND PIPELINE PROPERTY. (a) A municipality may levy and collect taxes on taxable property taxable under AS 43.56 only by using one of the methods set out in (b) or (c) of this section.

(b) A municipality may levy and collect a tax on the full and true value of taxable property taxable under AS 43.56 as valued by the Department of Revenue at a rate not to exceed that which produces an amount of revenue from the total municipal property tax equivalent to \$1,000 a year for each person residing within its boundaries.

(c) A municipality may levy and collect a tax on the full and true value of that portion of taxable property taxable under AS 43.56 as assessed by the Department of Revenue which, when combined with the value of property otherwise taxable by the municipality, does not exceed the product of 22% per cent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality.

(d) By February 1 of each assessment year a taxing municipality must inform the Department of Revenue which method of taxation the municipality will use.

(e) For purposes of this section, population shall be determined by the commissioner of community and regional affairs based on the latest statistics of the United States Bureau of the Census or on other reliable population data, and shall advise each municipality of its

population as so determined by January 15 of each year.

* Sec. 4. AS 29.53.050 is amended by adding a new subsection to read:

(b) No municipality, or combination of municipalities occupying the same geographical area, in whole or in part, may levy taxes which will result in tax revenues from all sources exceeding either (1) \$1,000 a year for each person residing within their boundaries or (2) when combined with the value of property otherwise taxable by the municipality, the product of 225 per cent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality. If two or more municipalities occupying the same geographical area, in whole or in part, attempt to levy a tax the combined levy of which would result in tax revenues from all sources exceeding either (1) \$1,000 a year for each person residing within their boundaries or (2) when combined with the value of property otherwise taxable by the municipality, the product of 225 per cent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality, the commissioner of community and regional affairs shall apportion the lawful levy and equitably divide these revenues on the basis of need, services performed and other considerations in the public interest. For the purpose of this subsection, population shall be determined by the commissioner of community and regional affairs based on the latest statistics of the United States Bureau of the Census or on other reliable population data.

* Sec. 5. AS 29.53.055 is amended to read:

Sec. 29.53.055. NO LIMITATION ON TAXES TO PAY BONDS. The limitations [LIMITATION] provided for in secs. 46 or [SEC.] 50 of this chapter do [DOES] not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. Taxes

to pay or secure the payment of principal and interest on bonds may
be levied without limitation as to rate or amount.

* Sec. 6. This Act takes effect on January 1, 1974.

(3) "department" means the Department of Revenue;

(4) "gas" includes all natural gas and all hydrocarbons produced at the wellhead not defined as oil;

(5) "intangible drilling expenses" means those expenses defined in sec. 263(c) of the United States Internal Revenue Code as defined on the effective date of this paragraph;

(6) "taxable property" means real and tangible personal property used or committed by contract or other agreement for use within this state primarily in the exploration for, production of, or pipeline transportation of gas or unrefined oil (except for property used solely for the retail distribution or liquefaction of natural gas), or in the operation or maintenance of facilities used in the exploration for, production of, or pipeline transportation of gas or unrefined oil, including machinery, appliances, supplies, equipment, drilling rigs, wells (whether producing or not), gathering lines and transmission lines, pumping stations, compressor stations, power plants, topping plants, processing units, roads, tank farms, tanker terminals, docks and other port facilities, air strips and communication equipment and facilities, maintenance equipment and facilities, and maintenance camps and other related facilities; "taxable property" does not include permanent residences, office buildings requiring substantial local government services, or gas pipeline systems operated as utilities and regulated by the Alaska Public Utilities Commission;

(7) "unrefined oil" includes crude petroleum oil and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form and the liquid hydrocarbons known as distillate or condensate recovered or extracted from gas other than gas produced in association with oil and commonly known as casinghead gas.

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(c) A municipality may levy and collect a tax on the full and true value of that portion of taxable property taxable under AS 43.56 as assessed by the Department of Revenue which, when combined with the value of property otherwise taxable by the municipality, does not exceed the product of 225 per cent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality.

(d) By February 1 of each assessment year a taxing municipality must inform the Department of Revenue which method of taxation the municipality will use.

(e) For purposes of this section, population shall be determined by the commissioner of community and regional affairs based on the latest statistics of the United States Bureau of the Census or on other reliable population data, and shall advise each municipality of its

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* Sec. 5. AS 29.53.055 is amended to read:

Sec. 29.53.055. NO LIMITATION ON TAXES TO PAY BONDS. The limitations [LIMITATION] provided for in secs. 45 or [SEC.] 50 of this chapter do [DOES] not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. Taxes

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