

HB

87

USG to

5-15-78 Keith Arnold AUSA

BRUCE ARONSON	D C/RA	CON
ANNETTE SMITH	17 C/RA	—
TED PERNS	ANCH. MUN.	CON
BOB SPEED	H/JUD	—
JIM ROUSE	AKILL	✓

DAVE STANIS - 5-25-78
 LANE DEVOE
 WILL PROVIDE OIL
 COMPANY ~~PROBLEMS~~ PROBLEMS.

PHIL WALL - DEPT OF REU
 TOM WILLIAMS - " " " , PETR. DIVISION 276-1363

FOR TESTIMONY

BRUCE ARONSON C/RA
 DAVE STANIS
 STOCK No. 753 1/3
 JIM ROUSE
 HUGH ALLEN
 DON BERRY

6-5-78

NOTE FOR CSHB 8/ am FILE

Jodine Reposa, Department of Revenue, Petroleum Division, (276-1363) gave me the following data on the state's revenue from the 20 mill oil and gas property tax:

In 1978, the gross, statewide 20 mill tax will come to \$221,544,476.30. However, many boroughs have not yet set their mill rates, so from that figure will have to be subtracted the municipal credits when they're determined. Of the \$221.5 million, \$141.3 lies within organized boroughs and \$79.8 million in the unorganized borough.

In 1977, the statewide gross 20 mill tax was \$169.8 million. \$107.8 was within boroughs and \$62.0 million lay in the unorganized borough. There were \$30.3 million in municipal credits which gives a \$139.5 million net tax.

bfh

F: CS HB 87 Am

Given to SCRA
6-2-78
LARRY DAUNA
EXXON

Comments on CS for House Bill 87

Currently, under AS 29.63.030(a) a home rule or general law borough may establish a service area to provide a special service (e.g., fire protection). Such services are services not provided on an areawide basis within the borough or within the borough area outside cities; but they may also be services that are at a higher or different level than the services provided on an areawide basis or in the borough outside cities. Under subsection (b), the borough assembly may levy taxes and assessments in service areas to finance the special services.

A home rule or general law borough presently may, under Sec. 29.53.010, levy:

- (1) An areawide property tax to provide for functions carried out areawide, which area may include cities as well as the area outside of cities, and
- (2) a property tax limited to the area outside cities to pay for functions which are limited to areas outside cities.

Section 29.48.210 provides that revenue collected by the borough on an areawide basis is to be spent on general administrative costs and on areawide functions. Any revenue

collected in the area outside cities can only be expended on general administrative costs and functions which render service to the area outside cities.

These taxing powers and what is to be done with the revenues might be restated as follows:

(1) A borough assembly can establish a special district and can cause property taxes to be paid on property in that special district, but the tax revenue must be spent on the special service provided for that special district. For example, if it is a fire district, then the revenue has to be spent for providing fire protection in that special district area.

(2) A borough assembly can levy a property tax boroughwide to pay for functions that are boroughwide (and it makes no difference whether property is in or outside of a city) so long as the function is boroughwide.

(3) A borough assembly can levy a property tax limited to the area outside cities, but the tax revenue has to be spent for functions limited to the area outside cities.

There is equity, logic and sense to these present taxing powers and limitations on spending: the party being taxed gets the benefit of the service because the tax money collected can only be spent on services which apply to and benefit the one paying the tax.

CS for HB 87 would seek to radically change this by providing the mechanism to upset the fundamental principle that the one who pays the tax ought to obtain the benefit. Section 2 of the bill adds new section AS 29.73.070 and would permit taxes imposed and collected on a boroughwide basis to be appropriated by the borough assembly as "grants" to special districts and to cities to pay for the functions that a special district or a city provide. The amendment to AS 29.63.090(b) (which is section 1 of the bill) blatantly goes so far as to provide that the borough assembly may even finance by "appropriations" all of the cost of special service in the special district with revenue from boroughwide revenue, thus making it possible to set up a special district to provide a special service but pay for that service with boroughwide revenue instead of tax money from property in that district.

To carry out this scheme, Section 29.53.010 (section 5 of the bill) is amended to permit a borough to impose an areawide (i.e., boroughwide) property tax for "appropriations" to special districts and for "grants" to cities and special districts

in addition to the present power which is limited to the im-
position of an areawide (i.e., boroughwide) property tax to
pay for areawide functions.

It is rather obvious that the Kenai Peninsula Borough is one which has the fact pattern which most closely could apply this radical and patently inequitable tax scheme. A very large part of the property tax value in the Borough belongs to oil companies in the form of industrial plants lying in the Borough but outside cities and some of the special districts. The platforms and much of the equipment are either in the Inlet itself or on the west side which is relatively inaccessible. Union Oil has just completed construction of a large new plant at the present site of its existing plant.

The values of oil industry properties have always been a very high percentage of the total Borough valuation and, indeed, this valuation has jumped significantly in 1978 as the result of Union's new plant and it will jump significantly in 1979 and 1980 as other oil company property comes onto the tax rolls. Just recently, there was an announcement by Pacific Alaska LNG of its plans to begin construction in July 1979 for a large gas liquefaction plant in the industrial area of the Kenai Borough.

With oil industry valuation in the Borough, but lying outside cities, being so great and to become even greater in the near future it takes little imagination to see how the tax scheme contained in this bill could cause the oil industry property to become a major financing vehicle for cities and special districts which could not be accomplished under present law.

For example, assume that the total value in the Borough is \$1 billion of which the oil industry's share is \$800 million which lies outside cities. Assume the boroughwide tax rate is 5 mills, which produces \$5,000,000 of revenue from all taxpayers to the Borough. Assume further that City X in the Borough has a city tax rate of 15 mills (in addition to the Borough rate of 5 mills) which provides City X directly with \$750,000 based on \$50 million of value in the city (\$50 million X 15 mills).

If the Borough rate is raised to 6 mills, an additional \$1,000,000 will be received, but \$800,000 of it will be mainly from the oil industry. Taxpayers in City X will have paid \$50,000 of the \$200,000 paid by non-oil company taxpayers. However, this bill would provide the means whereby City X could get a "grant" of money from the Borough. Suppose that "grant" was \$200,000. The result would be that taxpayers in City X would have paid an extra \$50,000 to the Borough when

the rate went from 5 mills to 6 mills, but it would receive \$200,000 for a net gain of \$150,000. The city tax rate could thus be reduced to 12 mills to provide for receipt of \$500,000 (\$50 million x 12 mills) and City X still would end up with a total of \$750,000. Under such a scheme, the oil industry and other Borough area taxpayers would have financed tax reduction for City X taxpayers but without receiving any benefit for it.

This same type of scheme could work for special districts too. Here, a borough assembly could set up a special district but not endow it with taxing powers which is the method under present law to pay for the service. Rather, the assembly could give the special district a "grant" which might come from the \$1,000,000 referred to above, or the assembly could even establish a special areawide tax rate to cover the "appropriation" to the special district, as provided for in this bill.

The tax scheme in this bill blatantly violates the fundamental tax principle that the taxpayer is entitled to benefit from the tax he pays. This scheme is simply designed to tax industry property and, through "grants" and "appropriations", finance city and special district functions which provide no benefit to the party supplying the tax funds.

To permit such a scheme in the law would be a tax inequity of the highest order and would be inconsistent with efforts by

the State of Alaska to attract industry to the state. This is a good example of a tax proposal which, in conjunction with a lot of others proposed in the past few years, has made investors wary of investment in Alaska. The bill would once again change the "rules of the game" from normal, equitable tax rules to specially contrived rules.

F: HB 83
HB 87

MEMORANDUM

State of Alaska

TO: Senator Joe Orsini, Chairman
Senate C&RA Committee

DEPT. _____
DIV. _____
SEC. _____

DATE : 5/29/78

FROM: Hugh Malone

SUBJECT:

I would appreciate any help you could give in scheduling HB 83 and 87 before your committee.

Thank you.



5-9-78

NOTE FOR HB 87 FILE

7. This bill would enable the Kenai Peninsula Borough to tax oil properties, or to receive revenue from oil taxes, ~~within~~ ^{For} the City of Kenai.

It is strongly supported by Malone and the Kenai Borough. The City of Kenai may oppose it.

The Municipality of Anchorage is concerned about it since Ted Berns believes that the language involving "special uses" in service areas could be construed to mean almost anything, which could result in the Municipality being forced into holding referendums on a number of issues, such as roads, parks & rec, or a civic center.

Bruce Aronson in D C/RA opposed to the bill.

bfn

also Judiciary referred
ck for date

5882. Paper or Speed

5-11-78

NOTE FOR CSHB 87 am FILE

BRUCE ARONSON, D C/RA, said yesterday that his department views the bill as the worst piece of municipal legislation this session.

It would do the following: it would allow the Kenai Peninsula Borough to institute an area wide property tax, the proceeds of which would be funneled to the City of Kenai to cover various city service expenses associated with its proximity to the oil and gas industries, but which lie outside the city's boundary.

Bruce called this a "dirty" procedure for taxation. He said the obvious way to resolve Kenai's problem, i.e. through the city annexing the area, had been rejected since the outlying residents were opposed. However, what the legislation would create would be a system whereby residents of a borough would be taxed to provide a specific service to a specific area or city and from which the taxed areawide residents would receive no benefits. For this reason, the bill has been dubbed "borough revenue sharing."

Malone is personally very interested in the bill and testified extensively at the H C/RA hearings on it.

Bruce said that D C/RA would strongly oppose the bill when it came before this committee for hearings.

(Question: would the enactment of this legislation cut the ground from the idea of service areas, since the bill would tax areawide to provide for local services? Thus, a populous urban area could outvote the rural area in a borough and thereby set up areawide wide taxes that would be allocated only to the urban area.)

bfh

F: HB 87

TELEGRAM

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PMS THE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
JUNEAU 7-42

THE SOLDOTNA CITY COUNCIL STRONGLY URGES FAVORABLE
CONSIDERATION OF HB87

LORRAINE KNIGHT MAYOR

In short, this is a nice, neat way to impose a large borough tax on the remaining commercial and oil industry property with all functions of government (i.e., city, special district and borough) being paid for by the borough taxes. Such a plan also effectively gets around an annexation problem to reach the large industry properties in the borough.

One of the problems with this whole scheme, from a political standpoint, is that if the borough tax is raised significantly (for example, suppose it went from 5-mills to 12-mills), the amount of tax paid to Kenai borough becomes a credit against the 20-mill "hardware" tax imposed at the state level on oil and gas producing equipment and pipelines. Thus, as the Kenai borough takes more in taxes with respect to property taxable under the 20-mill hardware tax, the less revenue the state receives.

Politically, it is difficult to see how anyone outside the Kenai Borough would agree to such a scheme, because the people outside Kenai have everything to lose and nothing to gain by permitting the state, in effect, to subsidize homeowners at the expense of state revenue. This is probably one of the strongest arguments why such a scheme as this would not be acceptable.

The foregoing discussion perhaps cynically assumes that voters in Kenai would agree to take property taxes off their homes. This may or may not be what the author has in mind but it certainly would be a rather powerful force to reckon with if these changes ever became a law.

DC/RA