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Proposed Amendments to SB 797

1. Page 3, Lines 18-19 - The formula should read:

$$\frac{P}{T} \times A$$

EXPLANATION: This was a drafting error which, unfortunately was not discovered prior to distribution of the bill. The intent of the base entitlement formula is that a municipality should receive its proportionate share of the total revenue sharing allocation based on its percentage of total, eligible municipal population statewide.

2. Page 3, Line 20 - Amend to read as follows:

T = The total population withⁿ municipalities in the state.

EXPLANATION: See above. Since the formula is intended to distribute 100% of available funds, each municipality's share must be measured by its share of total municipal population statewide. This is necessary so that the total percentage shares of all municipalities will equal 100%.

3. Page 5, Line 9-12 - Delete the last sentence from Section 29.87.050 and replace with the following:

Amounts allocated to the account shall first be distributed to satisfy the minimum \$25,000 base entitlements of eligible municipalities, and the remainder of the allocation shall be distributed as base entitlements to the remaining eligible municipalities.

EXPLANATION: Except to satisfy the "hold harmless" amounts provided for municipalities by Section 12 of the bill, there will be no need to prorate amounts in the base entitlement account. The formula created by A.S. 29.87.010 merely distributes whatever monies are available according to percentage of total municipal population. The suggested new language attempts to clarify the method for distributing base entitlement funds. First, all minimum entitlements (at \$25,000 or whatever other amount) would be paid, and the remainder would be distributed according to the percentage formula of A.S. 29.87.010. This will ensure that the "minimum" entitlement is a true minimum figure and will provide for the equitable distribution of all available funds.

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
Position Paper on S.B. 797

Senate Bill 797 was introduced by the Special Committee on Property Taxation as a revision to the State Revenue Sharing and Municipal Assistance programs, which are the major sources of State aid to municipalities and communities.

The bill repeals A.S. 29.88, Municipal Tax Resource Equalization and A.S. 42.20.016, Municipal Assistance and replaces both with new A.S. 29.87, Entitlement to Municipalities. The elimination of the tax resource equalization chapter eliminates any distribution of funds on the basis of need and local tax effort and insures that any additional appropriations shall be distributed solely on the basis of population.

The Department strongly supports repeal of the Municipal Assistance program for 2 reasons. First, appropriations are linked to corporate income tax receipts which bear little or no relation to local need and are subject to a great deal of fluctuation. Second, distributions are based solely on population and totally ignore local need and tax effort. Distributions based on population are opposed by the Department because they fail to recognize differences in local wealth and ability to make a contribution to local government activities and because they fail to account for need.

Instead of correcting that defect in current law, S.B.797 proposes to compound the problem by requiring that all funds be distributed on the basis of population. The Department contends that the current formula utilized under Municipal Tax Resource Equalization is far preferable to a formula based solely on population. Any formula that does not recognize local effort runs the risk of fostering extreme dependence on State oil wealth that is subject to huge fluctuations in the years ahead. The Department believes that any revenue sharing program should reward development and enhancement of a broad-based local tax base and recognize local need.

S.B. 797 retains the current minimum entitlement for municipalities at \$25,000 plus a cost of living adjustment and continues to pay unincorporated communities \$25,000. These minimum payments do not provide any real financial incentive for communities to incorporate as cities. One positive feature of the Municipal Assistance program is an incentive to incorporate because payments are made only to incorporated communities. Any effort to repeal Municipal Assistance must replace that incentive and provide a sufficient minimum entitlement to build governmental capacity in small communities.

The Department feels that S.B. 716 is a more appropriate vehicle for consolidation and reform of the Revenue Sharing and Municipal Assistance programs.

MEMORANDUM

DATE: March 10, 1982

TO: Senator Don Gilman, Chairman
Community and Regional Affairs

FROM: McKie Campbell, Staff
Community and Regional Affairs Committee

RE: Municipal Finance Officers of Alaska
Homer, Alaska March 4th & 5th, 1982.

As you are aware I attended the Municipal Finance Officers of Alaska meeting in Homer last Thursday and Friday, March 4th and 5th. There, on Thursday afternoon, I was a member of a panel consisting of Gene Dusek, Municipal Finance Officer of Anchorage, Doug Griffin, Local Government Specialist Department of Community and Regional Affairs and Ted Burns, Special Counsel to the Interim Committee on Property Taxation. We spoke to the group on a number of legislative concerns dealing with Municipal Finances.

However, the main thrust of the discussion was the possibility of combining the Municipal Assistance and Revenue Sharing programs and administering both of the combined programs from the Department of Community and Regional Affairs.

I discussed with the Finance Officers the features we felt should be included in a new program of financial assistance to Municipalities. The new program should be comparatively simple and straight forward so that Municipal officials can understand the program and how their Municipalities entitlement is derived. The program should be consistent and should allow Municipalities to budget for upcoming financial years with a fair certainty of the amount they will receive.

There should be some recognition of the higher costs in Rural Areas, and the minimal needs of all Municipalities. I also pointed out two other principals that should be included in a new program of financial assistance and that these two principals are in apparent conflict. We discussed the need to devise a method of intergrating these two principals.

These principals are the encouragement of reduction of local property taxes, and a rewarding of local financial effort by the Municipality. I explained to the finance officers that there are currently two bills (SB 716 and SB 797) in the legislature which would combine the Municipal Assistance and State Revenue Sharing programs. Each would use a different formula for the distribution of the funds. I explained the Senate Community and Regional Affairs Committee would holding hearings

on both of these bills this week, however, it was not expected that either bill would be passed out of Committee this session.

Doug Griffin then gave a talk on SB 716, the Governors proposal to combine the programs and distribute the money according to the State Revenue Sharing formula. Ted Burns then talked about SB 797, introduced by the Special Committee on Property Taxation. This bill would also combine the Municipal Assistance and Revenue Sharing programs into one program within the Department of Community and Regional Affairs and would distribute the funds on a per capita formula with a COLA factor.

Both Doug and Ted did excellent jobs of presenting the bills and in pointing out the relative advantages and disadvantages of the different approaches.

We then discussed these programs with the finance officers. In general they all strongly agreed that the programs needed to be combined within one Department. They were extremely cautious however about committing to a particular formula of distributing the funds. When one considers the amount of money that this program will distribute (\$143 Million dollars in FY'82) this caution is justified. The finance officers were strongly supportive of the concept of a Special Interim Committee in the fashion of the Blue Ribbon Title 29 Revision Committee to review the programs and recommend the appropriate formula. This would hopefully result in a bill being introduced at the beginning of next session.

The finance officers had a number of very useful suggestions to make about a future formula and other aspects of a future program. The two points that there was very strong agreement on, however, were that No. (1): They felt the programs did need to be combined and administered by one Department and No. (2): They were very leary of rushing into any new program until they fully understood its implications.

STATE OF ALASKA

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE



POUCH V
JUNEAU, ALASKA 99801
(907) 465-3822

283 MULDOON ROAD
STATION BOX 76
ANCHORAGE, ALASKA 99504
(907) 337-6071

SENATOR TIM KELLY

March 2, 1982

MR. CHAIRMAN, MEMBERS OF THE COMMUNITY & REGIONAL AFFAIRS COMMITTEE:

LAST SESSION, THE LEGISLATURE ADOPTED SENATE JOINT RESOLUTION NO. 19 CREATING A SPECIAL COMMITTEE ON PROPERTY TAXATION. THE PURPOSE OF THIS COMMITTEE, WHICH I CHAIRED, WAS TO EXAMINE PENDING LEGISLATION DEALING WITH PROPERTY TAXATION AND TO RECOMMEND MEASURES THAT COULD BE TAKEN TO PROVIDE PROPERTY TAX RELIEF FOR ALASKANS.

ONE PRODUCT OF THIS SPECIAL COMMITTEE WAS THE INTRODUCTION OF SB 797 WHICH I BELIEVE IS PENDING IN THIS COMMITTEE. THIS BILL WOULD CONSOLIDATE AND STREAMLINE THE PRESENT REVENUE SHARING AND MUNICIPAL ASSISTANCE PROGRAMS IN ORDER TO PROVIDE MUNICIPALITIES WITH THE FINANCIAL ASSISTANCE NECESSARY TO HOLD THE LINE ON LOCAL PROPERTY TAXES. I BELIEVE THAT THIS IS AN EXCELLENT BILL AND AT THE APPROPRIATE TIME I HOPE YOU WILL GIVE IT SERIOUS CONSIDERATION.

HOWEVER, IN ADDITION TO PROVIDING FINANCIAL ASSISTANCE DIRECTLY TO LOCAL GOVERNMENT I BELIEVE WE SHOULD TAKE POSITIVE STEPS TO ENSURE THAT AT LEAST A PORTION OF THIS ASSISTANCE IS DELIVERED DIRECTLY TO LOCAL HOMEOWNERS AND TO RENTERS AND MOBILE HOME OWNERS IN THE FORM OF PROPERTY TAX RELIEF. I EMPHASIZE RENTERS BECAUSE - AS I AM CERTAIN YOU ARE ALL AWARE - RENTERS - WHO MAY BE UNABLE TO AFFORD TO PURCHASE A HOUSE OR WHO MAY SIMPLY PREFER TO RENT - ARE ALMOST TOTALLY LEFT OUT OF BENEFITS PROVIDED BY SUCH PROGRAMS

AS REVENUE SHARING OR MUNICIPAL ASSISTANCE. RENTS HAVE TRADITIONALLY BEEN GOVERNED BY MARKET FORCES AND - ALTHOUGH LANDLORDS MAY RECEIVE A REDUCTION IN LOCAL PROPERTY TAXES FROM PROGRAMS SUCH AS REVENUE SHARING - THE RENTER HAS SELDOM, IF EVER, RECEIVED THIS BENEFIT. AS YOU ALL KNOW, AT LEAST IN ANCHORAGE, WE ARE EXPERIENCING A SERIOUS HOUSING CRISIS WHICH HAS RESULTED IN DRAMATIC INCREASES IN RENTS, A FACT WHICH I BELIEVE MAKES THE NEED FOR SOME FORM OF DIRECT TAX RELIEF FOR RENTERS EVEN MORE CRITICAL. I MIGHT ALSO ADD THAT LAST YEAR I CONDUCTED A SURVEY OF MY CONSTITUENTS AND RECEIVED ALMOST 1,100 RESPONSES. AMONG THE QUESTIONS ASKED IN THIS SURVEY WAS HOW PEOPLE FELT THAT STATE FINANCIAL ASSISTANCE TO MUNICIPALITIES SHOULD BE UTILIZED. THE NUMBER ONE PRIORITY IDENTIFIED BY MY CONSTITUENTS WAS PROPERTY TAX REDUCTION.

THE BILL BEFORE YOU TODAY, SENATE BILL 690, WOULD ESTABLISH A PROGRAM TO PROVIDE REFUNDABLE TAX CREDITS DIRECTLY TO HOMEOWNERS, RENTERS, AND MOBILE HOME DWELLERS FOR A PORTION OF PROPERTY TAXES PAID EITHER DIRECTLY OR THROUGH RENT. I WOULD LIKE TO GIVE YOU A BRIEF OVERVIEW OF MY BILL AND WHAT IT WOULD MEAN TO LOCAL TAXPAYERS, AND I WILL TRY TO ANSWER ANY QUESTIONS YOU MAY HAVE. I ALSO NOTE THAT TED BERNS IS WITH US TODAY. TED IS SERVING AS A CONSULTANT TO THE SPECIAL COMMITTEE ON PROPERTY TAXATION AND HAS DONE A CONSIDERABLE AMOUNT OF RESEARCH CONCERNING LOCAL TAXATION AND TAX RELIEF LEGISLATION. I WOULD HOPE THAT THE COMMITTEE WOULD ASK MR. BERNS FOR HIS ANALYSIS OF THIS BILL AND FOR ANY COMMENTS HE MAY HAVE.

BRIEFLY, THE BILL WOULD ALLOW HOMEOWNERS, RENTERS, AND MOBILE HOME DWELLERS TO FILE A RETURN WITH THE STATE AND TO RECEIVE A REBATE OR REFUNDABLE CREDIT FOR UP TO FIFTY PER CENT OF LOCAL PROPERTY TAXES PAID ON THEIR PRINCIPLE PLACE OF RESIDENCE. THE MAXIMUM AMOUNT OF CREDIT THAT COULD BE CLAIMED WOULD BE LIMITED TO \$300. FOR A MARRIED COUPLE OR A PERSON WHO PAID ALL OF THE TAXES OR RENT ON THEIR DWELLING AND \$150. FOR PERSONS WHO SHARED RENT OR PROPERTY TAX PAYMENTS. FOR RENTERS, INCLUDING SPACE RENT FOR MOBILE HOMES, A TAX EQUIVALENCY FORMULA WOULD BE USED TO ESTIMATE TAXES PAID THROUGH RENT, AND THIS FORMULA WOULD DETERMINE THE ALLOWABLE CREDIT. I MIGHT ADD THAT THIS IS ESSENTIALLY THE SAME APPROACH NOW USED FOR THE SENIOR CITIZEN RENTER'S TAX RELIEF PROGRAM ADMINISTERED BY THE DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS.

TO GIVE YOU AN EXAMPLE OF HOW THE PROGRAM WOULD WORK, A FAMILY IN ANCHORAGE PAYING TAXES ON A HOME VALUED AT \$100,000 WOULD QUALIFY FOR THE MAXIMUM CREDIT OF \$300.00. A FAMILY RENTING AN APARTMENT IN THE SAME LOCATION FOR \$500. PER MONTH WOULD QUALIFY FOR APPROXIMATELY \$240. IN TAX CREDITS. THE PROGRAM IS INTENDED TO BE ADMINISTERED THROUGH THE DEPARTMENT OF REVENUE IN MUCH THE SAME WAY AS THE PRESENT TAX CREDITS FOR CHILD CARE EXPENSES AND CAMPAIGN CONTRIBUTIONS IS NOW HANDLED.

I WON'T TAKE UP MORE OF YOUR TIME, MR CHAIRMAN, OTHER THAN TO CALL YOUR ATTENTION TO A BRIEF ANALYSIS OF THE BILL WHICH I HAVE ATTACHED TO MY PREPARED REMARKS AND WHICH I WILL LEAVE FOR YOU. I WOULD JUST LIKE TO EMPHASIZE IN CONCLUSION THAT THIS IS A VERY COMPLEX AND DIFFICULT AREA TO ADDRESS. THE BILL BEFORE YOU REPRESENTS MY BEST EFFORTS TO DESIGN A PROGRAM THAT IS EFFECTIVE, FAIR TO BOTH OWNERS AND RENTERS, AND THAT IS RELATIVELY SIMPLE TO ADMINISTER. I HAVE NO PRIDE OF AUTHORSHIP AND I ENCOURAGE YOU TO WORK ON THE BILL TO HOPEFULLY IMPROVE IT. I DO FEEL STRONGLY THAT THERE SHOULD BE A PLACE IN OUR MANY PROGRAMS FOR ASSISTING MUNICIPALITIES TO PROVIDE SOME REASONABLE AMOUNT OF DIRECT PROPERTY TAX RELIEF TO INDIVIDUAL ALASKANS TO USE AS THEY SEE FIT. BY PROVIDING THESE TAX RELIEF BENEFITS DIRECTLY TO HOMEOWNERS AND RENTERS, WE GIVE THE INDIVIDUAL SOME CHOICE ON HOW TO USE THESE BENEFITS - WHETHER TO ASK THEIR ASSEMBLEYS AND COUNCILS FOR INCREASED SERVICES, AND HIGHER TAXES, OR WHETHER TO HOLD DOWN GOVERNMENT COSTS AND ENJOY REDUCED TAX BURDENS.

I'M NOT SAYING THAT MY BILL SHOULD BE THE ONLY, OR EVEN THE MAJOR, FORM OF LOCAL FINANCIAL ASSISTANCE - BUT I BELIEVE THAT IT COULD PLAY A VALUABLE PART IN SUCH PROGRAMS.

THANK YOU FOR YOUR TIME AND ATTENTION.