HB

272

DOCUMENT TEXT

HOUSE FINANCE COMMITTEE
May 3, 1988
3:00 p.m.

(Tape HFC 88-75, Side 1, #000-end)

CALL TO ORDER

Chairman Adams called the meeting of the House Finance Committee to order at 3:00 p.m.

PRESENT

All members of the Committee were present. ALSO PRESENT: Senator Sturgulewski; Senator Coghill; Senator Uehling; Senator Fahrenkamp; Senator Rodey; Charles Logsdon, Petroleum Economist, Department of Revenue; Commissioner Mark Hickey, Department of Transportation and Public Facilities; Randy Simmons, Deputy Commissioner, Department of Transportation and Public Facilities; Commissioner Hoffman, Department of Community and Regional Affairs; Ron Lehr, Executive Director, Alaska Housing Finance Corporation; Jay Hogan, Associate Director, Budget Review, Office of Management and Budget; Dove Kull, Legislative Chairman, Older Alaskans Commission; Charles Christensen, Aide to Senator President Faiks; Commissioner Munson, Department of Health and Social Services; Ann Plunkett, Aide to Senator Rodey; Tom Begich, Aide to

Representative Gruenberg; Steve Hole, Deputy Commissioner, Department of Education; and Steve Kettel, Director, Income and Excise Tax Audit Division, Department of Revenue.

SUMMARY INFORMATION

HCR 53 "Relating to the implementation of local hire through improved cooperation between employers and schools."
Bill HELD in Committee.

SCR 57am "Relating to the implementation of local hire through improved cooperation between employers and schools."
Bill reported out of Committee with a "do pass" recommendation and fiscal note dated 4/28/88 by the Senate Finance Committee in the amount of $25.0.

SB 79 "An Act relating to runaway and missing minors."
Bill HELD in Committee.

SB 102 "An Act relating to reports of missing persons; and creating a missing persons information clearinghouse."

Finance Committee Substitute reported out of Committee with a "do pass" recommendation and a fiscal note dated 3/7/88 by the Department of Commerce and Economic Development in the amount of $300.0.

HB 557 "An Act relating to an exemption of deferral from municipal taxation for economic development property; and providing for an effective date."
Finance Committee Substitute reported out of Committee "without" recommendation and with a zero fiscal note dated 4/14/88 by the Department of Community and Regional Affairs.

REVENUES

Chairman Adams asked DR. CHARLES LOGSDON, PETROLEUM ECONOMIST, DEPARTMENT OF REVENUE, the estimates for the price of oil for the balance of the fiscal year and projections for FY 89. Mr. Logsdon believed that the revenue estimate of $2174.1 billion for FY 88 would be quite consistent with what is currently happening in the market. Mr. Logsdon said Standard announced a $16.25 per barrel price effective April 1 for Gulf Coast delivery for North Slope crude. He said the spot price for April averaged $15.75. It was Mr. Logsdon's opinion that it would be tenuous to assume that all the companies sold their

402 (Finance) with individual recommendations and the fiscal note dated 4/20/88 by the Department of Commerce and Economic Development. There being NO OBJECTION, it was so ordered.

CS HB 402 (Finance) was reported out of Committee "without" recommendation and with a fiscal note dated 4/20/88 by the Department of Commerce and Economic Development.

hb 557

HOUSE BILL NO. 557

"An Act relating to an exemption of deferral from municipal taxation for economic development property; and providing for an effective date."

Chairman Adams advised members that the Joint Economic Recovery Committee sponsored the legislation. There is a zero fiscal note. The bill would allow municipalities to exempt or delay taxation on economic development property for a period of five years if the property creates new employment by generating sales in municipalities or by reducing the need to import goods and services to municipalities.

TOM BEGICH, LEGISLATIVE ASST'TANT, advised members that the legislation was originally p posed by the Anchorage Economic Development Corporation. The oint Economic Recovery Committee reviewed the proposal and restructured the language

for introduction. He said the bill is supported by the Department of Community and Regional Affairs, Juneau Economic Development Council, Municipal League, and Fairbanks North Star Borough. The bill would allow local governments to exempt or defer, by ordinance, taxation of economic development property. The exemption could not exceed five years. The governing body would have to establish specific eligibility requirements for the exemptions or deferrals. Applications would have to be submitted for each project requesting exemption. Public hearing would be required prior to approval by a governing body. A request would be denied if it created an unreasonable competitive advantage within the local government's jurisdiction. Mr. Begich described the definitions for economic development property.

There was discussion concerning the types of organizations or businesses which might qualify for an exemption.

(Tape change, Side 2)

Representative Brown said the question is whether member's feel incentives are needed to attract new business to municipalities. She said there were mixed feelings by the Economic Recovery Committee although they agreed to introducing the legislation to get the concept on the "table". She questioned whether the legislation would provide the best approach in promoting development. Representative Larson discussed a survey completed several years ago which indicated

that taxes were not the incentive for location of a business within a municipality.

Representative Boyer believed the language nebulous and could provide an opportunity for a business to be placed out of business due to an unfair competitive advantage. He referenced page 1, line 20 and suggested the language be changed to read, "The governing body may not grant an exemption or deferral under this subsection if it finds that the exemption or deferral would result in a competitive disadvantage to other businesses in the municipality." He said this would shift the burden tot the governmental entity to make a finding that there is no competitive disadvantage.

Representative Boyer MOVED to adopt the change in language.

Representative Pourchot suggested an amendment to the amendment to read, "The governing body may not provide an exemption or deferral under this subsection if the exemption or deferral would result in a competitive disadvantage to other businesses in the municipality." Representative Pourchot MOVED to AMEND the MOTION as stated. There being NO OBJECTION TO THE AMENDMENT TO THE AMENDMENT, it was so ordered. There being NO OBJECTION TO THE MAIN MOTION, it was ordered.

Representative Boyer MOVED to report out of Committee CS HB 557 (Finance) with a zero fiscal note and individual recommendations. There being NO OBJECTION, it was so ordered.

CS HB 557 (Finance) was reported out of Committee "without" recommendation with a zero fiscal note dated 4/14/88 by the Department of Community and Regional Affairs.

sb 329

SENATE BILL NO. 329

"An Act relating to the transfer of business licensing functions to the Department of Revenue to the Department of Commerce and Economic Development, and providing for an effective date."

Representative Pourchot MOVED AND ASKED UNANIMOUS CONSENT to report out of committee SB 329 with a zero fiscal note and individual recommendations. There being NO OBJECTION, it was so ordered.

SB 329 was reported out of Committee with a "do pass" recommendation and a zero fiscal note dated 1/8/88 by the Department of Commerce and Economic Development.

hb 463

HOUSE BILL NO. 463

"An Act making a special appropriation to the Department of Education for grants to school districts and regional

State of Alaska

Committees

CO-CHAIR, HOUSE JUDICIARY
VICE-CHAIR, HOUSE LABOR AND COMMERCE
HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4712
465-4968/4986
(SESSION)

914 CLAY COURT
ANCHORAGE, ALASKA 99503
(907) 276-6844

Representative Max F. Gruenberg, Jr.
District 11
Spenard, Upper Midtown Anchorage

April 12, 1989

MEMORANDUM

TO: Eileen MacLean

FROM: Representative Max Gruenberg

RE: Scheduling of HB 272

HB 272 is currently in your committee. The bill provides a mechanism for municipalities to grant limited municipal property tax exemptions for new job-creating busineses.

The bill specifically requires that no proeprty can be taken off the tax tolls, and limits any exemptions to five years. A similar bill, HB 557, resided in the House Rules Committee at the close of the Fifteenth Legislature.

Legislation of this nature is strongly supported by municipalities and business development groups across the state. I hope you will be able to schedule HB 272 next week. Thank you for your consideration.

Alaska State Legislature

House of Representatives
Community & Regional Affairs

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HOUSE BILL 272

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Room 128, Capitol Building, P.O. Box V, Juneau, Alaska 99811 (907) 465-3882 or 465-4833

State of Alaska

Committees

CO-CHAIR, HOUSE JUDICIARY
VICE-CHAIR, HOUSE LABOR AND COMMERCE
HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES

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JUNEAU, ALASKA 99811
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914 CLAY COURT
ANCHORAGE, ALASKA 99503
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Representative Max F. Gruenberg, Jr.
District 11
Spenard, Upper Midtown Anchorage

April 17, 1989

MEMORANDUM

TO: Representative Eileen MacLean, Chair,
Representatives Bette Cato, Richard Foster,
Fritz Pettyjohn and Cheri Davis,
House Committee on Community and Regional Affairs

FROM: Representative Max Gruenberg

RE: HB 272

House Bill 272 is presently in your committee. I sponsored the bill, which provides authority for municipalities to grant limited municipal property tax exemptions or deferrals.

The legislation enables municipalities to provide limited tax incentives to businesses that create new jobs or jobs in "primary industry," or which reduce importation of goods and services from outside the municipality.

Tax incentives of this type are a common tool used in many states to encourage business development. The legislation is necessary for Alaska's cities to compete on an equal basis with other states for new business. Within the State, tax competition among municipalities for existing Alaska businesses will be prevented by the requirement that the property to be exempted or deferred may not be currently in use in another municipality.

The bill specifically requires that no property can be taken off the tax rolls, and limits any exemptions or deferral to five years. A similar bill, HB 557, died in the House Rules Committee at the close of the Fifteenth Legislature. SB 267, introduced this year by the Senate Special Committee on Banking and Economic Development, is also similar.

HB 272 is enabling legislation only. It mandates full local control over the exemptions and deferrals, and requires that a

municipal ordinance, which can only be adopted after a full public hearing, set out the terms on which exemptions will be granted.

Legislation of this nature is strongly supported by municipalities and business development groups across the state as well as by the Department of Commerce and the Department of Community and Regional Affairs. Support of this bill can be a statement of your determination to provide the types of incentives necessary to encourage sound private enterprise development in Alaska. I hope each of you will give the bill favorable recommendation. If you have any questions, please contact me or Andy Hemenway of my staff at 465-4968. Thank you for your consideration of this measure.

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: HB 272
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act..optional exemption.. deferral of payment, municipal taxes."
Sponsor: Rep Gruenberg, Elli[illegible], Larson & Zawacki
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Jim Plasman

Prepared by: Jim Plasman, Deputy Director
Phone: 465-4750
Division: Municipal & Regional Assistance
Date: 4/14/88

Approved by Commissioner: Ramond Hamilton By Designation
Date: 4/14/89
Agency: Community & Regional Affairs

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Department of Commerce & Economic Development / POSITION PAPER

HB 272: Amendment to municipal taxing authority.

A similar bill introduced late in the last session as HB 557 did not get passed out of the House Rules Committee. Only minor wording changes were made prior to introduction of the current version.

HB 272 would extend the authority of municipalities to include tax exemptions and deferrals for certain types of "economic development" property for periods of up to five years.

From an economic development standpoint, The Department of Commerce and Economic Development supports HB 272. From a public policy standpoint, it may be prudent to allow the municipality an opportunity to set a cap on the dollar amount of the exemption. This cap would establish an amount as an acceptable loss to the tax base for the term of the exemption.

In effect, HB 272 would shift the burden of support for municipal services related to exempted property to the remaining taxpayers of that municipality or, in times of crisis, to the state; we believe that voter approval of the governing ordinance is desirable prior to implementation of policy resultant in such a reallocation of responsibility.

S. M———

Larry Merculieff, Commissioner

Date: 4/14/89

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STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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JUNEAU, ALASKA 99811-2100
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949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
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April 13, 1989

POSITION PAPER

RE: House Bill 272 "An Act relating to an optional exemption from, or deferral of payment of, municipal taxes."

SPONSORS: Representatives Gruenberg, Ellis, Larson and Zawacki

Program Summary

This bill adds a subsection to AS 29.45.050 relating to optional exemptions from local property tax that may be adopted by municipalities. An ordinance adopted under this section would allow municipalities to exempt, partially exempt, or defer from taxation property that is classified as economic development property. In order to qualify for any tax exemption or deferment the property must fulfill certain local eligibility requirements and must create new employment and provide goods or services that are used in, or are exported from, the municipality. Property tax under this subsection may not be exempted or deferred longer than five years.

Comments

The language in HB 272 is consistent with existing statutes, serves a positive public purpose, and provides direction and guidance to municipalities. The primary focus of this bill is to assist municipalities currently seeking ways to encourage economic development. Those activities are fully promoted by this Department, and we support passage of this bill.

David G. Hoffman
Commissioner

21-PILH

four states allow local governments the option of exempting inventories (Alaska, Georgia, Maryland, and Vermont). In Georgia, for example, at least sixty cities or counties exempt inventories. Iowa and South Carolina exempt a portion of all inventories. In South Carolina, the exempt proportion is 17 percent for 1985, 50 percent for 1986, and 100 percent thereafter, except for manufacturing inventories, which are already completely exempt. In North Carolina, inventories are taxable, but a credit is provided when they exceed a certain proportion of a manufacturer's production costs.

Certain other types of business personal property also receive preferential treatment, although they are generally taxed at a higher rate than inventories. The U.S. Census Bureau noted in 1981 that seventeen states had legal provisions for partial exemptions either as to specified types or specified value levels of commercial-industrial personal property. For example, Rhode Island exempts not only manufacturers' inventories but also certain manufacturing machinery and equipment. The states with partial exemptions for noninventory personal property are noted with footnotes in the third column of table 3.

Except for Iowa's exemption, none of these provisions explicitly favors small businesses. However, as the last two columns of table 3 indicate, there are a number of relatively minor exemptions which specify maximum values; these provisions tend to help small businesses relatively more than larger ones. These exemptions are typically for worker's or craftman's tools or a fisherman's equipment.

To summarize, personal property tends to be treated considerably better than real property, and inventories are treated better than other kinds of personal property. This implies that, other things being equal, companies with a high ratio of personal to real property have lower effective property tax rates than other companies, especially if the personal property is in the form of inventories.

Other property tax practices

Many states have statutes granting abatements or exemptions to firms making investments to build new facilities or expand existing ones. In some cases these provisions are just for machinery but in other cases they apply to plant as well as machinery. These measures rarely if ever make reference to the size of a business, although in a few cases they specify maximum or minimum levels of benefits or investment. Only one abatement program mentioned in a major compendium of state development incentives placed a limit on the benefits from the program. Illinois' industrial abatement program can save a company no more than $1 million over a ten-year period. On the other hand, at least two states set a minimum on the investment needed to qualify for their abatement programs. A South Carolina five-year abatement of county taxes requires that manufacturers invest at least $50,000, and a South Dakota program stipulates that the investment must be at least $30,000. Such minimum levels may prevent some small businesses from benefiting from the programs.

Tables 4 and 5 summarize these abatements and exemptions. The programs listed in table 4 generally exempt new investment, sometimes within specific geographic areas, for a limited number of years. The programs in table 5 in eight states apply primarily to machinery and involve permanent exemptions. In some cases,

Table 4

Property Tax Abatements for New or Expanding Facilities

Alabama	Up to ten years; does not apply to school taxes.
Arkansas	All leasehold interests in a facility financed by Industrial Revenue Bonds.
Connecticut	Manufacturing: 80 percent for five years in Urban Enterprise Zone or Urban Jobs Program. Commercial/retail: seven years, deferral of increased assessment resulting from improvements.
Florida	Up to ten years.
Georgia	No increase in assessment for up to seven years due to urban redevelopment, rehabilitation, or conservation project.
Illinois	Industrial: exemption up to ten years and up to $1,000,000 of taxes.
Indiana	Industrial development area: up to ten years, assessment phased in over period.
Iowa	Five-year exemption, with assessment phased in over period, manufacturing; self-help areas: either 100 percent exemption for three years or partial exemption for ten years.
Louisiana	Up to ten years.
Maryland	Enterprise zone: 80 percent exemption.
Massachusetts	Property of economic development corporations exempt up to seven years.
Michigan	Fifty percent exemption up to twelve years.
Mississippi	Exemption up to ten years, except for school taxes; new structures or improvements in Central Business District of city with 45,000 or greater population exempt up to seven years.
Missouri	Twenty-five-year exemption in urban redevelopment areas (100 percent for ten years, then 50 percent).
Montana	Fifty percent exemption for five years, then phased out over next five years; manufacturing only.
New York	New York City: Twenty-year exemption, phasing down from 95 percent to 5 percent. Rest of state: ten-year exemption, phasing down from 50 percent to 5 percent.
Pennsylvania	Improvements to deteriorated property exempted up to ten years.
Rhode Island	Up to ten years.
South Carolina	Manufacturing five-year exemption, county taxes only; minimum investment, $50,000.
South Dakota	Five-year exemption, with assessment phased in over period; minimum investment, $30,000.
Virginia	Ten-year exemption for rehabilitated property.

Source: National Association of State Development Agencies, National Council for Urban Economic Development, and the Urban Institute. 1983. *Directory of incentives for business investment and development in the United States*. Washington, DC: The Urban Institute.

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

April 13, 1989

The Honorable Max Gruenberg
House of Representatives
PO Box V
Juneau, AK 99811

Dear Representative Gruenberg:

On behalf of the Anchorage Economic Development Corporation, I would like to express our strong support of HB 272 which allows municipalities to reduce or defer taxes on "economic development property" for up to five years. Economic incentive legislation like HB 272 has been passed in many states already, and will greatly aid Alaskan communities in attracting new businesses to their areas. This bill will be a first step in developing the tools necessary to compete with communities outside who offer a variety of incentives.

We appreciate it that HB 272 will grant municipalities the authority to decide on a case-by-case basis whether to offer a tax advantage to those business ventures meeting the conditions set forth in the bill.

Max, AEDC is willing to do whatever is necessary to ensure swift passage of this bill. Please call on us at any time.

Sincerely,

CC for Scott E. Hawkins

Scott E. Hawkins
President

550 West 7th Avenue
Suite 1130
Anchorage, AK 99501
Telephone (907) 258-3700
FAX (907) 258-6646

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

A SYNOPSIS

OF SEVEN INDUSTRY INCENTIVE PROPOSALS

FOR SUBMISSION TO

THE 1989 ALASKA LEGISLATURE

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

PROPERTY TAX ABATEMENT AUTHORITY

Purpose: This bill would give local governments the authority to offer partial and temporary property tax reductions on new buildings, leasehold improvements, equipment and inventories on new, basic industry investments. A local government may choose not to offer this incentive, but the proposed bill would give those that do wish to offer it the legal authority to do so.

Need: This is one of the most common incentives offered by U.S. cities and counties today. A 1987 survey of 322 cities showed that nearly 40 percent of all cities offer tax abatement and that nearly 45 percent plan to do so in the future. Alaska's boroughs and municipalities must begin to enter the competitive global arena for new jobs.

Structure: The proposed enabling legislation would require case-by-case local assembly approval, and would require that the new investment be one that expands the economy rather than simply intensifies competition for local markets. The maximum allowed abatement would be 50 percent, for a maximum period of five years.

Cost: This incentive would not apply to existing taxable property, only to new investments. Consequently, existing local revenue would not be impacted. New property tax revenue resulting from new basic industry investment would be temporarily impacted, but this incentive's role as a marketing tool will result in more private investment than would otherwise occur. Over time, this will result in a stronger tax base and more local revenue.

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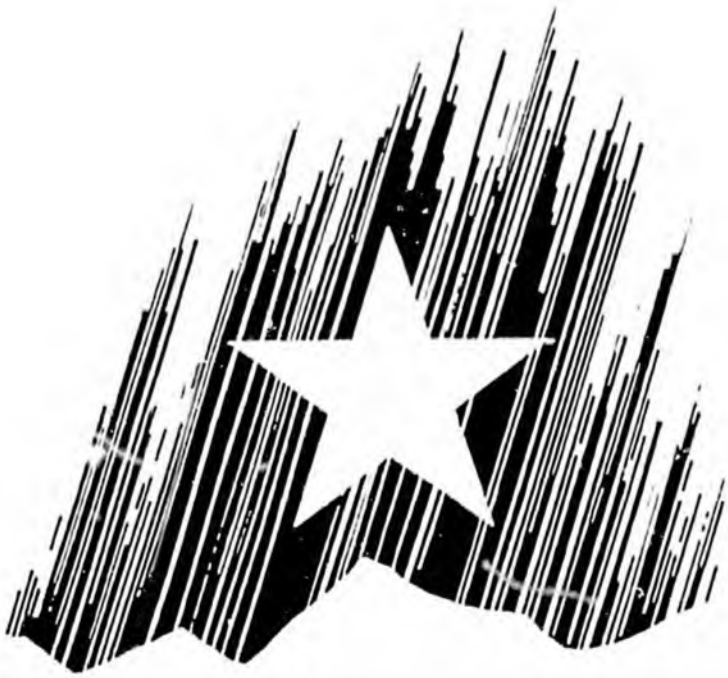

Anchorage • *Star of the North*
Chamber of Commerce

1989 Legislative Priorities

Without such a plan, any measures to resolve the current budgetary dilemma will have only temporary effect. Further, once new revenue sources are identified, State spending will return unchecked to prior levels, eliminating the possibility for improved fiscal management.

The corpus of the Permanent Fund must not be used to cure revenue shortfalls. The Chamber supports the concept of amending the constitution to provide for a 40/30/30 allocation of the Permanent Fund earnings. Further, the Chamber supports constitutional amendments imposing limitations on the level of State spending.

2. Economic Development

Legislation should be proposed that would provide incentives that would foster economic development.

A) Taxes. The tax policy of the State should remain stable and manageable,, and not be subject to the political pressure of resolving revenue shortfalls. The Legislature should not yield to the proposals for a personal income tax, state sales taxes, or increased motor fuels taxes which negates the benefit of economic development incentives. The Legislature should not, under any forseeable circumstances, impose increased taxes on any segment of our depressed economy. This would include the repeal or revision of the ELF (Economic Limit Factor) relative to the oil industry. Furthermore, departure from the unitary tax methodology would result in greater incentive to economic development.

B) Economic Incentives. The adoption of an Economic Incentives Policy is overdue and should be given high priority in 1989. We recommend that a policy be enacted immediately to encourage the establishment and development of basic industry. This policy should follow the recommendations of the Anchorage Economic Development Corporation.

These incentives would be provided to qualifying businesses that serve to expand Alaska's economic base. These incentives should be flexible and existing statutory hindrance must be removed.

Alaska Municipal League

Policy Statement

1989

Adopted at the Business Meeting
of the 38th Annual Local Government Conference
of the
ALASKA MUNICIPAL LEAGUE
Fairbanks, Alaska
November 18, 1988

Because a sales tax must be approved by the voters before it may be implemented, there should be no statutory limit on the rate of sales tax a municipality may impose. If the voters in a municipality desire to tax themselves at a rate higher than the 6 percent currently authorized by statute, they should be permitted to do so.

8. Tax Liability for Certain State Agency Properties: **The League supports legislation to require payment of property taxes by state agencies for real property owned by the agency for investment purposes or acquired through holding of security interests.**

Agencies of the State and federal government are treated differently as regards local property tax on property obtained through default or foreclosure. AHFC and HUD are two agencies that commit through regulation or legislation to pay local property tax in realization that local services contribute to the value of their property. Farmers Home Administration, Public Employees Retirement System, and Teachers Retirement System are also government agency investors who obtain property through default, but they do not pay local property tax, claiming exemption under AS 29.45.031(a)1. AIDA property does not contribute to local services.

9. Local Manufacture Taxes: **The League endorses legislation that would amend AS 29.45.050(j) to permit a local option exemption from property taxes for inventory used in the in-state manufacture of product. The League also supports a three-to-five-year maximum time period for all such preferential exemptions from property taxation.**

The League recognizes the critical need for permanent jobs and employment stability in local communities. Where property tax incentives are meaningful in attracting manufacturing or value-added industry using the human and natural resources of the State, exemption incentives may be an economic development tool.

This philosophy applies not just to timber but to other natural resource inventories. In any case, adoption of such an incentive should be by ordinance approved by the voters and have specific duration of three to five years, at which time the industry can be proven viable to the extent of sharing the burden with other taxpayers.

10. Optional Exemptions: **The League does not oppose the addition of optional exemptions from property taxation provided the public agrees through a vote of the people and a sunset on the exemption is set in three to five years.**

The League recognizes that expansion of optional exemptions from property taxes involves more than preferential treatment of classes of owners or property. Issues of public benefit, effects on formula funding revenues, changes in tax burden on other property owners, and competitive market influences are a few considerations to be

weighed. As these factors affect the public generally, adoption of local exemption should only be through ordinances approved by the voters. Further, in recognition of changing conditions and public needs, these exemptions should only be considered with provision of a sunset in three to five years.

11. Real Property Transaction Values: **The League urges that if the Alaska Legislature enacts legislation requiring reporting of real property transaction values, such legislation also require that these reports be shared with the appropriate municipalities.**

Alaska is one of only fourteen states in the country that does not require recording of real property transaction values. The American Bar Association's proposal for sale price reporting, new IRS reporting requirements, and national links of market data to financial institutional failures all make it likely that the State of Alaska will seriously consider or be forced to consider full reporting legislation in some form in the near future. Since municipalities are required to base local property tax on full and true value, it is equally important that any price reporting data be made available to local municipalities if uniformity and equity in assessment are to be maintained.

D. PUBLIC EMPLOYEES RETIREMENT

The League urges that any legislation that increases the cost of the Public Employees Retirement System or the Teachers Retirement System due to increased benefits require the cost to be borne by contributions from the employees. The League urges the Legislature to require fiscal notes to address the impact on each participating municipal employer if any amendments are made to the Public Employees Retirement System and the Teachers Retirement System.

Because municipal employees, including teachers, are members of the Public Employees Retirement System or the Teachers Retirement System, municipalities are affected by changes made by the Legislature to either retirement program. Many times proposals are made to change a retirement system without focusing on the increased cost to municipalities that such changes will cause. Because the municipality has no control over the retirement system and any increase in retirement benefits will decrease funds available for other municipal services, any increase in retirement system costs resulting from legislative action should be borne by the employees who will benefit from the increased retirement benefits. Additionally, in order to assist municipalities and the Legislature in evaluating changes to the retirement systems, fiscal notes accompanying such legislation should include an analysis of the fiscal impact on each of the participating municipalities.

11-15-88

Submitted by: Assemblyman Campbell
Prepared by: Anchorage Economic Development Corp.
For reading: November 15, 1988

ANCHORAGE, ALASKA
AR NO. 88-284

A RESOLUTION OF THE ANCHORAGE ASSEMBLY ENCOURAGING THE ALASKA LEGISLATURE TO ADOPT A BROAD AND RESPONSIBLE ARRAY OF ECONOMIC DEVELOPMENT INCENTIVES TO BE USED BY ALASKA'S COMMUNITIES

WHEREAS, the short and long-term outlook for the Alaska economy remains troublesome due to the impending projected production decline of the Prudhoe Bay oilfield and continued uncertainty in world oil markets; and

WHEREAS, there exists an urgent and pressing need for the communities of Alaska to expand and strengthen their respective basic industries; and

WHEREAS, all Alaska communities possess promotable and developable resources, both natural and human; and

WHEREAS, Alaska communities often face short-term economic hurdles that prevent the long-term development of their many and varied resources; and

WHEREAS these hurdles often include underdeveloped economic infrastructure, relatively tough commercial and industrial utility rates, the limited availability and high cost of trained labor in many occupations, and underdeveloped capital markets; and

WHEREAS, it is in the public interest for Alaska's local and state governments to take positive steps toward lowering those and other hurdles by offering a responsible and broad array of incentives for "basic industry" investment; and

WHEREAS, the use of such tools has been shown by Alaskan and non-Alaskan communities alike to be both effective and in the public interest;

NOW, THEREFORE, the Anchorage Municipal Assembly resolves:

Section 1: That the Assembly encourages the Legislature to enact laws that will create for the use of local governments, a broad, flexible and responsible array of incentives designed to induce new private investment in basic industry ventures that create net new jobs for the residents of Alaska; and

Section 2: That those incentives should address the issues of underdeveloped economic infrastructure, relatively high

commercial and industrial utility rates, the limited availability and high cost of trained labor in many occupations, and underdeveloped local capital markets.

PASSED AND APPROVED by the Anchorage Assembly this 15th day of November, 1988.

Chairman

ATTEST:

Municipal Clerk

DOCC/AR24

FAIRBANKS INDUSTRIAL DEVELOPMENT CORPORATION

520 5TH AVENUE
SUITE 410
FAIRBANKS, ALASKA 99701
(907) 452-2185

April 14, 1989

Andy Hemenway
Office of Rep. Max Gruenberg
Capitol, Room 118
Juneau, Alaska 99811

RE: H.B. 272

Dear Mr. Hemenway:

This will acknowledge your advice that the above referenced bill relating to optional exemption from local taxes has now been filed in the House of Representatives.

The Board of Directors of Fairbanks Industrial Development Corporation (which is inclusive of a broad cross-section of our community leadership, including both City and Borough mayors) is supportive of this proposed legislation. We believe that temporary tax exemption is an important incentive which will materially enhance our ability to put together competitive proposals for new industry start-up.

Partial and temporary tax exemption is a commonly utilized tool to support operating margins until the company's income stream builds to the point where the tax relief is no longer necessary. In this time of economic distress, Alaska municipalities need all the help they can get to attract new industry, and this authority will be a positive addition to our list of economic incentive options.

The principal objective of FIDC is to obtain 1,000 new jobs in the Fairbanks area within the next five years. Attainment of this objective, even in part, will greatly exceed the negative effect in temporarily foregoing a property tax assessment.

We appreciate the efforts of Rep. Gruenberg and others in leading this effort.

Yours very truly,

Ronald L. Ricketts
Executive Director

RR:cp

Chapter 41. Powers of Third Class Boroughs.

[Repealed, § 88 ch 74 SLA 1985.]

Chapter 43. Powers of Cities Outside Boroughs.

[Repealed, § 88 ch 74 SLA 1985.]

Chapter 45. Municipal Taxation.

Article
1. Municipal Property Tax (§§ 29.45.010 — 29.45.250)
2. Enforcement of Tax Liens (§§ 29.45.290 — 29.45.500)
3. City Property Tax (§§ 29.45.550 — 29.45.600)
4. Borough Sales and Use Tax (§§ 29.45.650 — 29.45.670)
5. City Sales and Use Taxes (§§ 29.45.700 — 29.45.710)

Article 1. Municipal Property Tax.

Section
10. Property tax
20. Taxpayer notice
30. Required exemptions
40. Property tax equivalency payments
50. Optional exemptions and exclusions
60. Farm or agricultural land
70. Mobile homes
80. Tax on oil and gas production and pipeline property
90. Tax limitation
100. No limitations on taxes to pay bonds
103. Taxation records
105. Errors in taxation procedures
110. Full and true value
120. Returns
130. Independent investigation
140. Violations
150. Reevaluation
160. Assessment roll
170. Assessment notice
180. Corrections
190. Appeal
200. Board of equalization
210. Hearing
220. Supplementary assessment rolls
230. Tax adjustments on property affected by a natural disaster
240. Tax levy and rate
250. Rates of penalty and interest

Sec. 29.45.010. Property tax. (a) A unified municipality may levy a property tax. A borough may levy

(1) an areawide property tax for areawide functions;

(2) a nonareawide property tax for functions limited to the area outside cities;

(3) a property tax in a service area for functions limited to the service area.

(b) A home rule or first class city may levy a property tax subject to AS 29.45.550 — 29.45.560. A second class city may levy a property tax subject to AS 29.45.590.

(c) If a tax is levied on real property or on personal property, the tax must be assessed, levied, and collected as provided in this chapter. (§ 12 ch 74 SLA 1985)

(b) Compliance with the provisions of this section is a prerequisite to receipt of municipal tax resource equalization assistance under AS 29.60.010 — 29.60.080 and state aid for miscellaneous municipal services under AS 29.60.100 — 29.60.180. The department shall withhold annual allocations under those sections until municipal officials demonstrate that the requirements of this section have been met. (§ 12 ch 74 SLA 1985)

Sec. 29.45.030. Required exemptions. (a) The following property is exempt from general taxation:

(1) municipal, state, or federally owned property, except that a private leasehold, contract, or other interest in the property is taxable to the extent of the interest;

(2) household furniture and personal effects of members of a household;

(3) property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes;

(4) property of a nonbusiness organization composed entirely of persons with 90 days or more of active service in the armed forces of the United States whose conditions of service and separation were other than dishonorable, or the property of an auxiliary of that organization;

(5) money on deposit;

(6) the real property of certain residents of the state to the extent and subject to the conditions provided in (e) of this section;

(7) real property or an interest in real property that is exempt from taxation under 43 U.S.C. 1620(d), as amended.

(b) In (a) of this section, "property used exclusively for religious purposes" includes the following property owned by a religious organization:

(1) the residence of a bishop, pastor, priest, rabbi, minister, or religious order of a recognized religious organization;

(2) a structure, its furniture, and its fixtures used solely for public worship, charitable purposes, religious administrative offices, religious education, or a nonprofit hospital;

(3) lots required by local ordinance for parking near a structure defined in (2) of this subsection.

(c) Property described in (a)(3) or (4) of this section from which income is derived is exempt only if that income is solely from use of the property by nonprofit religious, charitable, hospital, or educational groups. If used by nonprofit educational groups, the property is exempt only if used exclusively for classroom space.

(d) Laws exempting certain property from execution under the Code of Civil Procedure (AS 09) do not exempt the property from taxes levied and collected by municipalities.

Sec. 29.40.180. Violations. The owner of land located in a subdivision may not transfer, sell, offer to sell, or enter into a contract to sell land in a subdivision before a plat of the subdivision has been prepared, approved, filed, and recorded in accordance with this chapter. A person may not file or record a plat or other document depicting subdivided land in a public recorder's office unless the plat or document has been approved by the platting authority. For the violation of a provision of this chapter, a subdivision regulation adopted under this chapter, or a term, condition, or limitation imposed by a platting authority in the exercise of its powers under this chapter, a municipality may by ordinance prescribe a penalty not to exceed a fine of $1,000 and imprisonment for 90 days. (§ 11 ch 74 SLA 1985; am § 6 ch 161 SLA 1988)

Effect of amendments. — The 1988 amendment, effective January 1, 1989, deleted "It is unlawful for" at the beginning of the first and second sentences; and substituted "may not" for "to" and "filed, and recorded" for "and filed" in the first sentence, and "may not file or record" for "to file" in the second sentence.

Chapter 45. Municipal Taxation.

Article
1. Municipal Property Tax (§§ 29.45.050, 29.45.065, 29.45.230)
4. Borough Sales and Use Tax (§ 29.45.650)
5. City Sales and Use Tax (§ 29.45.700)

Article 1. Municipal Property Tax.

Section
50. Optional exemptions and exclusions
65. Assessment of private airports open for public use
230. Tax adjustments on property affected by a natural disaster

Sec. 29.45.030. Required exemptions.

Cross references. — For exemption of electric and telephone cooperatives from local ad valorem taxes, see AS 10.25.540(b).

Sec. 29.45.050. Optional exemptions and exclusions. (a) A municipality may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election. An exclusion or exemption authorized by this section may not exceed the assessed value of $10,000 for any one residence.

(b) A municipality may by ordinance

(1) classify boats and vessels for the purposes of taxation and may establish the assessed valuation of boats and vessels on the basis of their registered or certificated net tonnage;

(2) classify and exempt from taxation

(A) the property of an organization not organized for business or profit-making purposes and used exclusively for community purposes if the income derived from rental of that property does not exceed the actual cost to the owner of the use by the renter;

(B) historic sites, buildings, and monuments;

(C) land of a nonprofit organization used for agricultural purposes if rights to subdivide the land are conveyed to the state and the conveyance includes a covenant restricting use of the land to agricultural purposes only; rights conveyed to the state under this subparagraph may be conveyed by the state only in accordance with AS 38.05.069(c);

(3) exempt personal property from taxation;

(4) exempt business inventories from taxation;

(5) classify as to type and exempt or partially exempt any or all types of motor vehicles from taxation.

(c) The provisions of (a) of this section notwithstanding,

(1) a borough may, by ordinance, adjust its property tax structure in whole or in part to the property tax structure of a city in the borough, including but not limited to, excluding personal property from taxation, establishing exemptions, and extending the redemption period;

(2) a home rule or first class city has the same power to grant exemptions or exclude property from borough taxes that it has as to city taxes if

(A) the exemptions or exclusions have been adopted as to city taxes; and

(B) the city appropriates to the borough sufficient money to equal revenues lost by the borough because of the exemptions or exclusions, the amount to be determined annually by the assembly;

(3) a city in a borough may, by ordinance, adjust its property tax structure in whole or in part to the property tax structure of the borough, including but not limited to exempting or partially exempting property from taxation.

(d) Exemptions or exclusions from property tax that have been granted by a home rule municipality in addition to exemptions authorized or required by law, and that are in effect on September 10, 1972, and not later withdrawn, are not affected by this chapter.

(e) A municipality may by ordinance classify and exempt or partially exempt from taxation privately owned land, wet land and water areas for which a scenic, conservation, or public recreation use easement is granted to a governmental body. To be eligible for a tax exemption, or partial exemption, the easement must be in perpetuity. However, the easement is automatically terminated before an eminent domain taking of fee simple title or less than fee simple title to the property, so that the property owner is compensated at a rate that does not reflect the easement grant.

(f) A municipality may by ordinance exempt from taxation all or part of the increase in assessed value of improvements to real property if an increase in assessed value is directly attributable to alteration of the natural features of the land, or new maintenance, repair, or renovation of an existing structure, and if the alteration, maintenance, repair, or renovation, when completed, enhances the exterior appearance or aesthetic quality of the land or structure. An exemption may not be allowed under this subsection for the construction of an improvement to a structure if the principal purpose of the improvement is to increase the amount of space for occupancy or nonresidential use in the structure or for the alteration of land as a consequence of construction activity. An exemption provided in this subsection may continue for up to four years from the date the improvement is completed, or from the date of approval for the exemption by the local assessor, whichever is later.

(g) A municipality may by ordinance exempt from taxation all or part of the increase in assessed value of improvements to a single-family dwelling if the principal purpose of the improvement is to increase the amount of space for occupancy. An exemption provided in this subsection may continue for up to two years from the date the improvement is completed, or from the date of approval of an application for the exemption by the local assessor, whichever is later.

(h) A municipality may by ordinance partially or wholly exempt land from a tax for fire protection service and fire protection facilities and may levy the tax only on improvements, including personal property affixed to the improvements.

(i) A municipality may by ordinance approved by the voters exempt from taxation the assessed value that exceeds $150,000 of real property owned and occupied as a permanent place of abode by a resident who is

(1) 65 years of age or older;

(2) a disabled veteran; or

(3) at least 60 years old and a widow or widower of a person who qualified for an exemption under (1) or (2) of this subsection.

(j) A municipality may by ordinance approved by the voters exempt real or personal property in a taxing unit used in processing timber after it has been delivered to the processing site from up to 75 percent of the rate of taxes levied on other property in that taxing unit. An ordinance adopted under this subsection may not provide for an exemption that exceeds five years in duration. In this subsection "taxing unit" means a municipality and includes

(1) a service area in a unified municipality or borough;

(2) the entire area outside cities in a borough; and

(3) a differential tax zone in a city.

(k) A municipality may by ordinance approved by the voters exempt from taxation pollution control facilities that meet requirements

of the United States Environmental Protection Agency or the Department of Environmental Conservation. An ordinance adopted under this subsection may not provide for an exemption that exceeds five years in duration.

(*l*) A municipality may by ordinance exempt from taxation an interest, other than record ownership, in real property of an individual residing in the property if the property has been developed, improved, or acquired with federal funds for low-income housing and is owned or managed as low-income housing by the Alaska State Building Authority or a regional housing authority formed under AS 18.55.996. This section does not prohibit a municipality from receiving payments in lieu of taxes authorized under federal law. (§ 12 ch 74 SLA 1985; am § 1 ch 103 SLA 1985; am § 5 ch 70 SLA 1986; am § 1 ch 151 SLA 1988)

Effect of amendments. — The 1988 amendment, effective January 1, 1989, added subsection (*l*).

Sec. 29.45.065. Assessment of private airports open for public use. (a) A municipality may provide by ordinance that airports located on private land and open and available for public use may be assessed at full and true value for airport use and not as if subdivided or used for some other nonairport use. The assessor shall maintain records valuing the land at both full and true value and airport use value. If the land is sold, leased, or otherwise disposed of for uses incompatible with airport use by the public or if the owner converts the land to a use incompatible with airport use by the public, the owner is liable to pay an amount equal to the additional tax at the current mill levy together with eight percent interest from the time of the incompatibility, as if the land had not been assessed for airport use. Payment of the additional tax and interest shall be made to the municipality.

(b) To secure the assessment under this section, the owner of the airport shall show that the airport is on private land, is open and available for public use, and is of benefit to the public or municipality. The owner shall apply to the assessor before May 15 of each year that the assessment is desired on forms to be prescribed by the municipality for use of the local assessor and shall include information reasonably required to determine the entitlement of the applicant. If the land is leased for airport purposes, the applicant shall furnish the assessor with a copy of the lease bearing the signature of both the lessee and lessor for the period that the exemption is requested.

(c) In this section, "airport" means an area of land or water that is used for the landing, takeoff, movement, or parking of aircraft, and the appurtenant areas that are used for airport buildings or other

HOUSE COMMITTEE REPORT

(5)
Date Referred: April 5, 1989 FURTHER REFERRALS: LABOR & COMMERCE

Date of Committee Action: 4/27/89

The COMMUNITY & REGIONAL AFFAIRS Committee considered: HB 272

HOUSE BILL NO. 272 [MUNICIPAL TAX EXEMPTION OR DEFERRAL]
"An Act relating to an optional exemption from, or deferral of payment of, municipal taxes."

RECOMMENDATIONS:
[✓] be replaced with CS HB 272 C+RA [✓] the same title
[ ] a new title
[ ] have attached amendment(s)
[ ] do pass
[ ] do not pass
[ ] no recommendation
[ ] individual recommendations
[ ] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)
[ ] fiscal impact _____
[✓] zero fiscal note C+RA
[ ] zero with analysis _____

APPROVES PREVIOUS: (Date/Dept)
[ ] fiscal note(s) _____
[ ] zero fiscal note(s) _____
[ ] zero fn/analysis _____

SIGNING DO PASS:

Richard Davis
Kelly Davis
Eileen P Maclean

SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend

Eileen S. Maclean
Chairman's Signature

6-0951E
Cook
4/27/89

Original sponsors: Gruenberg, Ellis, Larson, et al.

Passed

IN THE HOUSE

CS FOR HOUSE BILL NO. 272 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to optional exemptions from, or deferral of payment of, municipal taxes."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.45.050 is amended by adding new subsections to read:

(m) A municipality may by ordinance partially or totally exempt all or some types of economic development property from taxation for up to five years. A municipality may by ordinance permit deferral of payment of taxes on all or some types of economic development property for up to five years. An ordinance adopted under this subsection must include specific eligibility requirements and require a written application for each exemption or deferral. In this subsection "economic development property" means real or personal property that

(1) has not previously been taxed by the municipality;

(2) is used in a trade or business in a way that

(A) creates employment in the municipality;

(B) generates sales outside of the municipality of goods or services produced in the municipality; or

(C) materially reduces the importation of goods or services from outside the municipality; and

(3) has not been used in the same trade or business in another municipality for at least six months before the application for deferral or exemption is filed; this paragraph does not apply to inventories.

(n) A municipality may by ordinance classify as to type

inventories intended for export outside the state and partially or totally exempt all or some types of those inventories from taxation. The ordinance may provide for different levels of exemption for different classifications of inventories. An ordinance adopted under this subsection must include specific eligibility requirements and require a written application for each exemption.

6-0951E
Cook
4/27/89

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IN THE HOUSE

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STATE OF ALASKA
THE LEGISLATURE

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LEGISLATIVE AFFAIRS AGENCY

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Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House C+ED - dated April 20, 1988