

SB

4

HFIN

FILE

Alaska State Legislature

SENATOR
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Senate

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Senate District Q

House CS for CS for SB 4(CRA) "An act relating to an optional exemption from municipal property taxes on residential property owned and occupied by certain volunteers who provide fire fighting or emergency medical services; and providing for an effective date."

Sponsor: Senator Gene Therriault

Sponsor Statement

House CS for CSSB 4 (CRA) allows municipalities to offer a residential property tax exemption for up to \$10,000 of the assessed value of a residence owned and occupied by a resident who provides fire fighting services and is certified by the Department of Public Safety or provides emergency medical services and is certified under AS 18.08.082. Not more than two exemptions may be granted per residence.

Earlier versions of SB 4 allowed local governments to lower property taxes for homeowners by increasing the residential property tax exemption from \$10,000 to \$15,000. Under current law, municipalities may exempt up to \$10,000 of the assessed value of any single residential property. For example, if a house has an assessed value of \$100,000, the municipality would assess taxes on \$90,000. Five municipalities offer this exemption: Kenai, Bristol Bay, the Fairbanks North Star Borough, the North Slope Borough and Valdez. The \$5,000 increase would have been the first such adjustment to the property tax exemption since 1974, and as is currently the case, would be optional and up to the discretion of local taxing authorities.

The provision allowing the \$5,000 increase was removed by the House Community & Regional Affairs Committee. C&RA removed the tax exemption increase because the Senate version provided a safety valve that precludes any community with bonded indebtedness of more than \$15,000 per capita from offering the additional \$5,000 exemption. Currently the only community that would be subject to this exclusion is the North Slope Borough, which carried a bond debt in 2000 of more than \$64,000 per capita, while the state average was less than \$2,000 per capita. The special provision regarding the level of bonded indebtedness was implemented to prevent a possible \$11 million fiscal loss to the state if taxes in the oil rich borough were shifted from residential property to oil and gas property.

Under AS 43.56, the state imposes a 20-mill tax on oil and gas property. If the municipality also has a property tax, the owner of oil and gas property is allowed a credit for any local taxes before paying the state tax. The Senate version of SB 4 addressed the concern that the municipality would offer the residential exemption, then increase the mill rate to recapture the entire value. While residents would see no net change, the municipality would take in significantly more from oil and gas property at the expense of the state.

Effect on Oil Gas Property Tax (AS 43.56) Revenues
from Using Higher Mill Rates to Recoup the Effect of Certain
Property Tax Exemptions

Current Fiscal Note Method

	Total Assessed Value	Value of \$10,000 Exemption	Current Tax Base	Current Mill Rate	Current Total Revenue	Estimated Value of Proposed Exemption	Estimated Tax Base with Proposed Exemption	Estimated Millage Required to Produce Same Revenue	Estimated Additional Millage Required to Produce Same Revenue	AS 43.56 Tax Base	Effect on AS 43.56 Collections from New Millage
	A	B	C=A-B	D	E=C*D	F=B*increase	G=A-F	H=G/E	I=D-H	J	K=I*J
	(\$)	(\$)	(\$)	Mills as %	(\$)	(\$)	(\$)	Mills as %	Mills as %	(\$)	(\$)
SB 4											
Frbnks/North Star	3,990,831,413	131,867,010	3,858,964,403	1.554%	59,979,884	197,800,515	3,793,030,898	1.5813%	0.0270%	277,581,520	74,997
Kenai Peninsula	3,683,477,677	98,651,900	3,584,825,777	0.950%	34,055,845	147,977,850	3,535,499,827	0.9633%	0.0133%	601,141,730	79,676
North Slope	10,484,384,201	2,370,000	10,482,014,201	1.889%	198,005,248	3,555,000	10,480,829,201	1.8892%	0.0002%	10,218,090,950	21,824
Valdez	956,139,767	8,970,280	947,169,487	2.000%	18,943,390	13,455,420	942,684,347	2.0095%	0.0055%	653,820,650	62,215
Total						increase=1.5					238,712

Effect without North Slope Borough 216,888

	Total Assessed Value	Value of \$10,000 Exemption	Current Tax Base	Current Mill Rate	Current Total Revenue	Estimated Value of Proposed Exemption	Estimated Tax Base with Proposed Exemption	Estimated Millage Required to Produce Same Revenue	Estimated Additional Millage Required to Produce Same Revenue	AS 43.56 Tax Base	Effect on AS 43.56 Collections from New Millage
	A	B	C=A-B	D	E=C*D	F=B*increase	G=A-F	H=G/E	I=D-H	J	K=I*J
	(\$)	(\$)	(\$)	Mills as %	(\$)	(\$)	(\$)	Mills as %	Mills as %	(\$)	(\$)
HB 6											
Frbnks/North Star	3,990,831,413	131,867,010	3,858,964,403	1.554%	59,979,884	527,468,040	3,463,363,373	1.7318%	0.1775%	277,581,520	492,816
Kenai Peninsula	3,683,477,677	98,651,900	3,584,825,777	0.950%	34,055,845	394,607,600	3,288,870,077	1.0355%	0.0855%	601,141,730	513,902
North Slope	10,484,384,201	2,370,000	10,482,014,201	1.889%	198,005,248	9,480,000	10,474,904,201	1.8903%	0.0013%	10,218,090,950	131,015
Valdez	956,139,767	8,970,280	947,169,487	2.000%	18,943,390	35,881,120	920,258,647	2.0585%	0.0585%	653,820,650	382,390
Total						increase=4					1,520,123

Effect without North Slope Borough 1,389,108

Alternative Method

	Current Mill Rate	Amount saved by each homeowner taking exemption	Estimated Value of Proposed Exemption to Homeowner	Estimated Tax Base with Proposed Exemption for a \$100K Home	Estimated Additional Millage Required to Neutralize Effect on owner of \$100K Home	AS 43.56 Tax Base	Effect on AS 43.56 Collections from New Millage
	D	E	F=D*E	G=100K-10K-E	I=F/G	J	K=I*J
	Mills as %	(\$)	(\$)	(\$)	Mills as %	(\$)	(\$)
SB 4							
Frbnks/North Star	1.554%	5,000	78	85,000	0.0914%	277,581,520	253,791
Kenai Peninsula	0.950%	5,000	18	85,000	0.0559%	601,141,730	335,932
North Slope	1.889%	5,000	94	85,000	0.1111%	10,218,090,950	11,354,102
Valdez	2.000%	5,000	100	85,000	0.1176%	653,820,650	769,201
Total							12,713,026

Effect without North Slope Borough 1,358,924

	Current Mill Rate	Amount saved by each homeowner taking exemption	Estimated Value of Proposed Exemption to Homeowner	Estimated Tax Base with Proposed Exemption for a \$100K Home	Estimated Additional Millage Required to Neutralize Effect on owner of \$100K Home	AS 43.56 Tax Base	Effect on AS 43.56 Collections from New Millage
	D	E	F=D*E	G=100K-10K-E	I=F/G	J	K=I*J
	Mills as %	(\$)	(\$)	(\$)	Mills as %	(\$)	(\$)
HB 6							
Frbnks/North Star	1.554%	30,000	466	60,000	0.7772%	277,581,520	2,157,225
Kenai Peninsula	0.950%	30,000	285	60,000	0.4750%	601,141,730	2,855,423
North Slope	1.889%	30,000	567	60,000	0.9445%	10,218,090,950	96,509,869
Valdez	2.000%	30,000	600	60,000	1.0000%	653,820,650	6,538,207
Total							108,060,724 (1)

Effect without North Slope Borough 11,550,855

(1) Limited to State's collection from AS 43.56 of 45 million

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSSB4(2dFIN)
 (S) Publish Date: 4/22/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Municipal Property Tax Exemption BRU: Revenue Operations
 Component: Tax Division
 Sponsor: Senator Therriault
 Requester: Senate Rules Committee Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	(200.0)	(200.0)	(200.0)	(200.0)	(200.0)	(200.0)
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Page 2.

Prepared by: Dan Dickinson, Director Phone 269-1033
 Division: Tax Division Date/Time 4/10/02 1:06 PM
 Approved by: Larry Persily, Deputy Commissioner Date 4/10/2002
 Agency: Department of Revenue

**Department of Revenue
Fiscal Note Explanation for CSSB 4(2d FIN) #5**

April 10, 2002 - Page 2 of 2

This legislation would allow some municipalities to increase – by a vote of the public – the residential property tax exemption from the current \$10,000 per residence to \$15,000 per residence, or 20% in assessed value per residence, whichever is less. This legislation also would allow municipalities to exempt from taxation up to \$5,000 in assessed valuation of real property for each owner and occupant of a residence who serves as a volunteer firefighter or emergency medical services volunteer.

This could have an indirect effect on state revenues if municipalities increase their residential property assessment exemption and then increase their overall mill rate to make up for the lost revenue.

Under AS 43.56, the state imposes a 20-mill tax on oil and gas property in the state. If the municipality in which the oil and gas property is located also has a property tax, the taxpayer is allowed a credit for any local taxes before paying the state tax. For example, assume oil and gas property valued at \$1 million is located in a borough with a 15-mill tax rate. The taxpayer would pay \$15,000 to the locality. When it files its state taxes it has an obligation of \$20,000 (the 20-mill rate), offset by a tax credit of \$15,000, so it would send a check for \$5,000 to the state. Therefore, if the mill rates increase because of this legislation in localities that have extensive oil and gas production property, oil and gas taxpayers will pay more to the localities and less to the state.

The projected \$200,000 annual cost to the state of this legislation assumes that all of the localities that already grant the \$10,000 residential exemption would increase it to \$15,000 and would want to replace all of the revenues they would lose from the increased exemption. The \$200,000 cost also assumes that the municipalities would use an increased mill rate to replace the lost revenues – thereby reducing state oil and gas property tax collections.

The \$200,000 estimate is a maximum.

It also should be noted that we have not included the North Slope Borough in our calculations for this legislation because the borough would be excluded from the option of increasing the property tax exemption above \$10,000 per residence. Sec. 1 of the bill says a municipality may not adopt a property tax exemption in excess of \$10,000 per residence if the municipality has a "level of total bonded indebtedness that equals or exceeds \$15,000 multiplied by the number of residents in the municipality." The North Slope Borough is the only municipality in Alaska that exceeds that limit at this time.