

HB

241

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 9, 2004

FURTHER REFERRALS:

Date of Committee Action: 4/2/04

The FINANCE Committee considered:

HB 241

HOUSE BILL NO. 241

MUNICIPAL PROPERTY TAX EXEMPTION

"An Act relating to optional exemptions from municipal property taxes on residential property."

Recommends it be replaced with HCS or CS for HB 241 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title


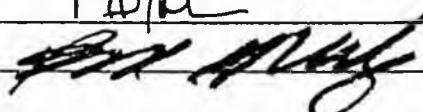
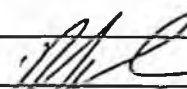
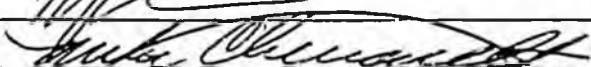
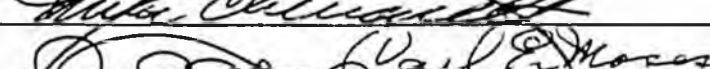

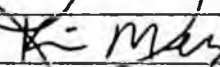
- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- HSS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
REV			✓	

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
CED	2			✓

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Hamber	X			
	STUTES			✓	
	Toule			✓	
	CHEVALIER	X			
	MOSES	X			
	FOSTER	X			
Chair: 	Mayor	X			
Chair:					

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB 241(FIN)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Municipal Property Tax Exemption RDU Revenue Programs & Services
 Component Tax Division
 Sponsor Representative Chenault
 Requester House Finance Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 ()	***	***	***	***	***	***
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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 (FY2004) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*** See page 2 for discussion of possible revenue effects on the state.

Prepared by: Randall Hoffbeck, State Petroleum Property Assessor Phone 269-1029
 Division Tax Division Date/Time 4/23/04 11:52 AM
 Approved by: Steve Porter, Deputy Commissioner Date 4/23/2004
 Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CSHB 241(FIN)

ANALYSIS CONTINUATION

This legislation would allow municipalities to exempt – by a vote of the public – up to \$25,000 in annual assessed valuation of each parcel of residential property. In addition it would allow a \$10,000 exemption for the residence of a law enforcement officer in an "eligible area". Currently the optional residential exemption is capped at \$10,000. This legislation also extends the deteriorated property exemption from 5 years to 10 years and extends the exemption to include demolition and removal of the improvements.

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.

Analysis:

Assuming all municipalities with oil and gas property took advantage of the provision in this legislation and adopted a \$25,000 exemption for residential property owners plus a \$10,000 law enforcement officer exemption, and assuming every affected municipality raised its property tax mill rate to fully recover the revenue loss from the lower assessment valuation on residential property, then there would be some annual revenue loss to the state.

The extension of the deteriorated property exemption is not expected to have an additional fiscal impact on the state.

However:

It is unknown which, if any, municipalities would adopt the higher exemption rate, if adopted, whether they would allow the maximum exemption, and if the municipalities would attempt to recover all lost revenue by increasing the mill rate.

Therefore the Department of Revenue cannot accurately project what effect this legislation would have on state property tax revenues. See attached spreadsheet for further analysis.

**HB 241- Residential \$25,000 Exemption.
Estimated Effects with No Other Revenue Source**

		Residential Property Value	Mill Rates	Residential Estimated Taxes	Residential Savings	Commercial Property Value	Commercial Estimated Taxes	Comm. Tax Increase	AS 43.56 Value	Oil & Gas Est. Taxes	Oil & Gas Revenues Diverted to Local Muni.
Fairbanks North Star Borough	Pre-HB 241	\$ 150,000	0.0154	\$ 2,310		\$ 500,000	\$ 7,702		\$ 270,805,700	4,171,220.20	
	Post-HB 241	\$ 125,000	0.0162	\$ 2,019	(291.30)	\$ 500,000	\$ 8,077	\$ 375	\$ 270,805,700	4,374,380.56	\$ 203,160
Kenai Peninsula Borough	Pre-HB 241	\$ 150,000	0.0065	\$ 975		\$ 500,000	\$ 3,250		\$ 638,617,190	4,151,011.74	
	Post-HB 241	\$ 125,000	0.0068	\$ 844	(131.02)	\$ 500,000	\$ 3,376	\$ 126	\$ 638,617,190	4,311,817.90	\$ 160,806
North Slope Borough	Pre-HB 241	\$ 150,000	0.0186	\$ 2,784		\$ 500,000	\$ 9,280		\$ 10,463,871,080	194,209,447.24	
	Post-HB 241	\$ 125,000	0.0186	\$ 2,321	(463.43)	\$ 500,000	\$ 9,282	\$ 2	\$ 10,463,871,080	194,256,765.94	\$ 47,319
City of Valdez	Pre-HB 241	\$ 150,000	0.0200	\$ 3,000		\$ 500,000	\$ 10,000		\$ 657,583,710	13,151,674.20	
	Post-HB 241	\$ 125,000	0.0203	\$ 2,534	(466.05)	\$ 500,000	\$ 10,136	\$ 136	\$ 657,583,710	13,330,265.73	\$ 178,592

Estimated total revenue loss, by municipality, if exemption is increased to \$25K

	Total	Oil & Gas Taxes	Local Tax	
Fairbanks	\$ 3,184,949	\$ 203,160	\$ 2,981,788	\$ 589,877
Kenai	\$ 1,036,880	\$ 160,806	\$ 876,074	
North Slope	\$ 48,442	\$ 47,319	\$ 1,123	
Valdez	\$ 281,133	\$ 178,592	\$ 102,541	
	\$ 4,551,403	\$ 589,877	\$ 3,961,527	

This worksheet estimates the effect of implementing an increase in the Homestead exemption from the current \$10K limit to \$25K. It does not include an estimate for the law enforcement officer section of the legislation as those numbers are not available. The decriated property exemption extends an existing exemption from 5 years to 10 years and would not increase the cost to the state.

The numbers provided for residential and commercial values are hypothetical, however, the resulting revenues are reflective of actual property tax increases/decreases if there are no other revenue sources to draw from or service are not cut to correspond with overall tax revenue drop based upon the increased local exemption. The values for oil and gas are actual numbers and represent actual estimated loss of state revenue, assuming all municipalities increase the local exemption to the \$25K and no other revenue sources are identified nor are existing services cut.

The mill rates used for the "Pre-HB 241" is actual mill rates from municipalities for 2003 tax year. The mill rate used for the "Post-HB 241" is a calculated rate. The calculation was done in such a manner to raise the same revenues as the "pre-exemption" mill rates. This assumes all lost tax revenue will be raised from the property tax with no revenue from other sources.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 241(STA)
(H) Publish Date: 2/9/04

Revision Date/Time (Note if correction):
Title Municipal Property Tax Exemption
Sponsor Representative Chenault
Requester House Community & Regional Affairs
Dept. Affected: DCED
RDU Comm Assist and Econ Dev (405)
Component Community Advocacy
Component No. 2703

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 (FY2004) cost: _____
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Current law provides that a municipality may exclude, exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election. This legislation introduces a restriction on this optional exemption such that an exclusion or exemption authorized by this subsection may not be applied with respect to taxes levied in a service area to fund the special services. This change would have no fiscal impact on the department.

Prepared by: Gene Kane, Director Phone (907) 269-4580
Division Community Advocacy Date/Time 12/30/03 1:43 PM
Approved by: Edgar Blatchford, Commissioner Date 12/30/2003
Agency Department of Community and Economic Development

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 23, 2004

SUBJECT: Municipal Tax Exemption for Residences of Law Enforcement Officers (CSHB 241(FIN))

TO: Representative John Harris
Representative Bill Williams
Co-chairs, House Finance Committee
Attn: Louanne Christian

FROM: Tamara Brandt Cook
Director *TBC*

Here is the version of HB 241 incorporating certain amendments adopted by the House Finance Committee. However, Amendment No. 1 dealing with an optional municipal tax exemption for residences of law enforcement officers that are located within certain eligible areas has been changed for purposes of this draft at the request of Louanne Christian, Finance Committee Assistant.

Under Amendment No. 1 an eligible area is one that is eligible for designation as a special zone or an area under certain federal programs, or is an area with a statistically higher crime rate. The federal programs are identified by common names, rather than by citation of federal laws or regulations. Indeed, the programs may not have been established specifically by federal law or regulation, so use of the common name may be the best identifier available. However, it is also possible that these names may be inaccurate or applicable to more than one federal program. A more likely possibility is that a listed program will evolve or be replaced by a new program over time, causing this statute to become obsolete. This potential problem has been avoided in this draft by describing the federal programs that trigger eligibility of an area in more general terms.

Please let me know whether you would like to return to the original language of Amendment No. 1 or make other changes to this draft.

TBC:mcd
04-449.mcd

Enclosure

Alaska **Department of Community
and Economic Development**

Division of Community Advocacy

550 W. 7th Avenue, Suite 1770, Anchorage, AK 99501-3510

Telephone: (907) 269-4501 • Fax: (907) 269-4539 • Text Telephone: (907) 465-5437

Email: questions@dced.state.ak.us • Website: www.dced.state.ak.us/cbd/

April 24, 2004

The Honorable Representative Bill Williams
Co-Chair, House Finance Committee
State Capitol, Room 515
Juneau, AK 99801-1182

Dear Representative Williams,

During the House Finance Committee hearing on HB 241 this morning, there were several amendments made to the bill. My testimony on one of the bills amendments seem to be approved by the majority of the members, but afterwards there was some confusion regarding the exemption for the deteriorated property.

Please allow me to explain the need for my suggested amendment. The amendment on version "S" of the bill was an attempt to allow a municipality to extend an exemption for certain property, considered deteriorated, from five to ten years. Unfortunately, the amendment, as originally offered, extended the "deferral" of taxes rather than the "exemption" of taxes. My suggested amendment was to remove the first sentence of the amendment (Page 1, lines 13-14 and Page 2, Lines 1-3 and a portion of line 4). Along with that deletion, the word "five" on Page 2, line 6 should be changed to read "ten". This will allow municipalities to "exempt" certain types of properties for up to ten years. The "deferral" of taxes language will not change.

These changes will remove the confusion for the assessors around the state and accomplish the intent of extending the exemption period from five to ten years. In my opinion, the language concerning property located within a "city center or urban center" is unnecessary and the exemption may go forth as the individuals who requested this change in state law intended and this change makes it easier for a municipality to administer.

I will be happy to address any further questions that you or the committee may have on this issue.

Sincerely,

Steve Van Sant

Steve Van Sant
State Assessor

23-LS0851U
Cook
4/23/04

CS FOR HOUSE BILL NO. 241(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVE CHENAULT

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to optional exemptions from municipal property taxes on residential
2 property and to an exemption from and deferral of municipal property taxes on certain
3 types of deteriorated property."

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

5 * Section 1. AS 29.45.050(a) is amended to read:

6 (a) A municipality may exclude or exempt or partially exempt residential
7 property from taxation by ordinance ratified by the voters at an election. An
8 exclusion or exemption authorized by this subsection may be applied with respect
9 to taxes levied in a service area to fund the special services. An exclusion or
10 exemption authorized by this subsection [SECTION] may not exceed the assessed
11 value of \$25,000 [\$10,000] for any one residence.

12 * Sec. 2. AS 29.45.050(o) is amended to read:

13 (o) A municipality may by ordinance partially or totally exempt all or some
14 types of deteriorated property from taxation for up to 10 [FIVE] years beginning on or

1 any time after the day substantial rehabilitation, renovation, demolition, removal, or
2 replacement of any structure on the property begins. A municipality may by
3 ordinance permit deferral of payment of taxes on all or some types of deteriorated
4 property for up to five years beginning on or any time after the day substantial
5 rehabilitation, renovation, demolition, removal or replacement of any structure on the
6 property begins. However, if the ownership of property for which a deferral has been
7 granted is transferred, all tax payments deferred under this subsection are immediately
8 due and the deferral ends, or, if ownership of any part of the property is transferred, all
9 tax payments are immediately due. The amount deferred each year is a lien on that
10 property for that year. Only one exemption and only one deferral may be granted to
11 the same property under this subsection, and, if an exemption and a deferral are
12 granted to the same property, both may not be in effect on the same portion of the
13 property during the same time. An ordinance adopted under this subsection must
14 include specific eligibility requirements and require a written application for each
15 exemption or deferral. In this subsection, "deteriorated property" means real property
16 that is commercial property not used for residential purposes or that is multi-unit
17 residential property with at least eight residential units, and that meets one of the
18 following requirements:

19 (1) within the last five years, has been the subject of an order by a
20 government agency requiring environmental remediation of the property or
21 requiring the property to be vacated, condemned, or demolished by reason of
22 noncompliance with laws, ordinances, or regulations;

23 (2) has a structure on it not less than 15 years of age that has
24 undergone substantial rehabilitation, renovation, demolition, removal, or
25 replacement, subject to any conditions prescribed in the ordinance; or

26 (3) is located in a deteriorating or deteriorated area with boundaries
27 that have been determined by the municipality.

28 * Sec. 3. AS 29.45.050 is amended by adding a new subsection to read:

29 (s) A municipality may by ordinance designate an area within its boundaries
30 as an eligible area for purposes of this subsection and exempt from taxation an amount
31 not to exceed \$10,000 of the assessed value of real property within the area that is

1 owned and occupied as a permanent place of abode by a law enforcement officer. The
2 ordinance must include a definition of "law enforcement officer." A municipality that
3 adopts an ordinance under this subsection may not request state funds to cover any
4 municipal budget shortfall caused by the ordinance. In this subsection, "eligible area"
5 means an area

6 (1) that meets the eligibility requirements under a federal program of
7 special assistance for urban development, neighborhood revitalization, or law
8 enforcement, without regard to whether an application for the federal assistance on
9 behalf of the area has been made or whether the area has actually received or is
10 receiving the federal assistance; or

11 (2) with a statistically higher occurrence of crime than the municipality
12 as a whole.

13 * Sec. 4. The uncodified law of the State of Alaska enacted in sec. 2, ch. 8, SLA 1999, as
14 amended by sec. 1, ch. 102, SLA 2002, is amended to read:

15 Sec. 2. AS 29.45.050(o) is repealed July 1, 2010 [2006].

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 241(STA)
(H) Publish Date: 2/9/04

Revision Date/Time (Note if correction):
Title Municipal Property Tax Exemption
Sponsor Representative Chenault
Requester House Community & Regional Affairs
Dept. Affected: DCED
RDU Comm Assist and Econ Dev (405)
Component Community Advocacy
Component No. 2703

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 ()						
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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 (FY2004) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Current law provides that a municipality may exclude, exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election. This legislation introduces a restriction on this optional exemption such that an exclusion or exemption authorized by this subsection may not be applied with respect to taxes levied in a service area to fund the special services. This change would have no fiscal impact on the department.

Prepared by: Gene Kane, Director Phone (907) 269-4580
Division Community Advocacy Date/Time 12/30/03 1:43 PM
Approved by: Edgar Blatchford, Commissioner Date 12/30/2003
Agency Department of Community and Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 241(STA)
(H) Publish Date: 2/9/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Municipal Property Tax Exemption RDU Revenue Programs & Services
Component Tax Division
Sponsor Representative Chenault
Requester House State Affairs Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 ()	***	***	***	***	***	***
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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 (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*** See page 2 for discussion of possible revenue effects on the state.

Prepared by: Dan Dickinson, Director Phone 269-1033
Division: Tax Division Date/Time 1/27/04 6:25 AM
Approved by: Steve Porter, Deputy Commissioner Date 1/27/2004
Agency: Department of Revenue

FISCAL NOTE #3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CSHB 241(STA)

ANALYSIS CONTINUATION

This legislation would allow municipalities to exempt – by a vote of the public – up to \$50,000 in annual assessed valuation of each parcel of residential property. In addition it would allow a \$20,000 exemption for the principle residence of volunteer EMT/firefighters. Currently these optional exemptions are capped at \$10,000 each.

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.

Analysis:

Assuming all municipalities with oil and gas property took advantage of the provision in this legislation and adopted a \$50,000 exemption for residential property owners plus a \$20,000 EMT/Firefighter exemption, and assuming every affected municipality raised its property tax mill rate to fully recover the revenue loss from the lower assessment valuation on residential property, then there would be some annual revenue loss to the state.

However:

It is unknown which, if any, municipalities would adopt the higher exemption rate, if adopted, whether they would allow the maximum exemption, and if the municipalities would attempt to recover all lost revenue by increasing the mill rate.

Therefore the Department of Revenue cannot accurately project what effect this legislation would have on state property tax revenues. See attached spreadsheet for further analysis.

**HB 241- Residential \$50,000 Exemption.
Estimated Effects with No Other Revenue Source**

		Residential Property Value	Mill Rates	Residential Estimated Taxes	Residential Savings	Commercial Property Value	Commercial Estimated Taxes	Comm. Tax Increase	AS 43.56 Value	Oil & Gas Est. Taxes	Oil & Gas Revenues Diverted to Local Muni.
Fairbanks North Star Borough	Pre-HB 241	\$ 150,000	0.015403	\$ 2,310		\$ 500,000	\$ 7,702	\$	270,805,700	4,171,220.20	
	Post-HB 241	\$ 100,000	0.01758	\$ 1,758	(552.45)	\$ 500,000	\$ 8,790	\$ 1,089	270,805,700	4,760,764.21	\$ 589,544
Kenai Peninsula Borough	Pre-HB 241	\$ 150,000	0.0065	\$ 975		\$ 500,000	\$ 3,250	\$	638,617,190	4,151,011.74	
	Post-HB 241	\$ 100,000	0.007218	\$ 722	(253.20)	\$ 500,000	\$ 3,609	\$ 359	638,617,190	4,609,538.88	\$ 458,527
North Slope Borough	Pre-HB 241	\$ 150,000	0.01856	\$ 2,784		\$ 500,000	\$ 9,280	\$	10,463,871,080	194,209,447.24	
	Post-HB 241	\$ 100,000	0.018572	\$ 1,857	(926.80)	\$ 500,000	\$ 9,286	\$ 6	10,463,871,080	194,335,013.70	\$ 125,566
City of Valdez	Pre-HB 241	\$ 150,000	0.02	\$ 3,000		\$ 500,000	\$ 10,000	\$	657,583,710	13,151,674.20	
	Post-HB 241	\$ 100,000	0.020741	\$ 2,074	(925.90)	\$ 500,000	\$ 10,371	\$ 371	657,583,710	13,638,943.73	\$ 487,270

Estimated total revenue loss, by municipality, if exemption is increased to \$50K

	Total	Oil & Gas Taxes	Local Tax	
Fairbanks	\$ 8,493,199	\$ 589,544	\$ 7,903,655	
Kenai	\$ 2,765,014	\$ 458,527	\$ 2,306,487	
North Slope	\$ 129,177	\$ 125,566	\$ 3,611	
Valdez	\$ 749,687	\$ 487,270	\$ 262,417	
	\$ 12,137,077	\$ 1,660,907	\$ 10,476,170	\$ 1,660,907

This worksheet estimates the effect of implementing an increase in the Homestead exemption from the current \$10K limit to \$50K. It does not include an estimate for the volunteer firefighter/emergency medical volunteer section of the legislation as those numbers are not available.

The numbers provided for residential and commercial values are hypothetical, however, the resulting revenues are reflective of actual property tax increases/decreases if there are no other revenue sources to draw from or service are not cut to correspond with overall tax revenue drop based upon the increased local exemption. The values for oil and gas are actual numbers and represent actual estimated loss of state revenue, assuming all municipalities increase the local exemption to the \$50K and no other revenue sources are identified or are existing services cut.

The mill rates used for the "Pre-HB 241" is actual mill rates from municipalities for 2003 tax year. The mill rate used for the "Post-HB 241" is a calculated rate. The calculation was done in such a manner to raise the same revenues as the "pre-exemption" mill rates. This assumes all lost tax revenue will be raised from the property tax with no revenue from other sources.

Fiscal Note #3

Page 3 of 3

Adopted

4/23/04

AMENDMENT NO. 1

OFFERED TO CSHB 241 (STA)

BY Chenault

Page ³1, line ²11 to Page 2, line ³4.

Amend bill section ³2 to read:

* Sec. ³2. AS 29.45.050 is amended by adding a new subsection to read:

(s) A municipality may by ordinance designate an area within its boundaries as [A HIGH CRIME] an eligible area and exempt from taxation an amount not to exceed \$10,000 of the assessed value of real property within the area that is owned and occupied as a permanent place of abode by a law enforcement officer. The ordinance must include a definition of "law enforcement officer." A municipality that adopts an ordinance under this subsection may not request state funds to cover any municipal budget shortfall caused by the ordinance. In this subsection, "eligible area" means an area within the municipality that would be eligible for designation as an urban empowerment zone under the urban empowerment zones program of the federal department of housing and urban development, as a HUB zone under the HUBzone empowerment program of the federal small business administration, a neighborhood revitalization area as designated by the federal department of housing and urban development or as an eligible neighborhood under the weed and seed program of the federal department of justice, whether or not the area is actually so designated, or an area within the municipality with a statistically higher occurrence of crime than other areas of the municipality.

23-LS0851\S
Cook
4/22/04

4/23/04
Adopted

CS FOR HOUSE BILL NO. 241()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVE CHENAULT

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to optional exemptions from municipal property taxes on residential
2 property and to an exemption from and deferral of municipal property taxes on certain
3 types of deteriorated property."

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

5 * Section 1. AS 29.45.050(a) is amended to read:

6 (a) A municipality may exclude or exempt or partially exempt residential
7 property from taxation by ordinance ratified by the voters at an election. An
8 exclusion or exemption authorized by this subsection may be applied with respect
9 to taxes levied in a service area to fund the special services. An exclusion or
10 exemption authorized by this subsection [SECTION] may not exceed the assessed
11 value of \$25,000 [\$10,000] for any one residence.

12 * Sec. 2. AS 29.45.050(o) is amended to read:

13 (o) ~~A municipality may by ordinance partially or totally exempt all or~~
14 ~~some types of deteriorated property from taxation for up to 10 years beginning~~

1 that have been determined by the municipality.

2 * Sec. 3. AS 29.45.050 is amended by adding a new subsection to read:

3 (s) A municipality may by ordinance designate an area within its boundaries
4 as a high crime area and exempt from taxation an amount not to exceed \$10,000 of the
5 assessed value of real property within the area that is owned and occupied as a
6 permanent place of abode by a law enforcement officer. The ordinance must include a
7 definition of "law enforcement officer." A municipality that adopts an ordinance
8 under this subsection may not request state funds to cover any municipal budget
9 shortfall caused by the ordinance.

10 * Sec. 4. The uncodified law of the State of Alaska enacted in sec. 2, ch. 8, SLA 1999, as
11 amended by sec. 1, ch. 102, SLA 2002, is amended to read:

12 Sec. 2. AS 29.45.050(o) is repealed July 1, 2010 [2006].

Homer Electric Association
Testimony on HB453
4/23/04

Homer Electric Association is opposed to HB 453.

The primary concern is the ability to govern the cost of wholesale power for our 20,000 members on the Kenai Peninsula.

HEA currently purchases its wholesale power from Chugach through our generation and transmission subsidiary, Alaska Electric and Energy Cooperative.

The contract with Chugach will expire at the end of 2013. The time remaining is just enough to appropriately plan for and create new sources of power.

Of course HEA's interest is to get the best reasonable cost. The cost of wholesale power for HEA is currently at Chugach's cost plus the margin or profit allowed by the RCA.

Chugach, in a recent case argued before the RCA, asked for a rate-making method that had not been used by the electric cooperatives involved.

Beside the unfamiliarity with the method, Chugach requested a substantial increase in the amount of margin HEA paid.

This request applied to MEA and Seward as well. HEA, MEA and Seward opposed this request and after substantial expert testimony and several weeks of hearings, the commission ruled in our favor generally following the precedent that has been established since the 1980's.

Chugach has publicly criticized the RCA about its ruling, disregarding the solid case presented by HEA and the others. This criticism appears to be no small driver for the movement of HB 453.

Given the fact that Chugach has informed its members that HEA, MEA and Seward are now subsidized by the rest of its members, we become concerned about how the undefined possibilities of HB 453 may be used by CEA over time to achieve what it lost in the rate case.

HEA participated in the Railbelt Energy Study. Chugach, ML&P, GVEA and Seward were a part as well.

We realized that Alaska's Railbelt energy needs for the future are best provided by a joint effort, maximizing efficiencies of scale wherever possible.

This approach was eventually adopted as a recommendation for consideration by this Legislature in developing public policy pertaining to the Railbelt electric utilities.

We identified the next most likely electric projects, returning the best cost for all electric consumers on the Railbelt.

Please understand that the Railbelt is a relatively small market compared to electric markets outside of Alaska. New electric projects are therefore limited and become obvious economically.

HEA is concerned that if HB 453 passes, the largest utilities will have the ability to control the best projects we have identified without RCA oversight.

Control can occur simply by not allowing meaningful governance participation of the smaller utilities in the JAA structure.

HEA does not have to join a JAA if the participation is not satisfactory. In that case we would most likely look for power from that JAA at a negotiated price.

If the JAA is not regulated, the JAA member that HEA purchases power from will charge based on what the JAA charges it. In actuality, the JAA member will set the rate that is charged to itself.

The RCA will have the ability to review the wholesale agreement between the JAA member and HEA but will have no ability to review or regulate the agreement between the JAA and its member.

As an alternative, HEA can create its own new sources of power, but remember that the lowest cost sources have been identified and HEA would have a challenge in matching that cost on its own.

In a perfect world, the removal of regulation would save money and cooperatives are driven by the incentive of providing low rates for members instead of high profits for stockholders.

HEA believes that an exemption from regulation should be something requested for a specific project and its economic participants.

There should not be a law that allows the possibility of unbalanced allocation of benefits from generation and transmission projects.

Granting exemption from regulation should only be possible when a true demonstration of unified system operation by the utilities is created.

23-LS0851\S
Cook
4/22/04

CS FOR HOUSE BILL NO. 241()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE CHENAULT

A BILL
FOR AN ACT ENTITLED

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2 property and to an exemption from and deferral of municipal property taxes on certain
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7 property from taxation by ordinance ratified by the voters at an election. An
8 exclusion or exemption authorized by this subsection may be applied with respect
9 to taxes lev'ed in a service area to fund the special services. An exclusion or
10 exemption authorized by this subsection [SECTION] may not exceed the assessed
11 value of \$25,000 [\$10,000] for any one residence.

12 * Sec. 2. AS 29.45.050(o) is amended to read:

13 (o) A municipality may by ordinance partially or totally exempt all or
14 some types of deteriorated property from taxation for up to 10 years beginning

1 on or any time after the day substantial rehabilitation, renovation, demolition,
2 removal, or replacement of any structure on the property begins if the property
3 is located in a city center or urban center identified in a comprehensive plan or
4 other planning document adopted by the municipality. A municipality may by
5 ordinance partially or totally exempt all or some types of deteriorated property from
6 taxation for up to five years beginning on or any time after the day substantial
7 rehabilitation, renovation, demolition, removal, or replacement of any structure on
8 the property begins. A municipality may by ordinance permit deferral of payment of
9 taxes on all or some types of deteriorated property for up to five years beginning on or
10 any time after the day substantial rehabilitation, renovation, demolition, removal or
11 replacement of any structure on the property begins. However, if the ownership of
12 property for which a deferral has been granted is transferred, all tax payments deferred
13 under this subsection are immediately due and the deferral ends, or, if ownership of
14 any part of the property is transferred, all tax payments are immediately due. The
15 amount deferred each year is a lien on that property for that year. Only one exemption
16 and only one deferral may be granted to the same property under this subsection, and,
17 if an exemption and a deferral are granted to the same property, both may not be in
18 effect on the same portion of the property during the same time. An ordinance
19 adopted under this subsection must include specific eligibility requirements and
20 require a written application for each exemption or deferral. In this subsection,
21 "deteriorated property" means real property that is commercial property not used for
22 residential purposes or that is multi-unit residential property with at least eight
23 residential units, and that meets one of the following requirements:

24 (1) within the last five years, has been the subject of an order by a
25 government agency requiring environmental remediation of the property or
26 requiring the property to be vacated, condemned, or demolished by reason of
27 noncompliance with laws, ordinances, or regulations;

28 (2) has a structure on it not less than 15 years of age that has
29 undergone substantial rehabilitation, renovation, demolition, removal, or
30 replacement, subject to any conditions prescribed in the ordinance; or

31 (3) is located in a deteriorating or deteriorated area with boundaries

1 that have been determined by the municipality.

2 * Sec. 3. AS 29.45.050 is amended by adding a new subsection to read:

3 (s) A municipality may by ordinance designate an area within its boundaries
4 as a high crime area and exempt from taxation an amount not to exceed \$10,000 of the
5 assessed value of real property within the area that is owned and occupied as a
6 permanent place of abode by a law enforcement officer. The ordinance must include a
7 definition of "law enforcement officer." A municipality that adopts an ordinance
8 under this subsection may not request state funds to cover any municipal budget
9 shortfall caused by the ordinance.

10 * Sec. 4. The uncodified law of the State of Alaska enacted in sec. 2, ch. 8, SLA 1999, as
11 amended by sec. 1, ch. 102, SLA 2002, is amended to read:

12 Sec. 2. AS 29.45.050(o) is repealed July 1, 2010 [2006].

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mall Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 23, 2004

SUBJECT: Municipal Tax Exemption for Residences of Law Enforcement Officers (CSHB 241(FIN))

TO: Representative John Harris
Representative Bill Williams
Co-chairs, House Finance Committee
Attn: Louanne Christian

FROM: Tamara Brandt Cook
Director *TBC*

Here is the version of HB 241 incorporating certain amendments adopted by the House Finance Committee. However, Amendment No. 1 dealing with an optional municipal tax exemption for residences of law enforcement officers that are located within certain eligible areas has been changed for purposes of this draft at the request of Louanne Christian, Finance Committee Assistant.

Under Amendment No. 1 an eligible area is one that is eligible for designation as a special zone or an area under certain federal programs, or is an area with a statistically higher crime rate. The federal programs are identified by common names, rather than by citation of federal laws or regulations. Indeed, the programs may not have been established specifically by federal law or regulation, so use of the common name may be the best identifier available. However, it is also possible that these names may be inaccurate or applicable to more than one federal program. A more likely possibility is that a listed program will evolve or be replaced by a new program over time, causing this statute to become obsolete. This potential problem has been avoided in this draft by describing the federal programs that trigger eligibility of an area in more general terms.

Please let me know whether you would like to return to the original language of Amendment No. 1 or make other changes to this draft.

TBC:med
04-449.med

Enclosure

STATE OF ALASKA

REPRESENTATIVE
MIKE CHENAULT

Interim:
145 Main St. Loop, Second Floor
Kenai, Alaska 99611
(907) 283-7223
Fax: (907) 283-3075



Official Business

Session:
Capitol Building, Room 432
Juneau, Alaska 99801-1182
(907) 465-3779
Toll Free: (800) 469-3779
Fax: (907) 465-2833

SPONSOR STATEMENT HB 241 - MUNICIPAL PROPERTY TAX EXEMPTION

This bill has two provisions. One is to give municipalities an option to provide an exemption up to \$50,000 on residential property taxes. This can only be done by ordinance with a vote of the people. It does not affect taxes levied in a service area.

Under current law, municipalities may exempt up to \$10,000 of the assessed value of any single residential property. Five municipalities offer this exemption, Bristol Bay Borough, Kenai Peninsula Borough, Fairbanks North Star Borough, North Slope Borough, and the City of Valdez.

The second provision is to increase the tax exemption on real property from \$10,000 to \$20,000 for a volunteer fire fighter or Emergency medical services worker.



217 Second Street, Suite 200 • Juneau, Alaska 99801
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

January 26, 2004

Representative Bruce Weyhrauch
Alaska State House of Representatives
Chair, House Community and Regional Affairs Committee
State Capitol, Room 102
Juneau, AK 99811

RE: HB 241

Dear Representative Weyhrauch:

HB 241 would allow municipalities the power to voluntarily increase the optional residential property exemption from up to \$10,000, to up to \$50,000. The original optional residential property tax exemption was set in 1970 at \$10,000. HB 241 essentially allows for an inflationary adjustment since 1970 (over 30 years). While this concept is not currently specifically addressed in the Municipal Policy Statement, the Alaska Municipal League has historically supported the concept as a purely optional tax tool for municipalities.

2004 AML Policy states:

Part I. Revenue & Finance

C. Local Taxes

2. Sales and Property Taxes:

The League supports municipal control over sales and property tax. These taxes are the principle sources of local government revenue and, therefore, require local control.

Thank you for hearing this issue, if we can assist you in any way, please call me.

Sincerely,

Kevin Ritchie
Executive Director

cc: Senate Community & Regional Affairs Committee
AML Revenue & Finance Subcommittee

Introduced by: Superman
Date: 04/01/03
Action: Adopted
Vote: 8 Yes, 0 No, 1 Absent

**KENAI PENINSULA BOROUGH
RESOLUTION 2003-035**

**A RESOLUTION SUPPORTING THE PASSAGE OF SENATE BILL 136 AND SIMILAR
LEGISLATION WHICH RAISES THE CURRENT OPTIONAL RESIDENTIAL TAX
EXEMPTION FROM \$10,000 TO \$50,000**

WHEREAS, AS 29.45.050 authorizes municipalities to implement various property tax exemptions; and

WHEREAS, the \$10,000 maximum residential property exemption authorized by AS 29.45.050(a) has remained unchanged since 1974; and

WHEREAS, of the five Alaska municipalities offering this tax exemption, the Kenai Peninsula Borough is the only one to also levy a sales tax; and

WHEREAS, the two percent sales tax levied by the Kenai Peninsula Borough has kept the mill rate to a minimum, thus allowing the State to retain a greater share of the AS 43.56 (Oil and Gas Property) revenues; and

WHEREAS, in October 2002, the voters of the Kenai Peninsula Borough defeated a ballot proposition that would have exempted food from sales tax; and

WHEREAS, over the last decade, property owners have seen a substantial rise in assessed valuations, thereby increasing their tax bills by fifty to one hundred percent in some areas; and

WHEREAS, an increase in the Residential Property Tax Exemption will minimally affect state revenues and should be left to the discretion of the local governing body; and

WHEREAS, a minimal and stable tax rate is a primary factor in residential and economic development; and

WHEREAS, the Kenai Peninsula Borough Assembly has identified an increase in residential property tax exemptions as one of its 2003 legislative priorities; and

WHEREAS, SB 136 and similar legislation will provide a discretionary tax relief mechanism that will benefit bonafide full time residential homeowners;

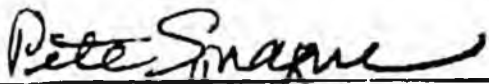
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Kenai Peninsula Borough Assembly urges the 23rd Alaska State Legislature to enact SB 136, increasing the optional residential property exemption from \$10,000 to \$50,000.


SECTION 2. That copies of this resolution shall be provided to Senators Con Bunde, Georgiana Lincoln, Gary Stevens and Tom Wagoner, and to Representatives Mike Chenault, Mike Hawker, Carl Morgan, Paul Seaton and Kelly Wolf.

SECTION 3. That this resolution shall take effect upon its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 1ST DAY OF APRIL, 2003.


Pete Sprague, Assembly President

ATTEST:


Linda S. Murphy, Borough Clerk





OFFICE OF THE MAYOR

January 20, 2004

Representative Bruce Weyhrauch
Chair, House State Affairs Committee
State Capitol
Room 102
Juneau, Alaska 99801-1182


Dear Representative Weyhrauch:

The City of Valdez supports HB 241. The City currently exempts \$10,000 from assessed value of residential property.

The City's current mill rate is 20 mills. Passage of HB 241 and the implementation of the maximum exemption of \$50,000 by the City of Valdez will not impact the State's share of property tax revenue from oil and gas property located within the City limits.

On behalf of the City of Valdez, I encourage passage of the HB 241.

Sincerely,



Bert L. Cottle
Mayor