

SB

136



ALASKA STATE LEGISLATURE

SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

Official Business

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Senator Tom Wagoner, Vice Chair
427

Senator Kim Elton
1182

Senator Georgianna Lincoln

Senator Gary Stevens

State Capitol, Room

Juneau, AK 99801-

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SPONSOR STATEMENT

CS SB 136 (FIN)am – Residential Property Tax Exemption

SB 136 amends current statutes to allow for a residential property tax exemption of up to \$20,000 on residential property, to give local governments flexibility in taxing decisions. It also clarifies that municipalities may apply the exemption to service areas.

The bill also extends the date for deteriorated properties to obtain exemptions by five years (from 2006 to 2010) and adds "demolition, removal" as an accepted activity on the property. Finally, the bill establishes a mandatory property tax exemption for certain private property interests on military bases.

Five municipalities offer this residential property tax exemption: Bristol Bay Borough; Kenai Peninsula Borough; Fairbanks North Star Borough; North Slope Borough; and the City of Valdez.

In 2002, the voters on the Kenai Peninsula rejected an initiative that would have restricted food items from sales taxes. Argument in opposition to the initiative was that the sales tax was a mechanism for obtaining fees from visitors. The logic of that was disputed when it was pointed out that residents pay the same tax.

Providing the local governments the ability to increase the property tax exemption up to \$20,000 allows the local government flexibility so they could still collect sales taxes from visitors and then provide tax relief from residents.

Extending the deteriorated properties exemption date provides for completion of the process begun to renovate and improve the facilities, thereby adding to the local property tax roles.

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SECTIONAL ANALYSIS

CS SB 136 am – Residential Property Tax Exemption

Section 1. Amends AS 29.45.030(a) by revising subsection (8) to include private properties on military bases as being exempt from general taxation, as long as they enter into an agreement to make a payment in lieu of taxes.

Section 2. Amends AS 29.45.050(a) by

1. inserting language clarifying that the municipality has the authority to exclude or exempt with respect to service areas.
2. deleting \$10,000 and inserting \$20,000.

Section 3. Amends AS 29.45.050(o) by

1. extending the term of the deteriorated property exemption from 5 years to ten years.
2. adding "demolition, removal" as an action taken on the deteriorated property
3. adding that one of the three requirements must be met
4. adding a time specific requirement of five years to subsection (1)
5. adding language specific to environmental remediation required by a government agency to subsection (1)

Section 4. Amends AS 29.45.050(o) by extending the repealer to 2010.

Section 5. Immediate effective date section.



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SUMMARY:

- SB 136 clarifies the authority of the municipality in regards to application of property tax exemptions for services areas.
- The bill increases the property tax exemption for residential properties from \$10,000 to \$20,000.
- The bill extends the time provided for deteriorated property to file for exemptions from five to ten years (the current exemption statute expires July 1, 2006)
- The bill adds the terms "demolition, removal" to the deteriorated property exemption statute.
- The bill exempts certain private property interests on military bases or installation, when they have agreements for payment in lieu of taxes.

BENEFITS:

1. Ensures maximum municipal flexibility in the process of property tax exemption.
2. Extension of the deteriorated property statute allows current in-process properties to complete their renovation, thus enhancing the property tax roles.
3. Increasing the residential exemption from \$10,000 to \$20,000 provides for added resident tax relief.
4. Provides certainty to private property interests on military bases regarding municipal taxation.

BACKGROUND:

- The \$10,000 property tax exemption was established in 1974 and has not been revised since that date.
- The fiscal note is indeterminate – the worst-case scenario assumes that all municipalities are going to increase their mill rate to offset the tax exemption. In turn, that would impact state revenues in areas where oil & gas properties are located; i.e., more tax revenues to municipalities and less to the state.
- The worst-case scenario does not take into account the fact that many municipalities have fund balances to offset the increased exemption or else have other methods of taxation – like sales tax or fisheries tax.
- Mandatory property tax exemption for certain private property interests is basically already provided for in federal law, this will prevent the unreasonable practice of municipal taxation of these projects when the municipality receives impact aide.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 136
(S) Publish Date: 4/4/03

Revision Date/Time (Note if correction): March 31, 2003 Dept. Affected: Revenue
Title Residential Property Tax Exemption BRU Revenue Operations
Component Tax Division
Sponsor Sen. Community & Regional Affairs
Requester Sen. Community & Regional Affairs Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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 (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*** See Page 2 for discussion of possible revenue effect on the state.

Prepared by: Dan Dickinson, Director Phone 269-1033
Division Tax Division Date/Time 3/31/03 1:14 PM
Approved by: Larry Persily, Deputy Commissioner Date 3/31/2003
Agency Department of Revenue

**Department of Revenue
Fiscal Note Explanation for SB 136 FN #1**

March 31, 2003 - Page 2 of 2

This legislation would allow municipalities to exempt -- by a vote of the public -- up to \$50,000 in assessed annual valuation of each parcel of residential property.

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. That subsequent effect on state oil and gas property tax revenue is hard to calculate, which is why the fiscal note shows an indeterminate amount.

The Department of Revenue cannot predict how municipalities might implement the residential property tax exemption, or whether cities and boroughs would raise their mill rates or reduce their budget to accommodate the reduced residential property tax revenues. Therefore, we cannot accurately project what effect this legislation would have on state property tax revenues.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 136
(S) Publish Date: 4/4/03

Revision Date/Time (Note if correction): 3/17/2003
Title Residential Property Tax Exemption

Dept. Affected: DCED
BRU Community Assist & Econ. Dev. (405)
Component Community & Business Development
Component No. 2486

Sponsor Senate Community & Regional Affairs
Requester Senate Community & Regional Affairs

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & C aims						
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 (FY2003) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would allow municipalities to exempt -- by a vote of the public -- up to \$50,000 in assessed annual valuation of each parcel of residential property. This legislation will have no fiscal impact on the department.

Prepared by: Gene Kane, Acting Director
Division Community and Business Development
Approved by: Edgar Blatchford, Commissioner
Agency Department of Community and Economic Development

Phone 907-269-4580
Date/Time 3/17/03 11:49 AM
Date 3/17/2003

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSSB 136(FIN)
 (S) Publish Date: 4/29/04

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title Residential Property Tax Exemption RDU Comm Assist and Econ Dev (405)
 Component Community Advocacy
 Sponsor Senate Community & Regional Affairs
 Requester Senate Rules 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)

This legislation would allow municipalities to exempt -- by a vote of the public -- up to \$50,000 in assessed annual valuation of each parcel of residential property. This legislation will have no fiscal impact on the department.

Prepared by: Gene Kane, Director Phone (907) 261-4580
 Division: Community Advocacy Date/Time 2/11/04 11:28 AM
 Approved by: Edgar Blatchford, Commissioner Date 2/11/2004
 Agency: Department of Community and Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSSB 136(FIN)
 (S) Publish Date: 4/29/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Residential Property Tax Exemption RDU Revenue Operations
 Component Tax Division
 Sponsor Sen. Community & Regional Affairs
 Requester Senate Rules 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 4/28/04 8:37 PM
 Approved by: Steve Porter, Deputy Commissioner Date 4/28/2004
 Agency: Department of Revenue

FISCAL NOTE #4

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CSSB 136(FIN)

ANALYSIS CONTINUATION

This legislation would allow municipalities to exempt – by a vote of the public – up to \$20,000 in annual assessed valuation of each parcel of residential property. 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 \$20,000 exemption for residential property owners 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.

Fiscal Note #4

Bill No. CSSB 136(FIN)

		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-SB 136	\$ 150,000	0.015403	\$ 2,310		\$ 500,000	\$ 7,702		\$ 270,805,700	4,171,220.20	
	Post-SB 136	\$ 130,000	0.01589515	\$ 2,066	(244.08)	\$ 500,000	\$ 7,948	\$ 246	\$ 270,805,700	4,304,496.68	\$ 133,276
Kenai Peninsula Borough	Pre-SB 136	\$ 150,000	0.0065	\$ 975		\$ 500,000	\$ 3,250		\$ 638,617,190	4,151,011.74	
	Post-SB 136	\$ 130,000	0.00666573	\$ 867	(108.46)	\$ 500,000	\$ 3,333	\$ 83	\$ 638,617,190	4,256,849.17	\$ 105,837
North Slope Borough	Pre-SB 136	\$ 150,000	0.01856	\$ 2,784		\$ 500,000	\$ 9,280		\$ 10,463,871,080	194,209,447.24	
	Post-SB 136	\$ 130,000	0.01856301	\$ 2,413	(370.81)	\$ 500,000	\$ 9,282	\$ 2	\$ 10,463,871,080	194,240,990.48	\$ 31,543
City of Valdez	Pre-SB 136	\$ 150,000	0.02	\$ 3,000		\$ 500,000	\$ 10,000		\$ 657,583,710	13,151,674.20	
	Post-SB 136	\$ 130,000	0.02018024	\$ 2,623	(376.57)	\$ 500,000	\$ 10,090	\$ 90	\$ 657,583,710	13,270,198.72	\$ 118,525

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

	Total	Oil & Gas Taxes	Local Tax	
Fairbanks	\$ 2,123,299	\$ 133,276	\$ 1,990,023	\$ 389,182
Kenai	\$ 691,254	\$ 105,837	\$ 585,416	
North Slope	\$ 32,294	\$ 31,543	\$ 751	
Valdez	\$ 187,422	\$ 118,525	\$ 68,897	
	\$ 3,034,269	\$ 389,182	\$ 2,645,087	

This worksheet estimates the effect of implementing an increase in the Homestead exemption from the current \$10K limit to \$20K. The deteriorated 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 \$20K and no other revenue sources are identified nor are existing services cut.

The mill rates used for the "Pre-SB 136" is actual mill rates from municipalities for 2003 tax year. The mill rate used for the "Post-SB 136" 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.