

SB

136

Sponsor and/or Committee Name			Date
SCRA - Sen. Thomas Wagoner, Chair			3-17-03
Start/End Time	Chairing site	Juneau Room	Testimony
1:30 - 3:30 P	Juneau	CAP 203	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Invitational <input checked="" type="checkbox"/>
Contact Person and	Phone Number	Other sites may add?	Testimony Limit
Mary Jackson	465-4989	Yes	

Subject of meeting and/or Bills on agenda

SB 118 BOROUGH INSPECTIONS
 (testimony by Departments only)
 SB 136 Residential Property Tax Exemp
 Prev. Heard: SB 38

Sites - LIOs	Sites - Offnets	Phone #
Anchorage	<input checked="" type="checkbox"/>	
Barrow		
Bethel		
Cordova		
Delta Junction		
Dillingham		
Fairbanks		
Glennallen		
Homer		
Juneau	<input checked="" type="checkbox"/>	
Kenai		
Ketchikan		
Kodiak		
Kotzebue		
Matsu		
Nome		
Petersburg		
Seward		
Sitka		
Tok		
Valdez		
Wrangell		

Notes

ALASKA STATE LEGISLATURE

SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

Senator Tom Wagoner, Chair



Official Business

Senator Robin Taylor, Vice-Chair
Senator Kim Elton
Senator Georgianna Lincoln
Senator Gary Stevens

State Capitol, Room 427
Juneau, AK 99801-1182
Phone: (907) 465-4989
Fax: (907) 465-4779

DATE: March 13, 2003
TO: Senate Secretary
FROM: Senator Tom Wagoner, Chair *TW*
Senate Community and Regional Affairs Committee
RE: Meeting Schedule: March 17 through March 21, 2003

March 17: 1:30 – 3:30pm: Fahrenkamp, Room #203

Bills Previously Heard:

+ SB 38 ADOPTION OF SAFETY CODES

++ * SB 118 BOROUGH INSPECTION: FOOD/AQUATIC FARMS
(testimony limited to presentation by the Department(s) – public
testimony to be heard at a later date)

+ * SB 136 RESIDENTIAL PROPERTY TAX EXEMPTION

March 19: No meeting scheduled.

March 21: No meeting scheduled.

* First Hearing

+ Teleconferenced

++ Testimony by invitation only

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SPONSOR STATEMENT

SB 136 – Residential Property Tax Exemption

SB 136 amends current statutes to provide for an exemption of up to \$50,000 on residential property, to give local governments flexibility in taxing decisions.

Under current law, municipalities may exempt up to \$10,000 of the assessed value of any single residential property. This authorization has been law since 1974.

Five municipalities offer this exemption:

- Bristol Bay Borough
- Kenai Peninsula Borough
- Fairbanks North Star Borough
- North Slope Borough
- 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 \$50,000 allows the local government flexibility so they could still collect sales taxes from visitors and then provide tax relief from residents.

ALASKA STATE LEGISLATURE



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SECTIONAL ANALYSIS **SB 136 – Residential Property Tax Exemption**

Section 1. Amends AS 29.45.050(a) by deleting \$10,000 and inserting \$50,000.

SB 136 - Property Tax Exemptions

TABLE 1
2002 Local Property and Oil & Gas Property Tax Revenues

Municipality	Property Tax Revenues	Oil & Gas Property Tax Revenues	Total Property Tax Revenues	Chg Frm Previous Year	Population	Municipal Per Capita Revenue	Mill Rates	Sales Tax
Bristol Bay Borough	\$2,237,684	\$0	\$2,237,684	20.76%	1,258	\$1,779	13.0000	\$ -
Fairbanks North Star Borough	\$61,029,114	\$4,441,454	\$65,470,568	5.33%	82,840	\$790	15.4050	\$ -
Kenai Peninsula Borough	\$33,091,099	\$7,149,280	\$40,240,379	-0.97%	49,691	\$810	6.5000	\$ 14,157,026
North Slope Borough	\$6,239,417	\$193,019,738	\$199,259,155	-1.34%	9,430	\$21,130	18.5000	\$ -
Valdez	\$5,951,514	\$13,076,413	\$19,027,927	2.80%	4,336	\$4,388	20.0000	\$ -

/1 Borough mill (these could be in service area which would be a higher mill rate)

source: State Assessor's Office 3-11-03

ALASKA STATE LEGISLATURE

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Senator Tom Wagoner, Vice Chair
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Juneau, AK 99801-1182
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Fax: (907) 465-4779

SECTIONAL ANALYSIS

CS SB 136 – Residential Property Tax Exemption

Section 1. 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 2. 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 3. Amends AS 29.45.050(o) by extending the repealer to 2010.

ALASKA STATE LEGISLATURE

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Official Business

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Senator Tom Wagoner, Vice Chair
Senator Kim Elton
Senator Georgianna Lincoln
Senator Gary Stevens

State Capitol, Room 427
Juneau, AK 99801-1182
Phone: (907) 465-4937
Fax: (907) 465-4779

SPONSOR STATEMENT

CS SB 136 (FIN) – 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.

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.

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;

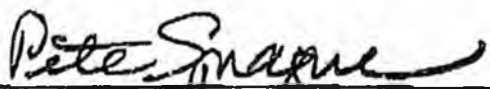
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

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.

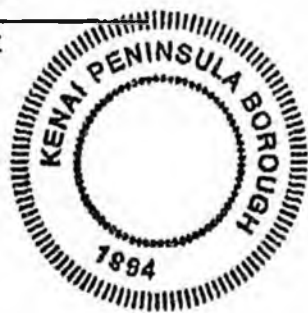


Pete Sprague, Assembly President

ATTEST:



Linda S. Murphy, Borough Clerk



CITY OF VALDEZ, ALASKA

RESOLUTION NO. 03-31

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, SUPPORTING SENATE BILL 136, INCREASING THE OPTIONAL EXEMPTION OF RESIDENTIAL PROPERTY FROM TAXATION

WHEREAS, Alaska Statute 29.45.050 allows municipalities to exempt up to \$10,000 of assessed valuation on residential property from property tax; and,

WHEREAS, the financial resources vary from municipality to municipality; and,

WHEREAS, the local exemption option allows municipalities to assist local residents to lower their property taxes by lowering the assessed valuation; and,

WHEREAS, the \$10,000 exemption has not kept up with inflation since enacted in 1974.

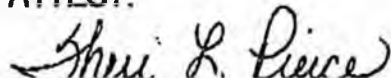
NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Valdez, Alaska, that the Council supports Senate Bill 136, increasing the optional exemption of residential property from taxation from \$10,000 to \$50,000.

PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, this 17th day of March, 2003.

CITY OF VALDEZ, ALASKA


Bert L. Cottle, Mayor

ATTEST:


Sheri L. Pierce, CMC/AEE, City Clerk



FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB136
 () Publish Date: _____

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 SB136**

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: _____
 Bill Version: SB 136
 () Publish Date: _____

Revision Date/Time (Note if correction): 3/17/2003 Dept. Affected: DCED
 Title Residential Property Tax Exemption BRU Community Assist & Econ. Dev. (405)
 Component Community & Business Development
 Sponsor Senate Community & Regional Affairs
 Requester Senate Community & Regional Affairs Component No. 2486

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 & 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: _____
 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 Phone 907-269-4580
 Division: Community and Business Development Date/Time 3/17/03 11:49 AM
 Approved by: Edgar Blatchford, Commissioner Date 3/17/2003
 Agency: Department of Community and Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSSB 136(FIN)
 () Publish Date: _____

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 Mrtch						
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 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

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.

		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	4,171,220.23	
	Post-SB 136	\$ 130,000	0.01599515	\$ 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.