

HB

379

<TARGET><BILL>HB 379</BILL><SUBJECT>HB
379</SUBJECT><COMM>HCRA28</COMM></TARGET>

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: March 28, 2014

FURTHER REFERRALS:

Date of Committee Action: 4/1/14

The COMMUNITY AND REGIONAL AFFAIRS Committee considered:

HB 379

HOUSE BILL NO. 379

"An Act relating to the limitation on the value of property taxable by a municipality; and providing for an effective date."

HB 379 OIL & GAS PROPERTY TAX

Recommends it be replaced with HCS or CS for _____ (_____)
 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
 DHS
 LWF
 LAW
 LEG
 MVA
 DNR
 DPS
 REV
 DOT
 UA

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

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

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Foster	X			
	HERRON			X	
	Reinbold			X	
	Kito			X	
Chair:	NAGEAK	X			
Chair:	Ledoux	X			

The word mill comes from millage, which by definition in the dictionary means "the tax rate, as for property, assessed in mills per dollar."

WHAT IS A MILL?

A mill is a monetary unit equal to 1/1000 (one thousandth) of a U.S. dollar, or 1/10 (one-tenth) of one cent.

WHAT IS A MILL RATE?

A mill rate is just the number of mills each individual property is to be assessed, or charged, per dollar value of the property. For example, if your mill rate were 20 mills, you would pay two cents for every dollar of assessed value or \$20.00 for each \$1,000 of assessed value.

WHO DECIDES WHAT THE MILL RATE WILL BE?

Your Borough Assembly decides what the mill rate will be.

HOW IS THE MILL RATE DECIDED?

1st, the assembly decides how much money (revenues) will be needed to run the Borough, by proposing a balanced budget. 2nd, the Assembly decides how much other revenues will be received from other sources like sales taxes, grants, user fees, interest and etc. 3rd, the Assembly does the math: step #1 minus step #2 equals property tax revenue needed. That revenue needed is raised by levying and collecting a property tax. So, to figure the mill rate, the additional amount of money needed for the budget will be divided by the total assessed value of the tax roll.

Part 3 - Property Taxation

North Slope Borough

EXPLANATION OF MILLAGE RATES:

AS 29.45.090(a) restricts the mill rate for the municipal operating budget to a maximum of 3% or 30 mills; there is no limit on taxes to pay bonds.

The 30 mill limit on operating revenues is levied against an assessed value not to exceed that produced by the following formula:

Average Per-Capita Full Value X 225% X Municipal Population, for FY14:

$$\$140,307 \quad X \quad 225\% \quad X \quad 18,436^* \quad = \quad \$5,820,074,667 \quad (\text{assessed value limit for operating budget})$$

$$\$5,820,074,667 \quad X \quad 30 \text{ mills} \quad = \quad \$174,602,240 \quad (\text{FY14 statutory tax limit for operating budget})$$

$$\text{Actual FY14 projected operating budget:} \quad \$174,602,240$$

$$\frac{\$174,602,240}{\$5,820,074,667} \quad = \quad 30 \text{ mills (operating budget rate at the 30 mill tax limit)}$$

DEVELOPMENT OF ACTUAL OVERALL RATE:

(Based on full oil and gas values)

$$\text{FY14 projected budget for debt service (payment of bonds):} \quad \$181,303,068$$

$$\text{Actual Assessed Value:} \quad 19,238,124,752$$

$$\frac{\$181,303,068}{\$19,238,124,752} \quad = \quad 9.42 \quad \text{mills (levy to satisfy debt service)}$$

$$\frac{\$174,602,240}{\$19,238,124,752} \quad = \quad 9.08 \quad \text{mills (levy to satisfy operating budget)}$$

$$\text{Mill Rate} \quad = \quad 9.42 + 9.08 = 18.5 \text{ mills (actual overall rate)}$$

Mill Rate Calculation Based on the Reduced Values Derived from 225% Formula

Debt service—
 $\frac{\$181,303,068}{\$5,820,074,667} = 31.15 \text{ mills}$

Operating Budget—
 $\frac{\$174,602,240}{\$5,820,074,667} = 30.00 \text{ mills}$

Total Mills based upon 225% formula values -- 61.15 mills

* The population used here is different from the population used in other areas of this publication due to the fact that the North Slope Borough is allowed to use a larger portion of the workforce in Prudhoe Bay to count in the tax cap formula. The revenue sharing calculation uses a smaller population count.

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

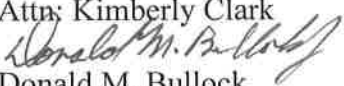
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 28, 2014

SUBJECT: Sectional summary for Work Order No. 28-LS1633A

TO: Representative Benjamin Nageak
Attn: Kimberly Clark

FROM: 
Donald M. Bullock
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Amends AS 29.45.080(c) by deleting the fixed 225 percent factor in the formula used to determine the maximum value of property taxable under AS 43.56 that may be taxed by a municipality. Provides that a percentage determined under new subsection (f) in sec. 2 of the bill will be used in the formula.

Section 2. Adds new subsection (f) to AS 29.45.080 to provide the percentage to be used in AS 29.45.080(c) based on the total tax rate established by the municipality.

Section 3. Amends AS 29.45.090(b) by deleting the fixed 225 percent factor in the formula used to determine the maximum value of property taxable by a municipality or combination of municipalities occupying the same geographical area, in whole or in part. Provides that a percentage determined under AS 29.45.090(e) in sec. 5 of the bill will be used in the formula.

Section 4. Amends AS 29.45.090(c) by deleting the fixed 225 percent factor in the formula used to determine the maximum value of property that may be taxed if two or more municipalities occupy the same geographical area, in whole or in part, and attempt to levy a property tax. Provides that the percentage determined under AS 29.45.090(e) in sec. 5 of the bill will be used in the formula.

Section 5. Adds new subsection (e) to AS 29.45.090 to provide the percentage to be used in AS 29.45.090(b) and (c) based on the total tax rate established by a municipality.

Representative Benjamin Nageak

March 28, 2014

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Section 6. Amends AS 43.56.010(c) by deleting the 225 percent factor and replacing the percentage factor with the percentage determined in AS 29.45.080(f) in sec. 2 of the bill.

Section 7. Adds a new section in uncodified law that makes secs. 1 - 6 apply to tax years beginning after December 31, 2014.

Section 8. Provides an immediate effective date.

DMB:lnd

14-147.lnd

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State Capitol
Juneau, Alaska 99801-1182
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MEMORANDUM

March 27, 2014

SUBJECT: Variable percentages for determining limitations on taxable value
(Work Order No. 28-LS1633\A)

TO: Representative Ben Nageak
Co-Chair of the House Community and Regional Affairs
Committee

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

Enclosed is a bill that provides for variable percentages of the average per capita full and true value property in the state that is used to determine the maximum value of property that may be taxed by a municipality. Please read this draft carefully to ensure that it is consistent with your intent.

In this draft, the percentages range from 225 percent for a municipality that has a mill rate of more than 19 mills to 375 percent for a municipality with a mill rate that does not exceed 18 mills. The percentage for a municipality that has a mill rate of more than 18 mills but not more than 19 mills is 300 percent.

I refer you to pages 34 and 37 of Alaska Taxable 2013¹ that explain the millage rates for the North Slope Borough and the City of Valdez, respectively. On those two pages, the 225 percentage factor would be replaced by the applicable percentage in the bill. Because the new bill provisions use the mill rate to determine the percentage factor, I am not sure how the percentage changes in the draft would be implemented. In the calculation on pages 34 and 37, the 225 percentage factor is applied to determine the mill rate; therefore you must have a percentage factor before calculating the mill rate.²

¹ Alaska Taxable 2013 is published by the Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs, Office of the State Assessor. The report is published on the Internet at: <http://commerce.alaska.gov/DNN/Portals/4/Repository/Taxable/13Taxable.pdf> (accessed March 25, 2014).

² Do you want the percentage factors to be based on the previous year's mill rate? If so, the previous year's mill rate would be the basis for the percentage factor to be applied to the average per capita full and true value property in the state in the current year's mill rate calculation.

Representative Ben Nageak
March 27, 2014
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I suggest you discuss your proposed legislation with the state assessor.

DMB:lnd
14-140.lnd

Enclosure

The North Slope Borough currently taxes property at a levy of 18.5 mils. This applies to all residential properties, as well as oil & gas properties subject to AS43.56.

Current law establishes a formula that “caps” the amount of taxes that can levied against AS43.56 properties. The formula is based on assessed values, population, and a multiplier of 225%. Each municipality with oil & gas properties calculates this formula to establish their operating budget revenue picture. Following the calculation of this amount, the municipality then calculates the amount of revenue necessary to meet their annual bond debt payments.

The North Slope Borough is seeking a legislative change that would change the multiplier from 225% to 300%. At the same time, the North Slope Borough fully intends to continue levy a property tax of 18.5 mils. The net effect of increasing the multiplier would be to shift funding from debt service to operations.

Since the change to the multiplier would require a general law of applicability for all AS43.56 properties, it would increase the tax cap for Valdez as well.

In an attempt to seek some options for changing the multiplier without creating “incentives” for tax increases, can the property tax multiplier be set on a sliding scale based on to the total property tax mil rate?

The proposal would be to set a multiplier of 300% for any municipality that taxed at 18.5 mils. If the tax levy went above 19.0, the multiplier would be reduced to the current 225%. If the tax levy went below 18.0 mils, the multiplier could be increased higher than 300%.

The approach is meant as an incentive for lowering property taxes for those municipalities with AS43.56 properties who also want to lower their annual bond debt costs.

Current law (AS 29.45.090) restricts the mill rate for the municipal operating budget for communities with oil & gas properties subject to property taxation under AS 43.56. The formula is based on assessed values, population, and a multiplier of 225%. Each municipality with oil & gas properties calculates this formula to establish their operating budget revenue picture. Following the calculation of this amount, the municipality then calculates the amount of revenue necessary to meet their annual bond debt payments.

For the North Slope Borough, property taxes are levied at 18.5 mills. However, the restriction under AS 29.45 only permits 9.08 mills of the levy to be applied toward the borough's operating budget. The remaining 9.42 mills of levy are applied to debt service on bonds for capital projects.

Over the last 34 years, the North Slope Borough has used a capital program funded primarily with general obligation bonds in order to develop public infrastructure (EG. water, sewer, schools, roads, health facilities, etc.). That infrastructure requires an ongoing maintenance and operations program in order to remain viable and useful. However, the Borough faces an increasing challenge of addressing these maintenance issues in the context of the restriction in AS 29.45.090 that limits how much revenue can apply towards the operating budget.

The North Slope Borough is seeking a legislative change that would allow it to use less for debt service and more for operations. In order to avoid creating any incentive for increasing municipal property taxes, the legislation is written to provide a sliding scale for municipalities to lower taxes.

Any community that taxes above 19.0 mills would continue to have the same limitation formula currently in place with a multiplier of 225%. A municipality that taxes levies a tax between 18.0 and 19.0 mills would have a multiplier of 300%, and the multiplier would increase to 375% if taxes went below 18.0 mills. In other words, a municipality would gain more flexibility in the use of oil & gas property taxes by lowering taxes.

This approach is meant to help protect the State of Alaska's interest while giving municipalities with oil & gas properties a reasonable opportunity to provide for operations & maintenance without raising taxes.

HOUSE BILL NO.

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION**

BY THE HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

**Introduced:
Referred:**

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the limitation on the value of property taxable by a municipality;**
2 **and providing for an effective date."**

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

4 *** Section 1. AS 29.45.080(c) is amended to read:**

5 (c) A municipality may levy and collect a tax on the full and true value of that
6 portion of taxable property taxable under AS 43.56 as assessed by the Department of
7 Revenue which value, when combined with the value of property otherwise taxable by
8 the municipality, does not exceed the product of the percentage determined in (f) of
9 this section [225 PERCENT] of the average per capita assessed full and true value of
10 property in the state multiplied by the number of residents of the taxing municipality.

11 *** Sec. 2. AS 29.45.080 is amended by adding a new subsection to read:**

12 (f) The percentage in (c) of this section is based on the total tax rate
13 established by the municipality and levied each year under AS 43.56.010(b) and is as
14 follows:

1	If the tax rate determined under AS 43.56.010(b) is:	The percentage is:
2	Not more than 18.0 mills	375 percent
3	More than 18.0 mills but not more than 19.0 mills	300 percent
4	More than 19.0 mills	225 percent

5 * **Sec. 3.** AS 29.45.090(b) is amended to read:

6 (b) A municipality, or combination of municipalities occupying the same
7 geographical area, in whole or in part, may not levy taxes

8 (1) that will result in tax revenues from all sources exceeding \$1,500 a
9 year for each person residing within the municipal boundaries; or

10 (2) on [UPON] value that, when combined with the value of property
11 otherwise taxable by the municipality, exceeds the product of the percentage
12 determined in (e) of this section [225 PERCENT] of the average per capita assessed
13 full and true value of property in the state multiplied by the number of residents of the
14 taxing municipality.

15 * **Sec. 4.** AS 29.45.090(c) is amended to read:

16 (c) The commissioner shall apportion the lawful levy and equitably divide the
17 tax revenues on the basis of need, services performed, and other considerations in the
18 public interest if two or more municipalities occupying the same geographical area, in
19 whole or in part, attempt to levy a tax

20 (1) the combined levy of which would result in tax revenues from all
21 sources exceeding \$1,500 a year for each person residing within the municipal
22 boundaries; or

23 (2) on [UPON] value that, when combined with the value of property
24 otherwise taxable by the municipality, exceeds the product of the percentage
25 determined in (e) of this section [225 PERCENT] of the average per capita assessed
26 full and true value of property in the state multiplied by the number of residents of the
27 taxing municipality.

28 * **Sec. 5.** AS 29.45.090 is amended by adding a new subsection to read:

29 (e) The percentage in (b) and (c) of this section is based on the total tax rate
30 established by the municipality and levied each year under AS 43.56.010(b) and is as
31 follows:

1	If the tax rate determined under AS 43.56.010(b) is:	The percentage is:
2	Not more than 18.0 mills	375 percent
3	More than 18.0 mills but not more than 19.0 mills	300 percent
4	More than 19.0 mills	225 percent

5 * Sec. 6. AS 43.56.010(c) is amended to read:

6 (c) If the total value of assessed property of a municipality taxing under
7 AS 29.45.080(c) exceeds the product of the percentage, as determined in
8 AS 29.45.080(f), [225 PERCENT] of the average per capita assessed full and true
9 value of property in the state, to be determined by the department and reported to each
10 municipality by January 15 of each year, multiplied by the number of residents of the
11 taxing municipality, the department shall designate the portion of the tax base against
12 which the local tax may be applied.

13 * Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 APPLICABILITY. Sections 1 - 6 of this Act apply to tax years beginning after
16 December 31, 2014.

17 * Sec. 8. This Act takes effect July 1, 2014.