

**HB**

**40**

<TARGET><BILL>HB 40</BILL><SUBJECT>HB  
40</SUBJECT><COMM>SCRA28</COMM></TARGET>

# SENATE COMMITTEE REPORT

DATE: 2/11/13

FURTHER: RULES  
 DATE TURNED IN TO OFFICE: 2/28/13

Community and Regional Affairs Committee considered CS FOR HOUSE BILL NO. 40(CRA)

HB 40-MUNICIPAL TAX EXEMPTION: FARM STRUCTURES

"An Act establishing a municipal tax exemption for certain farm structures."

and recommends:

- be replaced with SCS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  Technical Title Change  
 New Title/SCR No. \_\_\_\_\_
- adopt previous SCS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  Technical Title Change  
 New Title/SCR No. \_\_\_\_\_
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
CED			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	E. G. ...	X			
	Bishop	X			
	Biessel			X	
CHAIR:	MICCICHE	X			

# ALASKA STATE LEGISLATURE



**SESSION ADDRESS:**  
Alaska State Capitol  
Juneau Alaska 99801  
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Rep.Shelley.Hughes@akleg.gov

**INTERIM ADDRESS:**  
600 E Railroad Avenue  
Wasilla AK 99654  
Phone: 907-376-3725  
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Representative Shelley Hughes  
House District 8 ~ Greater Palmer

February 13, 2013

Honorable Senator Micciche, Chair  
Community and Regional Affairs Committee  
State Capitol Room 125  
Juneau, AK 99801

Dear Senator Micciche,

I respectfully request a hearing date for HB40 Farm Food Structure Tax Exemption bill in the Senate Community and Regional Affairs committee at your earliest convenience.

HB40 supports the agriculture economy in Alaska by allowing municipalities to exempt specific food storage and production buildings for those who derive at least 10% of their income from farming activities. My hope for reducing tax on certain buildings will encourage food storage and production of food products without diminishing a significant tax percentage for municipalities.

If you have any questions with regard to scheduling the bill, please contact Ginger Blaisdell at 465-5265.

Sincerely,

A handwritten signature in cursive script that reads "Shelley Hughes".

Shelley Hughes  
Representative  
District 8 ~ Greater Palmer

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**Representative Shelley Hughes**  
House District 8 ~ Greater Palmer

Honorable Senator Micciche, Chair  
Community and Regional Affairs Committee  
State Capitol Room 125  
Juneau, AK 99801

## **HB40 Farm Food Storage Building Tax Exemption**

### **Sponsor Statement**

**February 13, 2013**

HB40 supports the agriculture economy in Alaska by allowing municipalities to exempt specific food storage and production buildings for those who derive at least 10% of their income from farming activities. My hope for reducing tax on certain buildings will encourage food storage and production of food products without diminishing a significant tax percentage for municipalities.

HB40 includes buildings that store food for human or animal consumption and includes food production equipment. The food production equipment is an integral component because it is typically the production process that allows the food product to be cleaned for proper storage, extends its shelf-life, or creates a food product that can be sold.

**CSHB40(CRA)  
Farm Food Storage Building Tax Exemption**

**Side by Side Comparison of Committee Substitute  
February 13, 2013**

“An Act establishing a municipal tax exemption for certain farm structures.”

<p>*Section 1. AS 29.45.050 is amended by adding new subsections to read:</p>	<p>This legislation does not change the existing “farm bill” statutes.</p>
<p>(t) A municipality may by ordinance partially or total exempt from taxation a farm structure used exclusively for farming activity, or purposes directly related to farming activity, if the farm structure is owned or leased by a person that is actively engaged in farming and that derives at least 10 percent of the person’s yearly gross income from farming activity, and the structure is used for</p>	<p>A municipality may partially or fully exempt the property tax for a qualifying farm food storage or food processing structure/building. This bill does not mandate the tax exemption but would allow a municipality to consider the exemption and can determine the percentage of the value of the structure to be exempted from taxation.</p> <p>The farm structure must be used exclusively for farming activity or purposes directly related to farming activity. This identifies the purpose of the building to be considered for exemption.</p> <ul style="list-style-type: none"> <li>• The original bill specified 50% of the structure to be used for food storage or processing purposes. This seemed to create additional work and potential interpretation on behalf of the municipal assessors.</li> <li>• By using the word “exclusively” it is clear that the intent of the structure is for farming and food, and the need for tape measures and guesswork would be eliminated.</li> </ul> <p>The person who owns the structure must be actively engaged in farming and derive at least 10 percent of the person’s yearly gross income from farming activity. This section identifies a change to the original bill.</p> <ul style="list-style-type: none"> <li>• The original word choice was “individual” but after speaking with others, it was evident that many farmers may have established themselves in a business structure such as an LLC.</li> <li>• The word “person” includes individuals as well as other business structures. It can include sole proprietorships, LLC, S-corps, corporations, trusts, etc.</li> </ul>
<p>(1) The growing, storage, or processing of grains, fruits, vegetables, or other crops intended for human consumption and produced by the owner’s or lessee’s farming activity;</p>	<p>The structure must be used for growing, storage or processing of consumable food plants that are produced by the owner’s/lessee’s farming activity.</p> <p>The second change to the original bill is the inclusion of the task of growing food products. This change would allow greenhouses that are used to grow food to benefit from the tax exemption.</p>

<p>(2) The storage or processing of</p> <p>(A) Feed for livestock, poultry, or other animals used in the owner's or lessee's farming activity;</p> <p>(B) Milk or milk products produced by the owner's or lessee's farming activity; or</p>	<p>The structure may be used for storage or processing of feed for animals used in the farming activity.</p> <p>The structure may be used for storage or processing of milk products produced by the farming activity.</p>
<p>(3) Stabling or milking the owner's or lessee's dairy animals.</p>	<p>The structure may be used in stabling or milking dairy animals. This is specifically noted because a significant area of the facility may be used to manage cattle and the dairy equipment may constitute a smaller area of the structure.</p>
<p>(u) In this section, "farming activity" means raising and harvesting crops; feeding, breeding, and managing livestock; dairying; or any combination of those activities.</p>	<p>The definition of "farming activity" is important because it clarifies what it means to be farming. Assessors and farmers can have a better understanding of the qualifying provisions if they fit the definition.</p> <p>Some gentlemen or hobby farmers may not qualify for the exemption if they do not fit the purpose of the structure, derive at least 10% of their yearly gross income from farming, and are actively involved in a farming activity.</p>

Possible scenarios regarding the structure:

- 1) a **barn** used to store cattle feed may include a processing filter that separates some particles from the grain so that it does not mold quickly while in storage; the hay is stored in the structure through the winter and depletes as eaten; a tractor may be brought into the barn as space allows for general maintenance. This example would likely qualify for the exemption.
- 2) a **barn** used to store root vegetables includes some separating and cleaning equipment and has moveable bins for transporting the food; the barn is also includes a mother-in-law apartment for guests and when the food stores are low, the family car is parked indoors. This example would not likely qualify for the exemption.
- 3) a **greenhouse** that grows raspberries and stores jars of preserves and syrup would likely qualify for the exemption.
- 4) a **greenhouse** that grows one aisle of vegetables, one aisle of tulips and sells lawn mowers and fertilizer would not likely qualify for the exemption.
- 5) the **home kitchen** used for canning and preserving wild berries picked on their own land, storing the preserves in the pantry and selling the preserves at a farmer's market; the residence would likely not qualify as a food storage and processing structure.

# Fiscal Note

State of Alaska  
2013 Legislative Session

Bill Version: CSHB 40(CRA)  
Fiscal Note Number: 1  
(H) Publish Date: 2/1/13

Identifier: HB040-DCCED-DCRA-01-25-13  
Title: MUNICIPAL TAX EXEMPTION: FARM USE LAND  
Sponsor: HUGHES  
Requester: House Community and Regional Affairs

Department: Department of Commerce, Community and  
Economic Development  
Appropriation: Community and Regional Affairs  
Allocation: Community and Regional Affairs  
OMB Component Number: 2879

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Fund Source (Operating Only)

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Positions

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>								
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	Scott Ruby, Director	Phone:	(907)269-4569
Division	Community and Regional Affairs	Date:	01/25/2013 10:04 AM
Approved By:	JoEllen Hanrahan, Director	Date:	01/25/13
	Administrative Services		

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSHB 40(CRA)

**Analysis**

This bill would amend existing statutes regarding permissive municipal tax exemptions. It would give municipalities the authority to partially or totally exempt certain farm structures owned or leased by an individual who is actively engaged in farming and who derives at least 10 percent of their gross yearly income from farming activity. Municipalities would need to adopt an ordinance that enacts the exemption and application procedures awarding exemptions.

Existing statutes require the state to reimburse a borough or city for the real property tax revenues lost to it by the implementation of tax exemptions. If passed, this additional exemption would also be reimbursable by the state. However, statutes provide that if appropriations are not sufficient to fully fund reimbursements, the amount available shall be distributed pro-rate among eligible municipalities. In the past, the state has not fully funded reimbursement for existing municipal tax exemptions.

There is no anticipated fiscal impact to the Division of Community and Regional Affairs from this bill.



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February 5, 2013

Honorable Shelley Hughes  
Alaska State Capital Building  
Room 409  
Juneau, Alaska

RE: HB40

Dear Representative Hughes,

Historically, the Alaska Municipal League has adamantly opposed all legislation that attempts to put property tax exemptions in place, as property tax is a local government authority in the State of Alaska. The State of Alaska has statutes in place requiring the State to reimburse for Senior Citizen's/Disabled Veteran's Property Tax; that does not take place and municipalities lose millions of dollars to this unfunded mandate.

The Alaska Municipal League takes its lead from its member municipalities. The municipalities that would be affected by HB 40 have not taken a stand against HB 40 and do not feel that it would be detrimental to their residents, as the ability to actually exempt any property is optional and there appear to be limitations and parameters on those who could qualify, thus helping the people this bill really intends to help.

Finding no substantial opposition to this bill, the Alaska Municipal League will take a neutral position on HB 40. We do thank you and your office for reaching out to the affected communities and for giving communities the choice as to whether their financial situation warrants these tax exemptions.

Again, we thank you for your willingness to work with us in regards to HB 40.

Sincerely,

Kathie Wasserman  
Executive Director  
Alaska Municipal League