

SB

106

<TARGET><BILL>SB 106</BILL><SUBJECT>SB
106</SUBJECT><COMM></COMM></TARGET>

30th Alaska State Legislature

Judiciary Committee
Chairman
Resources Committee
Vice-Chair
Education Committee
Vice-Chair
State Affairs Committee
Select Committee on Legislative
Ethics
Joint Armed Services Committee




Senator John Coghill

Session Address:
State Capitol, Room 119
Juneau, AK 99801-1182
(907) 465-3719
Fax (907) 465-3258

Interim Address:
1292 Sadler Way, Suite 340
Fairbanks, AK 99701
(907) 451-2997
Fax (907) 451-3526
(877) 465-3719

www.alaskasenate.org

MEMORANDUM

Date: April 6, 2015
To: Senator Mike Dunleavy, Chairman
Senate State Affairs Committee
From: Senator John Coghill 
Re: Request for hearing for SB 106

I am requesting SB 106, *"An Act relating to a municipal tax exemption or deferral for economic development property; and relating to a municipal tax exemption for a fire protection system"* be scheduled for a State Affairs Committee hearing. I have attached the backup information for the bill.

Thank you for your consideration.

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MEMORANDUM

Date: April 11, 2015
To: Senator Kevin Meyer, Chairman
Senate State Affairs Committee
From: Senator John Coghill 
Re: Request for hearing for SB 106

I am requesting SB 106, "*An Act relating to a municipal tax exemption or deferral for economic development property; and relating to a municipal tax exemption for a fire protection system*" be scheduled for a Community & Regional Affairs Committee hearing. I have attached the backup information for the bill.

Thank you for your consideration.

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SPONSOR STATEMENT – SB 106

AS 29.45.050(m) addresses the authority of municipalities to exempt or defer all or parts of real and personal property taxes by ordinance for economic development purposes.

First, it removes the time limitation in statute and authorizes local governments to determine time limits appropriate for specific projects according to each municipality's own needs and objectives.

As the current budget deficit limits the State's ability to invest in economic development initiatives, municipalities will need to rely more on their own means to facilitate those projects. This legislation would authorize a municipality the discretion to establish a full or partial property tax exemption or deferral over a designated period of time on a case-by-case basis.

In addition, SB 106 would add to the eligibility for economic development property that involves a "significant capital investment in physical infrastructure", expanding the tax base of the municipality and generating property tax revenue after the exemption expires.

Lastly, SB 106 addresses a current municipal property tax exemption mandating a 2% property tax exemption for construction of new structures if that new construction includes sprinkler systems. This statute was adopted at a time when municipal building codes didn't already require the inclusion of sprinkler systems in new construction projects. The exemption would now be optional.

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SECTIONAL – SB 106

Section 1. Removes the five year limitation on economic development property exemptions and deferrals. Removes renewals provision and the limit on property tax exemptions for renewals.

(m)(1) Eligibility for economic development property exemption is based on one qualifier instead of multiple qualifiers.

Adds a qualifier for property development that “enables a significant capital investment in physical infrastructure that:

1. Expands the tax base of the municipality; and
2. Will generate property tax revenue after the exemption expires.

Sec. 2. Makes the mandated tax exemption for a fire protection system up to 2% of the value of the structure optional.

Sec. 3. Repeals AS 29.45.030(l) which was the mandated tax exemption for a fire protection system.

Alaska State Senate



Interim:
1500 W. Benson Blvd.
Anchorage, Alaska 99503
(907) 269-0199 Phone
(907) 269-0197 Fax

Session:
State Capitol Building
Juneau, Alaska 99801-1182
(907) 465-4945 Phone
(907) 465-3476 Fax

SENATE STATE AFFAIRS Senator Kevin Meyer, Chair

AGENDA Thursday, April 13, 2014 3:30PM

SB 106 MUNICIPAL TAX EXEMPTION: ECONOMIC DEVELOPMENT PROPERTY

HB 148 SECOND CLASS BOROUGH SERVICE AREAS

HB 78 INDIGENOUS PEOPLES DAY

BILLS PREVIOUSLY SCHEDULED

SB 106 MUNICIPAL TAX EXEMPTION: ECONOMIC DEVELOPMENT PROPERTY
SPONSOR: Senator John Coghill

Committee Referrals: Community and Regional Affairs
State Affairs

Committee Recs: CRA: DP – Bishop, Gardner, Hoffman
NR – Stedman

Committee Hearings: STA:
SCRA 4/11/2017

Bill Analysis:

This bill would:

- Remove the five year limitation on economic development property exemptions and deferrals. Remove the renewal provision and the limit on property tax exemptions for renewals.
- Make clear the eligibility for economic development property exemption by basing it on one qualifier instead of multiple qualifiers.
- Adds a qualifier for property development that “enables a significant capital investment in physical infrastructure that:
 - Expands the tax base of the municipality; and
 - Will generate property tax revenue after the exemption expires.
- Section 2 makes the mandated tax exemption for a fire protection system up to 2% of the value of the structure optional.
- Section 3 repeals AS 29.45.030(I) which was the mandated tax exemption for a fire protection system.

Fiscal Note: One fiscal note: Zero from DCCED

COMMENTS:

This is about local control for economic development.

Question you can ask: If the 5-year limitation is lifted does that mean communities can have longer or shorter limits on economic development property exemptions and what would that mean for local municipalities or projects that may be out there?

Matanuska-Susitna Borough



April 13, 2017

The Honorable John Coghill
Attn: Rynnieva Moss
State Capitol Room 119
Juneau, AK 99801

Re: Support of CSSB 106

Dear Senator Coghill:

The Matanuska-Susitna Borough supports CSSB 106, an Act relating to municipal tax exemptions.

As State capital and operating budgets are reduced, local governments will have to find more creative ways to facilitate economic development projects. Tax exemption or deferral, with some restrictions, is a tool currently available to local governments, but is currently limited by statute (AS 29.45.050-m), to an initial five year term.

That may have worked well enough for some smaller projects, but today's larger and more capital intensive developments can't find enough certainty in a five-year agreement that might not be renewed as part of a viable business plan. We believe that municipalities acting in their own interest would be better served by removing the five-year restriction.

For Alaska to be competitive with other states in the lower 48 we need to have the same economic development incentives. This bill accomplishes that goal.

Sincerely,

John M. Moosey
Borough Manager

cc: Borough Mayor and Assembly
Mat-Su Valley Legislators



Current Law

5 year cap with option for renewal.

Education funding (*Required Local Contribution*) may be exempted from new property tax revenue from new project for first 5 years. After that, must be accounted for before the remaining property tax revenue can be exempted or deferred under a renewal.



SB 106 Provisions

5 year cap removed. Length of property tax exemption/deferral up to local government.



Education funding (*Required Local Contribution*) must still be funded but it is up to local government to decide what source of revenue to use, not required to use property tax revenue.

Adds new language in statute:

An exemption or deferral on the property enables a significant capital investment in physical infrastructure that expands the tax base of the municipality; and will generate property tax revenue after the exemption expires.

Current Law

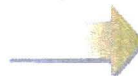
5 year cap with option for renewal.

Education funding (*Required Local Contribution*) may be exempted from new property tax revenue from new project for first 5 years. After that, must be accounted for before the remaining property tax revenue can be exempted or deferred under a renewal.



HB 156

5 year cap removed. Length of property tax exemption/deferral up to local government.



Education funding (*Required Local Contribution*) must still be funded but it is up to local government to decide what source of revenue to use, not required to use property tax revenue.

Adds new language in statute:

An exemption or deferral on the property enables a significant capital investment in physical infrastructure that expands the tax base of the municipality; and will generate property tax revenue after the exemption expires.

CITY OF SEWARD

P.O. Box 167
410 Adams Street
Seward, Alaska 99664-0167



- Main Office (907) 224-4050
- Police (907) 224-3338
- Harbor (907) 224-3138
- Fire (907) 224-3445
- City Clerk (907) 224-4046
- Community Development (907) 224-4049
- Utilities (907) 224-4050
- Fax (907) 224-4038

March 15, 2017

Representative Cathy Tilton
State Capitol Room 400
Juneau, AK 99801

We write to support HB 156, an Act relating to municipal tax exemptions.

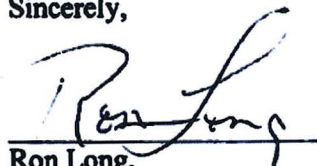
As State capital and operating budgets are reduced, local governments will have to find more creative ways to facilitate economic development projects. Tax exemption or deferral, with some restrictions, is a tool currently available to local governments, but is currently limited by statute (AS 29.45.050-m), to an initial five year term.

That may have worked well enough for some smaller projects, but today's larger and more capital intensive developments can't find enough certainty in a five year agreement that might not be renewed as part of a viable business plan. We believe that municipalities acting in their own interest would be better served by removing the five year restriction.

This bill removes the five year mandate, and adds protections requiring that the significant capital investment expand the tax base of the municipality and thereby increases tax revenues after the exemption or deferral expires.

The City of Seward has enjoyed tremendous State support in developing the Seward Marine Industrial Center Phase One. As we get nearer to Phase Two and beyond, we recognize that private capital will have to play a bigger role, and believe a broader range of options such as this bill will help us and local governments across the state in finding solutions.

Sincerely,


Ron Long,
Assistant City Manager



March 15, 2017

**Representative Cathy Tilton
Alaska House of Representatives
State Capitol, Room 400
Juneau, AK 99801**

**Representative Jason Grenn
Alaska House of Representatives
State Capitol, Room 418
Juneau, AK 99801**

Re: Letter of Support, HB 156

Dear Representatives Tilton and Grenn:

The Anchorage Economic Development Corporation (AEDC) has nearly 30 years' experience in providing economic research, business assistance, and economic development initiatives to the Southcentral region. Our Investor companies represent over 250 of the largest businesses in Alaska across every sector of the economy and are some of the largest employers in the state.

I would like to encourage passage of Senate companion bill to House Bill 156 ("An Act relating to a municipal tax exemption or deferral for economic development property"). This bill, which proposes meaningful amendments to Alaska Statute 29.45.050 ("Optional exemptions and exclusions") subsection (m), could be tremendously helpful for local economic and community development throughout all of Alaska.

AS 29.45.050.m grants local jurisdictions the ability to "partially or totally exempt all or some types of economic development property from taxation for up to five years," giving local jurisdictions a tool to incentivize new economic activity and industry in Alaska communities.

While on its face this sounds like a useful tool for communities to pursue their economic and community development objectives, the definition of "economic development property" within this statute is limited to property that:

- 1. has not previously been taxed as real or personal property by the municipality;**
- 2. is used in a trade or business in a way that**
 - a. creates employment in the municipality;**
 - b. generates sales outside of the municipality of goods or services produced in the municipality; or**



- c. materially reduces the importation of goods or services from outside the municipality; and
3. has not been used in the same trade or business in another municipality for at least six months before the application for deferral or exemption is filed.

These criteria are overly onerous for cities and is the primary reason that no local jurisdiction, to my knowledge, has ever used this tax abatement tool. In fact, the requirements of AS 29.45.050(m) creates an unnecessary roadblock to creative economic development municipal incentives precisely when Alaska communities need it most.

For example, imagine that a company wants to buy an old warehouse building, tear it down, and build a new high-tech jet engine repair facility that will employ 60 people. Despite the positive economic benefits of a project like this, the current statute does not allow a city to provide property tax incentives because the property (a) was previously taxed; (b) does not generate sales outside of the city; (c) requires importing high-tech engine parts (goods) from outside Alaska; and (d) while it may be the only "jet" engine repair facility, it would not be the only "aircraft" engine repair facility and would not be able to meet criteria #3 of the statute.

AS 29.45.050(m) in its current form is overly onerous, too narrowly constructed, and takes a "one-size-fits-all" approach to economic and community development. Our communities are all different, and a truly effective tool would be one that provides local control over property tax-based incentives. Alaska's local communities know their own economic and community development objectives, so Alaska's local communities should have the power to determine how to achieve those objectives.

Modifying AS 29.45.050 (m) has the potential to give Alaska cities the flexibility they need to create local incentives that encourage the economic and community development goals specific to that community. In times of economic downturn like Alaska is experiencing now, tools like this provide communities with a way to invest in themselves that can pay dividends in the future. And best of all, this tool comes at no cost to the State of Alaska.

HB 156 will make important changes to AS 29.45.050.m that have the potential to give communities one more tool to use in their economic development (and self-sufficiency) efforts. HB 156 is necessary legislation if the Legislature truly desires to empower Alaska municipalities to be more self-sufficient and successful in the face of the economic headwinds they face in the coming years.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Popp", written over a white background.

Bill Popp
President & CEO

30-LS0797D
Shutts
4/6/17

CS FOR SENATE BILL NO. 106()
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTIETH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): SENATOR COGHILL

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a municipal tax exemption or deferral for economic development**
2 **property; and relating to a municipal tax exemption for a fire protection system."**

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

4 * **Section 1.** AS 29.45.050(m) is amended to read:

5 (m) A municipality may by ordinance partially or totally exempt all or some
6 types of economic development property from taxation for **a designated period** [UP
7 TO FIVE YEARS. THE MUNICIPALITY MAY PROVIDE FOR RENEWAL OF
8 THE EXEMPTION UNDER CONDITIONS ESTABLISHED IN THE
9 ORDINANCE. HOWEVER, UNDER A RENEWAL, A MUNICIPALITY THAT IS
10 A SCHOOL DISTRICT MAY ONLY EXEMPT ALL OR A PORTION OF THE
11 AMOUNT OF TAXES THAT EXCEEDS THE AMOUNT LEVIED ON OTHER
12 PROPERTY FOR THE SCHOOL DISTRICT]. A municipality may by ordinance
13 permit deferral of payment of taxes on all or some types of economic development
14 property for **a designated period** [UP TO FIVE YEARS. THE MUNICIPALITY

1 MAY PROVIDE FOR RENEWAL OF THE DEFERRAL UNDER CONDITIONS
 2 ESTABLISHED IN THE ORDINANCE]. A municipality may adopt an ordinance
 3 under this subsection only if, before it is adopted, copies of the proposed ordinance
 4 made available at a public hearing on it contain written notice that the ordinance, if
 5 adopted, may be repealed by the voters through referendum. An ordinance adopted
 6 under this subsection must include specific eligibility requirements and require a
 7 written application for each exemption or deferral. In this subsection, "economic
 8 development property" means real or personal property, including developed property
 9 conveyed under 43 U.S.C. 1601 et seq. (Alaska Native Claims Settlement Act) [,
 10 THAT]

11 (1) **to which one or more of the following applies:**

12 (A) **the property** has not previously been taxed as real or
 13 personal property by the municipality;

14 (B) **the property** [(2)] is used in a trade or business in a way
 15 that

16 (i) [(A)] creates employment in the municipality;

17 (ii) [(B)] generates sales outside of the municipality of
 18 goods or services produced in the municipality; or

19 (iii) [(C)] materially reduces the importation of goods or
 20 services from outside the municipality;

21 (C) **an exemption or deferral on the property enables a**
 22 **significant capital investment in physical infrastructure that**

23 (i) **expands the tax base of the municipality; and**

24 (ii) **will generate property tax revenue after the**
 25 **exemption expires; or**

26 (2) **that** [AND (3)] has not been used in the same trade or business in
 27 another municipality for at least six months before the application for deferral or
 28 exemption is filed; this paragraph does not apply if the property was used in the same
 29 trade or business in an area that has been annexed to the municipality within six
 30 months before the application for deferral or exemption is filed; this paragraph does
 31 not apply to inventories.

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

2 (y) A municipality may by ordinance exempt from taxation up to two percent
3 of the assessed value of a structure if the structure contains a fire protection system
4 that is approved under AS 18.70.081, in operating condition, and incorporated as a
5 fixture or part of the structure. An exemption under this subsection is limited to an
6 amount that does not exceed two percent of the value of the structure based on the
7 assessment

8 (1) for 1981, if the fire protection system was a fixture of the structure
9 on January 1, 1981; or

10 (2) as of January 1 of the year immediately following the installation
11 of the fire protection system, if the fire protection system became a fixture of the
12 structure after January 1, 1981.

13 * **Sec. 3.** AS 29.45.030(*l*) is repealed.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version:	CSSB 106(CRA)
Fiscal Note Number:	1
(S) Publish Date:	4/12/2017

Identifier: SB106-DCCED-DCRA-04-07-17
 Title: MUNI TAX EXEMPTION: ECON DEVEL
 PROPERTY
 Sponsor: COGHILL
 Requester: (S) 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)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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:	Katherine Eldemar, Director	Phone:	(907)465-8249
Division:	Community and Regional Affairs	Date:	04/07/2017 06:00 PM
Approved By:	Catherine Reardon, Director	Date:	04/07/17
Agency:	Division of Administrative Services, DCCED		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION**Analysis**

AS 29.45.050(m) provides local communities the ability to offer a full or partial optional property tax exemption or tax deferral to economic development property for up to five (5) years. SB 106 removes the 5-year limitation and allows local communities to specify their own "designated period" which could exceed five years.

Current law also allows local communities to renew a property tax exemption/deferral beyond five years with the exception that taxes for education cannot be a part of such a renewal. SB 106 would remove this requirement.

Current law specifies that an economic development property must meet the requirements of AS 29.45.050(m)(1), (2) & (3) to qualify for the exemption/deferral. SB 106 would require that an applicant qualify for only one of the criteria that are provided in the bill.

As this is an optional exemption, the local government would be required to maintain current valuations of the property and report them to the State Assessor for inclusion in the Full Value Determination for the community.

This legislation also moves the exemption for fire protection systems from a mandatory exemption to a voluntary exemption.

The Division of Community and Regional Affairs does not anticipate a fiscal impact from this legislation.