

ALASKA LEGISLATURE

2130

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

SB

227

SFIN

FILE

SB 227

was referred to the
Senate Finance
Committee

Hearing(s) were held

The bill did not move
from Committee

MEMO TO FILE

DATE: March 7, 2000

TO: Finance Committee

BILL/RES. NO.: **SENATE BILL NO. 227**

ATTENTION: Heidi, Vicki
Senate Secretary's Office

This bill/resolution has not yet received a do pass recommendation.

Please leave this note in the file.

Thank you.

SENATOR KIM ELTON

SB 227 - Property Tax Relief Amendments

Sponsor Statement

SB 227 is proposed in response to initiative petition 99PTAR, certified to the 2000 general election ballot, which caps municipal property taxes statewide. That initiative, if passed, replaces the current 30 mill or 3 percent limitation of levy with a 10 mill or 1 percent levy. In addition, it requires payments on bonded indebtedness to be included within the tax cap, and prohibits local property assessments from rising more than 2 percent annually.

SB 227 restores the language of current law limiting property taxes to 30 mills or 3 percent, with the conditions that:

- A general law municipality may establish a limitation of levy of more than 1 percent and up to 3 percent, by ordinance "approved by the voters";
- A home rule municipality may establish a different limitation of levy by including it in the municipality's home rule charter; such charter amendments require voter approval.

In addition, SB 227 also exempts school bond debt from the tax cap.

SB 227 becomes effective only if the voters approve the tax cap initiative (99PTAR).

SB 227 returns control of local taxation to local citizens and prevents a group of voters from proscribing the level of government taxation to be imposed and services to be provided in a community of which they are not residents.

In addition, SB 227 may prevent the likely fiscal devastation of local government services which will result from passage of the initiative. In the municipality of Anchorage, for example, passage of the initiative would result in a 31.6% decrease in property tax revenue, a loss of \$82 million. If the loss in funding were shared between general government and schools, municipal services funded by property taxes would decline from \$145 million to approximately \$100 million and school funding would drop from \$114 million to about \$78 million. An extremely low tax cap could also cause Alaska municipal bonds to be downgraded, including revenue based municipal debt. SB 227 offers community residents an opportunity to reaffirm the level of property taxation levied upon them.

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SB 227 – Property Tax Relief Amendments

Included in this packet:

- Sponsor statement
- Sectional analysis
- Legal opinion on the legislature's ability to amend an initiative
- Legal opinion on SB 227's conditional effective date
- List of municipalities with property tax caps
- From "Alaska Taxable", historical summary of municipalities' mill rates 1997-1999
- Projected impact of property tax cap initiative on Municipality of Anchorage, prepared by Anchorage Office of Management and Budget
- AML position statement on the proposed initiative
- From "Alaska Legislative Digest", 3 articles on the proposed initiative
- AML resolution opposing the initiative
- City of Petersburg letter and resolution opposing the initiative
- *Juneau Empire* editorial against the initiative
- Copy of the proposed ballot initiative



SENATOR KIM ELTON

SB 227 - Property Tax Relief Amendments

Sponsor Statement

SB 227 is proposed in response to initiative petition 99PTAR, certified to the 2000 general election ballot, which caps municipal property taxes statewide. That initiative, if passed, replaces the current 30 mill or 3 percent limitation of levy with a 10 mill or 1 percent levy. In addition, it requires payments on bonded indebtedness to be included within the tax cap, and prohibits local property assessments from rising more than 2 percent annually.

Under article XI, section 6 of the state constitution an initiative measure which is adopted may not be repealed by the legislature within two years of its effective date **but may be amended at any time**. SB 227 amends the proposed initiative 99PTAR by allowing a municipality to establish a different limitation levy, not to exceed 30 mills or 3 percent of assessed value.

- A general law municipality may establish a different limitation of levy by ordinance "approved by the voters";
- A home rule municipality may establish a different limitation of levy by including it in the municipality's home rule charter; such charter amendments require voter approval.

In addition, SB 227 exempts school bond debt from the tax cap.

SB 227 becomes effective only if the voters approve the tax cap initiative (99PTAR). A conditional effective date is not an uncommon legislative practice and is typically used when the substance of legislation is meaningful only in relation to another event—the passage of a companion bill, the repeal of a regulation, the adoption of a proposed state constitutional amendment, or some other event. For example, in 1978, a capital move proposal, the FRANK Initiative, (ch. 143, SLA 1978) was tied to passage of a bond issue for costs of relocation of the capital. When the bond issue failed, the Frank Initiative and companion statutes were automatically repealed.

SB 227 returns control of local taxation to local citizens and prevents a group of voters from proscribing the level of government taxation to be imposed and services to be provided in a community of which they are not residents.

In addition, SB 227 may prevent the likely fiscal devastation of local government services which will result from passage of the initiative. In the

ALASKA SENATE

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SENATOR_KIM_ELTON@LEGIS.STATE.AK.US

municipality of Anchorage, for example, passage of the initiative would result in a 31.6% decrease in property tax revenue, a loss of \$73 million. If the loss in funding were shared between general government and schools, municipal services funded by property taxes would decline from \$145 million to approximately \$105 million and school funding would drop from \$114 million to about \$81 million. An extremely low tax cap could also cause Alaska municipal bonds to be downgraded, including revenue based municipal debt. SB 227 offers community residents an opportunity to reaffirm the level of property taxation levied upon them.

SB 227 – Property Tax Relief Amendment

Sectional Analysis

Section 1. Limitations of levy.

Adding a new subsection to AS 29.45.090

(e) Provides that the 10 mill or 1 percent property tax cap embodied in the ballot initiative does not apply in a municipality that establishes a different property tax cap; the new cap established by a municipality may not exceed 30 mills or 3 percent of assessed value.

All property taxed in a municipality must be levied at the same rate.

(1) In a home rule municipality, a different limitation of levy shall be set by inclusion of a provision in the municipality's home rule charter; charter amendments require voter approval.

(2) In a general law municipality, a property tax cap shall be set by ordinance approved by the voters.

Section 2. Limitations on taxes to pay bonds.

This section provides that payment of the principal and interest on bonds issued after January 1, 2001, must be included under the cap of 10 mills or 1 percent limitation of levy (a provision of ballot initiative 99PTAR), **except for payments of the principal and interest on school bonds.**

Section 3. Conditional effect.

This act takes effect only if the initiative known as 99PTAR is approved by the voters.

Section 4. Effective date.

This act takes effect on the effective date of the initiative identified as 99PTAR.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. SB 227

Revision Date/Time March 2, 2000

Dept. Affected DCED

Title Municipal property tax levy limitation

BRU _____

Component _____

Sponsor Sen. Elton

Requester SENATE CRA

Component No. _____

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Statutory Designated P/R)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would have no fiscal impact on this department.

Prepared by: Jeffrey W. Bush

Phone 465-2500

Division Commissioner's Office

Approved by Commissioner

Deborah B. Sedwick

Date 03/01/00

Agency

Department of Community and Economic Development

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MEMORANDUM

January 26, 2000

SUBJECT: Basis for submission of a measure to amend Initiative 99PTAR, an initiative proposition relating to the assessment, levy, and collection of property taxes by home rule and general law municipalities (Work Order No. 21-LS1265\G)

TO: Senator Kim Elton

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The measure proposes to amend AS 29.45.090 and 29.45.100. The provisions amended are themselves affected by Initiative 99PTAR, an initiative proposition relating to the assessment, levy, and collection of property taxes by home rule and general law municipalities. Press reports this morning indicate that the lieutenant governor will direct placement of the measure on the election ballot.

The measure to amend the initiative is based on language of article XI, section 6 of the state constitution:

Enactment. If a majority of the votes cast on the [initiative] proposition favor its adoption, the initiated measure is enacted. If a majority of the votes cast on the proposition favor the rejection of an act referred, it is rejected. The lieutenant governor shall certify the election returns. *An initiated law becomes effective ninety days after certification, is not subject to veto, and may not be repealed by the legislature within two years of its effective date. It may be amended at any time.* An act rejected by referendum is void thirty days after certification. Additional procedures for the initiative and referendum may be prescribed by law.

(Emphasis added.) The measure, predicated on the statement in article XI, section 6, that "[an initiated law] may be amended *at any time*," is drafted to take effect if the initiative is approved by a majority of the voters and to take effect on the date that the initiative takes effect as an initiated law, i.e. 90 days after certification of election results by the lieutenant governor. The measure's provisions do not take effect independently of, or in advance of, the taking effect of the initiative if the initiative is approved by the voters.

JBC:glc
00-032.glc

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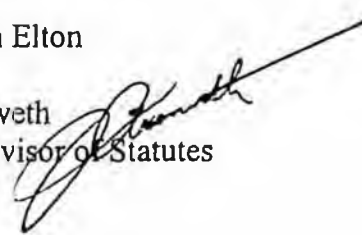
MEMORANDUM

February 12, 2000

SUBJECT: Senate Bill 227: Making the taking effect of the bill conditional upon voter approval of an initiative and giving the bill's provisions an effective date that corresponds to the effective date of the approved initiative.

TO: Senator Kim Elton

FROM: Jack Chenoweth
Assistant Revisor of Statutes



You have asked me to address the propriety of making the taking effect of Senate Bill 227 conditional upon voter approval of an initiative, Initiative 99PTAR, the ten-mill property tax cap initiative, and giving the bill's provisions an effective date that corresponds to the effective date of the approved initiative.

Effective date of bill corresponding to effective date of initiative:

The matter of setting a bill's effective date is left to the legislature. Article II, section 18, Constitution of the State of Alaska. If an effective date other than the 90-day delayed effective date is sought, it must be adopted by a two-thirds vote of each house.

The state constitution authorizes use of initiatives. If approved by a majority of the votes cast on the question, an initiative becomes effective 90 days after the results of the election are certified by the lieutenant governor. The state constitution explicitly allows the legislature to amend the initiative "at any time." Article XI, section 6, Constitution of the State of Alaska. In a bill that, in part, modifies the text of a proposed initiative (to create an exception) and that, in part, adds a provision to a codified section that is being amended by a proposed initiative, having those changes take effect on a date that corresponds to the date that the initiative, if approved, is to take effect is fully consistent with authority given to the legislature under article II, section 18 and article XI, section 6.

Making the provisions of the bill conditionally effective:

The amendments proposed by Senate Bill 227 are to operate only in the context of the changes that are being made by the initiative if the initiative is approved. The amendments

are drafted to the initiative's changes¹⁷ and would serve no purpose if the initiative is not approved.

The Legislative Drafting Manual recognizes the use of conditional provisions in instances in which the coming into effect of one bill is related to another event--the passage of a companion bill, the adoption, amendment, or repeal of a regulation, the adoption of a proposed state constitutional amendment, the passage of federal legislation, the final decision in pending litigation, or some other identifiable event. *Manual of Legislative Drafting*, at p. 31. Making the taking effect of a bill (or part of a bill) contingent on, for example, the adoption of another bill has become almost routine in some matters.

In this instance, making the taking effect of Senate Bill 227 contingent on the adoption of other legislation, albeit a "bill" that becomes law based on compliance with the initiative process and a public vote, should not be regarded as an exceptional departure from current practice. The legislature has pegged the taking effect of a legislative Act to a public vote on another proposal in at least two very well-known instances. In the legislation (ch. 143, SLA 1978) proposing incorporation of the "Alaska Capital City Development Corporation" that would have acted to establish a new capital city in Southcentral Alaska, the measure's section 6 provided that

This Act takes effect 30 days after certification that a bond issue for costs of relocation of the capital has been adopted by the voters of the state.

At the November, 1978, general election, the voters rejected a bond issue for that purpose. In ch. 54, SLA 1981, by AS 44.06.196(j), enacted in sec. 1 of that Act,

If the ballot proposition provided for in this section is approved by a majority of the votes cast on the question, an amount equal to the estimate of total costs may be expended to complete relocation of the capital. If the ballot proposition is rejected by a majority of those voting on the proposition, the Capital Relocation Initiative (AS 44.06.100 - 44.66.190, the "FRANK Initiative" as amended (AS 44.06.195, 44.06.196), the laws establishing the New Capital Site Planning Commission (AS 44.06.200 - 44.06.299), and the Relocation Indemnification Act (AS 44.08) are repealed.

¹⁷ Recall that Senate Bill 227's bill section 1 adds a new subsection, subsection (e), to AS 29.45.090 to displace the 10-mill property cap limitation of AS 29.45.090(a) as re-enacted by the initiative, while Senate Bill 227's bill section 2, amending AS 29.45.100, makes a direct amendment to the text of sec. 2(3) of the language of the initiative to take tax levies for school bonded indebtedness out of the general rule that municipal bonds issued on or after January 1, 2001, are subject to the cap. Neither of the changes made in these bill sections makes sense without reference to the changes that would be wrought by the initiative.

Senator Kim Elton
February 12, 2000
Page 3

The ballot proposition was rejected and the specific laws and Acts enumerated in AS 44.06.196(j) were thereupon repealed.

Conditioning the taking effect of an enactment on approval of a related measure by public approval given in a public vote is not so exceptional or unusual that it should give rise to a successful legal challenge.

JBC:jdr
00-076.jdr

Municipalities with property tax caps

Anchorage: (a) prior year's tax revenue, plus
(b) CPI, plus
(c) taxes on new construction.

Fairbanks: same as Anchorage.

Juneau: 12 mills; bonds not included.

Kenai Borough: 8 mills; bonds not included.

Kodiak Borough: same as Anchorage plus

- Emergency expenses. plus
- Revenue for legal settlements and costs.
- Bonds not included.

Sitka: 6 mills; bonds not included.

Petersburg: 10 mills; bonds not included.

TABLE J
HISTORICAL SUMMARY OF MUNICIPAL PROPERTY TAX RATES
(1997-1999)

Mill levies are listed for the cities located within the municipality. The mill rates will not be listed for all service areas, however, a range of mill rates is presented for each municipality. For a specific service area mill rate, contact the local municipal assessment office. An assessment jurisdiction mailing list can be found at the end of this publication.

Municipality	1997	1998	1999
--------------	------	------	------

MUNICIPALITY OF ANCHORAGE
(Unified Home Rule)

General Government	2.09	2.07	2.11
Education	7.70	7.77	7.79
Fire	1.65	1.56	1.59
Roads/Drainage	3.44	3.52	3.28
Police	2.97	2.70	2.56
Parks & Recreation	0.78	0.85	0.82
Building Safety	0.01	0.01	0.01
TOTAL	18.67	18.53	18.16
Smallest mill rate reported	9.90		
Largest mill rate reported	18.18		
Total number of service areas reported	43		

BRISTOL BAY BOROUGH
(Second Class)

General Government	0.00*	0.00*	0.00*
Education	4.75	4.75	5.00
Solid Waste	1.50	1.50	1.00
Public Safety			2.25
Waste water	1.00	1.00	1.00
TOTAL	7.25	7.25	10.25

Mill rate is areawide.

* General government is funded through fish tax.

FAIRBANKS NORTH STAR BOROUGH
(Second Class)

City of Fairbanks (Home Rule)

School & Library Bonds	0.582	0.880	1.010
General Government (Boro)	4.311	4.064	5.170
General Government (City)	5.966	5.999	6.000
Education	8.497	8.831	8.3000
TOTAL	19.356	19.774	20.480

Smallest mill rate reported 16.1840

Largest mill rate reported 30.1890

Total number of service areas reported 131

City of North Pole 17.968
Borough Levy 16.184

TABLE 5
continued

Municipality	1997	1998	1999
HAINES BOROUGH			
(Third class)			
City of Haines (First class)			
General Government	5.85	5.85	5.85
Education	4.50	4.50	4.50
Medical	-0-	-0-	-0-
TOTAL	10.35	10.35	10.35
Smallest mill rate reported	4.74		
Largest mill rate reported	6.60	Borough Levy	4.50
Total number of service areas reported	5		
CITY AND BOROUGH OF JUNEAU			
(Unified Home Rule)			
Education	5.20*	5.61*	5.61*
Fire	0.98	0.93	0.93
Police	5.71**	5.48**	5.48**
TOTAL	11.89	12.02	12.02
Smallest mill rate reported	6.12		
Largest mill rate reported	12.22		* includes schools, bond debt & general govt.
Total number of service areas reported	3		** includes Police, Transit, Streets & Parks
KENAI PENINSULA BOROUGH			
(Second Class)			
City of Kenai (Home Rule)			
General Government	3.50	3.50	3.50
Borough	8.30	8.00	8.00
Hospital	0.40	0.40	0.40
Kenai Peninsula College	0.08	0.08	0.10
TOTAL	12.28	11.98	12.00
Smallest mill rate reported	8.60	City of Seldovia	15.35
Largest mill rate reported	12.75	City of Homer	15.60
Total number of service areas reported	13	City of Seward	11.22
		City of Soldotna	12.90
		City of Kachemak	11.10
		Borough Levy	8.00

TABLE 5
continued

Municipality	1997	1998	1999
KETCHIKAN GATEWAY BOROUGH			
(Second Class)			
City of Ketchikan (Home Rule)			
General Government	0.57	0.57	0.62
Education	6.43	6.43	6.88
Police	1.43	1.43	1.43
Fire	1.07	1.07	1.07
Public Works	4.20	3.90	3.90
TOTAL	13.70	13.40	13.90
Smallest mill rate reported	7.50		
Largest mill rate reported	11.63	Borough Levy	8.43
Total number of service areas reported	14	City of Saxman	7.50
KODIAK ISLAND BOROUGH			
(Second Class)			
City of Kodiak (Home Rule)			
General Government	2.00	2.00	3.00
Borough/Education	9.25	9.25	8.25
TOTAL	11.25	11.25	11.25
Smallest mill rate reported	9.25		
Largest mill rate reported	12.50		
Total number of service areas reported	8	Borough Levy	9.25
MATANUSKA-SUSITNA BOROUGH			
(Second Class)			
City of Wasilla (First Class)			
Borough/Education	11.50	11.73	12.50
City	1.50	1.30	1.20
Fire	1.30	1.00	1.00
TOTAL	14.30	14.03	14.70
Smallest mill rate reported	12.50	City of Palmer	15.50
Largest mill rate reported	18.86	City of Houston	15.00
Total number of service areas reported	27	Borough Levy	12.50

**TABLE 5
continued**

Municipality	1997	1998	1999
--------------	------	------	------

NORTH SLOPE BOROUGH (Home Rule)**

General Government	2.77	2.66	2.42
Education	2.35	2.48	2.59
Debt Service	13.39	13.36	13.49
TOTAL	18.51	18.50	18.50

Mill levy is areawide

CITY & BOROUGH OF SITKA (Unified Home Rule)

General Government	3.00	3.00	3.00
Education	3.00	3.00	3.00
TOTAL	6.00	6.00	6.00

Mill levy is areawide

CITY & BOROUGH OF YAKUTAT (Home Rule)

General Government / Education	9.00	9.00	9.00
TOTAL	9.00	9.00	9.00

Mill levy is for road accessed property only
Property without road access is taxed at 6.0 mills

** See "Explanation of Millage Rates" on next page.

TABLE 5
continued

Municipality	1997	1998	1999
CITY OF CORDOVA (Home Rule)			
General Government/Education	14.48	14.48	14.00
TOTAL	14.48	14.48	14.00
Smallest mill rate reported	11.49		
Largest mill rate reported	11.49		
Total number of service areas reported	1		
CITY OF CRAIG (First Class)			
General Government	6.00	6.00	6.00
TOTAL	6.00	6.00	6.00
Mill rate is areawide			
CITY OF DILLINGHAM (First Class)			
General Government	8.00	8.00	8.00
TOTAL	8.00	8.00	8.00
Mill rate is areawide			
CITY OF EAGLE (Second Class)			
General Government	1.00	0.00	0.00
TOTAL	1.00	0.00	0.00
Mill rate is areawide. Note: There was no property tax levied for 1998.			
CITY OF NENANA (First Class)			
General Government	12.50	11.50	11.50
TOTAL	12.50	11.50	11.50
Mill rate is areawide			
CITY OF NOME (First Class)			
General Government	3.0622	3.9861	5.18
Education	9.6878	7.12398	6.82
TOTAL	12.75	11.11	12.00
Mill rate is areawide			

**TABLE 5
continued**

Municipality	1997	1998	1999
CITY OF PELICAN (First Class)			
General Government	6.00	6.00	6.00
TOTAL	6.00	6.00	6.00
Mill rate is areawide			
CITY OF PETERSBURG (Home Rule)			
General Government	10.00	10.00	10.00
TOTAL	10.00	10.00	10.00
City has three service areas, however all three have the same mill rates			
CITY OF SKAGWAY (First Class)			
General Government	7.00	7.00	8.80
TOTAL	7.00	7.00	8.80
Smallest mill rate reported	1.58		
Largest mill rate reported	8.80		
Total number of service areas reported	5		
CITY OF UNALASKA (First Class)			
General Government	11.78	11.78	11.78
TOTAL	11.78	11.78	11.78
Mill rate is areawide			
CITY OF VALDEZ (Home Rule)**			
General Government	14.7511	15.1830	14.940
Education	5.1640	4.8170	5.060
TOTAL	19.9151	20.0000	20.000
CITY OF WHITTIER (Second Class)			
General Government	5.00	5.00	5.00
TOTAL	5.00	5.00	5.00
Mill rate is areawide			
CITY OF WRANGELL (Home Rule)			
General Government	8.80	8.80	7.11
Education	1.20	1.20	1.89
TOTAL	10.00	10.00	9.00
Smallest mill rate reported	1.20		
Largest mill rate reported	12.00		
Total number of service areas reported	3		

**See "Explanation of Millage Rates" on next page

**PROJECTED IMPACT ON ANCHORAGE OF INITIATIVE PETITION
"AN ACT PROVIDING PROPERTY TAX AND ASSESSMENT RELIEF" (99PTAR)**

Anchorage 2000 Mill Rates

General Government based on November 1999 Assembly approved 2000 budget; School District based on District's proposed FY2000-2001 budget

	<u>Total</u>	<u>Estimated Debt Service</u>	<u>Total Excluding Debt Service</u>
General Government (Average)	9.82	(1.86)	7.96
Anchorage School District	8.09	(1.39)	6.70
	<u>17.91</u>	<u>(3.25)</u>	<u>14.66</u>

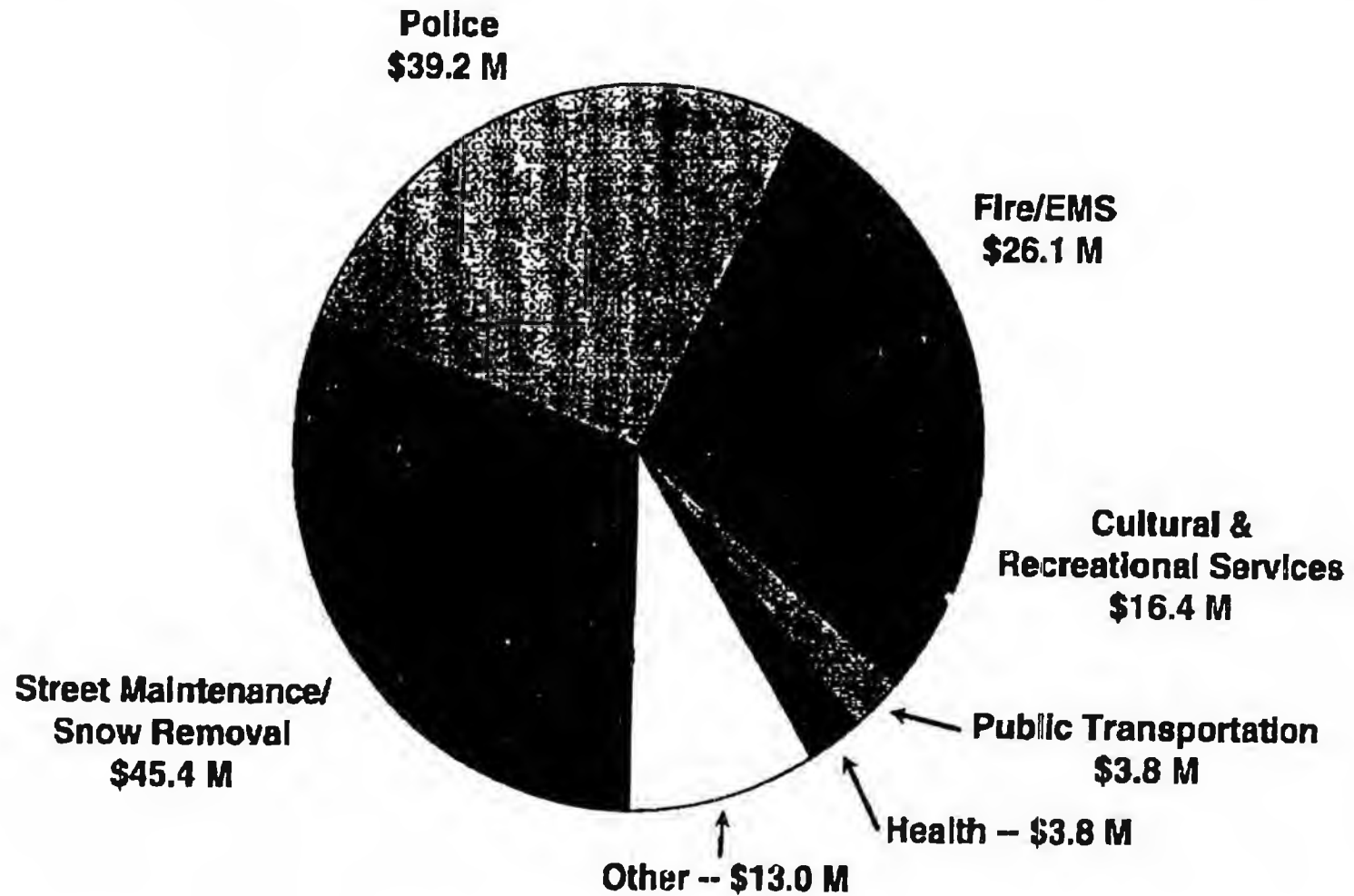
Impact of 99PTAR

Based on preliminary 2000 mill rates for illustrative purposes only. If 99PTAR is approved by the voters, it would not be effective until the 2001 mill rate.

If property tax reduction is allocated to General Government and the School District on the basis of their 2000 property taxes:

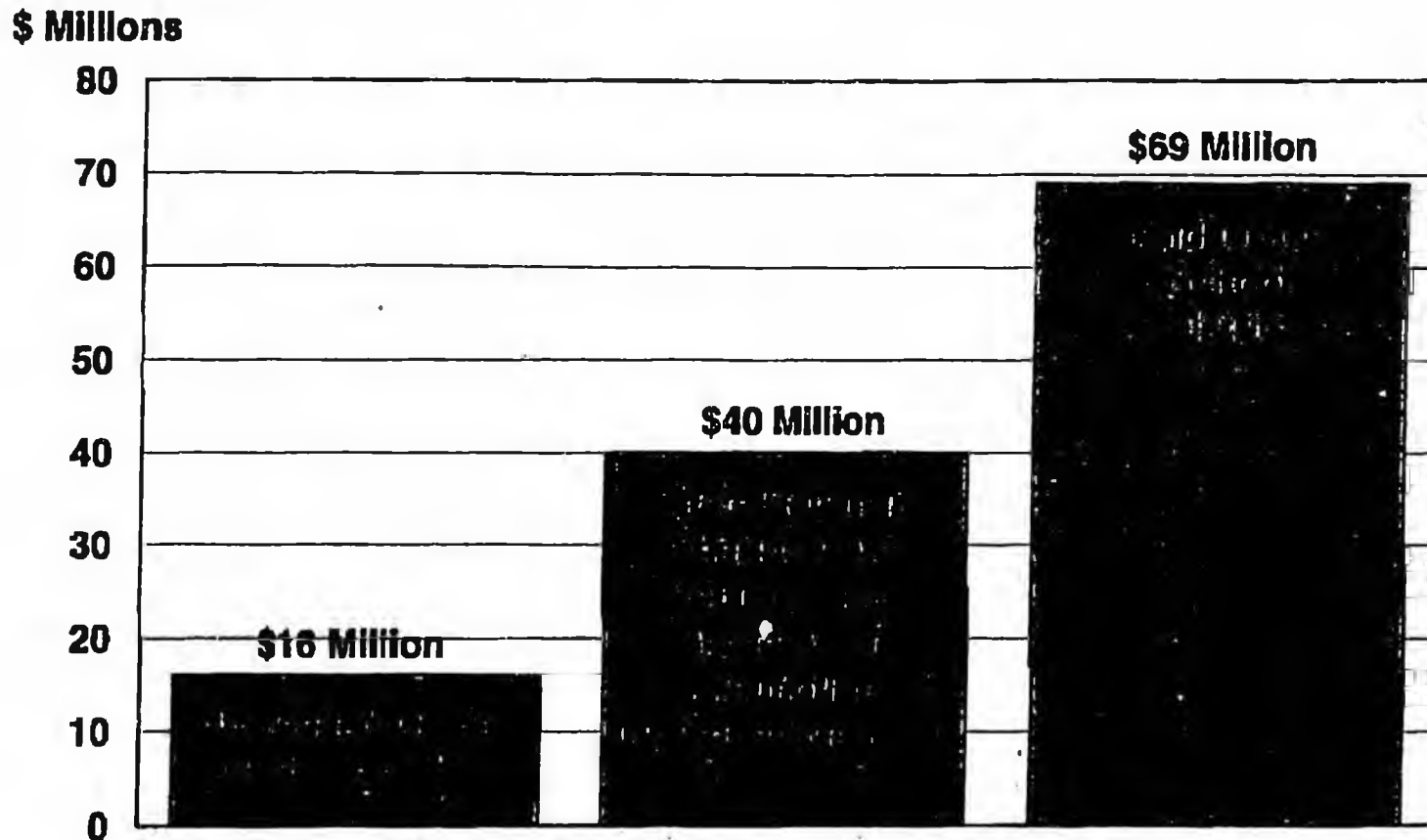
General Government	\$40 million
School District	\$33 million
	<u>\$73 million</u>

2000 PROPERTY TAXES FOR CITY SERVICES (\$ Million)



TOTAL = \$147.7 Million

CAUSES OF ANCHORAGE PROPERTY TAX INCREASE (1990 - 2000)



TOTAL INCREASE DURING PAST DECADE: \$125 MILLION

*** Yet during this 10-year period . . .**

- Population has increased by 17%,
- Population served by police has increased by 35%,
- We have added 91 more police officer positions,
- We have added 54 more firefighters/emergency medical positions,
- We are now maintaining 52 additional miles of Municipal roads, and
- Inflation has increased by 34%.



Alaska Conference of Mayors

***State of the
Municipalities
2000***

**Finding Solutions for
Communities
in Crisis**

Property Tax Cap Will Hurt Alaskans

The proposed initiative does two main things:

1. Limits local mill rates to 10 mills per municipality, including future bond debt (20 mills for residents of cities in boroughs).
2. Limits increases in assessed value of individual properties to no more than the Consumer Price Index, but no more than 2% per year.

Local Rights Issues:

- **Takes away local voters' rights:** People in other parts of the state have no right to set mill rates for your municipality. Once set, your community can't change the cap, even if all of the residents want to do so. Communities already have the power to adopt local caps designed to meet their own needs and many have done so.
- **Some people get tax breaks, some don't:** Owners with property of equal market value may pay different property tax amounts for two reasons:
 1. Since property will only be assessed at true market value when it is sold or constructed, new homeowners will pay higher taxes than others.
 2. The 2% cap in assessed value increases will give a tax break to property owners with property that is more quickly growing in value.
- **If you live in a city in a borough, you are treated unfairly:** Each municipal government gets a separate 10 mill tax cap. The cap is 20 mills if you live in a city within a borough.
- **Critical local public services slashed:** The initiative would slash the major revenue by half in our largest municipalities. Schools are the key municipal service funded by property taxes. Schools average 9.7 mills in the three largest municipalities.
- **No new school construction:** The initiative cap freezes bond repayment for new capital construction. Construction of new schools or other local improvements will be virtually impossible under the cap, even if approved by local voters.
- **The initiative means new taxes, not a tax cut:** How do petition advocates think schools, roads, and other services will be provided? The petition organizer states, "It's not my problem." He is right, it is YOUR problem. Alaskans won't allow inadequate education, public safety, and road maintenance.

"People in other parts of the state have no right to set mill rates for your municipality."

Special Rural Community, Schools & Municipal Supplement

Focus: Rural, municipal, and school legislative issues.

A special service of
**Alaska
Legislative Digest**

A special supplement available only to
regular Digest subscribers by special order.

Local Supplement
1/15/00 with Dig #2/00

The 10 mill initiative is filed on time; Now it's time to plan for possible "self imposed crisis"

The 10 mill municipal property tax initiative petition has been received by the Lt. Governor's office along with 24,183 signatures. The required number of signatures is 22,716, representing 10 percent of the voters that cast ballots in the last general election. The 10 mill initiative was the first to reach the Lt. Governor's Office and therefore will be the first processed by the Division of Elections, charged with validating signatures. Indications are that the 1,467 signature surplus should be sufficient to compensate for duplicate and invalidated signatures.

Anchorage beginning to take serious note

Immediately after the Legislature's opening session the Anchorage Senate caucus held a brief noon meeting with Anchorage Mayor Rick Mystrom and City Attorney Mary Hughes. The subject was intended to be broader, but ended up almost exclusively focusing on general discussion of the 10 mill initiative. In many respects the discussion gave focus to the need to pin down detail on the mechanics of the proposed law, as well as its impact, both in terms of municipalities and also state interests.

The first municipality in front of the 10 mill firing squad is the state's largest, Anchorage, which operates on a calendar year budget. Most other municipalities operate on a fiscal year, and for them there will be roughly six months to make adjustments. But Anchorage will face a new budget year beginning January 1, 2001, just days after the effective date of the 10 mill law, if adopted.

Continued next page

Calendar year budgets face immediate impact

(Continued) The 10 mill initiative would be approved at the November general election, and probably certified in early December. This leaves Anchorage virtually no time to revise its budget, although the domino impact on Anchorage schools would occur a little later, affecting the Sept-2001-June/2002 school year.

At this point there is a minimum of answers and lots of questions about the 10 mill municipal property tax. If there are any conclusions to be drawn from the discussion in the Anchorage caucus it's that there are more questions than answers at this point. The Alaska Municipal League will be one of the main conduits for presenting the issue before lawmakers.

Anchorage municipal snap shot

Anchorage in 1999 had a general mill levy of 17.82 mills. Past debt service, grandfathered in at roughly 3.19 mills in 1999, would be allowed outside the 10 mill cap. Nevertheless, this would still leave Anchorage at 14.63 mills, or 4.63 mills above the cap.

The 4.63 mill reduction would represent a 31.6 percent decrease in property tax revenue to the municipality of Anchorage, representing \$82 million. Assuming a shared decrease for general government and schools, municipal services funded by property taxes would decrease from \$145 million to roughly \$100 million, and property tax funding to the school district, would drop from \$114 million to about \$78 million.

Compounding Anchorage's problem is: (1) the immediate timeframe and (2) a charter provision, adopted by initiative in 1998, requiring a 60 percent margin to adopt a municipal sales tax. In the recent Anchorage caucus discussion, which was pretty brief and certainly very informal, one brief suggestion was to amend Title 29 to prohibit supermajorities for revenue enactments, the logic being that a supermajority empowers a minority, allowing Anchorage a reasonable shot at adopting a sales tax. The 10 mill cap also has engendered some discussion about excluding school districts from local tax caps, since schools are a constitutionally prescribed state function delegated by statute to local governments.

Continued next page

Legislative treatment of the 10 mill cap

Removal from ballot: The Legislature has a constitutional opportunity to meet the general tenants of an initiative, meaning clean it up a bit, and thus remove it from the ballot. In the case of property cap it is pretty obvious this does not include sufficient latitude to alter the 10 mill provision, the effective date, or the 2 percent assessment value provision, and these are the three features that do the damage. **Conclusion:** The Legislature has no real opportunity to remove the initiative from the ballot.

Subsequent amendment: The Legislature is restricted from amending law adopted by initiative for a two year period. However, even after two years the Legislature would have to exercise great political care in amending a 10 mill cap. **Conclusion:** The Legislature probably could not amend the actual 10 mill feature immediately after the expiration of the two-year period, and if so, by very much. However, lawmakers might be able to move debt outside the 10 mill cap after two years. This could allow municipalities to again have bond capacity, and provide potential bond buyers sufficient guarantee of promise to pay. However, bond buyers also have to be able to see sufficient possible tax capacity to maintain capital facilities over the life of the debt. An extremely low tax cap, and restricting debt millage, could and probably will cause Alaska municipal bonds to be downgraded, including even revenue based municipal debt.

Collateral impacts on Alaska debt capacity

A fundamental and critical question: Would a 10 mill cap, one that includes debt, impact the state's own bond ratings, including possibly having a domino impact on agencies like the Alaska Housing Finance Corporation (AHFC) and the Alaska Industrial Development and Export Corporation (AIDEA). If so including debt under the cap would have extensive impact. This will be a subject of discussion in our future reports.

Lawmakers, after some years, possibly in concert with other revenue actions, might be able to increase the 10 mill limit, and also possibly amend the law relating to the increase in assessments.

Continued next page

A gradual distortion in school funding?

(Continued) There is also the question of the distortion that freezing assessments to 2 percent will cause to community full and true property valuations. Over time there will be an increasing distorting between communities where properties frequently turn over, and those where property is rarely sold. This is likely to have an impact on school foundation funding, which rests on a basis of full and true value across the state.

Governor's speech - some good news for schools

In his budget speech Gov. Knowles proposed a \$550 million bond issue for schools, with additional funding for urban communities to be funded under debt support. What this means is the governor has said: "Bond for schools," the House legislative majority has said: "Bond for schools," the Senate legislative majority has said nothing, yet. This means that the governor and House lawmakers are at least working off the same page, the details of what's on the page has a long time to evolve. Two out of three of the players agreeing to bond, and agreeing to roughly the same ballpark figure, is not bad as a start for the school construction issue.

University of Alaska - new funding support!

The Governor made clear he will support a \$16.9 million increase in budget requested by the University Board of Regents. Knowles said state support for universities has increased 42 percent nationally over the last decade, but only 2 percent in Alaska.

Non-quality schools - maintaining low performance!

Here we must pick on the governor a bit. He said that in 20 of Alaska's 53 school districts "at least half of the 11th graders scored at the bottom quartile in reading, language, or math." However, proposed is only \$7.6 million for "prep kinds" of initiatives, obviously needed do something for students at risk by the state's new high school "execution exam." Good intentions and symbolism aside, \$7.6 million is like giving 2,000 students in the middle of the Sahara desert, dying of thirst, a cup with 7.6 drops of water. By the way, schools outside those 20 districts have plenty of problems, too, but their students at risk, lots of them, are masked by being averaged in with high end kids. *-More on this later, lots more!*

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regular Digest subscribers by special order

Local Supplement
2/5/00 with Dig #5/00

Alaska mayors warn that the 10 mill initiative is a bad deal for everyone!

Alaska mayors say that the initiative proposing a 10 mill property tax cap is a bad deal for everyone, including property owners. Ignoring the issue will have domino impacts, they say, complicating prospective state fiscal policy.

What can lawmakers do to help?

One thing the mayors say is that lawmakers should leave alone further state/municipal revenue sharing budgets, at least for now. They would like to have no further cuts, but urgently stress no cuts this year! What Anchorage Mayor Rick Mystrom hopes to do is put together an Anchorage property tax reduction for the current year, but he says a further cut in state revenue sharing will force a tax increase (even with the local reduction). This would put a tax increase right into sync with the 10 mill issue going to the ballot in November. Mystrom wants to avoid this collision of two diverse policy initiatives that might encourage voters to opt for the tax cap.

Municipal officials say the best scenario is for the 10 mill cap proposal to fail. Hopefully, then the debate over the 10 mill initiative would lay the foundation for key municipalities such as Anchorage, Fairbanks and Mat-Su, to seriously consider broadening their tax revenue base by adopting sales taxes.

Ongoing debate of our responsibilities to pay for what?

What the 10 mill controversy will do is continue the debate over taxes and responsibilities. Who should pay for what and how? Obviously this is a public debate that needs more discussion and continuity,

Continued next page

Some broadbrush snap shots

What we have now: We now have a 30 mill cap. Debt obligations can be above 30 mills, which is important. This gives our bond buyers a clear and unfettered promise to pay, helping with bond ratings and to secure lower interest rates.

Current state average: The current state average mill rate is roughly 15 mills. Despite the average, in most medium size cities the rate is 8 to 12 mills.

First 10/12 mills - municipal core operations/school: For most communities municipal operations, plus areawide school contributions, consume the first 10-12 mills of a levy. Within this core levy is a mandatory 4 mill state requirement for schools, but many municipalities pay more. For example: Ketchikan 6.43 mills; Kodiak 9.25 mills; Fairbanks 8.3 mills; Anchorage 7.79 mills; Bristol Bay 5 mills.

After 10-12 mills - taxing jurisdictions/service areas: The mill outlay beyond 10-12 mills is largely consumed by special jurisdictions within municipalities, ones created or joined voluntarily by citizens to provide their own service needs.

In general mill rates above 12 mills tend to finance elective services by citizens. It is important to consider that the people in these areas have usually: (1) specifically agreed to the range of services, (2) agreed that they will have to pay the cost of such services, and (3) generally understand they cannot expect other taxpayers to pay for their specific package of services. *Note: Fairbanks has 131 service areas, Mat-Su 27, with most being road or fire service areas.*

Why service area millage is important: The mill costs above 12 mills are important to focus on because the 10 mill cap simply unilaterally disallows anything above 10 mills. This creates a structural limbo for such service areas, and policy mysteries in terms of fashioning anything to replace them. There is no functional way to provide for the service area needs without asking core taxpayers to pay, increasing the core levy, which then also creates demand from other areas for similar treatment.

Squeezing below 10 mills leaves no capacity elective service area millage, regardless of the taxpayers desire to pay it. Next, even municipalities below 10 mills need to maintain capacity for future debt. If they don't, then they can't borrow, and this has ramifications for things like new subdivisions, road replacement and upgrade, and maintenance, let alone borrowing under the state school debt support program.

Continued next page

Wrangell, Petersburg, Craig, Nome, Dillingham

These are cities with city school districts, which vary from a high of 14 mills to 6 mills, but the mill rate doesn't tell the whole story. Unlike Fairbanks, Anchorage, and Mat-Su, which have zero sales taxes, these communities levy sales taxes ranging from 4 percent to 7 percent. Wrangell levies a 7 percent sales tax, Petersburg a 6 percent tax, Cordova has 6 percent, and Craig and Dillingham 5 percent. The point is that these cities are already using a broad base of their tax options, and for the most part they always have. Few of them received the tax holiday the railbelt boroughs have experienced, in part because they are sophisticated and well-integrated small cities operating a full agenda of municipal services. These are also old cities, used to running their own affairs, and with constituencies used to paying their way.

The problem for these cities, which also operate city school districts, is they might have wiggle room right now, but they also have little alternate tax base left to tap. Most also apply their property tax fairly broadly.

Sitka, Ketchikan, Yakutat, others

Sitka: Sitka is a unified municipality under a single 10 mill cap, and at 6 mills seems comfortably under the 10 mill cap. However, Sitka already has a 5 percent sales tax, and exercises its property tax fairly broadly, taxing business equipment, inventory, boats and aircraft. Sitka is in the range of boroughs that participates in the state debt reimbursement program, and presently carries \$1,506 per capita debt.

Ketchikan: Ketchikan is a second class borough with the home rule City of Ketchikan in its center. The mill rate within the city is 13.9 mills, and the borough has 8.3 mills, but Ketchikan has a borough sales tax of 2 percent and a city sales tax of 3.5 percent, for a combined sales tax rate of 5.5 percent, the rate most people will pay. There is not a lot of slack here,

Yakutat: Yakutat is one of our newest boroughs, making the transformation from a first class city operating its own school city district to a borough in the 1990s. Presently Yakutat has a 9 mill real property tax rate, but also a 4 percent sales tax, plus a bed tax, car rental tax, and a 1 percent raw fish tax. The community is 1 mill from the proposed tax cap and pretty well using all other revenue options available. The Yakutat Borough also has a per capita debt of \$1,136.

Continued next page

Smaller boroughs and cities: A problem they grow into!

(Continued) The broad picture we have is that our smaller boroughs and many medium size cities are not in an immediate crisis situation under a 10 mill cap. Over the longer term they have problems because: (1) most already use alternative tax bases, and (2) this class of city will be the most burdened by continued erosion of all kinds of state services.

Railbelt: Mostly immediate crisis - sales taxes or cuts!

The railbelt faces the immediate crisis, with the exception of the Kenai Peninsula Borough, which already has a diversified tax base splitting burdens between property taxes and sales taxes. However, like the smaller boroughs and cities discussed above, the Kenai Borough and its cities are already tapping their sales tax base at roughly 5 percent. The borough sales tax is only 2 percent, but within cities, where most purchases are made, it is a combined 5 to 5.5 percent. Cities within second class boroughs get some relief by getting their own 10 mills, without burden of schools.

Anchorage and Fairbanks face difficult situations, but both are large commercial centers and have considerable alternate capacity in the form of sales taxes. However, Anchorage adopted a charter amendment (by initiative) several elections ago requiring a supermajority to adopt a sales tax. As we've said before, achieving a 60 percent margin on a controversial fiscal issue is a tough political challenge.

The irony of the Anchorage situation is they could go to a special election for a sales tax, get a majority but fail supermajority. The subsequent drastic cuts for municipal services and schools would then invite interesting citizen reactions, since citizens would be confronted with cuts despite their majority willingness to tax.

Service districts - solution a mystery.

As a tax cap squeeze takes place, the mystery remains as to how service districts can survive. Certainly, service district residents cannot expect a gift of services, plus the services are extremely varied. We also need to remember that service areas represent a huge gift of flexibility, allowing a response to varying needs, varying ability to pay, and allowing choice to the users.

A 10 mill poll - a ray of hope! Maybe we can avoid local chaos?

An Anchorage based poll by Ivan Moore Research has surprised political observers, showing that 50 percent of Anchorage area voters, at this time, were willing to say they opposed a 10 mill cap on property taxes. Of those sampled in the municipality-wide poll 42 percent said they supported a 10 mill cap, while 8.1 percent said they "didn't know." The question asked was straight forward and did not include suggestions of side issues, such as issues surrounding service areas, ability to bond, or impact on bond ratings.

(Note: See question asked page 2)

Some demographic highlights:

- * Those of less education tended to support the 10 mill cap; those of the highest education were most opposed to the cap (60 percent).
- * Younger respondents also tended to support the cap, while older respondents opposed the cap.
- * Those of less income and tended to support the cap; those with the higher income tended to oppose the cap.
- * Married respondents were more opposed to the cap than single people.
- * Non politically affiliated tended to oppose the cap, as did union members and Democrats, while Republicans and conservatives favored the cap.
- * Men tended to oppose the cap more than women.

Continued next page

The question asked!

There is a statewide initiative that will appear on the November ballot that proposes capping property taxes at a maximum of 10 mills statewide. In Anchorage property taxes current range between 13 and 18 mills. Proponents of the initiative say property taxes are too high and should be reduced. Opponents say that this proposal will cause significant reductions in basic municipal services, or will necessitate other types of taxers to replace lost revenues. **Do you support or oppose the statewide initiative proposal to cap property taxes at 10 mills?**

Support and opposition by area

The strongest opposition (57 percent) came from West Anchorage, a more affluent area of Anchorage. The lowest opposition was downtown, at 46% favoring the cap and 45% opposing the cap, which may reflect a higher percentage of "renter" respondents less directly familiar with property taxes. Affluent South Anchorage tended to split on the issue. East Anchorage opposed the cap at 52.5 percent, Eagle River at 50 percent, while midtown opposed the cap at 56.6 percent.

Issues to yet to surface

Many issues are yet to surface that will influence voters on the 10 mill initiative. One issue will be school cuts. In the three largest railbelt boroughs, Fairbanks, Anchorage, and Mat-Su, there will be serious issues of school budget cuts if the initiative is approved. The only alternative is a hefty and broadly applied sales tax, a general tax paid areawide and then used to make up lost local revenues for an areawide service - schools.

Another issue is debt, and the ability of local governments to bond for improvements. This is serious for Anchorage in terms of maintaining municipal structure, and for all major municipalities in terms of schools. There is also the issue of bond ratings, and collateral impacts that might reach the bond ratings of the state, and its subsidiaries. This costs a lot of money for a lot of people, in a lot of different ways.

Continued next page

Issues to yet to surface (Cont'd)

The complex issues that revolve around service areas represent an interesting wrinkle as the 10 mill debate progresses. This is especially true in places like Mat-Su and Fairbanks where significant services are delivered and supervised generally by local boards through scores of service areas. Fairbanks has 131 road and fire service areas, and it is important to remember that two-thirds of the Fairbanks population lives outside the city and is served by these service area units. In Mat-Su there are roughly 60 such service areas, again mostly road and fire service areas. We were also reminded by a Mat-Su official that service areas in that borough are totally privatized, with services delivered by bid and contract.

PCE - Universal services fund

Rep. Bill Hudson has succeeded in turning his Utility Restructuring Committee to the always difficult task of rural power cost equalization. In many respects the universal services concept is a feature of every utility within its own operating zone, with more efficient areas helping offset costs of less efficient service zones. It's a short step conceptually to applying this concept to the statewide stage, with larger and efficient bodies of rate-payers, some lucky enough to sit on top of natural gas, helping offset high rural energy costs, i.e. helping support PCE. However, this is a long political step.

However, it is interesting to see Joe Griffith, Chugach's chief financial officer, consistently willing to bring up, and talk supportively, of the universal services concept. Griffin's position is interesting because he represents a bunch of urban rate payers and because he is also the money guy for Chugach - chief financial officer. As the CFO, he's an unlikely type to speak up for anything that might cost his people money and add to his local rates.

Why is this significant? Well, probably because Griffith has a whole lot of experience and therefore likely knows where PCE ends up anyway. The problem is that the rest of us will likely have to take a longer and bumpy political trail to get to this logical end point. After all, universal rate-payers probably represent a fairer base to spread utility inequities than state taxpayers, which Alaskans one day may be.

School funding - \$10.5 million

As indicated in our *Digest* lead story, the good news is that someone has been willing to say new money without tying it to a political side-spin, like quality schools. However, the reality, given inflation, and the fact that schools cannot readily trim back because of a slip in enrollment, is that \$10.5 million probably still leaves schools a net loser over the current year.

Nevertheless, we might consider that this is the last year of the Republican back-of-the-napkin 5 year fiscal plan. They originally promised a multi-faceted billion package of cuts matched by new revenue. But having lacked phonics training, and hampered by speech impediments making it difficult to say words with "t," they soon abandoned money raising and turned solely to cuts. So be it. However, after this year restless majority members with a modicum of free thought, will be out from under this policy precondition of cuts only. While it might have been nice if Sen. Wilken had said to roll the whole \$19 million school lapse this year into next year, he provides a welcome hint that there may those who will shake the shackles and be willing to pursue funding initiatives, albeit cautious ones.

Elton's SB-227 - amending the 10 mill law

SB-277 explores possible solutions should the 10 mill tax cap initiative become law. Elton's bill would bar municipalities from selective taxation, requiring all property be taxed at the same rate. In other words, we couldn't have a residential class taxed at one rate, and commercial property at another. However, the bill effectively seeks to amend a 10 mill enactment, both in terms of debt features and also providing that any limitation on levy be approved by local voters in municipalities.

The bill relies on language in the constitution that on one hand bars an initiative law from being repealed for two years, but provides: "*It may be amended at any time.*" It is the meaning of this later statement that is subject to debate. Does this mean "amend" far outside the concept of an initiative, virtually repealing it (but not technically), or is it constrained by the same constitutional parameters that confine lawmakers in removing an initiative from the ballot by passing a similar law, cleaning it up and make it workable, but prohibited from violating the basic tenants of the proposal.

RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE

RESOLUTION NO. 2000-04

A RESOLUTION OPPOSING A STATEWIDE PROPERTY TAX CAP BECAUSE IT REMOVES THE POWER OF LOCAL VOTERS

WHEREAS, the proposed Statewide Property Tax Cap Initiative would remove the power of local voters to determine the appropriate sources of local revenues. In fact, the voters in many municipalities have approved spending or revenue caps that meet the needs of their community.

WHEREAS, the proposed initiative would do two things:

1. Limits local mill rates everywhere in the state to 10 mills, including future bond debt.
2. Limits increases in assessed value of individual properties to the CPI, but no more than 2 percent per year.

WHEREAS, the initiative **takes away local voter control**. This is a key local taxpayer control issue because people in one part of the state should not be allowed to set mill rates for people in other municipalities.

WHEREAS, if the initiative is adopted, owners with property of equal market value may pay different property tax amounts for two reasons:

1. Property will be assessed at true market value when it is constructed or sold. A newly purchased or constructed home could pay much higher taxes than one of equal value that had not recently been sold.
2. The market values of property in any community may grow at different speeds. The capping of assessed values may give a tax break to property owners with property that is more quickly growing in value.

WHEREAS, several municipalities have property tax rates of approximately 19 mills. This initiative would cut the major local revenue nearly in half. Schools are the key municipal service funded by property taxes.

WHEREAS, the initiative's 10 mill tax cap includes bond repayment for new capital construction. It may be **unlikely that new schools or other local improvements could be built, even if desired by local voters**.

NOW, THEREFORE, BE IT RESOLVED that voters are urged to reject a statewide property tax cap because it removes the power of local voters, could effectively halt school and other bond construction, and could create an inequitable system of taxation in which owners with equal property values could pay different amounts of property tax.



CITY OF PETERSBURG

P.O. BOX 329 • PETERSBURG, ALASKA 99833

TELEPHONE (907) 772-4511

TELECOPIER (907) 772-3759

February 10, 2000

Senator Kim Elton
State Capitol, Room 504
Juneau, Alaska 99801- 1182

Dear Senator Elton:

Please accept this letter of support for Senate Bill 277. We believe municipalities must have local control to determine the level of taxation necessary for local services. Although we hope the Property Tax Initiative fails, if it does not, it is imperative that SB 277 protect the rights of the local citizens to choose their level of taxation and service.

The Petersburg City Council, recognizing the potential detrimental impact the Property Tax Initiative could have on municipalities, voiced their opposition by the approval of Resolution No. 1600-R, a copy of which is attached.

Sincerely,

Theodore M. Smith, Mayor
City of Petersburg

RESOLUTION NO. 1600-R

A RESOLUTION OPPOSING THE PROPERTY TAX INITIATIVE

Whereas, an initiative petition application was filed with the Lieutenant Governor's office on March 12, 1999, and certified on June 8, 1999, said petition being titled 99PTAR; and

Whereas, the proposed bill sets the value of property at its assessment on January 1 of the first year it is in effect, and assessment increases are generally capped at two percent per year; and

Whereas, the proposed bill caps property taxes at one percent (10 mills) of assessed value; and

Whereas, the potential ill effects of this initiative are greatly exacerbated by the reduction of revenues from the Safe Communities/State Revenue Sharing and fluctuating revenues generated from natural resource harvesting; and

Whereas, a 10 mill cap on property tax assessments would make it difficult to sell bonds to finance future capital projects approved by voters; and

Whereas, determining the tax levy for a municipality should remain the right of the voters living within the municipality and should not be determined statewide.

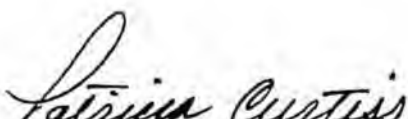
Now Therefore Be It Resolved by the City of Petersburg to urge the State of Alaska to assess the potential impact if this initiative is approved; and

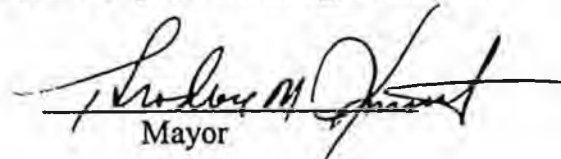
Be It Further Resolved to urge the Governor to use all available legal means to educate citizens on the negative effects passage of this bill would have; and

Be It Further Resolved to urge the administration to pursue a concerted effort to generate alternative sources of revenue which will afford a measure of tax relief to property owners; and

Be It Further Resolved to urge the members of the Alaska Municipal League and communities throughout the state to undertake a serious examination of the potential impact this initiative could have on the rights and local control citizens have in their communities to determine the level of taxation necessary for local services.

Passed and Approved by the City Council of the City of Petersburg, Alaska this 6th day of December, 1999.


City Clerk


Mayor



Alaska Division of Elections

**INITIATIVE PETITION BILL LANGUAGE
by Petition Sponsors**

**Petition ID: 99PTAR
An Act Providing Property Tax and Assessment Relief**

Posted 7/28/99

Proposed Bill:

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

SECTION 1. FINDINGS AND PURPOSE.

The people of the State of Alaska find and determine that political and taxation power is vested in the People; that each person has the right to the enjoyment of the rewards of his or her own industry as guaranteed by Article 1, Section 1 of the Alaska Constitution; that substantial pressures will be placed on local governing bodies to raised taxes; that a substantial threat of additional and unwarranted taxation of the People presently exists; that the Alaska Legislature and the local governing bodies do not appear willing to protect the People against this taxation; that property owners should not be subjected to continuing large increases in taxes or assessments; that property owners should be entitled to rely for the future on assessed values on their properties that existed at the time of purchase; that lower taxes encourage economic growth; and that it is necessary for the People to place certain controls on the manner in which the People may be taxed.

SECTION 2. MUNICIPAL PROPERTY TAXATION AND ASSESSMENT.

1. AS 29.45.110 is repealed and reenacted to read as follows:
 - a. The assessor shall assess property at its full and true value as of January 1 of the first assessment year after this statute takes effect, except as provided in this section and any other provisions of federal, state or local laws and regulations which require or authorize the assessment to be at a lower value. The full and true value is defined as the price that the property would bring in an open market at that time in a sale between a willing seller and a willing buyer both conversant with the property.
 - b. In subsequent assessment years, the assess value may not be raised more that the rate of inflation as shown by the consumer price index, or comparable data, for the area under the

taxing jurisdiction, but in no event to exceed two percent in any given year.

- c. Notwithstanding the provisions of subsection (b), property shall be reassessed at its full and true value as of January 1 of the subsequent year if the property is newly constructed, or if a sale, purchase or change of ownership has taken place during an assessment year.
- d. The Legislature may create definitions and exceptions to subsection (c) to prohibit reassessment for types of sales, purchases or changes of ownership, including, but not limited to, transfers such as those within the family, creations of trust to benefit the family members, or transfers as a result of death, divorce, or marital dissolution. The Legislature may also allow the transfer of an assessment from one piece of property to another under appropriate circumstances, such as, but not limited to, eminent domain, taking of property by governmental action, changes of residence of any persons over age 65 who are qualified for the tax exemption authorized by AS 29.45.050(i) and who move to a residence of equal or lesser value.
- e. The subsections of AS 29.45.010 presently designated (b) and (c) are redesignated (e) and (f).

2. AS 29.45.090(a) is repealed and reenacted to read as follows:

A municipality may not, during any year, levy an ad valorem tax for any purpose in an amount in excess of one percent of the assessed value of property in the municipality, nor may it levy a tax on any particular piece of property in an amount in excess of one percent of the assessed value of that particular piece of property.

3. AS 29.45.100 is amended to read as follows:

The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds issued prior to January 1, 2001, but do apply to taxes levied or pledged to pay or secure the payment or principal and interest on bonds issued on or after that date. Taxes to pay or secure the payment of principal and interest on bonds issued prior to January 1, 2001 may continue to be levied without limitation as to rate or amount, regardless of whether the bonds are in default or danger of default.

SECTION 3. SEVERABILITY.

The provisions of this Act are independent and severable, and if any provision of this Act, or the applicability of any provision to any person or circumstance, shall be held to be invalid by a court of competent jurisdiction, the remainder of this Act shall not be affected and shall be given effect to the fullest extent practicable.

SECTION 4. EFFECTIVE DATE.

This initiative shall be effective when enacted according to law.



Initiative Petition Status Report



Fairbanks North Star Borough

Assembly

809 Pioneer Road

P.O. Box 71267

Fairbanks, Alaska 99707-1267

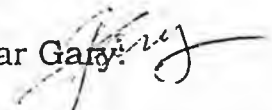
907/459-1000

Fax 907/459-1224

March 5, 2000

Senator Gary Wilken
Capitol Building
Juneau, Alaska
99811-1082

GW _____
SP _____

Dear Gary: 

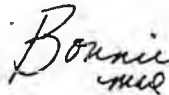
I thought I should follow up our talk last Friday with some more information in depth, as well as analysis, on the 10-mill initiative and what it means for the Fairbanks North Star Borough.

As this was being prepared, the Assembly held a work session and reached consensus on our current legislative goals, so I would like to share that with you, as well.

The documents are a bit long. Hopefully, worth the extra reading time.

Please call if you have questions.

Sincerely,



Bonnie Williams
Chair, Finance Committee
Fairbanks North Star Borough Assembly

bwilliams@mosquitonet.com
455-6652 ph/fax

cc: Rick Solie, Presiding Officer FNSB Assembly
Garry Hutchison, Deputy Chair of Finance Committee
Assembly Members
Mayor Hove
Linda Anderson
Cynthia Henry, Chair School Board
Superintendent of Schools Jim Holt

Attch: 10-mill Initiative, and 10-Mill fact sheet
Legislative Positions & Issues

TEN-MILL INITIATIVE

Dimensions for Fairbanks North Star Borough

There are three main elements to the initiative:

- Limit property taxes to a maximum of 10 mills
- Limit the increase in assessed value to a maximum of 2% a year
- Limit new bonds to falling within the 10-mill cap

The first can be simply measured by looking at the attached page, which gives current year revenues and expenditures. I've divided the expenditures into those that are mandated by State Constitution or State Statute, and the remainder.

You can see at a glance that the size of the problem for us, on an \$89 million dollar annual budget, is roughly \$25 million.

You can also see that there is a major problem for us involving both Road Service areas and Fire/EMS Service areas. The former depends a great deal on property taxes voted upon by residents in the service area. The latter are almost entirely dependent upon property taxes, again, taxes voted by residents of the service area.

With the imposition of a 10-mill, simply put there will be no property taxes for either road services or fire/EMS.

- Roads will gradually deteriorate
- Roads will be difficult to impossible for passage in heavy snow
- Fire insurance will rise, possibly doubling or tripling
- Lack of fire protection will produce human tragedies
- The core of volunteer firefighters/EMTs will dissipate
Resulting in extended months/years for recovery should the vote subsequently be reversed or negated

The requirement that all new bonds fall within the 10-mill cap will mean that there cannot be any new bonds. Not just this year or next year, but for the duration of the existence of that statute.

Under the initiative, bonds previously sold are exempt from the cap. However, when those bonds are paid off, that eliminates a debt of the borough without providing new funds. As the attached shows, a reduction to 10 mills, regardless of debt service, will mean we go down to ten, and never lower. As we cannot get lower, there will never be room for a new bond, and thus in turn, in ten, twenty or thirty years, with an

expanding population, the borough would be unable to build any new school.

The middle element is perhaps the most dangerous of the three. It results over a few short years in complete inequity in how property is assessed, and therefore, who must pay and who gets a free ride.

Using a calculator program David found on the Internet, I find that the cost of living has risen 31% from 1990 to 2000, and 108% from 1980 to 2000. I ran on my calculator a cumulative 2% for 1990 to 2000, and achieved 21.89%, about 10% less than actual. Real estate, of course, does not exactly and precisely track the cost of living, but there is a reasonable relationship.

Had this initiative been in place starting in 1980, by now the borough would be roughly 60% out of whack with market prices, for those homes held constant by the same owner since 1980; and all over the map for all other properties.

California's Experience

The consequence in California has been a gross distortion of market value to taxed value, wherein the only individuals that pay tax on market value are the current-year purchasers. This in turn has distorted the natural function and fluidity of the real estate market, causing self-interest behavior driven by frozen assessment rather than self-interest driven by nearness to jobs, good schools, or considerations such as the size and rooms of a given house.

In the meantime, the revenues available from an appreciating market are denied to California's municipal governments. While allowable assessed value has risen 42%, actual market value has risen from between 200 to 800%, depending upon the community and neighborhood.

Once caught in this trap, it is extremely difficult to become extricated. California entered the trap hoping to halt runaway local property taxes that were evicting seniors from homes bought after WWII. Many of those seniors are now dead, but others have replaced them, such as my mother.

[She pays \$1670, while neighbors in roughly comparable homes pay on the order of \$20,000.]

Were they to nullify Prop 13 with a vote, imagine suddenly imposing a property tax that's \$20,000 instead of \$1670. An entirely new crop of Californians would be evicted from their homes.

The only "out" I can see for them is to gradually reduce reliance on the property tax, then eliminate it entirely, and use just state income tax and sales taxes as the principle revenue sources. After the passage of a few years, one could then reinstate a property tax based on actual fair market value.

As the 10-Mill is based entirely on Prop 13, what has happened in California since 1978 is relevant to us, if we wish to learn from their mistakes.

California's Lessons

The experience for California is directly tied to the three parts of our 10-Mill initiative.

- Property taxes were rolled back and frozen, forcing reliance on alternative revenues
- Assessment increases were limited to 2% annually, resulting in a massive distortion in equitable treatment and therefore, in grossly unfairly levied taxes
- Failure to build any new schools in the first 10-15 years. In the past 5 years a few counties have succeeded in passing bonds. (Note that population rose from 22 million to 33 million in this time span.)

The "alternative revenues" proved to be the usual mix of increased fees, special tax districts, and property tax amounts not based on assessed value (a kind of head-count tax). None of these were adequate, so counties turned to State government, bringing with them schools. County control of schools passed to Sacramento, effectively, when all local funds were removed from school district budgets. The State legislature responded by taking over 100% of funding, using a straight formula which produces the same amount per student/school regardless of locale within the State. This still did not provide sufficient revenues, and so local governments have gradually bled themselves of authority/power to Sacramento, in exchange for sufficient funding. The Legislature gives the money, and provides the strings.

California today has an 8.25% sales tax, one of the highest state income taxes, very high tobacco, alcohol and gasoline taxes.

Local government has not abandoned the search for new revenue sources. They now routinely have an "infrastructure" fee for new construction. This means that a new, modest 3-bedroom home must have a permit costing \$19,182 in the city of Carpinteria, before it can be

constructed. That pays for existing roads, schools and parks, which the future owner wasn't paying for 5, 10 or 30 years ago.

The Alaska Version

I would anticipate that Alaskan municipal officials are equally creative in devising new taxes to substitute for property tax revenue. However, certain steps are clearly delineated for any responsible local official:

- Request the immediate removal from State law of the senior citizen home owner exemption
- Eliminate the home owner's \$10,000 exemption
- Convert the Fire/EMS property tax into a headcount tax, so that instead of each property paying according to its assessed value, the cost will be divided by the total number of properties.

I would anticipate in early years an abandonment of road services, and shortly thereafter, a rising tide of requests for the State to assume this responsibility. This will prove far more expensive than the current system, and will certainly eliminate all neighborhood and local control.

I would anticipate that all unfunded mandates, be they State or Federal, would be eliminated from budgets. Funded mandates should anticipate a very steep increase in the administrative fees charged by municipal government or by school districts.

In this respect, since I doubt that funding would be forthcoming, we could anticipate shortly having EPA trying to take over I/M and Air Quality issues, and within short order, issuing all sorts of foolish, draconian federal edicts. This in turn will threaten federal highway funds. Instead of a dialogue between local governments and EPA, we will move to EPA versus Alaskans.

Special Impact for Fairbanks

The Revenue Cap

As you know the Fairbanks North Star Borough, and separately the city of Fairbanks, are subject to local revenue caps. These operate very simply: revenue for the next year may not exceed the current year, with the exceptions of voter approved bonds, the increase due to new construction, and the increase allowable by inflation. (There is a fourth exception, for major catastrophies.)

This revenue cap has operated exceedingly well for the borough since, I believe, 1987. Revenue is adequate to the task, sometimes a little tight, sometimes a little loose, but adequate. Necessary functions can generally be properly funded. Voter-mandated authorities are well met. Taxes have been extremely stable, and for businesses as well as for those on fixed incomes, very predictable.

If the ten-mill initiative passes, it will not supercede our revenue cap, but rather become in addition to it. As a consequence, the borough will have a very limited window of opportunity to persuade voters to accept some new form of taxation. Failing that, we will be unable to create and impose new taxes. We will live under both a tax cap and a revenue cap.

2% Limitation on Assessed Value

As each year proceeds, limiting much of real estate to a flat 2% regardless of actual market, the consequence will be a reduction in revenue, from which the borough would be prohibited from recovering in some other manner.

In the long term, barring any alterations to the trap, this becomes a death spiral for local municipal government in the Interior.

Sales Tax

Should we be able to escape through use of a sales tax, the burden of paying for local government will drastically shift. I attach a sheet listing the twenty largest property tax payers of the borough - all large corporations. While they would certainly pay sales taxes, the cost to each entity would be considerably smaller than what they current provide in property taxes. It's interesting that these 20 pay close to 30% of the total property taxes.

In states which have a heavy sales tax burden, academic study has shown that the bottom 20% by income will use between 14 and 17% of their income in sales taxes, while the top 20% will use roughly 4%.

In terms of relative incomes, the bottom 20% can control property taxes by the expense of residential housing they select. Most money they spend subject to sales taxes are not discretionary: they must spend the money, they need the products being purchased, and they are already buying as cheaply as possible.

Legislative Roles in 2000

There are currently a couple of bills pending to my knowledge that directly address either the 10-mill or its consequences. The first is SB 227, Senator Elton, and the second is SB242, Senator Donley.

SB 227

The former addresses two aspects - liberating school bonds from the 10-mill, and liberating municipalities that already have some form of tax cap from the 10-mill. According to the borough attorney, while this would free FNSB to hold bond elections for school construction, and eliminate us from the 10-mill restriction, it would retain and impose upon our assessed value the 2% maximum per year.

SB 242

The latter addresses the 20-mill tax imposed on oil industry property, in particular the pipeline (for FNSB's interests). This really only impacts three municipalities - Valdez, FNSB, and the North Slope Borough. The bill would take the 10-mill no longer allowed to us, and assign those funds to funding municipal assistance. This would directly benefit Anchorage in particular. The benefit to FNSB would be far less than the amount we currently receive in property taxes.

My secondary concern with Donley's bill is that within short order, a year or two, the promised funding would begin to leak away, as has the Senior Citizen exemptions, and the original promises of municipal assistance and revenue sharing. The intentions are good and honorable this year; the Legislature isn't bound next year.

Educational Actions

The Legislature could have a very effective role in educating the voters on all of the ramifications of the 10-mill initiative. I was pleased to hear about the requested study you will be receiving, and hope that it in turn is given broad redistribution to the entire State.

You may wish to consider conducting a series of Senate hearings around the State, after the legislative session is over, in August, September and October. If you held a two-day hearing in Fairbanks, for example, you could invite all of the Interior municipalities to come testify about the individual impacts on Tok, Delta Junction, Fairbanks, and so forth, and then on the second day receive public testimony.

Such a series of hearings would receive a lot of media coverage, and that in turn would create the opportunity for a very broad dispersal of information about what the initiative might mean for specific communities, individual people, and the quality of life for Alaska.

Local Reactions

The borough Assembly has held a two-part session on the initiative, which included presentations by both the boroughs' chief financial officer and the borough attorney. At this point in time, the Assembly is not ready to take a position.

I have spoken with Mayor Hayes. He personally favors the initiative, and is not concerned for Fairbanks for the reason that it falls below the 10-mill amount. I shall be providing him information on the 2% maximum as it applies to the city. This might change his viewpoint. Charlie Rex of the City Council attended the 2-part session and is concerned.

The Fairbanks Chamber of Commerce passed a motion to send a letter to the Borough expressing its concern, and asking that \$20,000 be appropriated for a study of possible impacts. I attended the Committee on Legislative Affairs meetings that preceded this motion. Specifically, the Chamber feels that it was burned on the special election last fall on the Permanent Fund, and while extremely concerned about the 10-mill initiative, they are reluctant to step out front again into a leadership position to take the flak.

The PTA Council of PTAs passed a resolution opposing the 10-mill initiative at their Feb. 14 meeting. At their January meeting they had a presentation from the borough CFO. I attended the February meeting and made a few comments.

The PTA at Wood River listened to an hour presentation by the borough CFO and myself early in February, is seriously concerned, and is opposed.

Next week I shall be meeting with the board of directors (or council, whatever their title) of FEA, and make a short presentation. I would anticipate that this group would be adamantly opposed.

The School Board is extremely concerned, and as a consequence, is using their fear to help push the \$57,000,000 bond issue that will be presented at a special election May 2. This could be the final bond issue for local schools for many years. They've worked hard to put together as good a package as possible, with their eye on 5, 10 and 15 years of future no-bond.

Assembly Intentions

Apart from being unwilling at this point to take a position, the majority on the Assembly is committed to lowering the mill rate in our FY01 budget process. We feel we must achieve a clear, easily understood and appreciated reduction. If we do accomplish this, we believe voters in Fairbanks will be more amenable to listening to information on the true impacts of the 10-mill. In effect, we would be "earning" a No vote.

I believe our positions on legislative matters were largely driven by concerns about the 10-mill, and so too have been our actions and discussions of the pending school bond, to date.

Once we are past the school bond election and the budget process, I will be making another push to try to bring the rest of the Assembly to grips with the issue.

Regardless of the success of that, as you can see I have already reached my own position and am moving forward to give out relevant information to as broad a number of local groups as possible.

Conclusion

I am deeply worried about the possible success of the initiative, and therefore, of the unintended consequences for all of Alaska.

I would urge you and others in the Senate and House to consider how you might provide some leadership on this crucial issue.

Legislative Issues & Positions

Budget & Funding

Our largest concerns are associated with education and the school district.

We urge the use of the identified \$20 M savings from reduced debt and the \$19 M savings from declining enrollment be dedicated to K-12.

We urge the Legislature to fully fund school transportation costs. The impact of the 80% funding to FNSB SD is **\$835,000**, a substantial amount well beyond the cuts they are already struggling to meet.

We urge support of HB 336, the governor's bill on increasing funding for quality education. For FNSB SD this would provide the funding to continue the Special Reading program. This is **crucial!** The impact to FNSB SD would be **\$700,000**.

We urge support of SB 198 by Sen. Wilken, increasing the formula funding for education by \$50. The impact to FNSB SD would be **\$1.12** million.

As mentioned above, we believe you can do this by using the already identified educational cost reductions from debt and enrollment.

Bills

HB 133 - Bunde, Halcro Service Areas

The FNSB would very much like this legislation to pass, without involvement of fire service areas. This would be a very large step for us in reducing costs through consolidation, not possible under current state statutes. This in turn would stretch each road dollar further and provide improved road maintenance.

HB 92 - Davis Sales taxes on alcohol

The FNSB urges support of this bill. This would give us an additional tool to use, in the event that the 10-mill passes. *Please bear in mind that we would have to have weapons and tools at hand by November, in order to comply with our local revenue camp.*

HB 200 - H.Finance - Senior Property Tax Exemption

The FNSB urges support of this bill. As with HB 92, this would give us an additional tool. In this instance, the tool is crucial. Senior exemptions cost the borough the equivalent of one full mill rate in lost revenues for FY 00. This is also an issue of local control and State mandates, one in which the State is mandating, and taking away control.

Capital Projects

The Assembly would like to see a fair share of transportation funds come to the Interior, and would like to see certain life-safety projects receive serious attention. First and foremost on this list is the intersection of Badger Road with the Richardson Highway.

Due to the diligence of the school district and the borough in past practices, we do not have major needs in the current year, beyond what will be contained on the special election bond issue.

The FNSB would therefore like to support the deferred maintenance needs of the University of Alaska Fairbanks, which is still over \$100 million in projected needs.

In anticipation of need for 2002 and 2003, I would note that the Port Authority may begin construction as early as 2002. This in turn will have an impact upon all aspects of the transportation infrastructure, particularly highways, roads, and airport. What should be considered here is not new construction, but higher maintenance due to much higher traffic.

	STATE TAXES					
	MUNI ASST.	\$2,129,557	\$1,270,360	\$635,180	\$0	\$0
	REV.SHARE	\$1,507,723	\$839,620	\$469,810	\$0	\$0
	BOND MATCH	7,502,182	\$10,374,620	\$10,374,620	\$10,374,620	\$10,374,620
	CHILD CARE	\$2,445,657	\$2,510,770	\$2,510,770	\$2,510,770	\$2,510,770
	ALL OTHER	\$596,913	\$233,370	\$233,370	\$233,370	\$233,370
	SUBTOTALS	\$14,182,032	\$15,228,740	\$14,223,750	\$13,118,760	\$13,118,760
	FEDERAL	\$264,564	\$245,000	\$245,000	\$245,000	\$245,000
	REVENUE TOTALS:	\$72,265,610	\$89,568,160	\$86,892,057	\$66,352,371	\$68,607,144
	EXPENSE					
	PERSNL SVC	\$18,231,338	\$20,949,500			
	COMMODITIES	\$1,580,694	\$1,697,560			
	CONTRC SVC	\$11,034,372	\$14,061,750			
	CAPITAL-ALL	\$5,439,186	\$5,718,010			
	INTERFUND	\$1,577,036	\$2,079,130			
	SUBTOTALS	\$37,862,626	\$44,505,950	\$	\$	\$
	DEBT	\$10,384,118	\$14,371,430	\$14,371,430	\$14,371,430	\$14,371,430
	CONTRIB.EDU	\$27,680,000	\$30,690,780	\$30,690,780	\$30,690,780	\$30,690,780
	EXPENDITURE TOTALS:	\$75,926,744	\$89,568,160	\$45,062,210	\$45,062,210	\$45,062,210
		possible	available	\$41,829,847	\$21,290,161	\$23,544,934
			difference		\$20,539,686	\$18,284,913

Property Tax Cap Initiative Citizen Information Packet



Action YOU can take to save schools and other local services

- ◆ Develop a **fact sheet** highlighting local impacts.
- ◆ Talk to local groups and individuals who would be impacted by the initiative (see suggestions inside). Ask them to join you in opposing the initiative. **Create a local network or committee** to oppose the initiative.
- ◆ **Write letters** to the editor to your local paper to express your feelings.
- ◆ Start a **speakers bureau** to make presentations at local meetings.
- ◆ Pass **resolutions** and discuss the local impacts during local council or assembly meetings.
- ◆ Call AML at 1-877-636-1325 to get on a **mailing, e-mail, and fax list** for up-to-date news on the initiative and teleconferences on statewide grassroots action.

Contents

1. What the proposed initiative does and impacts on all Alaskans.
2. Statewide Impacts - who gets hurt by the tax cap?
3. Text of the initiative.
4. News articles, letters, and an example of a local resolution

Introduction

Everyone would like to avoid paying taxes, but very few Alaskans are willing to accept the consequences of inadequate key public services including schools, road maintenance, police, fire, and EMS services.

We believe as more people know the facts about the impacts of the tax cap, grassroots opposition will continue to grow. A recent poll taken in Anchorage indicates that a **majority of voters who understand the consequences, do not support the tax cap initiative**, because of the long-term negative impacts to the community, schools, other key public services, and jobs.

It is the job of local elected officials and concerned citizens in every community to inform everyone in their community about the basic facts about the tax cap initiative, and how it effects your community. If the tax cap initiative passes, every community in Alaska, with or without a property tax, will feel the impact.



Tax Cap Initiative Hurts Alaskans

Discussion Paper by the Alaska Municipal League

The proposed initiative does two main things:

1. Limits local mill rates to **10 mills** per municipality, including future bond debt. (20 mills for residents of cities in boroughs)
2. Eliminates fair market value as the basis for determining how much taxpayers pay. The initiative would **restrict assessed valuation** to the lower of 2% or the CPI, despite actual market value increases, except when a property is constructed or sold.

This initiative:

- ◆ **Takes away your local choice and local power:** Why let people in other parts of the state set mill rates and new rules for you? Once set, your community can't change the statewide cap or the new rules. All communities already have the power to vote for local caps designed to meet the needs of their own community. Most have done so. Why give away your existing local power to choose?
- ◆ **Some people get tax breaks, some don't:** Owners with property of equal market value will pay different property tax amounts because fair market value will no longer determine your basis for taxation. The major property owners benefit the most.
- ◆ **If you live in a city in a borough, you are treated unfairly:** Each municipality gets a 10 mill tax cap, so the cap is 20 mills if you live in a city within a borough.
- ◆ **Critical local public services slashed:** The initiative would reduce the major revenue by nearly half in Alaska's largest municipalities. Schools are the key municipal service funded by property taxes (they average 9.7 mills in the 3 largest municipalities). Cuts to other local services, such as libraries, parks, etc. would be devastating.
- ◆ **No new school or other public improvements:** The initiative cap includes bond repayment for new capital construction. No existing local tax caps restrict bond debt approved by voters. Construction of new schools or other local improvements will be virtually impossible under the cap, even if overwhelmingly approved by voters.
- ◆ **The initiative affects communities with no property taxes:** If the initiative is adopted, current state funds for education and other services will almost certainly be shifted to communities hardest hit by the initiative. Rural residents who currently shop in Anchorage may have to start paying a sales tax if Anchorage chooses to replace lost property tax money that way.
- ◆ **State reductions in municipal revenue sharing have forced higher property taxes:** According to state records, revenue sharing cuts by the legislature since 1986 are higher than the total of every property tax increase in every municipality. Even though municipal governments have worked hard to lessen the impact of those reductions, legislative cuts are overwhelming local tax structures.

Statewide Impacts

Who gets hurt?

Families with students in urban schools: Schools are the main service funded by property taxes (from 7-11 mills of property tax in boroughs). Some communities (i.e. the Mat-Su Borough) couldn't fully fund schools even if they terminated every other service the Borough provides.

Families with students in rural schools: If urban schools are in crises, State school funding will almost certainly be shifted from rural schools.

Young or growing families wanting to buy a home: Under the new valuation rules imposed by the initiative, owners of newly purchased or constructed homes will pay higher taxes.

The Economy and Jobs: There will be virtually no locally funded construction of public facilities, and public services will decline. Alaska will be a less attractive place to do business because new businesses look for good and stable public services. Second, as government declines, the local economy loses private sector retail, construction, and service jobs.

Private Contractors/Construction workers: The initiative would halt new construction of public facilities because any new construction has to be within the tax cap. No other local tax cap includes bonds approved by voters.

Senior Citizens and Disabled Veterans: Seniors are currently exempt from property tax on the first \$150,000 of the value of their property. If property tax revenues are severely cut back, it is highly likely the State will end or severely reduce all tax exemptions.

Human Services, Nonprofits, Libraries, Public Transportation, Parks & Recreation, and Arts: Such services will be cut before schools and critical public safety services.

The real estate industry and mortgage lenders: The initiative punishes homeowners if they sell their homes, and new home buyers will pay higher taxes than those who have owned their homes longer. A disincentive to build or buy a new home.

Renters: There is no requirement that landlords pass tax savings on to renters, but other taxes and fees will eventually be raised that renters will pay.

Impacted groups/associations

Elected school boards, PTA, student organization- Association of Alaska School Boards, Association of School Administrators, Alaska Education Association, local education associations.

Rural Education Attendance Areas (REAA), rural municipal governments, tribal councils, native corporations and non-profits.

Real estate and home builders' associations, banks.

State and Local Chambers of Commerce, League of Women Voters, Alaska Fiscal Policy Council, Resource Development Council, Alaska Oil and Gas Association, corporations, businesses

Alaska Associated General Contractors, construction worker unions, architect and engineering firms and associations.

Alaska AARP, Commission on Aging, Senior Centers

"Friends of the Library" organizations, sports leagues and sports associations, arts associations, non-profit care organizations, churches, hospital

Real estate and home builders' associations, banks.

Examples of Borough Impacts

Municipality of Anchorage: The initiative would reduce Anchorage's revenue by \$73 million.

Matanuska-Susitna Borough: Currently, the Mat-Su Borough allocates 11.5 mills to schools, 1 mill to general government operations, and between 2 and 2.5 mills approved by fire and road service areas. If you eliminated fire protection, road maintenance, and the rest of general government in Mat-Su, schools could still not be adequately funded.

City and Borough of Sitka: Sitka and the rest of Southeast Alaska are struggling to overcome the impacts of downturns in the timber and fishing industries. While Sitka's charter restricts the mill rate to 6 mills, the new restrictive rules on assessing property will increasingly hurt Sitka and reduce its ability to meet the communities' needs.

City and Borough of Juneau: Juneau has a voter-approved 12 mill tax cap in place, but voters may vote to approve capital construction in addition to the cap. Juneau is already struggling with a projected \$4 million per year deficit primarily caused by state cuts to municipal revenue sharing. While Juneau's current mill rate is only about 10.5 mills, the initiative's cut or top of state cuts will hurt local services. More important, Juneau will not be able to build another school with local bonds, even if voters approve them.

Rural Alaska: The estimated loss of revenue statewide to municipalities the first year, if the initiative passes, will be over \$100 million. This crisis will necessitate the redistribution of state revenues for schools, public safety, and other state services provided to rural areas. In addition, if Anchorage chooses to create a sales tax to replace lost property tax, rural residents will pay even more for supplies ordered from this hub city.

O P I N I O N

Anchorage Daily News



THE AVALANCHE ZONE

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
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Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

Examples of Borough Impacts

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City and Borough of Sitka: Sitka and the rest of Southeast Alaska are struggling to overcome the impacts of downturns in the timber and fishing industries. While Sitka's charter restricts the mill rate to 6 mills, the new restrictive rules on assessing property will increasingly hurt Sitka and reduce its ability to meet the communities' needs.

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Alaska Division of Elections

**INITIATIVE PETITION BILL LANGUAGE
by Petition Sponsors**

**Petition ID: 99PTAR
An Act Providing Property Tax and Assessment Relief**

Posted 7/28/99

Proposed Bill:

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

SECTION 1. FINDINGS AND PURPOSE.

The people of the State of Alaska find and determine that political and taxation power is vested in the People; that each person has the right to the enjoyment of the rewards of his or her own industry as guaranteed by Article 1, Section 1 of the Alaska Constitution; that substantial pressures will be placed on local governing bodies to raise taxes; that a substantial threat of additional and unwarranted taxation of the People presently exists; that the Alaska Legislature and the local governing bodies do not appear willing to protect the People against this taxation; that property owners should not be subjected to continuing large increases in taxes or assessments; that property owners should be entitled to rely for the future on assessed values on their properties that existed at the time of purchase; that lower taxes encourage economic growth; and that it is necessary for the People to place certain controls on the manner in which the People may be taxed.

SECTION 2. MUNICIPAL PROPERTY TAXATION AND ASSESSMENT.

1. AS 29.45.110 is repealed and reenacted to read as follows:
 - a. The assessor shall assess property at its full and true value as of January 1 of the first assessment year after this statute takes effect, except as provided in this section and any other provisions of federal, state or local laws and regulations which require or authorize the assessment to be at a lower value. The full and true value is defined as the price that the property would bring in an open market at that time in a sale between a willing seller and a willing buyer both conversant with the property.
 - b. In subsequent assessment years, the assess value may not be raised more than the rate of inflation as shown by the consumer price index, or comparable data, for the area under the taxing jurisdiction, but in no event to exceed two percent in any given year.
 - c. Notwithstanding the provisions of subsection (b), property shall be reassessed at its full and true value as of January 1 of the subsequent year if the property is newly

constructed, or if a sale, purchase or change of ownership has taken place during an assessment year.

- d. The Legislature may create definitions and exceptions to subsection (c) to prohibit reassessment for types of sales, purchases or changes of ownership, including, but not limited to, transfers such as those within the family, creations of trust to benefit the family members, or transfers as a result of death, divorce, or marital dissolution. The Legislature may also allow the transfer of an assessment from one piece of property to another under appropriate circumstances, such as, but not limited to, eminent domain, taking of property by governmental action, changes of residence of any persons over age 65 who are qualified for the tax exemption authorized by AS 29.45.050(i) and who move to a residence of equal or lesser value.
- e. The subsections of AS 29.45.010 presently designated (b) and (c) are redesignated (e) and (f).

2. AS 29.45.090(a) is repealed and reenacted to read as follows:

A municipality may not, during any year, levy an ad valorem tax for any purpose in an amount in excess of one percent of the assessed value of property in the municipality, nor may it levy a tax on any particular piece of property in an amount in excess of one percent of the assessed value of that particular piece of property.

3. AS 29.45.100 is amended to read as follows:

The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds issued prior to January 1, 2001, but do apply to taxes levied or pledged to pay or secure the payment or principal and interest on bonds issued on or after that date. Taxes to pay or secure the payment of principal and interest on bonds issued prior to January 1, 2001 may continue to be levied without limitation as to rate or amount, regardless of whether the bonds are in default or danger of default.

SECTION 3. SEVERABILITY.

The provisions of this Act are independent and severable, and if any provision of this Act, or the applicability of any provision to any person or circumstance, shall be held to be invalid by a court of competent jurisdiction, the remainder of this Act shall not be affected and shall be given effect to the fullest extent practicable.

SECTION 4. EFFECTIVE DATE.

This initiative shall be effective when enacted according to law.



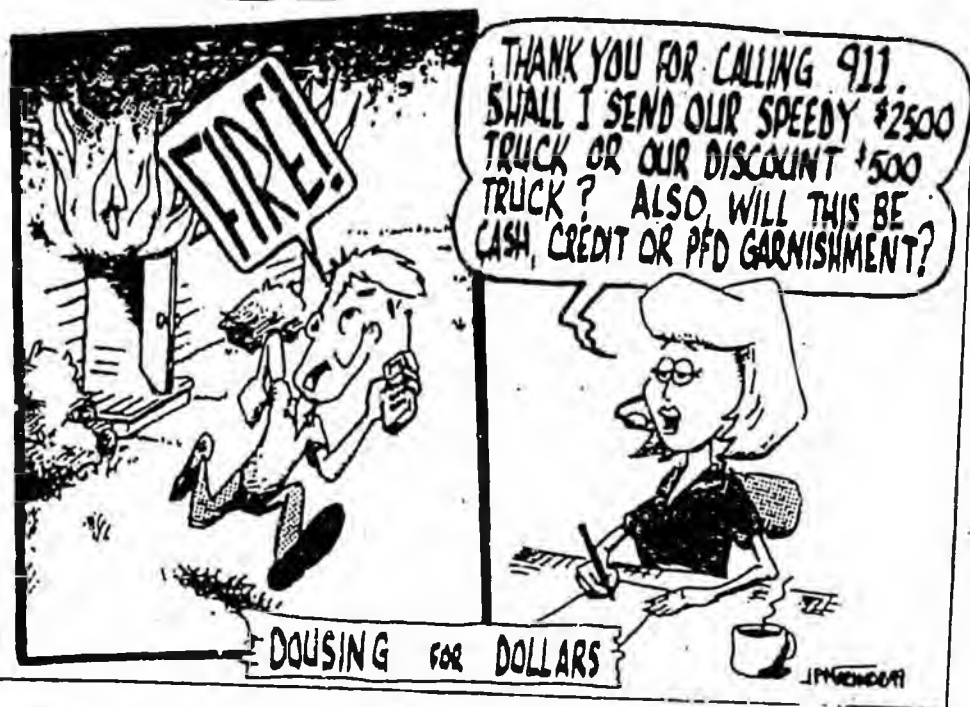
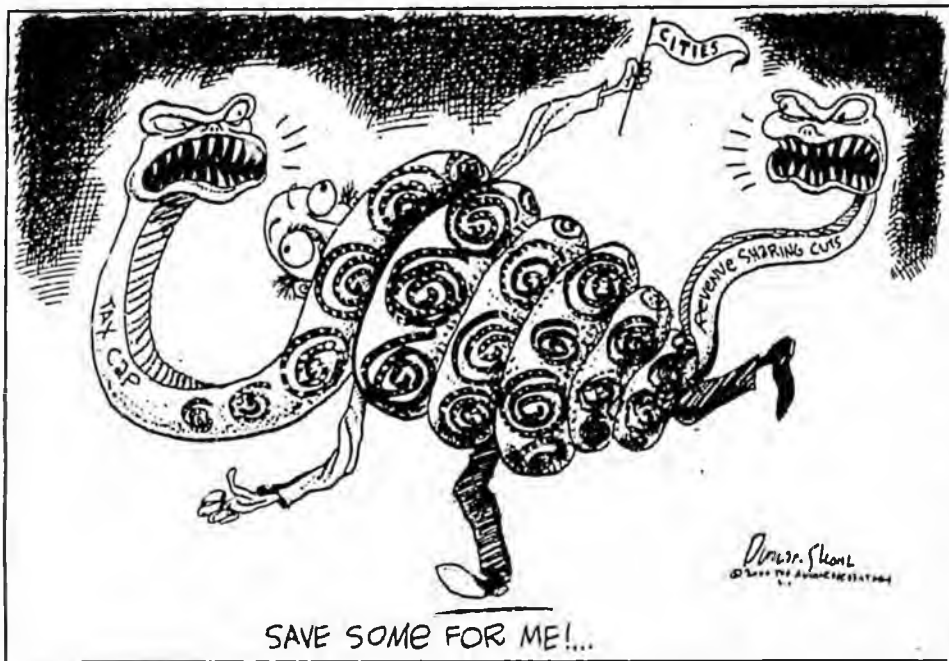
Initiative Petition Status Report



Alaska Division of Elections Home Page

Date OCT 21 1999

CHUGIAK-EAGLE
RIVER STAR



Anchorage Daily News

Michael Carey
Editorial Page Editor

FOR PUBLIC SERVICE

Patrick Dougherty
Editor

Fuller A. Cowell, Publisher, 1893-1899
Gerald E. Orly, Publisher, 1894-1893
Katherine Fanning, Editor and Publisher, 1871-1883
Lawrence Fanning, Editor and Publisher, 1867-1871
Founded in 1846 by Norman C. Brown

Property taxes

Petition doesn't merit your support

Nobody likes to pay property taxes.

But don't be seduced by the initiative that would cap property taxes in every Alaska community by state law.

Petition advocates say Alaskans are paying too much. They would like to cap local taxes at 10 mills. The mill rate for the Anchorage Bowl is 12 to 18 mills. An 18-mill rate means the owner of a \$100,000 houses pays \$1,800 a year.

It's hard to resist a proposal that puts cash in your pocket. But ask yourself this: Are you prepared to live with the consequences?

City budget director Gene Dusek says that if the initiative passes, Anchorage would lose at least \$80 million a year. That's almost a third of next year's municipal budget.

While you are putting that cash in your pocket, the Assembly will be slashing road and school budgets, closing libraries and eliminating programs. And, oh, yes, the Assembly will begin searching for new sources of revenue — that is, new taxes.

Here's what else the statewide tax cap does:

- Creates a windfall for tax payers whose property is rapidly appreciating. These taxpayers will be spared payment on the true value of what they own.

- Destroys the ability of local people in any community to set their property tax rates. The taxing regime for Anchorage will have been mandated by people who don't live here.

- Handicaps local governments' ability to build schools and other improvements because the initiative would almost guarantee the city's inability to sell bonds. As Thomas Wilson of the Anchorage Chamber of Commerce board noted: "Capital projects approved by voters ... require a vow that residents will raise the money via any means possible to pay back the debt. With a cap of 10 mills, we cannot (say) this."

- Damages Anchorage's ability to present itself to Outside businesses and investors as a modern, progressive city. Sure, businesses appreciate lower taxes, but they also appreciate a city where the snow is quickly removed, parks are clean; and police, fire and emergency services are responsive. The tax cap will make Anchorage less attractive and less competitive.

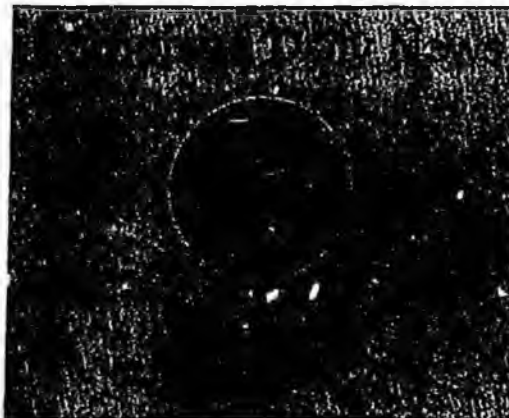
Tax cap advocates have horror stories about Alaskans nearly ruined by oppressive property taxes. These stories are difficult to evaluate without the details. But generally it is not true that taxes are more burdensome here than elsewhere.

In fact, according to a 1997 study compiled by the District of Columbia, Anchorage's property tax burden for a family of four making \$50,000 is 24th out of the 51 cities compared (the largest city in each state plus D.C.). And the overall tax burden for this representative family is one-sixth that of one in Bridgeport, Conn.; one-fourth that of one in Portland, Maine; one-half that of one in Sioux Falls, S.D.; and something less than one-half that of one in Seattle. The Anchorage family pays about the same property tax as a similar family in Des Moines, Iowa, but only about 36 percent of the Des Moines family's total local and state taxes.

The initiative process is an important right guaranteed by the state constitution. But the initiative comes with a serious responsibility: the responsibility to become informed before signing a petition.

We believe that if you are informed, you won't sign the property tax petition, which looks so attractive at a distance yet is so unappealing up close.

If you would like more information on how Anchorage taxes compare with those elsewhere, you can reach editorial page editor Michael Carey at 257-4439 or via mcarey@adn.com.



Property taxes

Initiative a giant step backward

The initiative process puts government in the hands of the people. That's a good idea. But some initiatives, while momentarily popular, are so damaging to the welfare of the state that the people should reject them.

Such is the initiative to freeze local property taxes at 10 mills, a measure that would cost Anchorage about \$80 million a year, a third of the current budget.

This proposal is unnecessary, unfair and irresponsible.

It is unnecessary because property tax rates are a local matter. If people have complaints about their taxes, they should take them up with their local government. That's how we have done business in Alaska since statehood, and it's worked.



It is unfair because some taxpayers will enjoy a windfall, while others will pocket a few bucks. Big business in particular will see its tax burden diminished and enjoy major savings. Moreover, because the initiative limits the growth of a property's assessed value, in a few years the tax burden would fall heaviest on those who own newly purchased property.

For example, there are places in California, the model for this initiative, where identical properties next door to each other have wildly different values for tax purposes. One property may be worth \$800,000 and the other \$200,000 simply because they were purchased at different times.

It is irresponsible because cities that rely on oil and gas property taxes would have their finances ruined. Valdez, for example, would have its revenue cut in half. Furthermore, as the Anchorage Chamber of Commerce has noted, the initiative would handicap Anchorage's ability to build schools and other capital projects because of the impact it would have on bonding. With a 10 mill property tax limit, Anchorage would no longer be able to promise lenders that it has the resources to pay back loans.

The prime sponsor of the initiative, Lwo Kalenka, says he doesn't care about the consequences. That's somebody else's problem. He also says, "Only a handful of services are totally essential — water and sewer and the roads. All the rest, if you look at it, are special interest groups."

This is the voice of the Dark Ages. The police as a special interest organization? The fire department? Snow removal? Schools?

If voters are going to accept Mr. Kalenka's logic, why bother with paved roads, water and sewer? Alaskans didn't have them in territorial days. They drove dirt streets, drank from their own wells, and dug their own cesspools.

Nobody likes to pay property taxes. But it's one thing to signal your displeasure about taxes, as the 14,000 people who signed Mr. Kalenka's petition did, and another thing to vote for such a destructive proposition. Whatever short-term benefit the tax cap will have for individuals, it will have nasty effects on communities.

This will become clear to voters who look at the facts in the months before Election Day.

Property tax cap decisions belong at municipal level

Voters love to pass property tax caps. It's an emotional thing, a knee-jerk reaction to rising property valuation and a sense among citizens that government gets too much money from us.

Voters in California capped their property taxes when they passed Proposition 13, with disastrous results. Juneau voters capped Juneau's property tax rate at 12 mills back in 1995. Juneau property owners currently pay 10.7 mills for city operations and another 1.52 mills for voter-approved debt, bringing our total mill rate to 12.22. Voter-approved debt isn't included in Juneau's property tax cap.

This fall, Alaskans will have a chance to pass a statewide property tax cap when they vote on a question being placed on the ballot through the voter initiative process. Lt. Gov. Fran Ulmer certified the ballot question, which would limit property taxes statewide to 10 mills – 1 percent of the assessed value.

That may be a good thing for some communities, but it would not be a good thing for all of them. It would also hamstring the ability of communities to set their own tax rates, and that's just not fair. Communities should have the right to cap their property taxes, but they should also have the right to set them where they wish – whether that be higher or lower than the state average – through the majority vote process.

This voter initiative implies that every city and town is identical in its resources and needs, and we know that is not the case. Towns have varying needs and varying tax bases. Some have property taxes and no sales taxes, while others use a mix of both property and sales taxes to come up with the money to keep city operations running.

Sen. Kim Elton of Juneau has proposed a measure that would amend the initiative so that cities could opt out of the tax cap if voters so choose. Senate Bill 227 would allow municipalities with residents who want to pay higher taxes to do so by overriding the state tax cap, if the initiative passes. That's the correct way to set property taxes – not at the state level, but at the municipal level.

If the initiative passes in November, Juneau's property tax rate would drop and that drop would cancel out the will of Juneau voters. Because people in Wasilla or Palmer want to have their property taxes capped, should their will be imposed on the rest of the state? We think not. Juneau would lose about \$1.5 million in revenues at a time when the city is already reeling from state municipal revenue sharing cuts.

There's yet another problem with the voter initiative that will appear on the ballot. It sets the overall mill rate at 10, and that applies not only to operations, but to voter-approved debt. This unusual and foolhardy wording would pretty much disable municipalities from being able to issue bonds for projects like schools and police stations. Voters would essentially not be able to build public projects through the issuance of municipal bonds.

An example is the bond issue voters in Juneau approved to build a new high school, if and when the state agrees to pay for half of the cost. Under the initiative, it's doubtful that bonds could be sold, because bond buyers would perceive greater risk in doing business with a community that could not meet its obligation by raising its mill rate, if necessary. In other words, the concept that a community pledges its "full faith and credit" behind bonds it issues would be seriously eroded, and bonds would likely cost a great deal more for the municipality.

Sen. Elton's bill would also address that problem – partially at least – by removing school bonds from the overall mill-rate calculation used in the proposed cap. But his bill would not address the other problems associated with the initiative.

The tax cap initiative hampers local governments and would be harmful to communities across the state. Let's keep the control with local communities, where it belongs. Senate Bill 227 allows voters to do just that.

Tax proposal holds danger

The proposed statewide ballot initiative to limit property taxes is a popular topic. I'm told that more than 22,000 people signed the petition that was turned into the lieutenant governor's office.

While I certainly would enjoy the prospect of lower property taxes, there is a fundamental danger in the proposal that outweighs my desire for lower taxes. I call the danger "representation without taxation." It would allow people from all over Alaska, most of whom do not have property taxes, to determine property tax limits for those of us who do pay them. I don't quite understand why people in Anchorage should give tax decision powers to people outside of Anchorage.

Conversely, I don't think it's right for me to vote on property taxes for other communities that I don't live in. As an elected representative I support policies that push power to the local level. This idea of ceding our local tax authority to statewide authority seems to go against the grain. I'd like to hear what other folks think about this.

— Rep. John Cowdery
R-Anchorage

Prop. 13 doesn't apply here

Will Mr. Uwe Kalenka and other proponents of the property tax cap initiative, which was modeled after California Prop. 13, explain why they neglected to bring out the fact that California had and continues to have taxes other than property taxes? Would Prop. 13 pass if California counties, cities, and/or municipalities operated on taxes collected from property taxes? I really doubt it.

Further, why would the people and locations most affected by this initiative let people in the rural areas, with no property taxes, vote on this? Would it be because this initiative would never pass without the help of the nontaxed rural residents?

With a tax cap in place, will the municipalities be able to put together the 10 percent need to match and obtain federal funding? Losing federal funding will be such a waste since the people of Alaska would watch our federal taxes be handed out to outsiders vs. part of it coming back to support our communities.

— Douglas Panilo
Anchorage

Tax cap will hurt deeply

There have been several letters to the editor about the lousy condition the streets are in after a big snow dump. If you look up from this paper and out your window, you'll see what I mean. Look closely, because if the mill rate cap passes, it'll be much, much worse.

Where do these people think the \$80 million Anchorage will lose is going to be made up? Think about it. As you try and drive your kids to the only library still open in town, the one that will only be open three days a week, you'll get stuck in the deep snow or slide off the road. Possibly some cheechako who has no clue about driving here will nail you. You'll use your cell phone to call the cops. Only, since there's been massive layoffs, it'll take several hours for one to come. Let's also pray that you don't need a fireman, as the city will have already closed a couple more fire stations.

When the promoters of this bone-headed idea say the city only needs to provide the basics, those, unfortunately, will be the first to go. Those of us who have lived here a number of years will remember what happened with Mr. Tight Fist himself, Tom Fink, got elected. What happened to basic services? He closed fire stations, froze police hiring and closed libraries all over town and stopped book buying at Loussac — something they still haven't recovered from. In the end we'll all pay dearly for this cap.

— Ross G. Homer
Anchorage

Police prove Kalenko wrong

Uwe Kalenko's vision of Anchorage is a city that only needs water, sewers and roads to thrive. One can only wonder what his civics grade was, since he thinks education is unnecessary.

It is ironic that the "unnecessary" police quickly solved the case and made arrests in the tragic shooting of the Wenuy's restaurant manager. As a restaurant manager himself, did this not give him pause in pronouncing all municipal services as special interests?

— Darrell L. Johnson
Anchorage

TAX: Nikiski stands to lose big under proposed cap

By TONY LEWIS
Daily News correspondent

SOLDOTNA—A statewide proposal to limit property taxes could cost Nikiski residents dearly in lost services while the oil industry and state of Alaska pocket the bulk of the tax savings.

Nikiski homeowners would see a small break on their tax bills if the initiative passes, but the community would lose millions in tax revenues as a result.

That's because in North Kenai — where oil platforms, a chemical fertilizer plant, an

oil refinery and a liquid natural gas plant dominate a tax base assessed at more than \$1 billion — big business pays roughly 75 percent of the area's property taxes.

Over the years, Nikiski residents have counted on that tax base to pay for firefighters, an indoor swimming pool, recreational programs and free meals to seniors, among other things. The initiative's 10-mill tax cap would slice \$2.5 million from Nikiski's revenue.

A 10-mill tax equals \$1,000 in taxes on property worth

\$100,000.

"It's really a few people that have initiated this, inflicting their will on the rest of us," said Jack Brown, who represents Nikiski on the Kenai Peninsula Borough Assembly. "For some idiots outside this borough to limit the fire department and put people's lives in jeopardy — those are fighting words."

The initiative, scheduled for the November ballot, is intended primarily to put money back into the wallets

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of homeowners, said Uwe Kalenka of Anchorage, one of the initiative's sponsors.

Regardless of how the tax cap plays out in individual communities, Kalenka said he believes Alaskans on the whole need property tax relief. It was easier to write a statewide initiative than fight for lower taxes in scores of communities, where property taxes are traditionally determined, he said. The Kenai Peninsula Borough alone has 19 distinct taxing districts.

"The problem is widespread," Kalenka said. "Our basic contention is housing is a basic need. We have people who have tremendous difficulty in paying (property) taxes."

Nikiski's Brown looks at the figures from his community and concludes Kalenka is misguided.

Of the \$2.5 million Nikiski would lose in taxes, roughly one-fourth, or \$600,000, would be returned to homeowners and small businesses. Oil companies would receive an estimated \$900,000 break for reduced taxes on the property not used for exploration, production and transportation.

Plus, a quirk in the way the state taxes the oil industry would divert another \$1 million from Nikiski to the state treasury.

Here's why: The state charges a 20-mill tax on property involved in the exploration, production and transportation of oil and natural gas. However, the state only keeps revenue from taxes above the rate levied by local governments.

For example, in the Nikiski area, where the local property tax is 12.43 mills, the state collects 7.57 mills of tax on oil properties.

If Nikiski's property tax is capped at 10 mills, the owners of the oil platforms and other infrastructure used for finding, pumping and moving crude would still pay 20 mills. But a bigger portion of that check would go to the state.

In Nikiski, that's about \$1 million.

"I'm really ticked at the people who have initiated this," Brown said. "This may make sense in other places of the state, but it doesn't make any sense to me."

The oil industry could realize even bigger benefits in the future under the initia-

tive. In addition to setting a tax cap, the measure limits annual increases in assessed property values at 2 percent. The initiative does not limit how much property values can decline.

Oil industry property values can fluctuate wildly depending on the price of crude and other factors. As an example, oil prices were in sharp decline until recently. As a result, oil industry property on the Peninsula declined in value by 25 percent over two years, said Jeff Sinz, the borough's finance director. Now that oil prices have rocketed, industry property values are rising.

Under the proposed initiative, however, some industry property values would be held artificially low for years. That would mean lower tax bills for the industry at the expense of the average taxpayer, Sinz said.

Looking beyond the Peninsula, the initiative would likely limit capital projects like schools, libraries, police stations and harbor improvements across the state, said Deven Mitchell, the state's debt manager.

Traditionally, local governments borrow money

through bond issues to fund those projects, Mitchell said. To pay off the debt, property taxes are temporarily raised. If a community is up against the 10-mill cap, however, a different source of revenue would have to be found.

"It's really going to string cities and boroughs across the state of Alaska," said.

One way communities could make up the revenue loss is with a sales tax. That could contradict the initiative backer's stated purpose, to help Alaskans make ends meet.

The Peninsula's poorest people feel the sales tax hardest. The tax is levied on the first \$500 of any purchase. So while rent, food and clothing are usually taxed for the entire amount, big-ticket items like automobiles, snowmachines and vacation packages are taxed on a small portion of their total price.

"The necessities of life are all taxed," said Larry Semmens, finance director for the city of Kenai.

Tax cap petition chills city brass

10-mill property levy limit may go to voters

By LIZ RUSKIN
Daily News reporter

A statewide initiative to cap local property taxes seems headed for the ballot next year, and Anchorage political leaders say if it passes it would blow a big hole in the city budget.

"It would be semidevastating, I think," said Anchorage Assemblyman Dan Sullivan. "You'd be looking at about half the budget of the city from property taxes going away."

The proposal, sponsored by an Anchorage restaurant manager and two other Anchorage men, would cap the tax rate for all local governments at 10 mills. The mill rate for the Anchorage Bowl now ranges from 12 to 18 mills, depending on what service area the property is in. A rate of 18 mills means the owner of a \$100,000 house pays \$1,800 a year.

If the initiative passes, Anchorage would

lose at least \$80 million a year, said Gene Dusek, city budget director. In fact, most of the larger local governments in Alaska now have tax rates of more than 10 mills, according to state figures, and would therefore lose revenue under the initiative. Some property owners in Fairbanks pay nearly 23 mills to the borough and city. Those in Soldotna pay almost 13. Palmer residents pay nearly 15.

Uwe Kalenka, the primary sponsor of the initiative, said Alaskans are desperate for lower property taxes. The politicians will have to deal with whatever shortfall results, he said.

"It's their job to figure it out," he said. "It's not my problem."

The petition has more than the 22,700 sig-

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PETITION: Cap would halve Anchorage level

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natures needed to get on the ballot, said sponsor Robert Monson. Petition circulators are gathering more in case some are found invalid, he said.

Under the initiative, Anchorage would have to cut back drastically on the services it provides, said Assemblyman Dan Kendall.

"It would be very difficult," he said. "We'd have just a bare-bones government at 10 mills."

One option for covering the shortfall, Kendall said, would be for the city to stop paying for education and leave school funding to the state. When city officials raised the specter of a 10-mill tax cap at a meeting last week with Anchorage-area legislators, the state lawmakers didn't offer any solutions.

This spring, the Legislature cut state aid to cities by one-third, which cost Anchorage \$5.8 million. In September, after voters rejected a plan to spend Permanent Fund earnings, several key legislators said they'll have to make deeper cuts in the state budget next year.

Anchorage's options for raising money also are limited by a 1997 city ballot measure that said a sales tax may only be imposed if 60 percent of voters approve. The Anchorage city charter limits property tax increases from one year to the next under a formula that takes into account changes in population and the cost of living. Voter-approved bond issues are exempt from the city's tax cap, however.

Kendall predicted that after a few lean years under a 10-mill cap, Anchorage voters would adopt a hefty sales tax.

According to Assembly staff figures, it would take a sales tax of about 10 percent to make up the shortfall.

The petition's 10-mill cap would apply to future bond propositions, which is another reason Sullivan opposes it. Anchorage voters usually approve road and school maintenance bonds, proving they want their roads and schools in good shape and are willing to pay for them, he said.

"I have a real problem with laws that say people can't tax themselves," he said.

Kalenka said the minority of people who vote is imposing taxes on a large number of property owners.

"The population is sick and tired of being taxed," he said.

He said he began promoting the tax cap after helping an elderly friend fight increases in his assessment. Senior citizens don't have to pay property taxes on the first \$150,000 of assessed value of their homes, but this friend had to leave the state for health reasons and didn't qualify for the exemption, Kalenka said. Kalenka said the experience, which took him to the city's board of equalization, was degrading.

"The arrogance of the board is rather glaring," he said. "They made me feel — how should I say? — subhuman."

Shelter, he said, is an essential need. He believes property taxes are making it hard for people to keep their homes.

So he and like-minded people got together to see what could be done. With help from the Los Angeles-based Howard Jarvis Taxpayers Association, they wrote an initiative based on California's Proposition 13 from 1978.

"We looked at what California did 20 years ago, and we copied it," he said.

Alaskans, he said, have responded enthusiastically.

"You should hear some of the horror stories," he said.

One impoverished single mother sent him \$20 for the cause, he said, which shows him how badly Alaskans want property tax relief.

Like Proposition 13, his tax-cap initiative would also change the way the value of a property is figured for tax purposes. Instead of being based on an assessor's estimate, taxes would be based on the actual selling price. And the assessment could grow by no more than 2 percent a year.

The selling price, Kalenka said, is a more accurate measure of a property's value.

Californians disagree about the legacy of Proposition 13. Fans say it has meant lower, predictable property taxes. Others say it has hamstrung local governments and resulted in inequities: people who stay in their houses for a long time pay low taxes, while new homeowners in similar houses pay more.

"What's wrong with that?" Kalenka asked. People who stay in a house and improve it should be rewarded, he said.

Reporter Liz Ruskin can be reached at lruskin@adn.com.

<http://www.newschoice.com/newspapers/Fairbanks/Miner/default.asp>

Ballot petition would cap property tax rate

Thursday November 11, 1999

By ROD BOYCE
Staff Writer

A ballot petition that seeks to limit Alaska municipalities to a 10 mill property tax rate would cut the Fairbanks North Star Borough's tax revenue nearly 30 percent and cause havoc with the borough's budget, Mayor Hank Hove said Wednesday.

"It would wipe out a good deal of services," Hove said. "We may have to close the library and bus system. We can't fine-tune anything down anymore."

"What we're looking at is to shed entire functions."

The petition's sponsors -- an Anchorage restaurateur and two other Anchorage residents -- say they have more than the required 2,700 signatures needed to put the measure on the November 2000 ballot but are collecting more in case some are ruled invalid.

The proposed tax cap would limit all local governments to a rate of 10 mills, or 1 percent, of a property's assessed value. That cap would not apply to taxes levied or pledged to pay for bonds -- such as those for school improvements -- issued prior to Jan. 1, 2001. Bonds issued on or after that date would fall under that cap.

The cap wouldn't now affect the cities of Fairbanks and North Pole, which each have property tax rates well below 10 mills -- 6 mills for Fairbanks and 2.3 mills for North Pole.

Uwe Kalenka, the primary sponsor of the initiative, said Alaskans are desperate for lower property taxes. The politicians will have to deal with whatever shortfall results, he said.

"It's their job to figure it out," he told the Anchorage Daily News. "It's not my problem."

Most of the larger local governments in Alaska have tax rates of more than 10 mills, according to state figures, and would therefore lose revenue under the initiative.

The mill rate for the Anchorage Bowl now ranges from 12 to 18 mills, depending on what service area the property is in. The city's budget director estimates the city would lose at least \$10 million a year.

The Fairbanks North Star Borough's base property tax rate is 14.48 mills, or \$1,448 in annual property taxes on a \$100,000 house. Residents in service areas pay additional taxes.

Residents in the city of Fairbanks pay more than 20 mills -- their city's rate and the borough's rate combined -- although it's not clear how the

initiative would affect property taxed by two independent governments.

"It's a little troubling to see how easy it is to pick up signatures," Hove said of the petition. "People tend to see it as putting money back in their pockets. Too many don't think government does anything."

"This would materially change the landscape in Alaska," he said. "I don't think I'd want to live here."

The borough's revenue from property taxes would tumble \$17 million, to about \$41 million, the first year after the measure takes effect.

The amount the borough would have to trim, assuming it doesn't make up the amount through users fees or a sales tax, equates to just over half the borough contribution to the school district budget. It is slightly more than the combined budgets of the public works and parks and recreation departments.

The overall borough budget, including all revenue sources, was \$89 million this year.

In North Pole, property taxes account for a small portion of the city's yearly revenues. The bulk of the city's revenue comes from its 3 percent sales tax, which is expected to raise about \$1.14 million in 2000.

Fairbanks Mayor Jim Hayes, his city not threatened by the cap, wouldn't say whether he thought the statewide cap a good idea or a bad one. "I don't know if we'd oppose it or not," he said. "Everything I've heard from other mayors is it would be bad. But some people might like it."

The Associated Press contributed to this report.

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**NORTH SLOPE BOROUGH
RESOLUTION NO. 77-99**

**A RESOLUTION OPPOSING STATWIDE
PROPERTY TAX CAPS BECAUSE IT REMOVES
THE POWER OF LOCAL VOTERS**

WHEREAS, the proposed initiative imposing a Statewide Cap on local property taxes and assessments would:

1. Limit local mill rates everywhere in the State of Alaska to 10 mills, including taxes to pay for future bonded indebtedness.
2. Limit increases in the assessed value of individual properties to the CPI, but no more than 2 percent per year.

Would remove the power of local voters to approve local taxes at levels that meet the needs of their community including the power to impose local tax or revenue caps particularly suited to their communities; and

WHEREAS, statewide limitations would take away local voter control allowing people in one part of the State of Alaska to set mill rates for people in other municipalities; and

WHEREAS, if the proposed initiative is adopted, owners of property of equal market value may pay different property tax amounts because:

1. Property will be assessed at true market value when property is constructed or sold, which means that a newly purchased or constructed home could pay much higher taxes than another property of equal value that had not recently been sold might thereby be assessed at a lower value.
2. The market values of property in any community may grow at different speeds, meaning that capping assessed values may give a tax break to property owners who live in communities with property that is growing at a greater than 2 percent rate while requiring taxpayers in communities with less than 2 percent growth to pay at full and true value; and

WHEREAS, several municipalities have property tax rates substantially above 10 mills, some up to 19 mills. This initiative therefore would cut those major sources of local revenues nearly in half for those communities. Schools are the key municipal service funded by property taxes, and reduction in property taxes will threaten the quality of education in many communities; and

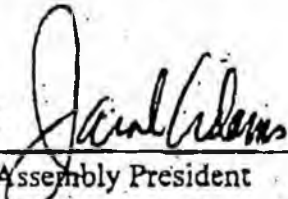
WHEREAS, the proposed initiative's 10 mills tax cap includes taxes imposed to pay bonds for new capital construction. It is unlikely that new schools or other local improvements could be built, even if desired by local voters, if a Statewide Cap makes it impossible to provide for repayment of the bonds; and

NOW, THEREFORE BE IT RESOLVED,

That the Alaskan voters are urged not to support the proposed Statewide Property Tax Cap Initiative because it would remove the power of local voters, and could effectively halt school and other necessary capital construction, and could create an inequitable system of taxation in which owners with equal property values could pay different amounts of property tax.

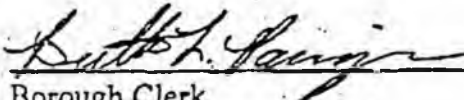
INTRODUCED: December 7, 1999

ADOPTED: December 7, 1999

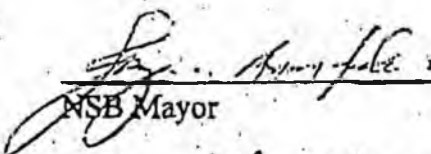


NSB Assembly President
Date: 12-7-99

ATTEST:



Borough Clerk
Date: 12-8-99



NSB Mayor
Date: 7 December 1999



Teleconference Participants

TCN: 10588

Participant Lists

View List for

ALL

Testifiers

Go >>>

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Participants

Unidentified Testifiers: 0

Unidentified Observers: 0

ANCHORAGE (ANC)

1

Name: Mr. Steve Van Sant

Phone:

Address:

Affiliation: St Assesso

City /St /Zip:

Type: Testifier

Bill: SB 227: MUNICIPAL PROPERTY TAX LEVY LIMITATION

FAIRBANKS (FBX)

1

Name: Ms. Bonnie Williams

Phone:

Address:

Affiliation: FNSB Assem

City /St /Zip:

Type: Testifier

Bill: SB 227

Janice Adair (OF1)

1

Name: Mr. JANICE ADAIR

Phone:

Address:

Affiliation: D.E.C.

City /St /Zip: ANCHORAGE AK

Type: Testifier

Bill: SB 2-71

SENATE FINANCE COMMITTEE

SIGN-IN

SB 227-MUNICIPAL PROPERTY TAX LEVY LIMITATION

NAME: Kevin Ritchie Subject/Bill No: 227
Co./Dept./Title: AK Municipal League Phone: 5861325
Address: 217 2nd St Zip: 99801
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
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Do you wish to testify? Yes No Respond To Questions