

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2887

again qualify for flex-rating since it is the only change in the previous 12 months and the change is less than 10%.

**Company B**

Rate Change	Effective Date	Flex-rating
1.4%	5/15/2000	
5.9%	8/1/2001	Yes
18.2%	1/1/2003	No
10.1%	10/1/2003	No
-0.10%	5/15/2004	Yes
-0.30%	12/15/2004	Yes

Had the flex-rating method been available when these filings were made, the August 2001 rate change would have qualified to be filed under the flex-rating provisions. Neither the January 2003 filing nor the October 2003 filing would qualify for flex-rating as the changes are greater than 10%. The May 2004 filing would qualify for flex-rating since the combined rate change in the 12 months between May 15, 2003 and May 15, 2004 is 9.99%. The December 2004 filing would also qualify for flex-rating since the 2004 filings have a combined impact of -0.4% which is within the flex band.

**Company C**

Rate Change	Effective Date	Flex-rating
8.0%	8/24/2000	
8.3%	2/4/2002	Yes
2.7%	7/22/2002	No
5.4%	2/24/2003	Yes

Had the flex-rating method been available when these filings were made, the February 2002 filing would have qualified for flex-rating. The July 2002 would not qualify for flex-rating since the total rate change over the 12 months between July 22, 2001 and July 22, 2002 is 11.2%. The February 2003 rate change would qualify for flex-rating since the combined rate change between February 24, 2002 and February 24, 2003 is 8.2%.

*Homeowners Rate Change History*

**Company A**

Rate Change	Effective Date	Flex-rating
2.4%	5/22/2000	
15.0%	1/21/2002	No
6.2%	7/22/2002	No

Had the flex-rating method been available when these filings were made, the January 2002 filing would not qualify for flex-rating since the change is greater than 10%. The July 2002 filing also would not qualify for flex-rating since the combined rate change for the 12-month period from July 22, 2001 to July 22, 2002 is 22.1%.

Company B

Rate Change	Effective Date	Flex-rating
-0.6%	4/15/2000	
-6.4%	6/15/2001	Yes
12.3%	6/15/2002	Yes
13.2%	10/1/2003	No

Had the flex-rating method been available when these filings were made, the July 2001 filing would qualify for flex-rating. The June 2002 filing would qualify for flex-rating since the combined rate change over the 12-month period from June 15, 2001 to June 15, 2002 is 5.1%. The October 2003 filing would not qualify for flex-rating since the combined rate change from October 1, 2002 to October 1, 2003 is 13.2%.

Company C

Rate Change	Effective Date	Flex-rating
3.0%	7/6/2000	
3.0%	8/30/2001	Yes
10.4%	3/5/2003	No

Had the flex-rating method been available when these filings were made, the August 2001 filing would qualify for flex-rating since it is less than 10% and the only filing in the 12 months prior to August 30, 2001. The 2003 filing would not qualify for flex-rating since the change is greater than 10%.

Commercial Lines

For the commercial lines, filings submitted by Insurance Services Office, Inc. are considered to be representative of the rate changes for individual companies. Please note however, under HB 216 filings submitted by a rating organization are not eligible for flex-rating.

*General Liability Rate Change History*

Rate Change	Effective Date	Flex-rating
-5.7%	12/1/1999	
-6.2%	10/1/2000	No
4.5%	10/1/2001	Yes
-4.4%	10/1/2004	Yes

Had the flex-rating method been available when these filings were made, the October 2000 filing would not qualify for flex-rating since the combine rate change between October 1, 1999 and October 1, 2000 is -11.5%. Both the 2001 and 2004 filings would qualify for flex-rating since they are the only changes within the 12-month period prior to the effective dates and both are less than +/-10%.

*Commercial Auto Rate Change History*

Rate Change	Effective Date	Flex-rating
4.2%	9/1/2001	
2.5%	10/1/2003	Yes
1.2%	10/1/2005	Yes

Had the flex-rating method been available when these filings were made, both the 2003 and 2005 filings would qualify for flex-rating since the changes are less than 10% and they are the only changes in the 12-month period proceeding the effective date.

*Commercial Property Rate Change History*

Rate Change	Effective Date	Flex-rating
-2.5%	11/1/2001	
-9.8%	11/1/2002	Yes
-8.0%	2/1/2004	Yes
-4.1%	2/1/2005	Yes

Had the flex-rating method been available when these filings were made, the 2002, 2004 and 2005 filings would qualify for flex-rating since there is only one filing in a 12-month period and the changes each fall with the flex band.

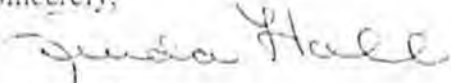
Filing Review Time

To demonstrate the length of time that it takes a filing to be approved we looked at rate filings that were closed during February 2005. There were a total of 77 rate filings that were closed with an average time of 40 days.

Number of Days to Close	Number of Filings
Less than 15 days	21
15 days	16
16-30 days	9
31-49 days	7
50-100	15
More than 100	9

Thank you for the opportunity to address the issues that were asked at the hearing. If you need additional information, please let me know.

Sincerely,



Linda S. Hall  
Director

Summary of Other State Flex-Rating Laws			
State	Flex Range	Lines of Business	Comments
Alabama	+/-10%	Commercial property and casualty insurance excluding workers compensation, medical malpractice and other lines with proposed rate increases of 10% or more	Rate filings subject to the flex range are file and use. Rate filings outside the flex range are prior approval. Personal lines rates are prior approval.
Kentucky	+/-25%	Personal and commercial lines of business.	The flex band applies to <i>any classification of risks in any rating territory</i> within a 12-month period. Rates outside the flex band are prior approval.
Louisiana	+/-10%	Personal and commercial lines of business.	Only one rate increase per classification in any 12-month period. A reduction in rates for a classification may be approved at any time. Flex rate filings become effective not less than thirty days after date of filing. Rate filings outside the flex range are prior approval.
New Jersey	+/-7%; +/-5%	Personal auto and homeowners respectively.	This is a limited rate filing prior approval process for minor rate changes that requires limited supporting information and a decision within 30-45 days.
Oklahoma	+/-15%	Workers compensation	
Oregon	+/-15%	Specified commercial liability lines such as products liability, medical malpractice, liquor law, child care, and a few others.	Oregon is generally file and use with the exception of rate changes exceeding the +/- 15% for the specified lines. Rates for the specified lines falling outside this band are prior approval.
South Carolina	+/-7%	Personal auto, fire, homeowners	Filings within the flex band become effective without prior approval provided no more than one rate increase for auto and no more than 2 rate increases for property, with the second rate increase subject to prior approval, may be implemented during any 12-month period. Rates outside the flex band are prior approval. Department position is that the maximum percentage change is 25% to any one policyholder.

Sectional Analysis for Amendments to HB216

Section	Statute	Change	Purpose or Effect
1	21.09.110(b)	Amend	Remove the word "approval" and replace it with "filing" as all forms and rates will no longer require approval. However, filings are still required.
2	21.39.040(a)	Amend	Add "loss cost adjustment" to the required list of types of rates that must be filed. Does not add new filing requirements but clarifies a new type of filing that did not exist when this statute was originally enacted.
3	21.39.040(d)	Amend	New language is added to reference that this section applies to Section 5 and Section 9 and similar language is proposed to be deleted from these sections to eliminate redundancy. Language stating when a filing is open for public inspection has been deleted as this is addressed in the prior approval, flex-rating and file and use sections.
4	21.39.040(g)	Amend	Delete the word "extrahazardous" as this concept can be incorporated in the word "unusual". Allow special filings for rates that are lower than the filed rate in addition to rates that are higher. Clarifies that prior approval or file and use filing methods apply to these filings.
5	21.39.041(a)	Amend	Add mortgage guaranty to list of prior approval filings. Replace "chapter" with "title" for consistency.
5	21.39.041(c)	Amend	Replace "chapter" with "title" for consistency.
5	21.39.041(d)	Amend	Delete duplicate requirement for supporting information as this language appears in Section 3. Replace "may deem" with "shall consider" as deem is not terminology generally used.
5	21.39.041(f)	Amend	Replace "chapter" with "title" for consistency.
7	21.39.070(b)	Repeal	Removes the requirement that a deviation filing remain in effect for one year for consistency with 21.39.210 that allows more than one filing in a 12 month period.
9	21.39.210(a)	Amend	Add mortgage guaranty to list of prior approval filings for consistency with Section 5.
9	21.39.210(c) and (d)	Amend	Replace "chapter" with "title" for consistency.
9	21.39.220(d)	Amend	Replace "chapter" with "title" for consistency.
9	21.39.220(e)	Amend	Replace "rate" with "filing" for consistency.

9	21.39.220(f)	Amend	Delete duplicate requirement for supporting information as this language appears in Section 3.
9	21.39.220(g)	Amend	Add language to clarify when a filing becomes open for public inspection.
9	21.39.220(h)	Amend	Replace "chapter" with "title" for consistency.
12	21.42.123(a)	Amend	Clarify that a filing must be disapproved by order only when the disapproval occurs after the review period or the after the filing has been previously disapproved.
12	21.42.123(b)	Amend	Clarify that a filing must comply with the title not just with the filing process.
12	21.42.125(c)	Amend	Replace "materially false or misleading" certificate with "incomplete or inaccurate" certificate to describe when an insurer may no longer be able to submit form filings under file and use procedures.

**LESSMEIER & WINTERS**  
LAWYERS - LLC

MICHAEL L. LESSMEIER  
GREGORY W. LESSMEIER  
SHELDON E. WINTERS

VINTAGE BUSINESS PARK  
3000 VINTAGE BOULEVARD  
SUITE 100  
JUNEAU, ALASKA 99801

TELEPHONE: (907) 796-4999  
FACSIMILE: (907) 796-4998  
E-MAIL: l-w@gci.net

Via Hand Delivery

March 17, 2005

The Honorable Tom Anderson, Chair  
Members of the House Labor & Commerce Committee  
State Capitol Room 408  
Juneau, Alaska 99801

Re: State Farm's Support for HB 216

Dear Representative Anderson:

On behalf of State Farm Insurance, we would like to express support for HB 216.

Currently, insurers must obtain "prior approval" from the Division of Insurance before adjusting rates upward or downward and before making products and product enhancements available to customers. Such "prior approval" systems were first instituted in the early 1900's as a way to make sure insurers charged enough to avoid insolvency, but they were not intended to help with insurance affordability. A 2001 Brookings Institute study perhaps best summarizes the problems with antiquated "prior approval" systems in today's modern market place. The study made the following conclusions about prior approval rate regulation:

1. Prior approval had little or no long-term effect on reducing overall price levels;
2. Prior approval tended to make coverage less available in the voluntary market;
3. Prior approval tended to create larger residual markets;
4. Prior approval tended to increase cost volatility for insurers and price volatility for consumers; and
5. Prior approval tended to increase subsidization of residual market insurance by those insureds in the voluntary market.

History in other states indicates clearly that both the Alaska insurance industry and insurance consumers will benefit by modernization of Alaska's regulatory system to allow rate flexibility and a use and file system for policy forms and endorsements. HB 216 does that, while at the same time preserving the Insurance Director's authority to regulate rates and forms.

Honorable Tom Anderson  
March 17, 2005  
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LESSMEIER & WINTERS  
LAWYERS - LLC

In conclusion, HB 216 will reduce entry barriers for insurers to do business in Alaska, encourage competition among insurers, allow insurers to respond more quickly to market conditions to the benefit of consumers and allow the Division of Insurance employees to spend their valuable time on activities that will better serve the insurance buying public such as regulation of solvency, market conduct and consumer complaints. Based on experience in other states, insurance availability should improve in the near term and insurance affordability may improve in the longer term. We thank you for your support of this bill.

Sincerely,

LESSMEIER & WINTERS  
Lobbyists For State Farm

By: Sheldon E. Winters  
Sheldon E. Winters

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March 16, 2005

To: Alaska State House of Representatives

I am writing to strongly encourage you to pass House Bill 216.

There is common acceptance by all observers that the current insurance regulatory system in Alaska needs to be reformed. Progressive Casualty Insurance Company and its affiliated and subsidiary companies (Progressive) agrees that insurance regulatory reform is necessary and in the best interest of all stakeholders. We believe that HB 216 is a huge step forward and will:

- Encourage competition, availability, and innovation in product design;
- Eliminate multiple layers of regulation;
- Facilitate the use of pricing and underwriting practices that are fair and actuarially supported;
- Provide speed to market so that forms and rates for new and existing products can be used within reasonable time frames;
- Eliminate outdated regulatory requirements that no longer serve valid regulatory objectives;
- Provide flexibility that allows insurers to innovate and compete effectively against new rivals in the rapidly converging financial services industry;
- Be administered by regulators who are professional, knowledgeable about the industry, and capable of effectively balancing the interests of consumers and insurers; and
- Provide regulation that is consistent, sensible, reliable, and in accordance with law.

A regulatory system with these attributes will foster competition and make reasonably and accurately priced insurance available to more consumers. It will also encourage capital investment and promote a healthy insurance market. This can only benefit consumers.

HB 216 fosters open competition, and in doing so, we believe establishes the optimal approach to rate regulation from both the consumer and industry point of view. Fostering competition curtails excess profits and improves insurance availability. Free market forces should be allowed to operate to assure the most efficient flow of services to the insurance-consuming public. Open competition rating laws, such as HB 216, are the embodiment of this philosophy.

If I can be of any assistance, or answer any questions pertaining to our support of this bill, please do not hesitate to call me directly at 916-864-6175.

Thank you for supporting HB 216.

Sincerely,

Marcus Linden  
Progressive Insurance  
Agency Auto Product Manager Alaska

Progressive Insurance supports HB 216 and strongly encourages you to <sup>support</sup> pass CS  
House Bill 216.

~~This Committee Substitute~~  
We believe ~~HB 216~~ represents a win for consumers, regulators, and industry.

Consumers will benefit from this bill because it will stimulate further competition among insurance companies. Competition will be heightened for two reasons. One, we believe non-present carriers will see the passage of this bill as a sign that the State of Alaska and the Alaska DOI are serious about attracting new carriers. HB 216 makes it less burdensome for carriers to file their rates and maintain a program. States with a small market, such as Alaska, need to make it easier, not harder, for companies to do business, otherwise it just isn't worth it to carriers. ~~With the arrival of new carriers, Alaskans will gain more choices and likely lower premiums relative to the current market.~~ Competition will also be heightened because insurance carriers will feel more comfortable being aggressive with lower premiums. In the current environment, lowering rates is perceived to be a risky move because raising rates, if rates costs rise, might take longer than is desired, resulting in unprofitability. The more financially sound strategy is to maintain, rather than lower rates. The flex band is designed to allow carriers some wiggle room with respect to pricing. ~~If a carrier lowers rates and their costs suddenly rise, they own more quickly to maintain profitability and will be a dry run for the state budget.~~ Clearly consumers win if they have more choices and there is heightened competition among those choices.

This bill is a win for the DOI as well. Less time will be spent reviewing insurers' filings for a small rate change. Resources can be re-deployed more efficiently to ~~rate~~ rate and program changes. More time can be spent on other insurance issues of importance to Alaskans.

Finally, we like the bill because it reduces our administrative cost to conduct business in the state and allows us to more easily bring new products and services to Alaska. When we prioritize new programs to be rolled out in the US, the most heavily regulated states get put at the bottom of the list, if they make the list at all. This means consumers in Alaska are not benefitting from new innovations that could very well be saving them hundreds of dollars a year on car insurance. With the passage of this bill we hope to bring our product in Alaska up to par with other states. We believe this will generate growth for us as innovation helps us out perform our competitors and is one of the keys to our success.

Thank you for your time in hearing testimony on this bill. We support HB 216 and ask you for your support. ~~Thank you for your support.~~ <sup>Thank the CS and more</sup>  
<sup>it through the process.</sup>  
Sincerely,

Marcus Linden  
Agency Product Manager AK  
~~Progressive Insurance~~  
10929 Disk Drive  
Rancho Cordova, CA 95670  
916-864-6175

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Property Casualty Insurers  
Association of America

Shaping the Future of American Insurance

March 17, 2005

To: The Honorable Tom Anderson, Chair  
Members of the House Labor and Commerce Committee

From: Samuel Sorich, Vice President

Re: PCI's Support for HB 216

The Property Casualty Insurance Association of America (PCI) is an association of property/casualty insurance companies. There are nearly 200 PCI member companies writing insurance in Alaska. PCI members include Allstate, Progressive, Liberty Northwest, and GEICO.

PCI supports HB 216. Director Hall and her staff deserve to be commended for their regulatory efforts. However, current statutes force them to process and review every change in rates and forms, no matter how minor and no matter how well justified, before the change can be put into effect. This system burdens the Division staff and distracts them from other regulatory priorities. The system also has inherent delays which force consumers to wait for new rating plans and products.

Alaska's current regulatory system discourages insurers from innovating on rates and products, because any such changes face an often times lengthy review process. When the rates and products are finally improved, they may no longer relate to market conditions and consumer needs.

HB 216 addresses these problems. The bill preserves the Insurance Director's authority to regulate rates and forms but allows a degree of rate flexibility and offers an alternative to the current system of strict regulatory prior approval of policy forms. We believe that HB 216 will create a more dynamic, more competitively-oriented insurance market in Alaska. The competition on rates and forms that HB 216 will encourage will benefit Alaska insurance consumers.

HB 216 was developed over the past nine months by an industry-wide drafting group. The group included some PCI members and several other insurance companies and associations, including State Farm Insurance Company and the American Insurance Association which also support HB 216.

Sincerely,

A handwritten signature in cursive script that reads "Samuel Sorich".

Samuel Sorich  
Vice President

Testimony of John George representing Property Casualty Insurance Association of America. 3/21/05

This bill is a result of nine months of discussions among insurance companies, agents, the Director of Insurance and her staff. We have reached agreement on needed statutory changes which will significantly increase competition, provide public protection and improve the efficiency of the Division of Insurance.

HB216 has three basic purposes. First the bill will create an environment where insurers compete more vigorously on insurance rates and products. HB216 will encourage insurers who currently write insurance in Alaska to stay, will encourage companies with minimal writings to expand their book of business and will attract new insurers to Alaska. More competition is good for the public and a spreading of coverages among more carriers lessens our dependence on any one company. HB216 follows a national trend to a more competition oriented system for regulation of insurance which has shown benefits to consumers where similar regulatory modernization has occurred. And finally HB216 allows the Division of Insurance more efficiently allocate their resources to provide better consumer protection.

Discussions began using model legislation adopted by the National Conference of Insurance Legislators. Some of those ideas were incorporated some were discarded, but the current bill is consistent with the NCOIL model goal of regulatory modernization. The bill requires initial rates to be filed and approved by the Division of Insurance with subsequent filings within a narrow rate band to be filed and used without prior approval. This flex rating system allows companies to react quickly to market conditions without waiting months seeking prior approvals. The bill contains a certification process whereby companies certify that their filing meets statutory requirements. The Division of Insurance retains the authority to regulate, and apply sanctions on companies that fail to meet the required standards.

The bill as presently drafted has a few technical problems and some items need minor adjustments to accomplish the intended goals. The Director of Insurance and industry spokesmen are still working on language for several changes and we are confident that we will reach agreement on those issues. We had hoped to have a committee substitute bill ready for today's hearing but it is not ready yet.

I believe the Director of Insurance is on line today and I think it might be appropriate to get her comments on the bill and reserve testimony on the technical aspects of the bill until we have a committee substitute bill ready for consideration.

The final bill will truly be a cooperative effort supported by industry and regulators which will benefit the insurance buying public.



## AN ANALYSIS OF INSURANCE RATE REVISIONS UNDER FLEX-RATING SYSTEMS

### Introduction

A flex-rating system enables insurance companies to implement rate changes within a percentage band without approval from the regulator, but it ensures that larger changes must still undergo regulatory review before going into effect. Even small changes may still be disapproved if they do not meet the statutory requirements of being "not inadequate, excessive, or unfairly discriminatory."

This type of system allows insurers the flexibility to respond to competitive market conditions and adjust certain rates more quickly in accordance with the changing loss experience. It has the ability to stabilize the market by smoothing any fluctuations in the rate adjustments. Flexible rate revisions under this mechanism are not as volatile as rates that require prior approval. By reducing any sharp gyrations in the rate level, the system is beneficial to insurance consumers as price continuity is maintained. Flex-rating provides a reasonable plan that lessens regulatory burdens for both insurers and regulators without compromising consumer protection, and consumers benefit from a market environment characterized by healthy competitive forces and flexibility.

While lawmakers and regulators may recognize the benefits of flex-rating, there is some hesitancy to convert a less competitive rating law to a more flexible system. Understandably, they are concerned that insurance companies will seize upon the opportunity to implement rate changes very close to the threshold, knowing that these rates will not need regulatory approval.

This paper provides evidence showing that the scenario described above is not the case. A significant number of rate changes in flex-rating systems are in fact reductions. One reason for rate decreases under a flex-rating system is that insurers are allowed the flexibility to respond to competitive market conditions and determine appropriate rate level changes more quickly. If a competitive market exists, then this system, by definition, will allow some rates to change more quickly in accordance with the changing loss experience.

Flexible rate revisions are not as volatile as rates that require prior approval. Since companies are able to predict their losses more accurately under a flex system, they feel more comfortable in reducing rates if warranted because they realize they can increase them later if needed. This is not always the case under a prior approval system, since companies face an additional underwriting risk due to the time lag involved with the delays in the review process. What typically occurs in states with prior approval laws is that companies are hesitant to lower rates because they experience regulatory delays when subsequent increases are needed.

Because premiums are able to more accurately reflect projected losses under a flex-rating system, actual loss ratios (i.e., losses relative to premiums) are more likely to match targeted loss

ratios and favorable underwriting returns are produced. Companies are able to respond to changing loss experience more quickly under flex-rating than under prior approval and they can implement certain rate increases or decreases with all necessary flexibility, further strengthening the competitive system. As a result, policyholders see lower increases in their rates and sometimes even cost savings.

Congress could intervene in the regulation of the insurance business unless it is persuaded that greater regulatory modernization at the state level is occurring. Meetings and hearings in recent years have focused on flaws in the current state regulatory system, including the drag that supervised or administered rating laws have on consumer choice and industry competition and efficiency. Flex-based rates make it possible for insurers to compete more vigorously and swiftly on price, and Congressional leaders calling for more modernized insurance regulation have cited "speed-to-market" and competition-based pricing as crucial elements in regulatory modernization.

Effective consumer protection that focuses on local needs is the hallmark of state insurance regulation because local and regional markets and the needs of consumers in those markets are better understood within the state framework. Modernization of insurance rates is a key element to preserving state regulation of insurance, and state legislators can play a key role in making sure that modernization is implemented quickly and efficiently. State regulators are on time and on target to accomplish changes needed to modernize the system of insurance regulation in the United States. The PCI remains committed to working with them to enhance and improve the state regulatory system to foster a healthy and competitive insurance marketplace.

Flex-rating is a very logical and sound next step toward regulatory modernization, as free market forces would operate to a greater extent to assure the most efficient flow of services to the public. It makes little sense for insurance companies to take advantage of the flexible non-regulatory approval feature by implementing rate increases near the threshold, as they would simply lose business by encouraging their policyholders to go to other insurers. What does make sense is that a flex-rating approach would:

- allow insurers to better predict their losses, resulting in lower loss ratios;
- create lower rate increases and even decreases, to the benefit of consumers; and
- attract more insurers to enter the market, improving the level of competition in the state.

### **Personal Auto Rate and Loss Cost Activity**

This section discusses rating activity in the various states that have flex-rating laws. Currently, the following five states have auto insurance flex-rating systems in place:

- Kentucky – effective July 15, 1988, flex band of 25 percent
- Louisiana – effective January 1, 2004, flex band of 10 percent
- Pennsylvania – effective February 19, 1998, flex band of 10 percent
- Rhode Island – effective July 7, 2004, flex band of 5 percent
- South Carolina – effective March 1, 1999, flex band of 7 percent

In addition, some rating activity is provided for New York, a state that had a flex-rating law beginning on June 30, 1995. The law, however, sunset in August 2001.<sup>1</sup>

In each example, personal auto rate changes made in these states were not right at the upper limit. Insurance companies are not arbitrarily filing rate increases near the threshold, knowing they can get the maximum revision without insurance department approval. They do not treat the size of the flex band lightly, but instead make prudent rating decisions according to the changing loss trends and the competitive environment.

#### *Rate Activity in South Carolina*

By far, South Carolina appears to have received the greatest amount of attention with respect to the adoption of its auto flex-band law in 1999.<sup>2</sup> In a letter dated March 22, 2004, Dean Kruger, property and casualty chief at the South Carolina Department of Insurance, asserts, "The assumption used under the prior approval law was that requiring insurers to lower requested rate increases saves money for consumers. If such an assumption were accurate, then premiums should have increased during the implementation (of flex-rating). In fact, they dropped and this indicates that the competitive marketplace is the more effective in controlling rate levels. The key is to increase the number of market participants and a regulatory approach that causes insurers to not enter our marketplace has a cost to the consumer."

Included in Mr. Kruger's letter is an exhibit of major personal auto insurers and their rate activity since the flex system began (see Table 1). Revisions are no changes, decreases or increases beyond the 7 percent threshold that would require regulatory approval. Six of the 34 rate activities shown in the table were decreases and seven were increases above the threshold; the remaining 21, including "no change", are generally well below the maximum limit. Clearly, companies are not trying to take advantage of the new system by implementing rate increases at levels near the flex band. Another observation is the fact that rate changes were not automatically made each year, as seen for three insurers (Allstate, State Farm Fire and Casualty, and South Carolina Farm Bureau).

	1999	2000	2001	2002	2003
Allstate Insurance Co.	0.0%	1.5%	3.6%	No Change	1.6%
State Farm Mutual Auto	-0.3%	0.9%	5.9%	5.8%	-0.5%
Nationwide	-1.8%	4.7%	4.3%	3.9%	1.8%
State Farm Fire and Casualty	No Change	-4.8%	10.2%	11.6%	3.9%
GEICO	-10.3%	6.6%	9.9%	3.5%	1.9%
Allstate Indemnity Co.	New Program	5.0%	11.0%	12.75%	12.0%
South Carolina Farm Bureau	-4.53%	No Change	6.94%	0.01589%	7.26%

*Source: South Carolina Department of Insurance*

<sup>1</sup> It is not known whether the flex-band system will be reinstated by the New York General Assembly.

<sup>2</sup> Most likely, the spotlight has been on South Carolina due to the significant improvements flex-rating had on its residual market problem and the large increase in auto insurers entering the state.

*Rate Activity in New York*

Like South Carolina, New York had a flex band of 7 percent for personal auto insurance. Although New York's flex-rating law sunset in 2001, information is presented on rate changes that took place in this state while the system was in effect and after the law sunset (see Table 2, compiled by the Progressive Group). These changes reflect rating activity conducted by 10 insurance groups representing more than 70 percent (71.5%) of the market.

As previously shown, insurers do not view flex-rating as an opportunity to raise their rates as much as possible. In fact, six insurers implemented rate changes substantially lower than the 7 percent band (Liberty Mutual, Metropolitan, Nationwide, New York Central, and Travelers all had small increases, while State Farm lowered its rates by 2.5%). One insurer (GEICO) had a rate change near the limit during flex, but filed the lowest change after the law sunset. These small increases resulted in GEICO's having the second lowest overall rate increase (8.5%) both during and after flex-rating (the lowest is Nationwide, with a combined 6.0% increase during and after flex). Three insurers (Allstate, 8.5%; AIG, 17.9%; and Progressive, 18.1%) had rate changes greater than the 7 percent band during flex-rating and needed regulatory review and confirmation before they were able to put their rates into effect.

The average increase among the 10 groups presented was 5.3 percent during flex-rating, less than half the average of 11.0 percent after the law reverted to prior approval. Clearly, New York drivers on average were better off during the flex-rating period than the prior approval period because their insurance rates did not go up as much. This is especially true for policyholders of seven of the 10 insurers (Allstate, Liberty Mutual, Metropolitan, Nationwide, New York Central, State Farm and Travelers).

Insurer Group	Rate Change During Flex-Rating	Rate Change After Flex-Rating Sunset
Allstate Insurance	8.5%	11.6%
American International Group	17.9%	15.5%
GEICO/Berkshire Hathaway	6.5%	1.9%
Liberty Mutual Insurance Group	0.0%	5.9%
Metropolitan Group	1.8%	11.3%
Nationwide Corporation	1.6%	4.3%
New York Central Mutual	4.0%	9.3%
Progressive Group	18.1%	15.0%
State Farm	-2.5%	21.8%
Travelers/Citigroup	2.5%	8.7%
Average	5.3%	11.0%

*Source: Progressive via Martin & Company*

### *Rate Activity in Other States with Flex-Rating*

In addition to South Carolina and New York, other states with flex-rating systems have seen activity that should further ease concerns regarding any alleged rating opportunities. Information on these particular activities has been extracted from various newspaper articles and is presented in Table 3, along with the date of the article, the state affected and the company filing for the change. As before, all of the changes indicated are quite a bit lower than the established maximum beyond which insurance department approval is required, once again demonstrating that insurers are not trying to take advantage of the more competitive system.

<b>Date of Article</b>	<b>State (Band)</b>	<b>Major Insurance Company</b>	<b>Action (line of business)</b>
6/22/03	Kentucky (25%)	Kentucky Farm Bureau	6.6% increase in 2002 (auto); 10.0% increase in 2002 (homeowners)
6/22/03	Kentucky (25%)	State Farm	6.7% increase (homeowners); 0.5% increase (auto)
6/08/04	Kentucky (25%)	State Farm	5.3% decrease (auto)
1/23/04	Louisiana (10%)	USAA Group	2.2% decrease (auto)
3/04/04	Louisiana (10%)	Farmers	6.8% increase (auto)
1/21/05	Louisiana (10%)	State Farm	2.1% decrease (auto)
1/04/04	Pennsylvania (10%)	Erie	7% increase (auto)
8/09/04	Pennsylvania (10%)	Allstate	2.5% increase in Philadelphia; 6.8% in rest of state (auto)
6/12/04	Texas (30%)*	State Farm	2.2% decrease (auto)
6/12/04	Texas (30%)*	USAA	8.6% decrease (auto)
* Texas has since converted to a file-and-use rating system, effective December 1, 2004.			
Sources: Kentucky – <i>The Courier-Journal (Louisville)</i> , June 22, 2003 and June 8, 2004; Louisiana – <i>The Baton Rouge Advocate</i> , January 23, 2004, March 4, 2004, and January 21, 2005; Pennsylvania – <i>Erie Times-News</i> , January 4, 2004 and <i>The Philadelphia Inquirer</i> , August 9, 2004; and Texas – <i>San Antonio Express-News</i> , June 12, 2004			

The 2.1 percent reduction made by State Farm Mutual Automobile Insurance Company in Louisiana (effective February 15, 2005) affects about one-third of the state's drivers. This decrease meant annual savings of \$19.3 million for these motorists, or an average of nearly \$20 per policyholder. This is the first time in almost five years that State Farm has reduced its rates. According to the state's insurance commissioner, J. Robert Wooley, auto insurance rates have benefited from the flex-band rating system. "Insurers aren't as reluctant to reduce rates when business is good because they know they can also raise rates without incurring a political battle." Commissioner Wooley also remarked that smaller auto insurers in the state filed for rate reductions as well, while others raised their rates by smaller percentages than in the past few years.<sup>3</sup>

<sup>3</sup> Source: *The Baton Rouge Advocate*, January 21, 2005

*ISO Advisory Loss Cost Changes in States with Flex-Rating*

Another source connected to rating activity is the Insurance Services Office, Inc. (ISO), an organization that makes advisory prospective loss cost filings for companies that use their services. Based on aggregated data submitted by participating insurers, these loss costs are adjusted for development and trending to assist companies in creating their own independent rates. It is believed that rate changes made by companies using ISO advisory loss costs are not too different from these recommended changes.

Presented in Table 4 are recent advisory loss cost revisions for personal auto insurance for the five states that now have flex-rating systems. These figures are taken from ISO circulars made available to PCI.

<b>Table 4</b> <b>Insurance Services Office, Inc.</b> <b>Personal Auto Advisory Loss Cost Level Activity</b> <b>On Combined Total Limits</b>					
State (eff. date; Flex-Band)	Kentucky (7/15/88; 25%)	Louisiana (1/1/04; 10%)	Pennsylvania (2/19/98; 10%)	Rhode Island (7/9/04; 5%)	South Carolina (3/1/99; 7%)
2000	-4.4%	N/A	-8.0%	N/A	-18.5%
2001	No change	N/A	-3.7%	N/A	No change
2002	+7.8%	N/A	+7.0%	N/A	No change
2004	+1.5%	No Change	-1.8%*	+8.4% (-0.8%**)	+1.5%

Notes:

- 1) All time periods are through the 4<sup>th</sup> quarter, except for 2002, which is through the 2<sup>nd</sup> quarter. Information for 2003 is not available at PCI.
- 2) N/A = not applicable (i.e., flex-rating has not taken effect yet)

\* A decrease of -1.8% was disapproved in Pennsylvania.

\*\* A decrease of -0.8% for basic limits is scheduled for implementation or approved effective 2<sup>nd</sup> quarter of 2005 in Rhode island.

Source: ISO Chief Executive Circulars

The loss cost revisions made by ISO were either substantially lower than the maximum limit allowed in the flex band or were actually higher than the threshold (such as the 8.4% increase in Rhode Island), the latter requiring prior approval by the regulator. None of these changes were only slightly lower than the threshold, thus taking advantage of the system as some may think. In fact, half of the changes shown in Table 4 are implemented decreases. This is especially true in Pennsylvania, where three of the advisory loss cost changes recommended by ISO since 2000 are reductions. Another notable one is the 18.5 percent decrease made by ISO, shortly after flex-rating was adopted in South Carolina.

### Other Positive Effects of Flex-Rating Systems

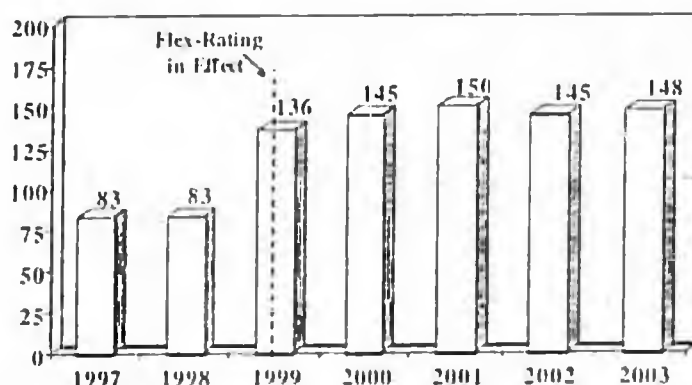
Although the primary purpose of this report is to show that rate changes are not influenced by the maximum level of the flex band, there are several other positive changes resulting from a flex-rating law that deserve mention. These are shown for South Carolina and New York.

#### South Carolina

In South Carolina, the positive effects from flex-rating are as follows:

- The number of auto insurers grew dramatically when South Carolina adopted the new flex-rating law (see Figure 1 for the trend). During 1997 and 1998, there were 83 companies writing auto insurance in this state. When the new law went into effect in 1999, the number soared to 136, a two-thirds increase. The number of insurers continued to rise, peaking at 150 in 2001. This quantity has remained fairly constant over the last three years.<sup>4</sup>

Figure 1  
South Carolina  
The Number of Auto Insurance Companies  
Accelerated After Flex-Rating



Source: SAIC

- South Carolina motorists paid an average of 4.4 percent, or \$34, less for auto insurance in 2000 (one full year after its flex-rating law began) compared to 1998 (\$732.53 in 2000 vs. \$766.23 in 1998).<sup>5</sup> This post-flex premium dropped to the same level seen three years earlier, in 1997.
- During the four-year period before flex-rating (1995 – 1998), the state's average personal auto loss ratio was 80.6 percent of premiums. After flex-rating (2000 – 2003), it fell nearly 12 percentage points, down to 68.7 percent.<sup>6</sup> Again, because rates can now be adjusted more quickly to reflect changing losses, the loss ratios are more in line with those projected. This resulted in the decline in average premium for the state's drivers.

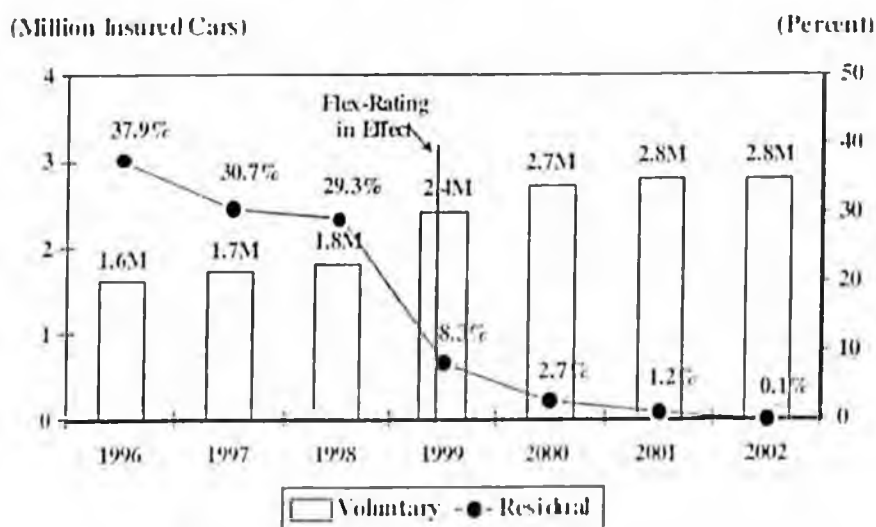
<sup>4</sup> Source: National Association of Insurance Commissioners

<sup>5</sup> Source: National Association of Insurance Commissioners, *State Average Expenditures & Premiums for Personal Automotive Insurance*

<sup>6</sup> Source: National Association of Insurance Commissioners

- Prior to flex-rating, the personal auto residual market in South Carolina was extremely problematic. The proportion of drivers in this group was one of the highest in the nation, representing between 29 percent to 38 percent of the state's entire insured population before the law was changed. This is in comparison to an average countrywide penetration of about 2 to 3 percent. After the 1999 change in rating law, South Carolina's residual market population dropped down to 8 percent during the year and is now less than 1 percent of the insured population. In contrast, its voluntary market grew about 75 percent, from a population of 1.6 million insured cars in 1996 to 2.8 million insured cars in 2002.<sup>7</sup> The largest increases in the voluntary market took place over the last three years after the conversion to flex-rating (see Figure 2), showing that the competitive market here is indeed working now.

Figure 2  
South Carolina  
Positive Effects of Flex-Rating  
Trends in Voluntary and Residual Market



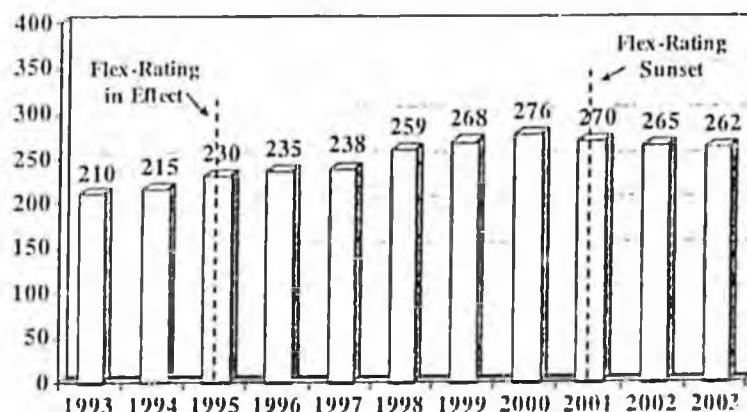
Source: AIPSO

#### *New York*

Like South Carolina, one positive outcome of a conversion to flex-rating from prior approval is the growth in the number of personal auto writers in New York. Figure 3 illustrates this trend from 1993 to 2003. When flex-rating went into effect in 1995, there was an increase of 7 percent in the number of insurers (230 insurers in 1995 compared to 215 the previous year). The level continued to grow, accelerating to 276 insurers five years later. However, the New York flex-rating law sunset in 2001, and what resulted after its dissolution was an immediate reduction in auto insurers. The number of writers dropped steadily after flex-rating was removed, from a high of 276 writers prior to the sunset down to 262 writers now.

<sup>7</sup> Source: Automobile Insurance Plans Service Office

Figure 3  
Trend in New York Personal Auto Insurers  
After Flex-Rating Went into Effect  
and After Flex-Rating Sunset

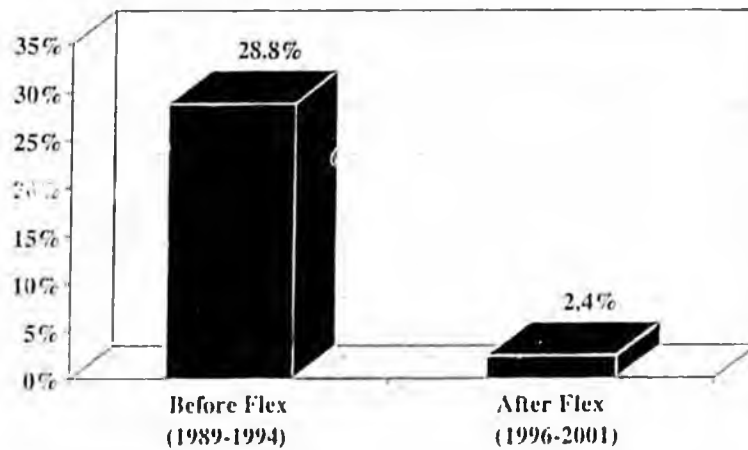


Source: NAIC

Another observed benefit is that the average personal auto premium for New York slowed down after its new system was implemented. Figure 4 illustrates the change in average premium between New York for a consistent period of time before and after its flex-rating plan went into effect. The periods selected are 1989 – 1994 before flex and 1996 – 2001 after flex. Prior to flex, the average premium rose 28.8 percent from 1989 to 1994. During the same length of time, but post enactment of its new rating law (1996 – 2001), the premium experienced only a 2.4 percent increase.<sup>8</sup> This is because certain rates were allowed to change more rapidly to more accurately reflect the trends in loss experience, resulting in less volatile rate revisions than under a prior approval system.

<sup>8</sup> Source: National Association of Insurance Commissioners, *State Average Expenditures & Premiums for Personal Automotive Insurance*

Figure 4  
New York  
Five-Year Personal Auto Premium Growth  
Before and After Flex-Rating



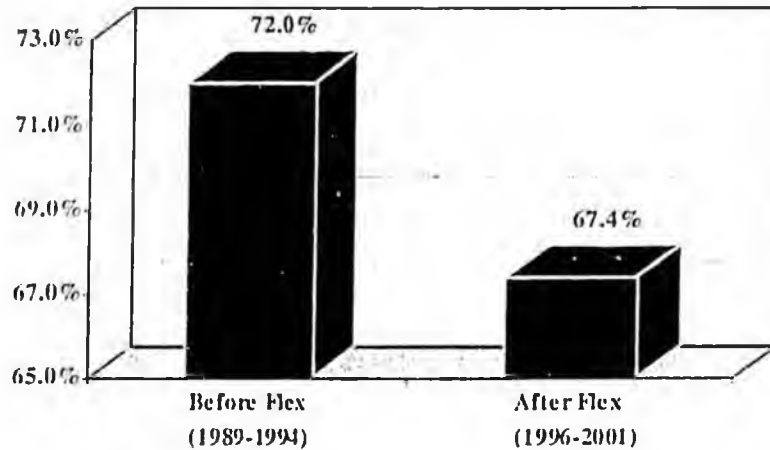
Source: NAIC

The reduced change in average premium growth for New York after flex-rating took place is supported by the fact that the loss ratio also went down. The loss ratio declined after the change in law because more filings were approved more rapidly under this system, permitting the losses relative to the premiums to be closer to what was projected. Having an actual loss ratio closer to the projected amount means a greater likelihood for anticipated profitability results and less need for future rate increases for customers.

The following illustration shows the average personal auto loss ratios before and after New York's flex-rating effective date. Again, the periods examined, before flex and after flex, are respectively 1989 – 1994 and 1996 – 2001<sup>9</sup> (see Figure 5).

<sup>9</sup> Source: National Association of Insurance Commissioners, *Report on Profitability by Line and by State*. NAIC uses a simple arithmetic average to generate mean loss ratios over time.

Figure 5  
New York  
Average Personal Auto Loss Ratios  
Before and After Flex-Rating



Source: NAIC

During the period prior to New York's flex-rating law, the average loss ratio was 0.720 (i.e., 72.0% of earned premiums). After the new law went into effect, the loss ratio for the same length of time dropped to 67.4 percent, a reduction of nearly 5 points. This decline in loss ratio stemmed from insurers' being able to adjust their rates on a more timely basis to more accurately reflect losses under flex-rating. And lower loss ratios mean lower premium increases.

#### *Comparison of Average Premiums By Rating Law*

Rate regulatory systems generally fall into two categories: "prior approval" and "open competition" (or "competitive rating"). Competitive rating is the more efficient method of setting insurance rates because it is self-adjusting. Insurers are better able to respond to current loss trends and greater innovation is encouraged. Open competition creates an environment that permits a more responsive and substantial expansion of coverage availability. If insurers set rates too high or too low, the market adjusts to drive rates to the competitive level. In addition, innovation will be stimulated, thus making a wider variety of product, price and service combinations available to consumers.

Rate levels are also found to be lower in competitive rating states than in states with prior approval laws. Presented in Table 5 are the 2002 average personal auto premiums, separated between groups of non-competitive prior approval states (including state-made and bureau-made), flex-rating and open competition states that fell under these categories during that year.

<b>Table 5</b> <b>Average Personal Auto Insurance Premiums – 2002</b> <b>Comparison of Rating Laws</b>	
Group of States by Type of Rating Law	Annual Average Premium
Prior Approval (incl. State- and Bureau-Made)	\$940.63
Flex-Rating	\$862.00
Open Competition	\$826.01
<i>Prior Approval: AL, AK, CA, DE, GA, HI, LA, MA, MS, NE, NV, NJ, NM, NY, NC, ND, OK, TN, WA, and WV</i> <i>Flex-Rating: KY, PA, SC, TX</i> <i>Open Competition: AZ, AR, CO, DC, FL, ID, IL, IN, IA, KS, ME, MD, MI, MN, MO, MT, NH, OH, OR, RI, SD, UT, VT, VA, WI, and WY</i> <i>Connecticut is not included in any group because its liability rates are subject to prior approval and its physical damage rates are subject to open competition.</i>	
<i>Source: PCI, based on data compiled by the National Association of Insurance Commissioners</i>	

As a group, the states with non-competitive prior approval laws and state- and bureau-made rates have a higher average personal auto premium than states with more competitive rating laws. The auto premium is 9 percent higher than flex-rating states (\$940.63 vs. \$862.00) and 14 percent higher than open competition states (\$940.63 vs. \$826.01). Of course, it must be noted that other factors contribute to the level of premiums as well, the most important being the amount of insured losses that occur. This comparison nevertheless shows that in states where insurers are allowed to operate more competitively, their customers have more affordable insurance.

### Studies Discussing the Benefits of Open Competition

The subject of insurance rate regulation has been one of great interest over the last thirty years. Regulators and other governmental bodies, insurers, academicians, and economists all have conducted in-depth research to examine the different regulatory approaches. They conclude that an open competition rating law provides more benefits to both insurers and the public than does a non-competitive prior approval law. Findings from several studies or cases are cited below:

- "A review of the particular alternatives (to the competitive rating law), especially a return to prior approval, indicates that these problems would be made worse, not better, by the alternative approaches."<sup>10</sup>
- "If consumers in competitive rate states fare as well or better than they did in 'non-competitive' rate states, there appears to be no empirical economic justification for the regulation of automobile insurance rates by regulatory authorities, especially when

<sup>10</sup> Source: State of New York Insurance Department, *The Open Rating Law and Property-Liability Insurance: An Evaluation of Insurance Price Regulation, 1977*

considering the costs of regulating rates."<sup>11</sup>

- "...prior approval regulation of rates entails direct and indirect costs and serves no useful purpose in modern, competitively structured insurance markets. Rather, the insurance-buying public would benefit from deregulation of rates."<sup>12</sup>
- Justice Black stated that the philosophy of a less regulated market...  
"rests on the premise that the unrestrained interactions of competitive forces will yield the best allocation of our economic resources, and lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic, political and social institutions."<sup>13</sup>

*The Property Casualty Insurers Association of America (PCI) is a trade association consisting of more than 1,000 insurers of all sizes and types, and representing 38 percent of the total property/casualty insurance business and 48 percent of the personal auto business in the nation.*

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<sup>11</sup> Source: Witt, Robert C. and Miller, Harry. *Bar's Review*, Vol. 81, No. 8, Dec. 1980. "Is Auto Insurance Rate Regulation Necessary?"

<sup>12</sup> Harrington, Scott E. AEI-Brookings Joint Center for Regulatory Studies; *Insurance Deregulation and the Public Interest*, 2000

<sup>13</sup> *Northern Pacific R. Co. vs. United States* 356 U.S. 1 (1958)

**HB**

**217**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: HB 217  
(H) Publish Date: 4/26/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: \_\_\_\_\_  
Title Full & True Value of Taxable RDU Comm Assist & Ec Dev (405)  
Municipal Property Component Community Advocacy  
Sponsor Harris  
Requester House Community & Regional Affairs Component No. 2703

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation affects the full value determination with respect to two different scenarios. First, it clarifies that if an area is detached from a municipality, the full and true value of the municipality, from which the area detached, will exclude the value that existed for the two years preceding the detachment. This is necessary due to existing statutes which, require local contribution for schools based upon the value determined "as of January 1 of the second preceding fiscal year." In other words, the full value determined this year (2005) would not be used for a municipality's local education requirement for two more years (2007). Therefore, when an area is detached, it should not be this year's value that is used, but the value as of two years ago. This portion of the legislation has no fiscal impact to the division.

Prepared by: Michael Black, Director Phone: 907.269.4578  
Division: Community Advocacy Date/Time: 4/13/05 3:08 PM  
Approved by: Edgar Blatchford, Commissioner Date: 4/13/2005  
Agency: Commerce, Community, and Economic Development

ANALYSIS CONTINUATION

Second, this legislation requires that the full value determination within an area that is a school district, exclude the value of property assessed under AS 43.56, if the municipality does not levy a property tax. Property taxed under AS 43.56 refers to oil and gas property (such as the TAPC pipeline and pump stations along the pipeline). This property is assessed by the Department of Revenue, which levies a 20 mill tax against the property. A municipality that levies a tax under AS 29.45 may also levy the same rate of tax against the pipeline that it levies against local property (such as residences, offices and all other property.) The total of all property (AS 29.45 property and AS 43.56 property) is included in the full value determination and consequently, the entire amount is used in the calculation for the local contribution to education. *If an area does not levy a local property tax, this area would receive no direct tax revenue from the oil and gas property, while the the division would be required to include that value in the full value determination. The inclusion of AS 43.56 property values could compel a municipality to levy a property tax in order to obtain enough revenue that the extra value will require for the local education contribution. By excluding this value in the first place, if a local tax is not levied, a municipality is not required to raise substantially more revenues to cover this additional valuation. It also allows the state to retain the tax revenue generated from the state 20 mill property tax.*

There is no fiscal impact to this division by the passage of this legislation. However, without this legislation, it is possible state revenue will decline in the future if boroughs do form along the TAP's pipeline corridor and are forced into levying a property tax rather than another form of revenue generation such as a local sales tax.

# Alaska State Legislature

*Session: (Jan-May)*  
State Capitol, Room 208  
Juneau, AK 99801-1182  
(907) 465-4859  
Fax (907) 465-3799



*Interim: (June-Dec)*  
716 West 4th Avenue, Suite 300  
Anchorage, AK 99501-2133  
(907) 269-0129  
Fax (907) 269-0128

**John Harris**  
Speaker of the House

## **Sponsor Statement**

### **HB 217 - Determination of full and true value of taxable municipal property for the purposes of calculating funding for education and certain other programs**

Under current law, organized cities that are school districts and boroughs are required to make financial contributions in support of their schools. Those contributions are based on the value of the taxable property within the borough boundaries. These municipalities are required to contribute the equivalent of a 4-mill tax on the full and true value of all taxable property within their municipal boundaries.

The full and true value of a municipality includes values of all taxable real and personal property, which includes properties such as, oil and gas properties, residential and commercial property, farms and recreational property.

HB 217 does not force municipalities into levying a property tax to generate local revenue for school contribution by including the value of oil and gas properties in the full value determination. It excludes the value for oil and gas unless the municipality chooses to levy a property tax. This accomplishes two things. First, it allows the municipality to choose the method of raising revenues. Without the high value of oil and gas, a municipality may choose other methods of raising revenues, such as a sales tax. Second, it allows the state to keep the 20 mills levied against all oil and gas property. If a municipality is forced to levy a property tax, the tax levied against the oil and gas property is deducted from the revenues the State of Alaska should receive. This is a win-win situation for both the municipalities and the state.

Comments on HB 217  
Full and True Value of Taxable Municipal Property  
Steve Van Sant, State Assessor  
Alaska Department of Commerce

This legislation affects the full value determination with respect to two different scenarios. First, it clarifies that if an area is detached from a municipality, the full and true value of the municipality, from which the area detached, will exclude the value that existed for the two years preceding the detachment. This is necessary due to existing statutes which, require local contribution for schools based upon the value determined "as of January 1 of the second preceding fiscal year." In other words, the full value determined this year (2005) would not be used for a municipality's local education requirement for two more years (2007). Therefore, when an area is detached, it should not be this year's value that is used, but the value as of two years ago. This portion of the legislation has no fiscal impact to our Division.

Second, this legislation requires that the full value determination within an area that is a school district, exclude the value of property assessed under AS 43.56, if the municipality does not levy a property tax. Property taxed under AS 43.56 refers to oil and gas property (such as the TAPS pipeline and pump stations along the pipeline). This property is assessed by the Department of Revenue, which levies a 20 mill tax against the property. A municipality that levies a tax under AS 29.45 may also levy the same rate of tax against the pipeline that it levies against local property (such as residences, offices and all other property.) The total of all property (AS 29.45 property and AS 43.56 property) is included in the full value determination and consequently, the entire amount is used in the calculation for the local contribution to education. However, this approach does not make much sense if an area does not levy a local property tax. This area would receive no direct tax revenue from the oil and gas property, however, we are required to include that value in the full value determination. The inclusion of AS 43.56 property values almost forces a municipality to levy a property tax in order to obtain enough revenue that the extra value will require for the local education contribution. By excluding this value in the first place, if a local tax is not levied, a municipality is not required to raise substantially more revenues to cover this additional valuation. It also allows the state to retain the tax revenue generated from the state 20 mill property tax.

There is no fiscal impact to this Division by the passage of this legislation. However, without this legislation, it is possible state revenue will decline in the future if boroughs do form along the TAP's pipeline corridor and are forced into levying a property tax rather than another form of revenue generation such as a local sales tax.

THE  
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DOCUMENT(S)  
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ORIGINAL  
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# City of Delta Junction

P.O. Box 229, Delta Junction, Alaska 99737  
Ph 907-895-4656 Fax 907-895-4375  
www.ci.delta-junction.ak.us  
city@ci.delta-junction.ak.us

Welcome to the  
Friendly Frontier

March 8, 2005

cell 378-1320

Representative John Harris  
State Capitol  
Juneau, Alaska 99801

Via Fax# (907) 465-3799

Dear Representative Harris,

This letter serves as a request for assistance with legislation concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four-mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). As you are aware, any tax on oil and property is not added to the existing state tax, but instead simply deducted from the amount the state receives.

According to the state, in the Delta region there is approximately \$217 million worth of oil and gas properties and somewhere close to another \$150 million worth of residential and commercial property. This means a borough would need to at least raise \$1.4 million for educational services out of which \$800,000 would come from the state's coffers.

Regardless of when a borough is organized in the region, the residents will seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska.

A better approach that benefits both the state and local residents would be an arrangement in which if a municipality with A.S. 43.56 properties chooses to not raise revenues through a property tax, that it must pay a four mill equivalency on only non-oil and gas properties. Such language could read as follows:

...in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district.

Your help on these matters is greatly appreciated.

Sincerely,

Thomas "Roy" Gilbertson  
Mayor

Cc: Pete Fellman Via Fax# (907) 895-5017

March 29, 2005

Rep. John Harris  
State Capitol Room 208  
Juneau, AK 99801-1182

RE: HB 217

Dear Representative Harris,

This letter serves as a request for assistance with HB 217 concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). Any local tax on oil and gas property is not added to the existing state tax, but instead is deducted from the amount the state receives.

HB 217 would not require a borough to contribute four mills of the value of A.S. 43.56 properties if such a borough does not institute a property tax system.

Regardless of when a borough is organized in the region, the Delta residents seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska. Again, HB 217 would allow for a logical and cost saving option that would benefit both the state and local government.

Your help on these matters is greatly appreciated.

Sincerely,



Mike Schultz, Chairperson  
Deltana Borough Commission

## Upper Tanana Borough Valuation Summary Page

### Valuations Estimates

<b>(DELTA Area) Delta/Greely REAA</b>		
Delta Commercial	\$	24,483,300
Delta Residential	\$	131,514,100
Personal Property	\$	26,080,600
<b>Sub-Total Delta/Greely (Area) REAA</b>		<b>\$ 182,078,000</b>
Pogo Mine	\$	125,000,000
AS 43.56 Prop.	\$	194,500,000
<b>Total Delta/Greely (Area) REAA</b>		<b>\$ 501,578,000</b>

Est. 50% complete as of 1-1-2005

75 Miles @ \$1.9 million per mile plus 1 pump station (9) at \$52 million (P.S. 10 zero \$\$)

### Education-Local Funding Requirement

		Total Upper Tanana Basin Borough	(\$577,162,500)		
		Local Contribution Requirement	<b>\$2,308,650</b>		
<hr/>					
<b>(TOK Area) Alaska Gateway REAA</b>		Delta/Greely REAA w/o pipeline	(\$307,078,000)		
Tok Commercial	\$	10,652,900	Local Contribution Requirement	<b>\$1,228,312</b>	
Tok Residential	\$	40,331,900	<hr/>		
Personal Property	\$	7,648,700	Delta/Greely REAA with pipeline	(\$501,578,000)	
<b>Sub-Total (Tok Area) Alaska Gateway REAA</b>		<b>\$ 58,633,500</b>	Local Contribution Requirement	<b>\$2,006,312</b>	
<hr/>					
Chicken/Mentasta/Tanacross	\$	4,951,000	Alaska Gateway REAA w/o Villages	(\$58,633,500)	
Northway/Tetlin				Local Contribution Requirement	<b>\$234,534</b>
Eagle	\$	12,000,000	<hr/>		
<b>Total (Tok Area) Alaska Gateway REAA</b>		<b>\$ 75,584,500</b>	Alaska Gateway REAA w/o Villages & Eagle	(\$75,584,500)	
			Local Contribution Requirement	<b>\$302,338</b>	

<b>Total Value of Proposed Upper Tanana Basin Model Borough</b>	<b>\$ 577,162,500</b>
---	-----------------------

**4. Eliminate the Necessity That Boroughs Encompassing the Trans-Alaska Oil Pipeline Must Impose Property Taxes.**

Under current law, organized boroughs are required to make financial contributions in support of their schools. The contributions are based on the value of taxable property within the borough. Each borough must contribute the equivalent of a 4-mill tax on the full and true value of taxable property within the borough (not to exceed 45 percent of the educational "basic need" for the borough school district).

The full and true value of a borough includes all oil and gas exploration, development, and transportation property within the borough assessed by the Department of Revenue (DOR) under AS 43.56. The State of Alaska levies a 20-mill property tax on the value of that property and credits the oil companies for taxes paid to a borough or city.

Given the current law, unorganized regions encompassing significant oil and gas exploration, development, and transportation

properties would, upon borough incorporation, be faced with the prospect of substantial local contributions when calculating their 4-mill tax in support of schools. Consequently, the areas would likely have no practical alternative means of generating the required local contribution except through the levy of property taxes. The practical necessity of levying a property tax under such circumstances is a disincentive for borough formation because residents of unorganized areas generally seem to least prefer a property tax than any other type of local tax imposed on the general population. Four of the sixteen organized boroughs in Alaska do not levy property taxes.

The benefit to the State from the higher contributions resulting from the inclusion of the value of the oil and



Trans-Alaska Pipeline

gas property, of course, would be directly offset by reductions in State revenues from the State's 20-mill *ad valorem* property tax on the property in question. Thus, the amendment proposed here would have no fiscal impact on the State.

In reality, the State would likely be better off from a fiscal standpoint by such an exemption so long as local government property taxes were not levied on any oil and gas property within the borough. Doing so would insulate the State's 20-mill property tax from all fiscal impacts relating to a new borough, not just those associated with the borough's required local contribution for schools.

Such a provision would reduce impediments to borough formation in the Upper Tanana Basin, Copper River Basin, Yukon-Koyukuk region, and the Yukon Flats region. The LBC emphasizes that this option would not preclude a borough government from levying property taxes in a region with substantial oil and gas properties. It simply would not make it a practical requirement.

In 2001, the Alaska Senate adopted Senate Bill No. 48 (CS for Senate Bill No. 48(FIN) am), which included the identical provision recommended here. Because of other provisions in the bill, however, the legislation was not approved by the House. Section 2 of

Senate Bill No. 48 provided as follows (underlined bold text reflects the additional language):

AS 14.17.510(a) is amended to read:

(a) To determine the amount of required local contribution under AS 14.17.410(b)(2) and to aid the department and the legislature in planning, the Department of Community and Economic Development, in consultation with the assessor for each district in a city or borough, shall determine the full and true value of the taxable real and personal property in each district in a city or borough. If there is no local assessor or current local assessment for a city or borough school district, then the Department of Community and Economic Development shall make the determination of full and true value from information available. In making the determination, the Department of Community and Economic Development shall be guided by AS 29.45.110. **However, the full and true value of taxable real and personal property in any area detached shall be excluded from the determination of the full and true value of the municipality**

from which the property was detached for the two years immediately preceding the effective date of the detachment. Also, in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district. The determination of full and true value shall be made by October 1 and sent by certified mail, return receipt requested, on or before that date to the president of the school board in each city or borough school district. Duplicate copies shall be sent to the commissioner. The governing body of a city or borough that is a school district may obtain judicial review of the determination. The superior court may modify the determination of the Department of Community and Economic Development only upon a finding of abuse of discretion or upon a finding that there is no substantial evidence to support the determination.

**5. Extend Municipal Land Grants for Annexations and Consider Increases in Entitlements.**

Under current law, a borough incorporated after July 1, 1978, is entitled to ten percent of the vacant, unappropriated, unreserved state lands within its boundaries. To encourage borough annexations, it is suggested that the same grants be given for any area annexed to an existing borough.

The Alaska Municipal League endorses municipal land entitlements as a means to promote annexation to boroughs. The League's formal position on the matter is set out below:

The League supports legislative changes to entitlement lands provisions to encourage existing municipalities to provide services to portions of the unorganized borough through annexation.

*Alaska Municipal League, 2005 Policy Statement, Part III-E-3.*

The prospect of increasing land entitlements to existing and future boroughs should also be explored as further incentive for the extension of borough government.



# State of Alaska Local Boundary Commission

550 West Seventh Avenue, Suite 1770 • Anchorage, AK 99501  
Telephone: 907-269-4560 • Fax: 907-269-4539

APR 18 2005

April 15, 2005

The Honorable Bill Thomas  
Co-Chair  
Community and Regional Affairs Committee  
Alaska State House of Representatives  
Alaska State Capitol, Room 428  
Juneau, Alaska 99801-1182

The Honorable Kurt Olson  
Co-Chair  
Community and Regional Affairs Committee  
Alaska State House of Representatives  
Alaska State Capitol, Room 110  
Juneau, Alaska 99801-1182

Re: House Bill Number 217

Dear Representatives Thomas and Olson:

This is to advise you that the Local Boundary Commission has, by unanimous vote, endorsed House Bill 217, "An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

The objectives of House Bill 217 coincide with recommendations presented by the Commission to the Legislature as ways in which the State can create incentives for voluntary incorporation of boroughs. Details of the Commission's views on this particular issue are expressed on pages 126 - 128 of the *Report of the Alaska Local Boundary Commission to the First Session of the Twenty-Fourth Alaska State Legislature*. To facilitate matters, a copy of those pages is enclosed.

Please accept this letter and the enclosure as written testimony on the bill.

Sincerely,

Darroll Hargraves  
Chair

Enclosure:  
pages 126 - 128, LBC 2005 report to the Legislature

cc/enc: Members of the Local Boundary Commission  
Edgar Blatchford, Commissioner, Department of Commerce, Community, and  
Economic Development

**4. Eliminate the Necessity That Boroughs Encompassing the Trans-Alaska Oil Pipeline Must Impose Property Taxes.**

Under current law, organized boroughs are required to make financial contributions in support of their schools. The contributions are based on the value of taxable property within the borough. Each borough must contribute the equivalent of a 4-mill tax on the full and true value of taxable property within the borough (not to exceed 45 percent of the educational "basic need" for the borough school district).

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Trans-Alaska Pipeline

gas property, of course, would be directly offset by reductions in State revenues from the State's 20-mill *ad valorem* property tax on the property in question. Thus, the amendment proposed here would have no fiscal impact on the State.

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**from which the property was detached for the two years immediately preceding the effective date of the detachment. Also, in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district.** The determination of full and true value shall be made by October 1 and sent by certified mail, return receipt requested, on or before that date to the president of the school board in each city or borough school district. Duplicate copies shall be sent to the commissioner. The governing body of a city or borough that is a school district may obtain judicial review of the determination. The superior court may modify the determination of the Department of Community and Economic Development only upon a finding of abuse of discretion or upon a finding that there is no substantial evidence to support the determination.

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*Alaska Municipal League, 2005 Policy Statement, Part III-E-3.*

The prospect of increasing land entitlements to existing and future boroughs should also be explored as further incentive for the extension of borough government.

**HB**

**217**

**SFIN**

**FILE**

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
FEB 02 2006  
SENATE FINANCE COMMITTEE

DATE: 5/6/05

FURTHER:

DATE TURNED  
IN TO OFFICE: 2/2/2006

Finance Committee considered HOUSE BILL NO. 217(title am)

HB 217 FULL & TRUE VALUE OF TAXABLE MUNI PROP.

"An Act relating to the determination of full and true value of taxable municipal property for purposes of providing planning assistance to the Department of Education and Early Development and the legislature, calculating funding for education, calculating school district participating shares for school construction grants, and calculating tax resource equalization payments and excluding from that determination the value of property in certain areas detached from a municipality and the value of certain property involved with oil and gas that is not taxed by a municipality."

and recommends:

- be replaced with S CS HB 217 (FIN)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**CS Senate Bill:**  
 Same Title  
 New Title

**SCS House Bill:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
DEPED	11/31/06	98.5			

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>[Signature]</i>	<input checked="" type="checkbox"/>			
<i>[Signature]</i>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	
<i>[Signature]</i>				
COCHAIR: <i>[Signature]</i>	<input checked="" type="checkbox"/>			
COCHAIR: <i>[Signature]</i>	<input checked="" type="checkbox"/>			

SENATE CS FOR HOUSE BILL NO. 217(FIN)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVE HARRIS

A BILL  
FOR AN ACT ENTITLED

1 "An Act relating to the determination of full and true value of taxable municipal  
2 property for purposes of providing planning assistance to the Department of Education  
3 and Early Development and the legislature, calculating funding for education,  
4 calculating school district participating shares for school construction grants, and  
5 calculating tax resource equalization payments and excluding from that determination  
6 the value of property in certain areas detached from a municipality and the value of  
7 certain property involved with oil and gas that is not taxed by a municipality."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 14.17.510(a) is amended to read:

10 (a) To determine the amount of required local contribution under  
11 AS 14.17.410(b)(2) and to aid the department and the legislature in planning, the  
12 Department of Commerce, Community, and Economic Development, in consultation  
13 with the assessor for each district in a city or borough, shall determine the full and true

1 value of the taxable real and personal property in each district in a city or borough. If  
2 there is no local assessor or current local assessment for a city or borough school  
3 district, then the Department of Commerce, Community, and Economic Development  
4 shall make the determination of full and true value [FROM INFORMATION  
5 AVAILABLE. IN MAKING THE DETERMINATION, THE DEPARTMENT OF  
6 COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT SHALL BE]  
7 guided by AS 29.45.110 and based on a determination of full and true value made  
8 by the state assessor at least every two years using the best information available,  
9 including on-site inspections made by the state assessor in each of those districts  
10 at least once every four years. For purposes of this subsection, the full and true  
11 value of taxable real and personal property in any area detached shall be  
12 excluded from the determination of the full and true value of the municipality  
13 from which the property was detached for the two years immediately preceding  
14 the effective date of the detachment. Also, in making the determination for a  
15 municipality that is a school district, or for a city that is within a borough school  
16 district, the assessed value of property taxable under AS 43.56 shall be excluded  
17 if a tax is not levied under AS 29.45.080 by the municipality that is the school  
18 district. The determination of full and true value shall be made by October 1 and sent  
19 by certified mail, return receipt requested, on or before that date to the president of the  
20 school board in each city or borough school district. Duplicate copies shall be sent to  
21 the commissioner. The governing body of a city or borough that is a school district  
22 may obtain judicial review of the determination. The superior court may modify the  
23 determination of the Department of Commerce, Community, and Economic  
24 Development only upon a finding of abuse of discretion or upon a finding that there is  
25 no substantial evidence to support the determination.

# FISCAL NOTE

REPORTED OUT  
 FEB 02 2006  
 SENATE FINANCE COMMITTEE

STATE OF ALASKA  
 2006 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SCS HB217(FIN)  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept Affected: Commerce  
 Title: Full & True Value of Taxable DR: Comm Assist & Ec Div (405)  
Municipal Property Component: Community Advocacy  
 Sponsor: Harris  
 Requester: Senate Finance Component No.: 2703

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	84.0	84.0	84.0	84.0	84.0	84.0
Travel	8.5	8.5	8.5	8.5	8.5	8.5
Contractual	2.5	2.5	2.5	2.5	2.5	2.5
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	2.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>98.5</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	98.5	96.0	96.0	96.0	96.0	96.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
<b>TOTAL</b>	<b>98.5</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>	<b>96.0</b>

Estimate of any current year (FY2006) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The legislation amends AS 14.17.510 to require the state assessor to visit each school district in which there is no local assessor to make a full and true value (FTV) determination once every two years and then update the FTV determination database. It also requires on-site inspections in each of those districts at least once every four years. Travel would be required to all remote organized cities and boroughs to accomplish this. Travel would also be required for proposed borough formations and value estimates for those areas. One new assistant state assessor position would be required to implement these provisions.

Prepared by: Michael Black, Director Phone: 907 269 4578  
 Division: Community Advocacy Date/Time: 1/31/06 3 17 PM  
 Approved by: William C. Noll, Commissioner Date: 1/31/2006  
 Agency: Commerce, Community, and Economic Development

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# Alaska State Legislature

*Session (Jan-May)*  
State Capitol, Room 208  
Juneau, AK 99801-1182  
(907) 465-4889  
Fax (907) 465-3799



*Interim (June-Dec)*  
711 North 4th Avenue, Suite 300  
Juneau, AK 99801-2133  
(907) 269-0129  
Fax (907) 269-0128

**John Harris**

**Speaker of the House**

## **SPONSOR STATEMENT**

**House Bill 217 (title am): "An Act relating to the determination of full and true value of taxable municipal property for purposes of providing planning assistance to the Department of Education and Early Development and the legislature, calculating funding for education, calculating school district participating shares for school construction grants, and calculating tax resource equalization payments and excluding from that determination the value of property in certain areas detached from a municipality and the value of certain property involved with the oil and gas that is not taxed by a municipality."**

Under current law, organized cities that are school districts and boroughs are required to make financial contributions in support of their schools. Those contributions are based on the value of the taxable property within the borough boundaries. These municipalities are required to contribute the equivalent of a 4-mill tax on the full and true value of all taxable property within their municipal boundaries.

The full and true value of a municipality includes values of all taxable real and personal property, which includes properties such as, oil and gas properties, residential and commercial property, farms and recreational property.

HB 217 does not force municipalities into levying a property tax to generate local revenue for school contribution by including the value of oil and gas properties in the full value determination. It excludes the value for oil and gas unless the municipality chooses to levy a property tax. This accomplishes two things. First, it allows the municipality to choose the method of raising revenues. Without the high value of oil and gas, a municipality may choose other methods of raising revenues, such as a sales tax. Second, it allows the state to keep the 20 mills levied against all oil and gas property. If a municipality is forced to levy a property tax, the tax levied against the oil and gas property is deducted from the revenues the State of Alaska should receive. This is a win-win situation for both the municipalities and the state.

Comments on HB 217  
Full and True Value of Taxable Municipal Property  
Steve Van Sant, State Assessor  
Alaska Department of Commerce

This legislation affects the full value determination with respect to two different scenarios. First, it clarifies that if an area is detached from a municipality, the full and true value of the municipality, from which the area detached, will exclude the value that existed for the two years preceding the detachment. This is necessary due to existing statutes which, require local contribution for schools based upon the value determined "as of January 1 of the second preceding fiscal year." In other words, the full value determined this year (2005) would not be used for a municipality's local education requirement for two more years (2007). Therefore, when an area is detached, it should not be this year's value that is used, but the value as of two years ago. This portion of the legislation has no fiscal impact to our Division.

Second, this legislation requires that the full value determination within an area that is a school district, exclude the value of property assessed under AS 43.56, if the municipality does not levy a property tax. Property taxed under AS 43.56 refers to oil and gas property (such as the TAPS pipeline and pump stations along the pipeline). This property is assessed by the Department of Revenue, which levies a 20 mill tax against the property. A municipality that levies a tax under AS 29.45 may also levy the same rate of tax against the pipeline that it levies against local property (such as residences, offices and all other property.) The total of all property (AS 29.45 property and AS 43.56 property) is included in the full value determination and consequently, the entire amount is used in the calculation for the local contribution to education. However, this approach does not make much sense if an area does not levy a local property tax. This area would receive no direct tax revenue from the oil and gas property, however, we are required to include that value in the full value determination. The inclusion of AS 43.56 property values almost forces a municipality to levy a property tax in order to obtain enough revenue that the extra value will require for the local education contribution. By excluding this value in the first place, if a local tax is not levied, a municipality is not required to raise substantially more revenues to cover this additional valuation. It also allows the state to retain the tax revenue generated from the state 20 mill property tax.

There is no fiscal impact to this Division by the passage of this legislation. However, without this legislation, it is possible state revenue will decline in the future if boroughs do form along the TAP's pipeline corridor and are forced into levying a property tax rather than another form of revenue generation such as a local sales tax.



# State of Alaska Local Boundary Commission

550 West Seventh Avenue, Suite 1770 • Anchorage, AK 99501  
Telephone: 907-269-4560 • Fax: 907-269-4539

April 15, 2005

The Honorable Bill Thomas  
Co-Chair  
Community and Regional Affairs Committee  
Alaska State House of Representatives  
Alaska State Capitol, Room 428  
Juneau, Alaska 99801-1182

The Honorable Kurt Olson  
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Alaska State House of Representatives  
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Please accept this letter and the enclosure as written testimony on the bill.

Sincerely,

Darroll Hargraves  
Chair

Enclosure:

pages 126 - 128, LBC 2005 report to the Legislature

cc/enc: Members of the Local Boundary Commission

Edgar Blatchford, Commissioner, Department of Commerce, Community, and  
Economic Development

**4. Eliminate the Necessity That Boroughs Encompassing the Trans-Alaska Oil Pipeline Must Impose Property Taxes.**

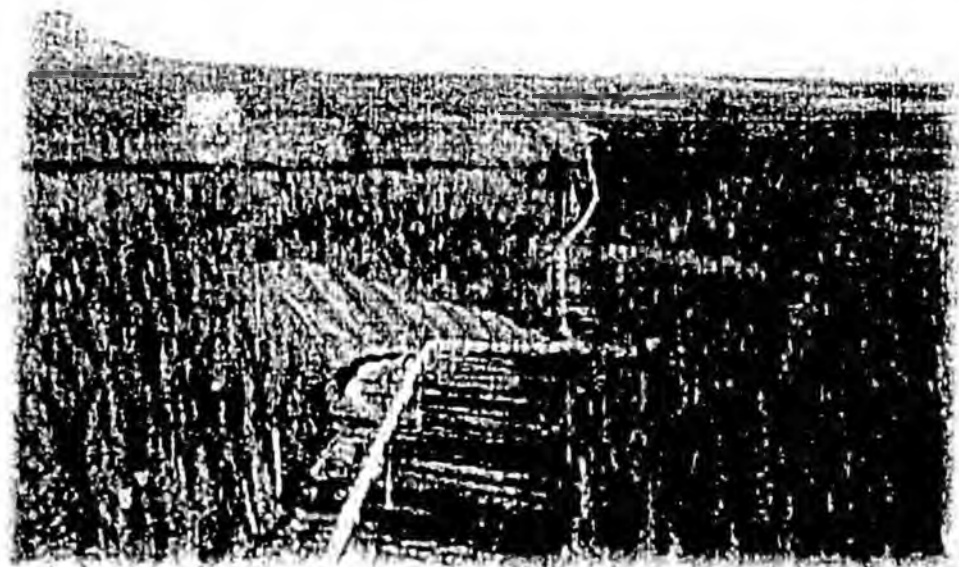
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Trans-Alaska Pipeline

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AS 14.17.510(a) is amended to read:

(a) To determine the amount of required local contribution under AS 14.17.410(b)(2) and to aid the department and the legislature in planning, the Department of Community and Economic Development, in consultation with the assessor for each district in a city or borough, shall determine the full and true value of the taxable real and personal property in each district in a city or borough. If there is no local assessor or current local assessment for a city or borough school district, then the Department of Community and Economic Development shall make the determination of full and true value from information available. In making the determination, the Department of Community and Economic Development shall be guided by AS 29.45.110. **However, the full and true value of taxable real and personal property in any area detached shall be excluded from the determination of the full and true value of the municipality**

from which the property was detached for the two years immediately preceding the effective date of the detachment. Also, in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district. The determination of full and true value shall be made by October 1 and sent by certified mail, return receipt requested, on or before that date to the president of the school board in each city or borough school district. Duplicate copies shall be sent to the commissioner. The governing body of a city or borough that is a school district may obtain judicial review of the determination. The superior court may modify the determination of the Department of Community and Economic Development only upon a finding of abuse of discretion or upon a finding that there is no substantial evidence to support the determination.

### ***5. Extend Municipal Land Grants for Annexations and Consider Increases in Entitlements.***

Under current law, a borough incorporated after July 1, 1978, is entitled to ten percent of the vacant, unappropriated, unreserved state lands within its boundaries. To encourage borough annexations, it is suggested that the same grants be given for any area annexed to an existing borough.

The Alaska Municipal League endorses municipal land entitlements as a means to promote annexation to boroughs. The League's formal position on the matter is set out below:

The League supports legislative changes to entitlement lands provisions to encourage existing municipalities to provide services to portions of the unorganized borough through annexation.

*Alaska Municipal League, 2005 Policy Statement, Part III-E-3.*

The prospect of increasing land entitlements to existing and future boroughs should also be explored as further incentive for the extension of borough government.



# City of Delta Junction

P.O. Box 229, Delta Junction, Alaska 99737  
Ph 907-895-4656 Fax 907-895-4375  
[www.ci.delta-junction.ak.us](http://www.ci.delta-junction.ak.us)  
[city@ci.delta-junction.ak.us](mailto:city@ci.delta-junction.ak.us)

Welcome to the  
Friendly Frontier

January 13, 2006

Representative John Harris  
State Capitol Room 208  
Juneau, AK 99801-1182

email: [Pete\\_Fellman@legis.state.ak.us](mailto:Pete_Fellman@legis.state.ak.us)

RE: HB 217

Dear Representative Harris,

The Deltana Borough Charter Commission worked for nearly two years with the Delta area community to produce a Deltana Borough Petition that was presented to the Local Boundary Commission on 1/03/06 with over 250 signatures of local sponsors.

Besides the drafting of a proposed Home Rule Charter, the Petition is required to include numerous other elements including a three-year estimate of income and expenses to demonstrate financial stability of the proposed new borough.

There are two large taxable entities in the proposed borough: The Pogo Gold Mine and the Trans Alaska oil Pipeline. They are of such proportionately large value to the overall value of all other taxable property in the borough as to potentially force an area-wide property tax be enacted to meet the local school funding obligation under state law.

The Charter Commission's Petition is based upon local funding without the necessity of a borough property tax. By avoiding a borough property tax, the State of Alaska will be able to retain about \$800,000 in annual TAPS revenue that would otherwise have to be relinquished by the State to the borough.

Two of the assumptions necessary to the financial analysis in the filed Petition are the enactment into law of HB 217, and negotiation of a Payment In Lieu of Taxes Agreement (PILT) with the Pogo Gold Mine.

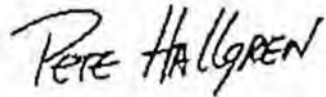
The Pogo PILT agreement was finalized by the City and Teck Pogo on November 15, 2005 and Teck Pogo has made the first payment to the City under that Agreement. (The borough Petition dissolves the City upon Deltana Borough formation and all City assets accrue to the Borough.) The Pogo PILT agreement provides sufficient funding with which to pay the annual local school-funding amount that the Pogo property value mandates under state law.

Under state statute the State receives annually 20 mills of the value of the TAPS minus any local government property tax rate. The State thus pays to the local government whatever the local property tax rate on the TAPS would be. In the absence of a local property tax, the State gets to retain the full TAPS 20 mills.

HB 217 provides flexibility to the proposed borough and allows the State to retain hundreds of thousands of dollars a year, by not forcing the borough to count the value of TAPS in its local school contribution if there is no local property tax. The Pogo PILT Agreement allows the Pogo mine taxable value to continue to be counted toward the local school contribution amount, and provides the dollars with which to pay the local contribution without a property tax.

I strongly urge passage of HB 217 by the Senate to allow this flexibility to meet local conditions and to enable the state to retain all of the TAPS dollars it receives from the Delta area.

Sincerely,

A handwritten signature in black ink that reads "PETE HALLGREN". The letters are in all caps and have a cursive, slightly slanted appearance.

Pete Hallgren  
City Administrator

March 29, 2005

Rep. John Harris  
State Capitol Room 208  
Juneau, AK 99801-1182

RE: HB 217

Dear Representative Harris.

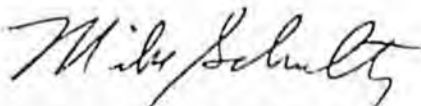
This letter serves as a request for assistance with HB 217 concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). Any local tax on oil and gas property is not added to the existing state tax, but instead is deducted from the amount the state receives.

HB 217 would not require a borough to contribute four mills of the value of A.S. 43.56 properties if such a borough does not institute a property tax system.

Regardless of when a borough is organized in the region, the Delta residents seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska. Again, HB 217 would allow for a logical and cost saving option that would benefit both the state and local government.

Your help on these matters is greatly appreciated.

Sincerely,



Mike Schultz, Chairperson  
Deltana Borough Commission



# City of Delta Junction

P.O. Box 229, Delta Junction, Alaska 99737  
Ph 907-895-4656 Fax 907-895-4375  
www.ci.delta-junction.ak.us  
city@ci.delta-junction.ak.us

Welcome to the  
Friendly Frontier

March 8, 2005

cell 378-1320

Representative John Harris  
State Capitol  
Juneau, Alaska 99801

Via Fax# (907) 465-3799

Dear Representative Harris,

This letter serves as a request for assistance with legislation concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four-mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). As you are aware, any tax on oil and property is not added to the existing state tax, but instead simply deducted from the amount the state receives.

According to the state, in the Delta region there is approximately \$217 million worth of oil and gas properties and somewhere close to another \$150 million worth of residential and commercial property. This means a borough would need to at least raise \$1.4 million for educational services out of which \$800,000 would come from the state's coffers.

Regardless of when a borough is organized in the region, the residents will seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska.

A better approach that benefits both the state and local residents would be an arrangement in which if a municipality with A.S. 43.56 properties chooses to not raise revenues through a property tax, that it must pay a four mill equivalency on only non-oil and gas properties. Such language could read as follows:

...in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district.

Your help on these matters is greatly appreciated.

Sincerely,

Thomas "Roy" Gilbertson  
Mayor

Cc: Pete Fellman Via Fax# (907) 895-5017

## Summary of Proposed Deltana Borough

### Background

The Delta Borough area has roughly 5,000 residents. There is one local government-City of Delta Junction-with about 900 residents. City services include library, recreation, landfill, airport, road maintenance, cemetery and volunteer Fire/EMS/Ambulance. The Delta-Greely REAA provides educational services. Platting and planning in the area outside the city are conducted by the state of Alaska. There are no local taxes.

### Internal

#### Growth-Population and Employment

1. Build up of Ft. Greely-Placement of Missile System at site
2. Construction and eventual operation of Pogo Mine by Teck-Pogo
3. Increase in Slavic population

### External

1. State Administration/Local Boundary Commission Action
  - a. Model Borough Boundaries for the unorganized borough include the Delta area with the Alaska Gateway REAA (Tok).
  - b. Recent analysis of areas that minimally met the LBC incorporation standards included Delta/Tok area
2. Legislative efforts to mandate borough formation (SJR 12).
3. Interest by Fairbanks North Star Borough to annex adjacent area including Teck-Pogo mining district.

### City Response

1. City appointed a Deltana Borough Charter Commission of nine members with the task of writing a charter and incorporation petition and submitting it to the LBC to allow for a vote on borough incorporation. Members represented different local interest groups and geographic areas in the region. Most members reside outside of the city boundaries.

## Deltana Borough Charter Commission

1. Commission developed a charter and petition that entails the following key points.
  - a. The new borough will be a unified homerule borough in which there shall only be one local government. The assets and liabilities of the City of Delta Junction will be assumed by the borough. The new borough will assume education and planning powers along with the current powers and services of the City of Delta Junction.
  - b. The boundaries shall be those of the Delta-Greely REAA.
  - c. Local revenues shall include a 3% fuel tax and 10% energy tax along with the Teck-Pogo PILT agreement
  - d. All Assembly and School Board seats shall be elected at large.
  - e. Assembly with the Mayor's concurrence call appoint a borough administrator.

## Teck-Pogo Agreement

Listed below are the key points to the Teck-Pogo Agreement

1. Agreement would be with the City of Delta Junction and would be assumed by the borough upon borough formation.
2. 10 year term
3. If no borough is organized by 12.31.08, the agreement would terminate
4. Payment schedule by Teck-Pogo
  - a. 2005-\$500,000 to City
  - b. 2006 \$500,000 to City or Borough
  - c. 2007 \$1,000,000 to City or Borough
  - d. If payments b and c are made subsequent to any negative public vote ½ goes to City and ½ retained by Teck-Pogo.
  - e. 2008 and each year after annual payment of \$2 million or 10 mills on value of Teck-Pogo property, which ever is more.
  - f. Contribution by Teck-Pogo for bonded capital cost not exceed \$350,000 annually. Payments by Teck-Pogo may go to 2020. Teck-Pogo contribution for G.O. Bonds requires local contribution as well
5. Ballot on revenue issue shall be designed as one vote. Entire package has to be approved by voters.

## Upper Tanana Borough Valuation Summary Page

### Valuations Estimates

<b>(DELTA Area) Delta/Greely REAA</b>	
Delta Commercial	\$ 24,483,300
Delta Residential	\$ 131,514,100
Personal Property	\$ 26,080,600
<b>Sub-Total Delta/Greely (Area) REAA</b>	
	<b>\$ 182,078,000</b>
<b>Pogo Mine</b>	
	\$ 125,000,000
<b>AS 43.56 Prop.</b>	
	\$ 194,500,000
<b>Total Delta/Greely (Area) REAA</b>	
	<b>\$ 501,573,000</b>

Est. 50% complete as of 1-1-2005

75 Miles @ \$1.9 million per mile plus 1 pump station (9) at \$52 million (P.S. 10 zero \$\$)

### Education-Local Funding Requirement

		Total Upper Tanana Basin Borough	(\$577,162,500)
		Local Contribution Requirement	<b>\$2,308,650</b>
<b>(TOK Area) Alaska Gateway REAA</b>			
Tok Commercial	\$ 10,652,900	Delta/Greely REAA w/o pipeline	(\$307,078,000)
Tok Residential	\$ 40,331,900	Local Contribution Requirement	<b>\$1,228,312</b>
Personal Property	\$ 7,648,700	Delta/Greely REAA with pipeline	(\$501,578,000)
<b>Sub-Total (Tok Area) Alaska Gateway REAA</b>		Local Contribution Requirement	<b>\$2,006,312</b>
	<b>\$ 58,633,500</b>		
<b>Chicken/Mentasta/Tanacross</b>		Alaska Gateway REAA w/o Villages	(\$58,633,500)
<b>Northway/Tetlin</b>		Local Contribution Requirement	<b>\$234,534</b>
<b>Eagle</b>			
	\$ 12,000,000	Alaska Gateway REAA w/o Villages & Eagle	(\$75,584,500)
<b>Total (Tok Area) Alaska Gateway REAA</b>		Local Contribution Requirement	<b>\$302,338</b>
	<b>\$ 75,584,500</b>		

<b>Total Value of Proposed Upper Tanana Basin Model Borough</b>	<b>\$ 577,162,500</b>
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Anchorage Daily News

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## Borough proposed in Delta area could help rebuild local schools

**POGO: Largest portion of revenue expected to come from gold mine.**

By TOM KIZZIA

Anchorage Daily News

*(Published: January 9, 2006)*

The school district surrounding Delta Junction, south of Fairbanks, currently operates three schools at a cost of \$6.1 million a year. The district's 5,000 residents don't have to pay a nickel for those schools because they live in the big swath of rural Alaska with no local governments and no local taxes.

Last week, however, a commission of area residents submitted a petition to the state that could bring those days to an end. Residents are proposing to create a new borough government that would contribute about \$800,000 to local education. The state now pays nearly all the cost of schools.

The so-called Deltana Borough would be the first new borough in Alaska since 1992. If approved by the state Local Boundary Commission, the proposal could be put to a vote as soon as next fall in the Delta-Fort Greely area.

To state politicians who complain that unorganized parts of the state have been getting a free ride, the effort in Delta is overdue.

Civic-mindedness is a factor, to be sure. But a guilty conscience over government handouts has never been one of the prime political motivators in Alaska. The idea of a new government for the area remains controversial locally, despite promises by backers that a new gold mine will pay most of the costs.

Advocates of the new borough say their chief selling point has been that they need to ward off worse alternatives -- particularly annexation of the area's new Pogo mine by the Fairbanks North Star Borough to the north.

"We would just become a cash generator for Fairbanks," said Mike Schultz, a Delta barley farmer who served as chairman of the local borough commission. "We wouldn't even warrant a seat on their assembly."

Organizers also say certain legislators, led by Sen. Gary Wilken, R-Fairbanks, might follow up on past threats to create a new borough by state law. One state map looked at combining the Delta- and Tok-area school districts in a single borough stretching to Canada, a proposal Delta residents generally oppose.

Questions surrounding Alaska's vast "unorganized borough" have dogged politicians since statehood. Eight percent of the state's population still lives in unorganized areas, according to state figures. State officials concede there are few incentives for forming new boroughs.

Despite this, some new boroughs have formed in recent years, including Yakutat in 1992, Denali in 1990, Lake and Peninsula in 1989, Aleutians East in 1987, and Northwest Arctic in 1986.

The motive is often defense of territory about to be picked off by encroaching boroughs, said Dan Bockhorst, director of the state Local Boundary Commission.

"The thinking of some is, 'Hey, we better get out in front of this,' " said Lamar Cotten, a state and borough government veteran who served as consultant to Delta Junction, which has spearheaded the effort. "They realize

there's not a compelling argument why they should receive state services and not pay for them."

The opening of the Pogo mine, development of a national missile-defense system at Fort Greely and potential for constructing a gas pipeline have all created growth pressure and increased a desire for local planning and control, Cotten said.

Borough formation efforts in the Delta Junction area were rejected as poorly planned by the boundary commission in 1974 and 2000.

Local opposition remains strong, residents say, to zoning, to animal control and especially to new taxes. The new borough expects to have an operating budget of at least \$1.2 million, on top of school funding.

"They say no taxes, but they just can't do it any other way," said Leston McNeil, a local retiree who has helped lead the opposition. "I'm anti-borough at this time. We don't have enough people to pay for it."

Organizers say they've got a way to avoid property taxes. They propose to raise the bulk of the money from Teck-Pogo, the mine developers, through a contractual payment in lieu of taxes. The Northwest Arctic Borough in the Kotzebue region has a similar funding arrangement with the Red Dog lead and zinc mine in its boundaries.

Under a 10-year PILT agreement already signed with the city of Delta Junction, Teck-Pogo's payments to the new borough would ramp up to \$2 million a year by 2008 -- or more, if the value of the mine goes up. Teck-Pogo also agreed to pay up to \$350,000 a year toward bonding costs for new schools and other construction, though a matching share would have to be raised by the borough.

Delta Junction, the only municipality in the area, has about 900 residents. The city would dissolve under the plan in favor of a unified home-rule borough.

McNeil, who tried unsuccessfully to get a local vote on the commission's first-draft proposal, said Teck-Pogo is helping promote the Deltana Borough because the company would face a much higher tax bill if the mine were annexed by Fairbanks.

In addition to the PILT, borough advocates propose to levy a 3 percent tax on fuel and a 10 percent tax on electricity.

There's a catch to this plan, however -- one that requires special help from the Legislature.

The new borough, encompassing the Delta/Greely Rural Education Attendance Area (roughly a 30-mile radius around Delta Junction), would be crossed by a piece of the trans-Alaska oil pipeline valued at several hundred million dollars. Under current law, that value has to be included when the state calculates how much the borough's property is worth -- and how much it has to pay for schools.

Boroughs are required to pay the equivalent of 4 mills of their total assessed property value toward education. Deltana organizers want to have the pipeline exempted, because the PILT payments from Teck-Pogo won't be enough to pay for schools under the larger property evaluation.

A bill doing just that, HB 217, passed the state House last year and is now before the Senate.

Even Schultz, the commission chairman, predicted the borough vote would fail locally if a property tax was part of the deal.

There's also a neat bit of political blackmail to provide the area with further incentive. Last year, Delta Junction faced a \$1 million judgment to pay off a prison developer with whom the city partnered in an ill-fated effort to build a private prison at Fort Greely. The project collapsed after opponents won seats on the city council and the

city withdrew its support.

The Legislature gave the city a loan to pay its debt. Under a provision engineered by Wilken, the powerful Senate Finance Committee co-chairman, that loan will be forgiven if the area organizes as a borough.

With a local revenue source, a new borough assembly could choose to improve schools by funding more than the minimum, said Delta/Greely superintendent Dan Beck. A new borough could also bond and build new schools without waiting in line for state funding, as rural schools in the unorganized area must. The area's high school is 45 years old.

Deltana Borough organizers had to obtain nearly 200 signatures on their petition to put the formation idea before the state. Local Boundary Commission staff members will solicit comment and evaluate the borough's proposed charter, including its economic underpinnings. Then the five-member commission holds a public hearing and votes whether to approve the application. If the boundary commission gives it the go-ahead, the new borough must be approved by voters in the area.

Reporter Tom Kizzia can be reached at [tkizzia@adn.com](mailto:tkizzia@adn.com) or in Homer at 907-235-4244.

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# Fairbanks Daily News-Miner

Petitioners file for Delta-area borough  
By CHRIS ESHLEMAN  
Staff Writer

**Tuesday, January 10, 2006** - A group of residents in the Delta Junction area hoping to form the state's 17th incorporated borough submitted formal plans to the state last week.

Staff for the state's Local Boundary Commission said the proposed Deltana Borough would encompass almost 5,900 square miles of land, and the petition estimates it would include 5,760 people from Delta Junction, Fort Greely and surrounding areas. The plan will need to be approved by state authorities and, possibly as early as this fall, by voters within the area.

The nearby Pogo gold mine, which would be included within the borders of the new borough, would pay for a major part of education and the costs associated with running the new borough.

On a map, the borough's boundaries would be identical to the those of the area's school district, the Delta-Greely Regional Education Attendance Area.

Formation of a borough would allow residents and their representatives in local government a chance to spend more money on education in the school district than the state currently spends, said area schools' Superintendent Dan Beck.

Residents in and around Delta Junction have attempted to form a borough before.

This try comes as a response to both internal and external pressures, said Lamar Cotten, a consultant for the city of Delta Junction.

Cotten said the additions of both the mine and a national missile defense system at Fort Greely have the potential of straining the community's schools and other services. And legislators have discussed encouraging--or forcing--borough formation in unincorporated areas, including Delta Junction, which has no local sales or property taxes and relies heavily on the state to fund education.

Cotten, a former member of the Local Boundary Commission, said he did not know what would happen if voters decide not to form a borough. But they could be leaving the decision to others if they do.

"You run a risk, given the fact that state policy is evolving," Cotten said.

If the borough is created, the city of Delta Junction would dissolve and its assets would become the property of the new borough.

Under an agreement with Teck-Pogo, the mine would provide at least \$2 million annually to the new borough, said Pete Hallgren, Delta city administrator. If the effort fails, the city will receive significantly less, and only through 2008.

While the plan's supporters have also said the move could keep the area from being annexed by the larger Fairbanks North Star Borough, Mayor Jim Whitaker said his administration currently is not seriously considering a plan to annex the area.

If the petition's list of 259 signatures qualifies under state rules, the state will move forward by posting the proposal online and will begin accepting public comments, said Dan Boekhorst, a staff member of the state's Local Boundary Commission.

Boekhorst's office will then advise the commission, which will decide whether residents within the proposed borough can vote to form the Deltana Borough.

Chris Eshleman can be reached at 459-7582 or [ceshleman@newsminer.com](mailto:ceshleman@newsminer.com).

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Apr 27, 2:22 PM EDT

## Harris pushes bill that could aid formation of Delta area borough

FAIRBANKS (AP) -- House Speaker John Harris is pushing a proposal that would allow a new borough in the trans-Alaska oil pipeline corridor to exclude the value of the pipeline from state calculations of how much the borough's property is worth.

Backers of a new borough proposed around Delta Junction say the law could help keep them from needing a property tax.

The House district of Harris, R-Valdez, stretches into Delta, a Richardson Highway community 98 miles south of Fairbanks.

The state uses a borough's total value to determine how much local governments must contribute toward K-12 education funding. Boroughs are required to pay the equivalent of 4 mills of their total assessed property value toward education.

In Delta, where a group is drawing up plans for a borough covering the Delta/Greely School District boundaries, the trans-Alaska pipeline is worth about \$200 million. The pipeline's assessment would add to the total value of the proposed borough and the tax dollars that residents would have to pay.

Meeting that demand in the Delta area would require a property tax, said Pete Halpagan, Delta city administrator. However, if House Bill 217 passes, the area could meet its minimum education contribution without levying a property tax, he said.

The House Community and Regional Affairs Committee on Tuesday forwarded the measure after a brief discussion. The bill is to be heard next by the House Finance Committee.

Mike Schultz, chairman of the commission developing a plan for the proposed Deltana Borough, said most residents in the area would vote against forming a borough if it meant paying property tax.

"Because we feel quite strongly that the community will not accept a borough charter with a property tax, we have devised a tax structure that does not include a property tax," he said.

To meet its education funding obligations and pay for government services, the borough would collect a 3 percent tax on fuel, a 10 percent tax on electricity and a 2 percent royalty tax on gold from the Pogo Mine, Schultz said.

Currently, four of Alaska's 16 boroughs do not charge a property tax and make their money through other types of levies. The Denali Borough, for example, relies heavily on a bed tax.

HB 217 would not mean a decrease in money the state receives from the trans-

Alaska pipeline. The state would continue to collect the 20-mill rate on pipeline property that it now collects in unorganized areas.

Information from: Fairbanks Daily News-Miner <http://www.newsminer.com>

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## The Full Value Determination

*Steve Van Sant, State Assessor*

The Office of the State Assessor is required to annually compute a value on all taxable property located in 92 municipalities. This includes each borough, every first class and home rule city, and second class cities with a population over 750. This value is known as the Full Value Determination (FVD). The FVD is used by the Department of Education for calculating the municipality's share of education, i.e., local contribution. In the past, state shared revenue has used the FVD in the calculation of the share of the "revenue pie" each municipality received.

Local assessors make a determination annually, of the total assessed value of all property within their municipal boundaries, which is subject to a property tax. Local assessments are required by statute to reflect 100% market value but due to the large number of properties and the lack of an adequate number of sales data, it is not possible to value all properties at this level. The Office of the State Assessor requires a ratio study (a statistical analysis of assessed values compared to market data and /or individual market analysis.) to be conducted by each taxing municipality to indicate the actual level of assessment. This is augmented with other statistical data to depict the equity between and among property groups. The statistical calculation level of assessment is used to ascertain the overall percentage of market value represented by the assessed values. When the level of assessment is determined, the actual assessed value of the municipality is adjusted to reflect 100%, as required by statute.

The assessed values also represent only property that is subject to a property tax within the municipality. Local property taxes within municipalities differ around the state. In Fairbanks, for example, personal property has been exempted from property taxes; therefore, the assessor does not place any value on the local assessment roll for this property. However, the value of personal property must be included the full value. The full value "equalizes" the values in all municipalities by measuring the local "wealth" using the total taxable value as the measuring stick. In order to compare "apples to apples", the full value of each municipality should reflect the same value levels as all other municipalities.

Taxable property is the cumulative value of all property within the jurisdiction which is, by statute, subject to a property tax. This means that the taxable value excludes any mandatory exemptions found in AS 29.45.070. Therefore, all churches, schools, charitable and cemetery property are not included in the FVD, as well as the value (\$150K) for senior citizens and disabled veterans which participate in the homeowners program. Any property which is required to be excluded from local taxation by statute is also excluded from the FVD.

However, property which a municipality may, at its option, exempt from taxation under AS 29.45.050 (optional exemptions) is considered "taxable property" under state statutes and is a measurement of the jurisdiction's property wealth, and, therefore, is included in the FVD. This property could be taxed by the jurisdiction, but they have chosen not to tax it. Consequently, the value of personal property within Fairbanks is estimated by the Office of the State Assessor and included in the FVD. A municipality which has exempted property under AS 29.45.050 (optional exemptions) will have it added back into its FVD. For example, a municipality which has exempted motor vehicles from a property tax and opted into the state collection system for the vehicle registration tax see the value of motor vehicles added into their FVD because without that value, it does not accurately reflect the "total value" of the municipality.

Because of the issues listed above, it is rare if a municipality's local assessed value and the full value determination are the same.

**Explanation of 4 mill Equivalency (Local Contribution for Education)  
For the Proposed Deltana Borough**

**What is a mill?**

*Tax rates are usually expressed as tax dollars per \$100, mills per dollar, or tax dollars per \$1,000 of assessed value. A one mill tax equates to \$1 in tax, for each \$1,000 of value (.001). Therefore:*

*Every one million dollars in FULL VALUE equates to \$4,000 required for locally required education contribution (based upon a 4 mill equivalency, .004)*

**How do you calculate a mill?**

One Dollar	Divided by	Equals = One Mill
\$1	1000	0.001
	Times 4	Equals local
Full Value	mills	Contribution
\$1,000	0.004	\$4
\$100,000	0.004	\$400
\$1,000,000	0.004	\$4,000
\$100,000,000	0.004	\$400,000

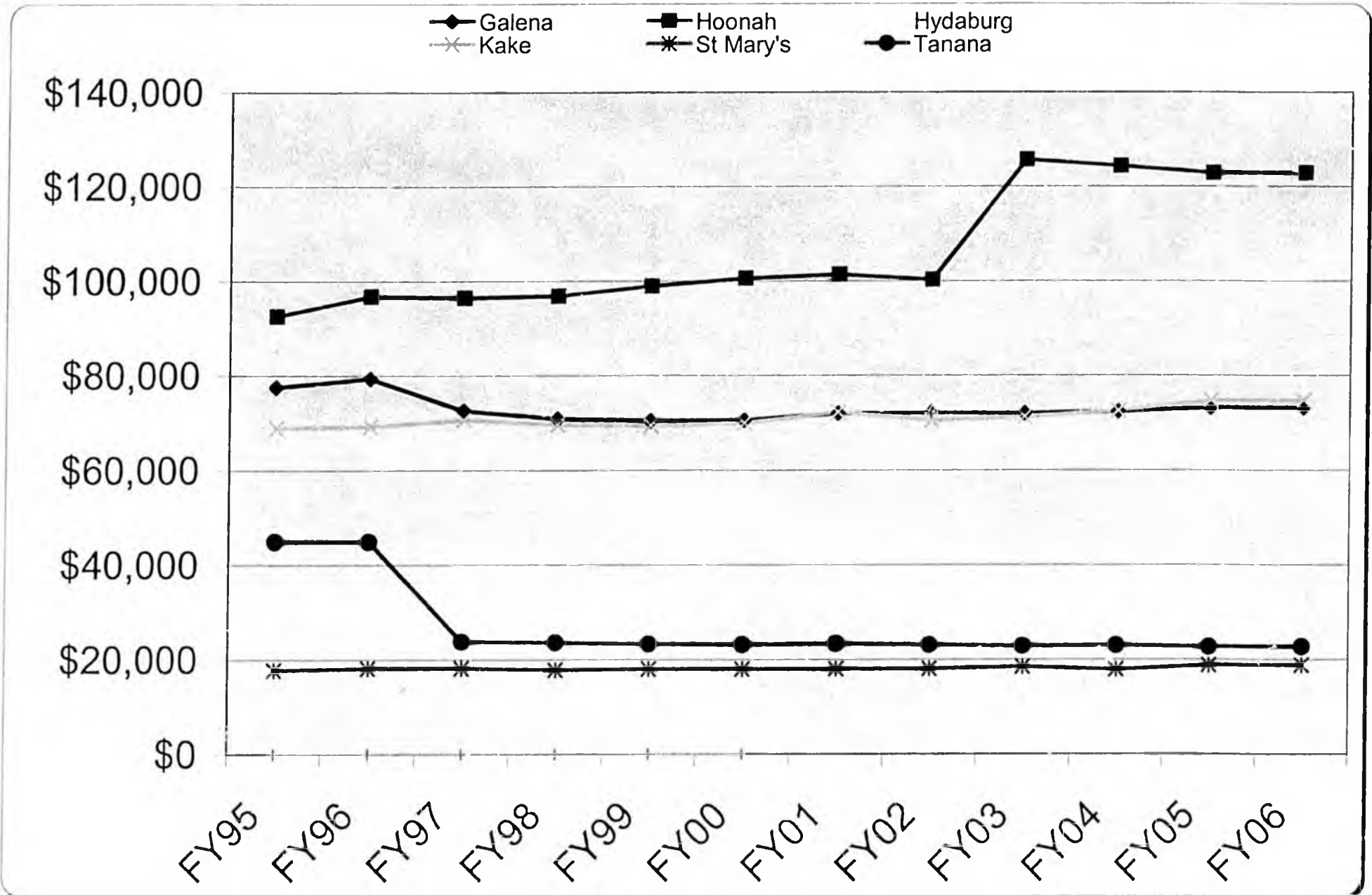
**Proposed Deltana Borough**

Valuations Estimates		Full Value	Times 4 mills	Equals local Contribution
<b>(DELTA Area) Delta/Greely REAA</b>				
Delta Commercial	\$ 24,483,300	<b>Area</b>	<b>Value Estimate</b>	<b>4 mills</b>
Delta Residential	\$ 131,514,100			<b>Mandatory Education Contribution</b>
Personal Property	\$ 26,080,600	Delta	\$182,078,000	0.004
<b>Sub-Total Delta/Greely (Area) REAA</b>	<b>\$ 182,078,000</b>	Pogo	\$125,000,000	0.004
Pogo Mine	\$ 125,000,000	<b>Sub-Total</b>	<b>\$307,078,000</b>	<b>\$1,228,312</b>
AS 43.56 Prop.	\$ 194,500,000	Pipeline	\$194,500,000	0.004
<b>Total Delta/Greely (Area) REAA</b>	<b>\$ 501,578,000</b>	<b>Total</b>	<b>\$501,578,000</b>	<b>0.004</b>
				<b>\$2,006,312</b>



## Required Local Contribution for Schools

Residents of Six First Class Cities Elected Alternative Method of Payment - Not by Property Tax

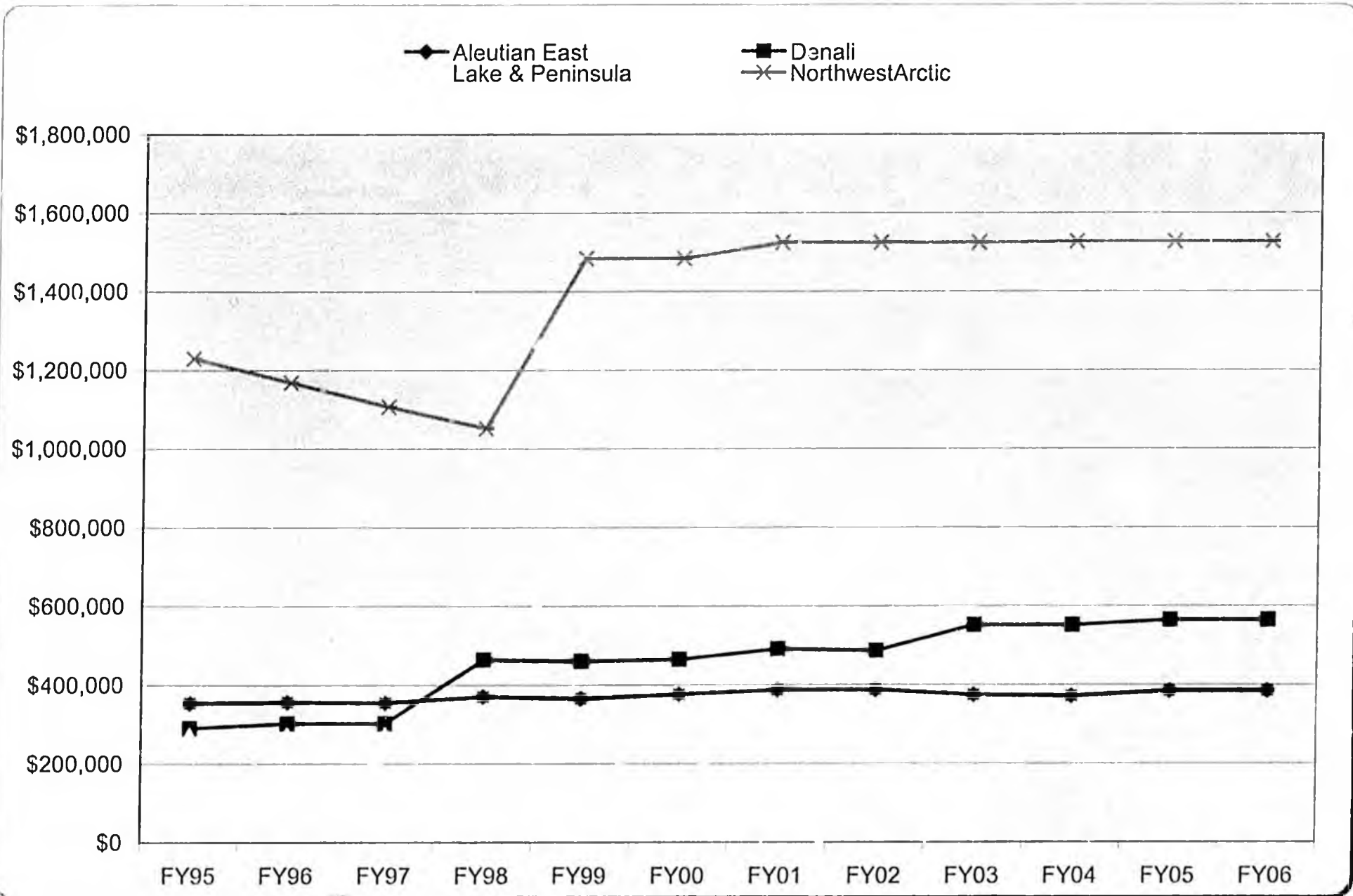


Prepared by Gary Wilken's Office

1/24/04

# Required Local Contribution for Schools

Residents of Four Boroughs Elected Alternative Method of Payment - Not by Property Tax



Prepared by Gary Wilken's Office

1/24/06

TABLE 1

## 2005 Municipalities: Class, Populations and Tax Types

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Adak	Second Class City	69	No	3%	No
Akhiok	Second Class City	56	No*	NR	NR
Akiak	Second Class City	367	No	NR	NR
Akulatan	Second Class City	771	No	NR	NR
Alakanuk	Second Class City	667	No	4%	No
Aleknagik	Second Class City	219	No	5%	5% Bed Tax
Aleutians East Borough	Second Class Borough	2,629	No	No	2% Raw Fish Tax
Allakaket	Second Class City	90	No	NR	NR
Ambler	Second Class City	274	No	3%	No
Anaktuvuk Pass	Second Class City	300	No*	NR	NR
Municipality of Anchorage	Unified Home Rule	277,498	Yes	No	6% Bed Tax & Car Rental/15% Tobacco Tax/Aircraft (flat)
Anderson	Second Class City	344	No	No	8% Utility Tax
Angoon	Second Class City	481	No	3%	3% Bed Tax
Aniak	Second Class City	532	No	2%	No
Anvik	Second Class City	101	No	No	No
Atka	Second Class City	92	No	No	2% Raw Fish Tax/ 10% Bed Tax
Atkasuk	Second Class City	218	No*	No	No
Barrow	First Class City	4,351	No*	NR	NR
Bethel	Second Class City	5,888	No	5%	3% Bed/5% Alcohol/5% Gaming/MVRT
Bettles	Second Class City	31	No	No	\$.02/gal. Fuel Transfer Tax
Brovig Mission	Second Class City	319	No	3%	No
Bristol Bay Borough	Second Class Borough	1,096	Yes	No	3% Raw Fish Tax/10% Bed Tax
Buckland	Second Class City	437	No	6%	No
Chulomak	Second Class City	439	No	2%	2% Raw Fish Tax
Chevak	Second Class City	899	No	NR	NR
Chignik	Second Class City	92	No	No	1%salmon tax/1% other seafood
Chuathbaluk	Second Class City	105	No	NR	NR
Clarks Point	Second Class City	62	No	NR	NR
Coffman Cove	Second Class City	177	No	No	No
Cold Bay	Second Class City	89	No	No	10% Bed Tax/\$.04/gal. Fuel Tax
Cordova	Home Rule City	2,298	Yes	6%	6% Bed Tax/6% Vehicle Rental Tax
Craig	First Class City	1,127	Yes	5%	6% Liquor Tax
Deering	Second Class City	145	No	3%	No
Delta Junction	Second Class City	984	No	No	No
Denali Borough	Home Rule Borough	1,842	No	No	Sev Tax \$ .05/yd gravel \$ .05 ton-coal, Bed Tax 7%
Dillingham	First Class City	2,422	Yes	6%	10% Bed Tax / 10% Liquor Tax/6% Gaming
Diomedea	Second Class City	141	No	3%	No
Eagle	Second Class City	115	Yes	No	No
Eek	Second Class City	292	No	2%	No
Egagik	Second Class City	76	No	No	2% Raw Fish Tax
Ekwick	Second Class City	127	No	NR	NR
Elim	Second Class City	318	No	2%	No
Emmonak	Second Class City	762	No	NR	NR
Fairbanks	Home Rule City	29,954	Yes	No	6% Bed Tax/ 5% Alcohol Tax/ 8% Tobacco Tax
Fairbanks North Star Borough	Second Class Borough	84,979	Yes	No	6% Bed Tax/ 5% Alcohol Tax/ 8% Tobacco Tax
False Pass	Second Class City	62	No	3%	6% Bed Tax
Fort Yukon	Second Class City	594	No	3%	No
Galena	First Class City	717	No	NR	NR
Gambell	Second Class City	648	No	3%	No
Golovin	Second Class City	166	No	NR	NR
Goodnews Bay	Second Class City	231	No	No	No
Grayling	Second Class City	112	No	NR	NR
Gustavus	Second Class City	173	No	2%	4% 1 Tax
Haines Borough**	Home Rule Borough	2,145	Yes	5.6%	4% Bed Tax
Holy Cross	Second Class City	206	No	No	No
Homer	First Class City	5,332	Yes	4.50%	No

Note: Municipal populations are from the State Department of Labor

\*Indicates that City does not levy property tax, but Borough in which City is located does

\*\* The City of Haines and the Haines Borough consolidated in 2002 into a single Home Rule Government

TABLE 1

## 2005 Municipalities: Class, Populations and Tax Types - continued

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Hoonah	First Class City	841	No	5%	No
Hooper Bay	Second Class City	1,124	No	4%	No
Houston	Second Class City	1,368	Yes	2%	No
Hughes	Second Class City	72	No	No	No
Huslia	Second Class City	269	No	No	No
Hydaburg	First Class City	349	No	4%	No
Juneau, City & Borough of	Unified Home Rule	30,966	Yes	5%	7% Bed Tax/ 3% Liquor Tax/ \$.30/pack Tobacco Tax
Kachemak	Second Class City	475	Yes	No	No
Kake	First Class City	663	No	5%	Fisheries Business Tax
Kaktovik	Second Class City	284	No*	No	No
Kallag	Second Class City	211	No	No	No
Kasaan	Second Class City	60	No	No	No
Kenai	Home Rule City	6,809	Yes	3%	No
Kenai Peninsula Borough	Second Class Borough	50,980	Yes	2%	No
Ketchikan	Home Rule City	7,691	Yes	3.50%	6% Bed Tax
Ketchikan Gateway Borough	Second Class Borough	13,030	Yes	2.5%	4% Bed Tax
Kiana	Second Class City	394	No	2%	No
King Cove	First Class City	723	No	4%	2% Fisheries Tax/Business impact tax-flat rate
Kivalina	Second Class City	388	No	2%	No
Klawock	First Class City	848	No	5.50%	6% Bed Tax
Kobuk	Second Class City	128	No	NR	NR
Kodiak	Home Rule City	6,199	Yes	0%	5% Bed Tax
Kodiak Island Borough	Second Class Borough	13,466	Yes	No	10.25 mill Severance Tax/5% Bud Tax
Kotlik	Second Class City	588	No	3%	No
Kotzebue	Second Class City	3,130	No	6%	6% Bed Tax/ 6% Alcohol Tax
Koyuk	Second Class City	348	No	NR	NR
Koyukuk	Second Class City	109	No	No	No
Kupreanof	Second Class City	38	No	No	No
Kwethluk	Second Class City	695	No	5%	No
Lake & Peninsula Borough	Home Rule Borough	1,603	No	No	2% Raw Fish Tax/Guide Fees/6% Bed Tax
Larsen Bay	Second Class City	96	No*	3%	No
Lower Kalskag	Second Class City	262	No	NR	NR
Manokotak	Second Class City	405	No	2%	No
Marshall	Second Class City	358	No	4%	No
Malanuska-Susitna Borough	Second Class Borough	70,148	Yes	No	5% Bed Tax
McGrath	Second Class City	367	No	No	10% Bed Tax
Mekoryuk	Second Class City	198	No	2%	No
Mottakpila	Federal Law	1,370	No	No	No
Mountain Village	Second Class City	769	No	3%	No
Napakiak	Second Class City	360	No	NR	NR
Napaskiak	Second Class City	436	No	No	No
Nenana	Home Rule City	394	Yes	4%	No
New Stuyahok	Second Class City	477	No	NR	NR
Newhalen	Second Class City	183	No	2%	The City does not collect its tax
Nightmute	Second Class City	232	No	2%	No
Nikolai	Second Class City	121	No	NR	NR
Nome	First Class City	3,473	Yes	5%	4% Bed Tax
Nondalton	Second Class City	206	No	NR	NR
Noorvik	Second Class City	609	No	3%	No
North Pole	Home Rule City	1,532	Yes	3%	No
North Slope Borough	Home Rule Borough	7,104	Yes	No	No
Northwest Arctic Borough	Home Rule Borough	7,300	No	No	No
Nuiqsut	Second Class City	430	No*	No	No

Note: Municipal populations are from the State Department of Labor

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**TABLE 1**  
**2005 Municipalities: Class, Populations and Tax Types - continued**

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Nulato	Second Class City	320	No	NR	NR
Nunam Iqua (Sholdon Point)	Second Class City	172	No	4%	No
Nunapitchuk	Second Class City	527	No	3%	No
Old Harbor	Second Class City	196	No*	3%	No
Ouzinkie	Second Class City	187	No*	3%	No
Palmer	Home Rule City	5,197	Yes	3%	No
Pelican	First Class City	118	Yes	4%	10% Bed Tax
Petersburg	Home Rule City	3,123	Yes	6%	4% Bed Tax
Pilot Point	Second Class City	75	No	NR	NR
Pilot Station	Second Class City	559	No	4%	No
Platinum	Second Class City	39	No	NR	NR
Point Hope	Second Class City	726	No*	3%	No
Port Alexander	Second Class City	69	No	4%	6% Bed Tax
Port Heiden	Second Class City	90	No	NR	NR
Port Lions	Second Class City	238	No*	No	No
Quinhagak	Second Class City	612	No	3%	No
Ruby	Second Class City	190	No	NR	NR
Russian Mission	Second Class City	331	No	NR	NR
St. George	Second Class City	137	No	NR	NR
St. Mary's	First Class City	539	No	3%	No
St. Michael	Second Class City	109	No	NR	NR
Saint Paul	Second Class City	494	No	3%	3% Raw Fish Tax
Sand Point	First Class City	908	No	3%	7% Bed Tax/2% Raw Fish Tax
Savoonga	Second Class City	710	No	3%	No
Saxman	Second Class City	391	No*	3.5%	No
Scammon Bay	Second Class City	486	No	2%	No
Selawik	Second Class City	829	No	5%	No
Seldovia	First Class City	426	Yes	2%/4.5%	No
Seward	Home Rule City	2,540	Yes	1%	4% Bed Tax
Shageluk	Second Class City	132	No	1.7%	NR
Shaktolik	Second Class City	209	No	NR	NR
Shishmaref	Second Class City	591	No	2%	No
Shungnak	Second Class City	264	No	2%	No
Sitka, City & Borough of	Unified Home Rule	8,805	Yes	5%/6%	6% Bed Tax/ \$.02/gal Fuel Tax
Skagway	First Class City	870	Yes	4%	8% Bed Tax
Soldotna	First Class City	3,767	Yes	3%	No
Stobbins	Second Class City	586	No	3%	No
Tanana	First Class City	304	No	2%	No
Teller	Second Class City	241	No	3%	No
Tenakee Springs	Second Class City	105	No	2%	3% Bed Tax/1% Fuel Tax
Thorne Bay	Second Class City	497	No	6%	No
Togiak	Second Class City	805	No	2%	2% Raw Fish Tax
Toksook Bay	Second Class City	561	No	2%	No
Unalakleet	Second Class City	728	No	3%	5% Bed Tax/5% Alcohol Tax
Unalaska	First Class City	4,366	Yes	3%	2% Raw Fish Tax/ 5% Bed Tax
Upper Kalskag	Second Class City	263	No	NR	NR
Valdez	Home Rule City	3,749	Yes	No	6% Bed Tax
Wainwright	Second Class City	531	No*	No	No
Wales	Second Class City	152	No	NR	NR
Wasilla	First Class City	6,109	Yes	2.5%	No
White Mountain	Second Class City	213	No	1%	No
Whitler	Second Class City	172	Yes	3%	3% Passenger Trans. Tax/3% Fuel Tax
Wiangoll	Home Rule City	2,023	Yes	7%	\$4 per night Bed Tax
Yakutat, City & Borough of	Home Rule Borough	680	Yes	4%	1% Raw Fish Tax/8% Bed & Car Rental Tax

Note: Municipal populations are from the State Department of Labor

\*Indicates that City does not levy property tax, but Borough in which City is located does

99 Municipalities (reporting) levy a General Sales Tax - Rates range from 1% to 7%

107 Municipalities (reporting) levy either a General Sales Tax, Special Tax (bed tax, fish tax, etc.) or a combination of the two

28 Municipalities (cities & boroughs) levy a property tax

33 Municipalities did not provide a report this year

12 Boroughs & 13 cities within boroughs, levy a property tax

13 Cities in the Unorganized Borough levy a property tax

# SENATE COMMITTEE REPORT

DATE: 5/3/05

FURTHER: Finance

DATE TURNED  
IN TO OFFICE: 5/6/05

Community and Regional Affairs Committee considered HOUSE BILL NO. 217(title am)

## HB 217 FULL & TRUE VALUE OF TAXABLE MUNI PROP.

"An Act relating to the determination of full and true value of taxable municipal property for purposes of providing planning assistance to the Department of Education and Early Development and the legislature, calculating funding for education, calculating school district participating shares for school construction grants, and calculating tax resource equalization payments and excluding from that determination the value of property in certain areas detached from a municipality and the value of certain property involved with oil and gas that is not taxed by a municipality."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

<b>CS Senate Bill:</b>	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<b>SCS House Bill:</b>	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
DCCED	4/13			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i> WAGONER	✓			
<i>[Signature]</i> STEJMAN			✓	
CHAIR: <i>[Signature]</i> G. STEVENS			✓	