

SCOMM

#46:18

Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Subcommittee on Fish and Game



Andre Marrou
Representative

February 28, 1986

To: Mike Davis, Chairman House Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339 Fiscal Note

Here is the fiscal note for work draft of HB 339 dated Feb. 7.

I would like to point out that the revenue projections here, in my opinion, are severely under valued.

The preparer of the fiscal note took the position that the only increased revenue realized from HB 339 would come from section 4 of the bill which would limit new debt and new debt service by the North Slope Borough. Absent from the note are the increased revenues that would go to the State as the North Slope Borough retires its huge debt burden. This would be a direct result of section 2 of the bill.

According to the preparer of the fiscal note, if the North Slope Borough did not have plans to issue any new debt, there wouldn't be any fiscal implication at all. This is simply not true. If HB 339 were in effect today, the State would take in one half of a \$234,511,201 assessment --or \$117,225,600-- instead of \$19,112,663.¹ The rest --or \$215,398,538-- went to pay for North Slope Borough debt service.

The preparer of the fiscal note also assumed the North Slope Borough's new debt issue forecast to be credible.² However, experience shows that, as far as the North Slope Borough is concerned, the sky is the limit.

The property tax payers plan to invest another \$6,000,000,000 into Prudhoe Bay this summer. This should approximately increase the assessed value of Prudhoe Bay \$12,000,000,000 to \$18,000,000,000. That's 18 billion dollars of value that we are going to assess a 20 mill tax! This equals \$360 million dollars of potential State revenue that the North Slope Borough can siphon off, as it has done in the past, by issuing new debt. Therefore, the modest new debt forecasts for the North Slope Borough, outlined in line 7 of the 3rd page of this fiscal note, do not seem credible.

This bill has the potential of bringing in HUNDREDS OF MILLIONS of dollars in increased State revenue as the North Slope Borough pays off its current debt sometime between 1991 and 1996. This will be done with no increase in taxes on the oil and gas industry

¹ Based upon 1984 assessments.

² From the North Slope Borough's Capital Improvement Program FY 1986-1991, Table 14

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No: CS SS HB 339
Title: Limitation of oil and gas
municipal property taxes to pay for
bonds
Sponsor: Marrou
Requestor: House Oil & Gas
Date of Request: February 17, 1986

FISCAL DETAIL
Agency Affected: _____
BRU: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	10,500	17,700	17,100	28,100	55,600	51,100

FUNDING: (Thousands of Dollars)

GENERAL FUND	10,500	17,700	17,100	28,100	55,600	51,100
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	10,500	17,700	17,100	28,000	55,600	51,100

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker MB
 Division: Treasury

Phone: 465-2350
 Date: February 20, 1986

Approved by Commissioner: [Signature]
 Agency: Department of Revenue

Date: 2/21/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CS SS HB 339
Fiscal Note Analysis

The only municipality possibly affected by CS SS HB 339 is the North Slope Borough as detailed in the attached table. However, there are two major loopholes in the CS that could mean the State would receive no additional revenue from property in the North Slope Borough.

First, the exemption for refunding bonds means that potentially no levies for existing debt would count toward the limit and therefore the second sentence of section 4 of the bill would not operate to limit issuance of new debt. This is because refunded debt is paid from the proceeds of refunding debt, not tax levies, and tax levies for the refunding debt are exempt. Thus, a municipality could wipe the slate clean as far as the limit is concerned by refunding all its debt. Technically, this could be fixed in the bill by putting the refunding exemption in a separate section and amending section 4.

The second loophole, to the extent the bill is meant to control debt issuance, is school debt. Since the State may pay 80 percent, 90 percent, or 100 percent of school debt service the major portion of such debt can be exempt from the limit in this bill. However, passage of HB 520 would limit State payments in the future for school debt.

CS SS HB 339 should not affect Valdez since the only new debt planned for issuance by Valdez is \$24 million of bonds to redeem bond anticipation notes maturing March 1, 1988. These bonds would be exempt from the 10 mill limit of SS HB 339 by virtue of the bill's exemption for refunding bonds.

The limit would not affect other communities with oil and gas property because 10 mills would support far more debt than is outstanding, or at least more than is outstanding excluding school debt.

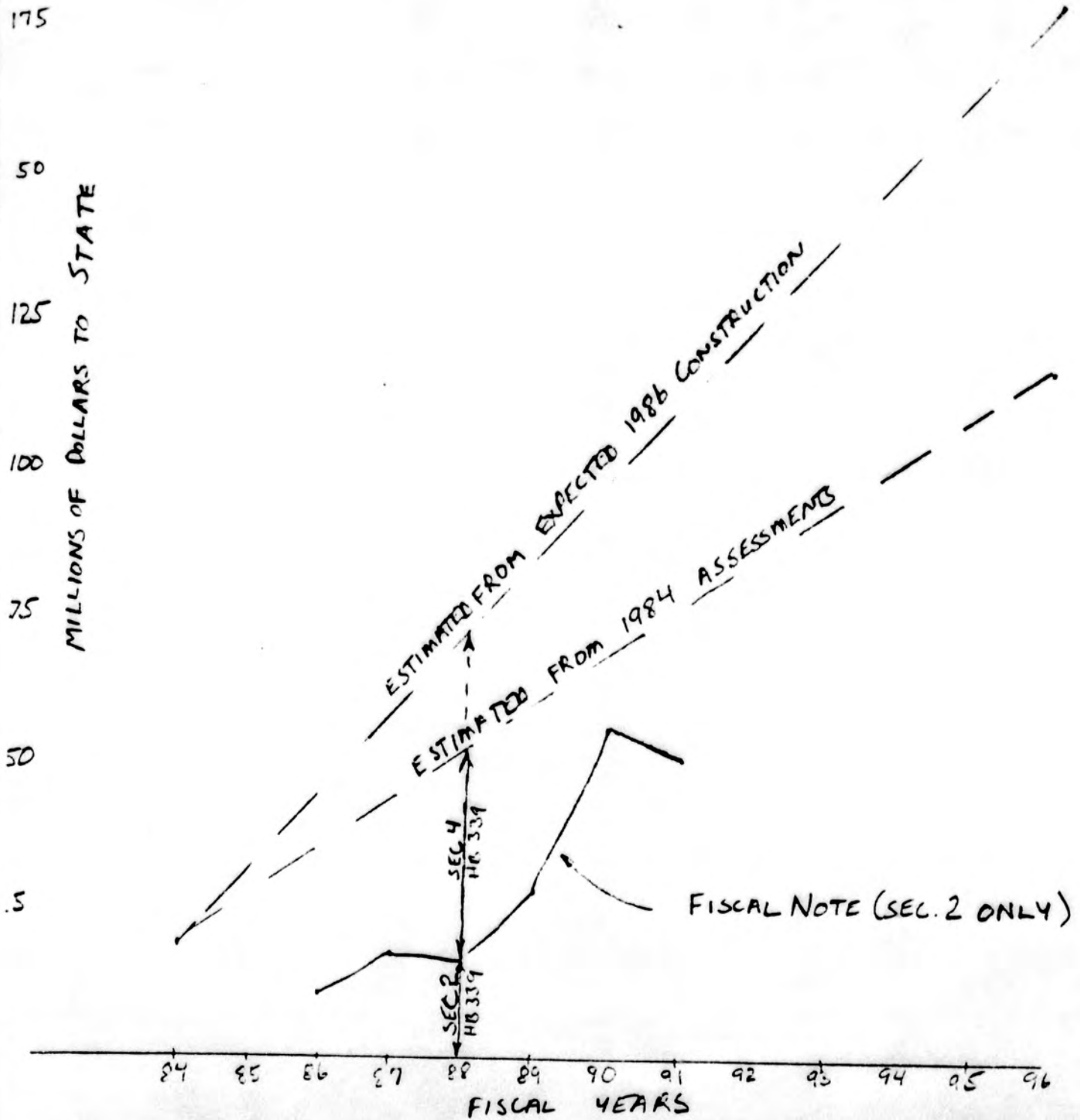
Additional State Revenue
Due to
Limitation of CS SS HB 339 on North Slope Borough
(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
Full Property Value						
(1) State Assessed	12,563.3	13,000.0	13,500.0	13,500.0	13,500.0	13,500.0
(2) Local Assessed	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>
(3) Total Full Value	12,876.8	13,313.5	13,813.5	13,813.5	13,813.5	13,813.5
(4) Limit on Taxable Value	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1
(5) 10 Mill Limit on Debt Service	23.4	23.4	23.4	23.4	23.4	23.4
(6) Debt Service on Outstanding Debt (as to be partially refunded)	202.3	212.1	219.7	211.7	198.5	188.6
(7) New Debt to be Issued	52.9	28.0	28.0	154.0	-	-
(8) Debt Service on New Debt	10.5	17.7	17.1	28.1	55.6	51.1
(9) Additional State Revenue	10.5	17.7	17.1	28.1	55.6	51.1

Notes:

- (1 & 2) January 1, 1985 values from Alaska Taxable 1985, Department of Community and Regional Affairs
- (3) Rows (1) and (2)
- (4) 1985 statewide average full value of \$86,322 multiplied by 225% multiplied by 12,342 1985 North Slope Borough population
- (5) 1% of row ((4) + Row (3)) x Row (1)
- (6) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 15, Column G minus Row 8 of this table.
- (7 & 8) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 14
- (9) Row 8

EFFECTS of HB 339 ON STATE REVENUES



Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

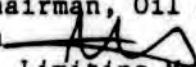


Andre Marrou
Representative

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

January 10, 1986

To: Mike Davis, Chairman, Oil & Gas Committee
From: Andre Marrou 
Subject: SSHB 339, Limiting Municipal Oil & Gas Property Taxes

Thank you for your letter of December 18 requesting backup material for SSHB 339. Following is a brief synopsis of my intent and how the bill works.

Current State Law allows an oil and gas property tax payer to credit against their state obligation of 20 mills (AS 43.56.010a) all local taxes (AS 43.56.010d) on oil and gas property covered by AS 43.56. This has the effect of shifting a State-imposed property tax to municipal coffers.

The current property tax rate in the North Slope Borough is 18.4 mills, Valdez is 11.7 and the Kenai Peninsula Borough is 2.5 mills. The North Slope property tax appears excessive. Certainly, it is costing the State hundreds of millions of dollars (see attached chart). For example, the State's share of property tax has fallen drastically from 48% to 8% in five years. Meanwhile, the North Slope Borough's share has skyrocketed from 52% to 92%.

It would appear that the intent of the State's oil and gas property tax law was not to allow the North Slope Borough to finance an astronomical debt (\$97,373 per capita) and possibly jeopardize the State's bond rating should they default in these times of decreasing oil revenues. Note that, of the 20 mill State imposed property tax on Prudhoe Bay property, 18.4 of it goes to the North Slope Borough.

The residents of the North Slope Borough appear indifferent to their high tax rate, perhaps because of a variety of exemptions that are available to them.

SSHB 339 proposes to split the State's 20 mill property tax 50/50 between the State and the borough. This is accomplished in Sec. 1 of the bill.

Sec. 2 of the bill is necessary to bring the statutes into compliance with limits set in Section one.

Sec. 3 exempts this tax limitation from applying to general obligation refunding bonds. Example: a municipality wishes to sell new bonds at a more favorable interest rate to pay off old debts at higher rates.

All the citations in this memo and in HB 339 refer to the old Title 29. These need to be updated.

More opinions, facts and figures will be forthcoming. I suspect you will agree that the amount of money in question merits a hearing and passage of this legislation from your committee. If this bill were in effect in 1984, it would have resulted in \$98,142,937 more in State revenues [(\$234,511,201 / 2) - \$19,112,663].

¹ ANCSA sec. 21D; Indian Reorganization Act, 25 USC 465; Federal Supremacy Clause for Native Trust Lands; AS 18.55.250; \$10,000 Exemption per Assesment, AS 29.45.050(a).

Distribution of State Property Tax For the North Slope Borough

<u>Year</u>	<u>State Assessed Value</u>	<u>Gross Revenue</u>	<u>Local Credit</u>	<u>Net to State</u>	<u>Percent Increase</u>	<u>Percent of Gross to State</u>
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15

SOURCE: DIVISION OF PETROLEUM REVENUE

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



District 5

Kena	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

Andre Marrou
Representative

February 13, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339, Oil & Gas Property Tax

The attached committee substitute dated February 7 has some technical improvements that further the original intent of this bill-- that intention is to split the revenues from the oil and gas property tax 50/50, municipality/State respectively. In 1984, the North Slope Borough assessed \$215,398,538 against a \$234,511,201 state tax bill. That is a 92/8 split of these revenues respectively.

The positive fiscal ramifications of this bill cannot be over-emphasized. We are are talking about hundreds of millions of dollars of increased State revenue (\$\$\$) without any increase of oil taxes if we pass this bill!

The original intention of allowing the oil companies to deduct or credit their local tax against the State 20-mill property tax was to allow the municipalities to finance as necessary for providing local services to the oil and gas properties being taxed. However, the idea that Prudhoe Bay is receiving over \$200,000,000^{75,000,000} in local services is ludicrous.

Since AS 43.56, Oil and Gas Property Tax, is a State tax, it is clear that the revenues from this tax were meant for legislative distribution except for those allowed for reasonable local services. It is an unforeseen result of the original legislation that this lopsided distribution of this tax should occur.

Original sponsor: Marrou

JAN 7 1986

1 IN THE HOUSE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the limitation on municipal
7 property taxation for the payment of bonds; and
8 providing for an effective date."

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

10 * Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

11 (47) AS 29.47.200(a) - (general obligation bonds)

12 * Sec. 2. AS 29.45.100 is amended to read:

13 Sec. 29.45.100. [NO] LIMITATIONS ON TAXES TO PAY BONDS. The
14 limitations provided for in AS 29.45.080 - 29.45.090 do not apply to
15 taxes levied or pledged to pay or secure the payment of the principal
16 and interest on bonds. However, taxes levied under AS 29.45.080
17 [TAXES] to pay or secure the payment of principal and interest on
18 bonds may only be levied in an amount that does not exceed one percent
19 of the assessed value of property within the municipality taxed under
20 AS 29.45.080 [WITHOUT LIMITATION AS TO RATE OR AMOUNT], regardless of
21 whether the bonds are in default or in danger of default. This limi-
22 tation does not apply to taxes levied or pledged to pay or secure the
23 payment of general obligation refunding bonds used to refund a general
24 obligation bond issue.

25 * Sec. 3. AS 29.47.200(a) is amended to read:

26 (a) The full faith and credit of a municipality are pledged for
27 the payment of principal and interest on general obligation bonds.
28 Subject to AS 29.45.100, the [THE] municipality may levy ad valorem
29 taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR

1 SECURE THE PAYMENT] of the principal and interest on the bonds. This
2 subsection applies to home rule and general law municipalities [,
3 REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DE-
4 FAULT].

5 * Sec. 4. The amendments to AS 29.45.100 and AS 29.47.200(a) made by
6 secs. 2 and 3 of this Act apply only to taxes levied or pledged to pay
7 general obligation bonds sold by a municipality on or after the effective
8 date of this Act. However, notwithstanding any other provision of law, a
9 municipality may not sell general obligation bonds after the effective date
10 of this Act until the municipality is in compliance with AS 29.45.100 and
11 AS 29.47.200(a) as amended by secs. 2 and 3 of this Act with respect to
12 taxes levied or pledged to pay all general obligation bonds without regard
13 to the dates of sale.

14 * Sec. 5. This Act takes effect July 1, 1986.
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SECTIONAL ANALYSIS CSSSHB 339 (Oil & Gas)

*Section 1.

This section makes this bill applicable to home rule municipalities.

*Section 2.

This section restricts a municipality's ability to tax to pay for bonds, only if it taxes oil and gas properties under AS 29.45.080. The 1% figure will allow municipalities to collect up to half of the 20 mill oil and gas property tax under AS 43.56.

*Section 3.

This section conforms the statutes to the limitation in section 2.

*Section 4.

This section clarifies that the taxing authority to pay off current existing debt will not be impaired.

This section is also a debt limiter that prevents municipalities from issuing more bonds after the effective date, if the taxes to pay those bonds exceed the limit in section 2.

DISTRIBUTION OF OIL & GAS PROPERTY TAX FOR NORTH SLOPE BOROUGH

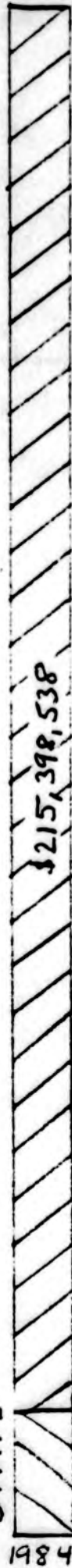
\$ MILLIONS OF DOLLARS \$

NOTE: PROJECTION BASED UPON 1984 ASSESSMENTS



1979

NET TO STATE



1984

\$19,112,663

LOCAL CREDIT

NET TO STATE



1990-1995

\$117,255,600

HB 339 PROJECTION

LOCAL CREDIT

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

District 2

Seward	Seward
Sitka	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolai
Kasilof	Halibut Cove
Niukhibik	Cham Galet

February 17, 1986

ALASKA CONSTITUTION SUPPORTS CSSSHB 339 (O&G)

Current State law allows for an inequitable share of the State's natural resources (about 58% of total oil & gas property taxes) to go to a relatively small number (about 2.2%) of our population. This is contrary to the intent of Alaska's Constitution.

From Article VIII of the Constitution, entitled "Natural Resources" (emphasis added):

Section 1, Statement of Policy

"It is the policy of the State to encourage... the development of its resources... for maximum use consistent with the public interest".

Section 2, General Authority

"The Legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State...for the maximum benefit of its people".

Section 6, State Public Domain

"Lands and interests therein... possessed or acquired by the State...constitute the State public domain."

Section 17, Uniform Application

"Laws and regulations governing the use and disposal of natural resources shall apply equally to all persons..."

Therefore, it seems clear that the Constitution intended for the State's natural resources to accrue to the benefit of all the State's citizens, not to a few privileged by sheer chance.

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
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Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou

Representative February 17, 1986

District 5

Seward	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolayevsk
Kaslof	Halibut Cove
Natitahk	Clun Clach

SALIENT FACTS RE: CSSSHB339

°Of a \$234,511,201 tax bill due the State on Prudhoe Bay oil and gas property in 1984, 92% of it was credited to the taxpayer because the local municipality siphoned it off.

°In 1984, 2.26% of the State's population took 58% of all oil and gas property tax revenue (\$215,398,538), or, approximately 10% of all State revenue.

°The North Slope Borough is \$1.2 billion(!) in debt, or, \$97,373 per capita.

°The North Slope Borough leads the State with the highest debt to assessed valuation % ratio.

°The current situation encourages debt by municipalities.

°Inaction by the Legislature will result in continued reduction of State oil and gas property tax revenue and a higher local share.

°Oil prices will stabilize and increase eventually; hence, so will the assessed oil and gas property tax base..

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 5, 1985

BILL SHEFFIELD, GOVERNOR

POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 485-4700

949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

POSITION PAPER

RE: SSBH 339

SPONSOR: Representative Andre Marrou

Program Effects of Bill

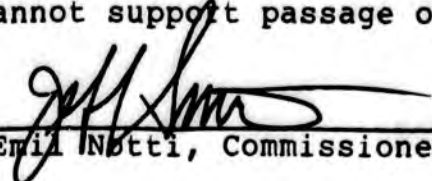
Comments

Sponsor Substitute for House Bill 339 provides for the State to be guaranteed at least 50 per cent of all property taxes levied against AS 43.56 property. Municipalities would be allowed a property tax levy against that property which would not exceed ten mills.

The Department understands and appreciates the concept that all the people of the State should be guaranteed an equal share of revenues derived from this resource, as compared with the current system of taxation which allows some municipalities to benefit in excess of 50 per cent. We do not necessarily oppose that concept.

We do however, have concerns regarding the effect of implementing that concept at the municipal level. At the present time, there is no limit on taxes to pay bonds. The language in SSBH 339 would allow taxes for the payment of bonds to be levied at any level against homes and local businesses, while limiting the levy against AS 43.56 property to ten mills. At the same time, AS 43.56 property would enjoy a full level of municipal services such as education, fire protection, police protection, etc. which would be provided through issuance of the bonds.

Although the Department does not necessarily oppose the concept proposed in the bill, we must recognize the implementation of that concept would allow unequal taxation at the municipal level. For that reason, we cannot support passage of SSBH 339.



Emil Notti, Commissioner