

# Alaska State Legislature

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## Sen. Dave Donley Speaks out on Senate Bill 186 The Municipal Bond Cap

(ANCHORAGE) – Recently the North Slope Borough mayor has been attacking members of the Senate Finance Committee. Attacks, which have in some cases, have been published without contacting the committee members for rebuttal.

The cause of the attacks is [Senate Bill 186](#). SB 186 is one part of a long-range fiscal plan designed by the Senate Finance Committee to take the next steps toward renewed fiscal discipline and closing the state's fiscal gap – an effort which most Alaskans agree is a top state priority.

If the House passes SB 186 in this next session, it would potentially, over a ten-year period, return hundreds of millions of dollars to the state coffers, dollars that were always intended for use by the entire state. It would also protect the state and its citizens from what could amount to a multi-billion dollar bailout of any community that issues bond debt in an egregiously irresponsible manner.

Why does this upset the North Slope Borough mayor? The answer, SB 186 would force the North Slope to tax oil and gas property in a manner consistent with the intent of a 1973 law, a law, which was developed to share property tax revenues from oil and gas between the municipalities and the state.

This law included a tax cap of 20 mills on oil and gas property. Assessment caps were structured to prevent communities like the North Slope Borough, which houses roughly 90 percent of all oil and gas property taxable by municipalities, from monopolizing the wealth.

The North Slope Borough manipulated these laws to abuse the intent. The North Slope Borough, which is home to only about 7,300 full-time residents, had a 1999 G.O. bond debt of \$77,295 for every man, woman and child in the borough, which equated to a per capita debt service of over \$22,000 in the year 2000. As a comparison the Municipality of Anchorage in 1999 had a per capita debt load of \$2,734 and a 2000 debt service of \$133 per person. Valdez, the second largest concentration of taxable oil and gas property in a municipality, had a per capita bond debt in 1999 of only \$335 and a 2000 debt service of zero, as they retired their debt in 1999. Furthermore the North Slope Borough is the only municipality in the state that consistently has a higher debt service cost than operating budget, despite their municipal savings account valued at more than \$470 million dollars. This means it costs more money for the

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Borough to pay its debt each year (\$147 million worth of debt service in 2000) than to run the municipality (\$118 million in 2000) and they pay that debt almost entirely on the back of oil and gas property taxes, a non-renewable, depletable revenue source.

SB 186 addresses this issue. It takes into account that without fiscal restraint some communities may go into massive debt, for the purpose of monopolizing state wealth. Then when the oil fields dry up, the state will be obliged to bail out such communities, if not legally certainly on moral grounds. A bail out that could financially hurt all Alaskans.

SB 186 protects all Alaskan's from such a scenario by placing a \$15,000 dollar, per capita G.O. bond cap on all municipalities. Mind you any community that actually reaches the cap level is already going into debt at a level more than five times greater than the rest of the state. Communities, which exceed the cap will be allowed to issue new G.O. bonds at an annual rate of \$1,000 per capita, or in the case of the North Slope Borough, using their population numbers, is more than \$12 million a year in new bond debt. The proposed legislation would also allow a community, which exceeds the cap to refinance their debt provided the refinancing does not exceed the original pay off schedule. The Senate Finance Committee added the bond-refinancing clause and the \$1,000 per capita excess bonding ability above the cap limits, and all other reasonable changes offered by former Attorney General Avrum Gross, counsel to the North Slope Borough, during public hearings on this bill, this past session.

Over the next 10 years, SB 186, if passed would require a scaled reduction in the mill rate a municipality may levy against oil and gas property. Currently the state allows up to a 20-mill tax credit to oil and gas property holders against any municipal property tax. With passage of this legislation the first year municipalities would only be allowed to tax at a rate of 19 mills and a reduction in that cap by one-tenth of a percentage point every year for the next ten years. Finally capping the municipality's oil and gas property tax rate at 10 mills or 1 percent of the assessed value. This would clear the way for hundreds of millions of dollars to be divided fairly between the state and the municipalities as originally laid out in the 1973 laws governing taxation of oil and gas property.

Alaskans want a more fiscally responsible state government, a government that is as efficient as it can be, before placing the burden of new revenue generation on the public.

The Senate Finance Committee's long range fiscal plan goals have been clear from the beginning, curb government spending, establish reasonable and effective spending limits, identify revenue sources and do this before looking at the permanent fund. SB 186 is a vital step to the long-range fiscal health of the State of Alaska and will more equally distribute the wealth generated by taxing oil and gas properties.

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