

Sponsor Statement

Senate Bill 186

Limit Municipal G.O. Bond Debt

"Establishing a General Obligation Bond Limit for Local Governments"

SB 186 limits the amount of bonding exposure a local government may incur by placing a \$15,000 per resident ceiling on municipal general obligation bond debt. The March 23, 2001 Bullock v. State decision by the Alaska Supreme Court has necessitated this legislation. Over the next decade, this limitation will gradually add over \$100 million per year to the state general fund.

In 1973, the legislature adopted a statute that allows the state to levy a 20-mill property tax on property used for the exploration, production and pipeline transportation of oil and gas, known as AS 43.56 property. Municipalities may also tax this same AS 43.56 property using one of two methods made available in this state statute. Subsequently, the taxpayers (oil & gas companies) are allowed a credit against their state tax liability for the 20-mill state property tax for taxes paid to a municipality. For example, if a municipality levies a tax of \$9,000 on "43.56" oil and gas property, from which the state was to receive \$10,000 in taxes, the state would receive \$1,000, the difference between the two.

AS 43.56 was established to distribute oil and gas property tax revenues equally throughout the state even though the oil & gas properties are not similarly situated. It was the intent of AS 43.56 to prevent pockets of wealth in our state at the expense of other areas. However, the intent of this law (AS 43.56) has not been recognized by state agencies. This has cost the state general over \$100 million per year in income from the oil and gas property taxes.

SB 186 corrects this inequity by clearly establishing a per resident bond debt limitation of \$15,000 per resident.

Other than the North Slope Borough, every community in the state is far below the \$15,000 limitation set out in SB 186. In 2000, the North Slope Borough per resident debt is \$64,409. The next highest community is the City of St. Paul with per resident debt of \$13,318. The statewide average is \$2,873.

In 1999 Donald Bullock Jr. and the Ketchikan Gateway Borough filed suit to correct this inequity in a different manner by alleging that the state agencies have failed to enforce limitations on the municipal taxation of oil and gas related property under AS 43.56. However, on March 23, 2001 the Alaska Supreme Court ruled against their suit necessitating this legislation.

Senate Bill 186
Sponsor Statement
Page 2

SB 186 preserves the intent of the 1973 AS 43.46 oil and gas taxation legislation and distributes state revenues from oil and gas property taxation more equitably across the state to the benefit of all residents. This reasonable and prudent limitation on excessive municipal debt will eventually increase state revenues and help reduce the state fiscal gap by over \$100 million per year.

DD/jja