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## Appendix A–Severance Taxes

The City of Palmer asked Northern Economics, Inc. to analyze potential revenues that might be obtained from a severance tax on gravel within the City of Palmer. This assumption is based on both annexation of areas with large gravel pits, Phase 2B, and the passage of a severance tax on gravel.

### **Severance Tax**

A severance tax is generally defined as a tax levied on the extraction and commercial use of the resource in question. Within the MSB, sand and gravel is a major resource, with Anchorage consuming an estimated four million tons per year (Northern Economics Inc., 2005). The majority of this usage goes to construction.

Within the State of Alaska, both boroughs and local municipalities levy severance taxes. They do so under the authority of AS 43.55, with the amount of the severance (production) tax determined by, "...taking the greater of a cents per unit volume (bbl or mcf) or percentage of value basis and multiplying that figure by an economic limit factor." Further, the value of the oil or gas is calculated on a net-back basis, with the delivery price adjusted downward (for transportation charges) to generate a field price, which is the basis for the tax ([www.tax.state.ak.us](http://www.tax.state.ak.us) April 2006).

As noted by the State (Alaska Taxable, 2005) the legal framework derives from Article X, Sections 1 and 2, of Alaska's Constitution, and, "...it is assumed, although not expressly stated in statute...that a municipality may impose severance taxes, as has been done by the Denali and Kodiak Island Boroughs." Palmer is defined as a Home Rule City, under the Alaska Constitution, and is thus allowed to have broad taxing powers that are not specifically enumerated in state law (Alaska Taxable, 2005). An Alaska Attorney General's opinion (April 29, 1986) states that a first class borough has the legal authority to levy severance taxes. It appears that Palmer has the authority to levy a severance tax, but there are only borough precedents for the action; there are no cities in Alaska that currently levy a severance tax.

### **Current Severance Taxes, Alaska**

State and borough severance taxes are discussed in the following sections.

#### **State Severance Tax**

Within Alaska, the most well-known severance tax is that levied against oil and gas extraction and use on the North Slope of the Brooks Range. Oil and gas property is exempt from local municipal taxation; the state levies a 20 mill tax rate against the property and reimburses each municipality its portion.

#### **Kodiak Island Borough**

There are two Boroughs in Alaska that levy severance taxes. The Kodiak Island Borough assesses a severance tax on:

...certain natural resources that are severed or harvested within the boundaries of the Kodiak Island Borough. The tax rate is the borough-wide mill levy, which is currently 11.0 Mills. The resources that we collect taxes on are grouped into three categories: 1) fish, 2) rock, sand and gravel (mining), and three) timber (logging).

Rock, sand and gravel severance tax. To estimate the value for rock, sand and gravel, the Kodiak Island Borough looked at the construction industry. The major source of extraction for this category is rock. The rock is sold to construction companies for their building lots and road construction. Based on revenues generated in fiscal years 2003 and 2004, the estimated revenue for fiscal year 2006 is \$6,640.

Timber severance tax. The estimate value for timber is \$55,330. This is an increase over the \$46,750 received in fiscal year 2004. The severance tax on logging is been in the state of decline for several years now, due to a decreased demand from Asian markets. It appears that the decline has slowed. This year we feel that the decline has stopped and that we should at least be at the fiscal year 2004 level. It should be noted that in fiscal year 1997 we received \$272,000 in the mill rate was only 9.25 mills.

Fish severance tax. Budgeting for fish severance tax involves many factors. How many fish will be available for harvesting? What countries will be buying the fish? What will the price per pound be? What will the environmental issues be? Does the market prefer wild fish to farmed fish? Many of these variables are very difficult to predict in with these issues in mind, the borough is budgeting fish tax for 2006 and \$903,060. (Kodiak Island Borough, Adopted Budget for Fiscal Year Ending June 30, 2006)

Table 14 illustrates severance tax revenues for 2005 (actual) and 2006 (budget) for the Kodiak Island Borough. Sand, gravel and rock taxes generated \$8,416 in FY2005 and were projected at \$6,640 for FY2006.

These amounts are well under 1.0 percent of the borough’s revenues for FY2005 and FY2006.

**Table 14. Kodiak Island Borough, Selected Revenues, Fiscal Year 2005 and 2006.**

<b>Type of Tax</b>	<b>FY 2005 Actual (\$)</b>	<b>FY 2005 Actual (%)</b>	<b>FY2006 Budget (\$)</b>	<b>FY2006 Budget (%)</b>
Property Tax	9,174,547	78.21	9,880,290	75.52
Severance Tax				
Fish	980,109	8.35	903,060	6.90
Mining	8,416	0.07	6,640	0.05
Logging	17,013	0.15	55,330	0.42
Subtotal	1,005,538	8.57	965,030	7.38
Licenses, Permits	107,058	0.91	104,500	0.80
Intergovernmental Rev	1,136,352	9.69	1,239,075	9.47
Interest Earnings	265,392	2.26	230,000	1.76
Misc Revenue	42,348	0.36	57,200	0.44
Fund Balance Use	0	0.00	606,323	4.63
	11,731,235	100.00	13,082,418	100.00

Source: Northern Economics Inc., Kodiak Island Borough

**Denali Borough**

The Denali Borough also levies a severance tax on sand and gravel. The current rate is five cents per yard or ton extracted. The primary taxed resource is coal from the Usibelli coal mine; however, sand and gravel is also taxed, albeit at a lower revenue:

There is a severance tax levied in the Denali borough, on any severer of certain natural resources, an excise tax denominated as the severance tax. The tax shall be in an amount equal to five cents per ton of the gross production of coal and limestone five cents per cubic yard of gravel resulting from the following activities: mining, quarrying, extracting, removing, or producing for sale, profit, or commercial use any coal, gravel and limestone. The tax liability is accrued upon sale or contractual transfer (Chapter 3.30 Severance Tax, Denali Borough Code; Severance Tax Return form.

The Denali Borough budget for FY2005 included total revenue of \$1,952,000 with \$1,700,000 generated by overnight accommodation taxes (i.e., the bed tax) and \$50,000 as a mineral severance tax. The majority of the \$50,000 is based on a \$0.05 per ton tax on coal from the Usibelli mine at Healy, Alaska.

**Matanuska-Susitna Borough**

The MSB submitted a severance tax to voters in October of 2005. Proposition 1 included a severance tax of \$0.25 per cubic yard of material, \$0.25 per short ton of coal, and \$2.50 per acre of timber severed from property within the borough. The proposed tax was defeated by voters on October 4, 2006 by a count of 4,457 in favor and 8,590 against.

**Potential Revenues, City of Palmer**

Gravel from the area labeled as Phase 2B is almost exclusively shipped by rail to Anchorage, with an estimated total volume per year of 4 million tons.

**Table 15. Estimated Gravel Severance Tax, City of Palmer, 2006 and 2016.**

<b>Severance Tax Estimate</b>	<b>2006</b>	<b>2016</b>
Estimated tax, \$0.05 per ton	\$200,000	\$221,000
Estimated tax, \$0.25 per ton	\$1,000,000	\$1,105,000

Source: Northern Economics Inc.

The lower estimate, \$200,000, is based on a \$0.05 per ton rate, and it assumes that a cubic yard of gravel weighs a ton. There are variations about this figure, but it is a reasonable approximation for this analysis. The higher estimate is based on the recent Proposition 1, submitted to MSB voters. It represents a number that is unlikely to be achieved within the project window (ten years).

Either of these taxes would generate interest in moving gravel operations away from the taxing location and into an area with less cost. There are rail loading facilities in a well-graveled area just west of Wasilla, for example. The amount of displacement is unknown and outside of current project scope.

## Appendix B– Maps and Figures

Please see the following pages for larger versions of the maps which appear in this report.

## Appendix C – Table of Land Uses and Assessed Values by Phase

Land Use Type	Acres	Assessed Land Value (000's)	Assessed Building Value (000's)	Parcels
<b>Phase 1</b>				
Commercial	90	926,300	3,275,300	15
Commercial - Mixed	26	343,100	634,000	6
Exempt	34	24,000	245,900	5
Exempt - Mixed	5			1
Farm	188	374,800	1,108,200	9
Industrial	204	1,064,600	477,800	24
Residential	1,116	17,758,700	110,327,800	746
Residential - Mixed	228	1,682,500	3,900,000	24
Uncategorized	1,675	7,896,900		
<b>Total</b>	<b>3,566</b>	<b>30,070,900</b>	<b>119,969,000</b>	<b>830</b>
<b>Phase 2A</b>				
Commercial	82	2,682,100	5,056,100	20
Commercial - Mixed	9	487,300	429,500	3
Exempt	180	583,200	3,895,300	8
Exempt - Mixed	23	135,900	346,000	2
Farm	154			2
Industrial	174	1,308,100	227,000	10
Residential	972	14,596,100	74,668,600	452
Residential - Mixed	119	779,500	2,037,100	8
Uncategorized	830	14,038,600		
<b>Total</b>	<b>2,541</b>	<b>34,610,800</b>	<b>86,659,600</b>	<b>505</b>
<b>Phase 2B</b>				
Commercial	14	19,700	38,000	4
Commercial - Mixed	5	31,000	81,500	1
Farm	82	18,300	8,400	2
Industrial	196	528,000	593,400	4
Industrial - Mixed	73	341,900	344,600	2
Residential	576	6,478,000	37,352,300	237
Residential - Mixed	180	39,400	1,034,600	4
Uncategorized	1,703	5,314,600		
<b>Total</b>	<b>2,829</b>	<b>12,770,900</b>	<b>39,452,800</b>	<b>254</b>
<b>Phase 3</b>				
Commercial	410	1,633,900	219,100	7
Commercial - Mixed	66	62,100	682,500	2
Exempt	246			5
Farm - Mixed	7	31,400	156,000	1
Industrial	28	270,700	40,900	8
Residential	1,018	11,536,500	40,517,100	278
Residential - Mixed	7	542,500	411,900	2
Uncategorized	3,292	7,740,500	140,800	
<b>Total</b>	<b>5,074</b>	<b>21,817,600</b>	<b>42,168,300</b>	<b>303</b>

**City of Palmer Analysis of Annexation Alternatives**

<b>Phase 4</b>				
Commercial	172	450,800	349,800	3
Farm	37	146,800	15,500	1
Industrial	4	96,300	9,000	2
Residential	794	8,157,000	48,591,200	275
Residential - Mixed	8	9,500	44,300	1
Uncategorized	828	5,066,900		
<b>Total</b>	<b>1,845</b>	<b>13,927,300</b>	<b>49,009,800</b>	<b>282</b>
<b>City of Palmer</b>				
Commercial	257	18,649,900	64,103,900	189
Commercial - Mixed	18	577,100	2,985,000	4
Exempt	300	434,300	1,188,000	44
Exempt - Mixed	153	24,400	277,600	8
Farm	30	17,500	67,100	5
Industrial	122	2,021,700	2,242,300	22
Industrial - Mixed	3	94,900	358,400	2
Residential	574	24,756,800	164,524,200	1537
Residential - Mixed	43	752,000	3,883,300	14
Uncategorized	1,303	15,713,300		
<b>Total</b>	<b>2,803</b>	<b>63,041,900</b>	<b>239,629,800</b>	<b>1825</b>
<b>Grand Total</b>	<b>18,657</b>	<b>176,239,400</b>	<b>576,889,300</b>	<b>3999</b>