

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY ESTABLISHING A TAX ON CERTAIN NATURAL RESOURCES WHENEVER THE NATURAL RESOURCE IS SEVERED AND REMOVED FROM PROPERTY WITHIN THE MATANUSKA-SUSITNA BOROUGH AND PROVIDING FOR PENALTIES FOR FAILURE TO PAY TAXES DUE BY ADOPTING MSB 3.55, NATURAL RESOURCE SEVERANCE TAX.

AGENDA OF: May 5, 2026

ASSEMBLY ACTION:

AGENDA ACTION REQUESTED: Introduce and set for public hearing.

Route To	Signatures
Originator	<div style="text-align: right;">4 / 2 4 / 2 0 2 6</div> <p><u> X </u> <u> D M / N S f o r A s s y m N o w e r s </u></p> <p><small>Signed by: Nicholas Spiropoulos</small></p>
Finance Director	<div style="text-align: right;">4 / 2 4 / 2 0 2 6</div> <p><u> X </u> <u> C h e y e n n e H e i n d e l </u></p> <p><small>Signed by: Cheyenne Heindel</small></p>
Borough Attorney	<div style="text-align: right;">4 / 2 4 / 2 0 2 6</div> <p><u> X </u> <u> N i c h o l a s S p i r o p o u l o s </u></p> <p><small>Signed by: Nicholas Spiropoulos</small></p>
Borough Manager	<div style="text-align: right;">4 / 2 4 / 2 0 2 6</div> <p><u> X </u> <u> M i c h a e l B r o w n </u></p> <p><small>Signed by: Mike Brown</small></p>
Borough Clerk	<div style="text-align: right;">4 / 2 7 / 2 0 2 6</div> <p><u> X </u> <u> E s t e l l e W i e s e f o r L M </u></p> <p><small>Signed by: Estelle Wiese</small></p>

Fiscal Note (1p)

ATTACHMENT (S): Ordinance Serial No. 26-058 (12 pp)

SUMMARY STATEMENT: The attached ordinance is sponsored by Assembly member Nowers to adopt a severance tax on natural resources severed in the Matanuska-Susitna Borough.

A severance tax is a tax levied on the production or severance of natural resources taken from land or water bottoms. Natural resources include all forms of timber and forest products such as turpentine, minerals such as coal, salt, lignite, ore, gravel, stone, sand, peat and other natural deposits. The focus of this ordinance is on "Material" which includes but is not limited to sand, gravel, lime, soil, peat, moss, sphagnum, stone, pumice, cinders, and clay.

A few municipalities within Alaska have severance taxes. These include Kodiak Island Borough, Yakutat, Denali Borough, Lake & Peninsula Borough, Aleutian Islands East Borough, and the Northwest Arctic Borough. The rates currently charged by these municipalities for the severance of gravel and similar materials are illustrated in Table 1.

Table 1

BOROUGH/MUNICIPALITY	RATE
Kodiak	areawide mil rate
Yakutat	\$0.20 per ton
Denali	\$0.05 per cubic yard
Aleutian East	\$0.10 per cubic yard
Northwest Arctic	4.5% of bi-annual gross production value
Lake & Peninsula	\$0.10 per cubic yard

Each of these municipalities exempts a certain level of production as relates to their severance tax. The level of exemption granted by these municipalities for the severance of gravel and similar materials are illustrated in Table 2.

Table 2

BOROUGH/MUNICIPALITY	EXEMPTION
Kodiak	first \$5,000 annual gross production value
Yakutat	production under 15,000 tons per calendar quarter
Denali	production under 1,000 cubic yards annually
Aleutian East	first \$5,000 annual gross production value
Northwest Arctic	production under \$1,000,000 gross production value or participation in PILOT program agreement
Lake & Peninsula	first \$5,000 annual gross production value

One purpose for the levy of a severance tax is to diversify revenues. This in turn would assist in alleviating the real property tax burden currently borne by the property owners in the borough by providing an alternate source of funding. The revenue from this tax will be areawide in nature. Future financial projections and political realities are that the Matanuska-Susitna Borough will need hundreds of millions of dollars in the next decade because the State of Alaska has not fully funded debt reimbursement programs in the past leading to financial

uncertainty. These reimbursement programs were relied on by the voters of the Matanuska-Susitna Borough in good faith when passing school bonds and incurring debt. Diversification of revenue is needed so as not to drastically raise property taxes and to provide a diversification of resources.

The natural resources to be taxed under this ordinance include earth materials such as sand, gravel, lime, soil, peat, moss, sphagnum, stone, pumice, cinders, and clay. Other natural deposits such as coal, ore, and precious metals as well as all forms of timber and forest products such as wood and turpentine are not taxed under this ordinance at this time.

Omission from taxation at this time is a form of economic development incentive. Should the timber, coal or precious metal industries develop and mature in the Borough, the Assembly may enact a severance tax as to those activities when it deems it proper to do so.

In contrast, the material extraction industry is well developed. There are over 150 existing Conditional Use, Administrative Permits, and Pre-Existing legal Nonconforming status (or "grandfather rights") for earth materials extraction.

Published 2025/2026 retail prices for Pit Run material ranged from \$7.00 per cubic yard to \$9.00 per cubic yard. Material runs between 0.8 - 1.4 tons per cubic yard depending on the specific material. A \$0.25 per ton severance tax would result in an effective tax rate ranging from 2.5% to 3% based upon the published area retail prices. While the proposal here contains a higher tax rate than other municipalities, it appears that other municipalities (except Kodiak) have not changed the amount of tax in several years. This results in a declining percentage tax over time. In addition, even though the proposal here contains a higher tax rate than other municipalities, it also contains a higher exemption than most.

With over 150 existing extraction locations throughout the Borough, the annual limits of extraction permitted range from as low as 50 cubic yards to up to 1,000,000 cubic yards per year. An exemption of 150,000 tons per year (equivalent of 120,000 to 210,000 cubic yards) is contained within the ordinance so that development of subdivisions and use on farms (both of which can occur where lots are under contiguous ownership) are not impacted. In addition, the smaller uses have less impact upon the landscape and the physical characteristics of the Matanuska-Susitna Borough. Larger extractions leave a permanent alteration to the landscape, deplete non-renewable resources, and can have a much larger impact upon the physical growth and land use in the Borough. Small, mid-sized and infrequent operations are also more likely to be

ancillary use.

It is anticipated that the Finance Department may need to hire one employee to administer, collect, and account for severance taxes. It is anticipated that the taxes generated will more than offset this added administrative expense.

RECOMMENDATION OF ADMINISTRATION: Introduce and set for public hearing.

MATANUSKA-SUSITNA BOROUGH

FISCAL NOTE

Agenda Date: May 5, 2026

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY ESTABLISHING A TAX ON CERTAIN NATURAL RESOURCES WHENEVER THE NATURAL RESOURCE IS SEVERED AND REMOVED FROM PROPERTY WITHIN THE MATANUSKA-SUSITNA BOROUGH AND PROVIDING FOR PENALTIES FOR FAILURE TO PAY TAXES DUE BY ADOPTING MSB 3.55, NATURAL RESOURCE SEVERANCE TAX.

FISCAL ACTION (TO BE COMPLETED BY FINANCE)	FISCAL IMPACT YES NO
AMOUNT REQUESTED *	FUNDING SOURCE Severance Tax Revenue
FROM ACCOUNT #	PROJECT
TO ACCOUNT: 100.000.000 3xx.xxx	PROJECT #
VERIFIED BY: _____ X <u>L i e s e l Z a n t o</u> _____ Signed by: L i e s e l Z a n t o	

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Personnel Services						
Travel						
Contractual						
Supplies						
Equipment						
Land/Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING						

CAPITAL						
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REVENUE		*				
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FUNDING:


(Thousands of Dollars)

General Fund		*				
State/Federal Funds						
Other						
TOTAL		*				

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (Attach a separate page if necessary) *Actual revenue depends on taxes imposed and collected

APPROVED BY:	 X <u>C h e y e n n e H e i n d e l</u> _____ Signed by: C h e y e n n e H e i n d e l
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