

**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:** July 20, 2021

**ASSEMBLY ACTION:**

*Pulled and postponed indefinitely without objection.*  
*08.03.21 KBJ*

**MANAGER RECOMMENDATION:** Introduce and set for public hearing.

**APPROVED BY MICHAEL BROWN, BOROUGH MANAGER:** WB

Route To:	Department/Individual	Initials	Remarks
	Originator	DM/NS	For Assemblymember Yundt
	Finance Director	<i>CX</i>	
	Borough Attorney	<i>BS</i>	
	Borough Clerk	<i>AM 7/12/21</i>	<i>(Signature)</i>

**ATTACHMENT (S):** Fiscal Note: YES X NO         
Ordinance Serial No. 21-070 (14 pp)

**SUMMARY STATEMENT:** The attached ordinance is sponsored by Assembly member Yundt to adopt a severance tax on natural resources severed in the Matanuska-Susitna Borough. An ordinance is attached to establish such a tax on natural resource extractions.

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

<b>BOROUGH/MUNICIPALITY</b>	<b>RATE</b>
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

<b>BOROUGH/MUNICIPALITY</b>	<b>EXEMPTION</b>
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 is not fully funding debt reimbursement programs. These programs were relied on by the voters of the Matanuska-Susitna Borough in good faith when passing school bonds and incurring over \$200,000,000 in debt. Diversification of

revenue is needed so as not to drastically raise property taxes.

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 100 existing Conditional Use, Administrative Permits, and Pre-Existing legal Nonconforming status (or "grandfather rights") for earth materials extraction.

Published 2021 retail prices for Pit Run material ranged from \$4.00 per ton to \$8.00 per cubic yard. Material runs between 1.3 - 1.7 tons per cubic yard depending on the specific material. A \$1.00 per ton severance tax would result in an effective tax rate ranging from 16% to 25% 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 100 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 20,000 tons per year (equivalent of 11,764 to 15,384 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. Smaller and infrequent operations are also more likely to be ancillary use. Over three quarters of the current extraction sites are permitted to extract over 20,000 tons of material per year with the majority of those permitted to extract much larger quantities.

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: July 20, 2021

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.

ORIGINATOR: DM/NS for Assemblymember Yundt

FISCAL ACTION (TO BE COMPLETED BY FINANCE)	FISCAL IMPACT <span style="border: 1px solid blue; border-radius: 50%; padding: 2px;">YES</span> NO
AMOUNT REQUESTED <del>XXX</del>	FUNDING SOURCE <u>Tax Revenue</u>
FROM ACCOUNT #	PROJECT
TO ACCOUNT: <u>100.000.000 300.000</u>	PROJECT #
VERIFIED BY: <u>[Signature]</u>	CERTIFIED BY:
DATE: <u>6-29-21</u>	DATE:

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Personnel Services			<u>*</u>			
Travel						
Contractual						
Supplies						
Equipment						
Land/Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING			<u>*</u>			

CAPITAL						
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REVENUE			<u>***</u>			
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FUNDING:

(Thousands of Dollars)

General Fund			<u>***</u>			
State/Federal Funds						
Other						
TOTAL			<u>***</u>			

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (Attach a separate page if necessary) \*\*\* Amt depends on levels of production & fee schedule determined.

PREPARED BY:

PHONE:

DEPARTMENT:

DATE:

APPROVED BY:

DATE:

Chesnohead  
# one PT will be needed

6/30/2021