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MEMORANDUM

DATE: June 21, 2024

TO: Mayor Handeland and the Nome Common Council

FROM: Bryant Hammond, Special Projects Manager

SUBJECT: Estimated Tax Revenue After Removing Exemption for Commercial Aircraft

Over the past several months, the Common Council has debated the removal of an exemption on commercial aircraft within the City of Nome. This memo is intended to put estimated numbers in front of the Council.

When reporting starts, the assessor will likely have more accurate values after working with the individual carriers. Likewise, time on the ground will change to a more accurate number than the estimates that follow. It is important to note the numbers that follow are truly estimates based on publicly available information which may or may not be current or accurate.

Assuming aircraft are fully taxable while on the ground in Nome at the current mill rate of 11.5, <u>removal of the exemption for commercial aircraft will yield an estimated $811,843</u>. This amount equals a little less than two mills of property tax at the 2024 rate. This calculation was made using the best available information publicly available on the Internet, determining the fleet composition and the amount of time each aircraft spends on the ground in Nome. Values were estimated through Internet searches for the same or similar aircraft for sale.

The calculation is relatively straightforward. It considers the market value of an aircraft, that is the agreed upon price by a willing buyer and a willing seller both knowledgeable about the asset and the prevailing market trends, and the time that aircraft spends in the taxing district or its time on the ground. Multiplying the two figures together equals the taxable value of the aircraft.

For example, a 737-800 has an estimated market value of $106,000,000. Let's say that aircraft spends all year on the tarmac, waiting for a charter. For 24 hours a day, 365 days a year, that aircraft is taxable. Therefore, the market value ($106 million) is the same as the taxable value ($106 million). Let's assume that during the next year, that same aircraft spends 12 hours a day in the air, transporting Nomeites to and from Hawaii. In this case, the time on the ground, in the taxing district equals 12 hours, for 365 days of the year. The taxable value would be ½ of the market value, because only half the time is spent on the ground. Thus, the taxable value becomes $53 million. Further illustrating this idea, let's say that Nomeites now have the plane take them to New Zealand and back each day. Assuming the round trip takes 23 hours, the aircraft is only on the ground in the taxing district for one hour of each day, 365 days of the

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year. The taxable value of the aircraft, in this case, would be 1/24 of the market value, or $4,416,667.

The following table illustrates the taxable value and resulting tax liability from several different types of aircraft that operate in and through the Nome airport, assuming each is on the ground for one hour of every day of the year.

Aircraft	Market Value	Taxable Value, assuming 1hr/day, 365 days on the ground	Tax Liability at 11.5 mills
Casa	$ 1,200,000	$ 50,000	$ 575
Caravan	$ 3,000,000	$ 125,000	$ 1,438
DC-9	$ 30,000,000	$ 1,250,000	$ 14,375
737-800	$ 106,000,000	$ 4,416,667	$ 50,792
737-200	$ 6,500,000	$ 270,833	$ 3,115
King Air	$ 800,000	$ 33,333	$ 383

As each aircraft spends more time on the ground, the taxable value, and thus tax liability, increases.

One argument advanced against removing the exemption from Code is that taxing time on the ground in a taxing jurisdiction provides a disincentive to maintaining a fleet in Nome. The Council might consider changing the existing exemption from a 100% exemption to a graduated exemption based on the total annual taxable value of the carrier's entire fleet. For example, consider the following schedule:

- Annual taxable value is less than $30 million – no exemption is granted.
- Annual taxable value is between $30 and $40 million – 20% exemption on the entire liability
- Annual taxable value is between $40 and $50 million – 30% exemption on the entire liability
- Annual taxable value is between $50 and $60 million – 40% exemption on the entire liability
- Annual taxable value is over $60 million – 50% exemption on the entire liability

By instituting a graduated exemption such as described above, the incentive to move aircraft between hubs outside of normal operations is reduced. Depending on other economic factors such as fuel, staffing, overhead, and other municipalities following suit, the graduated system may incentivize the maintenance of additional aircraft in Nome, which further boost the Nome area economy.