



Alaska Common Ground

www.akcommonground.org

Why Do We (Love to) Hate Property Taxes

- ❖ **10:30 to 11:15 Tutorial:** Experts will help us understand the foundation for paying for local services and how it leads to our quality of life.
 - **Roger Shaw** – Accountant/consultant; former Chair of the Municipal Budget Advisory Commission
 - **Marty McGee** – Assessor for the Municipality of Anchorage
- ❖ **11:20 to 12:30 Small Group Discussion:** World Café format: three 20-minute, small group discussion sessions with a recorder/facilitator. Participants are encouraged to move from table to table for each session.

- **What is important to our quality of life in Anchorage?**
- **What is the role of the municipality in contributing to our quality of life?**
- **How do we pay for it?**

- ❖ **12:30 to 1:00 Sharing:** Recorders/facilitators share all.

Alaska Common Ground (ACG) is a membership supported non-profit, non-partisan, tax-deductible organization that focuses on Alaska's public policy issues. Our mission is to collect and disseminate information about Alaskan issues and problems, facilitate discussion, and to develop public policy, knowledge, and understanding among Alaskans. We do this through forums, reports, group dialogue, and media. More information at www.akcommonground.org. You can also find us on Facebook.

Why Do We (Love to) Hate Property Taxes

Property taxes have levied in one form or another since about 6000 B.C. but they have probably never been popular. In Alaska, organized boroughs and first class / home rule cities outside boroughs typically rely on property taxes, often supplemented by sales taxes and miscellaneous other taxes, to generate revenues needed to provide municipal services.

Under Alaska law (AS 29.35.200 – 29.35.180), boroughs, including the Municipality of Anchorage, have three mandatory areawide powers: education, assessment and collection of taxes, and land use regulation. The Municipality also exercises a wide range of other municipal powers on either an areawide or a service area basis. These powers include police and fire protection, roads, airport, port, public transportation, libraries, parks and recreation, and water, sewer, solid waste and electric utilities. To pay for these services, Anchorage relies very heavily on taxes, principally property taxes.

Where the Municipality's Money Comes from and Where It Goes

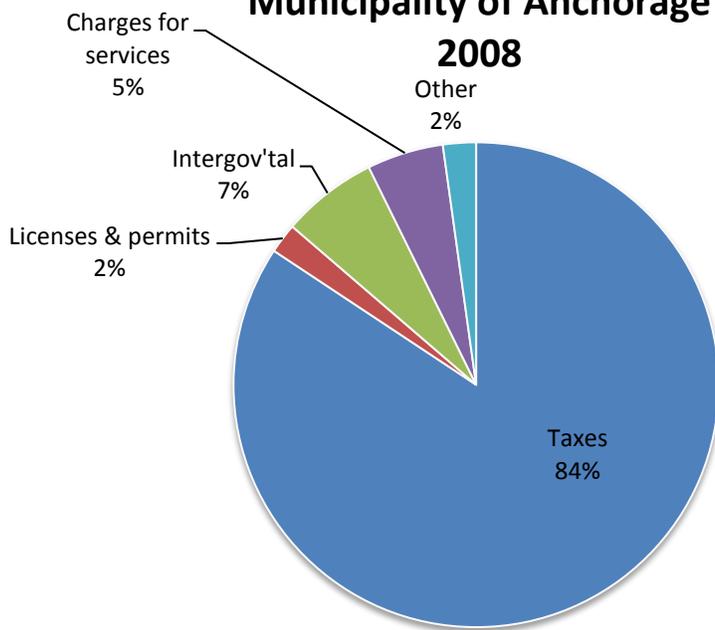
Almost 85 percent of the Municipality of Anchorage's revenues are generated from taxes, with most of the remainder coming from federal and state government sources. Currently, the Municipality levies taxes on real and personal property, motor vehicles and motor vehicle rentals, lodging (bed tax), tobacco and miscellaneous other items. However, property taxes are Anchorage's single largest source of municipal revenue. In 2008, real and personal property taxes accounted for almost 90 percent of all municipal tax revenues, with real property alone accounting for slightly more than 80 percent.

In terms of municipal expenditures, education is by far the largest item, accounting for over one-third of total general government expenditures in 2008. (However, the municipal tax contribution to the School District accounts for only about 30 per cent of the District's total funding, with the largest share coming from the State's Alaska Public School Funding Program). Police and fire services accounted for 29 percent of total general government expenditures, with debt service (principal repayment and interest) accounting for about 8 percent. All other functions combined accounted for slightly less than 25 percent of municipal expenditures in 2008.

Historical View of Municipal Property Tax Rates

Anchorage's mill rate is established as part of the annual municipal budgetary process. Over the years, local mill rates have fluctuated significantly, mainly as a result of the availability of State funds. In the early 1970's, the mill rate for the former city area hovered around 20 mills, but began to fall after completion of the Trans Alaska Pipeline. During the 1980's, the mill rate was generally less than 10 mills, with a low of 6.16 mills being levied in 1988. In the 1990's, the mill rate returned to a level slightly below 1970's levels, generally in the 16 to 18 mill range. More recently, mill rates have fallen slightly to between 14 and 16 mills. However, even though mill rates have recently remained generally stable, property owners have seen their property taxes rise because of an increase in property values.

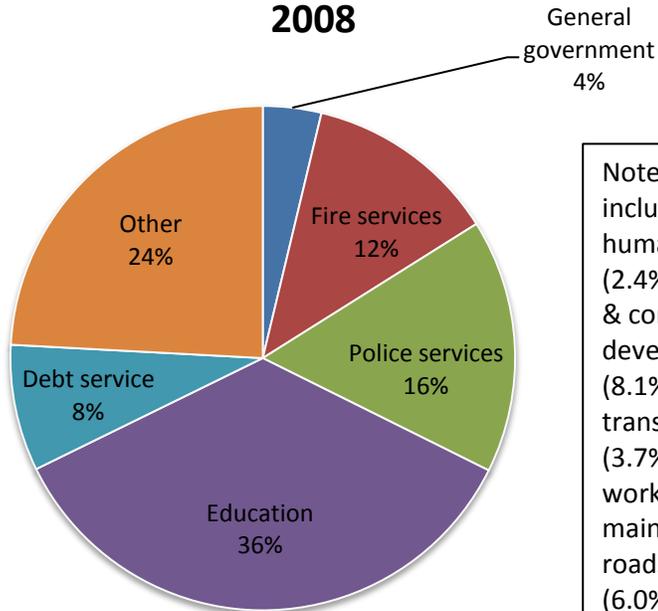
General Government Revenues Municipality of Anchorage 2008



Total: \$561.3 Million

Source: Municipality of Anchorage, Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2008.

General Government Expenditures Municipality of Anchorage 2008

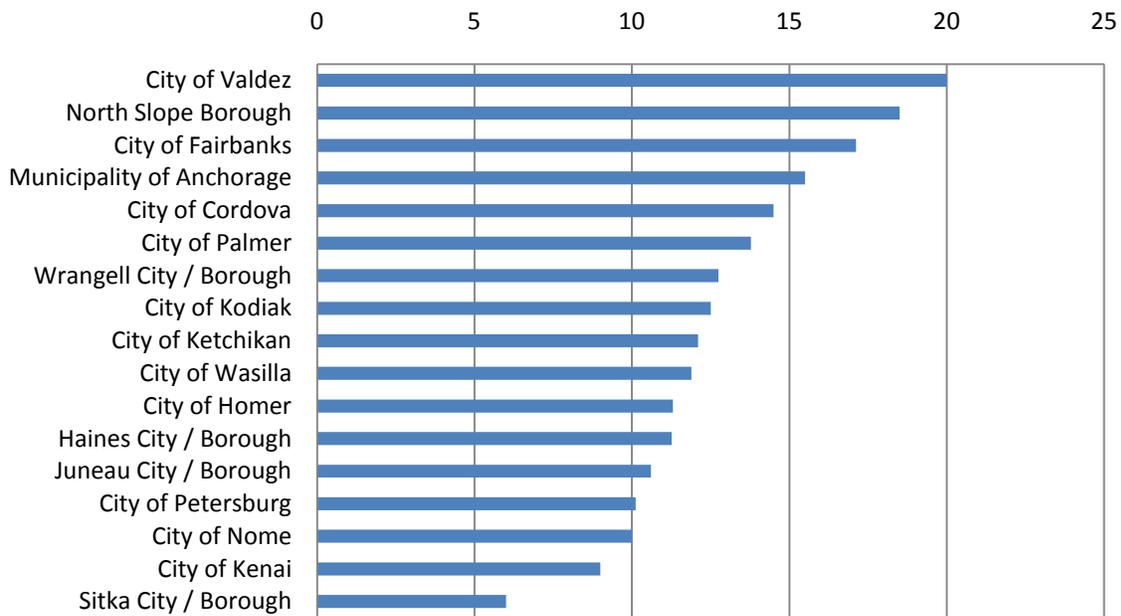


Note: Other includes health & human services (2.4%), economic & community development (8.1%), public transportation (3.7%), public works (4.1%), and maintenance of roads & facilities (6.0%).

Total: \$599.3 Million

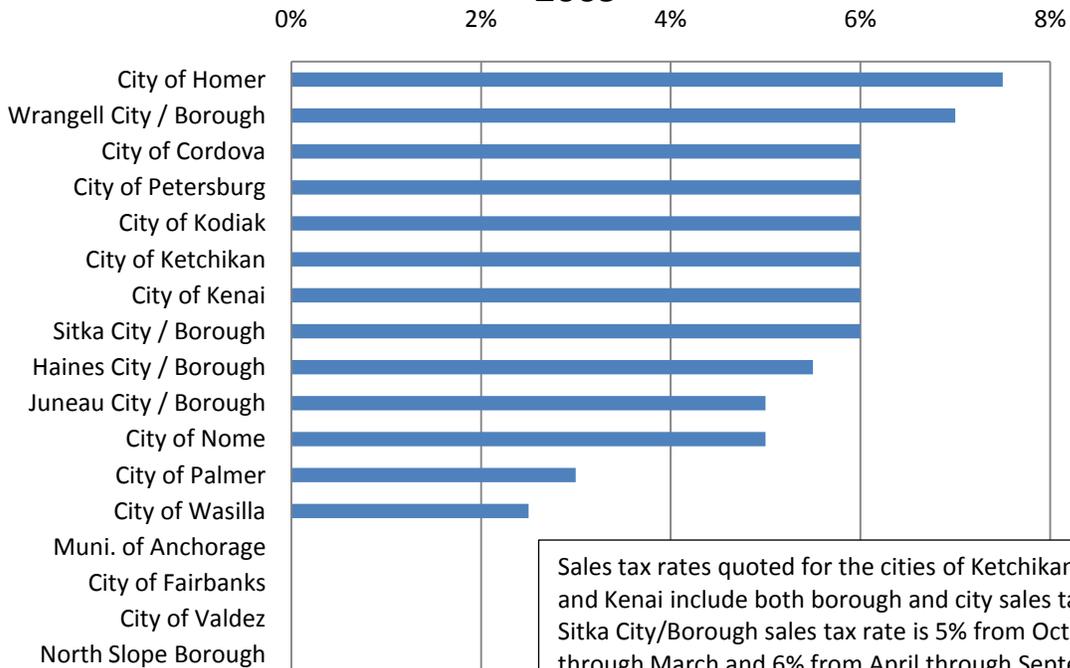
Source: Municipality of Anchorage, Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2008.

Property Tax Mill Rates Selected Alaska Cities and Boroughs 2009



Source: Alaska Dept of Commerce, Office of the State Assessor, Alaska Taxable: 2009

Sales Tax Rates Selected Alaska Cities and Boroughs 2009



Sales tax rates quoted for the cities of Ketchikan, Homer and Kenai include both borough and city sales tax levies. Sitka City/Borough sales tax rate is 5% from October through March and 6% from April through September.

Source: Alaska Dept. of Commerce, Office of the State Assessor, Alaska Taxable: 2009.

Comparisons with Other Local Governments in Alaska and Nationwide

Compared with other Alaska cities and boroughs, property taxes in Anchorage are relatively high, although those in the City of Valdez, the North Slope Borough and the City of Fairbanks are higher. However, most cities and boroughs with lower property tax rates also levy a sales tax, typically in the 5% to 7% range.

A comparison of state and local taxes paid by Anchorage residents with major cities in each of the Lower 48 states and Washington, D.C. shows that Anchorage ranked 49th out of 51 cities in 2008. Anchorage property taxes are higher than the 51-city average, but it was one of only five cities studied that had no state or local sales tax burden. The other major difference is due to the fact that the Alaska is one of only nine states that levies no personal income taxes and is one of only six states that levy no sales or general excise taxes. In 2008, a typical Anchorage family of three with an income of \$75,000 paid \$3,200 in state and local taxes, versus a 51-city average of \$6,024. If the Alaska Permanent Fund dividend had been included, (an eligible Alaska family of three received \$3,915 in 2009 and \$9,807 in 2008), Anchorage property owners actually paid negative taxes and would have ranked dead last among the 51 cities studied.

Property Taxes – Arguments For and Against

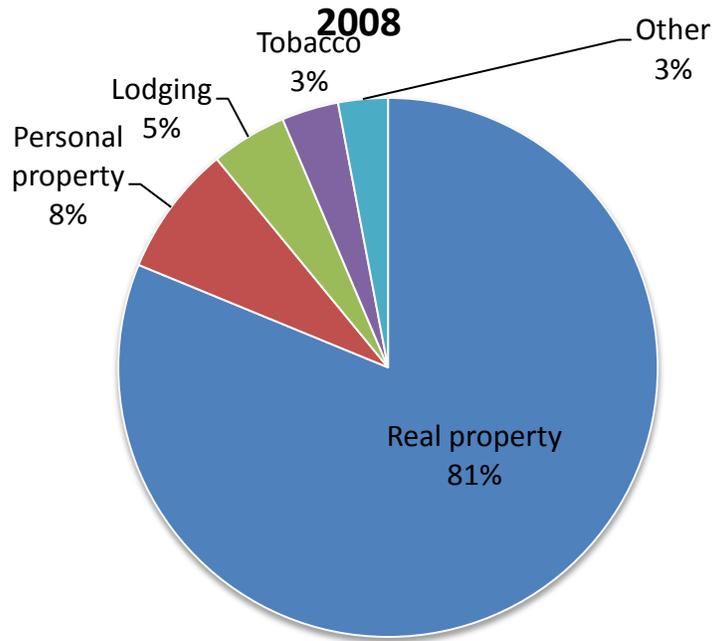
Arguments For:

1. Property is fixed geographically within a tax jurisdiction, making action against the property easier to administer.
2. Property taxes provide a relatively stable source of municipal income, even in an economic recession.
3. Property tax rates can be varied by geographic area relative to different levels of municipal services provided.
4. Municipal services supported by property taxes generally provide direct protection to real property, e.g. fire and police protection, road maintenance. The incentive for improving properties is reduced because the increased value will create an increase in property taxes.
5. Higher value residential properties, typically owned by people with higher incomes, pay more in property taxes.
6. High value non-residential (industrial, commercial) properties are usually the largest individual taxpayers.
7. Property taxes are visible to the owner, bringing people more directly into the fiscal process.

Arguments Against:

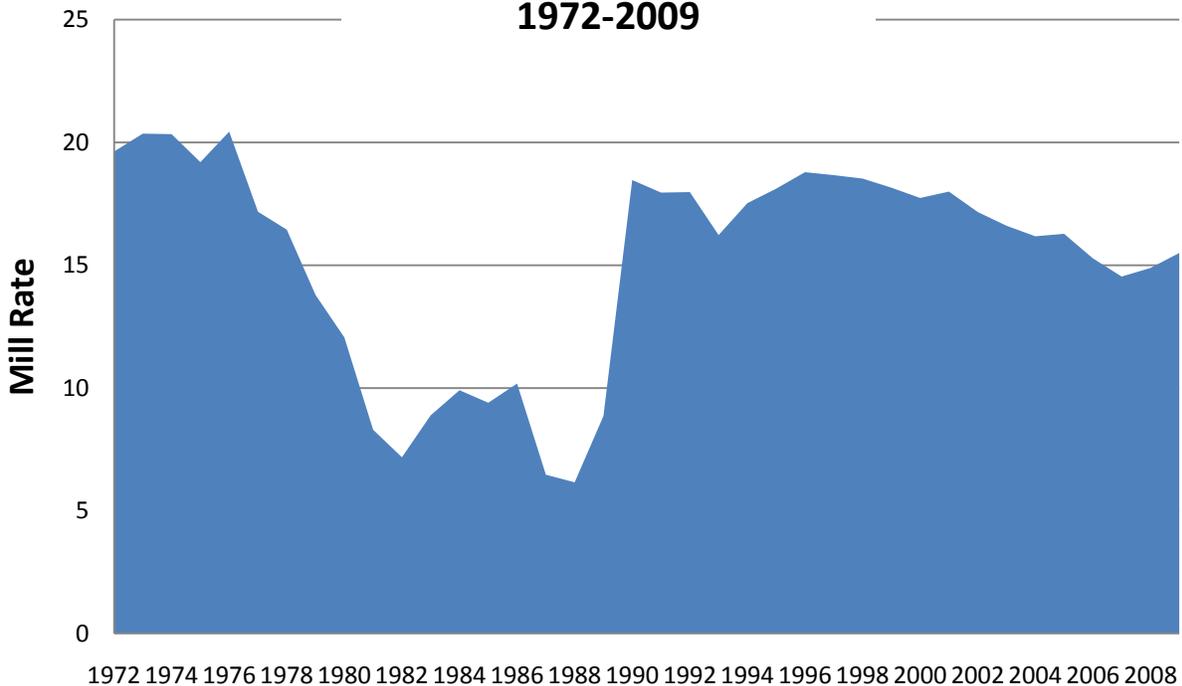
1. Property taxes are often seen as regressive, i.e. the effective tax rate declines as income levels are higher, despite evidence to the contrary. However, they are less regressive than sales taxes.
2. The tax burden is not felt equally by people of similar incomes because families who choose to live in higher value properties pay higher property taxes.
3. Property taxes can become very onerous for low income homeowners in areas of rapid population growth and associated increases in property values. This is particularly true for seniors living on fixed incomes.
4. The incentive for improving properties can be reduced because the result will be an increase in property taxes.

Tax Revenues by Source Municipality of Anchorage



Source: Municipality of Anchorage, Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2008.

Property Tax Mill Rate Anchorage - Former City Area 1972-2009

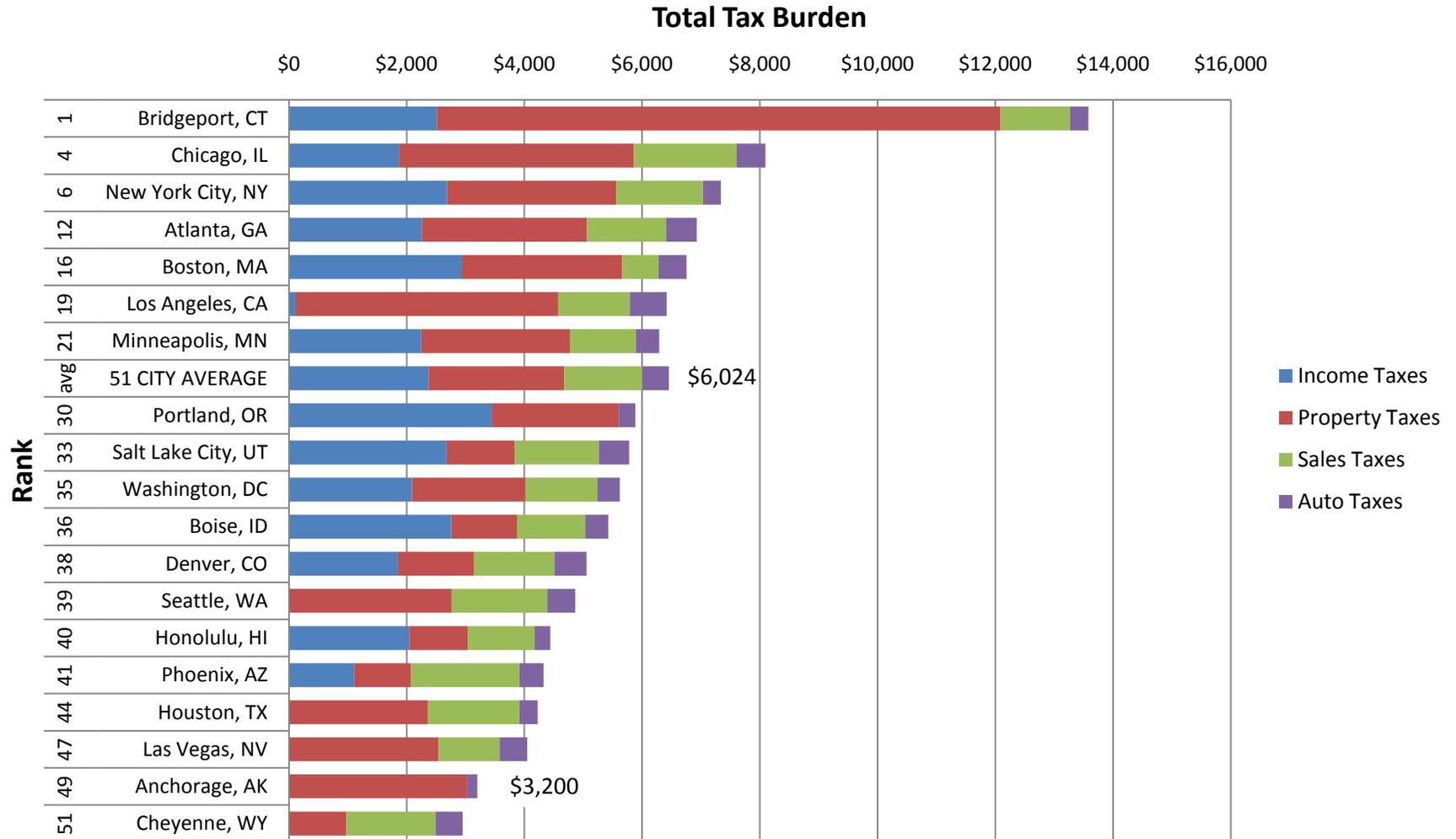


Source: Alaska Dept of Commerce, Office of the State Assessor, Alaska Taxable: 2009.

State and Local Tax Burden of Major US Cities

Family of Three with \$75,000 Income

2008



Source: Government of the District of Columbia, Tax Rates and Tax Burdens in the District of Columbia: a Nationwide Comparison, 2008.

Quality of Life

What quality of life do we want and what are we willing to pay for and how are we going to pay for it? Everyone has their own individual ideas, but what can we agree on collectively? The Anchorage Community Assessment Project (CAP) reports provide an overview of local perceptions of the quality of life in Anchorage over time. The 2009 CAP sponsored by the Municipality of Anchorage, Providence Health & Services Alaska and the United Way highlighted the following areas:

Quality of Life Area	Are We Headed in the Right Direction?		
	Yes	No	Mixed
ECONOMY <ul style="list-style-type: none"> • Opportunities for work • Housing prices • Saving for the future • Basic needs • Amount spent on housing • Anchorage homeless count 		<ul style="list-style-type: none"> X X X 	<ul style="list-style-type: none"> X X X
EDUCATION <ul style="list-style-type: none"> • High school graduation • Dropout rate • School readiness and beyond • Supportive adults • Organized youth activities • Students who are homeless 	<ul style="list-style-type: none"> X X 	<ul style="list-style-type: none"> X 	<ul style="list-style-type: none"> X X X
HEALTH <ul style="list-style-type: none"> • Health coverage for adults • Health coverage for children • Medical care • Obesity • Binge drinking • Health screening • Suicide 	<ul style="list-style-type: none"> X X X 	<ul style="list-style-type: none"> X X X X 	
NATURAL ENVIRONMENT <ul style="list-style-type: none"> • Well-being • Recreational opportunities • Air and water 	<ul style="list-style-type: none"> X X 		<ul style="list-style-type: none"> X
PUBLIC SAFETY <ul style="list-style-type: none"> • Overall arrests • Concern about crime • Street gangs • Juvenile arrests & interpersonal violence 	<ul style="list-style-type: none"> X 	<ul style="list-style-type: none"> X X X 	
SOCIAL ENVIRONMENT <ul style="list-style-type: none"> • Quality of life • Racism • Volunteerism • Charitable giving 	<ul style="list-style-type: none"> X X X 	<ul style="list-style-type: none"> X 	

Definitions

Areawide Power: A local government power that is exercised throughout the community.

Assessment: A professional determination of the value of real property upon which taxes will be imposed.

Equity Principle: Properties of comparable value within an area which receive the same level of municipal services must pay comparable real property taxes.

Exemption: Certain classes of property are exempt from property taxation by municipalities – thus receiving exemptions – under federal or state law. Some well-known exemptions effective in Anchorage include:

- real and personal property used exclusively for non-profit religious, charitable, cemetery, hospital or educational purposes;
- undeveloped land owned by Alaska Native Claims Settlement Act corporations; and oil and gas production and pipeline property, including oil and gas reserves in place;
- the first \$150,000 of assessed value for the primary residence of senior citizens or disabled veterans; and
- the first \$20,000 of assessed value of a residence. This is an optional exemption which Anchorage has chosen to exercise.

Full and True Value: The estimated price that a property would bring in an open market under current market conditions in a sale between a willing seller and a willing buyer.

Full Value Determination: The total full and true value established for every piece of taxable real and personal property within a municipality's boundaries, regardless of any optional exemptions which may have been enacted by municipal ordinance. The full value determination affects a municipality's contribution toward basic education needs, currently defined as the equivalent of a 4-mill levy.

Mill Rate: The amount, expressed in dollars per thousand of assessed value, which is applied to properties to determine their tax liability. For example, assuming that no exemptions apply, a mill rate of 5 mills means that the owner of a house assessed at \$300,000 would pay \$1,500 in property taxes each year. The mill rate is set annually.

Service Area: An area within established boundaries that receives a defined level of government services. An area with a higher level of service typically pays higher property taxes. Anchorage currently has 42 service areas.

Tax Cap: A limitation on the growth of taxes. In October 1983, Anchorage voters passed an amendment to the Charter to institute a tax cap which set a limit on how much all taxes collected by the Municipality can increase from one year to the next. Growth in taxation under the tax cap is accommodated through annual adjustments for inflation, population and new investment in the community. In 2003, payments in lieu of taxes by municipal utilities were excluded from tax cap calculations, but this change was overturned by Anchorage voters in 2009.

References

There are many websites dealing with property taxes. However, the primary sources used in the preparation of this document are the Municipality of Anchorage's Comprehensive Annual Financial Report and the State Assessor's annual Alaska Taxable report. An annual report put out by the Office of the Chief Financial Officer of the District of Columbia was used for comparisons with cities in the Lower 48, and John L. Mikesell's Fiscal Administration, Analysis and Applications for the Public Sector (8th edition) was the source for arguments for and against property taxes.

The three government reports cited above are available online as follows:

- www.muni.org/Departments/finance/controller/Pages/CAFR.aspx
- www.commerce.state.ak.us/dca/osa/pub/09Taxable.pdf
- <http://cfo.dc.gov/cfo/cwp/view,A,1324,Q,612643.asp>

The United Way Community Assessment Project (CAP) report and a summary document are also available online under at:

- www.liveunitedanchorage.org/ourwork

The conservative Tax Foundation has released its latest Facts & Figures Handbook that "...compares the 50 states on 31 different measures of taxing and spending, including individual and corporate income tax rates, business tax climates, excise taxes, tax burdens and state spending." Alaska generally ranks at or near the bottom in terms of tax burdens. For example, we're ranked 49th for per capita state and local tax burden in FY08, with \$2,871 owed per person compared to a national average of \$4,283. As a percentage of state income we're ranked 50th, with a burden of 6.4% compared to a national average of 9.7%.

In general Alaska has rankings in the Foundation's book at the top or at the bottom because of (1) our lack of a state income tax, Alaska being one of seven states that do not levy one, and (2) our combination of a small population with big oil revenues, which results in things like Alaska being ranked #1 for state revenues per capita at \$23,168 per person, versus a national average of \$4,995.

The Center on Budget and Policy Priorities has a differing view:

"The Tax Foundation is not known for being particularly careful with their figures. Every year they release a report called "Tax Freedom Day" that purports to identify that date on which Americans have earned enough to pay their tax bill. Fortunately, for a variety of reasons, 80% of taxpayers pay a smaller share of income in taxes than what the Foundation says is the average."

- www.cbpp.org/cms/index.cfm?fa=view&id=3139&emailView=1