Comments on Property Tax Rankings

Treasury Division

August 28, 2013

On August 7, the Municipal Budget Advisory Commission (BAC) provided Treasury with three tables comparing taxes in Alaska to other states and comparing property taxes in Municipality of Anchorage to other places. Copies of the tables are attached. Treasury reviewed the tables and offers these observations and recommendations:

1. When comparing the tax structure in the Municipality of Anchorage to other local government jurisdictions, it is important to look at the whole picture and consider more than just property taxes.

2. In particular, it is important to look at the total tax burden of jurisdictions and include all major types of local and state taxes paid by residents.

3. Also, consider comparing the Municipality to other local jurisdictions of similar size that provide a similar range of public services

4. To make meaningful comparisons across local jurisdictions, consider comparing jurisdictions with the same taxing authority or make adjustments for the differences in their taxing authority.

5. Before making changes to current property taxes, consider the advantages and disadvantages of property taxes compared to other forms of taxation.

6. Taxation principles are useful and relevant when evaluating changes in tax structure.

7. The amount of taxes paid by residents in each state is a more accurate measure of the resident tax burden than the total amount of taxes collected by state and local governments within each state.

The remainder of this memo describes each of these recommendations in more detail.

1. When comparing the tax structure in the Municipality of Anchorage to other government jurisdictions, it is important to look at the whole picture and consider more than just property taxes.

The second and third pages provided by the BAC compare the Municipality to other places in the U.S. based on several measures of property taxes.[1] Comparing the Municipality to other jurisdictions solely on measures of property taxes is like comparing cars based only on their fuel efficiency measured by miles per gallon. While it is possible to compare cars based on their fuel efficiency, there are many other characteristics of cars that make them different and are important when comparing them.

Similarly, it is important to consider more than property taxes when comparing the tax structures of local government jurisdictions. The Minnesota Taxpayers Association publishes an annual property tax ranking for the largest city in each state, and they note the limitations of ranking jurisdictions based only on property taxes (emphasis added):

> *It's important to recognize that property taxes are just one piece of the total state and local tax system. Some states have higher property tax levies because their local governments are more dependent on "own-source" revenues. Certain states place more responsibility for public service delivery with local government, which often translates into relatively higher property tax burdens. In other cases, the property tax on a selected class of property may be relatively high or low because of policies designed to redistribute property tax burdens between classes through exemptions, differential assessment rates, or other classification schemes.* ***As a result, the study is most useful when used in connection with other information about state and local tax structures****.*[2]

In this extract, the Minnesota Tax Payers Association has identified several types of information to consider when comparing tax systems across local government jurisdictions:

1) Look at "own source" revenues, which include sales tax and other local taxes that jurisdictions collect;

[1] The data in the table on the second page of the BAC handout is based on queries from the Tax Foundation web site at http://interactive.taxfoundation.org/propertytax/. Accessed August 20, 2013.The data available at the Tax Foundation web site goes through only 2010. There is more current data available at through 2011 at the US Census web site: http://factfinder2.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t. Accessed August 20, 2013. The relevant variables available from this site are B25103 (Mortgage Status by Median Real Estate Taxes Paid); B25119 (Median Household Income by Tenure); B25077 (Median Value for Owner-Occupied Housing Units); and B01003 (Population).

[2] Minnesota Tax Payers Association, *50-State Property Tax Comparison Study*, Saint Paul, Minnesota, Lincoln Institute of Land Policy, April 2012. http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/Pay_2011_PT_Report.pdf. Accessed August 20, 2013.

2) Consider which public services the local jurisdictions provide and which services are provided at the state or county level;

3) Keep in mind that tax rate differentials for different types of property affect the amount of taxes paid by each type of property; and

4) Include information about property tax exemptions because they affect the way property taxes are distributed across taxpayers.

The next four sections explain how each of these types of information can help provide a more complete view of local government tax structures.

2. When comparing the Municipality to other jurisdictions, it is important to look at the total tax burden of jurisdictions and include all types of state and local taxes paid by residents.

Many other jurisdictions in the U.S. have "own source" revenues such as local sales taxes and auto registration taxes. In addition, residents in many other states pay state sales and income taxes that add to the resident tax burden.

For example, the second page of the BAC tables contrasts the Municipality's high property tax ranking with the City and County of Honolulu's low property tax ranking, and it *appears* that the Municipality has a higher tax burden than Honolulu based solely on property tax measures. However, Honolulu residents pay a state income tax and state General Excise Tax (which is a 4% tax levied on businesses or individuals based on gross revenues from goods and services). In contrast, Anchorage residents do not pay a state income tax, general excise tax, or sales tax.

A more meaningful comparison of the tax burden in the Municipality and Honolulu would include all of these state and local taxes, not just local property taxes. The city of Washington D.C. publishes an annual study that compares the total tax burden of residents in the largest city in each state.[3] The rankings in their study include all of the state and local taxes paid by residents in each jurisdiction. Based on the tabulations in the study, a typical family of three with annual income of $75,000 in Honolulu pays about $5,600 in state and local taxes, most of it in the form of state income taxes (see Table 1).

While the Municipality of Anchorage does have higher *residential property* taxes than Honolulu, the total tax burden for a family of three in the Municipality with $75,000 in annual income is about $4,000, which is 29% lower than Honolulu because residents

[3] Chief Financial Officer, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison 2011*, issued September 2012. The current study and all historical studies are available at this link: http://cfo.dc.gov/page/tax-burdens-comparison. Accessed August 20, 2013.

of the Municipality do not pay state income or sales taxes (see Table 1). The Anchorage family of three also likely receives three PFD checks, and their net tax burden would be even less if these transfers from the state were subtracted from their tax burden.

Because residents of the Municipality do not pay state sales or income taxes, the city's resident tax burden has consistently ranked at or near the bottom in the Washington DC nationwide studies of the largest city in each state (See Table 2).

Table 1: Estimated Burden of Major Taxes for a Hypothetical Family of Three with Annual Income of $75,000 in 2011 in The Municipality of Anchorage and City and County of Honolulu

	Municipality of Anchorage	City and County of Honolulu
Income Tax	0	2,518
Property Tax	3,715	1,445
Sales Tax (General Excise Tax)	0	1,135
Auto Tax	290	520
Total	4,006	5,617

Source: Chief Financial Officer, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison 2011*, issued September 2012, page 10.

Table 2: Ranking of Estimated Tax Burden of Anchorage Residents Compared to Largest City in Each State including all State and Local Taxes for a Hypothetical Family of Three in Each Income Category

A ranking of 1 means the highest tax burden
A ranking of 51 means the lowest tax burden

	2006	2007	2008	2009	2010	2011
Family of Three, $25k income	51	51	47	47	46	49
Family of Three, $50k income	50	50	46	50	50	45
Family of Three, $75k income	51	51	49	51	50	50
Family of Three, $100k income	51	51	51	51	51	50
Family of Three, $150k income	51	51	51	51	51	50

Source: Chief Financial Officer, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison, various years.*

3. Consider comparing the Municipality to jurisdictions that provide a similar range of public services.

As mentioned above, the Minnesota Tax Payers Association study recommends including information about the public services that local governments provide when comparing jurisdictions. That's because the level and types of services provided by local governments can have significant effects on property tax rates. Jurisdictions that provide more services or a wider variety of services collect more revenues than jurisdictions that provide fewer services.

For example, on the second page of the BAC handout, the Municipality is ranked 103 in median residential property taxes paid while Honolulu County is ranked 734 using the same measure (a ranking of 1 represents the highest property taxes and the ranking of 2,773 represents the lowest property taxes). One reason for the significant difference in the two jurisdictions' ranking is the services they provide. About half of the Municipality property taxes go to pay for public education in the city. In contrast, the City and County of Honolulu does not make expenditures for education; local public education is paid for and administered by the State of Hawaii.[4]

If the City and County of Honolulu paid for part of the cost of public education using local property taxes, as the Municipality does, then Honolulu's property taxes would be higher. [5] On the other hand, if the Municipality did not collect property taxes to pay for public education, then total property taxes and the mill rate would be about 50% lower. Under this hypothetical scenario, the Municipal mill rate would be about 7.78 (= half of the 15.56 mill rate for Tax District 1), and the Municipality's property tax ranking compared to other jurisdictions would be significantly lower.

Aside from the City and County of Honolulu, the second and third pages of the BAC handouts compare the Municipality to many other jurisdictions that likely provide different amounts and ranges of public services. The table on the second page provided by the BAC is labeled as a ranking of 2,773 "communities." The table on the third page provided by the BAC is labeled as a ranking of 29 "cities." The data for both of these tables is from the Tax Foundation, which extracted the data from the U.S. Census American Community Survey. Based on a review of the original data, all of the data presented in the BAC's tables is actually for *counties*. [6]

---

[4] City and County of Honolulu, Consolidated Annual Financial Report, General Fund Statement of Revenues and Expenditures and Changes in Fund Balance for the Fiscal Year ended June 30, 2012., page 121. http://www1.honolulu.gov/budget/cafr.htm. Accessed August 20, 2013.

[5] According to this US Census Community Survey database, the data presented on the second page of the BAC handout for "Honolulu" is for the "County of Honolulu," not the "The City and County of Honolulu" which is the local government jurisdiction that administers most public services in the region.

[6] The label of "cities" and on the table on the third page is misleading because some of the jurisdictions listed are not cities. For example the table on the third page lists "Matsu AK" city, but the data reported is for the Mat-Su Borough, not for the cities of Wasilla or Palmer within the Borough. The mill rate reported for the "city" of "Kenai, AK" is actually for the Kenai Peninsula Borough, not the City of Kenai. The label of "communities" on the second page of the BAC handout is also misleading because some of the counties on the list may encompass many towns, cities, or communities within the boundaries of the county.

Since Alaska does not have counties, the U.S. Census instead reports data for boroughs and census areas in the state. So, the table on the second page of the BAC handout actually compares the Municipality to 2,773 *counties, boroughs, and census areas* in the U.S., and the table on the third page compares the Municipality to 29 *counties, boroughs, and census* areas on the West Coast of the U.S.

While Treasury has not looked closely at each of the 2,773 counties, boroughs and census areas, there is likely significant variation in the amounts and types of public services they provide because they are of widely different sizes. Based on a review of the most recent 2011 data available from the U.S. Census American Community Survey, the list of counties in the second page of the BAC tables includes about 500 counties with population less than 10,000 and another 1,800 with population greater than 10,000 but less than 100,000. The list of 29 places on the third page of the BAC handout includes some counties, boroughs and census areas with population less than 10,000 (such as the Bethel Census Area in Alaska). Most or all of these smaller areas – especially those less than 10,000 in population – are not comparable to the Municipality because they likely provide fewer services and rely on the state or regional jurisdictions to provide more of their public services.

There are also about 40 counties on the BAC list on the second page with population over 1 million, including 12 counties over 2 million. The third page of the BAC handout includes large metropolitan areas over 3.8 million (such as Los Angeles, California). These much larger jurisdictions are not comparable to the Municipality because they tend to have higher concentrations of commercial and industrial property and typically offer a wider range of public services.

In addition to the wide variations in size, the BAC tables include many counties with different combinations of overlapping local government jurisdictions. For example, some of the counties on the lists encompass several towns that each provides a few public services while the county administers other services for all areas within the county. Some counties on the lists correspond closely to one city that provides most of the services for the entire county. In some cases, one large metropolitan region (like New York City, Chicago, or Los Angeles) extends beyond the boundaries of a single county; inside the metro region, several cities, counties, and the state share responsibility for providing services.

Because of these variations in overlap of jurisdictions and the wide range of sizes, the counties included in the BAC lists likely differ in the amount and range of public services they provide. ***Instead of comparing the Municipality to jurisdictions of widely different size or overlapping jurisdictions, consider comparing the Municipality to other local government jurisdictions that have a single large city that encompasses most of the population in the area and provides a similar range of services.***

Comparable local government jurisdictions may be a particular city or a city/county combination. It may also be possible to compare the Municipality to a city that shares responsibilities with a county, or a collection of several local jurisdictions (such as a township, county, school district, and regional transportation district) that, when combined, offer a similar range of services as the Municipality.

The U.S. Census of State and Local Government Finances for 2007 provides detailed information about the amount of each type of expenditure for public services by each city, town, township, school district, public utility district, county, regional transportation district, and other local government jurisdictions in the U.S.[7] This data could be used to select jurisdictions that have similar population and provide a similar range of services as the Municipality. The Consolidated Annual Financial Reports (CAFR) for the selected jurisdictions could provide more current information about the services they offer.

4. Consider comparing jurisdictions with similar taxing authority or make adjustments for differences in their taxing authority.

The Minnesota Tax Payers Association noted that it is important to include information about the tax rate differentials on different types of property. Tax rate differentials exist because some local jurisdictions have broad taxing authority granted by their state government while others have very limited taxing authority. When comparing the Municipality to other jurisdictions, it is important to select jurisdictions with similar taxing authority or make adjustments so they are comparable.

a) Make adjustments for jurisdictions that charge different tax rates on commercial and residential property

Because of the taxing authority granted by their states, many local jurisdictions in other states charge higher tax rates for commercial property than residential property.[8] In contrast, the Municipality is required by State statute to charge the same tax rate for both residential and commercial property.[9]

The property tax measures available from the Tax Foundation and presented in the BAC tables do not show this important difference in taxing authority. The tables include only property taxes paid by homeowners. These are measures of residential property taxes and do not include commercial property taxes. Because of the differences in local jurisdictions' taxing authority, it is important to include measures of commercial

[7] The US Census of State and Local Government Finances is available at this web site: http://www.census.gov/govs/cog/ Accessed August 20, 2013. There is more recent data available for total state and local government finances for states and detailed information for some local governments. But the most recent data available for most counties, cities, and other local government jurisdictions is 2007.
[8] Tax Foundation, "State and Local Property Taxes Target Commercial and Industrial Property," November 2012, http://taxfoundation.org/article/state-and-local-property-taxes-target-commercial-and-industrial-property. Accessed August 20, 2013.
[9] AS 29.45.090 (a) says "All property on which an ad valorem tax is levied shall be taxed at the same rate during the year."

property taxes when comparing jurisdictions or make adjustments for the different tax rates.

For example in City and County of Honolulu, the mill rate for residential property is 3.5 mills while the commercial property mill rate is 12.4 (over three times higher than residential property).[10] In contrast, the uniform mill rate for all taxable property in the Municipality in 2013 is about 15.56 mills in Tax District 1. If the City and County of Honolulu faced a similar state restriction to charge a single uniform rate on all types of taxable property, then their uniform mill rate would need to be about 50% higher.[11]

The current differential rates for commercial and residential property in Honolulu shift the tax incidence away from residential property owners and toward commercial property owners. Even though Honolulu residents see a lower residential property tax bill, they eventually pay part of the higher commercial property taxes because commercial property owners pass on some of their property taxes to local consumers by charging higher prices for goods and services sold in the city.

The higher commercial property tax rates in the City and County of Honolulu also have the effect of exporting more of Honolulu's tax burden to tourists. As mentioned, commercial property tax payers shift some of the burden of their property taxes to consumers by increasing the price of goods and services they sell in the city. Tourists purchase goods and services while visiting the city. So, tourists end up bearing some of the property tax burden when they pay the higher prices charged by Honolulu commercial property owners.

Since higher commercial tax rates have the potential for shifting and exporting some of the tax burden, it is important to include commercial tax rates when comparing jurisdictions. The Minnesota Taxpayer's Association reports rankings of the property tax rate for residential property separately from the commercial property tax rate for the largest city in each state.[12] According to their rankings, the Municipality of Anchorage's *residential* property tax rate is the 23rd highest among the fifty cities in the report. In contrast, Municipal *commercial* property tax rate is the 38th highest out of the fifty

[10] City and County of Honolulu, Consolidated Annual Financial Report, Real Property Assessed Value by Classification and Tax Rates, Fiscal Years 2003-2012, page 225, http://www1.honolulu.gov/budget/cafr.htm. Accessed August 20, 2013.

[11] In FY 2012, the City and County of Honolulu collected about $800 million in property taxes. The total value of net taxable real property was $153.6 billion. To collect $800 million on this tax base using a uniform tax rate on all property, the mill rate would need to be about 5.2 mills (= $800M in property taxes / $153.6 billion in assessed value). If the City and County of Honolulu also collected property taxes to pay for public education, the mill rate would be even higher. City and County of Honolulu, Consolidated Annual Financial Report, Real Property Assessed Value by Classification and Tax Rates, Fiscal Years 2003-2012, pages 125 and 225 http://www1.honolulu.gov/budget/cafr.htm. Accessed August 20, 2013.

[12] Minnesota Tax Payers Association, *50-State Property Tax Comparison Study*, Saint Paul, Minnesota, Lincoln Institute of Land Policy, April 2012. http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/Pay_2011_PT_Report.pdf. Accessed August 20, 2013.

cities.[13] The primary reason that the Municipal commercial property tax rate has a lower ranking than the residential property tax rate is that many other jurisdictions charge a higher tax rate for commercial property than for residential property. [14]

Before comparing the Municipality to the City and County of Honolulu or any other jurisdiction, some adjustment should be made if the other jurisdiction is authorized by their state to charge different tax rates on different types of property.

b) When comparing jurisdictions, consider the variations in property tax exemptions authorized by state statutes.

Another way that states restrict taxing authority of local governments is by specifying which property or how much property the jurisdictions can exempt from taxation. Alaska Statutes (AS 29.45.030) requires a mandatory exemption for the first $150,000 of value for properties owned by seniors and disabled vets. Alaska Statutes (AS 29.45.050) also authorizes local jurisdictions to exempt up to a maximum of $20,000 of residential properties from taxation.

These and other state exemptions affect the total taxable value of the local tax base and affect the mill rate assessed on non-exempt properties. Jurisdictions in other states face different state restrictions on exempting property from taxation. In some cases they can exempt more residential property.

For example, The City and County of Honolulu grants an exemption for the first $80,000 of assessed value on residential properties.[15] They also have an exemption for properties owned by 65-year-old seniors for the first $120,000 of assessed value, but the senior exemption increases with age so that the exemption is $160,000 for 75-year-olds and $180,000 for 80-year-olds. As a result, Honolulu has higher residential exemptions than the Municipality of Anchorage.

These higher exemptions have the effect of shifting some of the property tax bill away from residential property taxpayers and toward commercial property tax owners. While this shift does lower residential property tax bills, Honolulu residents eventually pay a share of the higher commercial property taxes because commercial property owners pass on some of the property taxes they pay in the form of higher prices charged for goods and services they sell.

---

[13] Minnesota Tax Payers Association, *50-State Property Tax Comparison Study*, Saint Paul, Minnesota, Lincoln Institute of Land Policy, April 2012. http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/Pay_2011_PT_Report.pdf. Accessed August 20, 2013.

[14] Tax Foundation, *State and Local Property Taxes Target Commercial and Industrial Property*, November 2012, http://taxfoundation.org/article/state-and-local-property-taxes-target-commercial-and-industrial-property. Accessed August 20, 2013.

[15] City and County of Honolulu, Municipal Code 8-10.4, available online at http://www1.honolulu.gov/council/ocs/roh/. Accessed August 20, 2013.

The City and County of Honolulu is not unique in having higher exemptions than the Municipality. The report *Taxes and Tax Rates Burdens in the District of Columbia – A Nationwide Comparison* has a table showing the wide variations in residential property tax exemptions in the largest city in each state. The residential exemptions range from as low as $1,000 of assessed value in Oklahoma City to as high as 50% of assessed value in Providence, Rhode Island.[16] Jurisdictions with higher residential exemptions may have lower residential tax rates and lower median residential property taxes, but these jurisdictions make up for these residential exemptions by charging non-exempt properties higher mill rates.

When comparing the Municipality to the City and County of Honolulu or any other local jurisdiction, consider the differences in state requirements that affect the level of residential property tax exemptions.

5. Before making changes to current property taxes, consider the advantages and disadvantages of property taxes compared to other forms of taxation.

Property taxes are sometimes disparaged, but there are several advantages to this type of tax compared to others. On the one hand, the Tax Foundation has summarized the strong dislike of property taxes like this:

> *Why is the property tax so disliked? One cynical answer is that the tax's visibility and high level of collections by themselves make it reviled. Others point to frequent complaints about administration, such as assessments at odds with market values or tax amounts being unpredictable year-to-year. Political responses to property tax outrage include homestead exemptions, separate property classifications, economic development abatements, circuit breakers, and deferrals.*[17]

On the other hand, despite these complaints about property taxes, the Tax Foundation still recommends the property taxes as a good local revenue source. In the documentation for the property tax rankings of counties on their web site, the Tax Foundation identifies the primary advantages of the property tax (emphasis added):

> *What is the Tax Foundation's position on property taxes?* ***The Tax Foundation views the property tax as a relatively good source of revenue***

---

[16] Chief Financial Officer, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison 2011*, issued September 2012, Table 6, page 20. The current study and all historical studies are available at this link: http://cfo.dc.gov/page/tax-burdens-comparison. Accessed August 20, 2013.

[17] Tax Foundation, *State and Local Property Taxes Target Commercial and Industrial Property*, November 2012, http://taxfoundation.org/article/state-and-local-property-taxes-target-commercial-and-industrial-property. Accessed August 20, 2013.

for local governments. It is relatively stable and it tends to align well (not perfectly) with the benefit principle of taxation.[18]

The "benefit principle of taxation" recommends that those people who consume more government services should bear more of the cost of those services. Most residential and commercial property owners benefit from police and fire protection, public schools, parks and recreation, and other government services. So, based on the "benefit principle" they should bear a share of the costs of those services. Renters bear some of the cost of property taxes because landlords pass on some of the cost of property taxes in the rents they charge. All consumers who buy goods or services in the city also bear some of the costs of property taxes because commercial property owners pass on some of the cost of their property taxes in the form of higher prices for the goods or services they sell locally. Because the property tax distributes the government costs across many of the groups that benefit from public services, many local governments in the U.S. have relied on the property tax for many years.

However, as the Tax Foundation mentions, property taxes are not perfectly aligned with the "benefit principle." Tourists and commuters from outside the Municipality benefit from local government services, but they may not pay a proportionate share of the costs of those services. They do pay some of the cost of government services when they buy goods and services (because, as mentioned, local commercial property owners pass on some of the burden of property taxes by raising the prices they charge for the goods and services they sell to both local residents and visitors). But the higher prices paid by commuters and tourists may not completely capture the costs of the government services they use when visiting the city.

The International City/County Management Association in their report, *A Revenue Guide for Local Government*, agrees with the Tax Foundation assessment that one of the advantages of the property tax is its stability, and they list several other advantages compared to other types of taxes:

"The property tax provides a stable source of revenue: The primary reason for the property tax's continued importance to local government is the reliable flow of revenue it provides during the budget period… Other taxes, such as sales and income taxes and even non-tax revenues, fluctuate with changes in the local and national economies. Governments that depend more heavily on the property tax are less vulnerable to mid-year revenue shortfalls precipitated by changing economic conditions."[19]

"Finances property-related services: The property tax recaptures for the community some of the increase in property value created by government-provided

---

[18] Frequently Asked Questions about the Tax Foundation's Property Tax Statistics, Question 5: What is the Tax Foundation's position on property taxes? Tax Foundation, http://interactive.taxfoundation.org/propertytax/FAQ.html. Accessed August 20, 2013.

[19] Robert Baird, *A Revenue Guide for Local Government*, Second Edition, International City/County Management Association, 2010, pages 84-85.

services. For example, assume that two towns have exactly the same population characteristics and spending levels, but one spends twice as much on police protection and has half the crime rate of the other. Other things being equal, property values will be higher in the safer town with the lower crime rate. Through the property tax, property owners return to the local government some of the increase in property value that public services have created…. The property tax is unique among different tax types in its ability to recoup these types of government-created increases in property value." [20]

Property tax is more collectible than other taxes: "Taxes on real property are often secured by a tax lien on the property. If the owner fails to make timely payment, the local government can seek a court judgment foreclosing on the lien and then sell the property for back taxes, penalties, and interest."[21] Because of these liens, the collection rate for real property taxes is close to 100% and is significantly higher than the collection rate for most other broad-based business-reported taxes such as a sales tax.

Some property tax is exportable to non-residents: There are many commercial properties in the Municipality that are owned by individuals or shareholders who live outside the city. The property tax bills for these properties are initially paid by the non-resident property owners. These owners bear some of the tax burden and pass on the rest to consumers through increased prices for the goods and services sold in the city. The portion of commercial property taxes borne by non-resident owners is "exported" because is not borne by residents. In addition, some residential property tax payers deduct the cost of their property taxes on their federal income tax forms. As a result, part of the burden of residential property taxes is exported to U.S. taxpayers living outside the city.

The property tax is more efficient to collect than a sales tax. The current property tax in the Municipality is administered by 36 full time equivalent (FTE) employees in Property Appraisal and 5 FTE in Treasury. The combined group generates about 87 times more revenue than the cost of administration. Adding a new sales tax would increase the cost and size of government and be less efficient to administer and collect. Based on the most recent estimates available from 2005, a 3% sales tax on just goods would generate about $90 million in revenues, but it would also cost about $1.8M for set up costs and about $3M annually for administration costs. Administration of a sales tax would add about 31 FTE personnel. The sales tax revenues generated would be about 30 times more than the cost of administration. In contrast, the property tax generates about 87 times more revenues than the cost of administration, so the current property tax is more efficient to administer and collect than a 3% sales tax that raises about $90 million.[22]

[20] Baird, pages 84-85.
[21] Baird, pages 84-85.
[22] The ratio between revenues collected and administrative costs would increase if the sales tax rate were higher than 3% because administrative costs would not increase proportionally with revenues collected due to economies of scale.

6. Taxation principles are useful when evaluating changes in tax structure.

When considering changes in the Municipal tax system, it is important to evaluate current and proposed taxes based on a set of consistent principles that encompass more than just measures of the property tax. The American Institute of Certified Public Accountants recommends the principles listed in Table 3 below.[23] Table 4 on the following page lists taxation principles proposed by the Tax Foundation.[24]

Table 3: Ten Guiding Principles of Good Tax Policy
From The American Institute of Certified Public Accountants

Equity and Fairness	Similarly situated taxpayers should be taxed similarly
Certainty	The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined
Convenience of Payment	A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer
Economy in Collection	The costs to collect a tax should be kept to a minimum for both the government and taxpayers
Simplicity	The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner
Neutrality	The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum
Economic Growth and Efficiency	The tax system should not impede or reduce the productive capacity of the economy
Transparency and Visibility	Taxpayers should know that a tax exists and how and when it is imposed upon them and others
Minimum Tax Gap	A tax should be structured to minimize noncompliance
Appropriate Government Revenues	The tax system should enable the government to determine how much tax revenue will likely be collected and when

Source: Tax Division of the American Institute of Certified Public Accountants, *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals*, March 2001. Accessed August 20, 2013.

[23] Tax Division of the American Institute of Certified Public Accountants, *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals*, March 2001.
[24] Tax Foundation, *Principles of Sound Tax Policy*, http://taxfoundation.org/principles-sound-tax-policy. Accessed August 20, 2013.

Table 4: Principles of Sound Tax Policy
From the Tax Foundation

Simplicity	Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income.
Transparency	Tax legislation should be based on sound legislative procedures and careful analysis. A good tax system requires informed taxpayers who understand how tax assessment, collection, and compliance works. There should be open hearings and revenue estimates should be fully explained and replicable.
Neutrality	The fewer economic decisions that are made for tax reasons, the better. The primary purpose of taxes is to raise needed revenue, not to micromanage the economy. The tax system should not favor certain industries, activities, or products.
Stability	When tax laws are in constant flux, long-range financial planning is difficult. Lawmakers should avoid enacting temporary tax laws, including tax holidays and amnesties.
No Retroactivity	As a corollary to the principle of stability, taxpayers should rely with confidence on the law as it exists when contracts are signed and transactions made.
Broad Bases and Low Rates	As a corollary to the principle of neutrality, lawmakers should avoid enacting targeted deductions, credits and exclusions. If such tax preferences are few, substantial revenue can be raised with low tax rates. Broad-based taxes can also produce relatively stable tax revenues from year to year."

Source: Tax Foundation, *Principles of Sound Tax Policy*, http://taxfoundation.org/principles-sound-tax-policy. Accessed August 20, 2013.

7. The amount of taxes paid by residents in each state is a more accurate measure of the resident tax burden than the total amount of taxes collected by state and local governments within each state.

The first page of the BAC handout lists two rankings of Alaska taxes compared to other states.[25] The ranking in the first column is based on taxes paid by residents in each state. The second column shows a ranking based on taxes collected by state and local governments each state from both residents and non-residents. The rankings are from 1 to 50, with 1 representing the highest taxes as a percent of resident income and 50 representing the lowest taxes as a percent of resident income.

Alaska is ranked 50 in the first column and 1 in the second column. The primary reason for the large difference in Alaska's rankings is that the second column includes Alaska state oil taxes collected from oil companies. These resource taxes are eventually borne by shareholders of the oil companies and consumers of the oil and oil-based products the companies produce. Most of those shareholders and consumers are not residents of Alaska. The first column does not include Alaska state oil and gas taxes borne by non-residents and is a more accurate ranking of Alaska resident tax burden.

The Tax Foundation published these two rankings, and they explain clearly why the ranking in the first column is more accurate (emphasis added):

> *Residents of Alaska, who have consistently been the least taxed state for nearly three decades, again paid the lowest percentage of income in 2010 at just 7.0 percent.*
>
> *Some states are able to shift significant portions of their tax burdens to nonresidents. Alaska provides the best example. It is able to export over 75 percent of its tax collections to residents of other states. According to the Census Bureau, Alaska's state and local tax collections are among the nation's highest. If those tax collections are compared directly to Alaskans' income, the burden appears much higher than in many other states.* ***We argue that this is not an accurate measure of the true tax burden faced by Alaskan taxpayers****.*
>
> *Alaskans pay no state-level tax on income and face no state-level sales tax (though there is a local option sales tax with rates that can range from 1 to 7 percent). But Alaska does have a special, prodigious source of revenue: severance taxes on oil extraction. In fact, Alaska is able to raise over 70 percent of its revenue from taxes on oil extraction, and the state's*

[25] The table on the first page of the BAC handout is from page 11 of Elizabeth Malm, *Annual State-Local Tax Burden Ranking: New York Citizens Pay the Most, Alaska the Least, Background Paper Number 65*, Tax Foundation, Washington D.C., October 2012, available at this link: http://taxfoundation.org/sites/taxfoundation.org/files/docs/BP65_2010_Burdens_Report.pdf. Accessed August 20, 2013

residents actually receive checks at tax time from a reserve fund of billions in oil tax revenue.

The burden of Alaska's oil taxes does not fall predominantly on Alaska residents. This study assumes that much of the economic burden of these taxes falls not on Alaskans but rather on consumers of oil and oil-based products across the country in the form of higher prices. Therefore, to correctly portray how low the Alaskan residents' tax burden is, we allocate Alaska's oil severance tax to other U.S. states based on oil and gas consumption. ***Once this allocation is made, Alaskans' tax burden falls from among the nation's highest to the lowest.*** *Taxes levied on mineral extraction in other states have similar but less dramatic effects.*[26]

[26] Malm, Tax Foundation, page 4. The rankings on the first page of the BAC handout are from *Annual State-Local Tax Burden Ranking: New York Citizens Pay the Most, Alaska the Least, Background Paper Number 65*, Tax Foundation, Washington D.C. The Tax Foundation report says that the numbers in the second column come from a Federation of Tax Administrators (FTA) publication. The data for the FTA tax ranking is from the web site: http://www.taxadmin.org/fta/rate/12taxbur.html. Accessed August 20, 2013. At the FTA web site, they refer to a report titled, "FTA Examines Tax Level Measurement Methods," *Tax Administration News*, September 1992, Federation of Tax Administrators, Washington DC, which explains the methodology behind the rankings. It is available at this link: http://www.taxadmin.org/fta/rate/tax_burden_method.pdf . Accessed August 20, 2013. In the explanation of their methodology, the Federation of Tax Administrators reports the limitation of using total tax collections to rank states. The FTA documentation says, "*Neither does this measure [of total tax collections] account for any ability to export a state tax burden by offsetting it against federal liabilities or via certain features of the state economy such as resource production or tourism.*"

Table 6

Comparing Tax Burden Measures: Tax Foundation and the Federation of Tax Administrators, Fiscal Year 2010

State	Tax Foundation's Tax Burden Measure: Taxes Paid by Residents Divided by Their Income	Rank	FTA's "Tax Burden" Method: Taxes Collected by Governments Residents and from Non-Residents Divided by Residents' Income	Rank
U.S. Average	9.9%		10.5%	
Alabama	8.2%	43	8.3%	50
Alaska	7.0%	50	20.2%	1
Arizona	8.4%	40	9.2%	41
Arkansas	10.0%	15	10.2%	26
California	11.2%	4	11.3%	13
Colorado	9.1%	32	10.0%	29
Connecticut	12.3%	3	11.6%	10
Delaware	9.2%	31	10.3%	24
Florida	9.3%	27	9.7%	35
Georgia	9.0%	33	9.3%	40
Hawaii	10.1%	14	12.0%	7
Idaho	9.4%	25	9.1%	43
Illinois	10.2%	11	10.4%	22
Indiana	9.6%	23	10.7%	17
Iowa	9.6%	24	10.7%	18
Kansas	9.7%	22	10.7%	16
Kentucky	9.4%	26	9.7%	33
Louisiana	7.8%	47	9.9%	30
Maine	10.3%	9	12.4%	5
Maryland	10.2%	12	9.6%	36
Massachusetts	10.4%	8	10.4%	21
Michigan	9.8%	18	10.8%	15
Minnesota	10.8%	7	11.4%	11
Mississippi	8.7%	37	10.1%	28
Missouri	9.0%	34	8.7%	47
Montana	8.6%	38	9.9%	31
Nebraska	9.7%	21	10.6%	19
Nevada	8.2%	42	10.3%	23
New Hampshire	8.1%	44	9.2%	42
New Jersey	12.4%	2	11.9%	8
New Mexico	8.4%	39	9.8%	32
New York	12.8%	1	14.8%	2
North Carolina	9.9%	17	10.1%	27
North Dakota	8.9%	35	13.2%	4
Ohio	9.7%	20	10.4%	20
Oklahoma	8.7%	36	9.0%	46
Oregon	10.0%	16	9.7%	34
Pennsylvania	10.2%	10	10.2%	25
Rhode Island	10.9%	6	11.4%	12
South Carolina	8.4%	41	9.0%	44
South Dakota	7.6%	49	8.5%	49
Tennessee	7.7%	48	8.6%	48
Texas	7.9%	45	9.5%	38
Utah	9.3%	29	9.6%	37
Vermont	10.1%	13	12.1%	6
Virginia	9.3%	30	9.0%	45
Washington	9.3%	28	9.5%	39
West Virginia	9.7%	19	11.1%	14
Wisconsin	11.1%	5	11.8%	9
Wyoming	7.8%	46	14.5%	3
Dist. of Columbia	9.3%	(31)	10.8%	(16)

Notes: D.C. is not included in rankings, but the figure in parentheses shows where it would rank. The local portions of tax collection figures for fiscal year 2010 rely on projections of local government tax revenue. The figures presented here as the "FTA Method" are calculations by the Tax Foundation using 2010 data or projections thereof, replicating the methodology that the Federation of Tax Administrators uses each year to calculate each state's tax burden.

Sources: Tax Foundation calculations using data from multiple sources, primarily Census Bureau, Rockefeller Institute, BEA, COST, and Travel Industry Association.

Anchorage Property Tax Comparison

2006-2010 (five year average) -- owner-occupied housing units

Anchorage Median Real Estate **Taxes Paid**	$3,563 +/- 39	% Communities ***Lower*** than Anchorage
Rank (nationally)	**103 out of 2,773 communities**	**96.3%**
US Median Real Estate Taxes	$1,981 +/- 2	
Anchorage Property Tax Paid as % of **Median Home Value**	1.32 +/-0.02%	% Communities ***Lower*** than Anchorage
Rank (nationally)	**667 out of 2,773 communities**	**75.9%**
U.S. Median Property Taxes as % of Home Value	1.05%	
Anchorage Property Taxes Paid as % of **Median Income**	3.84 +/- 0.08%	% Communities ***Lower*** than Anchorage
Rank (nationally)	**275 out of 2,773 communities**	**90.1%**
U.S. Median Property Taxes as % of Income	3.04%	

Honolulu Property Tax Comparison

2006-2010 (five year average) -- owner-occupied housing units

Honolulu Median Real Estate **Taxes Paid**	$1,549 +/- 18	% Communities ***Lower*** than Honolulu
Rank (nationally)	**734 out of 2,773 communities**	**73.5%**
US Median Real Estate Taxes	$1,981 +/- 2	
Honolulu Property Tax Paid as % of **Median Home Value**	0.28 +/-0.00%	% Communities ***Lower*** than Honolulu
Rank (nationally)	**2,756 out of 2,773 communities**	**0.6%**
U.S. Median Property Taxes as % of Home Value	1.05%	
Honolulu Property Taxes Paid as % of **Median Income**	1.63 +/- 0.03%	% Communities ***Lower*** than Honolulu
Rank (nationally)	**1,744 out of 2,773 communities**	**37.1%**
U.S. Median Property Taxes as % of Income	3.04%	

Source: Tax Foundation calculations based upon Census data (American Community Survey). http://interactive.taxfoundation.org/propertytax/
Data refers to median real estate taxes and median value on "owner-occupied housing units," as well as the median household income of units that are owner-occupied.
Each statistic has a margin of error (confidence interval: 90%) associated with it.
All communities for which any statistic has a margin of error equal to at least 20% of the estimated value are excluded from the rankings

West Coast Cities Ranked by Homeowner Effective Property Tax Mill Rate 2006-2010 (five year average) -- owner-occupied housing units	
Anchorage AK	13.2 Mills
Fairbanks AK	12.5 Mills
MatSu AK	12.2 Mills
Tacoma WA	10.2 Mills
Kodiak AK	10.1 Mills
Spokane WA	10.1 Mills
Salem OR	10.0 Mills
Portland OR	9.9 Mills
Juneau AK	9.8 Mills
Seattle WA	9.1 Mills
Ketchikan AK	8.9 Mils
Kenai AK	7.8 Mills
Wrangell AK	7.2 Mills
Coos Bay OR	7.1 Mills
Oakland CA	6.8 Mils
San Jose CA	6.7 Mills
Fresno CA	6.5 Mills
San Bernardino CA	6.3 Mils
Los Angeles CA	6.2 Mills
San Diego CA	6.2 Mills
Sacramento CA	6.1 Mills
Skagway AK	5.8 Mills
San Francisco CA	5.5 Mills
Sitka AK	5.4 Mills
Honolulu HI	2.8 Mills
Kona HI	1.9 Mills
Kauai HI	1.9 Mills
Maui HI	1.6 Mills
Bethel AK	0.9 Mills
Average of Cities Shown	7.2 Mills

Source: Tax Foundation calculations based upon Census data (American Community Survey).

Data refers to median real estate taxes on "owner-occupied housing units"

Each statistic has a margin of error (confidence interval: 90%) associated with it.