# Project Anchorage: Concerns and Proposed Changes

Assembly Member Brawley 12/6/24 | for Work Session on AO 2024-105 and -105(S)

## Questions

- Is a project eligible at 80% funding when it begins design, permitting, receiving permit approval, or construction? What if the 65% or final design work
- What happens when costs escalate from original design estimates, and projects get pushed a year or more out from original date?
- Could this be used for public-private projects, or only MOA owned?
- What happens to both property tax relief and project funding if sales taxes significantly decline? If we collect significantly more than projected, say over $300 million total, is the intent that property owners would receive a significantly greater portion of relief?
- Is the intent to add more costs to housing production by taxing services?

## Conceptual Amendments

- Change the proportions of revenue mix:
    - Cap property tax relief at a fixed maximum dollar amount, if it is retained
    - Prioritize revenue toward <u>housing</u> and <u>energy</u> capital investments
    - Broaden funding categories for police and snow vehicles: Other fleet? Other needs?
- Remove, significantly increase, or narrowly tailor the per-transaction cap.
- Change the Trust to allow financing, do not require 80% cash to begin construction.
- Make the tax on goods, and not tax services. Alternatively, further narrow taxable services to exclude design, construction, skilled trades (plumbing, etc.) related to housing production.
- Change 100% of the administrative cost burdens to be under the cap, and ensure it is fully operationalized within the operating budget.
- Change the business administration offset/credit to be a fixed cost, not percent of collections – or have a series of tiers that scales with their volume of transactions.
- Consider how this policy proposal interacts with the Muni's intent to implement a stormwater utility: the largest proportion of ratepayers will be commercial land owners. Property tax relief could offset added costs to rate payers, but should be sequenced to not occur before there is significant progress toward implementing the stormwater utility.
- Significantly cut the length of the language to be placed on the ballot.

## Summary Concerns

- Conflating two different policy discussions:
  "Anchorage needs a sales tax" and "Anchorage needs **<u>this specific</u>** sales tax."
- This policy proposal was developed in detail, and many specific design decisions, were made without full understanding of the city's budget mechanisms, structural fiscal challenges, and adequate consideration of long-term fiscal needs.
- This tax tries to solve our problems by prioritizing things we want over things we need. The theory of change identifies the correct problems to solve: outmigration, rising housing costs, and need to invest in ourselves. However, choosing to solve these problems through

property tax relief and construction of municipally-owned recreational facilities misses the mark. There is significant risk this will not achieve the intended results.

- Designing a tax proposal based on short-term goals: what voters will support now, versus what is the appropriate policy choices for the city's (and community's) long-term good.
- As currently designed, this is significantly more regressive than a basic sales tax with no property tax relief. There is a big mismatch between who benefits and who pays more.
- Dedicating funding to a narrow slice of operations (police vehicle fleet, snow maintenance fleet) will result in some services being very well funded, while other equally important services and capital needs continue to languish.
- This change does not create lasting property tax relief: the 2 big drivers of property tax bills increasing are 1. Fixed supply (not creating new units, and relatively little rehabilitation of existing units) that raises in price but not quality; 2. Rising assessed values with flat mill rates mean people pay larger dollar amounts in taxes. Until we produce significantly more housing, and make it much more feasible to improve or subdivide existing properties, this proposal does nothing to address the actual causes of rising property tax bills.
- This proposal makes no changes to inventory tax, which is already in place and disproportionately impacts businesses with physical facilities and equipment. Not repealing or making changes to inventory tax is a missed opportunity.

## Specific Design Concerns

- *Tax sunset*. This has the risk, if projects fail to be completed within the timeframe, of failing before voters when it appears on the ballot again. A failed vote would cause drastic property tax increases or service cuts. And if the cost of losing sales tax revenue is therefore too high, and voters will definitely vote yes to avoid property tax increases, why have a sunset?
- *Prohibiting financing*. The requirement of 80% of cash before construction, prohibiting using equity to secure financing, is a significant barrier for actually building capital projects, and does not reflect (and will prohibit) using standard development financing mechanisms. This also puts projects at risk of being significantly delayed as costs increase, creating more lag time between design and construction, and could also reduce number of projects built.
- *Revenue variability that does not interact well with the tax cap formula*. Sales taxes are less stable than property tax; the tax cap formula as written will require a spike in property tax collections if sales tax revenue underperforms, or "extra windfall" of relief if it overperforms.
- *Double taxing other products with dedicated funds*. Alcohol tax, marijuana tax, and bed tax have already been approved by voters to have dedicated uses. This additional 3% would preclude future rate increases to increase the available funds dedicated to those uses that voters already approved: child care, education, reducing child abuse, and addressing homelessness and behavioral health crisis.
- *Taxing professional services*. This needs more consideration: one consequence is, taxing services includes design, construction, and other services related to housing production.
- *Transaction cap*. This is not common in other state and city sales taxes, will encourage tax-avoidant behavior, and essentially just creates a $30 fee.
- *Administration costs not operationalized*. Splitting administration costs between two tranches reduces funding dedicated to projects, and does not memorialize full tax administration costs in the general budget.