MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects -- General Government

AO Number: 2024-XXX

Title: **AN ORDINANCE OF THE ANCHORAGE MUNICIPAL ASSEMBLY PROPOSING A TAX REVENUE DIVERSIFICATION MEASURE TO BE SUBMITTED TO THE QUALIFIED VOTERS OF THE MUNICIPALITY THAT WOULD ENACT A SALES AND USE TAXES OF THREE PERCENT (3%) IN THE AGGREGATE ON THE SALE OF GOODS AND SERVICES WITHIN THE MUNICIPALITY, WITH CERTAIN EXEMPTIONS, A MAXIMUM TAX AMOUNT PER TRANSACTION, AND REIMBURSEMENT FOR THE SELLER'S COLLECTION COSTS, COMPRISED OF A TWO PERCENT (2%) TAX DEDICATED FOR THE SOLE PURPOSE OF REDUCING PROPERTY TAXES PROPORTIONATELY THROUGHOUT THE MUNICIPALITY WITHIN THE "TAX CAP" CALCULATION, AND A ONE PERCENT (1%) TAX OUTSIDE OF THE TAX CAP DEDICATED FOR THE PURPOSES OF PAYING COSTS OF ADMINISTRATION, COLLECTION AND AUDIT OF THESE SALES AND USE TAXES, AND FOR ESTABLISHMENT OF A TRUST FUND TO PAY FOR VOTER APPROVED CAPITAL PROJECTS KNOWN AS MUNICIPAL AREA PROJECTS (MAPs); PROVIDING FOR A MAPs CITIZENS ADVISORY AND OVERSIGHT BOARD; PROVIDING A LIMITED TERM OF SEVEN (7) YEARS FOR THE AGGREGATED 3% SALES AND USE TAX LEVY; AMENDING ANCHORAGE MUNICIPAL CODE CHAPTER 12.25 REGARDING THE TAX INCREASE LIMITATION; ADDING A NEW CHAPTER TO THE ANCHORAGE MUNICIPAL CODE TO PARTIALLY IMPLEMENT THIS TAX REVENUE DIVERSIFICATION MEASURE; AND PROVIDING FOR TRANSITION PROCEDURES AND EFFECTIVE DATES.**

Sponsor: **Assembly Member**
Preparing Agency: Finance, Treasury Division
Others Impacted: OMB

CHANGES IN EXPENDITURES AND REVENUES: **(In Thousands of Dollars)**

	FY25	FY26	FY27	FY28	FY29
Operating Expenditures					
1000 Personal Services					
2000 Non-Labor					
3900 Contributions					
4000 Debt Service					
TOTAL DIRECT COSTS:	**$ 975**	**$ 1,900**	**$ 3,200**	**$ 4,000**	**$ 4,300**
Add: 6000 Charges from Others	$ -	$ -	$ -	$ -	$ -
Less: 7000 Charges to Others		-	-	-	-
FUNCTION COST:			**$ 3,200**	**$ 4,000**	**$ 4,300**
REVENUES GENERATED:	**$ -**	**$ -**	**$70,000 to $81,000**	**$145,000 to $172,000**	**$147,000 to $180,000**
REVENUES AVAILABLE FOR BUDGETED PROPERTY TAX RELIEF AND MAPs	**$ -**	**$ -**	**$ -**	**$64,000 to $75,000**	**$141,000 to $168,000**
CAPITAL:	**$ 1,650**	**$ 2,300**	**$ -**	**$ -**	**$ -**
POSITIONS: FT/PT and Temp	**4**	**15**	**25**	**28**	**28**

New positions in 2025 and 2026 required to build out new sales tax system

Based on AO Project Anchorage Draft V3.2.docx received on October 4, 2024.

PUBLIC SECTOR ECONOMIC EFFECTS:

Public Sector Revenues
The ordinance specifies a sales tax with a duration of seven (7) years beginning as soon as implementation is feasible. It is estimated that implementation will require two years. During the first half-year of implementation in FY 2027, the proposed three percent (3%) sales tax on goods and services would generate roughly $70M to $81M for the six months of July through December 2027. The revenues generated in 2027 would be available for budgeted expenditures in FY 2028. During the first full year of administration in 2028 and thereafter, the proposed three percent (3%) sales tax on goods and services would generate between $145M to $215M annually. The net proceeds of sales tax revenues generated in a particular year would be available for budgeted expenditures in the following year. A sales tax is inherently volatile. For example, if a shock to the Anchorage economy were to occur as in 2020, sales tax may decrease to as low as $114M to $119M in any of the fully taxed years.

The actual amount of revenue generated each year will depend on how the Assembly interprets the definitions and exemptions and how they decide to implement specific ordinances and detailed regulations. Anchorage Municipal Code (AMC) 12.80.060 specifies that the Assembly would make the final determinations about how the definitions in AMC 12.80.030 and exemptions in AMC 12.80.050 are applied to goods and services. AMC 12.80.050.D. authorizes the Assembly to add or remove exemptions by the majority vote on a separate ordinance after the ballot proposition is approved.

In particular, the realized revenues will depend on how the Assembly will apply the sales tax to construction, transportation, professional, business, personal and other services. If the sales tax is applied broadly to most of these services, then the revenues would be at the high end of the projected range. If the sales tax is applied to fewer services, then the revenues would be closer to the lower end of the range.

The revenue realized will also depend on how more subsequent regulations interpret the maximum taxable transaction limit of $1,000 as specified in AMC 12.80.050.B.1 through 5. Businesses with long-term contracts for construction services, freight transportation, facilities maintenance, and professional services may find ways to reduce their tax liability by structuring their service contracts so that they pay only $30 in sales tax on each of their annual contracts with other businesses. Businesses that make large purchases of equipment, vehicles, and other business property may find ways to combine their purchases into a single invoice in one day to pay just the $30 maximum sales tax for the entire bundled purchase. If businesses find ways to significantly reduce their tax liability by restructuring their service contracts and bundling their purchases, then the actual revenues from the proposed sales tax would be toward the lower end of the projected range. The extent that businesses are able to reduce their tax using the $1,000 taxable transaction limits will depend on how the tax is implemented through more detailed regulations. Certain business transactions appear to be largely exempt from the sales tax per AMC 12.80.050.C.11 through 13. Residents may also find use strategies to avoid sales tax via larger transactions.
The proposed ordinance specifies two-thirds of the sales tax revenue from the prior year would be applied as property tax relief in the current year. (see AMC 12.80.020.A and Section 14.03(a)(2) and Section 14.08). For example, two-thirds of the revenues generated in 2029 would be applied as property tax relief in 2030. The total property tax billing for all parcels in FY 2030 would be reduced by about $98M to $120M (= two thirds of net proceeds generated in FY 2029). Therefore, the property tax revenues are expected to decrease by the same amount.

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Public Sector Expenditures
The proposed ordinance specifies one third of the sales tax revenues from the prior year would be available for expenditures on public investments in the current year. The public investments will be main or supplemental projects listed under AMC 12.80.040(B) and (C). The projects, Municipal Area Projects (MAPs) are selected by the MAPs Citizen Advisory and Oversight Board. The expenditures toward MAPs are recommended to the Assembly. Under normal market conditions, Treasury estimates about $23M to $26M in new revenue would be available above the tax cap from the proposed sales tax in FY 2028 for these projects. Starting in FY 2029 and through 2032, about $47M to $65M would be available above the tax cap from the proposed sales tax for public investment expenditures.

The Municipality would incur new expenditures to implement, administer, and enforce the proposed sales tax. Initial implementation costs will arise from setting up a new custom computer tax collection system, developing regulations, hiring and training new personnel, and engaging with approximately 14,000 businesses to clarify the regulations and assist with filing tax returns and remitting the tax. The estimated costs for setup and implementation costs are about $3.9M in capital expenditures, and $3.0M in organizational and outreach efforts. These initial expenses are anticipated to occur in 2025 and 2026, ahead of the sales tax being first levied in July 2027.

Annual costs will total approximately $3.5M to $6.5M for tax collection and administration. The operating costs include 28 full-time employees (FTEs) associated with a new sales tax section within the Treasury Division as well as attorney and support resources from the Municipal Law Department and Administrative Hearing Office. The sales tax ordinance will roughly double the size of the Treasury Division. The full amount of the annual operating costs would be incurred starting in the first year that the sales tax is levied in 2027. The same level of on-going operating costs would continue thereafter.

The proposed ordinance has an expiration of seven (7) years. If the sales tax were not renewed, about eight employees would be needed to administer the tax in collections, audit, and legal functions persisting into the next year at a minimum.

The timing of revenue and cost impacts will vary depending on dates of approval by the Assembly and voters, as well as the actual “go-live” date when the new tax return filing and payment system is fully programmed, tested, and ready to accommodate a high volume of online and paper filings. The timing of the revenue and cost impacts shown above are for illustration purposes, primarily to highlight the one-time startup costs and early phase operational costs that will precede whatever actual date the sales tax goes into effect.

PRIVATE SECTOR ECONOMIC EFFECTS:
The proposed sales tax would affect individuals and businesses differently, depending on their level of spending on taxable goods and services and depending on whether they own property subject to municipal property taxation. Individuals and businesses who make expenditures on taxable goods and services would incur the cost of the proposed sales tax.
Within the current parameters of exemptions, analysis indicates that on average 27%-29% of a household's expenditures will be taxable by the sales tax, with effective tax rates ranging from of 0.84% to 0.89%. The average household is expected to pay $664-$710 in sales tax in 2024 dollars, ranging from $677 to $984 during the time period depending on income growth during the 2024-2032 period.

The increase in cost due to sales tax will result in less goods and services purchased for which the sales tax is applicable, by approximately 4.5%-6.9%, or $94M-$138M.

It is unclear how much sales tax will be incurred by businesses. The effect to businesses depends on the development of exemptions under AMC 12.80.050.C.11 through 13 and how the tax might be interpreted and administered.

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The property tax mill rate is expected to uniformly decrease by 1.1 to 1.26 mills in 2028 due to the sales tax driven property tax relief. The property tax mill rates are expected to decrease by 2.1 to 2.6 mills for the full taxable year. Property tax reductions of $210-$260 per $100,000 of taxable value could be realized by the property owners. The actual amount of property tax relief will depend on the amount of sales tax revenue generated, and the costs of administration, both for the sellers and the Municipality. Businesses with assessable real and/or personal property would receive property tax relief in proportion to their assessed value net of exemptions.

Property tax exemptions reduce the base for which property tax relief is applied. Those with residential exemptions and/or senior or veteran exemptions would receive less incremental property tax relief than those with only one of the exemptions or neither.

The average Anchorage resident household income of $109K in 2024 dollars results in expected resident sales tax of $687 in 2024 dollars. Based on that average resident tax, if in 2024 dollars, the sales tax were in place for a full year, the expected breakeven assessed value of a homeowner with both senior or veteran exemptions is $519K. For a homeowner with only the residential exemption, the breakeven value would be $369K. For a homeowner with no exemptions, $294K. Homeowner households with assessed values greater than the expected breakeven assessed value would have a reduction to overall taxation from the Municipality of Anchorage. Roughly 27% of households would receive a reduction to overall taxation from the proposed bill. Another 35% of households (which are also homeowners) would not. The remaining 38% of households that rent would incur the sales tax and receive no property tax reduction.

Businesses selling goods and services would be required by AMC to assume a fiduciary duty to collect sales tax and hold these monies in trust in the name of the Municipality. The businesses would be responsible for reporting and remitting these tax proceeds to the Municipality within prescribed filing deadlines. Businesses would need to use sufficiently functional cash registers, computer systems or other effective financial tracking systems at the point of sale to account for all gross sales and all taxable sales associated with their business. Businesses would be required to correctly calculate all transactions. Eligible businesses would be granted a three percent (3%) offset, capped at a $3,000, to defray costs of collecting and reporting the sales tax generated by their business. Treasury believes there are approximately 14,000 businesses in Anchorage that would remit general sales tax to the Municipality of Anchorage.

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