

MUNICIPALITY OF ANCHORAGE



ASSEMBLY MEMORANDUM

No. AM ____-2024

Meeting Date: December 17, 2024

1 **From: Assembly Member Brawley**

2
3 **Subject: AO 2024-105 (S-4) - AN ORDINANCE OF THE ANCHORAGE**
4 **MUNICIPAL ASSEMBLY PROPOSING A TAX REVENUE DIVERSIFICATION**
5 **MEASURE TO BE SUBMITTED TO THE QUALIFIED VOTERS OF THE**
6 **MUNICIPALITY THAT WOULD ENACT A SALES AND USE TAX OF THREE**
7 **PERCENT (3%) IN THE AGGREGATE ON THE SALE OF GOODS AND**
8 **SERVICES WITHIN THE MUNICIPALITY, WITH CERTAIN EXEMPTIONS,**
9 **COMPRISED OF A ONE-HALF PERCENT (0.5%) TAX FOR THE SOLE**
10 **PURPOSE OF REDUCING PROPERTY TAXES PROPORTIONATELY**
11 **THROUGHOUT THE MUNICIPALITY WITHIN THE "TAX CAP"**
12 **CALCULATION, AND A TWO AND A HALF PERCENT (2.5%) TAX OUTSIDE OF**
13 **THE TAX CAP DEDICATED FOR ESTABLISHMENT OF A TRUST FUND FOR**
14 **VOTER AUTHORIZED COMMUNITY NEEDS; COSTS OF ADMINISTRATION,**
15 **COLLECTION AND AUDIT OF THESE SALES AND USE TAXES SHALL BE**
16 **INCLUDED UNDER THE TAX CAP; AMENDING AMC CHAPTER 12.10 TO**
17 **INCREASE THE BUSINESS INVENTORY PERSONAL PROPERTY TAX**
18 **EXEMPTION TO THE FIRST \$100,000 OF VALUE; AND PROVIDING FOR**
19 **TRANSITION PROCEDURES AND EFFECTIVE DATES.**

20
21 This substitute version proposes a significantly different approach to the sponsors'
22 Project Anchorage proposal (AO 2024-105 and -105(S)), but also carries forward
23 several assumptions and broad goals from their concept:

- 24 • The Municipality must diversify its revenue sources while considering how
25 to balance burdens across residents, property owners, and business
26 enterprises comprising our tax base.
- 27 • The community desires revitalization and enhancing quality of life, and
28 should dedicate locally-generated funding to this purpose.
- 29 • Public cultural and recreational facilities and services are important aspects
30 of quality of life, amenities that residents expect, and also generate
31 economic activity from both residents and visitors.
- 32 • It is critical to the long-term success and fiscal health of the Municipality,
33 and our public facilities and services, to ensure we adequately fund
34 operations, maintenance, major repairs and other known needs.
- 35 • The Municipality's voters expect public funds to be spent wisely, with clear
36 accountability and continued commitment to use new tax revenue for its
37 intended purposes, and deliver results.
- 38 • Sales taxes require public approval, and have trade-offs: it is therefore
39 important to consider what voters will support, and offer a balanced revenue
40 proposal that accounts for cost of living and existing property tax burden.

1
2 Other substitute versions introduced for this item also offer alternative designs
3 using many of the same assumptions and goals. This version does not incorporate
4 all other proposed elements, but the following items are particularly compelling:

- 5 • (S) Municipal services universal hardship application, trust fund for
6 dedicated revenue collected, Community Work Agreement (CWA)
7 language, certain exemptions such as feminine hygiene products and
8 nonprofit organizations.
- 9 • (S-1) Putting the sales tax (detailed proposal) voters as a special election
- 10 • (S-2) Municipal programs and benefits Charter amendment and proposal,
11 language including “community need” and “public purpose,” dedications to
12 housing and transit, addressing business personal property (inventory) tax
- 13 • (S-3) Dedications to maintenance, language including “public purpose,”
14 removes property tax relief.

15 16 **Approach and Priorities in This Version: A Community Needs Sales Tax**

17
18 The following policy approach and priorities guided creating this version:

- 19
20 1. *Focus on community needs, and prioritize what we need over what we*
21 *want.* These are not mutually exclusive, but focusing new revenue into our
22 housing, infrastructure, existing public facilities and services, while still
23 imagining new possibilities, helps achieve the goal of investing in ourselves.
- 24
25 2. *Elevate funds for dedicated community needs above property tax relief.*
26 This proposal does not remove replacement of existing property tax
27 revenue under the cap, but de-prioritizes it and shifts all administration
costs to be fully within the tax cap.
- 28
29 3. *Maintain and keep improving what we have.* This applies not only to public
30 facilities, like libraries, but also to our housing stock, commercial properties
31 that mean growth opportunities for small businesses, and civic and
recreational amenities that people expect in thriving communities.
- 32
33 4. *Use new dedicated funding for necessary and practical needs that are not*
34 *economic (will not be addressed by the market).* The proposed uses for the
35 funds address broad needs: housing, repair of existing facilities, public
36 transit, and other categories. Where possible, the language narrows the
37 focus to what will not pay for itself through the private sector: construction of
38 new affordable housing, improvements to existing affordable housing, and
expansion of bus routes as a match to federal funding.
- 39
40 5. *Create a tax mechanism that is both stable and flexible for the long term.*
41 Sunset provisions, prohibitions on using financing, and other specific design
42 choices made in the sponsors’ version of the tax will make it more difficult to
43 administer this tax long term, and could create more volatility in property tax
44 bills if voters fail to re-authorize the tax in a future year. Changing these
45 provisions do not change the underlying premise of the tax, and preserves
clear guardrails to protect these new public funds.
- 46
6. *Manage administrative burden and cost for government, entities utilizing*

1 *project funds, and the private sector.* Some design features in this proposal
2 are intended to give flexibility to future elected leaders and the public, to
3 avoid complex charter amendments in future years and allow for addressing
4 the Municipality's needs as they evolve over time. Rather than narrowly
5 defining specific projects or uses of funds, this version gives multiple
6 options and contemplates creation of different initiatives over time.

7 7. *Do not attempt to define all the details in the ballot measure.* The last
8 portion of this memorandum lists proposed policy choices for a future
9 implementation ordinance, as well as possible exemptions, but does not
10 address all of these in what goes before voters.

11 8. *Take the time to create the right proposal, and make space for voters to*
12 *consider this big question on the ballot.* This proposes a special election for
13 September 2025, which allows additional time past the deadlines for the
14 April 1, 2025 election to continue working toward a consensus-based, re-
15 designed version of this proposal before it goes to voters.

16 **Policy Choices in Proposed Ballot Language**

- 17
- 18 1. Retains the 3% overall tax rate.
 - 19 2. Retains a split between property tax relief (i.e., general government funding
20 under the tax cap) and dedicated funds to specified purposes. It changes
21 the proportion from 2:1 to 1:5, with 0.5% to property tax relief (one-sixth or
22 17% of total revenue) and 2.5% to dedicated purposes, outside the tax cap
23 (five-sixths or 83% of total revenue).
 - 24 3. Removes the sunset provision. This means that the tax itself does not
25 expire, or require active re-authorization by voters; both property tax relief
26 and the dedicated fund uses continue in perpetuity. Accountability to voters
27 is maintained via dedication of funds in the Charter; the opportunity to
28 expand, remove, or change allowed dedications remains available to voters
29 through a future Charter amendment, which may be placed on the ballot by
30 the Assembly.
 - 31 4. Proposes a different approach and clear set of options to utilize the new tax
32 funding, focused on housing production, public transit, encouraging reuse
33 and improvements to our existing building stock, and supporting small
34 businesses who make physical building improvements. Recognizing the
35 desire to re-invest in Anchorage and amenities that support quality of life,
36 funds can also be utilized for constructing new facilities as well as
37 improvements to existing facilities, from libraries to parks. Additionally, the
38 fund may support operations and maintenance for public facilities,
39 consistent with Project Anchorage's version.
 - 40 5. Allows for use of dedicated funds for debt service, and does not require
41 80% equity before beginning construction.
 - 42 6. Excludes alcoholic beverages, marijuana products, and room rental tax
43 from sales tax, unless voters amend those separate sections of the Charter
44 to make changes to how those existing funds are already dedicated.
 - 45 7. Removes much of the specificity about exemptions, but retains references
46 to nonprofit organizations, sales and rental of real property, fuel and
47 gasoline, business purchases for resale, private individual sales, and
48 moving expenses (bringing goods into the city to establish residence).

- 1 8. Prohibits a universal transaction cap, but allows the Assembly to set
2 transaction caps for categories of some goods and services. The limit must
3 be at least \$5,000.
- 4 9. Shifts all collection, enforcement, and audit functions to be within the cap,
5 and collected from the portion used as property tax relief.
- 6 10. Includes raising the exemption for business personal property tax from
7 \$20,000 to \$100,000. By law the Assembly is allowed to increase this
8 exemption further by ordinance; it does not require approval of the voters.
- 9 11. Calls for a special election to be held September 9, 2025, with effective
10 dates and implementation dates adjusted accordingly. This requires the tax
11 take effect between September 1, 2026 and by June 1, 2027.

12 **Additional Information about Proposed Community Needs (Allowed Uses)**

13 The list proposed in the ballot proposition is intended to provide clear guardrails for
14 how these funds can be spent, while also building in flexibility to consider new
15 funding programs and shift priorities in the fund over time. Because the tax itself
16 does not sunset in this version and is not built around individual named projects, the
17 intent is to authorize multiple possible uses of the fund, and continue refining and
18 prioritizing these before (and after) implementation of the tax itself. This version
19 assumes that any of the community recreation projects proposed are compatible
20 with allowed uses, provided that the facility is serving the public.

21 It does not require returning to voters to re-authorize what has already been
22 approved in the Charter, similar to how alcohol and marijuana tax dedications have
23 been designed; it does, however, contemplate that in the future, voters may approve
24 changes to this list by Charter amendment: this may include adding, changing, or
25 removing a priority area.

26 Within each authorized use of the funds, listed below, there are multiple possibilities
27 for addressing the community's needs: under each are ideas to explore further.

- 28 1. "Housing construction, rehabilitation and repairs, capital improvements and
29 infrastructure, and investments to reduce housing cost burdens"
30
 - 31 ○ Capital grants for construction of new affordable rental housing for
32 households below 80% AMI. *There is parallel work to create tax*
33 *incentives for market-rate and workforce housing, but new housing*
34 *for low income households is not economic without direct subsidy.*
 - 35 ○ Capital grants or revolving loan fund for reconstruction or rehabilitation
36 of existing affordable housing, such as roof replacements.
 - 37 ○ ADA accessibility improvements to existing housing, such as ramps.
 - 38 ○ Matching capital funds for major repairs of structures and private
39 infrastructure systems of rental housing, mobile home parks, and
40 common interest communities (condo associations) to restore the
41 property to minimum living standard. To ensure owners are investing
42 in their own properties, at least a 50% match is required, which can
43 include leveraging other federal, state, local, and private funds.
 - 44 ○ Matching water and sewer improvements for capital projects that
45 include housing, within AWWU service boundaries.
 - 46 ○ Improvements to mitigate cost burdens for residents could include
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48
49

- 1 energy efficiency investments: on-demand water heaters, solar
2 panels, passive heating and cooling upgrades, and better insulation.
- 3 2. “Improvements to real property to support small business development”
- 4 ○ Similar program to affordable housing revolving loan funds, or
5 matching funds for major repairs, but focused on small businesses
6 with a physical presence within the Municipality. This could include
7 tenant improvements for start-up businesses, safety improvements
8 (such as roof truss replacements), and reducing costs of doing
9 business in storefronts and commercial properties.
- 10 ○ One-time funding for businesses to make improvements directly
11 related to required licensing or other code compliance: this may
12 include cottage food businesses, restaurants requiring food and safe
13 service permits, licensed child care providers who must meet specific
14 physical requirements for operation of a center, and ADA accessibility
15 improvements that benefit customers and businesses.
- 16 3. “Expansion of service, capital and operational improvements for public
17 transportation”
- 18 ○ Additional fixed routes, special routes serving time-limited events, or
19 paratransit services.
- 20 ○ Higher level of route service such as route frequency, operating hours.
- 21 ○ Capital improvements, maintenance and repair of transit facilities
22 including centers and transfer points, bus shelters, signage, and ADA
23 accessibility improvements at or immediately around bus stops.
- 24 ○ Improved communication, ticketing, and customer service offerings
25 intended to improve transit access and increase ridership.
- 26 ○ This category overlaps with #5 below, but does not assume that transit
27 service improvements must be tied to specific public facilities.
- 28 4. “Construction, rehabilitation and repairs, and other improvements to public
29 facilities and civic institutions serving the public; this includes both existing
30 and future municipal facilities”
- 31 ○ Existing facilities (examples): Performing Arts Center, Mountain View
32 Library, Animal Control Center, Town Square Park, Cuddy Park,
33 existing Recreation Centers, trails and related amenities.
- 34 ○ Potential new facilities (examples): Downtown Library, Chester Creek
35 Sports Complex, new Health Department building including public
36 health clinics and other direct services. Project Anchorage’s proposed
37 projects would also be examples of possible new facilities.
- 38 5. “Improvements that maintain, enhance, or increase the public’s access to
39 and utilization of, public facilities and amenities”
- 40 ○ This could mean transit service changes, wayfinding or trail
41 connections between facilities, communications and information
42 sharing to encourage public use, language access, ADA
43 accommodations, and other improvements to make public facilities
44 more accessible to more people.
- 45 6. “Operations, maintenance, and safety funds for public facilities, amenities,
46 and infrastructure created or improved through this fund.”
- 47 ○ This is the same proposal as the one in Project Anchorage, but
48 contemplates that the funding can be used on existing and new
49 buildings, provided that they received sales tax funding for

1 improvements, and are public facilities or amenities. This funding is
2 not intended to fully subsidize or replace existing operational revenue
3 streams for all public facilities, but can be used to support operations.
4

5 The language in the last item on the list is intended to draw a clear distinction
6 between use of public funds to improve private property (as a one-time capital
7 investment) and use of the funds for public facilities. The idea of this version, and
8 Project Anchorage, is to ensure anything built with sales tax funds has a stable
9 revenue stream to operate and maintain these assets. This certainly should be the
10 case for public properties, but should not be understood to be an ongoing revenue
11 source for private property owners who receive a one-time benefit, or an obligation
12 by the Municipality to commit further funds to future projects at these same private
13 properties for maintenance. Using these funds for private property is to provide
14 one-time catalyzing funds to incentivize repairs, construction, and meeting needs
15 the real estate market cannot on its own, not to subsidize ongoing operations.
16

17 **Additional Policy and Choices to Address in Implementation Ordinance(s)**

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19 This version does not directly address the many other policy choices to make
20 regarding implementation of a new tax. Some ideas are noted briefly here for future
21 consideration:

- 22 • The portion of the tax for property tax relief, as a percent of total revenue, will
23 vary year over year. While taxpayers will inevitably experience some volatility
24 in their tax bills in the first years of the tax, there may be ways to smooth out
25 peaks and dips long term with a policy like calculating the under-the-cap
26 portion of revenue over a 3-year average (using the most recent 3 years of
27 collections on a rolling basis). This may require more enabling language in
28 the ballot measure, but was not specifically included in this version.
- 29 • Maximum taxable amounts on a transaction should not be set across the
30 board, but considered for categories of higher-price goods and services. For
31 example, transaction caps can be set for vehicles, boats, and airplanes, that
32 may be different than those for materials such as lumber and appliances;
33 separate limits may be appropriate for contract services. There should be
34 further modeling to define appropriate levels by product and service type.
- 35 • Exemptions are not directly addressed in the ballot language, but allows for
36 an ordinance setting exemptions in code, which will have its own public
37 hearing process. Many exemptions in other versions are worthy of
38 consideration, but there are two distinct approaches proposed, that should
39 be reconciled. The first is to exempt certain goods and services, no matter
40 who the purchaser is; the second is to exempt certain people or households
41 from paying the tax on any goods, based on socioeconomic status. While a
42 blend of these approaches may be appropriate (for example, exempting rent
43 or medical services for all people), in several situations they are duplicative.
- 44 • Recognizing the cost of collection for this tax, and the different level of
45 administrative work for larger and smaller businesses, there could be a
46 limited exemption for businesses to offset these costs, where businesses
47 retain a portion of tax revenue they collect. One design option is defining tiers
48 based on total revenue, rather than a percentage of total sales tax collected,
49 because it can allow for a more generous exemption “floor” for very small

1 operations. This example is based on businesses' reported gross revenue:

- 2 ○ Less than \$10,000 gross revenue: can retain a credit up to \$1,000
- 3 ○ At least \$10,000 and less than \$50,000: up to \$1,500
- 4 ○ At least \$50,000 and less than \$100,000: up to \$2,000
- 5 ○ At least \$100,000 and less than \$500,000: up to \$3,000
- 6 ○ At least \$500,000 and less than \$1,000,000: up to \$4,000
- 7 ○ More than \$1,000,000: up to \$5,000
- 8 ● Other versions include adoption of the Alaska Remote Seller Sales Tax
- 9 Code, entity authorized to collect remote sales (online sales) from individuals
- 10 on behalf of communities, and remit to those communities. The MOA already
- 11 participates in this for alcohol sales completed online and shipped to
- 12 customers; this should be included, and not require approval on the ballot.

13 **Another Critical Future Revenue Source: Stormwater Utility (SWU)**

14 This proposal does not directly address, but recognizes the need for,
 15 implementation of a stormwater utility (SWU). This new utility is already authorized
 16 in code, but needs to be operationalized. SWUs are common practice in American
 17 cities to address stormwater, drainage, and runoff needs, and the impacts of water
 18 on infrastructure and the built environment, separately from wastewater and solid
 19 waste generation, which are handled by existing utilities. This utility is intended to
 20 fund, over time, the infrastructure needed to manage drainage and runoff.
 21 Unmanaged drainage issues continue to be a significant cost driver in the
 22 Municipality's capital projects, from emergency repairs to upgrades, as well as for
 23 Anchorage property owners who experience damage from flooding, erosion, and
 24 other impacts. Like many other types of infrastructure, the Municipality has a large
 25 backlog of projects to address stormwater issues.

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 27
 28 All property owners would likely be rate payers, similar to how customers connected
 29 to city water and sewer pay for this service. Ratepayers who reduce or prevent
 30 runoff of stormwater from their property into the system will also reduce their
 31 financial obligations to pay into this shared system, but large property owners,
 32 particularly those with surface parking lots and insufficient stormwater retention, will
 33 see the largest cost increases. While it is not practical to directly tie together the
 34 question of a sales tax including property tax relief with implementation actions for
 35 the new SWU, it should be noted that property tax relief can be seen as an offset
 36 for those property owners who stand to have the highest rates. For this reason, the
 37 property tax relief portion was not removed in this version, but remains with the
 38 intent that it is seen as an offset offered, with the understanding the SWU will be
 39 implemented as soon as is feasible.

40 **Precedents for Public Investment in City Improvements**

41 ***Special Assessment Districts***

42
 43 Existing Municipal code ([AMC 19.10.020](#))¹ describes creation of special assessment
 44 districts, and the variety of infrastructure, capital improvements, and services that
 45

¹ AMC 19.10.020 Special Assessment Districts: Authorized improvements and services. Direct link:
https://library.municode.com/ak/anchorage/codes/code_of_ordinances?nodeId=TIT19SPAS_CH19.10SPAS_DIAU_19.10.020AUI MSE

1 are generally authorized to use with special assessment funding. This is the legal
2 framework for the Downtown Improvement District, and services provided by
3 Anchorage Downtown Partnership (ADP).

4
5 ***City-building in Late 19th and Early 20th Century America***

6 The years before and after the turn of the last century were a period of massive
7 wealth-building, economic growth, and urbanization of American communities,
8 spurred by key technological advancements including electrification, light passenger
9 rail, invention of the car, steel construction. This rapid growth also brought a large
10 population of workers to cities seeking opportunity, as well as complex social issues
11 to cities: tenement (substandard) housing, water and sanitation needs, urban
12 poverty, and other challenges with many humans living together in the same spaces.

13
14 To address these challenges, two distinct movements arose, both of which had
15 lasting impact on the physical form and complex operational systems of cities:

16
17 The first was the City Beautiful movement, which focused on building grand civic
18 buildings, parkways, and amenities for American cities to rival the large, wealthy
19 cities of Europe. This approach left a legacy of civic monuments, institutions, and
20 public spaces that came to define the character of our major cities: examples include
21 Chicago's lakeshore, Washington D.C.'s National Mall, and Coral Gables, Florida.

22
23 The second was less visible today, but equally important: Progressive social reforms
24 championed by city leaders such as Theodore Roosevelt in New York City,
25 advocates such as Jane Addams with Hull House in Chicago, and others. These
26 efforts focused on building urban infrastructure such as sanitation systems, drinking
27 fountains, and public transportation; improving standard of living through regulation
28 of housing quality, working conditions, and public education; and ensuring swift and
29 effective emergency response through creation of fire and police departments.

30
31 Both movements made great and lasting contributions to cities: when considering
32 how, and what, to build great cities in the 21st century, we would be wise to
33 remember the value in investing in both our needs *and* our aspirations.

34
35 **I request your support for the ordinance.**

36
37 Reviewed by: Assembly Counsel's Office

38
39 Respectfully submitted: Anna Brawley, Assembly Member
40 District 3, West Anchorage