FISCAL IMPACT ANALYSIS

REVENUE/IMPLEMENTATION STRATEGIES

Prepared for
Anchorage 2020
Anchorage Bowl Comprehensive Plan
Municipality of Anchorage, Alaska

June 30, 2000

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MEMORANDUM

To: Municipality of Anchorage

From: Tischler & Associates, Inc. (TA)

Date: June 30, 2000

Subject: Revenue/Implementation Strategies

I. EXECUTIVE SUMMARY

TA's evaluation of five growth scenarios resulted in several important findings. One was that the Municipality is not in a position to provide current levels of service to new development under the present revenue structure without finding new revenue sources or raising existing rates, as all five of the scenarios evaluated generate long-term average annual deficits to both the General Fund and School District. Related to this, is a revenue structure that relies on local property taxes and to a certain extent, state and federal revenue, with few other significant revenue sources.

This document discusses ways to enhance and maximize revenues to the Municipality that would assist in overcoming deficits generated by new development without a subsidy from the existing tax base. At their current levels, the traditional sources of Municipal funding (i.e. property tax, state and federal revenues, user fees and local revenues) are inadequate to fund the provision of current levels of service to new growth over the next 21 years. Given that the Municipality must abide by the existing voter-approved local tax limit, existing revenue sources the Municipality should consider for *rate increase* includes hotel/motel tax, automobile tax, tobacco tax and user fees[1]. The major new revenue source, which the Municipality should seriously consider, is the local option sales tax. TA also recommends considering the implementation of a transfer tax on real property ownership transfers and investigating the feasibility of impact fees.

The table below summarizes revenues on an average annual and cumulative basis for selected new revenue sources. If the two new sources below were implemented, the additional revenues could be $53 million on an average annual basis. This compares to the average annual General Fund and School District deficits from new growth of $30 million from 1999 to 2020 under the Preferred scenario.

[1] In 1983, the Municipality of Anchorage amended its Municipal Charter to adopt a property tax limit. This local limit is distinct from and higher than the proposed State-wide 10 mill property tax cap that will be voted on in November 2000.

Selected Ways to Enhance Revenues
Municipality of Anchorage, Alaska

Source	Avg. Ann. Revs. New Growth	Avg. Ann. Revs. Exist. Base	Avg. Ann. Total
Implement 1% Local Option Sales Tax	$665,032	$20,431,879	**$21,096,911**
Implement 1.4% Transfer Tax	$10,904,762	$21,026,020	**$31,930,782**
Total	**$11,569,794**	**$41,457,899**	**$53,027,693**

A. Background

Tischler & Associates, Inc. (TA) was retained to conduct a fiscal analysis of five different development scenarios. Average annual net deficits are generated by new growth under all five scenarios, with the net deficits much greater for the School District than for the General Fund. Therefore, the Municipality is not in a position to provide current levels of service to new development under the present revenue structure without finding new revenue sources or raising existing rates. Another major finding is that the fiscal differences between the land use alternatives are relatively minor. A third finding is a revenue structure problem, in that there is a focus on property taxes and to a certain extent, state and federal revenue. The state and federal sources have been facing multi-million dollar cuts for the past couple of years, and this trend is expected to continue. In the current fiscal year budget document, these three revenue sources comprise 67% of FY99 revenues. As is discussed in the analysis, Federal and State revenues are not considered growth-related revenues, as they cannot be directly attributed to new development in the Municipality. In fact, certain federal and state revenues are expected to decrease. As a result, property taxes is the primary growth-related revenues, comprising anywhere from 85% to 87% of total growth-related General Fund revenues, depending on scenario.

This memorandum focuses on possible strategies and implementation alternatives for reducing any fiscal deficits, or conversely, maximizing and enhancing revenues. The two broad categories are cost factors and revenue sources. These are discussed in turn.

II. COSTS

In many communities, it is easier to reduce costs than find new revenue sources or increase rates on existing sources. Although this is generally less desirable than raising revenues, it is becoming increasingly common, as state and federal funding has decreased over time, as has been the case in Anchorage. Even as non-local revenue declined, communities have been forced to deal with infrastructure replacement issues as well as infrastructure needs for new growth. Some cost reduction possibilities are discussed in this section.

A. Minimize Expense Increases

An obvious way of reducing costs is to reduce expenses. Under this approach, salary and cost increases would be minimized. However, this approach may be undesirable, especially in today's economic conditions, and should be considered a last resort.

B. Reduce Levels of Service

Reducing levels of service is different than minimizing salary and cost increases. Reducing the levels of service means having more residents served by the same number of positions or facilities. Reductions in levels of service can range from longer response times from the Police and Fire Departments, less active park acreage being developed, and fewer personnel to service existing and new residents.

C. Postpone Capital Facilities

Another likely candidate for decreasing costs in order to enhance revenues is the postponement of capital facilities. In many cases, this postponement will result in existing capital facilities providing lower levels of service, such as overcrowded parks. Generally, the postponement of a capital facility will result in overcrowding or over-utilization of existing facilities. It may increase operating and maintenance costs for existing facilities. By the same token, postponing some facilities, such as a new swimming pool, will also lower operating expenses due to lack of additional staff needs.

D. Privatization

An increasing number of jurisdictions are contracting out ("privatizing") services to the private sector. The cost for providing the services is sometimes less expensive in the private sector, particularly in a very competitive market place. Two obvious disadvantages to this approach are: 1) public sector employees could be laid off if their activities are contracted out, and 2) if there are very few private sector vendors offering the service, and the Municipality no longer has a work force to provide these activities, there could be some difficulty in starting up the service again in the public sector, if the Municipality becomes dissatisfied with the private vendor.

III. REVENUES

The FY99 Municipal Budget totals $257 million. Historically, the property tax has been the primary source of revenue for the operating needs of the Municipality and is the primary local revenue dedicated to infrastructure. Property taxes comprised 59% of the FY99 Municipal Budget. The Municipality has also relied heavily on state and federal revenues, particularly for infrastructure spending. With the Municipality's property tax rate limited by the charter amendment passed by the voters in 1983, raising the property tax rate is not considered a viable revenue strategy in the context of this analysis. The Municipality does, however, have several existing revenues sources to which rate increases could be applied. In addition, there are several additional funding mechanisms that may be used enhance the fiscal future of the Municipality of Anchorage. To develop fair, practical and effective ways to increase revenues, it is recommended that attention be paid to the following characteristics of each: equity, economic development, adequacy, ease of administration and legal feasibility.

A. Property Taxes

A charter amendment passed by the voters of Anchorage in 1983 set an upper limit on the amount of taxes the Municipality can levy in any given year. The tax limit is generally based on the amount levied in the previous year, increased by the rate of inflation and the five-year average population growth. Exceptions to the limit are taxes allowed for payment of debt service and judgments against the Municipality and taxes to fund voter-approved services. While this charter amendment limits tax increases, it does not limit expenditures if there are sufficient revenues from other sources to pay for them. However, the Municipal Code does include a spending limitation that restricts expenditure increases to inflation, population and voter/legally-mandated services.

B. Hotel/Motel Tax

The Municipality adds an 8% hotel/motel tax to the cost of room rentals of less than 30 days, with 50% of this tax dedicated to promotion of tourism and 12.5% dedicated to management of the Egan Civic & Convention Center. The FY99 budget contains an estimate of $9,000,000 in hotel/motel tax revenue. At a rate of 8%, this means the hotel/motel tax base is approximately $112,500,000. If the Municipality were to implement a 2% increase in the hotel/motel tax rate, the *existing* tax base would generate an additional $2,250,000 annually.

C. Auto and Tobacco Taxes

The Municipality currently taxes automobiles registered to Municipal residents and businesses, as well as the sale of tobacco products within the Municipality. These two revenue sources total $3,758,870 and $4,979,000, respectively. Given that these two revenue sources are likely to increase with additional growth in the Municipality, consideration should be given to increasing these rates. In addition, it may benefit the Municipality to designate these two revenue sources as special purpose taxes, meaning they are restricted for a special purpose. This may make any increase in the rate more successful politically, as they are restricted to a special purpose, such as paying interest on road bonds.

D. Local Option Sales Tax

A local option sales tax is a particularly attractive way to generate local revenue, especially in communities where the levying of property taxes has been restricted and there are considerable sales to outside residents. Both of these characteristics are present in Anchorage. This type of tax adds a voter-approved tax to the purchase price of goods sold. The Municipality of Anchorage currently has no sales tax. A sales tax is attractive because it is relatively easy to administer and broadens the tax base to include non-residents. Although sales tax revenues will vary with spending trends and are therefore less reliable than property tax revenues, its potential as a Municipal revenue source should not be overlooked. For example, it is estimated that there is approximately 19 million square feet of *existing* retail-related space (including hotel/motel space) in the Municipality. Assuming sales per square foot of $106.67 (from Dollars & Cents of Shopping Centers, 1995, Urban Land Institute), total retail sales in the Municipality can be estimated at $2,043,187,900 A one percent sales tax would net the Municipality approximately $20,431,900 annually from the *existing* base. Retail-related square footage is estimated to increase by 13,092,400 square feet from 1999 to 2020, which generates estimated retail sales of $1,396,566,308. A one percent sales tax would net the Municipality approximately $665,032 annually from *new growth* ($13,965,663 divided by 21 years).

E. Income Tax

A local income tax is levied against income, either by place of employment or place of residence. The revenues generated from a local income tax depend on the tax base and the tax rate. Much like the local option sales tax, income taxes are more susceptible to economic swings than property tax revenues. In order to impose a local income tax, the Municipality may need to revise State-enabling legislation for permission to collect such a tax. If enacted by place employment, as with the local option sales tax, non-residents would bear a significant share of the burden of a local income tax. The Alaska Department of Labor estimates that non-residents earned about 18% of the Municipality's wages in 1998.

F. User Fees

The Municipality has already implemented a number of user fees (fees for service) to help recover the cost for providing certain services. User fees ensure that those who benefit from specific governmental services bear the cost. This is one reason why they are becoming increasingly popular. The Municipality should review those user fees it currently charges to determine whether they cover the full cost of services provided. In addition, the Municipality should evaluate other potential user fees.

G. Impact Fees

Impact fees are one-time cash payments required from new growth to pay for its fair share of capital facilities. Impact fees are collected in many communities across the country. Depending on the State, special enabling legislation may be required. Generally, impact fees are used for water and sewer facilities, parks, libraries, schools, public safety facilities and apparatus, roads, transit and general government facilities. The Municipality should seriously consider the feasibility of impact fees.

H. Excise Tax

Similar to impact fees, excise taxes are often used to fund new infrastructure and services necessitated by new growth. Assuming the Municipality could legally impose an excise tax, this revenue mechanism has greater flexibility than impact fees because it is a tax, rather than a development exaction that must withstand a rational nexus and direct benefit test. An excise tax is usually imposed on a square footage basis. For example, Howard County, Maryland has an excise tax of $0.80 a square foot for residential and non-residential structures and $0.40 a square foot for warehouse and "big box" structures. Howard County is currently collecting approximately $6 million a year in excise tax revenue.

I. Transfer Tax

A potential source of revenue that many jurisdictions use, particularly in Maryland, is the Transfer Tax. Transfer Taxes are imposed upon recordation of instruments conveying title to real property. A flat percentage rate can be applied to the actual consideration to be paid for the property. For example, Prince George's County, Maryland has a rate of 1.4% of the actual consideration paid. Montgomery and Howard County, Maryland impose a rate of 1%.

If the Municipality of Anchorage were to implement a Transfer Tax at the same rate as Prince George's County, Maryland (1.4%), assuming properties turnover every 10 years (or 2.1 times over 21 years), this revenue source could yield almost $229 million from new growth over the 21-year analysis period of the Preferred scenario, or $10.9 million annually. Assuming the same turnover rate for the existing property base, the additional income generated would approximate $441 million over the same 21-year period. The total revenue that could be generated from new growth and the existing property base combined is approximately $483 million, or $23 million on an average annual basis.

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