

**Municipality of Anchorage Budget Advisory
Commission 2014 Report on Property Tax
Assessments and Exemptions**

December 2014

**BUDGET ADVISORY COMMISSION
MUNICIPALITY OF ANCHORAGE**

January 14, 2015

Honorable Dan Sullivan, Mayor
and
Honorable Dick Traini, Assembly Chair
Municipality of Anchorage
632 W 6th Avenue
Anchorage, AK 99501

Re: Budget Advisory Committee -- Property Tax Review 2014

Gentlemen:

Any tax system must be fair to survive the scrutiny of the public process and make participation a willful action. This past year the Municipal Budget Advisory Commission completed a comprehensive review of those properties in Anchorage that are exempt from property taxes as detailed in the enclosed report. Within the report is substantial data and information used to develop the report summary. This report was approved by the Budget Advisory Commission at its meeting on December 3, 2014.

The report outlines some of the inequities and problems as to the current property tax payer subsidization of numerous nonprofit and governmental entities. The current challenges to the state's financial health due to falling oil prices add many reasons for concerns in regards to how the state's financial status, expected reductions in revenue sharing, and other programs are dealt with that have the potential to pass down costs locally, thereby increasing the load on current property tax payers.

The report provides recommendations and solutions to ease the subsidization by current property tax payers by instituting a payment in lieu of taxes system that allows collection of usage fees from nonprofits and others tax exempt entities to offset the cost of basic public services now fully paid by the nonexempt taxpayers.

We would encourage the Mayor, Assembly, and State Legislators to review the report, and consider implementing needed state legislation and municipal ordinance changes that will allow and impose a payment in lieu of taxes system. We feel that these changes will benefit current property tax payers and make property taxes fairer for all citizens.

Sincerely,



Shirley Nelson, Chair
Budget Advisory Commission
Municipality of Anchorage

Cc: Honorable Bill Walker, Governor
Members Alaska State Legislature

BUDGET ADVISORY COMMISSION REPORT

The Municipal Budget Advisory Commission during the early part of the Calendar Year 2014 elected to review the Alaska Constitution, Alaska Statutes and Municipal Ordinances in regards to property taxes within the Municipality of Anchorage. The review encompassed definitions, applications, mandatory and elective exemptions with a concern about the increased shifting to the payers of property taxes

The expansion of these reviews also extended to the Internal Revenue Code Sections 501(c) (1) through Section 530. The review also encompassed Section 4947(a) (1), 4947(a)(2), 509(a) and other minor related sections of the Code.

The information review items are listed by divider in the Binder dated November 2014 as follows:

SECTION 1: ALASKA CONSTITUTION:

SECTION 2: ALASKA STATUTES:

SECTION 3: ANCHORAGE MUNICIPAL ORDINANCE:

SECTION 4: ANCHORAGE PROPERTY TAX EXEMPTIONS SYNOPSIS:

SECTION 5: REPORT ON PROPERTY RELIEF PREPARED BY HG CONSULTING FOR THE MUNICIPALITY OF ANCHORAGE IN 2014:

SECTION 6: TAX COMPLIANCE FOR TAX -EXEMPT ORGANIZATIONS
SNAPSHOT OF CONTENTS:

SECTION 7: PAYMENT IN LIEU OF TAXES FROM ANDOVER MASSACHUSETTS: THIS PROVIDES ALL OF THE INFORMATION NECESSARY AS TO THEIR IMPLEMENTING A PILOT PROGRAM IN THEIR STATE

SECTION 8: A CD ENCLOSED WHICH SHOWS ALL PROPERTY EXEMPTIONS BROKEN OUT BY NON GOVERNMENTAL AND GOVERNMENTAL CATEGORIES. THE STATE OF ALASKA COMMUNITY REVENUE SHARING SPREAD SHEET FROM FY 2007-2015.

CURRENT PROBLEMS FOR PROPERTY TAXATION IN APPLICATION OF STATE STATUTES AND MUNICIPAL ORDINANCES WITH GUIDELINE AND REGULATIONS.

1. The definition of nonprofit is not clearly defined as to whether it be State nonprofit or Federal nonprofit. A nonprofit corporation can be a State nonprofit and be exempt from Municipal property taxes, but be responsible for Federal Income Taxes.
2. There are State Mandated Exemptions (AS 29.45.030), Codified in Municipal Code (12.15.015 (D) and optional Exemptions (AS 29.45.050).
3. In neither State Statutes, nor Municipal Code is there a requirement for a nonprofit corporation to meet the Federal Qualification definitions of various classes of nonprofit.
4. The State Statues are vague on the implementation of PILOT (Paid in Lieu of Taxes) options for Municipalities and Boroughs.
5. Unfunded Mandates, i.e. senior's first \$150,000 exemption, when created to remove or reduce taxable value from tax rolls results in a shift of the tax burden to other nonexempt taxpayers. It has been estimated to cost approximately \$48,000,000.00 in assessed valuations annually for the Municipality of Anchorage's "other" taxpayers.
6. The Municipal Code page 7 (b) (ii) requires a 501(c) (3) determination only letter, yet there are approximately 26 other categories within section of the code that are not being classified. All are classified under 501(c) (3).
7. A number of religious exemptions are in excess as provide by IRS Code 501(c) (3) for Churches as a Public Charity under Section 509 (A) (170b(1)(A)(i)-(v).
8. There are numerous other areas of Alaska Statutes and Municipal Ordinances that need review, modification and change to restore fairness to our tax code.

SYNOPSIS OF SOME RECOMMENDED SOLUTIONS

1. Legislation needs to be introduced at the State Level to allow Pilot Agreements with State Mandated Exemptions inclusive of the State itself for all properties and land owned by the State all of its sub-entities (universities, buildings). This may be accomplished with adjustments for Revenue Sharing funds to a pilot program which would possibly allocate more money to Anchorage. The exemptions should also include provisions to implement Pilot Agreements with Federal, Native, Religious, Educational groups and Foundations and all other exempt Categories. These Pilot agreements should include only the tax categories of Police, Fire and Public Works. The Statute Change should define Non Profit, as being under certain sections of the IRS Codes and being in compliance with their requirements.

2. When the State Legislation is passed the Municipality of Anchorage will need to implement a comprehensive review and changes to its Current Ordinances and guideline. It should encompass the definitions of Non Profit to be those sections as listed above under problems. The definitions can then be used to re-code all exemptions as per IRS Code, requiring IRS Letters of Exemption. The Municipality can then establish a system for partial exemption as Andover, Massachusetts has for services and benefit provided to the communities.

3. The current exemption on property taxes of 2% for an installed sprinkler system will need to be repealed, as this is a code requirement and there is no need to give a tax credit. This an outdated provision.

4. The current Municipal Ordinance list of Exemptions are as follows: Sprinkler, Education Private, Religion, Charitable, Education, Municipality of Anchorage, Education, State, Veterans Organizations, Community Purpose, Cemetery, Housing Authority, Religious Housing and Alaska Native Claims. Currently there are approximately 3,200 governmental parcels of land and buildings that are exempt and there are approximately 2,600 parcels of non-Governmental parcels that are exempt.

5. The Municipality should review and implement a number of the provisions in the Andover, Massachusetts program, as to 5 year phase-in period for bringing exempt entities into full payment for Police, Fire and Public Works, with adjustment credits for Public Benefits provided that benefit the community and save taxpayers money.

6. The Breakout of various exemptions are located in TAB #4 which totals approximately \$76,000,000.00.

7. It has been estimated that with implementing proper exemptions coding and with Payment in Lieu of Taxes (Pilot) provisions that \$40-\$60 million additional dollars could be collected to substantially reduce the burden on the current nonexempt property tax payers.

8. There are currently 4 Pilot payment in lieu of taxes (Pilt) payments being made to the Municipality and are estimated for 2014 as follows:

1. Federal Government: \$646,406.00. This amount has been decreasing since 2008 when it was \$770,443.00

2. Alaska Housing Finance: \$183,468.00

3. Aurora Military Housing: \$1,675,937.00

4. Cook Inlet Housing Authority: \$87,343.00

The total estimated income from these entities are: \$2,717,191.00.

This report was prepared by the Municipal Budget Advisory Commission for distribution to the Office of the Mayor, Members of the Anchorage Assembly, Governor and members of the Alaska Legislature.

4.50.030 - Budget advisory commission.

- A. There is established a municipal budget advisory commission consisting of eleven (11) members.
- B. Members of the commission shall be appointed by the mayor and confirmed by a majority vote of the assembly.
 - 1. Notwithstanding section 4.05.040, terms shall commence on July 1 and end at midnight on June 30, except as to members appointed to fill an unexpired term.
 - 2. The municipality and the school district shall provide sufficient staff assistance as needed by the commission in its review of the municipal and school budgets, respectively.
- C. The purpose of the commission is to provide the assembly, the mayor, the school board and the superintendent of schools well-informed advice as to the budgets and budgeting process from citizen commission members who provide a broad, rather than a specific issue, interest in the budgets.
- D. The commission shall have the following powers and duties:
 - 1. Advise the assembly, the mayor, the school board and the superintendent of schools as to the municipal and school budgets;
 - 2. Participate with the assembly and the mayor in the review of the budgets, including assembly work sessions on the budget and other meetings where budget issues are a significant component of the meeting agenda;
 - 3. May make annual reports:
 - a. On the school budget, to the school board before final adoption by the school board, with a copy to the assembly; and
 - b. On the municipal budget, to the assembly before the final adoption of the annual budget;
 - 4. Work to increase public understanding of the municipal and school budgets and participation in the budget process;
 - 5. Undertake special studies and report findings to the assembly, the mayor, the school board and the superintendent of schools, as appropriate;
 - 6. Develop such other reports as the commission deems necessary related to these powers and duties; and
 - 7. Form subcommittees for consideration of municipal or school district budgets or components thereof.
- E. The sunset provisions in section 4.05.150 shall not apply to this board.

(CAC 2.64.180—2.64.190; AO No. 88-36; AO No. 94-188(S), §§ 1, 2, 10-25-94; AO No. 95-223, § 1, expires 1-20-1998; AO No. 99-7, § 1, 1-26-99, expires 1-20-02; AO No. 2001-189, § 2, expires 1-20-05; AO No. 2004-96, § 1, 6-8-04; AO No. 2004-123, § 1, 9-21-04; AO No. 2008-33, § 1, 2-26-08; AO No. 2011-64(S-1), § 4, 6-28-11; AO No. 2011-81, § 2, 8-30-11)

Cross reference— Budgets and appropriations, ch. 6.10; administration of the budget, ch. 6.30.