

**MUNICIPALITY OF ANCHORAGE**  
**Summary of Economic Effects -- General Government**

AO Number: 2024-97

Title: **AN ORDINANCE OF THE ANCHORAGE ASSEMBLY SUBMITTING TO THE QUALIFIED VOTERS OF THE MUNICIPALITY OF ANCHORAGE A BALLOT PROPOSITION AMENDING THE HOME RULE CHARTER TO AUTHORIZE A TAX ON SHORT-TERM RENTALS.**

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

CHANGES IN EXPENDITURES AND REVENUES:		(In Thousands of Dollars)			
	FY26	FY27	FY28	FY29	FY30
Operating Expenditures					
1000 Personal Services					
2000 Non-Labor					
3900 Contributions					
4000 Debt Service					
TOTAL DIRECT COSTS:	\$ -	\$ -	\$ -	\$ -	\$ -
Add: 6000 Charges from Others					
Less: 7000 Charges to Others					
FUNCTION COST:			\$ -	\$ -	\$ -
REVENUES GENERATED:	\$ 1,600	\$ 3,800	\$ 4,200	\$ 4,700	\$ 5,200
CAPITAL:	\$ 25	\$ -	\$ -	\$ -	\$ -
POSITIONS: FT/PT and Temp	-	-	-	-	-

**PUBLIC SECTOR ECONOMIC EFFECTS:**

**Public Sector Revenues**

The ordinance increases room tax by 5% only on rentals at residential units. Residential units are defined to specifically not include hotels, motels, and bed and breakfast rentals. A short-term rental (STR) is any rental with a period less than 30 days, exactly the same as room tax. The amount of revenue expected to be generated by this 5% levy is expected to grow over time as the market expands and prices increase. The expected revenue for a full year in 2026 is about \$3.4 million. As implementation will depend on an April 7th, 2026 vote, we expect that implementation would begin July 1, 2026, with tax for Q3 and Q4 coming in that year. That brings the expected revenue in 2026 to \$1.6M. The uncertainty is quite high due the variability in growth rates in the past decade. The lower bound of expected 2026 revenue is \$3.0M, and the upper bound as high as \$5.1M with 95% confidence. The expected revenue is based on an 11% compound annual growth rate, based on 2024 figures. The 11% compound growth rate runs similar to historical trends. This market, as with many markets is subject to market cycles. In 2020, this segment of the market experienced a decrease of 46% in sales. That level of shock is not forecast during the 5-year revenue estimates, but does affect the confidence of the estimates.

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) 14.08 specifies that the Assembly may prescribe exemptions to the tax.

It is likely that some STRs currently evade taxes. This would be done by renting without using a rental platform, having on-the-side extensions, or having bookings through alternate means of advertising such as word-of-mouth, or repeat customers. This additional tax would increase the incentive to not report those additional short-term rental revenues, as they would need to be filed separately from the short-term rental advertising agency.

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## Public Sector Expenditures

It is expected that software modifications would need to occur should this ordinance be implemented. The existing room tax filing return forms would be amended to include such measures that would include this tax. It is expected that the software modifications would cost up to \$25K. It is expected that these expenditures would be included in the "net revenues" in the designated funds, and not required to be paid by the general government operating fund. No additional cost beyond implementation are expected to be incurred, though proper accounting treatment may require that some portion of the costs of administering the existing tax be allocated to this fund. The modifications will need to take place prior to receipt of tax receipts, so funding may be needed prior to tax receipts.

Data in the residential lodging market is difficult to gather in a comprehensive manner. This information is gathered comprehensively in terms of revenue. As taxing authority, the Municipality of Anchorage (MOA) Treasury division retains market information that could be potentially damaging to taxpayers, especially any with a sizeable market share. If such records were made public or security were breached, it would increase competition, but could potentially also make the MOA liable for any damages.

## PRIVATE SECTOR ECONOMIC EFFECTS:

The proposed tax would make the non-bed & breakfasts, non-hotel and non-motel STRs less competitive to their market peers. The host has the option to pass on the increase on to the end user rather than bearing the cost themselves.

One study<sup>1</sup> found that a 1% increase in submarket price increased demand by 0.05%, meaning that the effect is fairly inelastic. In other words, the 5% increase in price via the proposed tax will shift rentals to the competition by about 0.25%. The study also suggested that an increase in price will reduce demand to the affected residential type STRs by about 0.35% on average. In other words, less than half of one percent of the rentals that would have occurred will not occur. These study's results imply that unless the competition is fierce, and profit margins very thin, that this ordinance will likely not have the effect of shifting residential type STRs to the rental market. As growth expansion in this market is rapid, that suggests that competition is not currently fierce, nor profit margins thin. Additionally, the shift in demand to hotels, motels, and bed & breakfasts will likely be very modest.

<sup>1</sup>Singh A, Corsun DL. Cross-Sectional Differences in Hotel Revenue Performance During the Covid-19 Pandemic. *Cornell Hospitality Quarterly*. 2023 Jul 4;19389655231184475. doi: 10.1177/19389655231184475. PMID: PMC10323521.

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Prepared by: *Glenn Cipriano, Municipal Treasurer*  
*Loren Crawford, Deputy Municipal Treasurer*

Telephone: 343-4092