



Project Anchorage Economic Impact Analysis

OCTOBER 2024



October, 2024

Dear Anchorage Residents:

Attached you will find reports produced by the University of Alaska's Center for Economic Development (CED) as well as the University of Alaska Anchorage's Institute for Social and Economic Research (ISER) regarding the potential economic impacts of Project Anchorage. The Project Anchorage proposal, as proposed by the business community, combines a 2% sales tax for dedicated property tax relief with a 1% sales tax dedicated to funding capital investments and projects that will spur economic growth and make Anchorage a more attractive place to live for all residents. The attached report outlines an economist's view on how households of differing income levels may be impacted by the measure, and gives a snapshot based on Project Anchorage's initial proposal.

Throughout the summer and fall of 2024, we met with community groups, trade groups, and civic organizations to share our proposal. We solicited project ideas from all of Anchorage, receiving over 300 project ideas. And, we asked experts for advice on how to create a proposal that incorporates accountability, equity, and transparency measures that will reassure Anchorage voters in April. In October, the measure was introduced at the Assembly as AO 2024-105.

Project Anchorage leadership recognized early on that it is critically important that this economic revitalization measure be right-sized for Anchorage and tailored to the families and businesses that make up our unique community. That is why we commissioned professional economic research based on federal consumer expenditure data, and are advocating for adjustments to the original Project Anchorage proposal based on its results. This research serves as a baseline and has informed recommended improvements to the measure that have been and are being incorporated into the Assembly's introduced AO 2024-105.

We consider this report a jumping-off point for a broader conversation and invite you to reach out to share your questions and ideas as we keep front of mind the goal of making Anchorage a better place to live, recreate, and do business. While we know the public process may result in some changes to the initial proposal (as detailed in this report), we are also committed to preserving our intent to invest in our community for future generations. Get in touch with us at info@projectanchorage.com, we would love to meet and talk with you.

Sincerely,

Project Anchorage Coalition

Anchorage Economic Development Corporation
Anchorage Downtown Partnership
Locally Grown Restaurants
Anchorage Community Development Authority
Anchorage Home Builders Association
Visit Anchorage

Chugiak Eagle River Chamber of Commerce
Northrim Bank
Calista Corporation
Anchorage Chamber of Commerce
RIM Architects
Sadler's Home Furnishings

July 2024

Sales Tax Estimates for the Municipality of Anchorage: 2024 Update

Nolan Klouda, Richelle Johnson, and Ian Mills

University of Alaska Center for Economic Development



Executive Summary

The Project Anchorage initiative seeks to revitalize the Anchorage economy through several initiatives, including by making public investments in capital projects designed to spur private investment. The proposed mechanism to fund this public investment is a three-percent sales tax. Under the Project Anchorage Proposal, one-third of the new revenues would go into a fund for these special capital projects, and two-thirds would be an offset to reduce property taxes under the Municipality of Anchorage's tax cap. Since the Municipality does not currently impose a sales tax, there is no historical data on which to base estimates for revenues.

This analysis is an update to a prior estimate produced in 2023. It uses updated Consumer Expenditure Survey (CES) data from 2021-2022 and other sources to provide estimates for the potential revenues generated by such a tax. Major findings include:

- **A three-percent sales tax would produce almost \$180 million in revenue per year**, or about \$60 million for each percentage point levied. This assumes the tax is charged 12 months of the year with certain exemptions.
- **Several important consumer categories are assumed to be exempt from the tax.** To reduce the burden on low- and middle-income households, exempt categories would include non-prepared foods, rental housing, medical needs, motor fuels, child care, and other categories described in the report. Purchase amounts over \$1,000 would also be exempt.
- **Visitors would contribute about 21% of the total sales tax revenues.** This would include spending on lodging as well as retail goods, tour packages, dining, and other taxable categories.
- **The sales tax proceeds could reduce property taxes by about 19.1%**, assuming that two percent is applied to property tax reduction under the tax cap, and one percent to special capital projects outside the cap. For every \$100,000 in assessed taxable value, this would be a savings of \$308, or \$1,156 for a home valued at \$450,000.

Sales Tax Quick Facts	
Projected total revenues	\$178.9 million
Special capital project revenues	\$59.6 million
Visitor share of tax paid	21%
Property tax reduction (2% below cap)	19.1%
Savings per 100,000 in taxable value	\$308
Savings for \$450,000 home	\$1,156

The estimates presented here should be taken with caution; while they represent the author's best attempt to quantify consumer spending across several categories, the data on which they are based are imperfect and incomplete. Compared to the largest jurisdictions in Alaska with sales taxes, however, these revenue estimates are low when adjusted for population and economic size.

The Project Anchorage Tax Proposal

The Project Anchorage initiative is led by a coalition of business leaders under the coordination of the Anchorage Economic Development Corporation (AEDC). The goal of Project Anchorage is to spur private investment and economic growth in Anchorage by financing a slate of capital projects to be defined through a process of extensive public input. The initiative is modeled on Oklahoma City's successful Metropolitan Area Projects (MAPS) program, which has been credited with reviving that city economically in the 1990s and 2000s.

The Project Anchorage proposal calls for the implementation of a three-percent general sales tax to be levied in the Municipality of Anchorage. Two-thirds of the revenues from the tax would fall under the Municipality's tax cap, to reduce the amount of property taxes collected by the same dollar amount. The remaining one-third would capitalize a fund for MAPS-style special capital projects, which would be allowed to grow for several years.

The three-percent sales tax would be levied year-round on many categories of consumer spending. It would have a \$1,000 cap, meaning that only the first \$1,000 of a given transaction would be subject to the tax. Sales tax caps are common in taxing jurisdictions in Alaska, as they limit the tax paid on larger consumer purchases like vehicles or household appliances. In addition, the Project Anchorage proposal includes several exempt categories which would not be subject to the tax. The exemptions are intended to ensure a more equitable tax system. These are:

- Medical
- Rental housing
- Items for resale
- Financial transactions
- Non-prepared foods
- Motor fuels
- Child care
- Purchases above \$1,000

How much revenue will it produce?

Since there has never been a general sales tax in the Municipality of Anchorage or at the state level, there is no past data upon which to base revenue estimates. To get around this, we used three primary sources of data:

- The CES from 2021-2022 collected by the U.S. Bureau of Labor Statistics (BLS).¹ These data estimate spending by an average household broken into categories like "apparel" and "food at home." Exempt categories like housing were removed from the estimates.
- Program tax reports published by the Municipality of Anchorage, which provide detail on the gross sales of rooms, tobacco, rental vehicles, marijuana, and alcohol. These items would be subject to the proposed sales tax. Since they reflect true recent sales, they provide a more accurate basis than survey-derived estimates.
- The Alaska 2022-2023 Tourism Impact Model by Destination Analysts, providing estimates of visitor spending in Alaska based on visitor surveys collected in 2022.

Applying the three-percent rate to all of the non-exempt spending categories for Anchorage residents and visitors produces an estimate of \$178,867,799 in total annual revenues. The property tax relief amount (two-thirds) would be \$119,245,200, leaving \$59,622,600 (one-third) for special capital projects.

Taxable Spending and Sales Tax Revenue by Category

	Taxable Spending	Tax Revenue	Percent of total
General resident spending	\$4,223,981,705	\$126,719,451	71%
General visitor spending	\$669,672,212	\$20,090,166	11%
Special categories	\$1,066,139,021	\$32,058,182	18%
Rooms	\$384,195,118	\$11,525,854	6%
Alcohol	\$310,812,241	\$9,324,367	5%
Marijuana	\$116,302,172	\$3,489,065	2%
Rental vehicle	\$175,247,401	\$5,257,422	3%
Tobacco	\$79,582,090	\$2,461,474	1%
Total	\$5,959,792,938	\$178,867,799	100%

Table 1 Sources: Alaska Taxable by the Alaska Department of Commerce, Community, and Economic Development, U.S. Bureau of Economic Analysis, and author's calculations.

How much would visitors pay?

A key consideration for a potential sales tax is to maximize the amount of revenue collected from visitors as opposed to residents. Anchorage received roughly 1.3 million out-of-state visitors in 2022, and the number is growing (aside from Pandemic disruptions).² Utilizing the visitor spending survey data from Destination Analysts, we estimate the taxable share of visitor spending in several categories. These data were supplemented by Municipal reports for room and vehicle rental tax, which predominantly reflect visitor spending. Taking these sources together, we estimate that visitors would pay nearly \$37 million in sales tax, or about 21% of the total amount collected.

Visitor Spending by Category

Category	Sales Tax Revenue
General visitor spending	\$20,090,166
Rooms	\$11,525,854
Rental vehicle	\$5,257,422
Visitor total	\$36,873,442

Table 2 Sources: Alaska Taxable by the Alaska Department of Commerce, Community, and Economic Development, U.S. Bureau of Economic Analysis, and author's calculations.

How much revenue do exemptions cost?

Sales tax exemptions for certain essentials like food, housing, and medical care alleviate pressures on low-income households. Other products or services are subject to separate taxes, and may be exempted to avoid double taxation. Below are estimates for two categories (non-prepared food and motor fuels) assumed to be exempt in the baseline estimates, but which could be taxed to increase revenues.

² Alaska 2022-2023 Tourism Impact Model, Destination Analysts for the Alaska Travel Industry Association.

Potential Revenue from Exempt Categories

Exemption Category	Potential Tax Revenue
Food at home	\$39,837,148
Gasoline, other fuels, and motor oil	\$14,848,772
Healthcare	\$26,221,508

Table 3 Sources: Alaska Taxable by the Alaska Department of Commerce, Community, and Economic Development, U.S. Bureau of Economic Analysis, and author's calculations.

Many other jurisdictions charge sales tax on non-prepared food. For Anchorage, this would increase revenues from the baseline scenario by over 20% but also make the tax more regressive. It is less common to tax housing, medicine, child care, and certain other categories. This analysis could not produce revenue estimates for all exempt categories as data is not available for all of them.

Will the sales tax be regressive?

Sales taxes are generally considered to be regressive taxes, meaning that lower-income households tend to pay a greater share of their income than higher-income households do. However, the exemptions included in the Project Anchorage proposal will reduce any negative impacts to low- and middle-income households. According to national CES data, four of the exempt categories—healthcare, motor fuels, shelter, and non-prepared foods—together account for almost 60% of total annual spending for the bottom 10% of households by income. The top 10% of households spend roughly 38% of their total expenditures on these categories.

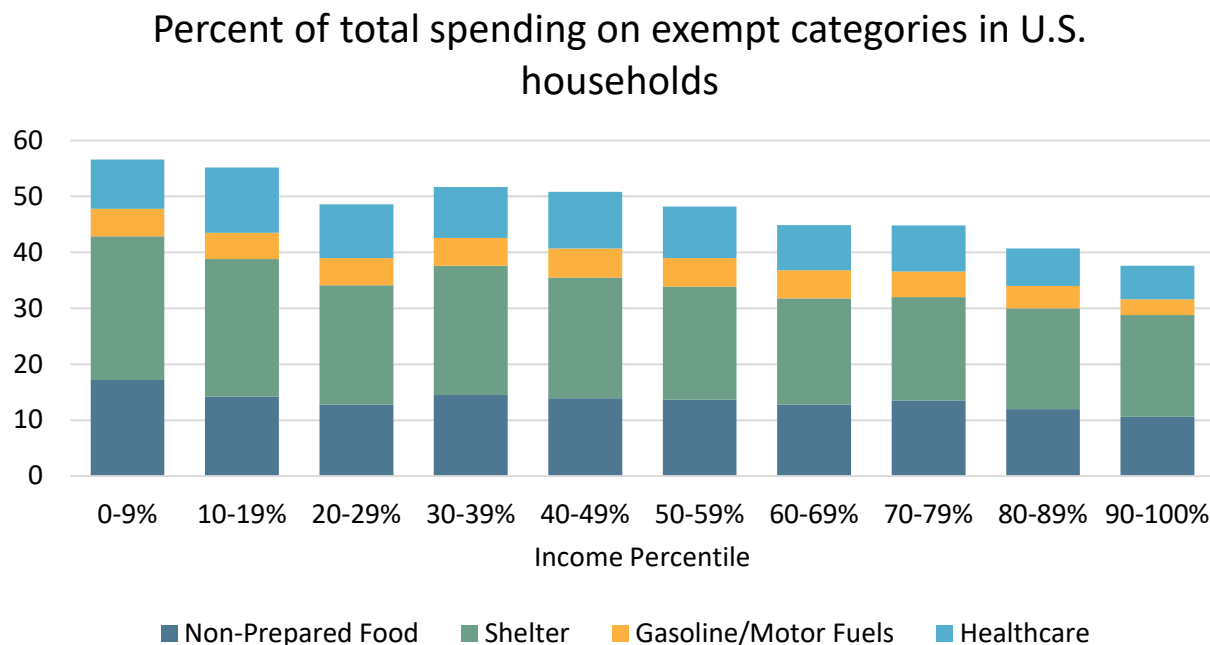


Figure 1 Source: BLS CES, 2021-2023.

It should also be noted that property taxes are regressive as well, since low-income households spend a greater share of their income on housing than higher-income households. Renters also indirectly pay property taxes that their landlords pass to them as part of their rent, a sort of “hidden” tax. As the graph

below shows, both sales and property taxes claim a higher share of income for the lowest-income decile than for the highest. Importantly, these data are taken from the national level and do not reflect the specifics of actual or proposed taxation in Anchorage.

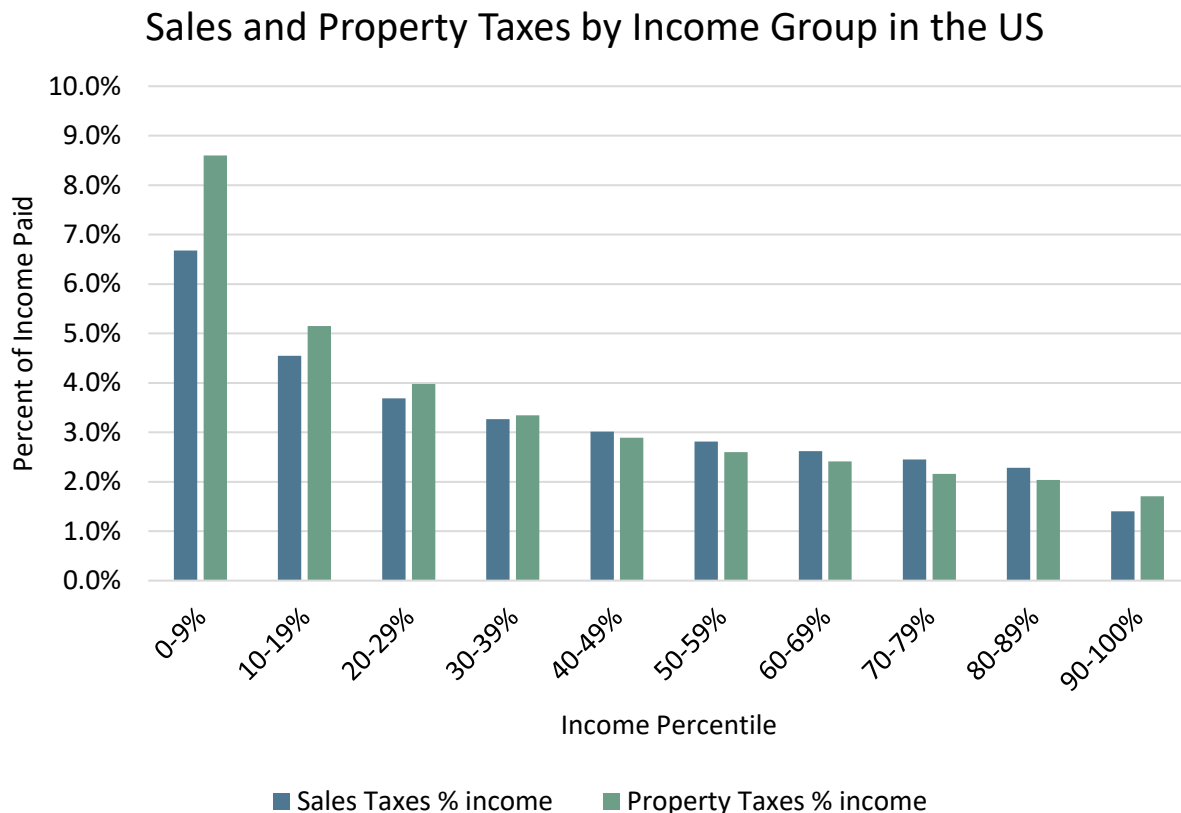


Figure 2 Source: 2015-2016 Annual Social and Economic Supplements (ASEC) by the U.S. Census Bureau. Analyzed by Fleck et. al. 2021.

How much property tax relief is possible?

The Project Anchorage proposal calls for two-thirds of the three-percent levy to be directed to property tax relief, with the remaining one-third for special capital projects. The tables below demonstrate the potential reduction in property taxes for every \$100,000 in assessed value, and for a home assessed at \$450,000 with a \$75,000 residential exemption. In 2024, this home would be taxed at \$6,054 for municipal and school district property taxes.³ This analysis shows that if two percent of a three-percent sales tax is applied to property tax relief, the reduction would be 19% for a year-round tax.

Category	Potential Impact
Sales tax revenue allocated to property tax reduction	\$119,304,822
Average percent reduction in property taxes	19.1%

³ Mill levies in Anchorage vary by service area. This analysis assumes the 2023 mill rate of 17.03, the rate of Tax Districts 1 and 3. According to Municipal Assessor Jack Gadamus, these districts account for 77% of the Municipality's total taxable value. For other service areas, the dollar reduction amounts would vary but the percent reductions would be similar to those shown here.

Reduction per \$100,000 in assessed value	\$308
Reduction for \$450,000 home	\$1,156

Table 4 Sources: Alaska Taxable by the Alaska Department of Commerce, Community, and Economic Development, U.S. Bureau of Economic Analysis, and author's calculations.

Are these estimates conservative or optimistic?

One way to compare the sales tax base between different geographies is to examine the breadth of the sales tax—the total taxable spending as a share of gross personal income. For U.S. states, the median sales tax base was 35.7% in 2021.⁴ By comparing the tax breadth of the present estimates for Anchorage against other jurisdictions, we can judge whether the estimates are conservative or optimistic.

The estimated sales tax base of \$5.9 billion for Anchorage implies a breadth of 27%, below the national median for U.S. states. Comparing the breadth to other Alaska boroughs with year-round sales taxes shows the proposed Anchorage tax to have a narrower breadth, suggesting a conservative estimate. However, most of these other jurisdictions have large seasonal influxes of visitors relative to small populations, and some also tax non-prepared food. This makes meaningful comparison somewhat difficult.

Borough	Tax Rate	Revenue	Breadth
Anchorage	3%	\$178,867,799	27%
Juneau	5%	\$52,377,949	42%
Kenai Peninsula Borough	3%	\$42,900,107	38%
Haines Borough	6%	\$3,604,184	37%
Ketchikan	3%	\$10,252,860	41%
Petersburg	6%	4,141,309	28%
Wrangell	7%	3,531,981	40%

Table 5 Sources: Alaska Taxable by the Alaska Department of Commerce, Community, and Economic Development, U.S. Bureau of Economic Analysis, and author's calculations.

Limitations of these estimates

It should be recognized that the revenue estimates presented here are based on incomplete data, and reflect assumptions that represent the author's best judgement, but may prove inaccurate. Accurate forecasting of sales tax revenues requires detailed data about Anchorage residents' spending on dozens of categories of goods and services. The CES data used to construct these estimates are more conservative than other measures such as the Personal Consumption Expenditures.⁵

Another challenge is that the most recent CES data is from 2021 and 2022, when consumer purchases were still impacted by the COVID-19 pandemic. This means some purchase categories may have been lower than longer-term averages, while others are higher. The data also cover the entire Anchorage

⁴ Jared Walczak, State Sales Tax Breadth and Reliance, Fiscal Year 2021, Tax Foundation.

⁵ See the 2019 BLS analysis of Consumer Expenditure Survey and Personal Consumption Expenditures: <https://www.bls.gov/cex/cepcconcordance.htm>

MSA which includes both the Municipality of Anchorage and the Matanuska-Susitna Valley. The author had to estimate the Anchorage portion.

The impact of a sales tax cap of \$1,000 (or another amount) represents another difficulty for these sales tax estimates. Expenditure data used in these estimates does not provide any indication of the number or size of consumer transactions. However, the implied tax base presented here is lower than that of the Kenai Peninsula Borough as a share of gross personal income, which has a \$500 cap and exempts non-prepared food. This conservatism helps to mimic the effect of a cap as a revenue constraint.

Sales tax exemptions for select jurisdictions in Alaska

Jurisdiction	Anchorage	Juneau	Fairbanks	Kenai Peninsula Borough	Kenai	Seward	Mat-Su Borough	Wasilla	Palmer	Kodiak
Sales	-	5%	-	3%	3%	4%	-	2.50%	3%	7%
Alcohol	5%	3%	5%	-	-	-	-	-	-	-
Marijuana	5%	3%	5%	-	-	-	-	-	-	-
Room	12%	9%	8%	-	-	4%	8%	-	-	5%
Car Rental	8%	-	-	-	-	-	-	-	-	-
Tobacco	12.26 cents per stick	\$3 pack, 45% wholesale	8%	-	-	-	-	-	-	-
Motor fuel	\$0.10/gal	-	5%	-	6%	-	-	-	-	-
Alcohol	-	No	-	No	No	No	-	No	No	No
Marijuana	-	No	-	No	No	No	-	No	No	No
Hotels	-	No	-	No	No	No	-	No	No	No
Car Rental	-	No	-	No	No	No	-	No	No	No
Tobacco	-	No	-	No	No	No	-	No	No	No
Motor fuels	-	No	-	No	No	No	-	No	No	No
Non-Prepared Food	-	No	-	Exempt	Exempt	Exempt	-	No	No	No
Rental Housing	-	Exempt	-	No	No	No	-	Exempt	Exempt	No
Construction Materials	-	Exempt	-	Exempt (for builders)	Exempt (for builders)	Exempt (for builders)	-	Exempt	Exempt	Exempt
Sales to/from Nonprofits/governments	-	Exempt	-	Exempt	Exempt	Exempt	-	Exempt	Exempt	Exempt
Medical	-	Exempt	-	Exempt	Exempt	Exempt	-	Exempt	Exempt	Exempt
Wholesale	-	Exempt	-	Exempt	Exempt	Exempt	-	Exempt	Exempt	Exempt
Childcare	-	Exempt	-	Exempt	Exempt	Exempt	-	Exempt	Exempt	Exempt
Food with vouchers	-									
Cap	-	\$12,800	-	\$500	\$500	\$500	-	\$500	\$1,000	\$3,000

Table 6 compiled by Danielle Bailey from a review of local government ordinances and the Alaska Taxable data by DCCED.

Sources and methods

Resident spending

The primary data source used to calculate sales tax revenue estimates was the CES by the U.S. Bureau of Labor Statistics (BLS). The most recent estimates for the Anchorage MSA covered the years 2021 and 2022. Because the Anchorage MSA includes both the Municipality of Anchorage and the Matanuska-Susitna Borough, the author estimated the share attributable only to the Municipality. The BLS uses “consumer units” rather than the more familiar categories of families and households. According to the BLS, there are 199,000 consumer units in the MSA; this analysis estimated there to be 139,065 consumer units within the Municipality of Anchorage. We produced this estimate by adding the number of family households reported in the 2022 American Community Survey 5-Year estimates to the number of individuals living in non-family households—roughly matching the BLS definition of a consumer unit.

CES data breaks down the average consumer unit spending across a variety of common categories like food, medical, housing, and transportation, broken into further subcategories. The author removed exempt categories from the revenue estimates, and determined how much would be spent on the remaining “taxable” categories over the course of a year. These figures were adjusted to 2024 dollars to make up the “general resident spending.”

The Municipality currently taxes rooms, tobacco, rental vehicles, marijuana, and alcohol with special taxes, and the Finance Department publishes data on the taxable spending in each category. Because these data are more accurate than survey-based data, we applied the three percent tax to the 2023 total taxable spending for each, and adjusted the values to 2024 dollars. We removed any redundant categories from the CES spending to avoid double counting. We assumed room and vehicle rental taxes would be paid by visitors.

Visitor spending

The *Alaska 2022-2023 Tourism Impact Model* by Destination Analysts, commissioned by the Alaska Travel Industry Association, was the primary source of visitor spending estimates. We removed spending in redundant categories like lodging (using Municipal room tax data instead) and converted trip spending into daily spending, adjusted to 2024 dollars. We assumed Anchorage would receive 1,300,000 visitors, each spending an average of 3.5 days in Anchorage. These estimates are in line with prior reports.

Other sales taxes in Alaska

Although not used in the calculations of revenue estimates, this analysis made frequent reference to the Alaska Department of Commerce, Community, and Economic Development’s Alaska Taxable report, which is updated annually. This report includes information on the types of taxes collected by jurisdictions across the state, as well as rates and revenues.

October 2024

Effects on Households of a Proposed Anchorage Municipal Sales Tax

Executive Summary

Matthew Berman, Noah Burke



UAA Institute of Social
and Economic Research
UNIVERSITY of ALASKA ANCHORAGE

Sponsored by the Anchorage Economic Development Corporation

The authors of this report are solely responsible for its analysis and findings, which do not represent the Institute of Social and Economic Research, the University of Alaska Anchorage, or research sponsors.

Executive Summary

A coalition of Anchorage business leaders has proposed a sales tax for the Municipality of Anchorage. The tax would be levied at 3% of taxable expenditures. The proposal would allocate 2/3 of the revenues from the tax (2% of taxable expenditures) allocated to property tax relief, and the remaining one third (one percent of taxable expenditures) set aside to fund a capital improvements program. The tax would be temporary, set to expire after about 8 years. A study led by Nolan Klouda at the University of Alaska Anchorage Center for Economic Development (CED) estimated that the proposed sales tax would generate \$180 million annually, with 16% of the total paid by non-Anchorage residents. A subsequent update sponsored by *Project Anchorage* initiative proponents also estimated that the tax would collect \$180 million in total but projected 21% would be contributed by non-residents.

The current study revisited the assumptions and data used by the previous reports, and after making minor accounting adjustments, confirmed the total revenue estimate of about \$180 million, but with 20.5% (\$37 million) derived from non-residents. It took a closer look at the \$143 million estimated to be collected from residents and the property tax offsets these households might expect, focusing on the distribution of impacts across Anchorage households with different incomes.

Data for resident spending for this study and the two previous studies came from the Consumer Expenditure Survey (CES), an annual household survey conducted by the US Bureau of Labor Statistics (BLS). The BLS publishes tables containing aggregate household expenditures in various categories, averaged over two adjacent years, for selected Metropolitan Statistical Areas (MSAs) in the United States, including Anchorage. The BLS makes the individual survey records available for research purposes with certain features masked to protect respondent privacy. These records, termed Public Use Microdata (PUMD), allow researchers to examine the distribution of expenditures across various household characteristics, including income. The Anchorage MSA sample for the CES is relatively small – less than 400 per year --so for this study data over the most recent 4 survey years available – 2019-2022 – were combined to increase the reliability of the results. Reported income and expenditures for the different survey years were adjusted for inflation to early 2024 price levels using the Anchorage Consumer Price Index (CPI). The four-year combined CES sample included 1,538 observations for the Anchorage MSA.

Among the various ways to define income, the analysis examined expenditures and potential local taxes as a percentage of per-capita after-tax household income: household income after taxes divided by the number of individuals in the household. The CES definition of income includes income from all sources, including child support, alimony, SNAP benefits (food stamps), unemployment insurance, and public assistance. Data from the CES for per-capita household income ranked by income decile showed that average after-tax income of the highest-earning 10% of the Anchorage population was 128,465 (Figure A). This amount was 25 times the income of the lowest-income 10% and 5 times that of the income of the second lowest income decile. Although the average household income of the lowest income decile is over \$27,000, many of these are households with a large number of children and other family members, creating a low per-capita income.

Anchorage Annual Per-capita Household Income by Income Decile

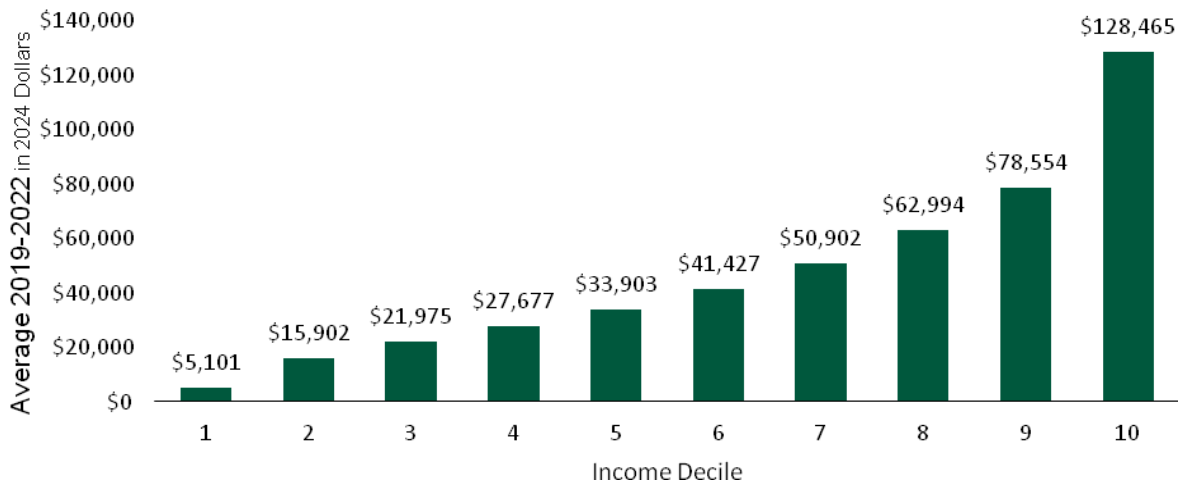


Figure A: Anchorage Annual Per-capita Household Income by Income Decile
Source: Consumer Expenditure Survey

Sales taxes are widely regarded as regressive, meaning that tax payments represent a smaller fraction of income as income increases. Although total household expenditures do rise as income increases, spending increases less than in proportion to income, making a tax on spending regressive (Figure B). Household expenditures for the lowest income decile substantially exceed income. These households are drawing down savings and borrowing to pay for living expenses, but also may be receiving donations from friends, relatives, and religious congregations.

Anchorage Annual Per-capita Household Expenditures by Income Decile

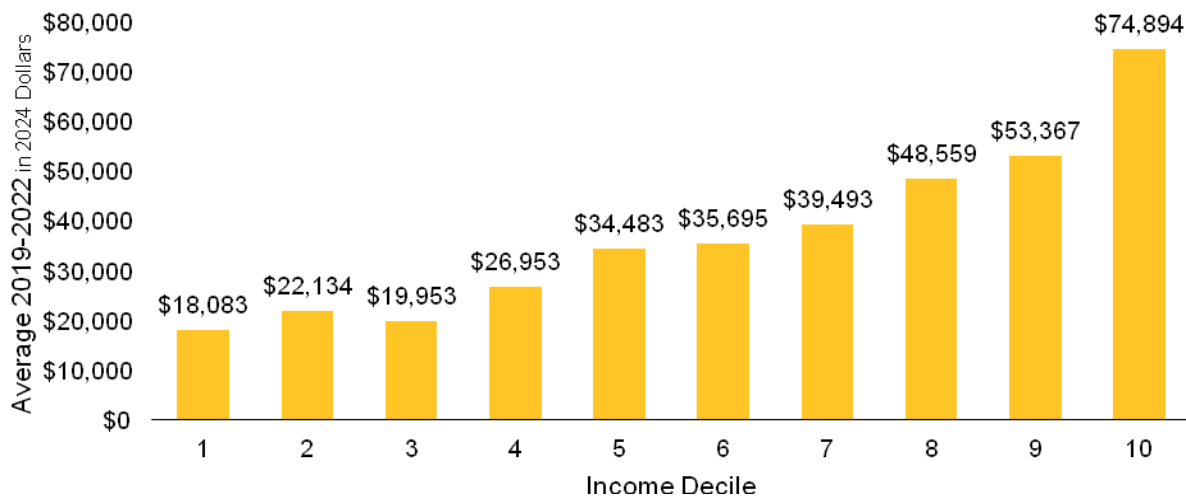


Figure B: Anchorage Annual Per-capita Household Expenditures by Income Decile
Source: Consumer Expenditure Survey

The Anchorage sales tax as proposed contains a number of exemptions from taxation that aim to reduce the impact on low- and middle-income households. Proposed exemptions include food at home, housing rent, childcare, medical care, motor fuels, financial transactions, and resale items. Tax payments would also be capped at \$30 on individual purchases. The figures for estimated sales tax payments by income decile show that these exclusions do reduce the regressive impact somewhat (Figure C). Projected sales taxes are roughly proportional to per-capita household income for households that fall in the middle third of the income distribution. However, the proposed tax would still be highly regressive at the lower end of the income scale, and also quite regressive in the upper third of the income distribution.

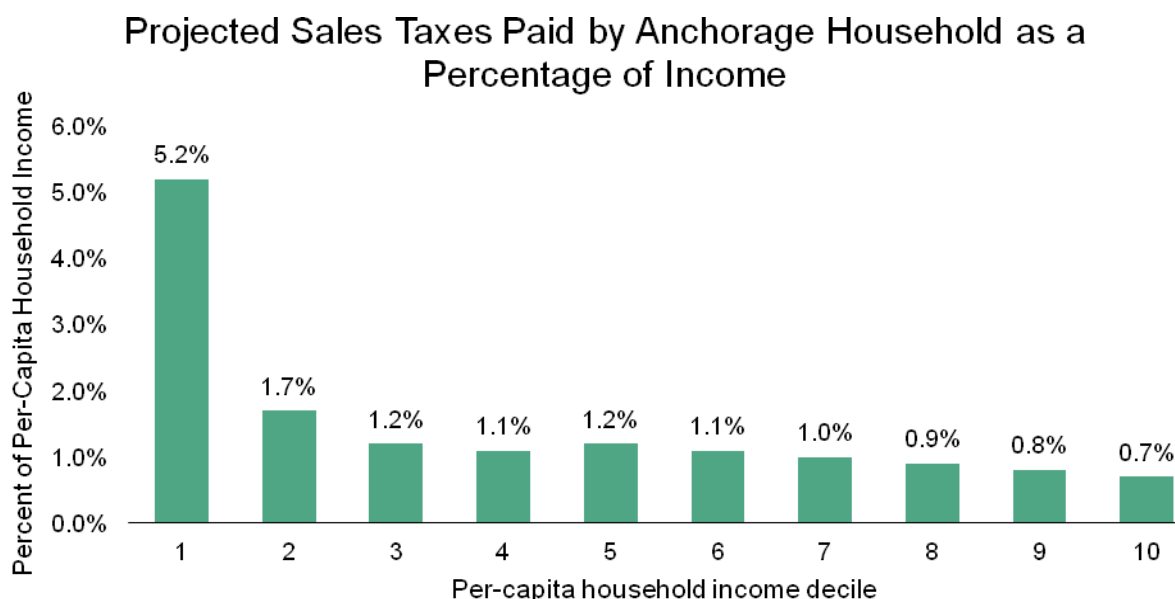


Figure C: Projected Sales Taxes Paid by Anchorage Household as a Percentage of Income
Source: Consumer Expenditure Survey

Property taxes are also somewhat regressive at the national level, so the property tax offset could in theory reduce the regressive effect of the sales tax. That said, the national data combines local jurisdictions with a mix of tax regimes, including cities with income and sales taxes that reduce local property tax levies. Anchorage, which relies primarily on property taxes to fund schools and other public services, therefore might not fit the national pattern. Anchorage homeowners also benefit from exemptions that reduce taxable assessed value and affect property tax payments.

The estimated \$180 million annual revenues projected to be collected by the proposed sales tax initiative would yield \$120 million in property tax relief. That amounts to about 20% of total area-wide property tax revenues. If the 20% reduction were distributed in the form of an across-the-board reduction in the area-wide mill levy, the mill rate would decline by 3.3 mills. Anchorage households that own their own homes would see their property tax bills drop by 20%. Owners of commercial properties and rental homes would see their property tax bills fall, too, by the same percentage. Nearly two-thirds of Anchorage residents own their own homes (including mobile

homes and condominiums owned by their occupants). These homeowners receive several local and state-mandated exemptions that reduce their property tax burden. Accounting for the exemptions, Anchorage homeowners account for 40.9% of the total taxable assessed value, with rental property accounting for 28.3 percent, and the remaining 30.8% consisting of commercial real estate (Figure D).

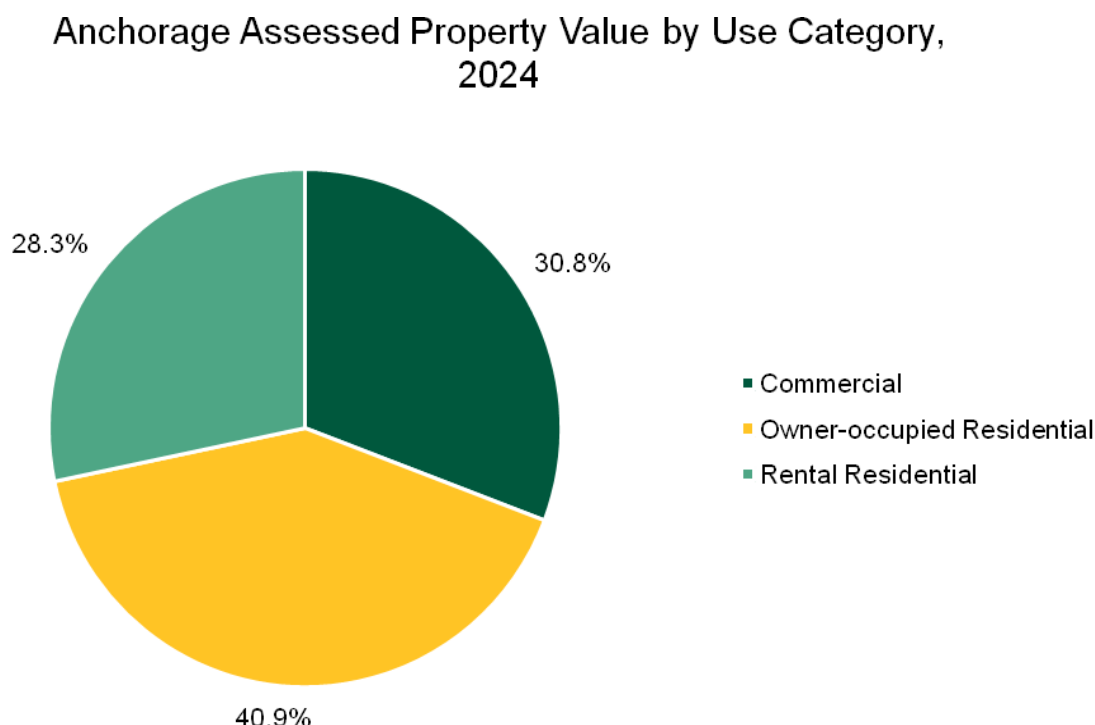


Figure D: Anchorage Assessed Property Value by Use Category, 2024
Source: Municipality of Anchorage Property Appraisal Database

It is important to note that 36% of taxable assessed value of commercial property and 15% of the value of rental housing is owned by non-resident individuals and corporations. The non-resident-owned property amounts to 15.2% of total Anchorage taxable assessed value. Although this percentage is smaller than the 21% of sales tax revenue estimated to be generated by non-residents, it is not clear that the proposed sales tax measure would increase the share of local tax revenues contributed by non-residents after one adds in tax revenues non-residents contribute from lodging and rental cars.

Data from the CES indicate that the distribution of the projected 20% reduction in property tax offsets to owners is highly regressive for households in the lowest 30% of the income scale, but then is relatively constant for the remaining 70% (Figure E). Fewer lower income households own their own homes than higher income households, but for lower income households those that do own their homes, property taxes represent a larger share of their limited incomes.

Projected Property Tax Reductions Anchorage Homeowner Household as a Percentage of Income

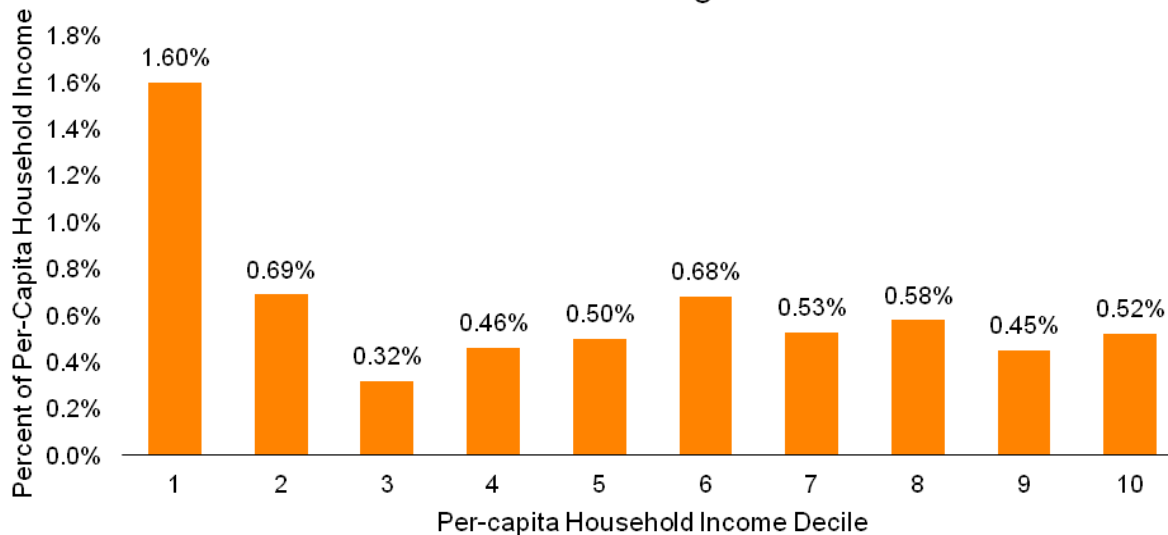


Figure E: Projected Property Tax Reductions Anchorage Homeowner Household as a Percentage of Income
Source: Consumer Expenditure Survey

An important question to consider concerns the extent to which property taxes received by landlords would be passed on to households who rent their homes? Most likely, renters would see little, if any benefit, for a number of reasons. A drop in the property tax mill rate reduces landlord's costs, but competition is required to push those cost savings into rents. Rental housing is currently in short supply in Anchorage, which has seen rapidly rising rents in recent years (26.5% since 2021, according to market surveys). The main obstacle to increased housing supply is lack of available land. Much more land is available in the Mat-Su Borough, which has seen rapid recent population growth, in part due to its status as essentially an overflow market for Anchorage housing. According to Alaska Housing Finance Corporation data, more multi-family apartments were constructed in Wasilla in 2023 (54) than in all of Anchorage (45), despite Wasilla having less than one 20th of Anchorage's population. In a situation such as this where the incremental supply of rental housing in the Anchorage metropolitan area is located in the Mat-Su Valley, rents in Anchorage will be determined largely by the market rent in the Valley, plus the cost renters perceive they avoid by not having to drive regularly to Anchorage. Anchorage property tax reductions are basically irrelevant to that market.

The Anchorage Assembly is exploring ways to increase land available for rental housing, such as amending zoning rules. However, even if successful, it would likely take 5-7 years for enough new construction to be completed to make a meaningful impact on housing supply, leaving little time for competition to drive down rents before the tax would expire. Consequently, it is unlikely that changes in land use codes will be sufficient to reduce rents while the tax is in effect.

The distribution over the income distribution of the net impact for households of the proposed 3% sales tax with two-thirds of revenue allocated to property tax reductions, assuming only property-owning households would receive a tax reduction, is largely similar distribution to the distribution of sales taxes. Assuming that the property tax offset has little effect on rents, the proposed initiative would increase local taxes by an amount that varies from \$126 to \$236 per

year per person for households in the lower third of the income distribution, rising to nearly \$700 per person (Fig. F). The per capita net tax change increases over the bottom half of the distribution, but then remains relatively constant over the upper half. These are sample estimates, so the relatively small differences represent random variation.

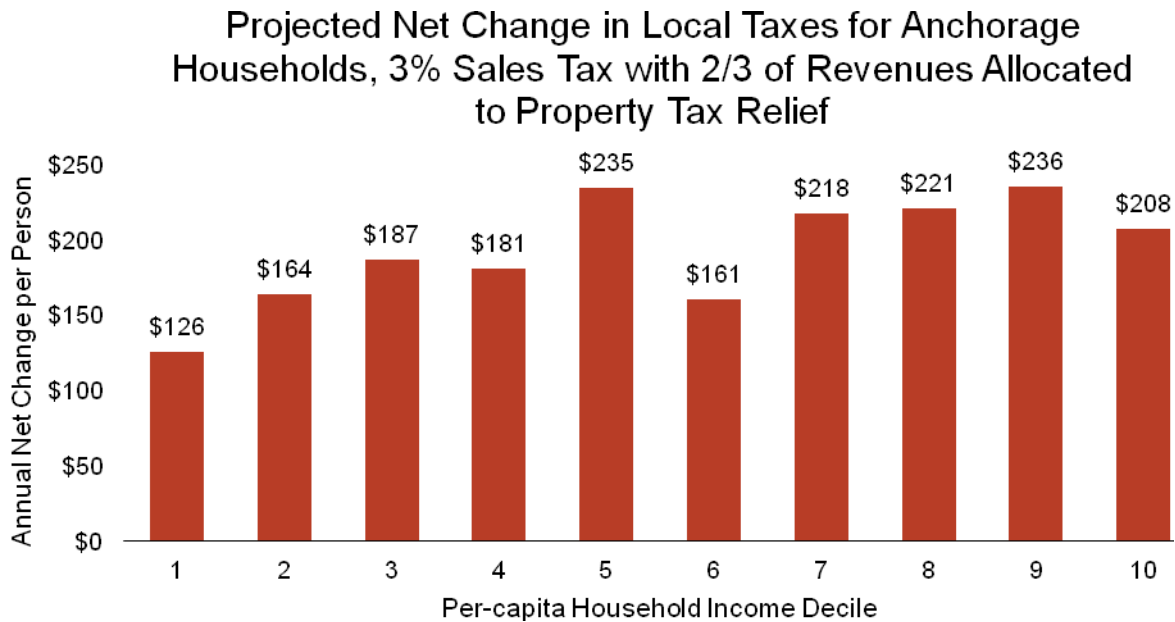


Figure F: Projected Net Change in Local Taxes for Anchorage Households, 3% Sales Tax with 2/3 of Revenues Allocated to Property Tax Relief

When viewed as a percentage of household after-tax income per person, the net impact is highly regressive at both ends of the income distribution, but relatively proportional to income in the middle of the scale (Fig. G). Households with the highest ten percent of per-capita household income would pay much less (0.1% of income) as the median household (0.7% of income). Households in the lowest decile would pay five times the percentage of their per-capita household income as those in the middle, and households in the second-lowest income decile would pay about a 40% larger percentage than the median household. In the lower half of the income distribution, the sales tax and property tax offset are both regressive. In the upper half, the property tax offset is less regressive than the sales tax and much larger at higher incomes. The combination of the factors increases the regressive effect for higher income households.

Projected Net Change in Local Taxes for Anchorage Households as a Percentage of Income, 3% Sales Tax with 2/3 of Revenues Allocated to Property Tax Relief

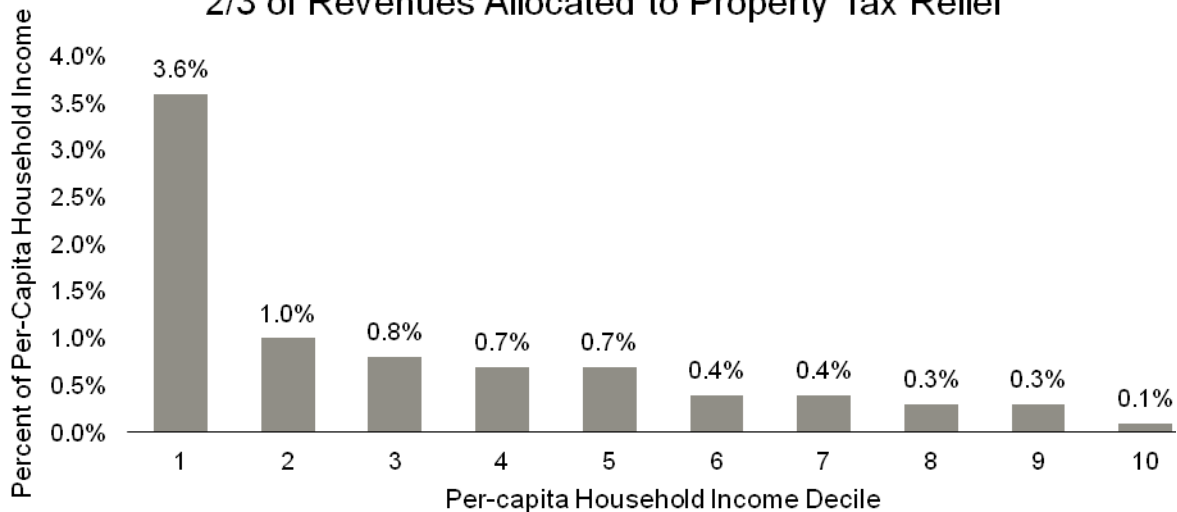


Figure G: Projected Net Change in Local Taxes for Anchorage Households as a Percentage of Income, 3% Sales Tax with 2/3 of Revenues Allocated to Property Tax Relief

The estimates discussed here have a number of important limitations. First, the CES data source is a sample, and as such contains a significant amount of uncertainty due to sampling error. The 90% margin of error for taxable expenditures and therefore sales taxes for each income decile ranges from 0.9% of taxable expenditures to 2% of taxable expenditures, with the higher margins of error associated with the lower income deciles. Property tax offsets are more uncertain, with 90% margins of error ranging from 2% (highest income decile) to 10% (lowest income decile), reflecting the uncertainty in the proportion of households within an income decile owning their own homes, as well as the value of owner-occupied homes for the relatively small sample. For taxpayers that itemize deductions and claim a deduction for property taxes, property tax reductions would cause reduce those deductions, causing after-tax income to decline as well and reducing the net tax reduction as a percentage of income. To the extent that would occur, the estimates of net taxes as a percentage of income would increase somewhat. It is not possible to identify which CES sampled households itemized deductions.

Second, businesses will likely pay some sales taxes. Sales taxes paid by businesses to other businesses are not included in the revenue estimates. Also, households may under-report spending somewhat in household surveys. Consequently, the estimates of tax revenues and impacts on households are conservative estimates. On the other hand, it is unclear how much alcohol, tobacco, and marijuana sold in Anchorage is purchased by non-residents, and some of the revenues may be duplicated in the accounting. The CES questionnaire does not ask about marijuana, which is legal in Alaska but remains a controlled substance under federal law. Finally, all the findings discussed here rely on historical data, and unforeseen future changes in the local economy and population could affect the results.