MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects -- General Government

AO Number: 2024-105(SA)

Title: AN ORDINANCE OF THE ANCHORAGE MUNICIPAL ASSEMBLY PROPOSING A DEDICATED SALES [PROPERTY] TAX AND ECONOMIC DEVELOPMENT MEASURE TO BE SUBMITTED TO THE QUALIFIED VOTERS OF THE MUNICIPALITY THAT WOULD ENACT A SALES AND USE TAX OF THREE PERCENT (3%) IN THE AGGREGATE ON THE SALE OR USE OF GOODS AND SERVICES WITHIN THE MUNICIPALITY, WITH CERTAIN EXEMPTIONS, A MAXIMUM TAX AMOUNT PER TRANSACTION, COMPRISED OF A TWO PERCENT (2%) TAX FOR THE SOLE PURPOSE OF REDUCING PROPERTY TAXES PROPORTIONATELY THROUGHOUT THE MUNICIPALITY WITHIN THE "TAX CAP" CALCULATION, AND A ONE PERCENT (1%) TAX OUTSIDE OF THE TAX CAP DEDICATED FOR ESTABLISHMENT OF A TRUST FUND TO PAY FOR VOTER APPROVED CAPITAL PROJECTS KNOWN AS MUNICIPAL AREA PROJECTS (MAPs); COSTS OF ADMINISTRATION, COLLECTION AND AUDIT OF THESE SALES AND USE TAXES SHALL BE SHARED PROPORTIONALLY BETWEEN THE TAXES; PROVIDING FOR A MAPs CITIZENS ADVISORY BOARD; PROVIDING A LIMITED TERM OF SEVEN (7) YEARS FOR THE AGGREGATED 3% SALES AND USE TAX LEVY; AMENDING ANCHORAGE MUNICIPAL CODE CHAPTER 12.25 REGARDING THE TAX INCREASE LIMITATION; ADDING A NEW CHAPTER TO THE ANCHORAGE MUNICIPAL CODE TO PARTIALLY IMPLEMENT THIS TAX REVENUE DIVERSIFICATION MEASURE; AMENDING AMC CHAPTER 12.10 TO INCREASE THE BUSINESS INVENTORY PERSONAL PROPERTY TAX EXEMPTION TO THE FIRST $250,000 OF VALUE; CALLING FOR A SPECIAL ELECTION; AND PROVIDING FOR TRANSITION PROCEDURES AND EFFECTIVE DATES.

Sponsor: **Assembly Members Sulte and Rivera**
Preparing Agency: Finance, Treasury Division
Others Impacted: OMB, IT, Legal

CHANGES IN EXPENDITURES AND REVENUES: **(In Thousands of Dollars)**

	FY25	FY26	FY27	FY28	FY29
Operating Expenditures					
1000 Personal Services	300	$ 1,500	$ 2,700	$ 3,500	$ 3,800
2000 Non-Labor		400	1,400	1,600	1,600
3900 Contributions					
4000 Debt Service					
TOTAL DIRECT COSTS:	**$ 300**	**$ 1,900**	**$ 4,100**	**$ 5,100**	**$ 5,400**
Add: 6000 Charges from Others	$ -	$ -	$ -	$ -	$ -
Less: 7000 Charges to Others		-	-	-	-
FUNCTION COST:			**$ 4,100**	**$ 5,100**	**$ 5,400**
REVENUES GENERATED:	**$ -**	**$ -**	**$79,000 to $91,000**	**$163,000 to $195,000**	**$165,000 to $203,000**
REVENUES TO MAPs	**$ -**	**$ -**	**$24,000 to $28,000**	**$53,000 to $63,000**	**$53,000 to $66,000**
REVENUES TO SALES AND USE TAX TRUST FUND	**$ -**	**$ -**	**$48,000 to $56,000**	**$105,000 to $126,000**	**$107,000 to $132,000**
CAPITAL:	**$ 1,383**	**$ 1,463**	**$ -**	**$ -**	**$ -**
POSITIONS: FT/PT and Temp	**4**	**15**	**25**	**28**	**28**

New positions in 2025 and 2026 required to build out new sales tax system, merchant and public outreach.

PUBLIC SECTOR ECONOMIC EFFECTS:

The ordinance specifies a sales tax with a duration of seven (7) years beginning no earlier than July 1, 2026. It is estimated that implementation will require at least two years, but actual collection must begin on July 1, 2027. Prior to the sales and use tax being levied it is estimated, staffing and infrastructure will cost approximately $6.3M in preparing to administer the tax. It is estimated that the sales and use taxes with the exemptions specified in the ordinance would levy between $79M and $91M in revenues in FY2027, beginning on July 1, 2027. It is estimated that the Dedicated Sales and Use Trust Fund (Trust Fund) for FY2027 would receive $48M to $56M in net revenues. It is estimated that the MAPs Fund would receive $24M to $28M in net revenues. The Trust Fund balance in 2027 would offset the revenue increase of property tax in FY 2028 by being available for appropriation in FY 2028. During the first full year of administration in 2028, the proposed three percent (3%) sales tax on goods and services would generate between $163M to $195M, leading to between $53M to $63M for the MAPs Fund, and $105M to $126M in Trust Funds, respectively. The expected ranges of revenues and expenditures are listed through FY 2029 are tabulated above. The net proceeds of sales tax revenues generated in a particular year would be available for budgeted expenditures in the following year. A sales tax is inherently volatile. For example, if a shock to the Anchorage economy were to occur in 2028 similary in magnitude to 2020, Treasury estimates that the sales tax in FY 2028 may be expected to decrease to as low as $121M.

The actual amount of revenue generated each year will depend on the interpretation of the definitions and exemptions of the specific ordinances and detailed regulations. Anchorage Municipal Code (AMC) 12.80.070.E through F specifies that the Assembly makes final determinations about how exemptions in AMC 12.80.070.A. through D. are applied to goods and services by the majority vote.

In particular, the realized revenues will depend on how the Assembly will apply the sales tax to construction, transportation, professional, business, personal and other services. If the sales tax is applied broadly to most of these services, then the revenues would be at the high end of the projected range. If the sales tax is applied to fewer services, then the revenues would be closer to the lower end of the range.

The revenue realized will also depend on how subsequent regulations interpret the maximum taxable transaction limit of $2,500 as specified in AMC 12.80.050.B.1 through 5. Businesses with long-term contracts for construction services, freight transportation, facilities maintenance, and professional services may find ways to reduce their tax liability by structuring their service contracts so that they pay only $75 in sales tax on each of their annual contracts with other businesses. Businesses that make large purchases of equipment, vehicles, and other business property may find ways to combine their purchases into a single invoice in one day to pay just the $75 maximum sales tax for the entire bundled purchase. If businesses find ways to significantly reduce their tax liability by restructuring their service contracts and bundling their purchases, then the actual revenues from the proposed sales tax would be toward the lower end of the projected range. The extent that businesses are able to reduce their tax using the $2,500 taxable transaction limits will depend on how the tax is implemented through more detailed regulations. Residents may also find strategies to avoid sales tax on large-dollar transactions.

The revenues collected in the Trust Fund balance at the end of each fiscal year would reduce the property tax of the following year as described in AMC 12.25.040. For example, in FY 2029 an estimated $105M to $126M reduction in the amount of real and personal property taxes would occur due to the collection of sales and use taxes in FY 2028.

The net impact to MOA revenues would be the 1% sales tax that flows to the MAPs fund, roughly $53M-$63M per year increasing over time as tabulated above. For comparison, the 2025 proposed general government revenues are $614M, which do not include revenues from alcohol sales tax, and marijuana tax. The MAPs fund will be expended as approved by the assembly after recommendation from the MAPs Citizen Advisory and Oversight Board. Any projections regarding amounts and timing as to those expenditures are unestimable at this time.

continued on next page

The Municipality would incur new expenditures to implement, administer, and enforce the proposed sales tax. Initial implementation costs will arise from setting up a new custom computer tax collection system, developing regulations, hiring and training new personnel, and engaging with approximately 14,000 businesses to clarify the regulations and assist with filing tax returns and remitting the tax. The estimated costs for setup and implementation costs are about $2.8M in capital expenditures, and $3.5M in the initial organizational and outreach efforts. These initial expenses are anticipated to occur in 2025 and 2026, ahead of the sales tax being first levied in July 2027. It is unknown whether further software is needed for tracking exemptions for non-profits, residents with income exemption, and other entities. If so, additional expenditures will be necessary, but for the purposes of this summary, these expenditures are not estimated. If the use tax should require rebates for the first $2,500 in exempt purchases on an annual basis, there may be additional software needed for tracking rebates. Both entity exemption and use tax rebates will likely require additional personnel which would increase the costs of both implementation and annual administration. These costs have not been estimated due to the level of uncertainty as to how to administer these exemptions.

Therefore, annual costs for the first full year of collection and administration are estimated at approximately $5.1M. The operating costs include twenty-eight (28) full-time employees (FTEs) associated with a new sales tax section within the Treasury Division as well as attorney and support resources from the Municipal Law Department and Administrative Hearing Office. The sales tax ordinance will roughly double the size of the Treasury Division. The full amount of the annual operating costs would be incurred starting in the first year that the sales tax is levied in 2027.

The proposed ordinance currently has a proposed expiration of seven (7) years. If the sales tax were not renewed, administrative functions would still continue. Approximately eight (8) employees would be needed to administer the tax in collections, audit, and legal functions continuing into the next full year at a minimum.

The timing of revenue will depend on the levy date determined by the Assembly. The timing of the expenses shown are for illustration purposes, primarily to highlight the one-time startup costs and early phase operational costs that will precede whatever actual date the sales tax goes into effect.

PRIVATE SECTOR ECONOMIC EFFECTS:

The proposed sales tax would affect individuals and businesses differently, depending on their level of spending on taxable goods and services and depending on whether they own property subject to municipal property taxation, and to the degree the MAPs projects individually affect them.

Non-exempt individuals and businesses would incur the 3% cost of the proposed sales tax expenditures on taxable goods and services. With the exemptions specified in AO No. 2024-105(S), analysis indicates that on average 39%-41% of a household's expenditures will be taxable by the sales tax, with effective tax rates ranging from of 1.18% to 1.30% of total expenditures. The average household is expected to pay $834-$892 in sales tax in 2024 dollars.

The property tax mill rate is expected to uniformly decrease by about 1.11 to 1.30 mills in FY 2028 due to the sales and use tax. The property tax mill rates are expected to decrease by 2.35 to 2.82 mills in 2029 for the full taxable year. Property tax reductions of $235 to $282 per $100,000 of assessed value could be realized by the property owners. The actual amount of property tax relief will depend on the amount of sales tax revenue generated, and the actual costs of Municipal administration. Businesses with assessable real and/or personal property would receive property tax relief in proportion to their assessed value net of exemptions.

Property tax exemptions reduce the base for which property tax relief is applied. Those with residential exemptions and/or senior or veteran exemptions would receive less incremental property tax relief than those with only one of the exemptions or neither.

continued on next page

The average Anchorage resident household income of $109K in 2024 dollars results in expected resident sales tax of $863 in 2024 dollars. In 2024 dollars, to get at least $863 in reduction of property tax, an assessed value for a homeowner with both senior or veteran exemptions is at least $563K. For a homeowner with only the residential exemption, the assessed value would be $413K. For a homeowner with no exemptions, $338K. Homeowner households with assessed values greater than the expected breakeven assessed value would have a reduction to overall taxation from the Municipality of Anchorage. Roughly 21% of households would receive a reduction to overall taxation from the proposed bill. Another 41% of households (which are also homeowners) would not. The remaining 38% of households that rent would incur the sales tax and receive no property tax reduction.

It is unclear how much sales tax will directly impact businesses. Several entities are listed as exempt as are goods for resale which are also exempted. Very little data exists which can be cited to support any analysis.

Businesses selling goods and services would be required by AMC to assume a fiduciary duty to collect sales tax and hold these monies in trust in the name of the Municipality. Businesses would be responsible for reporting and remitting these tax proceeds to the Municipality within prescribed filing deadlines. Businesses would need to use sufficiently functional cash registers, computer systems or other effective financial tracking systems at the point of sale to account for all gross sales and all taxable sales associated with their business and would be required to correctly document all transactions. Eligible businesses would be granted a three percent (3%) offset, capped at a $3,000, to defray costs of collecting and reporting the sales tax generated by their business. Treasury believes there are approximately 14,000 businesses in Anchorage that would remit general sales tax to the Municipality of Anchorage.

Prepared by: *Glenn Cipriano, Municipal Treasurer*
Loren Crawford, Deputy Municipal Treasurer
Telephone: 343-4092