Anchorage Property Tax Exemption: Evaluation and Alternatives

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Background

A look back in history shows us that taxes have been around for a long time. “Taxation has existed in various forms since civilization began (Carlson, 2004, p. 3). Collection of taxes dates back to around 5,000 B.C. when Egyptian Pharaohs collected taxes on goods such as cooking oil (Tax World, 2010). They also kept track of who owned what land and how much land they owned. Various taxes were also present in ancient Greece, Rome, and even medieval times (Carlson, 2004, p. 3).

In the United States, taxes began when the Pilgrims landed at Plymouth in Massachusetts and started living under a set of laws, which included taxes on land (Carlson, 2004, p. 5). Other groups at the time used taxes to pay for the church and its services including education. Fast forwarding to the debate for the U.S. constitution, national property taxes were proposed, but could not be agreed upon (p. 6). With the twentieth century came a push towards sales and income taxes as a way to ease off the government’s reliance on property taxes (p. 7). While this idea stuck around for many years, it really took effect after the Great Depression; incomes were severely reduced, causing property taxes to decrease as well (p. 8). This was also the same time that many homestead tax exemptions were created. Other major tax reforms from the first half of the twentieth century include:

- Narrowly defined personal property taxes on citizens.
- The creation of tax exemptions for the sick, elderly, poor, farmers, and homesteads.
- The creation of circuit breakers to limit the percentage of a person’s income that goes to property taxes.
- The creation of property tax limitations in many states.
In the second half of the twentieth century, property tax collections began to grow, as did people’s incomes and equity (p. 8). With this shift, state and local governments increasingly relied less heavily on property taxes to bring in revenue. More municipalities began to rely on sales and income taxes as a supplemental source to relieve the burden of property taxes. Property tax dilemma in Anchorage, Alaska goes back to the early 1980s when spending by local government was increasing at an alarming rate, fueled by an unprecedented level of state spending due to the North Slope oil production. “Anchorage business and citizens were concerned that they would be unable to afford the property taxes required that would be required in the future to support the spending decisions being made at that time” (Baker, Griffith, Abbott, & Weddleton, 2008, p. 1).

With these concerns expressed by the Anchorage community, the Anchorage Chamber of Commerce along with the FREE Committee of Anchorage Women’s Club, led an initiative process to put a Tax Limitation before the voters. Its purpose was to establish a mechanism that would limit how much taxes could increase each year. With the ballot of October 4, 1983, the tax cap was approved by 58 percent of the voters. This was a new era for Anchorage. The cap was applied to all taxes; it placed a ceiling on how much revenue from all taxes could increase from one year to the next. As intended, “by including all taxes in the limit, it meant a new tax would not give government more money to spend and instead, would reduce the amount of property taxes that could be collected” (Baker, Griffith, Abbott & Weddleton, 2008, p. 2). A year later, the Anchorage Assembly approved an “interpretive ordinance” that prescribed how to calculate the cap. The interpretive ordinance outlined how to calculate the limit until 2003. Since 2003, however, there have been many changes that changed the protection of the original cap.
While Anchorage does levy other taxes, property taxes still generate the majority of the revenues for the general operating fund. More specifically Anchorage property taxes are determined through a process in which the borough assembly creates the budget requirements and determines the various methods for generating revenue. Once all revenue sources are identified and the budget is reduced by that amount, the remaining is the amount required to be raised by the property tax. When that value is divided by the total assessed value, the result is the effective "mill rate" or 1/1000 of a dollar. A mill rate basically means the amount of tax to be charged per $1,000 of assessed value.

Property tax exemptions alleviate the burden of yearly property taxes. In Anchorage, there are many types of exemptions. They offer qualified applicants exemptions for:

- Nonprofits
- Senior citizens
- Disabled veterans
- Residential properties
- Disasters
- Fire protection
- Business properties

Currently, Anchorage has several widely used residential property tax exemptions. These include a Senior Citizen Property Tax Exemption that includes the first $150,000 in assessed valuation from property taxes as well as a $20,000 exemption available for owner-occupied properties. Anchorage homeowners are exempt from paying taxes on the first 10 percent of the
value of a house, with a maximum exemption of $20,000, and it applies only to owner-occupied homes as per Anchorage Municipal code (AMC) Section 12.15.012. The intent of this program was to offer property tax relief. The application and administration of this program began in 2005. To get insight into the effect of this exemption, Marty McGee the Anchorage municipal assessor issued a memorandum to the mayoral candidates which offered analysis of the residential exemption stating that “residential property in the value range from $200,000 to $700,000 represents the majority of the tax base. This program exempted nine hundred five million dollars in value from the tax base in 2007” (Marty McGee, memorandum, April 16, 2009). According to Baker, Griffith, Abbott & Weddleton (2008) they contend that these two programs are quite popular with those that benefit from them. However, they assert, “residential tax exemption impact taxes paid by Anchorage’s business community. Because the overarching Tax Cap does not decrease when exemptions are granted to certain groups, the burden to make up for “lost” tax revenue shifts to those property tax payers that are not getting the tax break – business and non-residential property owners” (p. 6).

Today, some local government officials are advocating that state law be changed to increase the homeowners’ property tax exemption from $20,000 to $50,000. In order to determine whether the homeowners’ exemption as well as an increase in the exemption has merit in Anchorage it is important to evaluate both sides of the issue.

Merits of the property tax exemption in Anchorage

Assembly members Drummond, Gray-Jackson, and Gutierrez justified their support of increased homestead property tax exemptions in a recent Compass piece in the Anchorage Daily News, “We have proposed to provide real tax relief for city residents and, at the same time,
provide for a means to better assess the value of commercial property, which has been undervalued for too long” (Anchorage Daily News, 2010). The members supported an advisory vote on whether to increase property tax exemptions for home owner/occupiers to $50,000. If passed, tax revenue would not decrease, but the mill rate would, shift the burden off those who qualify and on to those who don’t—generally, businesses.

The assembly members make a few assertions that warrant a closer look—property appraisal, and the proposed increased exemption.

**Property Appraisal**

Property taxes, which represent the bulk of Anchorage’s revenues, are levied according to property values. According to Alaska Statute Sec 29.45.110, property must be assessed at full and true value—“The full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels”. How this process is carried out is up to the municipality.

The municipality of Anchorage assesses property values at the full and true value under section 12.15.030 of the municipal charter. The property appraisal division is charged with valuing property “in order to provide a fair and equitable basis for taxation” (Municipal website, 2010). Property owners are not required to disclose the amount they paid for property; taxes paid by property owners depends entirely upon the appraiser’s assessment (including the appeals process).

Alaskan assessors follow methods prescribed by the Alaskan Association of Assessing Officers, who uses Cost, Sales Comparison, and Income approaches to determine the value of property. Cost approaches value property at the cost of building the same thing elsewhere. Sales
Comparison uses transaction data to value property. Income based assessing values property based upon the possible amount of income generated on the site (Property Assessments in Alaska revised July, 29, 2003).

In markets with high turnover and comparable products, this approach works well—assessors can value average residential homes easily and accurately. However, if the market is slow and products vary widely, assessing can be very challenging. Commercial real estate, especially large plots and buildings, are traded less frequently and are often unique. This makes commercial property assessment hard, as Mayor Sullivan related in a recent interview with Dr. Lawrence D. Weiss, “it’s hard to assess commercial property as accurately as residential property. … That’s one of the things we’ve been working on; we want to get commercial properties assessed near their full value, just like residential property is” (Lawrence D. Weiss, 2009). Drawing on the mayor’s remarks and data (see figure 1) showing a decline in commercial property values as a share of total property values, Dr. Weiss asserts, “for decades commercial properties have been undervalued in Anchorage, and that property taxes paid by homeowners have been increasingly subsidizing commercial properties”.

Are commercial properties undervalued?
According to a study by the Institute for Social and Economic Research, commercial and residential values—which determine tax revenues—diverged after the slump of the mid 1980s. Their shares of total property value were 33 (commercial) and 50 (residential) in the 1970s. By 1990 the shares were 24 and 65. The study offers several explanations one of which is that commercial real estate is under-assessed. However, commercial real estate value has increased as a share of total value since 1999, indicating that prices have finally recovered from the devastating market collapse of the mid 1980s.

**Residential Property Tax exemptions**

Property taxes are generally regressive—a house’s value does not perfectly reflect the occupant’s income. A residential exemption can make the property tax more equitable. For example a house worth $200,000 would pay $2,000 in taxes at a mill rate of 10 and a $400,000 house would pay $4,000. The $200,000 house would receive a %10 tax cut from a $20,000 exemption while a house worth $400,000 would receive only %5 in tax relief.
Residential tax exemptions can have unintended negative consequences. The Institute on Taxation and Economic Policy claims there are two important flaws, they do not affect renters and are poorly targeted and therefore costly (Guide to Fair State and Local Tax Policy, 2005). Renters are generally poorer than homeowners, and if any of the increased taxes are shifted to them via higher rents, the policy could increase regressivity. A recent bill put forward in Alaska’s Senate seeks to nullify the renter issue while increasing tax relief to homeowners.

Current Legislation

Alaska Statute Sec. 29.45.050 allows municipalities to “exclude or partially exempt residential property from taxation by ordinance ratified by the voters at an election … [which] may not exceed the assessed value of $20,000 for any one residence”. As stated above, Anchorage has a 10% exemption up to $20,000 under AMC 12.15.012.

According to the Municipal Assessor, Marty McGee, 50% of the 94,507 taxable parcels of real estate enrolled in the exemption program, or 62.5% of residential properties. The discrepancy could be a result of tax payers being unaware of the exemption. The municipality could attempt to increase awareness of the program.

Senate Bill 232.

This bill seeks to increase the maximum allowable residential tax exemption to $50,000. The bill would amend Sec. 29.45.050 to read, “A municipality may classify residential property as to type and exclude, [OR] exempt, or partially exempt one or more types of residential property from taxation by ordinance ratified by the voters at an election” (Senator Bill Wielechowski, Sponsor Statement, 2009).
The sponsor wished to ensure that the bill would address the regressive nature of some tax exemptions. According to Senator Wielechowski, assembly members and people in the Anchorage Mayor’s office have confirmed that the bill could apply to renters, who would probably bear the burden of increased taxes upon large apartment buildings which are considered commercial property. The senator also asserts hope Anchorage would increase the [exemption] percentage to 20 or 25 percent” which would make the exemption more progressive. (Committee Minutes, Senate Community and Regional Affairs, Feb. 4, 2010).

A report by the municipal assessor sought to determine the consequences of an increase in the exemption for Anchorage. The effects of a $50,000 exemption are summarized in table 1.

<table>
<thead>
<tr>
<th>Type of property</th>
<th>Change in taxes (w/10%)</th>
<th>Change in taxes (w/20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential low value</td>
<td>-77.53</td>
<td>-179.54</td>
</tr>
<tr>
<td>Residential mid value</td>
<td>-193.83</td>
<td>-448.85</td>
</tr>
<tr>
<td>Residential high value</td>
<td>-252.00</td>
<td>27.58</td>
</tr>
<tr>
<td>Commercial low value</td>
<td>1,017.41</td>
<td>1,588.12</td>
</tr>
<tr>
<td>Commercial high value</td>
<td>3,391.35</td>
<td>5,293.75</td>
</tr>
</tbody>
</table>

Increasing the exemption would reduce property taxes of all residents under the current 10% exemption, and all but the highest value residents under the 20% exemption. Commercial taxes would increase regardless.
If commercial property values (and therefore taxes) are too low, the proposed exemption increase would certainly help to correct this.

On January 12, 2010 an ordinance repealing AMC Section 12.15.012, and repealing and reenacting Section 12.15 to codify state law exemptions, which provide filing deadlines and outlines the administrative and judicial appeal process was presented by assembly members Elvi Gray-Jackson Mike Gutierrez. During an interview with Elvi Gray-Jackson, she asserts, “If this will be in effect, the commercial owners will pay what they are supposed to pay. Commercial properties in Anchorage is not assess properly today. What’s more, there is no communication to the public to take advantage of the opportunities that are available in Anchorage. The public should know that there are avenues” (Interview held, 9 Apr. 2010). After the hearing, however, the Assembly decided that the advisory vote will note move forward.

Property tax exemption advocates would like to find more way of fairly allocating tax burdens among commercial and residential property owners and other forms of taxes. In 2008 a statewide initiative was circulated to increase the residential property tax exemption to $100,000. Signatures were submitted to the State Divisions of Elections in April 2008 but the initiative was also denied for not having a sufficient number of eligible signatures.

Why the tax exemption in Anchorage should be repealed

The property tax system in Anchorage is service area driven. “The composition of property value in a particular service area determines the impact of an exemption on residential property to the tax rate for the service areas”. Further, “the tax impact of residential property of different values is not equal. As property value is exempted, the rate must increase to provide the same level of revenue” (McGee, 2009, p. 2). In his Memoranda, Residential Exemption
Analysis, McGee (2009) presents a comprehensive analysis, centered around the impact on change to the current residential exemption provided to Anchorage taxpayers. Throughout the memo, he applies the framework of the complexities of the value tax exemption property process. He contends, “With a 10% of value up to a $20,000 limit low and moderate value residences receive a benefit. High value homes and non eligible property owners have an increase in the amount of tax owed. A 10% of value up to $50,000 provides smaller benefit and moderate priced home owners, a decrease in high home owner’s tax, and an increase in the tax owned by non eligible property owners” (McGee, 2009, p. 2).

**Shifting Anchorage Fiscal System**

Since 1984 there have been two significant changes that have impacted how much in property taxes could be collected, the maximum amount of property taxes allowed and the amount of property taxes to be collected. (Baker, Griffith, & Weddleton, 2008, p. 4). Existing law requires that to authorize municipalities to increase the residential property tax exemption from $20,000 up to $50,000 that such change must be ratified by the voters at an election. Thus, under the new initiative of February 2010 the municipalities that seek to increase its $20,000 residential property tax exemption to $50,000 would need to pass an ordinance and present the ordinance for voter approval at a local election. An Eight (8) to three (3) vote shot down the new proposition that would have increased the exemption. The majority were concern about the impact the exemption will cause on small business and low income property owners. Assembly members that voted against the proposed change concluded that increasing the maximum property tax exemption would benefit the higher end income people and will cut people at the lower end more instead because Anchorage will have to make up the money somewhere,
therefore increasing the mill rate. Renters may pay a portion of the increased taxes on non-exempt property—apartment building owners (that don’t live in the apartment) will face increased taxes if the increased exemption passes, and they may pass this on to the renters by increasing rent. According to Assemblywoman Sheila Selkregg who voted against the new proposed change, she assert that the mill rate be evaluated and distributed differently. Further, “Particular at a time when businesses are having a hard time, when small businesses are in trouble, increasing their property taxes is not a very good idea.” (Interview held, 1 Apr. 2010). Another argument against the use of the homeowner property tax exemption is the negative effect on the Anchorage business community. According to an issued white paper by the Anchorage Chamber of Commerce (2008), “because the overarching Tax Cap does not decrease when exemptions are granted to certain groups, the burden to make up for lost tax revenue shifts to those property tax payers that are not getting the tax break, business and non-residential property owners” [white paper, pg. 8].

Anchorage property taxes are accounted for as an operating expense. Property taxes fund municipal services such as police and fire protection. The property tax, as the most important source of autonomous local revenue, often bears the brunt of criticism for the social, economic and fiscal pressures on local communities. Among these pressures are increased costs of new educational, environmental and security requirements, reductions in state and federal assistance, changing demographics and economic conditions, and increasing numbers of exemptions. Attention to these issues can clarify the debate over the role and burden of property taxes and the effectiveness of various tax relief measures. Selkregg viewed the benefits and drawbacks of various measures to address these problems; she contends “It makes sense to me to come up with another type of tax relief. Our issue is tax ratification. I am much interested in coming up with a
diversify tax based than shifting around to different people in the tax based. What we should be looking at is implementation of others type of tax, like the Soda pop tax and Gross receipts tax” (Interview held, 1 Apr. 2010). The most “fair” method of taxation depends on individuals perspectives. Most observers consider sales tax a regressive tax since it disproportionately affects those with less income. Assemblywoman Selkregg, who represents East Anchorage, had previously been advocating for a tax soft drinks and other sugary beverages in Anchorage. The goal is to propose a 2-cent tax on a can of soda and 4-cents for larger liter containers. This idea is being considered in several cities and states around the country and Selkregg said she came up with her suggested levies based on what other cities are doing (Holland, 2010, p.1).

The Anchorage tax would be an excise tax and therefore would not require voter approval. The city already has such a tax on tobacco, as well as special sales taxes on things like hotel rooms and rental cars. The tobacco tax, which has been around for nearly 20 years, raised $16.4 million for the city in 2009. The city collects $1.46 in taxes for every pack of cigarettes sold. In an interview with journalist Megan Holland from the Alaska Daily News Selkregg asserts, “The primary intent is to create resources to help build the programs that will help people make better choices.” Further, “The fact is that it is an identifiable product that is easier to regulate… why not go after soda pop that we know brings no direct nutritional value?” (Holland, 2010, p.1).

How much the city would save with such a tax is still being calculated. To keep an eye on the tax however, wholesale beverage sellers would have to licensed and the tax on carbonated and non-carbonated drinks, sport drinks, energy drinks, flavored drinks, diluted fruit drinks and bottled of water would be collected from them.

Another suggestion to the property tax relief is a Gross receipt tax. Because property tax is the primary tax in anchorage, the goal is to change Anchorage fiscal system. A gross receipts
tax is a state tax on the gross receipts (sales) of a business; usually a state will impose a gross receipts tax instead of a corporate income tax. A gross excise tax is passed through to the consumer. Some states allow some deductions from the gross receipts tax and some types of businesses may be exempt from these taxes. The idea behind this tax is a sale tax on the sales of a business. Compared to other taxes, it is separate type of tax from the other line item of billing and it is not a factor in markup for profit on company sales. This tax is easy to understand, is broad based and it is progressive. Dan Dickinson (2010) in a presentation to the Anchorage Assembly Community Forum asserts, “best solutions is a sale tax including services but excluding staples – rate (to achieve 1/3 reduction in property taxes) probably under 3%” (p. 44). The goal is simply to proceed with caution yet remembering that tax burden is low in Anchorage and that at the end of the day, business can’t raise prices too high if they want to stay open for business.

Today, Anchorage simply relies too heavily on property taxes. Dickinson (2010) contends, “Our dependence on property taxes may affect the city’s long term financial health.” Further, “The municipality’s general fund revenues are derived mainly from the property tax…; this could emerge as a concerns if market values for residential and commercial property weaken” (p.27).
Another final example of a tax that can be use in Anchorage is a Business Activity Tax. As introduced by Dickinson (2010) to the Anchorage Assembly Community Forum, a Business Activity Tax is a tax on activities such as payroll, number of employees, square footage and occupancy. This tax is use widely in hundreds of city across the country because it is responsive to the economy. This tax would allow property tax to fall while “improving the property tax, this tax is broad base while being complemented by a lower rate” (Dickinson, 2010, p. 32). A Business Activity tax is also responsive to the economy and reaches all areas of economic activity.
Taxes on goods and services have desirable features as part of a revenue system. “A range of alternative tax bases can be important because heavy use of any tax is likely to bring out all of its worst efficiency, equity, and collectability problems” (Mikesell, 2010, p. 439). The reality is that the increased exemption would cause tax decreases for houses value between $300,000 to $700,000, and almost a 2% increase for houses valued at $100,000 or apartment buildings. As indicated by Selkregg, “particular at a time when business are having a hard time, when small business are in trouble, increasing their property taxes is not a very good idea” (Interview held, 1 Apr. 2010). Although property taxes provides an important foundation to Anchorage fiscal system, this central focus on property taxes an simply have significant adverse economic effects in the future. A mechanism of different taxes can provide Anchorage with better economic alternatives to the future.

Looking to the Future

Going forward if the State of Alaska does pass the homeowners’ property tax exemption increase, raising the exemption amount from $20,000 to $50,000, the Anchorage assembly should first consider making adjustments locally in order to ensure the program is utilized efficiently. One of the main issues with the current homeowner’s exemption is that there is still a large part of the Anchorage population that is not taking advantage of this tax break. Opponents of the property tax exemption argue that since there is a significant amount of residents not participating, the exemption is simply adding complication to an already overburdened system. On the other hand, if all eligible Anchorage residents utilized this tax break, perhaps there would be better evidence that the tax burden shift is necessary.
Secondly, the exemption would be more equitable if the property assessments were kept up to date. Currently the assessor’s office is required by state mandate to update property value every year and do onsite property assessments on every parcel once every six years. Besides the argument that the assessor’s office is behind in assessing property in the borough, in her interview Elvi Grey-Jackson said that commercial property is not being assessed to current market value. To account for this, in a statement made in an interview with the Alaska Center for Public Policy, Anchorage Mayor Sullivan states that commercial value is harder to assess than residential property due to the fact that there are fewer sales and the buildings on this property are uniquely constructed (Weiss, 2009). Given this paradox, the homeowner’s tax exemption would attempt to make the spread between the commercial and residential tax burden more even.

Finally the unintended fallout from the increase in the property exemption should also be considered before the Anchorage assembly approves this measure. The low income residents, namely renter could face an increase in rental payments as landlords attempt to recoup the cost of having to deal with the tax burden shift on their properties. It has been suggested by assembly members Mike Gutierrez and Shelia Selkregg that tax relief strategies like rebate checks for renters or taxing individual apartments on a pro-rata basis would be a good way to avoid unintended fallout (Adams, 2010).

Taking all of these measures into account, the Anchorage assembly may want to rethink their advisory vote for the increase of the homeowners exemption increase. Providing tax relief to residents and continuing to encourage the economy during these hard economic times is very important. If anything the possibility of this exemption increase has caused a renewed interest in assessments by the general Anchorage population and exposed some inefficiencies with the assessor’s office which needs further evaluation.
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