

About Anchorage's Tax Increase Limitation aka “Tax Cap”

Northeast Community Council
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Tax Cap's Origins

- 1984 citizens advanced initiative to limit how much MOA could annually increase taxes
 - Concerned that increased oil and gas activity could lead to increased spending –and taxes to pay for it
 - Proposed formula limit on how much ALL taxes could increase annually
 - Provided annual increase for:
 - Inflation, population changes
 - Voter-approved debt and associated O&M costs
- Initiative passed with 58% voter approval

Taxes—What's In / What's Out

Subject to Tax Cap

• Automobile tax	\$10.3 M
• Tobacco Tax	\$20.0 M
• Motor Vehicle Rental Tax	\$10.0 M
• Fuel Excise Tax	\$13.5 M
• Payment in Lieu of Taxes (state and Federal)	\$ 9.2 M
• MUSA/MESA (payments by utilities)	\$21.4 M
• Property Tax	\$346.5 M

Outside Tax Cap

• Alcohol tax	\$15.2 M
• Marijuana tax	\$ 5.9 M
• Hotel/motel bed tax (4% to general government)	\$45.1 M

Revenue amounts are from Mayor's Proposed 2025 budget

How Tax Limit Is Calculated

1. Start: Amount of ALL taxes collected prior year
2. Back out taxes for one-time items
 - Legal settlements, debt service
3. Adjust for change in population, inflation
 - Use five-year average
4. Add amount for purposes not subject to limit
 - Debt service, new construction, legal settlements, voter approved O&M

Answer sets limit on amount of
ALL TAXES that can be collected

Calculating Maximum Property Taxes

Add other taxes to be collected:

- Automobile tax
- Tobacco tax
- Motor Vehicle Rental tax
- Fuel Excise Tax
- Payment in Lieu of Taxes
- MUSA/MESA

Room remaining maximum in
PROPERTY TAXES can collect

Tax Cap History

- 1984: Initiative on ballot establishing Tax Cap
 - 58% voters approved
- 1997: Voters amended charter to require 60% vote for sales tax
 - 62% voters approved
- 2003: Mayor/Assembly removed by ordinance MUSA/MESA payments from Tax Cap calculation
 - Result: \$50 million more in property taxes collected over 6 years
- 2009: Citizen initiative to return MUSA/MESA under Tax Cap
 - 60.46% voters approved
 - Result: \$40 million less in property taxes collected over 3-years

Tax Cap History . . .

- 2016: Administration proposed to again remove MUSA/MESA from Tax Cap
 - In anticipation, citizen initiative stipulating under Tax Cap
 - 60% voters approved
- 2016: Assembly proposed Marijuana sales tax; lower vote approval needed to 50%; revenue within Tax Cap
 - 79.4% voters approved
 - Result: \$4 million less in property taxes
- 2017: Assembly approved Motor Fuel excise tax
 - Revenue within Tax Cap
 - Result: \$13 million less in property taxes

Tax Cap History . . .

- 2020: Assembly proposed 5% Alcohol Tax; lower vote approval needed to 50%; revenue excluded from Tax Cap
 - 52.34% voters approved
 - Result: no property tax offset; \$11 to \$15 million additional spending
- 2023: Assembly proposed Marijuana tax be excluded from Tax Cap; lowered vote required to 50%
 - 55.92% voters approved
 - Result: Phased implementation; in 2025 no property tax offset; \$4.7 million additional spending

Tax Cap: Future Decisions

- 2025: Assembly places special tax on ballot to collect \$6.5 M in additional property taxes (\$3M for police and \$3.5M for heavy fleet vehicles)
 - Per Charter, special tax not subject to Tax Cap
 - Result, if approved:
 - \$6.5 M increase in property taxes and spending
- TBD: Sales tax?
 - Subject to tax cap?
 - If yes, revenue would reduce property taxes
 - If no, pays for increased spending
 - Requirement for voter approval?
 - 60% vote requirement per Charter?
 - Exception to Charter for 50% vote requirement?
 - Advisory vote?

Tax Limit Calculation

Anchorage Municipal Charter 14.03 and Anchorage Municipal Code 12.25.040

2024 2025

Line		at Revised	at Proposed
1	<u>Step 1: Building Base with Taxes Collected the Prior Year</u>		
2	Real/Personal Property Taxes to be Collected	317,799,100	334,333,113
3	Auto Tax	10,409,910	10,311,702
4	Tobacco Tax	21,500,000	19,050,000
5	Marijuana Sales Tax	4,700,000	-
6	Motor Vehicle Rental Tax	10,000,000	10,000,000
7	Fuel Excise Tax	14,400,000	13,500,000
8	Payment in Lieu of Taxes (State & Federal)	10,999,990	10,070,633
9	MUSA/MESA	19,260,458	19,820,796
10	Step 1 Total	409,069,458	417,086,244
11			
12	<u>Step 2: Back out Prior Year's Exclusions Not Subject to Tax Limit</u>		
13	Judgments/Legal Settlements (One-Time)	(827,500)	(2,455,352)
14	Debt Service (One-Time)	(62,839,984)	(55,482,032)
15	Step 2 Total	(63,667,484)	(57,937,384)
16			
17	Tax Limit Base (before Adjustment for Population and CPI)	345,401,974	359,148,860
18			
19	<u>Step 3: Adjust for Population, Inflation</u>		
20	Population 5 Year Average	-0.50%	-0.40%
21	Change in Consumer Price Index 5 Year Average	3.00%	3.00%
22	Step 3 Total	8,635,050	2,60%
23			
24	The Base for Calculating Following Year's Tax Limit	354,037,024	368,486,730
25			
26	<u>Step 4: Add Taxes for Current Year Items Not Subject to Tax Limit</u>		
27	New Construction	4,212,114	2,626,498
28	Taxes Authorized by Voter-Approved Ballot - O&M	338,000	265,500
29	Judgments/Legal Settlements (One-Time)	2,455,352	-
30	Debt Service (One-Time)	55,482,032	57,808,888
31	Step 4 Total	62,487,498	60,700,886
32			
33	Limit on ALL Taxes that can be collected	416,524,522	429,187,616
34			
35	<u>Step 5: To determine limit on property taxes, back out other taxes</u>		
36	Automobile Tax	(10,311,702)	(10,311,702)
37	Tobacco Tax	(19,050,000)	(20,000,000)
38	Motor Vehicle Rental Tax	(10,000,000)	(10,000,000)
39	Fuel Excise Tax	(13,500,000)	(13,500,000)
40	Payment in Lieu of Taxes (Utility, State, and Federal)	(10,070,633)	(9,167,131)
41	MUSA/MESA	(19,820,796)	(21,401,849)
42	Step 5 Total	(82,753,131)	(84,380,682)
43			
44	Limit on PROPERTY Taxes that can be collected	333,771,391	344,806,934
45			
46	Add General Government use of tax capacity within the Tax Cap	562,222	1,683,422
47			
48	Limit on PROPERTY Taxes that can be collected within the Tax Cap	334,333,613	346,490,356
49			
50	<u>Step 6: Determine property taxes to be collected if different than Limit on Property Taxes that can be collected</u>		
51	Property taxes to be collected based on spending decisions minus other available revenue.		
52			
53	Property taxes TO BE COLLECTED	334,333,113	346,317,106
54			
55	Amount below limit on property taxes that can be collected ("under the cap")	500	173,250

There also are service areas with boards that set their maximum mill levies. The property taxes in these service areas are not subject to the Tax Limit Calculation ("outside the cap"). The 2025 total property taxes "outside the cap" is **\$27,631,777**, making the total of all property taxes to be collected for General Government **\$373,948,883**.