PROJECT ANCHORAGE

Project Anchorage Revenue Estimate:

2024 Update

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:

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

- **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.

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.

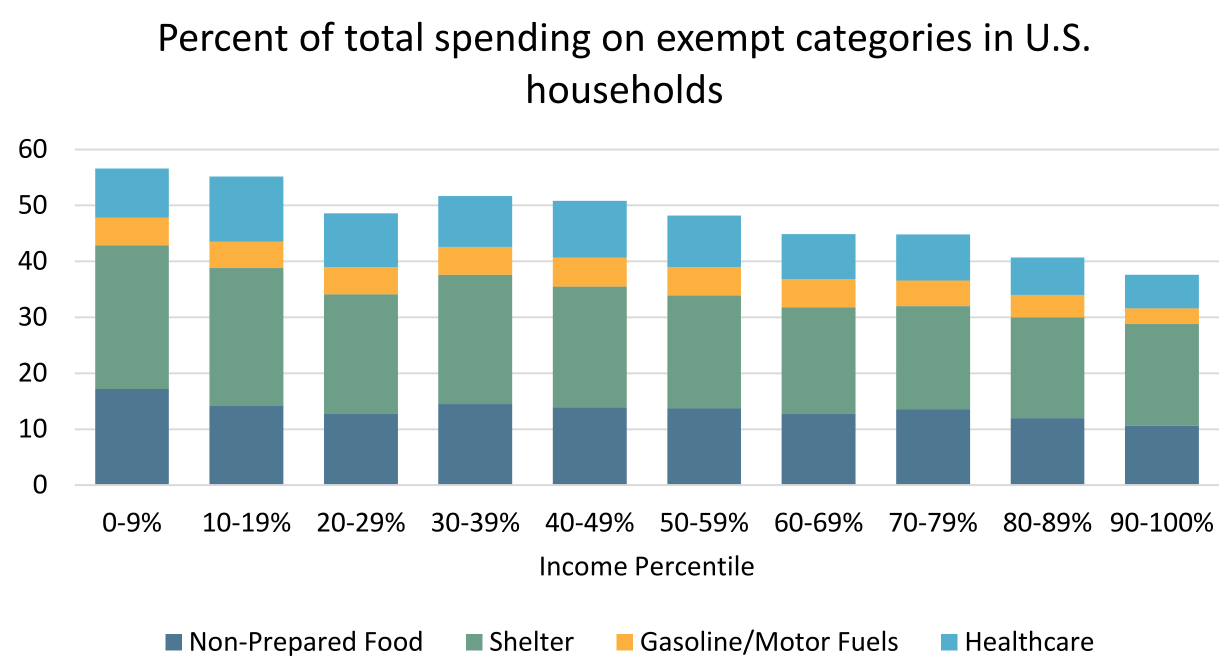

Figure 1 Source: BLS CES, 2021-2023.

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.

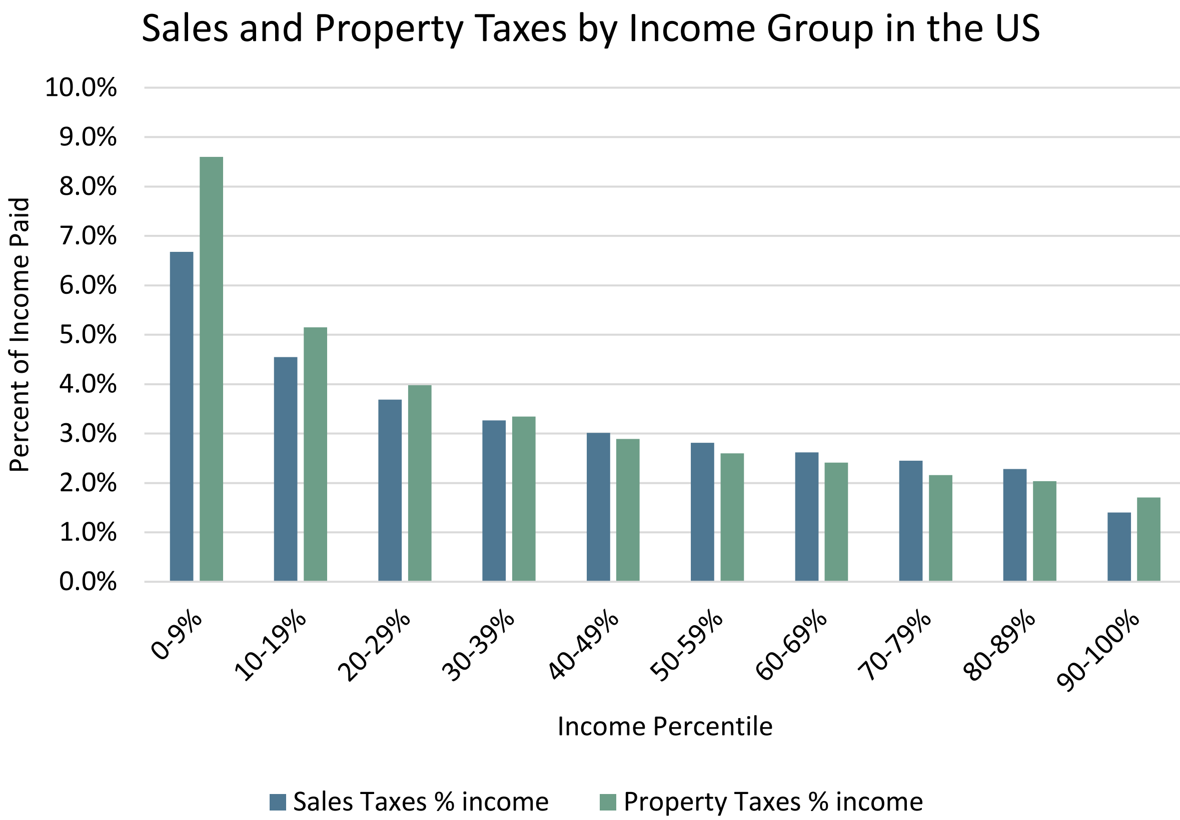

Figure 2 Source: 2015-2016 Annual Social and Economic Supplements (ASEC) by the U.S. Census Bureau. Analyzed by Fleck et. al. 2021.

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 or 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/cepceconcordance.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.