

To: Council

Fr: Alice Ruby, Mayor

Date: 12/6/24

Re: AML Effort

Council, attached please find a copy of the workplan that AML coordinated to try be prepared for any potential effort to impact municipal taxing authority over the next legislative session.

There really isn't anything that we need to do at the moment but I wanted you to be aware of the upcoming effort, especially those council members that plan to attend the AML conference.

Workplan: Educating the Public and Legislature on Property Tax Exemptions, Economic Development Exemptions, and Related Topics

1. Introduction: Goals and Objectives

The objective of this workplan is to educate both the public and the legislature on the implications of property tax exemptions, including senior exemptions, the economic development exemption, and tribal sovereignty issues. The workplan aims to promote understanding of the trade-offs, impacts on local budgets, education funding, and equity across Alaska.

2. Key Topics and Messaging

A. Impact of Mandatory Exemptions

- **Objective:** Educate on the economic reality that increasing mandatory exemptions or the senior exemption shifts the tax burden.
 - **Talking Points:**
 - "Robbing Peter to pay Paul" – for every dollar exempted, another taxpayer must compensate.
 - Increased exemptions lead to higher mill rates for remaining taxpayers.
 - Tie to outmigration as higher taxes may drive people away from certain areas.
 - **Tasks:**
 - Develop case studies to show the effect of exemptions on local property taxes and compare mill rates before and after adjustments.
 - Create public-facing materials (infographics, one-pagers) explaining how exemptions impact their local budget and the mill rate.

B. Local Budget Impacts

- **Objective:** Show how property taxes are the most stable revenue source for municipalities, and how exemptions can erode this stability.
 - **Talking Points:**
 - Property tax plays a varying role in municipal budgets but is often the bedrock of revenue.
 - Declining taxable property values (adjusted for inflation) further stress local budgets.
 - **Tasks:**
 - Collect data on the percentage of municipal budgets derived from property taxes across Alaska.
 - Develop presentations showing the declining real taxable value of property over time.

C. Tax Burdens in Alaska

- **Objective:** Compare Alaska's relatively low tax burden with other states.
 - **Talking Points:**
 - Property and overall taxes in Alaska are low compared to other U.S. states.
 - **Tasks:**

- Prepare a white paper on Alaska's local tax burden versus the national average.
- Use charts to show Alaska's ranking in tax burdens and how exemptions shift these burdens.

D. Education Funding

- **Objective:** Clarify how increasing mandatory exemptions affects state education funding.
 - **Talking Points:**
 - Increased exemptions force the State to shoulder a larger share of education funding.
 - Full Value Determination (FVD) does not take into account optional exemptions.
 - **Tasks:**
 - Draft a white paper explaining how mandatory vs. optional exemptions affect state funding formulas.
 - Develop simulation models showing funding shifts under different exemption scenarios.

E. Economic Development Exemption

- **Objective:** Promote better use of the economic development exemption by both municipalities and the state legislature.
 - **Talking Points:**
 - The exemption is underutilized, and both municipalities and legislators could achieve key policy goals with it.
 - **Tasks:**
 - Develop educational materials on who can use the economic development exemption and how it can be structured for specific projects.
 - Create a "best practices" guide for municipalities looking to use this tool for economic growth.

F. Tribal Sovereignty and Tax Exemptions

- **Objective:** Address the complex issues surrounding tribal sovereignty and property taxes.
 - **Talking Points:**
 - Litigation in Kodiak and Nome regarding tribal sovereignty and high-value properties being removed from tax rolls.
 - How can local governments continue providing services amid declining tax rolls?
 - Highlight the benefits tribal organizations bring to communities and the need for a common goal.
 - **Tasks:**
 - Engage legal and economic experts to explain current litigation and its potential impacts.
 - Develop educational materials that frame tribal sovereignty as an opportunity for collaboration, rather than a conflict with tax policy.

G. Senior Exemption

- **Objective:** Evaluate the growing impact of senior exemptions on local service areas and budgets.
 - **Talking Points:**
 - The growing value of senior exemptions, especially as Alaska's population ages.
 - Administrative challenges with means-testing and public reluctance to share private information.
 - Explore the use of circuit breakers to offset some impacts.
 - **Tasks:**
 - Collect data on municipalities using senior hardship exemptions and analyze their structures.
 - Draft a white paper on the impact of the senior exemption on local tax rolls and services.

H. Non-Profit Exemptions

- **Objective:** Provide clarity on how non-profit exemptions are applied across the state and ensure consistency.
 - **Talking Points:**
 - Address equity issues when mandatory exemptions are applied differently across municipalities.
 - Prepare for potential legislative action regarding the treatment of non-profit exemptions.
 - **Tasks:**
 - Create an easy-to-understand guide for municipalities on how to apply non-profit exemptions fairly.
 - Monitor legislative developments and respond to proposed changes.

3. Data Collection

- **Objective:** Collect comprehensive data to support the educational efforts and ensure informed decision-making.
 - **Tasks:**
 - Gather data on which optional exemptions are being used by municipalities, starting with existing research (such as the CED study).
 - Analyze how burdensome the administration of these exemptions is for local governments.
 - Build a library of code and best practices for municipalities to reference.
 - Collect budget data from municipalities showing how property tax revenue supports local services.

4. White Papers

- **Objective:** Prepare a series of white papers to educate stakeholders on key topics.

- **Topics:**
 1. The senior exemption and its impacts.
 2. The economic development exemption and how it can be utilized.
 3. Alaska's local tax burden vs. the rest of the country.
 4. Impacts of mandatory and optional exemptions on education funding.
 5. How assessments work in Alaska.
- **Tasks:**
 - Research and draft each white paper, ensuring they are accessible to both legislators and the general public.

5. Miscellaneous Research Topics

- **Objective:** Address additional research needs as they arise.
- **Tasks:**
 - Analyze the potential impact of changes to the federal SALT deduction cap on different income brackets and property values in Alaska.
 - Investigate how independent power producers (IPPs) could interact with tax exemptions and local economic development efforts.

6. Timeline

- **Month 1-2:** Begin data collection and white paper drafting; prioritize senior and economic development exemptions.
- **Month 3:** Complete public and legislative outreach materials on mandatory exemptions and local budget impacts.
- **Month 4-6:** Finalize all white papers and begin focused outreach to legislators throughout the legislative session.