

There was a good question about why a resident of one community that has a local tax and pays for something like city police should be expected to pay the State a tax that eventually is used for a different community’s public safety. There was also a question about why it would be fair or equitable for constituents to pay a State tax, when they’re already paying a local tax.

We encourage the Committee to avoid arguments that reduce a fairly complex concept or issue to focus on one component part, and in this case describe it as a zero-sum game – that one group of constituents lose if other Alaskans’ gain. Together we can recognize the difference between local roles, responsibilities, and taxes, and the State’s own obligations and role in taxation.

Fundamentally, both arguments rest on the idea that many residents already pay a tax and a State tax on top of that would be unfair; this is the double taxation argument. A good starting point is to look at what occurs elsewhere in the nation. 49 states have some level of broad-based taxation, with the exception being Alaska. All states also have local taxation. In all states that tax, local government taxation also occurs. The way to evaluate this double taxation argument is to look at the combined rates, to see what “fair” would look like. Alaska’s combined state and local taxes are the lowest in the nation. A State tax isn’t double taxation, it is only combining the State’s take on top of what might already be occurring at the local level, and ultimately for different purposes.

The second part of the response then rests on what those taxes are intended for. Local taxation is in place to support local services and to enable the operation of local governments who administer those services. There are varying degrees of services provided by local governments, which are determined by local voters and taxpayers. This is local control.

The State has its own responsibilities. It is solely responsible for the court system, and the only level of government with a responsibility to fund the university system. Additionally, the Constitution gives the State three obligations: public education, public health, and public welfare, the latter of which could extend to public safety. Some would argue that transportation is another responsibility. Fundamentally, the State’s responsibility is a matter of those Constitutional obligations, and the choices the Legislature makes about what Alaskans need for quality of life and their livelihoods.

A State tax, then, is to provide for those services. The resident in Anchorage or Valdez that is paying a property tax, knows that this tax goes to pay for things like local police, road maintenance, parks and recreation opportunities, and a variety of other purposes. That might be very different than the tax paid by a resident in Newhalen or Gustavus, with a suite of services in those communities limited by the tax base, which corresponds to economic activity and population. In fact, all levels of service link back to tax base. A State tax has access to the entire State’s tax base. You can think of this in terms of the State’s GDP, with a variety of sectors contributing the value of goods and services produced in the state. The State can look at this in total and base its tax broadly on how it leverages its tax to pay for the services that it is obligated or otherwise chooses to provide.

It remains a question of what happens when one city’s tax pays for a service that another city doesn’t provide, and the State provides in its place. First, if the service is one that the State is obligated to provide, or its failure to provide threatens public health, welfare, or safety, then the State will need to decide the level of the service it provides to that community that doesn’t do it on its own. Level of

service is important, because what the resident in, say, Fairbanks, is paying for when it comes to its police department, is very different than the baseline level of service the State provides to the community of Kwethluk or Glennallen. Local taxes might be paying for the upgrade, if you will, consistent with the needs of that community. The way to evaluate this, for public safety at least, is to look at officers by capita within a community. There are good national numbers that point to Alaska being behind in this.

It's also true that where a service is picked up by a city or borough, and the State doesn't have to pay for that, then it's likely there is State investment into the community in other ways. So, for our population centers that may be paying through their tax base for many services, we might more likely expect the State to be paying for things like courts, universities, healthcare, and infrastructure. In fact, the State bases most of its assets in these very same communities, which further contributes to developing out the economic base of those communities.

If levels of service is one answer – and that probably extends to type of service – we should also understand this to be more than a zero sum game. The State is making different choices for investments in those communities that are delivering what might otherwise be provided by the State. One community doesn't lose at another's expense, nor do taxpayers.

In fact, a broad-based tax corrects for the inequity within the present system, where some pay and some don't at the local level. A State tax ensures that everyone, mostly, pays something, and that this tax is level in its application and use by the State, which allocates it to a variety of purposes. That's the State's role in redistribution, and redistribution according to what it fundamentally has to do and what it chooses to do through legislation.

All that said, it remains true that some local governments contribute to education and some have police departments, and others don't. I think that has to remain a different question than that of State taxation. If the State wants to change the expectation of local governments, it can do that through negotiated solutions consistent with devolution of state responsibilities. That means a structured approach that transfers some level of resources and responsibilities to the local level, for the city or borough to deliver on behalf of the state. We've included in our Eight Stars of Gold, the concept of partnership as part of our answer. Devolution is one form of partnership that may be considered by the State. I can guarantee that what won't be successful is cost-shifting or forced powers. The result there would be that local governments are overwhelmed, with little ability to make up the difference for the State. Residents suffer under that scenario, just because of how different communities are in their capacity and access to resources.

Finally, one of the questions asked by the Committee was whether a tax or reduction to the PFD should result in fully funding something like Community Assistance. I think the answer there is yes, if the expectation of the State is that all local governments have some capacity to support State goals related to elections, sanitation, schools, etc. Something like Community Assistance keeps the lights on in many communities; when it went away in 2003-5, or so, some local governments closed their doors. Do I think that a taxpayer in Anchorage or Glennallen or Seward or Shishmaref should contribute something to making sure that system doesn't break down? Yes. The State is being supported by local governments who help with elections in the majority of our communities, and it isn't taking out the trash (managing landfills) or running water and sewer systems. If it wants those things done, then it should allocate some basic level of support to communities to continue doing so, drawing from the entirety of its tax base.