

# Local Tax and Regulatory Environments

In this section the local tax and regulatory environments that businesses must address in Southeast Alaska is reviewed.

## Local Tax Environment

In Alaska only incorporated municipalities (cities or boroughs), usually called 'local government' can levy taxes. Cities and boroughs levy taxes to generate revenue to run local government, pay for education, utilities (solid waste, water, sewer, etc) and pay for services (police, public works, streets, etc.).

The local tax burden per capita in Southeast Alaska ranges from \$0 for unincorporated communities that cannot levy taxes to \$9,697 per capita in the Municipality of Skagway, the 4th highest in the state. Skagway is anomalously high due to the sales tax revenue collected when cruise ship visitors are spending in town combined with its small population. The per capita average local tax burden in Southeast Alaska is \$2,148, or if Skagway is excluded, \$2,062 per person. The statewide average (excluding North Slope Borough, also anomalously high due to oil revenue) is \$1,682. On a per capita basis, Southeast Alaska's local tax burden is higher than the statewide average, Anchorage, Mat-Su Borough, or Fairbanks. This suggests some economies of scale as population increases, as level of service is approximately the same in Southeast communities while populations are much smaller.

While Southeast Alaska's average local tax burden in 2009 was about 22% higher than the statewide local tax burden, only Juneau, Skagway and Haines per capita rates were higher than the State's per capita average. (Because Juneau's population is so large it raises the average for the region.) The City of Ketchikan, with its relatively larger regional population, is also close to the statewide per capita average. However, Juneau and Ketchikan, as with Skagway, benefit from the sales tax collected from the influx of summer tourists. Both have structured their tax revenue collection such that property taxes are lower per capita than Anchorage and Fairbanks, with sales tax providing more than half of the per capita tax revenue. The types of local government taxes that are levied in each community in the region are listed in the table below.

## Local Tax Burden, Southeast Alaska and Statewide, 2009

Southeast Alaska Community	Sales Tax Revenue	Property Tax Revenue 2009	Other Local Taxes 2009	Total All Local Tax Revenue 2009	2009 pop	per capita tax
Angoon	\$58,500	\$0	\$12,000	\$70,500	442	\$160
Craig	\$1,450,799	\$450,665	\$103,666	\$2,005,130	1,117	\$1,795
Haines Borough	\$2,656,544	\$2,385,462	\$77,872	\$5,119,878	2,310	\$2,216
Hoonah	\$251,644	NA	NA	\$251,644	764	\$329
Hydaburg	\$26,000	\$0	\$0	\$26,000	340	\$76
Gustavus	\$185,000	\$0	\$0	\$185,000	451	\$410
Juneau Borough	\$41,577,389	\$40,490,841	\$2,465,000	\$84,533,230	30,427	\$2,778
Kake	\$138,341	NA	NA	\$138,341	519	\$267
Ketchikan City (note this pop is also part of KGB below)	\$10,381,936	\$4,436,520	\$444,862	\$15,263,318	7,508	\$2,033
Ketchikan Gateway Borough (KGB)	\$8,397,300	\$8,016,451	\$47,979	\$16,461,730	12,984	\$1,268
Klawock	\$550,000	\$0	\$65,000	\$615,000	782	\$786
Pelican	\$58,601	\$85,270	\$2,303	\$146,174	113	\$1,294
Petersburg	\$2,870,844	\$2,626,075	\$51,632	\$5,548,551	3,009	\$1,844
Port Alexander	\$22,221	NA	\$2,624	\$24,845	61	\$407
Saxman	\$94,807	NA	NA	\$94,807	434	\$218
Sitka Borough	\$9,761,477	\$5,882,939	\$845,892	\$16,490,308	8,615	\$1,914
Skagway Borough	\$6,272,760	\$1,763,316	\$167,223	\$8,203,299	846	\$9,697
Tenakee Springs	\$6,843	NA	\$620	\$7,463	99	\$75
Thorne Bay	\$268,478	NA	\$17,278	\$285,756	424	\$674
Wrangell Borough	\$2,266,131	\$1,411,471	\$39,960	\$3,717,562	2,112	\$1,760
Yakutat Borough	\$742,752	\$400,831	\$193,020	\$2,336,603	592	\$3,947
<b>Southeast wide totals</b>	<b>\$88,038,367</b>	<b>\$67,949,841</b>	<b>\$4,536,931</b>	<b>\$161,525,139</b>	<b>75,190**</b>	
<b>Southeast wide average</b>						<b>\$2,148</b>
<b>Southeast wide average (excluding Skagway)</b>						<b>\$2,062</b>
<b>Municipality of Anchorage</b>						<b>\$1,547</b>
<b>Alaska average (excluding North slope Borough)</b>						<b>\$1,682</b>
<b>Alaska average (including North Slope Borough)</b>						<b>\$2,107</b>

sources: 2009 Alaska Taxable DCCED; Angoon FY10 Budget; Gustavus FY 09 Budget; Klawock FY 09 Budget; Hydaburg FY 09 Budget; Pop data: ADOL

\*\* all SE pop, not just taxing places

The following table shows the tax structure for each community in Southeast Alaska. A discussion regarding the table follows.

## Tax Structure for Each Southeast Alaska Community, 2010

<b>Southeast Alaska Community</b>	<b>Property Tax Mill Rate 2010</b>	<b>Special Tax Rate 2010</b>	<b>Sales Tax Rate 2010</b>
Angoon	None	None	6 %
Coffman Cove	None	None	0%
Craig	6 mills	6% Liquor Tax	5%
Edna Bay	N/A	N/A	No taxing authority
Elfin Cove	N/A	N/A	No taxing authority
Game Creek	N/A	N/A	No taxing authority
Gustavus	None	4.0% Bed Tax	2%
Haines Borough	11.26 mills	4% Bed Tax	5.5%
Hollis	N/A	N/A	No taxing authority
Hoonah	None	None	6%
Hydaburg	None	None	4%
Hyder	N/A	N/A	No taxing authority
Juneau Borough	10.6 mills	7% Bed Tx/ 3% Liquor Tx/ 12% Tobacco Tax	5%
Kake	None	None	5%
Kasaan	None	None	0%
Ketchikan City	12.1 mills	7% Bed Tax	3.5% (city); 2.5% (borough)
Ketchikan Gateway Borough	6 mills	4% Bed Tax	2.5% Sales Tax
Klawock	None	6.0% Bed Tax	6%
Klukwan	N/A	N/A	No taxing authority
Kupreanof	None	None	0%
Metlakatla	None	None	0%
Naukatli Bay	N/A	N/A	No taxing authority
Pelican	6 mills	10% Bed Tax	4%
Petersburg	9.07 mills	4% Bed Tax	6%
Point Baker	N/A	N/A	No taxing authority
Port Alexander	None	6% Bed Tax	4%
Port Protection	N/A	N/A	No taxing authority
Saxman	Pay KGB tax	4% Bed Tax (borough portion)	3.5% (city); 2.5% (borough)
Sitka Borough	6 mills	6% Bed Tax / 5.0% Tobacco Tax	5% from Oct-Mar.; 6% from Apr. - Sept.
Skagway Borough	8 mills	8% Bed Tax	3% from Oct. - Mar.; 5% Apr. - Sept.
Tenakee Springs	None	6.0% Bed Tax	2%
Thorne Bay	None	Bed Tax 4%	5%
Whale Pass	N/A	N/A	No taxing authority
Whitstone	N/A	N/A	No taxing authority
Wrangell Borough	12.75 mills	Bed Tax 6%	7%
Yakutat Borough	10 mills	1% Fish Tax/8% Bed & Car Rent/4% Severance Tax	4%

Source: 2009 Alaska Taxable DCCED

There are 11 places in Southeast Alaska that have a property tax with mill rates varying from 6 to 12.75 mills. (A six mill rate levied against a building assessed at \$100,000 in value would generate an annual tax bill of \$600.) Of the places that levy property taxes only Juneau, Ketchikan, Sitka, and Pelican levy a property tax on business machinery (however, Juneau exempts the first \$100,000 of assessed value); only Pelican levies it on business inventory; and Ketchikan, Pelican and Sitka levy an optional flat fee in lieu of property tax on boats and vessels.

There are 21 places in Southeast that levy a sales tax. Rates vary from 2% in Gustavus and Tenakee Springs to 7% in the City and Borough of Wrangell. Other local taxes in Southeast region are bed taxes, local fish tax, liquor tax, tobacco tax, and a car rental tax.

### **Federal and State Regulatory Environment**

#### ***Regulatory environment cannot be separated from near 100% public ownership of land and resources***

Existing and new business in Southeast Alaska must follow a web of federal, state, and local laws and implementing regulations. Depending upon the industry sector, the regulations and lead agencies vary; but all must contend with an increasingly complex and costly system of rules. There is a sense among some that requirements among federal, state, and local programs can be duplicative.

Both the online business survey and individual interviews highlighted federal and state regulations, and the changing regulatory environment, as significant challenges to business success in Southeast Alaska. This is not surprising given the large public land, management, and regulatory presence in the region. Successful business owners in Southeast Alaska note that constantly changing regulations require a business to be flexible and adapt to survive. It can be problematic when regulators (sometimes inadvertently) set up a requirement that prevents a business from making quick changes to respond to new conditions or information.

Over 95 percent of Southeast Alaska is in public ownership (federal, state and local) including the land, water, animals and fish. This necessitates active engagement of the government to "permit" any private sector business activity within the area. However, most governmental entities are not structured to actively engage in private sector business creation. Government is generally set up to "manage" through the use of regulations and permits. The challenge is to find mechanisms to encourage and support the creation of private sector business within this constraint. Both federal and state agencies must be positive, engaged players for success in Southeast Alaska.

There are numerous state and federal agencies involved in any economic activity in Southeast Alaska. Each agency has a unique mission statement to direct the specific activity of their agency. Very few if any of the core mission statements of the agencies address the support, creation or

assistance in building and sustaining private business activities. The lack of coordination between agency policies is a major restraint to effective government assistance in building a solid economic base.

A major problem is the 'silo' effect where each agency is focused on their mission statement and there is little coordination between agencies to implement or affect a policy. For example, the Alaska Departments of Fish and Game, Natural Resources, Environmental Conservation, Commerce-Community and Economic Development, Public Safety's Fish and Wildlife Enforcement, Department of Labor, and the Governor Office all impact businesses but there is no coordination among departments and no department has a primary mission to work to ensure private business success. Some Governors have had regular Resource Cabinet meetings to set out consistent policy and communication on resource development issues, but regular coordination has not occurred in the context of business development. These concerns are also true for the federal government; for example within the USDA there is little coordination for business support among Natural Resource Conservation Service (NRCS), Farm Service Agency (FSA), Rural Development (RD) and Forest Service (FS).

Coordination of USDA NRCS, FSA, RD, and FS agency policy to create effective direction to support sustainable economic activity and the creation of private business within the Tongass would be very beneficial.

Business working with the USFS are sometimes frustrated that it is so bureaucratic. At higher USFS levels there are good ideas and people, but policy and direction get lost in the bureaucracy and don't make it down to the rank and file that businesses deal with on a daily basis. There is a sense that rules are not uniformly enforced at times and that the 'hoops' that staff on the ground sometimes require seem arbitrary.

On the positive side, several state and federal grant, loan or guarantee programs are identified as being helpful to businesses in Southeast Alaska. This is actually a critical role for both the federal and state government in Southeast Alaska because public ownership of the land and resources upon which business in Southeast Alaska depend means that typically traditional collateral guarantees that private lenders require cannot be met, so public programs to help fill this gap due to public land and resource ownership are critical.

## **Government's Role**

In general, interviews with business leaders in Southeast Alaska stuck similar themes regarding the desired role for government, and specifically, for the State in some cases. Most felt the State of Alaska could be doing more to assist with private business development. Following are a variety of

comments on the appropriate roles and actions for government in supporting business development.

1. Government's role is to put the infrastructure in place so that industry can follow. This theme was repeated by several business leaders.
2. State of Alaska needs a strategic plan. Identify the barriers to growth, then develop policies to invest in key areas to overcome these obstacles in order to support jobs and break barriers.
3. State needs investment policies that are of longer duration than the next Legislative session.
4. The most important need is a comprehensive State energy plan to get off diesel by a date certain. Utilize hydro, current, solar, wind, geothermal etc. Solve the energy problem; cost of energy crushes business.
5. There should be State policies to incentivize business development, encourage industry, and support relocation to the State.
6. State government and University should be leading and funding technology, innovation and research.
7. State can assist with and help make funding available to support marketing. Some of this occurs now for seafood (ASMI) and tourism, and very occasionally with trade missions. This is a great place to live, but the State doesn't market itself to businesses or to families as such; this is in contrast to other State campaigns.

## Local Tax and Regulatory Environments Strength/Constraints

### ***Key strengths/opportunities***

Several state and federal grant, loan or guarantee programs are identified as being helpful to businesses in Southeast Alaska. This is actually a critical role for both the federal and state government in Southeast Alaska because public ownership of the land and resources upon which business in Southeast Alaska depend means that typically traditional collateral guarantees that private lenders require cannot be met, so public programs to help fill this gap due to public land and resource ownership are critical.

There is a feeling that both the federal and State of Alaska government could be doing more to assist with private business development. A variety of comments on appropriate roles and actions for government to support business development are offered by business leaders. Several cite a primary role to put the infrastructure in place so that industry can follow.

### ***Key constraints/obstacles***

Existing and new business in Southeast Alaska must follow a web of federal, state, and local laws and implementing regulations. Depending upon the industry sector, the regulations and lead agencies vary; but all must contend with an increasingly complex and costly system of rules. Coordination of USDA NRCS, FSA, RD, and FS agency policy to create effective direction to support sustainable economic activity and the creation of private business within the Tongass would be very beneficial.

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Very few if any of the federal or state agencies active in Southeast Alaska have a core mission that involves the support, creation or assistance in building and sustaining private business activities. If growth of private sector businesses is desired, perhaps this would be appropriate in a region where so much of the land base is publically owned and many businesses are navigating multiple agency regulations due to this fact.