Alaska

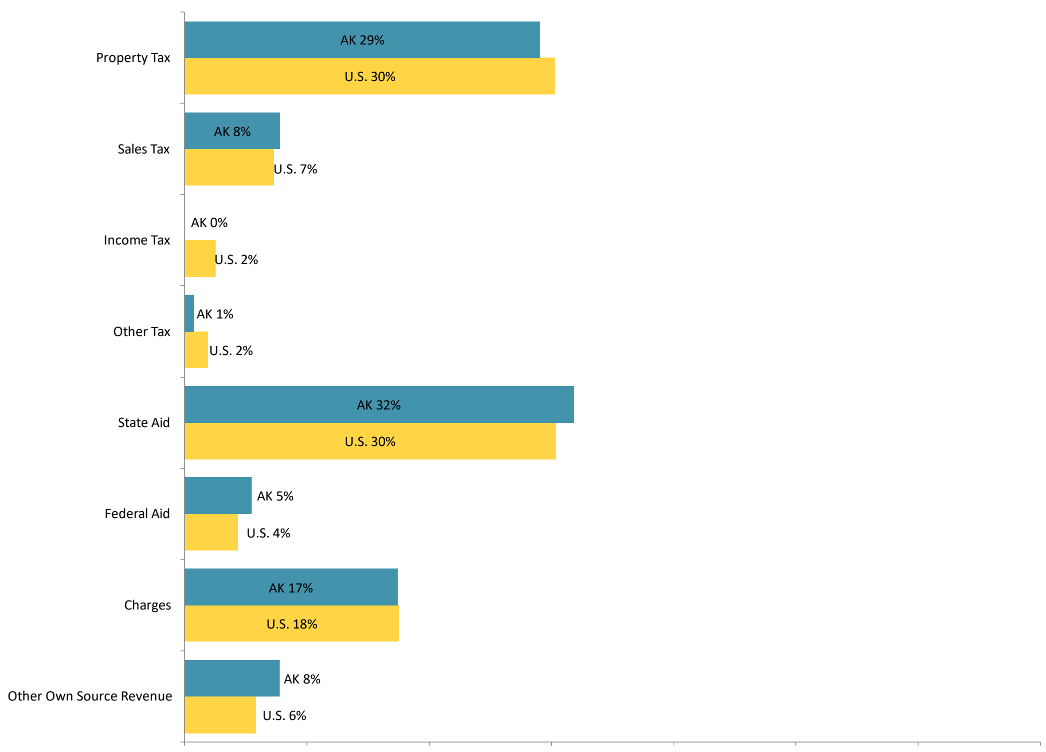
Highlights

For most of Alaska's history, both the state and local governments have derived a significant amount of their revenue from oil and gas. The state levies neither a general sales tax nor an income tax. Instead, it levies a severance tax and a statewide property tax on oil and gas exploration, production, and pipeline transportation. Local governments also derive a significant portion of their property tax revenue from oil and gas property.

Alaska has a large land area and a small population and in many ways is still a frontier state. More than one-third of the state has no organized local government (McGee 2015).

Property taxes are the most important local government tax, even though many local governments do not levy a property tax (figure AK-1). Municipalities and boroughs (equivalent to counties) can also levy sales taxes and a number of special taxes such as those on alcohol, tobacco, car rental, or raw fish.

Figure AK-1
Sources of Local General Revenue, Alaska and U.S., 2020



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Although Alaska ranks low in terms of total property tax as a percentage of state-local revenue, it ranks 10th among the states for per-capita property tax and 12th for property tax as a percentage of personal income (table AK-1).

Table AK-1
Selected Alaska Property Tax Statistics, 2020[1]

	Alaska	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$ 2,276	$1,810	*10*
Property tax percentage of personal income	3. 6%	3.1%	*12*
Total property tax as percentage of state-local revenue	13.4%	16.6%	*33*
Median owner-occupied home value[2]	$275,600	$229,800	*16*
Median real estate taxes paid for owner-occupied home[2]	$3,339	$2,551	*14*
Effective tax rate, median owner-occupied home[3]	1.2%	1.1%	*19*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2016–2020.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Of the 164 borough and municipal governments in Alaska, only 36 levy a property tax (State of Alaska, Office of the State Assessor 2022). Most real and personal property is assessed at the local level, and there is no fixed schedule for revaluation.

There is a statewide property tax on real and tangible personal property used in the oil and gas business, and this property is assessed by the state. The Alaska state assessor also determines the value of taxable property (or potential taxable property) within each school district for purposes of the state's foundation education aid program. This is most challenging for areas where local governments do not levy a property tax.

Limits on Property Taxation

Alaska employs both a municipal tax rate cap and a municipal tax levy cap. The property tax rate limit for first-class cities is 30 mills, and for second-class cities, 20 mills. There is no ability to override. First-class cities have 400 or more permanent inhabitants; second-class cities have 25 or more permanent inhabitants (Alaska Municipal League 2021).

The levy limit in Alaska states that municipalities cannot levy taxes that exceed $1,500 a year per resident. There is no override process for the levy limit, but this limit does not apply to taxes levied or pledged to pay principal or interest on bonds (Significant Features of the Property Tax).

Property Tax Relief and Incentives

Alaska does not have a property tax circuit breaker (table AK-2). The most important property tax relief program is a mandatory exemption of $150,000 of a homeowner's property value for seniors or disabled persons. Local governments have the option of increasing this exemption (Significant Features of the Property Tax).

Agricultural land and farmland in the state are eligible for full or partial property tax exemption as well as current-use valuation of their property. Historic property is also eligible for full or partial exemption from the property tax (Significant Features of the Property Tax).

Alaska also employs economic incentive programs. The property tax exemption or deferral program for economic development allows local governments to exempt and/or defer property taxes for economic development property for a designated time period. Alaska also has a tax increment finance program.

Table AK-2
Property Tax Features of State Governments, United States, 2021

Feature	Alaska	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	17
Circuit breaker property tax relief program	No	31

Sources: Significant Features of the Property Tax

Key Property Tax History

Alaska has relied on property taxation since it became a state in 1959. The discovery of North Slope oil less than a decade later altered the state's fiscal landscape. The state government abolished its income tax in 1980, as it was able to derive about 85 percent of its revenue from oil and gas (Barone and McCutcheon 2014).

In the early 1980s, the state required all municipalities to exempt the first $150,000 of homestead property for seniors. At first, the state government reimbursed local governments for the revenue loss, but it no longer does.

Alaska's public schools are funded primarily through the state's foundation funding formula that was adopted under Senate Bill 36 in 1998. While there have been cases challenging the constitutionality of the state's funding of capital projects and operating costs, there has not been legislation introduced to change the foundation funding formula. During the 2019–2020 school year, state funds accounted for about 64 percent of public school funding in Alaska compared to the United States average of about 47 percent (U.S. Census Bureau 2022).

An adequacy and equity suit was filed against the state of Alaska in 1997. In *Kasayulie v. State*, rural parents and school districts claimed that the state's method of funding capital projects for education violated the education and the equal protection clauses of the state's constitution. Additionally, the suit claimed the funding method violated the implementing regulations of Title VI of the federal Civil Rights Act of 1964. The Superior Court ruled in favor of the plaintiffs, stating that the system for funding school facilities was dual, arbitrary, unconstitutional, and racially discriminatory. The court also held that education is a fundamental right in Alaska. After the Superior Court rejected a motion from the state to reopen the decision in 2001, the state allocated a significant amount of funds for the renovation and construction of rural schools, but it did not change the system of facilities financing that was ruled unconstitutional. The case remained open and inactive until 2011 when the legislature approved funding for the replacement or repair of schools in remote Western Alaska villages (SchoolFunding.Info 2015a).

A different group of plaintiffs filed a lawsuit against the state in 2004 claiming that the state's education finance system was inadequate and inequitable in funding operating costs. In *Moore v. State*, the trial court ruled that the state violated the education clause of the state's constitution because it failed to identify schools that were not giving children a meaningful opportunity. It also ruled that the state unconstitutionally violated due process by requiring students to pass an exit exam to graduate high school, since not all students had a meaningful opportunity to learn the material. After the court found that the state had failed to meet its obligations, the case was finally settled in March of 2012 and it provided a one-time appropriation of $18 million that was distributed among Alaska's 40 lowest-performing districts (SchoolFunding.Info 2015a).

Recent Developments

The state's finances are dependent upon revenue from the oil industry and the state's fiscal health fluctuates with changes in the price of oil. In 2017, Governor Bill Walker announced a downgrade of the state's credit rating, noting that "in the last three years, Alaska has gone from the highest credit rating in the nation to the third lowest, better than only Illinois and New Jersey" (State of Alaska, Office of the Governor 2017). In 2019, Governor Mike Dunleavy vetoed $440 million from the state budget approved by lawmakers to address chronic deficits, largely due to trailing oil tax revenues (Albright 2019; Bates 2019). The crisis worsened in 2020 when oil prices fell to historic lows, devastating the state's oil industry and compounding its revenue crisis (Iversen 2020). By 2021, oil prices had rebounded and Alaska's revenue projections in the spring of 2021 were less dire than in late 2020 (Alaska Department of Revenue 2021a). General fund petroleum revenue grew from 1.3 billion in fiscal year 2021 to 3.6 billion in fiscal year 2022 (Alaska Department of Revenue 2021; 2022a).

In 2022, the Alaska legislature passed H.B. 411, which includes a provision that gives local municipalities the option to increase the residential property tax exemption from $50,000 to $75,000. The measure was in response to significant increases in property assessments and became effective without the governor's signature in October 2022 (Iversen 2022).

Voters in Juneau approved Proposition 4 in 2022, repealing a recently adopted ordinance that requires sharing real estate sales prices with the city assessor's office. Supporters of the ballot measure claimed that the mandate is an invasion of privacy and will lead to higher property taxes, while opponents asserted that disclosure of sales prices will lead to fairer and more accurate assessments (Hsieh 2022).

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