



KENAI PENINSULA BOROUGH

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**MIKE NAVARRE
BOROUGH MAYOR**

MEMORANDUM

TO: Kelly Cooper, Assembly President
Kenai Peninsula Borough Assembly Members

THRU: Mike Navarre, Mayor

FROM: Larry Persily, Chief of Staff
Brandi Harbaugh, Acting Finance Director

DATE: July 13, 2017

SUBJECT: Updated revenue estimates for additional 8% sales tax on temporary lodging

We have been reviewing and rethinking our revenue estimates for the proposed 8% borough-wide additional sales tax on temporary lodging (bed tax, as per Ordinance 2017-17). Not that we claim any laser precision or money-back guarantee in our estimates, but we want to ensure they are credible and well-reasoned, within the constraints of the unknowns.

The unknown factors that would influence tax receipts include:

- The state's economy would affect how many Alaskans spend money on travel to the Kenai Peninsula. Same for the national economy.
- Bad weather and weak salmon returns can affect visitor traffic to our communities.
- The economic law of supply and demand can affect pricing for overnight accommodations. Tight supply can drive up pricing, just as weak demand and empty rooms can drive down pricing. As the tax would be a percentage of the room rate, price and occupancy are the main factors in tax collections.

Considering the variables, we are more comfortable providing a range of revenue estimates for the proposed bed tax, figuring a reach of about 5% to 10% on either side to account for the variables and the additional unknown as to how many room nights would be tax-exempt rentals to government agencies and non-profits.

These estimates (below) update the numbers we last provided to the assembly. We assume the borough-wide rate at 8%, with half (4%) of that remitted to the cities in the belief that each of the cities would participate at the 4% rate as provided in the proposed ordinance (including Seward, which currently administers and collects a 4% bed tax on its own).

After deducting the on-time credit retention (as allowed under the sales tax code), the net income to the borough and cities could be a couple of percentage points lower.

The estimates are based on collections for a full fiscal year.

Kenai Borough	\$3.1 million to \$3.8 million
Kenai	\$200,000 to \$240,000
Soldotna	\$180,000 to \$210,000
Seldovia	\$20,000 or so
Homer	\$500,000 to \$580,000
Seward	\$420,000 (as Seward has a 4% bed tax, we used the actual amount that the city projected in its Fiscal 2017 budget)