



## 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 *MN*

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

**DATE:** July 6, 2017

**SUBJECT:** Ordinance 2017-17, Amending KPB Chapter 5.18 to Establish an 8 Percent Areawide Sales Tax on Temporary Lodging and Providing for an Exemption of Up to 4 Percent of the Levy on Temporary Lodging within the Boundaries of Cities in the Borough that Levy a Similar Sales Tax in Addition to an Existing General Sales Tax, Subject to Approval by the Voters in the Regular Election on October, 3, 2017 (Mayor)

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Due to the continuing decline in state assistance to municipalities, the increasing loss in revenues to the borough from real property tax exemptions, and increasing reliance on borough funding for the school district, the borough is considering a variety of measures to maintain its unrestricted fund balance within the financially prudent and responsible parameters established by Resolution 2017-031.

Currently, 43 Alaska cities and boroughs have a "bed tax" in addition to other sales taxes. Of those municipalities that impose the tax as a percentage of the room rate, the tax ranges from a low of 4 percent (Seward, Gustavus and the Haines Borough) to a high of 12 percent (Anchorage and Bethel). The Kenai Peninsula Borough and the Aleutians East Borough are the only boroughs of the seven second-class boroughs in the state without such a temporary lodging sales tax. The other five second-class boroughs have taxes that range from 5 percent to 10 percent.

The arguments in support of a bed tax in the Kenai Borough are substantial. The several hundred thousand visitors that travel to the Kenai Peninsula each year are a large part of the area's economy, and create a large demand on public services (direct services for visitors and indirect for the almost 3,000 people employed each month in the Kenai Peninsula visitor industry). Absent the general sales tax, the borough receives no direct revenue from visitors to the peninsula. While the revenue generated from this additional sales tax on temporary lodging

would be used for educational purposes, as required by borough code for all sales tax revenues, it could make available property tax revenues that otherwise might have gone to educational funding to help offset such visitor costs. "Temporary lodging" is currently defined in the borough sales tax code as "a service to provide any lodging of less than one month."

We estimate that a year-round 8 percent borough-wide temporary lodging sales tax would generate \$4.3 million a year in revenue, based on our estimate of about \$54 million a year in taxable transactions.

As proposed, the tax would be structured to provide that the same 8 percent rate shall be applied borough-wide, both inside and outside of cities, regardless of whether a city chooses to enact its own such tax in addition to an existing sales tax. As proposed, this ordinance provides for an exemption of up to a maximum of 4 percent of the 8 percent levy for such rentals occurring in incorporated cities in the borough that adopt, if they choose, their own such tax. The exempt amount of the 8 percent levy would match the percentage rate levied by a city up to a 4 percent tax rate so that the total levy in all sales is 8 percent to be allocated between the borough and city. The intent in this proposal is to implement the same tax rate (8 percent) borough-wide, so as to avoid any competitive advantage or disadvantage to a business based on their physical location in or out of a city's boundaries, while allowing cities to participate and receive up to half of the collections within their jurisdiction.

As proposed, with the \$4.3 million full-year estimate of annual revenues, and if all of the cities participate at the 4 percent maximum rate, we estimate the revenues would be distributed as follows:

Estimated Tax Revenue (full fiscal year)			
Borough	\$ 3,100,000	Homer	\$ 480,000
Kenai	\$ 150,000	Seward	\$ 420,000
Soldotna	\$ 170,000	Seldovia	\$ 16,000

The temporary lodging tax would require hotels, motels, bed and breakfasts, inns, lodges and other establishments providing lodging for a guest of less than one month to collect an 8 percent tax on a per-unit, per-night basis for all temporary lodging sales, just as is the current code requirement for applying the borough's general sales tax. Businesses currently covered under an exemption in KPB Chapter 5.18 would continue to be covered under those same borough exemptions for purposes of the new accommodations tax. For example, a hospital or a university would not be required to collect and remit the tax on the lodging portion of their sales. If cities adopt a temporary lodging tax, their exemptions might vary from borough exemptions.


We plan to use the same sales tax return form we currently require, minimizing the work and avoiding any new forms for business owners. For example, if a hotel currently completes two columns on its Joint Sales Tax Form (one for the borough and one for a city), it would complete a third column for the accommodations tax. Businesses would be required to track and collect the tax on temporary lodging sales and report those figures to the borough, including any tax-exempt sales, just as with general sales and services transactions. They would have the ability to



provide one payment with one return. The borough would then remit to each respective city its portion of the collections.

If approved by voters, borough sales tax staff would conduct presentations on the new tax at multiple locations throughout the borough. We would provide information about the tax, how to compute and report it, and would provide opportunities to ask questions. Materials also would be made available on the borough website, and we would provide an information hand-out with the first few sales tax form mailings in 2018.

**Example of how the borough's sales tax return could be revised to include an extra column for reporting the additional sales tax on temporary lodging.**



58195

**BOROUGH AND CITIES JOINT SALES TAX RETURN**

Kenai Peninsula Borough  
144 North Binkley, Soldotna, Alaska 99689-7520  
(907) 714-2175 or (800) 478-4441 ext. 2175  
[www.borough.kenai.ak.us/salestax](http://www.borough.kenai.ak.us/salestax)

For Filing Period Ended  
**03 2018**  
M M Y Y Y Y

Registration #  
**999999**

Request to pre-file No Sales (1 year maximum)  
From Period: [ ][ ] / [ ][ ] / [ ][ ][ ][ ] Thru Period: [ ][ ] / [ ][ ] / [ ][ ][ ][ ]

No longer conducting business.  
Date Business Sold or Closed: [ ][ ] / [ ][ ] / [ ][ ][ ][ ]  
Business Sold To: \_\_\_\_\_

RETURN HAS NO SALES

Corrected

Amended

DBA: Temporary lodging business

**DUE BY:** \_\_\_\_\_

ONLY ROUND SALES FIGURES TO THE NEAREST DOLLAR (for lines 1, 2, and 3)

	99	40	42
JURISDICTION CODE (from Table)	<b>99</b>	<b>40</b>	<b>42</b>
1. GROSS SALES (NOT INCLUDING SALES TAX)	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
2. NON-TAXABLE SALES			
A) Sales outside the Borough	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
B) Sales for Resale	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
C) Government Agencies	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
D) Excess of Individual Sales Over \$500.00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
E) Non-Prepared Food	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
F) Other (Specify)	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
G) TOTAL NON-TAXABLES	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
3. TAXABLE SALES (LINE 1 MINUS LINE 2G)	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00
4. ENTER TAX RATES (rate from table)	<b>3.00 %</b>	<b>4.00 %</b>	<b>8.00 %</b>
5. SALES TAX - DO NOT ROUND	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00	[ ][ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] , [ ][ ][ ] .00