



KENAI PENINSULA BOROUGH

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MIKE NAVARRE
BOROUGH MAYOR

MEMORANDUM

TO: Blaine Gilman, Assembly President
Members of the Kenai Peninsula Borough Assembly

THRU: Mike Navarre, Mayor *MN*
Craig Chapman, Finance Director *CMH MR CCC*
Colette Thompson, Borough Attorney *CT*

FROM: Larry Persily, Assistant to the Mayor *LP*

DATE: May 5, 2016

SUBJECT: Ordinance 2016-16, An Ordinance Amending KPB 5.18.200(A)(16) and 5.18.430 by Increasing the Maximum Amount of a Sale Subject to Borough Sales Tax to \$1,000, Subject to Voter Approval, with an Adjustment for Inflation Every Fifth Year; and, if Voters Approve Increasing the Maximum Taxable Amount to \$1,000, Exempting Residential Rentals From Sales Tax (Mayor)

The borough's sales and property tax codes have not undergone a comprehensive review in years and an update is overdue — not just for administrative and technical issues (such as e-mail in lieu of U.S. mail), but for matters of tax policy. A well-designed tax structure should work toward an equitable distribution of the financial load among borough residents, non-residents and businesses, striving for fairness. For example, while the spread between property tax revenues over sales tax revenues remained fairly constant in Fiscal Years 2012-2015, an increasing share of general fund dollars is coming from property taxes — and that gap is projected to widen.

In addition, the decline in state programs and financial assistance to municipalities and schools is ongoing and expected to deepen in the years ahead. As such, the borough will face additional pressure to provide an adequate level of public services and, along with responsible budgeting, may need to generate additional revenues to meet the community's needs.

The assembly and borough voters in 1965 set the maximum amount of goods and services transactions subject to sales tax at \$500 per individual transaction, and that limit has not changed in 51 years. Had the number kept up with inflation-adjusted purchasing power, that \$500 in 1965 would be well over \$3,000 in 2016. This ordinance would amend borough code, subject to voter approval, to set the maximum transaction subject to sales tax at \$1,000, effective Jan. 1, 2017.

An increase in the maximum taxable amount would generate an estimated \$3.6 million a year in additional sales tax revenues for the borough — less than half of that for Fiscal Year ("FY") 2017, as the change would occur halfway through the fiscal year and sales tax collections by

sellers in the final quarter of FY 2017 would be remitted to the borough after the start of FY 2018.

That revenue estimate would be reduced, however, by that section of the ordinance which would exempt residential rent from sales tax. The concern is that renters would be disproportionately impacted by the increase in the maximum taxable transaction on a recurring basis each month. Affordable rental housing is important for the borough and its residents and, as such, exempting residential rent from sales tax would be consistent with that public policy goal.

Exempting residential rent from sales tax would reduce borough revenues by an estimated \$700,000 for a full year. When combined with the proposed increase in the maximum taxable amount, the estimated net gain in borough revenues would be about \$2.9 million for a full fiscal year. That is equivalent to about 2.2 percent of the borough's total estimated revenues for FY 2016.

The ordinance also would amend code — subject to voter approval — to require an adjustment to the maximum amount subject to sales tax every five years, starting January 1, 2022. The proposed code revision instructs the borough finance director every five years to determine the total percentage change in the Alaska Department of Labor Anchorage Consumer Price Index for the five full years immediately preceding the year of the calculation. That percentage change would be applied to the borough's maximum taxable amount, rounded down to the nearest \$10, and submitted to the assembly for consideration at each adjustment.

For comparison purposes, Alaska cities and boroughs have a wide range of maximum transaction amount subject to sales tax, including:

North Pole:	\$200
Wasilla:	\$500
City of Kodiak:	\$750
Palmer:	\$1,000
Ketchikan Borough:	\$1,000
Petersburg:	\$1,200
Dillingham:	\$2,000
Cordova:	\$3,000
Sitka:	\$3,000
Bethel:	\$10,000; with the limit for all-terrain-vehicle sales set at \$3,500
Haines Borough:	\$10,000; with a \$5,000 limit on construction materials per project
Juneau:	\$12,000 per single item or service (no taxable limit on jewelry sales); with adjustments every two years based on Anchorage Consumer Price Index
Kotzebue:	No limit; except a \$1,000 taxable limit on all-terrain vehicles, snowmachines, boats and boat motors, cars, trucks or vans
Nome:	No limit; except a \$1,500 taxable limit on vehicle sales (all-terrain vehicles, snowmachines, cars, trucks or vans)