

Cox Analysis of Borough Administration Created - Tourism Industry Working Group - Draft Final

	Cox Draft Ordinance for 12% Lodging Tax	Mayor Micciche Seasonal Sales Tax Plan (2% Winter, 4% Summer)
\$500 Daily Cap for short-term lodging per unit/per night	No Cap. 12% calculated on cost of entire stay. Tax structure remains the same for winter and summer.	\$500 Daily Cap to remain. Max sales borough sales tax per day \$10 in the winter & \$20 in the summer.
Increased Borough Revenue	Increased revenue of \$5.28 million annually while increasing costs to residents only if they utilize short-term lodging on the Kenai Peninsula.	Increased revenue of \$4.47 million annually while increasing sales tax to all residents by 1%.
Purpose of the Tax	Lodging tax collection ensuring that visitors contribute proportionally higher and fairly to public services without additional sales tax to residents.	Higher tax collection in the summer months aligns with peak tourism, ensuring that visitors, and residents, contribute proportionally higher to public services.
Higher Summer Tax Rate of 4%	Does not tax residents at a higher rate for sales including unprepared food and construction project supplies.	Taxes sales at a higher rate when tourism activity is at it's highest. Also taxes residents at a higher rate for sales including unprepared food and construction project supplies.
Lower Winter Tax Rate of 2%	Tax rate would remain at 3% for sales and unprepared food would remain at 0%.	The tax burden would be reduced on year-round residents, making the aggregate annual tax impact easier for locals, except on unprepared food which would remain at 0%.
Alignment with Seasonal Demand for Services	A lodging tax ensures visitors pay for a portion of services during peak summer months (July-September) to account for increased activity for emergency services and waste management, as well as heavier traffic.	A seasonal sales tax increase ensures visitors and residents pay more for services during peak summer months (July-September) to account for increased activity for emergency services and waste management, as well as heavier traffic.
Lower Winter Sale Tax Costs	Sales tax would remain at 3% on all items except unprepared food, which would be 0%.	Sales tax would be 2% on all items except unprepared food which would be 0%.
Potentially Lower Property Taxes	Ordinance includes a purpose statement for at least a 0.2 mill reduction of mill rate.	Higher sales tax would most likely result in a lower mill rate.
Additional KPB Tax Personnel	One position accounted for in the fiscal note. Increased revenue would still be \$5.28 million.	No new position accounted for, may not be needed.
Burdensome Accounting for Business Owners	Less of a burden than having to calculate a daily \$500 cap for short-term lodging per unit/per day as conventional software can easily accommodate a 12% lodging tax for the entire stay of a guest.	\$500 daily cap would remain, except now business owners would have to calculate 2% or 4% to a cap of \$500 depending on the season.

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KPB already has adequate revenue, but this proposal allows for tax reductions and an offset to local taxpayers.	The ordinance would allow for the borough to lower the mill rate.	A seasonal tax would allow for the borough to lower the mill rate.
Increased costs could potentially discouraging visitors.	This is possible, but there has not been evidence provided.	This is possible, but there has not been evidence provided.
Small lodging providers may struggle to absorb or pass on the cost of the tax.	This was not discussed in the working group. No small lodging operators were asked to participate.	This was not discussed in the working group. No small lodging operators were asked to participate.
Working with cities to level the playing field inside & outside of their limits	The ordinance is designed to work with cities as partners as the business owners in the cities are residents of the borough as well.	The seasonal sales tax does not make reference to any consideration of the impact to KPB cities.
New Software for Implementation	Software is accounted for in the fiscal note. Increased revenue would still be \$5.28 million.	No new software accounted for, may not be needed.
Taxing a Single Industry (Tourism)	Ordinance includes 20% (\$1.05M)/yr of lodging tax to be used to fund promotion and advertisement of tourism on the Kenai Peninsula.	Taxes both, tourist and residents at a higher rate in the summer.
Hotels, lodges, and short-term rentals would face extra administrative burdens	Operators would have an additional form to complete.	Operators would need a new or modified form to complete for the new seasonal tax structure.
Travelers staying in regions with multiple overlapping tax zones may be confused by their billing	This is unlikely as travelers already see this when they stay throughout the borough inside and outside of cities.	This is unlikely as travelers already see this when they stay throughout the borough inside and outside of cities.
Businesses located in multiple overlapping tax zones will experience a greater tax reporting burden	This is unlikely as businesses already see this when they operate throughout the borough inside and outside of cities.	This is unlikely as businesses already see this when they operate throughout the borough inside and outside of cities.
Over reliance on a particular tax revenue presents risks to reliable budgeting	A lodging tax in conjunction with sales and property tax allows for multiple stream of revenue to offset each other in downturns in a particular sector.	A seasonal tax is just more reliance on sales tax which can fluctuate significantly due to seasonal trends, economic downturns, or unexpected disruptions in the economy.

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COX CONCLUSION:	<p>Lodging tax and seasonal sales tax create very similar outcomes. They both increase revenue for the Kenai Peninsula Borough by adding a tax that will take into account tourist activity throughout our summer months. They both require businesses to modify their processes with regard to collection of the taxes. They would both also allow the borough to consider a mill rate reduction. The one large difference is that the Mayor Micciche's seasonal tax plan would change how residents of the borough are taxed. Why would residents be okay with an increase of 1% on unprepared food in the summer when they do not get the benefit of the 2% sales tax in the winter (it is already 0%)? Will residents be okay with paying more for personal construction projects in the summer, when most are done? Does the Mayor plan to have this seasonal tax be on this year's ballot? Would a seasonal sales tax, paid by visitors and residents, be more likely to be approved by voters than a lodging tax paid by visitors? Are these questions that should be discussed by this Tourism Industry Working Group before submitting a final report to the Assembly?</p>	