

MEMORANDUM

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

THROUGH: Mike Navarre, Mayor *MN*

FROM: Larry Persily, Chief of Staff *LP*

DATE: May 16, 2017

SUBJECT: Additional revenue options for Fiscal Year 2018 and beyond

As the assembly considers the borough's Fiscal Year 2018 budget and property tax mill levy, this memo provides information on additional revenue options available to the borough instead of property taxes:

- 1) As proposed in Ordinance 2017-11, which is on the May 16 assembly agenda for introduction, reducing the seasonal tax exemption for non-prepared foods from nine months to six months would raise an estimated \$1.3 million in additional revenue for the borough in a full fiscal year. Under this ordinance, non-prepared foods would be exempt from borough sales taxes Oct. 1 through March 31 (six months), rather than the exemption in current code of Sept. 1 through May 31 (nine months). Because the ordinance, if approved by the assembly, proposes an effective date of July 1, 2017, the increased sales tax revenues would apply for the entire Fiscal Year 2018.
- 2) The borough assembly could consider a tax on room nights at hotels, motels, lodges, inns and bed and breakfast establishments. State statute (AS 29.45.670) requires approval by voters of a new borough or city sales tax or an increase in an existing tax rate, which would apply if the assembly wanted to impose an additional sales tax on room nights. However, there is no such statutory requirement for an excise tax. A sales tax is assessed on the value of the transaction, such as the borough's existing 3% sales tax on goods and services. An excise tax is collected on the item or transaction, regardless of its value, such as the Municipality of Anchorage's assessment of an excise tax of 12.01 cents per cigarette sold. (The state tax assessor's office in 2016 concurred that such a municipal "room night" excise tax would not conflict with anything in state statute.) The borough does not have a count as to how many room nights would be subject to such an excise tax, but I can come up with an estimate:

- We know from sales tax returns submitted to the borough that Calendar Year 2016 sales totaled about \$63 million for room nights at hotels, motels, lodges, inn, bed and breakfasts, guest houses, cabins, RV parks and boarding houses.
 - Of that \$63 million, the vast majority (\$55 million) were hotels, motels, lodges, bed and breakfasts, guest houses and cabins.
 - For the sake of a very rough estimate, assume the average room night charge was \$125. No doubt higher for many establishments in the summer, substantially less in the off-season, but considering that most rentals are in the summer tourism season a \$125-per-night estimate is plausible.
 - At \$125 per night and \$63 million total revenues, that would equate to about 500,000 room nights per year.
 - If, for example, the borough assessed a \$5 per night excise tax, that could generate an estimated \$2.5 million a full fiscal year.
 - For Fiscal Year 2018, it's reasonable to assume such an excise tax would not be implemented until Oct. 1, 2017, or Jan. 1, 2018, the start of a tax-reporting quarter, and would therefore generate significantly less revenue than \$2.5 million in Fiscal Year 2018.
 - Because such an excise tax would be a new tax for the borough's finance department, the borough would need the additional time to make changes in its tax administration software.
 - A borough excise tax on room nights would provide peninsula municipalities the option of adopting their own similar excise tax for collection by the borough.
- 3) The assembly could return to voters in October 2017 to seek approval for raising the limit on purchases subject to sales tax from \$500 to \$1,000 per transaction. Voters defeated this change in borough code in October 2016, but the outcome might be different a second time around vs. the alternatives of a property tax mill increase, spending down borough savings and/or affecting the borough's contribution to school funding. There is no prohibition in code against asking a second time. Raising the sales tax cap would generate an estimated \$3.6 million in additional borough revenues for a full fiscal year. The estimated revenue for Fiscal 2018 — if approved by voters in October 2017 and implemented effective Jan. 1, 2018 — would be less than \$1.5 million, due to the lag time between actual sales and when the tax returns and tax receipts are due to the borough.