



## **KENAI PENINSULA BOROUGH**

144 North Binkley Street • Soldotna, Alaska 99669-7520

Toll-free within the Borough: 1-800-478-4441

**PHONE:** (907) 262-4441 • **FAX:** (907) 262-1892

[www.kpb.us](http://www.kpb.us)

**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

**DATE:** July 13, 2017

**SUBJECT:** Options for additional revenues

---

As the assembly considers Ordinance 2017-17, which would ask voters to approve (or reject) an additional 8% sales tax on temporary lodging (more commonly known as a bed tax), the point to keep in mind is that the Fiscal Year 2018 budget will draw a projected \$4.15 million from the borough's fund balance. At that rate, assuming no significant spending cuts or new revenues, the all-important fund would fall below the financially prudent minimum balance in Fiscal 2020 and would go negative in Fiscal 2021. Except that it cannot go negative. And, as a note, that FY2018 \$4.15 million draw on the fund balance already assumes almost \$1 million in FY2018 appropriations will not be spent by year-end and will lapse back to the fund balance.

If not the bed tax — estimated at \$3.1 million to \$3.8 million in additional revenue to the borough for a full fiscal year — to help close the gap and maintain a healthy fund balance (but not fully close the gap), here are some other options the assembly could consider:

- 1) Returning to voters to seek approval to increase the limit on transactions subject to sales tax from \$500 (effective in 1965) to \$1,000. Borough voters defeated the tax cap increase in October 2016 by a 57-to-43 percent margin. But the assembly could ask the question again. The administration will have an ordinance available as a laydown at the July 18 assembly meeting if members would prefer this option to a bed tax. An increase in the transaction limit subject to the borough's 3% sales tax on goods and services would raise, in a full fiscal year, an estimated \$3.6 million (assuming no change in

consumer behavior or the economy). How the assembly might choose to deal with the higher tax limit as applied to residential rents could reduce that number.

- 2) Seeking voter approval of an increase in the general sales tax rate from 3% to 3.5%. The increase would raise an additional \$5 million in a full fiscal year (assuming no change in consumer behavior or the economy). The administration will have an ordinance available as a laydown at the July 18 assembly meeting if members would prefer this option to a bed tax.
- 3) And, there is always the option of an increase in the borough's general government property tax mill levy next year, to start with FY2019. An increase of 0.5 in the mill levy, rejected by the assembly this year, would generate an estimated \$4 million in additional revenue for the next year (depending on assessed values).