

August 15, 2019
Regular Council Meeting

**Discussion of Increasing the Single Unit Sales Tax from \$1,000 to \$2,000,
with an Exclusion for Residential Rent – Councilmember Flora**



TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: August 7, 2019

RE: **Discussion of Increasing the Single Unit Sales Tax from \$1,000 to \$2,000, with an Exclusion for Residential Rent**

At its meeting of August 5, 2019, the Borough Assembly adopted a motion introducing an ordinance increasing the sales tax exemption amount for single unit sales from \$1,000 to \$2,000 excluding rent payments from the increased exemption amount with an effective date of January 1, 2020, and set it for a public hearing on August 19, 2019. This matter was discussed by the Cooperative Relations Committee at its meeting of August 7, 2019. Although the committee took no formal action, Councilmember Flora agreed to submit the issue to the City Council for further discussion. If the City Council wishes to follow the lead taken by the Borough Assembly, my office would recommend that no action be considered until such time as the Assembly has taken final action regarding the ordinance. This would permit the City Attorney to draft an ordinance amending the Ketchikan Municipal Code consistent with the final action taken by the Borough Assembly.

KETCHIKAN GATEWAY BOROUGH CITY OF KETCHIKAN

Cooperative Relations Committee Meeting

August 7, 2019

Assembly Chambers, White Cliff

Call to Order

The meeting was called to order by Chair Pierce at 12:02 p.m.

Present at the meeting:

City of Ketchikan

Member Bergeron, Co-Chair
Member Coose
Member Flora
Manager Amylon

Ketchikan Gateway Borough

Member Pierce, Co-Chair
Member McQuerry
Member Westergard
Finance Director Gubatayao
Planning Director Harney
Assistant Manager Thomas
Clerk Paxton
Deputy Clerk Fox

Citizen Comments

Mary Stephenson, citizen of the Borough, spoke on an anti-litter campaign and distributed material to the committee. She reported that Ketchikan Tourism Coalition was partnering with Ketchikan Coast Busters, Island Recycles, and Southeast Prevention Services.

Terrence Robbins, Southeast Prevention Services, spoke on the importance of coalition building in the community and distributed material to the committee.

Unfinished Business

There was no unfinished business.

New Business

Increase to the Single Unit Sales Tax Cap

Finance Director Gubatayao reported the Borough Assembly had introduced an ordinance increasing the single unit sales tax cap.

Clerk note: The ordinance as introduced would increase the single unit sales tax cap from \$1,000 to \$2,000 with an exclusion for rent, which would remain at \$1,000.

She noted an estimated \$499,000 loss annually if rent were to be completely exempted. Member McQuerry requested the members bring the increase before the City Council.

In response to Member Flora, Finance Director Gubatayao reported the largest category of exemptions claimed was in retail specialty, jewelry and curios, at approximately \$30 million; contractors and real estate combined were approximately \$24 million. Member Flora supported the visitor industry being a greater participant in funding. Members McQuerry and Coose noted the State of Washington removed its sales tax exemption and that the Borough was working with Alaska Municipal League to collect taxes for online sales. Members Flora and Bergeron supported a tax increase for the visitor industry and luxury items.

The consensus of the Committee was to forward the draft ordinance to the City Council for consideration.

Food Trucks Within the City – referred by City Council

Members Flora and Coose noted challenges. Member Westergard spoke on opportunities for expansion and benefits to tourists and locals.

In response to Member Pierce, Planning Director Harney reported there was no Borough-owned land in the downtown area. He verified the change would be a Title 18 code amendment and would require going before the Planning Commission and Borough Assembly. City Manager Amylon noted the Borough and City would have to concurrently make changes to allowed uses in their respective order.

Reports of Officers or Staff

There were no reports of officers or staff.

Review of Issue List and Selection of Topics for Discussion at Next Meeting:

Members selected the following topics for the next meeting:

- ✓ Anti-litter campaign
- ✓ Community recycling

Confirmation of Next Meeting Date and Location:

The consensus of the Committee was confirmation of the next meeting date would be at the call of the Chair following election season and would be held at the City Council Chambers.

Committee Member Comments

Member Pierce was encouraged by cooperation between committee members.

Adjourn

The meeting adjourned at 12:55 p.m.

Submitted by Jenni Fox, Deputy Borough Clerk



KETCHIKAN GATEWAY BOROUGH

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OFFICE OF THE BOROUGH CLERK

MEMORANDUM

TO: JOINT COOPERATIVE RELATIONS COMMITTEE
FROM: KACIE PAXTON, BOROUGH CLERK
SUBJECT: SINGLE UNIT SALES TAX CAP
DATE: 8/2/2019

Since 2016, the Joint Borough-City Cooperative Relations Committee has discussed the topic of the single unit sales tax cap on multiple occasions. Most recently, the committee discussed the topic at its March 2019 meeting, focusing on removing the sales tax cap on jewelry. In April 2019, the Assembly held a work session to discuss the single unit sales tax cap, but took no action at the time.

The Cooperative Relations Committee, at its June meeting, scheduled a subsequent discussion on the sales tax cap for its August meeting.

On July 24, 2019, Assembly Member Rodney Dial submitted a draft ordinance that would increase the single unit sales tax cap from \$1,000 to \$2,000 with an exclusion for residential rent. The agenda item and ordinance were scheduled for Assembly consideration at its August 5, 2019, meeting. The draft ordinance and agenda item are attached to this memo.

Borough officials and staff can provide a report of the August 5th Assembly action to the committee at its August 7 meeting.



Assembly - Regular

9. b.

Meeting Date: 08/05/2019

Submitted For: Assembly Member

Submitted By: Kacie Paxton

Department: Clerk

Approved for Submittal: Deanna Thomas, Asst Manager
Ruben Duran, Manager

Approved as to form: Glenn Brown,
Borough Attorney

Information

TITLE

An Ordinance Increasing the Single Unit Sales Tax Cap from \$1,000 to \$2,000, with an Exclusion for Residential Rent - *Assembly Member Dial*

RECOMMENDED ACTION

Assembly Member Dial is requesting the Assembly to adopt the following motion:

"I move to introduce the attached ordinance increasing the sales tax exemption amount for single unit sales from \$1,000 to \$2,000, excluding residential rent payments from the increased exemption amount with an effective date of January 1, 2020; and set it for public hearing on August 19, 2019."

SUMMARY OF ISSUE

In accordance with KGBC 2.15.030, on July 24, 2019, Assembly Member Dial submitted the attached sponsor statement and ordinance to the Clerk's Office. The ordinance, if adopted, would amend the Borough code by increasing the single unit sales tax cap from \$1,000 to \$2,000, excluding residential rent from the increased exemption amount.

See the attached sponsor statement and ordinance for additional information regarding the proposal.

If introduced and set for public hearing, a number will be assigned to the ordinance by staff.

Fiscal Impact

Attachments

Assembly Member Sponsor Statement - Dial - Sales Tax Cap
Ordinance - Single Unit Sales Tax



KETCHIKAN GATEWAY BOROUGH

Assembly Member Agenda Item Sponsor Statement

Received in Clerk's Office:

11:24 a.m. July 24, 2019

Meeting Date: August 5, 2019

Rodney Dial, Sponsor

Title

An Ordinance Amending KGB Code Sections 4.50.020 and 4.50.230(q) Regarding Sales Tax Exemptions for Single Unit Sales

REQUESTED ACTION

I move to introduce the attached ordinance increasing the sales tax exemption amount for single unit sales from \$1,000 to \$2,000; and excluding residential rent payments from the increased exemption amount with an effective date of January 1, 2020; and set it for public hearing on August 19, 2019.

SUMMARY OF ISSUE

Sales tax revenues represent more than 40% of all general fund revenue into the Ketchikan Gateway Borough general fund each year. The Borough's sales tax code has had an exemption from sales tax on single unit sales in excess of \$1,000, alternately referenced as the "sales tax cap", since the adoption of Ordinance 297 on May 1, 1978.

Despite numerous discussions and efforts to adjust the sales tax cap for inflation over the years, the governing bodies of the Borough and City of Ketchikan have been unable to agree to increase the cap. In 1991, some 28 years ago, the Borough Assembly adopted an ordinance to increase the cap from \$1000 to \$2000 upon adoption of a companion ordinance by City Council. No ordinance followed.

All the while, the Borough is losing ground to inflation such that, according to the U.S. Bureau of Labor Statistics, the Consumer Price Index increased 292.78 percent between 1978 and 2019, rendering the buying power of \$1,000 in 1978 equivalent to \$3,927.80 in 2019. During this same time period, other Southeast Alaska cities similar to Ketchikan have adjusted their single unit sales tax caps for inflation, to wit: The City and Borough of Sitka current single unit begins at \$12,000, the City and Borough of Juneau's exemption begins at \$12,100 and is biannually indexed to inflation. Other coastal Alaska communities commonly have higher single unit sales tax caps than Ketchikan Gateway Borough. For example, the City and Borough of Wrangell has a single unit sales tax cap of \$3,000; Skagway Borough has no broad single unit sales tax cap and sets caps only with regard to certain commodities; Yakutat has a single unit sales tax cap of \$3,000; and Kodiak Borough likewise has a single unit sales tax cap of \$3,000.

While losing ground to compounding inflation of nearly 300 percent, the Borough is also faced with ever-increasing labor costs, health insurance and pension costs, and an unwelcome need to compensate for the steadily decreasing state commitment to service its constitutional duty to fund

Agenda Statement
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public education statewide. On Friday, June 28, 2019, the Governor's partial veto of the funding for the School Bond Debt Reimbursement Program impacted the Borough further and will cause the Borough to unexpectedly draw from reserves up to \$1.17 million in FY20.

In an effort to ease the burden of the exemption amount increase, it is proposed to continue to exempt residential rental payments in excess of \$1000.

If this ordinance is introduced and set for public hearing, a number will be assigned to the ordinance.

KETCHIKAN GATEWAY BOROUGH

ORDINANCE NO. _____

An Ordinance of the Assembly of the Ketchikan Gateway Borough Amending Sections 4.50.020 and 4.50.230(q) of the Ketchikan Gateway Borough Code Regarding Sales Tax Exemptions for Single Unit Sales; And Providing for an Effective Date

RECITALS

- A. WHEREAS**, sales tax revenues are critical resources necessary for the Ketchikan Gateway Borough and City of Ketchikan to budget successfully; and
- B. WHEREAS**, the Borough's sales tax code has had an exemption from sales tax on single unit sales in excess of \$1,000, alternately referenced as the "sales tax cap", since the adoption of Ordinance 297 on May 1, 1978; and
- C. WHEREAS**, between 1978 and 2019, the Consumer Price Index published by the U.S. Bureau of Labor Statistics increased 292.78 percent, rendering the buying power of \$1,000 in 1978 equivalent to \$3,927.80 in 2019. As a result, the Borough's sales tax collections have lost ground to inflation; and
- D. WHEREAS**, on June 17, 1991, the Borough Assembly adopted Ordinance 819, increasing the sales tax cap from the amount in excess of \$1,000 to the amount in excess of \$2,000, again, effective upon the adoption by the Ketchikan City Council of an ordinance with the same provisions; and
- E. WHEREAS**, on July 9, 1991, the Ketchikan City Manager provided notice to the Borough that the Ketchikan City Council considered, but failed to pass in first reading, Ordinance 91-1212 increasing the City sales tax cap to an amount in excess of \$2,000; and
- F. WHEREAS**, in June 2012, through the adoption of Ordinance 12-07, the City and Borough of Sitka increased its single unit cap on sales subject to taxation from \$1,000 to \$1,500; in October 2015, through the adoption of Ordinance 15-24A, increased the cap again from \$1,500 to \$3,000; and in February, 2017, through adoption of Ordinance 17-03 increased the cap again from \$3,000 to \$12,000 (Sitka Code 4.09.100(N)); and
- G. WHEREAS**, in August 2015, through the adoption of Ordinance 2015-33, the City and Borough of Juneau increased its single unit cap on sales subject to taxation to \$12,000 with inflation adjustments to be made every 2 years based upon the Anchorage Consumer Price Index (CBJ Code 69.05.040(21)); and
- H. WHEREAS**, other coastal Alaska communities have higher single unit sales tax caps, to wit: City and Borough of Wrangell has a single unit sales tax cap of \$3,000;

New wording is underlined—Deleted wording is [CAPITALIZED AND BRACKETED]

Joint Cooperative Relations Committee

August 7, 2019

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August 5, 2019

Borough Assembly Packet

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Skagway Borough has no broad single unit sales tax cap and sets caps only with regard to certain commodities; Yakutat has a single unit sales tax cap of \$3,000; and Kodiak Borough likewise has a single unit sales tax cap of \$3,000; and

- I. **WHEREAS**, merchants are required to report only the total amount of sales that were exempt under the single unit sales cap exemption rather than the specifics of each exempt sale; thus, data does not exist to allow reasonably accurate projections of the impact of a \$1,000 increase in the sale tax cap; and
- J. **WHEREAS**, retail sales reported in excess of the sales tax cap in calendar year 2018 totaled \$84,146,074, and if fully taxed, would have generated \$2,103,651.85 in additional sales tax revenue; and
- K. **WHEREAS**, absent the data needed to make projections with reasonable certainty, Borough staff used four different sets of assumptions to project the fiscal impact of increasing the single-unit sales tax cap on Borough sales taxes to \$2,000, which resulted in projections of annual increased sales tax proceeds in the range of approximately \$400,000 (based on the most conservative assumptions) to nearly \$1,000,000 (based on the least conservative assumptions); and
- L. **WHEREAS**, the Assembly finds that it is in the best interest of the public and will not harm competition for Ketchikan merchants with sales in other Southeast Alaska communities if the single unit sales tax cap is increased to \$2,000 on all nonexempt sales with the exception of residential rent; and
- M. **WHEREAS**, the Assembly recognizes that it would be ideal, particularly for the convenience of merchants and landlords within the boundaries of the City of Ketchikan for the City of Ketchikan and the Ketchikan Gateway Borough to maintain uniformity with respect to sales tax caps; however, growing threats to the Borough's financial well-being arising from State budgetary changes require the Borough to protect its interests and those of its citizens.

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KETCHIKAN GATEWAY BOROUGH; as follows:

Section 1. Section 4.50.020 of the Ketchikan Gateway Borough Code entitled "Definitions" is hereby amended to add the following:

"Residential rental" means any rental for the exclusive purpose of a dwelling unit for a permanent domicile.

Section 2. Section 4.50.230 of the Ketchikan Gateway Borough Code entitled "Exemptions" is hereby amended to read as follows:

(q) That portion of the selling price of a single unit sale in excess of two **[ONE]** thousand dollars (\$2,000) **[(\$1,000)]**, including that part of a periodic rental price of all property, excluding

those for residential rental, exceeding two [ONE] thousand dollars (\$2,000) [~~(\$1,000)~~]. For residential rentals only, this exemption shall apply to that portion of the selling price of a single unit sale exceeding one thousand dollars (\$1,000). The periodic rental price is the amount owed on a monthly or more frequent period; rentals exceeding a payment period of one (1) month are computed for sales tax purposes as though payment were to be made on a monthly basis.

Section 3. Effective date. This ordinance shall become effective on January 1, 2020.

ADOPTED this ____ day of _____, 2019.

EFFECTIVE the ____ day of _____, 2019.

David Landis, Borough Mayor

ATTEST:

Kacie Paxton, Borough Clerk

APPROVED AS TO FORM:

Glenn Brown, Borough Attorney

Borough moves ahead on tax cap

Proposed ordinance will raise the cap to \$2,000 on single-unit sales

By SCOTT BOWLEN
Daily News Staff Writer

The Ketchikan Gateway Borough Assembly on Monday took the first step toward raising the borough sales tax "cap" that since 1978 has allowed the collection of sales tax on just the first \$1,000 of a single-unit sale.

Assembly members voted unanimously to introduce an ordinance that would raise the cap to \$2,000 on single-unit sales, with the exception of residential rent payments. The ordinance proposed by Assembly Member Rodney Dial will return to the Assembly for a public hearing and potential final approval on Aug. 19.

Raising the cap has been debated by the borough and City of Ketchikan for years, with neither government having been willing to make a change that's opposed by a swath of the local retail community who view increasing the cap as putting them at a competitive disadvantage against outside retailers.

But the prevailing view Monday was that the borough would be prudent to address its existing and expected budget difficulties now, and that raising the sales tax cap would be a better way to help raise revenue compared to increasing property tax or sales tax rates.

"This might not completely solve our budget problems, but it (would) go a long way," Dial said. "We have the ability to come together as a group to address a problem in a far better and far less disruptive manner than the state has done with its budget problems over the last six years."

See 'Borough Assembly,' page 5

Borough Assembly

Continued from page 1

At present, the borough's sales tax rate is 2.5%. Borough staff estimates that raising the cap from \$1,000 to \$2,000 would produce \$400,000 to \$1 million in additional revenue each year.

On Monday, Paul Jarvi, owner of Julie's Fine Jewelry & Gifts, asked the Assembly not to increase the cap.

"This is a serious matter," Jarvi said, citing that the business has three locations and operates year-round.

He said the proposed increase appears to be an attempt to "grab" some of the money that goes to seasonal businesses, but it "really does put a hurt" on year-round Ketchikan businesses such as Tongass Trading Co.'s Furniture House, Bernie's and Scanlon Gallery.

Jarvi said sales tax can make a difference in negotiating sales of high-end merchandise. He added that his Front Street business and others have been affected negatively by the downtown construction.

"Please don't put up roadblocks for us to do business in the future," Jarvi said.

He also addressed the idea that the \$1,000 cap had remained in place since the 1970s while inflation had increased more than 300%. There were few cruise ships calling in Ketchikan in the 1970s, and the current volumes of cruise ships mean there are a lot more sales being taxed now than then.

The Assembly's discussion of the proposed ordinance was opened by Dial, who said that the ordinance wasn't being proposed to cost people money.

"I'm trying to save the people of this island some money," he said. "This is also not about growing government because government already grew and there was very little the Assembly could do to stop it."

Dial described the various budget problems facing the borough, and

how changes to sales and property tax rates would have negative effects on the affordability of goods and housing.

He said the easiest thing would be to do nothing and let a future Assembly be forced to reckon budget problems with "massive" cuts to services or massive tax increases.

Raising the cap will allow increased revenue — and part of that extra revenue will come from a growing number of visitors. The cap wouldn't affect the daily purchases by most locals, said Dial.

Assembly Member Alan Bailey said he has had serious misgivings and concerns about raising local taxes in any way, and has been proud that the borough has kept the property tax mill rate unchanged.

"My concern is the paradigm is now shifting — and it's clear that the state is shifting its costs to local governments," Bailey said.

He asked how the joint borough and city Cooperative Relations Committee discussions have been going.

Assembly Member Judith McQuerry, who's one of the Assembly's representatives on the Cooperative Relations Committee, said the committee had discussed "just about every single permutation of this as we can."

That included the potential of raising the cap to \$1,500 or \$4,000, or seasonal sale tax increases.

McQuerry said the Ketchikan City Council considered a similar ordinance this past week.

"Basically, what I understood from that discussion was we need to do this together," she said. "We can't have the city do it and the borough not do it or the borough do it and the city not do it — and somebody has got to go first."

Bailey said most purchases in Ketchikan are below \$1,000, and noted that several other communities in Southeast Alaska have raised their sales tax caps. After some discussion

of how sales on board ships in port are taxed, Bailey again cited his concerns about raising taxes and that he's always voted against doing so.

"I think in this instance, however, I think this was probably one of the most prudent measures we can take on the overall view," Bailey said, apologizing to Julie's, which he described as a wonderful business that does a good job for the community.

"But this is a bigger picture than ... just a particular one store or a couple of local stores," he said. "What's going to happen to us is very concerning and we are all going to have to be pitching in."

McQuerry said that the State of Washington would no longer be exempting Alaska residents from paying sales taxes there, and that the Ketchikan borough is doing everything within its power to level the playing field for local brick-and-mortar stores by being part of a statewide effort to collect sales taxes on items that are ordered elsewhere and brought to Ketchikan.

In response to a question from Assembly Member AJ Pierce about how the proposed change would affect renters, Dial said the tax structure for renters would not change, and they would continue to pay up to \$65 as they have in the past.

Assembly Member Sue Pickrell, who was participating in the meeting telephonically, said that she normally would consistently vote against any effort to raise taxes, and didn't know whether she ultimately would vote for the proposed ordinance.

Noting that other communities had changed their sales tax caps — in some cases substantially higher than the \$2,000 being proposed in the ordinance, Pickrell said she was very sympathetic to local business owners.

"We are losing more of our business owners that stay here year-round and

particularly in the downtown area, and so I'm very sympathetic to their concerns," she said before saying that she would vote Monday to send the proposed ordinance to a public hearing on Aug. 19.

"I would really encourage business owners and folks in the community that oppose this to come forward and let us know or contact Borough Assembly members regarding this, because we certainly need their input," Pickrell said.

In other business Monday, the Assembly:

- Approved Ordinance 1890 that rezones about 4.98 acres of the 5100 block of Surprise Beach Court in the Mountain Point area from high-density residential to the first "Planned Unit Development" zoning within the Ketchikan Gateway Borough. This is the first PUD zoning to occur in the borough.

- Approved Ordinance 1892 that appropriates \$122,900 to cover increases in general property and liability insurance for the borough and Ketchikan School District for fiscal year 2020. It also appropriates \$50,000 for an outside firm to perform an analysis of local demographic and sports participation, and existing local sports facilities. The firm would make recommendations for the development of local outdoor athletic facilities.

- Approved the first reading of Ordinance 1891 that would create an Old Dairy Service Area if voters residing within the proposed service area approve its creation during the Oct. 1 municipal election. A public hearing on the ordinance is scheduled for the Aug. 19 meeting.

The Hangar Café

ATKINSON

Assembly - Regular

9. b.

Meeting
Date: 08/05/2019

Submitted Assembly Member
For:

Submitted Kacie Paxton
By:

Department: Clerk

Approved for Ruben Duran, Manager

Approved as Glenn Brown, Borough Attorney

Submittal: Deanna Thomas, Asst Manager to form:

Information

TITLE

An Ordinance Increasing the Single Unit Sales Tax Cap from \$1,000 to \$2,000, with an Exclusion for Residential Rent - *Assembly Member Dial*

RECOMMENDED ACTION

Assembly Member Dial is requesting the Assembly to adopt the following motion:

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SUMMARY OF ISSUE

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See the attached sponsor statement and ordinance for additional information regarding the proposal.

If introduced and set for public hearing, a number will be assigned to the ordinance by staff.

Fiscal Impact

Attachments

Assembly Member Sponsor Statement - Dial - Sales Tax Cap

Ordinance - Single Unit Sales Tax

Drainage Project	
d. Assembly Review of Renewal of State Marijuana Product Manufacturing Facility License 13697 Located at 218 Kelly Drive - Wakin Bakery	Motion of Non-Objection ADOPTED
e. Assembly Review of Renewal of State Limited Marijuana Cultivation Facility License 10922 Located at 218 Kelly Drive - Sparkle Farms Alaska	Motion of Non-Objection ADOPTED
f. Assembly Review of Alaska Alcohol Beverage Control Board Restaurant Designation Permit - Airport Lounge & Snack Bar LLC	Motion of Non-Objection ADOPTED
g. Approval for Travel for the National Association of Counties (NACo) Annual Fly-In for Payment in Lieu of Taxes (PILT)	Travel for the NACo Fly-In Transferred to UNFINISHED BUSINESS
8. Unfinished Business	
a. Transferred Consent Calendar	Travel for NACo Fly-In AMENDED to Include Mayor Landis and Assembly Member Dial and APPROVED
9. New Business	NONE
a. Introduction of Ordinance 1891 Establishing the Old Dairy Road Service Area and Placing the Question Before the Voters at the October 1, 2019 Regular Borough Election	Ordinance 1891 INTRODUCED and Set for PUBLIC HEARING on August 19, 2019
b. An Ordinance Increasing the Single Unit Sales Tax Cap from \$1,000 to \$2,000, with an Exclusion for Residential Rent - Assembly Member Dial	Ordinance INTRODUCED and Set for PUBLIC HEARING on August 19, 2019
c. Consideration to Remove the Restriction of Mobile Buildings in Certain Areas Within the Borough - Assembly Member Pierce	Staff Directed to draft the necessary documents to remove the mobile building restricted overlay zone from specific areas of the Borough
10. Reports of Committees, Executive, Administrators	
a. Manager's Report	Report PROVIDED
b. Mayor's Report	Report PROVIDED
c. Committee Reports	Report PROVIDED
11. Assembly Members' Comments	Comments PROVIDED
12. Executive Session	NONE
13. Adjournment	Adjourned at 7:17 p.m.



KETCHIKAN GATEWAY BOROUGH

Assembly Member Agenda Item Sponsor Statement

Received in Clerk's Office:

11:24 a.m. July 24, 2019

Meeting Date: August 5, 2019

Rodney Dial, Sponsor

Title

An Ordinance Amending KGB Code Sections 4.50.020 and 4.50.230(q) Regarding Sales Tax Exemptions for Single Unit Sales

REQUESTED ACTION

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Despite numerous discussions and efforts to adjust the sales tax cap for inflation over the years, the governing bodies of the Borough and City of Ketchikan have been unable to agree to increase the cap. In 1991, some 28 years ago, the Borough Assembly adopted an ordinance to increase the cap from \$1000 to \$2000 upon adoption of a companion ordinance by City Council. No ordinance followed.

All the while, the Borough is losing ground to inflation such that, according to the U.S. Bureau of Labor Statistics, the Consumer Price Index increased 292.78 percent between 1978 and 2019, rendering the buying power of \$1,000 in 1978 equivalent to \$3,927.80 in 2019. During this same time period, other Southeast Alaska cities similar to Ketchikan have adjusted their single unit sales tax caps for inflation, to wit: The City and Borough of Sitka current single unit begins at \$12,000, the City and Borough of Juneau's exemption begins at \$12,100 and is biannually indexed to inflation. Other coastal Alaska communities commonly have higher single unit sales tax caps than Ketchikan Gateway Borough. For example, the City and Borough of Wrangell has a single unit sales tax cap of \$3,000; Skagway Borough has no broad single unit sales tax cap and sets caps only with regard to certain commodities; Yakutat has a single unit sales tax cap of \$3,000; and Kodiak Borough likewise has a single unit sales tax cap of \$3,000.

While losing ground to compounding inflation of nearly 300 percent, the Borough is also faced with ever-increasing labor costs, health insurance and pension costs, and an unwelcome need to compensate for the steadily decreasing state commitment to service its constitutional duty to fund

public education statewide. On Friday, June 28, 2019, the Governor's partial veto of the funding for the School Bond Debt Reimbursement Program impacted the Borough further and will cause the Borough to unexpectedly draw from reserves up to \$1.17 million in FY20.

In an effort to ease the burden of the exemption amount increase, it is proposed to continue to exempt residential rental payments in excess of \$1000.

If this ordinance is introduced and set for public hearing, a number will be assigned to the ordinance.

KETCHIKAN GATEWAY BOROUGH

ORDINANCE NO. _____

An Ordinance of the Assembly of the Ketchikan Gateway Borough Amending Sections 4.50.020 and 4.50.230(q) of the Ketchikan Gateway Borough Code Regarding Sales Tax Exemptions for Single Unit Sales; And Providing for an Effective Date

RECITALS

- A. WHEREAS**, sales tax revenues are critical resources necessary for the Ketchikan Gateway Borough and City of Ketchikan to budget successfully; and
- B. WHEREAS**, the Borough's sales tax code has had an exemption from sales tax on single unit sales in excess of \$1,000, alternately referenced as the "sales tax cap", since the adoption of Ordinance 297 on May 1, 1978; and
- C. WHEREAS**, between 1978 and 2019, the Consumer Price Index published by the U.S. Bureau of Labor Statistics increased 292.78 percent, rendering the buying power of \$1,000 in 1978 equivalent to \$3,927.80 in 2019. As a result, the Borough's sales tax collections have lost ground to inflation; and
- D. WHEREAS**, on June 17, 1991, the Borough Assembly adopted Ordinance 819, increasing the sales tax cap from the amount in excess of \$1,000 to the amount in excess of \$2,000, again, effective upon the adoption by the Ketchikan City Council of an ordinance with the same provisions; and
- E. WHEREAS**, on July 9, 1991, the Ketchikan City Manager provided notice to the Borough that the Ketchikan City Council considered, but failed to pass in first reading, Ordinance 91-1212 increasing the City sales tax cap to an amount in excess of \$2,000; and
- F. WHEREAS**, in June 2012, through the adoption of Ordinance 12-07, the City and Borough of Sitka increased its single unit cap on sales subject to taxation from \$1,000 to \$1,500; in October 2015, through the adoption of Ordinance 15-24A, increased the cap again from \$1,500 to \$3,000; and in February, 2017, through adoption of Ordinance 17-03 increased the cap again from \$3,000 to \$12,000 (Sitka Code 4.09.100(N)); and
- G. WHEREAS**, in August 2015, through the adoption of Ordinance 2015-33, the City and Borough of Juneau increased its single unit cap on sales subject to taxation to \$12,000 with inflation adjustments to be made every 2 years based upon the Anchorage Consumer Price Index (CBJ Code 69.05.040(21)); and
- H. WHEREAS**, other coastal Alaska communities have higher single unit sales tax caps, to wit: City and Borough of Wrangell has a single unit sales tax cap of \$3,000; **New wording is underlined—Deleted wording is [CAPITALIZED AND BRACKETED]**

Skagway Borough has no broad single unit sales tax cap and sets caps only with regard to certain commodities; Yakutat has a single unit sales tax cap of \$3,000; and Kodiak Borough likewise has a single unit sales tax cap of \$3,000; and

- I. **WHEREAS**, merchants are required to report only the total amount of sales that were exempt under the single unit sales cap exemption rather than the specifics of each exempt sale; thus, data does not exist to allow reasonably accurate projections of the impact of a \$1,000 increase in the sale tax cap; and
- J. **WHEREAS**, retail sales reported in excess of the sales tax cap in calendar year 2018 totaled \$84,146,074, and if fully taxed, would have generated \$2,103,651.85 in additional sales tax revenue; and
- K. **WHEREAS**, absent the data needed to make projections with reasonable certainty, Borough staff used four different sets of assumptions to project the fiscal impact of increasing the single-unit sales tax cap on Borough sales taxes to \$2,000, which resulted in projections of annual increased sales tax proceeds in the range of approximately \$400,000 (based on the most conservative assumptions) to nearly \$1,000,000 (based on the least conservative assumptions); and
- L. **WHEREAS**, the Assembly finds that it is in the best interest of the public and will not harm competition for Ketchikan merchants with sales in other Southeast Alaska communities if the single unit sales tax cap is increased to \$2,000 on all nonexempt sales with the exception of residential rent; and
- M. **WHEREAS**, the Assembly recognizes that it would be ideal, particularly for the convenience of merchants and landlords within the boundaries of the City of Ketchikan for the City of Ketchikan and the Ketchikan Gateway Borough to maintain uniformity with respect to sales tax caps; however, growing threats to the Borough's financial well-being arising from State budgetary changes require the Borough to protect its interests and those of its citizens.

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KETCHIKAN GATEWAY BOROUGH; as follows:

Section 1. Section 4.50.020 of the Ketchikan Gateway Borough Code entitled "Definitions" is hereby amended to add the following:

"Residential rental" means any rental for the exclusive purpose of a dwelling unit for a permanent domicile.

Section 2. Section 4.50.230 of the Ketchikan Gateway Borough Code entitled "Exemptions" is hereby amended to read as follows:

(q) That portion of the selling price of a single unit sale in excess of two **[ONE]** thousand dollars (\$2,000) **[\$1,000]**, including that part of a periodic rental price of all property, excluding

those for residential rental, exceeding two [**ONE**] thousand dollars (\$2,000) [**(\$1,000)**]. For residential rentals only, this exemption shall apply to that portion of the selling price of a single unit sale exceeding one thousand dollars (\$1,000). The periodic rental price is the amount owed on a monthly or more frequent period; rentals exceeding a payment period of one (1) month are computed for sales tax purposes as though payment were to be made on a monthly basis.

Section 3. Effective date. This ordinance shall become effective on January 1, 2020.

ADOPTED this ____ day of _____, 2019.

EFFECTIVE the ____ day of _____, 2019.

David Landis, Borough Mayor

ATTEST:

Kacie Paxton, Borough Clerk

APPROVED AS TO FORM:

Glenn Brown, Borough Attorney