



TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting City Manager

DATE: August 9, 2022

RE: **Ordinance No. 22-1949 Amending Subsection (A) Of Section 3.04.020 Of The Ketchikan Municipal Code Entitled "Levy of Tax" To Provide For A Three Percent Consumer Sales Tax During The Period Of October 1 Through March 31 And A Five And One-Half Percent Consumer Sales Tax During The Period April 1 Through September 30; Amending Subsection (B) Of Section 3.04.040 Of The Ketchikan Municipal Code Entitled "Tax Added To Sales Price"; Amending Subsection (C) And (D) Of Section 3.04.130 Entitled "Use Of Proceeds Of Sales Tax"; And Establishing An Effective Date**

The attached ordinance was prepared by Finance Director Michelle Johansen and was amended and approved in first reading by the City Council at the meeting of August 4, 2022. If adopted in second reading, Ordinance No. 22-1949 provides for enacting a seasonal consumer sales tax, increasing the rate to 5.5% annually April 1 through September 30 and correspondingly lowering the rate to 3.0% annually October 1 through March 31. The rationale for adopting the new sales tax rates is to finance the wage and benefit improvements the City Council approved for International Brotherhood of Electrical Workers, Local 1547 (IBEW) represented General Government employees and non-represented employees, specifically those funded via the General Fund.

As detailed in Ms. Johansen's attached memorandum, the proposed sales tax rates are projected to earn an estimated \$1,945,000 in annual revenue for the General Fund. In response to City Council direction, this new sales tax structure will become effective April 1, 2023 and correspondingly the 2023 revenues are projected to be higher at \$2.88 million.

The Finance Controller Shawn Hart will attend the City Council meeting of August 18, 2022, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended the City Council adopt the motion approving in second reading Ordinance No. 22-1949 amending Subsection (A) of Section 3.04.020 of the Ketchikan Municipal Code entitled "Levy of Tax" to provide for a three percent consumer sales tax during the period of October 1 through March 31 and a five and one-half percent consumer sales tax during the period April 1 through September 30; amending Subsection (B) of Section 3.04.040 of the Ketchikan Municipal Code entitled "Tax Added To Sales Price"; amending Subsection (C) and (D) of Section 3.04.130 entitled "Use Of Proceeds Of Sales Tax"; and establishing an effective date.

Recommended Motion: I move the City Council approve in second reading Ordinance No. 22-1949 amending Subsection (A) of Section 3.04.020 of the Ketchikan Municipal Code entitled "Levy of Tax" to provide for a three percent consumer sales tax during the period of October 1 through March 31 and a five and one-half percent consumer sales tax during the period April 1 through September 30; amending Subsection (B) of Section 3.04.040 of the Ketchikan Municipal Code entitled "Tax Added To Sales Price"; amending Subsection (C) and (D) of Section 3.04.130 entitled "Use Of Proceeds Of Sales Tax"; and establishing an effective date.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle L. Johansen, Finance Director
Camille Nelson, Financial Analyst
Phone: (907) 228-5621
Facsimile: (907) 228-5617

TO: Lacey G. Simpson, Acting City Manager/KPU General Manager

FROM: Michelle L. Johansen, Finance Director

DATE: August 8, 2022

SUBJECT: Ordinance No. 22-1949 Amending Subsection (A) Of Section 3.04.020 Of The Ketchikan Municipal Code Entitled "Levy of Tax" To Provide For A Three Percent Consumer Sales Tax During The Period Of October 1 Through March 31 And A Five And One-Half Percent Consumer Sales Tax During The Period April 1 Through September 30; Amending Subsection (B) Of Section 3.04.040 Of The Ketchikan Municipal Code Entitled "Tax Added To Sales Price"; Amending Subsection (C) And (D) Of Section 3.04.130 Entitled "Use Of Proceeds Of Sales Tax"; And Establishing An Effective Date

At the meeting of August 4, 2022 the Council amended and approved in first reading a Seasonal Sales Tax. Ordinance 22-1949 amending the Ketchikan Municipal Code (KMC) to establish a Seasonal Sales Tax has been prepared by the City Attorney, Mitch Seaver. Upon approval in second reading the Seasonal Sales Tax will increase the consumer sales tax rate to 5.50% April 1 through September 30 and reducing the consumer sales tax rate to 3.0% October 1 through March 31 with an effective date of April 1, 2023

The annual increase in revenue is estimated to be \$1.95 million. The first year is expected to generate additional revenue of approximately \$2.88 million with an effective date of April 1, 2023. It is important to remember the sales figures used in estimating the revenues could be less than expected since the estimate is based on seasonal sales figures from previous years. The 2023 revenues could fluctuate with the change in consumer habits, cost of goods and the number of passengers expected to visit the downtown core.

	Revenue Adjustments Using 5.5% Seasonal Sales Tax Rate for Q2 & Q3 and 3.0% in Q1 & Q4				
	Total	Sales Q-4	Sales Q-1	Sales Q-2	Sales Q-3
Taxable Sales	\$ 285,000,000	49,400,000	43,800,000	87,200,000	104,600,000
	Total	Collect Q-1	Collect Q-2	Collect Q-3	Collect Q-4
	\$	\$	\$	\$	\$
Change in Revenue	1,945,000	(494,000)	(438,000)	1,308,000	1,569,000

Below is a table showing the allocation of sales tax for each fund for the current rate and the new seasonal rates. The change in consumer sales tax is intended to fund the additional cost of salaries, wages and benefits charged to the General Fund and reflected in this table.

Allocation of Sales Tax Collected By Fund							
	GF	HST	PWST	Total	GF	HST	PWST
Current Rate 4%	1.50%	1.00%	1.50%	4.00%	37.500%	25.000%	37.500%
Off Season - 3.00%	0.50%	1.00%	1.50%	3.00%	16.667%	33.333%	50.000%
Seasonal - 5.50%	3.00%	1.00%	1.50%	5.50%	54.545%	18.182%	27.273%

GF=General Fund

HST=Hospital Sales Tax Fund

PWST=Public Works Sales Tax Fund

If the Council has any questions Shawn Hart, Controller will be available to answer any questions.

Recommended Motion:

I move that the City Council pass Ordinance No. 22-1949 in second reading, establishing a seasonal sales tax levy of five and one-half percent (5.50%) April 1 through September 30 and decreasing the sales tax levy to three percent (3.0%) October 1 through March 31, by amending KMC Section 3.04.020 entitled "Levy of Tax", Subsection (B) of KMC Section 3.04.040 entitled "Tax Added to Sales Price" and Subsection (C) and (D) of KMC Section 3.04.130 entitled "Use of Proceeds of Sales Tax"; and establishing an effective date.

THE CITY OF KETCHIKAN, ALASKA

ORDINANCE NO. 22-1949

AN ORDINANCE OF THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA; AMENDING SUBSECTION (A) OF SECTION 3.04.020 OF THE KETCHIKAN MUNICIPAL CODE ENTITLED “LEVY OF TAX” TO PROVIDE FOR A THREE PERCENT CONSUMER SALES TAX DURING THE PERIOD OF OCTOBER 1 THROUGH MARCH 31 AND A FIVE AND ONE-HALF PERCENT CONSUMER SALES TAX DURING THE PERIOD OF APRIL 1 THROUGH SEPTEMBER 30; AMENDING SUBSECTION (B) OF SECTION 3.04.040 OF THE KETCHIKAN MUNICIPAL CODE ENTITLED “TAX ADDED TO SALES PRICE”; AMENDING SUBSECTIONS (C) AND (D) OF SECTION 3.04.130 ENTITLED “USE OF PROCEEDS OF SALES TAX”; AND ESTABLISHING AN EFFECTIVE DATE.

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA, AS FOLLOWS:

Section 1: Amendment. Subsection (a) of Section 3.04.020 of the Ketchikan Municipal Code, entitled “Levy of tax,” is hereby amended to read as follows:

“3.04.020 Levy of tax. (a) To the fullest extent permitted by law, a sales tax of [four] **three percent on sales made during the period of October 1 through March 31, and sales tax of five and one-half percent on sales made during the period of April 1 through September 30,** is hereby assessed and levied on the following sales, except as otherwise specifically exempted under this chapter:

- (1) All retail sales;
- (2) All services;
- (3) All rents and fees paid for the use of real and personal property.”

Section 2: Amendment. Subsection (b) of Section 3.04.040 of the Ketchikan Municipal Code, entitled “Tax added to sales price,” is hereby amended to read as follows:

“(b) Except as provided in subsection (c) of this section, sellers who are required to collect a sales tax for the city shall add the tax imposed in this chapter to the rental, sales price or service charge in strict accordance with the following schedule:

Sales	October 1 to March 31 - 3%	April 1 to September 30 - 5.5%
Under \$0.25	\$0.01	\$0.01
\$0.25 through 0.74	0.02	0.04
0.75 through 1.24	0.04	0.07
1.25 through 1.74	0.05	0.10
1.75 through 2.24	0.07	0.12
2.25 through 2.74	0.08	0.15
2.75 through 3.24	0.10	0.18
3.25 through 3.74	0.11	0.21
3.75 through 4.24	0.13	0.23
4.25 through 4.74	0.14	0.26
4.75 through 5.24	0.16	0.29
5.25 and over	Continue on same scale	Continue on same scale

Section 3: Amendment. Subsection (c) of Section 3.04.130 of the Ketchikan Municipal Code, entitled “Use of proceeds of sales tax,” is hereby amended to read as follows:

“(c) The proceeds (including penalty and interest) collected under this chapter which are derived from a ~~one~~ **one-half** percent sales tax levy on sales made during the period of October 1 through March 31 and the proceeds (including penalty and interest) collected under this chapter which are derived from a one and one-half percent sale tax levy on sales made during the period of April 1 through September 30 shall be expended for the purpose of providing public safety services.”

Section 4: Amendment. Subsection (d) of Section 3.04.130 of the Ketchikan Municipal Code, entitled “Use of proceeds of sales tax,” is hereby amended to read as follows:

“(d) The proceeds (including penalty and interest) collected under this chapter which are derived from a one and one-half percent sales tax levy for sales during the period of April 1 through September 30 shall be expended for the purposes of providing general government services.

Section 5: Effective Date. Following its final passage and publication this ordinance is effective April 1, 2023.

PASSED ON FIRST READING _____.

FINAL PASSAGE _____.

Dave Kiffer, Mayor

ATTEST:

Kim Stanker
City Clerk

FYI: Bracketed language is intended to be removed from the existing ordinance, and underlined language in bold type is intended as an addition to the existing Ketchikan Municipal Code.

EFFECTIVE		DATE:	
ROLL CALL	YEA	NAY	ABSENT
BRADBERRY			
FLORA			
GAGE			
GASS			
KISTLER			
MAHTANI			
ZENGE			
MAYOR			

Motion passed with Gass, Gage, Zenge, Bradberry, Mahtani, Flora and Kistler voting yea.

**Exempting the Procurement of Technical Support Services
from the Competitive Bidding/Written Quotation Requirements
of the Ketchikan Municipal Code – Oracle Corporation**

Moved by Bradberry, seconded by Flora pursuant to subparagraph 6 of Section 3.12.050(a) of the Ketchikan Municipal Code, the City Council exempt the procurement of technical support services from the competitive bidding/written quotation requirements of the Ketchikan Municipal Code; authorize the Acting General Manager to enter into an agreement for the procurement of such support services with Oracle Corporation at a cost not to exceed \$10,039.00; and approve funding from the Telecommunications Division's 2022 Software & Equipment Maintenance Services Account No. 635.04.

UNFINISHED BUSINESS

**Ordinance No. 22-1949 – Amending Subsection (A) of Section
3.04.020 of the Ketchikan Municipal Code Entitled “Levy of
Tax” To Provide For An Additional One Percent Consumer
Sales Tax During the Period of April 1 Through September 30;
Amending Subsection (B) of Section 3.04.040 of the Ketchikan
Municipal Code Entitled “Tax Added To Sales Price”;
Amending Subsection (D) of Section 3.04.130 Entitled “Use of
Proceeds of Sales Tax – First Reading**

Copies of Ordinance No. 22-1949 were available for all present.

The motion that is before the City Council from the City Council meeting of July 21, 2022 is:

Moved by Zenge, seconded by Bradberry that the City Council approve Ordinance No. 22-1949 in first reading, establishing a seasonal sales tax by increasing the sales tax levy one percent (1.0%) from four percent (4.0%) to five percent (5%) for the period of April 1 through September 30 by amending Ketchikan Municipal Code (KMC) Section 3.04.020 entitled “Levy of Tax,” Subsection (B) of KMC Section 3.04040 entitled “Tax Added to Sales Price” and Subsection(C) of KMC Section 3.04.130 entitled “Use of Proceeds of Sales Tax,” and establishing an effective date.

Moved by Gass, seconded by Mahtani to amend Ordinance No. 22-1949 by increasing the seasonal sales tax levy two percent (2.0%) from four percent (4.0%) to (6.0%) for the period of April 1 through September 30 and decreasing the seasonal sales tax levy by one and a half percent (1.5%) from four percent (4.0%) to two and a half percent (2.5%) for the remainder of the year.

A lengthy discussion ensued by the Councilmembers.

Acting City Manager Simpson and Finance Director Johansen answered questions from the Council.

Councilmember Gass amended his motion with the consent of the seconder to increase the seasonal sales tax levy one and a half percent (1.5%) from four percent (4.0%) to five and a half percent (5.5%) for the period of April 1 through September 30 and decrease the sales tax levy by one percent (1%) from four percent (4.0%) to three percent (3%) for the remainder of the year.

Motion to amend passed with Flora, Zenge, Gass, Mahtani, Gage, Bradberry and Kistler voting yea.

Main motion as amended passed with Kistler, Mahtani, Flora, Bradberry, Zenge and Gage voting yea; and Gass voting nay.