


MEMORANDUM

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TO: The Honorable Mayor & City Council

FROM: Lacey G. Simpson, Assistant City Manager Initials: 

DATE: March 27, 2023 File #: MGR23-148

RE: **Ordinance No. 23-1970, Amending The Subsection (Q) Of Section 3.04.100 Of The Ketchikan Municipal Code Entitled, "Exemptions" Related To Consumer Sales Taxes; And Establishing An Effective Date**

The attached ordinance amending the Ketchikan Municipal Code (KMC) was prepared by City Attorney Mitch Seaver at the request of Councilmember Bradberry in response to similar action to be taken by the Ketchikan Gateway Borough Assembly. If adopted in first reading, Ordinance No. 23-1970 will increase the single unit sales tax cap from \$2,000 to \$4,000 effective October 1, 2023 while retaining the residential rent tax cap at \$1,000.

At its meeting of March 20, 2023, the Ketchikan Gateway Borough Assembly discussed the introduction of Ordinance 2008, which would increase the single unit sales tax cap to \$4,000 effective October 1, 2023 and would also retain the current cap for residential rent at \$1,000. The Borough Assembly will consider Ordinance 2008 at their meeting of April 3, 2023. As detailed in the attached memorandum from Finance Director Michelle Johansen, the additional annual revenue the City may generate could be approximately \$200,000, though this figure is difficult to quantify with current data. This increased revenue would assist in offsetting the reduction of sales tax revenues the City will realize through the City Council's adoption of Ordinance No. 23-1966 in second reading on March 2, 2023, which exempted residential rents from the seasonal sales tax and established a year-round tax rate of 3% for the first \$1,000 of residential rental sales.

In addition, it is worth noting that while the Ketchikan Gateway Borough Assembly will consider its ordinance at their April 3, 2023 meeting, Assembly members in attendance at the Joint Cooperative Relations Committee meeting of March 23, 2023 were aware that the City Council had not yet held its own discussion on the contents of a similar ordinance. As indicated in the draft March 23, 2023 minutes of the Joint Cooperative Relations Committee, the Borough Assembly may elect to postpone final adoption of its ordinance until its April 17, 2023 meeting to allow for the City Council discuss the proposed Ordinance No. 23-1970 in first reading and ensure uniformity among City and Borough tax codes. More information on the Assembly's actions will become available prior to the City Council's consideration of Ordinance No. 23-1970 at its meeting of April 6, 2023.

The City Attorney and Finance Director will be attending the City Council meeting of April 6, 2023, in order to address any questions and/or concerns that Councilors may have.

Recommended Motion: I move that the City Council approve Ordinance No. 23-1970 in first reading, amending Subsection (q) of Section 3.04.100 of the Ketchikan Municipal Code entitled “Exemptions” related to consumer 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: Delilah A. Walsh, City Manager/KPU General Manager

FROM: Michelle L. Johansen, Finance Director

DATE: March 24, 2023

SUBJECT: Increasing the Single Unit Sales Tax Cap from \$2,000 to \$4,000

An increase in the single unit sales tax cap from \$2,000 to \$4,000 for all taxable single unit transactions, except rents was approved by the Ketchikan Gateway Borough Assembly on March 20, 2023 and is set for public hearing on April 3, 2023. In the past, the City and the Ketchikan Gateway Borough have held the single unit sales tax cap to the same amount so that reporting of taxable sales doesn't become problematic. The increase in the single unit sales tax cap will generate additional revenue but the amount of revenue that can be generated is unknown.

If the Council increases the sales tax cap from \$2,000 to \$4,000 with an effective date of October 1, 2023 the City would not see any additional revenue in 2023 due to the fact that taxes are remitted on a quarterly basis. The taxes collected for the period of October-December is not due until January.

The revenue increase is unknown is due to the absence of information related to transaction counts. What we can say is, if the cap is doubled the *additional* revenues generated from this increase is up to \$110.00 per transaction April-September (5.5% sales tax rate) and \$60.00 per transaction October-March (3.0% sales tax rate) for all taxable single unit purchases, except residential rents. We can also say there are seventeen sales tax categories. The following is the list of categories in which sales are reported:

- Contractors
- Finance, Insurance, Banks
- Manufacturing
- Real Estate
- Remote Retail
- Retail Trade
- Retail Foods
- Retail Bars and Caterers
- Retail Automotive
- Retail Specialty
- Retail Jewelry and Curio
- Services – Entertainment
- Services – General
- Services – Professional
- Transportation, Communication, Utilities
- Wholesale Trade

The attached "Sales Tax Exemptions Claimed by Sales Category" reports were provided by the Ketchikan Gateway Borough and used to assist in the preparation of the following information for Council consideration.

We can make reasonable assumptions regarding the transactions related to these categories, for example we can reasonably estimate the possibility of the transaction exceeding \$4,000. Ten of the seventeen categories would likely generate tax revenue from all or most of the exempted transactions totaling \$2,929,094, in other words the transactions that currently exceed \$2,000 would not exceed \$4,000 and would be fully taxable generating approximately \$125,000 in additional revenue.

The remaining seven sales categories generate 90% of the single unit sales tax exemptions and could generate additional revenue but how much is not known unless transactional information is available. These categories are:

- Construction - \$9.5 million exempt sales due to \$2,000 cap in 2022
- Manufacturing - \$9.5 million exempt sales due to \$2,000 cap in 2022
- Real Estate - \$11.0 million exempt sales due to \$2,000 cap in 2022
- Retail Automotive - \$3.7 million exempt sales due to \$2,000 cap in 2022
- Retail Jewelry & Curio - \$17.4 million in exempt sales due to \$2,000 cap in 2022
- Services – General - \$2.8 million in exempt sales due to \$2,000 cap in 2022
- Service – Professional - \$1.4 million in exempt sales due to \$2,000 cap in 2022

These categories could generate a wide range of per transaction sales that exceed the \$2,000 cap and the \$4,000 cap so the revenue that could be estimated using assumptions may vary significantly between each category and from year to year. Since the transactional data is not available we can only say that the sales in excess of \$2,000 is currently \$54 million. If the sales tax cap is removed altogether the maximum additional revenue for these seven categories is approximately \$2.3 million. Since the sales tax cap is only proposed to increase to \$4,000 the revenue generated will be significantly less than \$2.3 million.

The total single unit sales exemptions of \$57,228,745 for all purchases, except residential rents, in 2022 could represent hundreds of transactions or a few depending on the sales unit. The following example is provided to illustrate this concept:

- A single unit purchase or transaction of \$50,000 would generate \$110.00 April-September and \$60.00 October-March in sales tax revenue using the current cap of \$2,000. Increasing the cap to \$4,000 would generate \$220.00 April-September and \$120.00 October-March.
- Five purchases or transactions that generate a single unit purchase of \$10,000 each would generate \$550.00 (5 x \$110.00) April-September and \$300.00 (5 x \$60.00) October-March in sales tax revenue using the current cap of \$2,000. Increasing the cap to \$4,000 would generate \$1,100 (5 x \$220.00) April-September and \$600.00 (5 x \$120.00) October-March in sales tax revenue.
- Five homes sold with an average sales price of \$400,000 would generate the same amount of sales tax revenue as five single unit purchases noted in the example above.

In 2019, the single unit sales tax cap increased from \$1,000 to \$2,000 for all single unit sales, except residential rents. A reasonable assumption could be made that the additional taxable sales recorded between 2019 and 2022 (eliminating 2020 and 2021 from any analysis due to COVID-19) is partially due to the increase in the sales tax cap. The exempted revenue for Retail Jewelry and Curio category decreased \$8.3 million from 2019 to 2022 while taxable sales increased \$12.5 million. If 10% of the exempted sales for Retail Jewelry and Curio became taxable the City could generate an additional \$74,000 in sales tax revenue.

Delilah A. Walsh
March 24, 2023
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An overall estimate of revenues that could be generated by increasing the single unit sales tax cap for all purchases, except residential rents, from \$2,000 to \$4,000 is approximately \$200,000 in additional sales tax revenue. It is important to keep in mind the new seasonal sales tax rate, inflation, and consumer purchasing habits, in addition to all of the information provided above can affect this estimate.

The additional revenues generated from an increase in the sales tax cap will be offset by the reduction in sales tax revenues as a result of the action taken to reduce the residential sales tax rate on residential rents to 3.0% all year round.

I will be attending the April 6, 2023 Council meeting to answer any questions.

Sales Tax Exemptions Claimed by Sales Category, By Exemption Type

City of Ketchikan Calendar Year 2022

| | CY 2022 Gross Sales | Sales to Governments | Single Unit 1K Sale Exemption | Single Unit 2K Sale Exemption | Senior Exemption | Sales to Non-Profits | Resale | Other Exemptions | Total Exemptions | % of Ttl by Category | Net Sales |
|---|------------------------|-------------------------|----------------------------------|----------------------------------|---------------------|-------------------------|------------|---------------------|---------------------|-------------------------|--------------|
| CONTRACTORS | 63,127,332 | 21,127,002 | 12,597 | 9,511,137 | 2,017,039 | 7,336,687 | 14,575,839 | 1,531,524 | 56,111,825 | 17.55% | 7,015,507 |
| FINANCE, INS, BANKS | 2,846,408 | 53,910 | 0 | 321,533 | 19,591 | 30,580 | 111,419 | 384,589 | 921,622 | 0.29% | 1,924,786 |
| HOTELS, MOTELS, LODGES | 23,767,033 | 2,065,773 | 262,700 | 511,388 | 1,447,981 | 285,246 | 490,008 | 546,195 | 5,609,291 | 1.75% | 18,157,742 |
| MANUFACTURING | 60,784,527 | 42,786,924 | 0 | 9,479,165 | 672,769 | 14,082 | 245,361 | 2,227,004 | 55,425,305 | 17.34% | 5,359,222 |
| REAL ESTATE | 43,881,918 | 2,057,255 | 2,711,973 | 10,995,941 | 2,299,939 | 1,084,774 | 67,043 | 1,822,269 | 21,039,194 | 6.58% | 22,842,724 |
| REMOTE RETAIL - ONLINE SALES | 4,884,458 | 0 | 0 | 0 | 0 | 4,792 | 544,196 | 33,307 | 582,295 | 0.18% | 4,302,163 |
| RETAIL TRADE | 57,593,589 | 2,103,835 | 0 | 1,078,602 | 5,534,775 | 780,809 | 7,814,050 | 2,243,932 | 19,556,003 | 6.12% | 38,037,586 |
| RETAIL TRADE - FOODS | 99,704,199 | 5,310,453 | 0 | 2,380 | 7,001,396 | 666,480 | 18,442,186 | 13,447,153 | 44,870,048 | 14.03% | 54,834,151 |
| RETAIL TRADE, BARS & CATERERS | 32,540,678 | 719,178 | 0 | 117,496 | 1,079,674 | 20,982 | 124,039 | 811,628 | 2,872,997 | 0.90% | 29,667,681 |
| RETAIL, AUTOMOTIVE | 26,187,416 | 1,390,969 | 6,394 | 3,748,341 | 2,254,263 | 46,397 | 2,609,664 | 354,407 | 10,410,435 | 3.26% | 15,776,981 |
| RETAIL, SPECIALTY | 21,445,530 | 191,529 | 3,822 | 34,879 | 537,773 | 136,039 | 1,492,365 | 12,403,779 | 14,800,186 | 4.63% | 6,645,344 |
| RETAIL, VAR, JEWELRY, CURIO | 124,197,868 | 6,868,438 | 24,535 | 17,427,396 | 1,938,734 | 149,238 | 431,986 | 5,225,776 | 32,066,103 | 10.03% | 92,131,765 |
| SERVICES - ENTERTAINMENT | 6,429,052 | 1,100 | 0 | 750 | 0 | 143,041 | 0 | 258,166 | 403,057 | 0.13% | 6,025,995 |
| SERVICES - GENERAL | 14,722,310 | 670,613 | 34,150 | 2,405,845 | 522,688 | 440,674 | 2,931,259 | 896,688 | 7,901,917 | 2.47% | 6,820,393 |
| SERVICES - PROFESSIONAL | 9,066,691 | 2,301,117 | 0 | 731,826 | 347,863 | 601,180 | 296,733 | 1,232,029 | 5,510,748 | 1.72% | 3,555,943 |
| TRANS, COMM, UTILITIES | 91,395,698 | 10,573,353 | 26,037 | 862,066 | 1,734,344 | 1,471,592 | 7,953,595 | 11,893,922 | 34,514,909 | 10.80% | 56,880,789 |
| WHOLESALE TRADE | 7,131,188 | 7,608 | 0 | 0 | 0 | 0 | 7,049,206 | 65,249 | 7,122,063 | 2.23% | 9,125 |
| | 689,705,895 | 98,229,057 | 3,082,208 | 57,228,745 | 27,408,829 | 13,212,593 | 65,178,949 | 55,377,617 | 319,717,998 | 100.00% | 369,987,897 |
| Percent of Total by Exemption Type | | 30.72% | 0.96% | 17.90% | 8.57% | 4.13% | 20.39% | 17.32% | | | |

Sales Tax Exemptions Claimed by Sales Category, By Exemption Type

City of Ketchikan Calendar Year 2019

| | CY 2019 Gross Sales | Sales to Governments | Single Unit 1K Sale Exemption | Single Unit 2K Sale Exemption | Senior Exemption | Sales to Non-Profits | Resale | Other Exemptions | Total Exemptions | % of Ttl by Category | Net Sales |
|---|------------------------|-------------------------|----------------------------------|----------------------------------|---------------------|-------------------------|------------|---------------------|---------------------|-------------------------|--------------|
| CONTRACTORS | 58,155,571 | 25,157,889 | 10,672,127 | 0 | 2,330,506 | 3,228,465 | 10,441,722 | 782,814 | 52,613,523 | 18.15% | 5,542,048 |
| FINANCE, INS, BANKS | 2,642,359 | 48,537 | 300,794 | 0 | 5,709 | 81,514 | 105,817 | 313,055 | 855,426 | 0.30% | 1,786,933 |
| HOTELS, MOTELS, LODGES | 17,912,276 | 2,326,559 | 738,290 | 0 | 151,063 | 125,714 | 656,045 | 1,033,326 | 5,030,996 | 1.74% | 12,881,280 |
| MANUFACTURING | 25,935,866 | 15,126,389 | 4,741,225 | 0 | 336,084 | 59,947 | 99,293 | 222,938 | 20,585,875 | 7.10% | 5,349,991 |
| REAL ESTATE | 39,674,686 | 1,748,938 | 15,351,511 | 0 | 1,970,260 | 493,298 | 43,785 | 1,619,853 | 21,227,645 | 7.32% | 18,447,041 |
| REMOTE RETAIL - ONLINE SALES | 4,931,936 | 23,175 | 0 | 0 | 0 | 0 | 82,817 | 1,113,782 | 1,219,774 | 0.42% | 3,712,162 |
| RETAIL TRADE | 51,443,903 | 1,746,870 | 1,501,985 | 0 | 4,133,485 | 795,056 | 7,118,327 | 2,967,464 | 18,263,187 | 6.30% | 33,180,716 |
| RETAIL TRADE - FOODS | 93,460,217 | 4,264,242 | 46,757 | 0 | 7,235,092 | 1,495,439 | 22,958,785 | 6,795,980 | 42,796,294 | 14.76% | 50,663,923 |
| RETAIL TRADE, BARS & CATERERS | 25,681,504 | 654,080 | 106,281 | 0 | 861,633 | 29,989 | 106,243 | 448,588 | 2,206,814 | 0.76% | 23,474,690 |
| RETAIL, AUTOMOTIVE | 20,884,149 | 2,167,753 | 3,249,764 | 0 | 1,745,630 | 48,772 | 2,063,335 | 217,020 | 9,492,274 | 3.27% | 11,391,875 |
| RETAIL, SPECIALTY | 22,759,426 | 886,896 | 462,084 | 0 | 447,043 | 742,619 | 940,613 | 11,648,211 | 15,127,466 | 5.22% | 7,631,960 |
| RETAIL, VAR, JEWELRY, CURIO | 116,565,228 | 4,474,307 | 25,780,049 | 0 | 1,349,252 | 168,654 | 717,338 | 4,486,829 | 36,976,428 | 12.75% | 79,588,800 |
| SERVICES - ENTERTAINMENT | 7,206,033 | 0 | 0 | 0 | 0 | 104,733 | 0 | 579,993 | 684,726 | 0.24% | 6,521,307 |
| SERVICES - GENERAL | 14,696,068 | 1,285,472 | 2,784,644 | 0 | 516,789 | 331,529 | 2,428,760 | 937,854 | 8,285,049 | 2.86% | 6,411,019 |
| SERVICES - PROFESSIONAL | 11,113,713 | 3,166,982 | 1,393,164 | 0 | 284,686 | 512,605 | 396,305 | 1,506,424 | 7,260,165 | 2.50% | 3,853,548 |
| TRANS, COMM, UTILITIES | 91,947,973 | 9,262,112 | 1,098,618 | 0 | 1,308,942 | 530,791 | 18,987,387 | 9,086,298 | 40,274,148 | 13.89% | 51,673,825 |
| WHOLESALE TRADE | 7,071,570 | 22,740 | 0 | 0 | 0 | 0 | 7,036,698 | 0 | 7,059,437 | 2.43% | 12,133 |
| | 612,082,478 | 72,362,941 | 68,227,293 | 0 | 22,676,174 | 8,749,125 | 74,183,270 | 43,760,429 | 289,959,227 | 100.00% | 322,123,251 |
| Percent of Total by Exemption Type | | 24.96% | 23.53% | 0.00% | 7.82% | 3.02% | 25.58% | 15.09% | | | |

THE CITY OF KETCHIKAN, ALASKA

ORDINANCE NO. 23-1970

AN ORDINANCE OF THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA; AMENDING SUBSECTION (Q) OF SECTION 3.04.100 OF THE KETCHIKAN MUNICIPAL CODE ENTITLED, "EXEMPTIONS" RELATED TO CONSUMER SALES TAXES; AND ESTABLISHING AN EFFECTIVE DATE.

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

Section 1: Amendment. Subsection (q) of Section 3.04.100 of the Ketchikan Municipal Code, entitled "Exemptions," is hereby amended to read as follows:

(q) (1) That portion of the selling price of a single unit sale in excess of [~~\$2,000~~] **\$4,000**.

(2) That part of the periodic rental price exceeding [~~\$2,000~~] **\$4,000** of rentals of all types of property except residential rentals. For residential rentals only, that part of the periodic rental price exceeding \$1,000 is exempt from sales tax. The periodic rental price is the amount owed on a monthly or more frequent period; rentals exceeding a payment period of one month are computed for sales tax purposes as though payment were to be made on a monthly basis. Key payments, placement fees or any other similar charges in connection with a lease shall be prorated over the lease term and shall be treated as rent for sales tax purposes;

Section 2: Effective Date. Following its final passage and publication this ordinance is effective October 1, 2023.

PASSED ON FIRST READING _____.

FINAL PASSAGE _____.

Dave Kiffer, Mayor

ATTEST:

Kim L. 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 | | | |
| FINNEGAN | | | |
| FLORA | | | |
| GAGE | | | |
| GASS | | | |
| KISTLER | | | |
| MAHTANI | | | |
| MAYOR | | | |

**KETCHIKAN GATEWAY BOROUGH
CITY OF KETCHIKAN**

Cooperative Relations Committee Meeting

March 23, 2023

Assembly Chambers, White Cliff

Call to Order

The meeting was called to order by Member Pierce at 12:00 p.m.

Present at the meeting:

City of Ketchikan

Member Bradberry

Member Gass

Member Kistler

Manager Walsh

Assistant Manager Simpson

Finance Director Johannsen

Ketchikan Gateway Borough

Member Pierce

Member Bynum

Member Palmer

Manager Duran

Finance Director Thomas

Assistant Manager Gubatayao

Attorney Brown

Clerk Paxton

Citizen Comments

Mary Stephenson, resident, commented that the City was working on a transportation plan and the Borough was working on a tourism strategy and a transportation plan. She recommended collaboration between the City and Borough.

Organizational Business – Appointment of Co-Chairs

M/S BYNUM/PALMER to appoint Assembly Member Pierce as Co-Chair for the Borough.

MOTION ADOPTED BY UNANIMOUS CONSENT

Member Gass nominated Council Member Bradberry as Co-Chair for the City.

ADOPTED BY UNANIMOUS CONSENT

Reports of Officers or Staff

There were no reports given.

Unfinished Business

There was no unfinished business.

New Business

Single Unit Sales Tax Cap

Borough Manager Duran reported at its January policy session the Assembly directed staff to draft an ordinance to increase the sales tax cap from \$2,000 to \$4,000, which was then introduced by the Assembly on March 20, 2023, and set for public hearing on April 3, 2023.

City Manager Walsh commented the City desired to be consistent with the Borough with the sales tax cap rate.

Borough Finance Director Thomas distributed spreadsheets with data on sales over the \$1,000 and \$2,000 cap levels and provided a summary to the committee.

In response to Member Bradberry, City Manager Walsh said if the tax cap were increased the proposed amount, the City estimated around \$256,000 in additional revenue for the next fiscal year.

Member Gass spoke in opposition to the proposal, noting it would not have a large economic impact.

Member Kistler opined the increase of the cap to \$4000 would likely not impact lower income families but said the \$1,000 cap on residential rent was unfair and hurt low income families. She suggested reducing or exempting the cap for residential rent or increasing the cap for everything across the board.

City Manager Walsh explained the council would consider a similar ordinance on April 6, 2023, and that staff recommended the increase as a way to offset the lost revenue from the reduction of the City sales tax rate on residential rent. She clarified the City ordinance would mirror the Borough ordinance and would retain the single unit cap for residential rent at \$1,000.

In response to Member Gass, City Finance Director Johannsen explained the City's seasonal sales tax was implemented to fund the costs of labor contracts.

A discussion was held regarding placing an exemption on groceries or WIC-related items. Member Kistler suggested incremental increase in sales tax cap and incremental reduction to tax on groceries.

Chair Pierce characterized the single unit sales tax cap as a courtesy to the public, and a detriment to the revenue stream for government.

Member Palmer spoke in support of the sales tax cap increase to \$4,000, noting the level was still attractive. She reported hearing from Sitka residents who made large item purchases in Ketchikan.

Members Bradberry and Kistler requested the Assembly to postpone final adoption of its ordinance to the second meeting of April to allow time for the City Council to hold a first reading on the ordinance.

Other Sales Tax Issues of Mutual Concern

Member Bynum noted the importance of having uniformity of taxes between the City and Borough. Chair Pierce suggested an Assembly work session on the topic. Member Bradberry suggested the topic be postponed to the next committee meeting.

Request to Implement a Local Business License

Member Bradberry reported the desire for the City of Ketchikan to implement a business license stemmed from a lack of information on new businesses which resulted in lack of compliance with the City fire code. Manager Duran reported the Borough was not interested in pursuing a Borough business license as it would require adoption of a fire code and building code, but that the Borough had no objection to the City implementing a license.

After a discussion, Manager Duran indicated the Borough could provide information to the City regarding data collected by the Borough related to short-term rentals.

Review of Issue List and Selection of Topics for Discussion at Next Meeting/Confirmation of Next Meeting Date and Location

The following topics were scheduled for the upcoming committee meeting(s):

- Uniformity of tax rates and exemptions
- Coordinated Borough and City grant process

Members requested that only one topic be scheduled per meeting. The next meeting would be hosted by the City of Ketchikan and held at City Hall.

Committee Member Comments

Member Kistler voiced appreciation for the committee process.

Member Gass encouraged solutions without increasing taxes and rates.

Member Bradberry thanked staff for their hard work.

Member Bynum thanked staff and highlighted the value of the committee process.

Member Palmer noted the important work of the committee. She suggested the committee be amended to include members from the City of Saxman.

Chair Pierce thanked the committee for the robust conversation and thanked staff for its collaboration.

Adjourn

The meeting adjourned at 1:13 p.m.