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TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Delilah A. Walsh, City Manager

DATE: October 26, 2022

RE: **Direct Staff to Prepare a Fiscal Impact Report and Tax Structure Recommendations for an Ordinance to Exempt Residential Rentals from the Seasonal Sales Tax Between the months of April 1st and September 30th; Communicate Proposals with the Cooperative Relations Committee; and Establishing an Effective Date**

Councilor Abby Bradberry, with Councilor Riley Gass as a co-sponsor, has requested Council consideration for a City ordinance to amend the current tax code and allow for an exemption from the seasonal sales tax increase for residential rentals. Councilor Bradberry has included her rationale for the request in the attached Council Member Agenda Item Request.

Prior to official Council direction, Finance staff has provided the following information for consideration:

For 2021, Net Taxable Receipts for Residential Rent at minimum* was \$11,969,205. Thus, the Generated Sales Tax Revenue of those receipts is estimated at \$478,768.

**Note: This is a minimum assumption as a contractor can also have rental properties subject to the \$1,000 cap but it will appear in reports in the contractor category rather than the residential rent category.*

The following is not a formal fiscal impact report but only calculations based on the assumption and approximate data above.

Assumed Generated Sales Tax Revenue @4%:	\$478,768
Assumed Generated Sales Tax Revenue @3%:	\$359,076
Fiscal Impact – Projected Revenue Loss:	(\$119,692)**

I have attached the *Sales Tax Exemptions Claimed by Sales Category, By Exemption Type* reports for years 2020 and 2021 for reference.

***Note: This is a minimum revenue loss assumption as it does not include potential revenue included in the contractor category.*

The Ketchikan Gateway Borough Assembly has also discussed raising the Borough's exemption cap from \$2,000 to \$12,000 at their latest Assembly meeting and had deferred the item indefinitely to be vetted and discussed during the Assembly's policy meetings.

A consistent and homogeneous tax sales tax structure in the City and Borough is not only convenient for end-user customers responsible for assessing and remitting those sales tax reports but encourages equitable economic opportunity in our region as a whole.

RECOMMENDATION

Ketchikan City Council does not currently have an established taxation policy requiring specific analysis or revenue impact management when addressing proposed changes. Therefore, it is my recommendation that this effort only be pursued for with a solution that produces a neutral revenue impact to the City. This can be achieved via changes to current tax exemption caps or by creating a separate tax rate for certain taxable sales. Staff must also determine how this change would impact all funds receiving sales tax revenue. Further, it is recommended those changes should at first be directed to and discussed at the Cooperative Relations Committee before adopting an ordinance. The City's current budget will be using federal ARPA funds as well as reserves to achieve base level service requirements and meet minimal needs in infrastructure maintenance. In addition, negotiations with other bargaining units have not yet concluded and are likely to have further fiscal impacts that have not yet been budgeted.

The seasonal sales tax was implemented in order to meet revenue requirements necessary to finance the recent City Council approved wage and benefit improvements extended to IBEW represented and non-represented employees as well as consideration for increased employee benefit expenses and was not intended to just increase revenue but to meet a potential budget shortfall. Please note that if an exemption is successful, the City can project future lost revenue as more seasonal housing is developed.

As we develop future tax policy, such policy would provide guidance for staff to determine tax base identification and focus as taxation impact and revenue neutral actions.

Recommended Motion: I move that the City Council direct staff to prepare a fiscal impact report and tax structure recommendations for an Ordinance to exempt residential rentals from the seasonal sales tax Between the months of April 1st and September 30th; communicate proposals with the Cooperative Relations Committee; and establishing an effective date for said Ordinance as April 1, 2023.

Council Member Agenda Item Request

Meeting Date: November 3rd, 2022

Council Member Abby Bradberry-Sponsor

Council Member Riley Gass-Co-sponsor

Purpose: An ordinance that exempts residential rentals from the increased Seasonal Sales Tax between the months of April 1st and September 30th. This would go into effect starting April 1st, 2023.

Information: Currently, we are going through a major housing crisis as well as an increase in cost of living. If we approve this exemption, this will drop the City sales tax rate to 3%-year a round for residential rentals. It is not a huge amount each month with the sales cap in place, but it would protect the renters from having an increase of \$25/month in the summertime. \$25 is not a lot to some but for those living paycheck to paycheck and the increase cost of heating fuel and food, it is a lot. This could be reviewed later, if the housing situation improves in our community.

Sales Tax Exemptions Claimed by Sales Category, By Exemption Type

City of Ketchikan Calendar Year 2020

	CY 2020 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	56,112,798	24,574,598	41,035	10,752,287	1,803,149	2,672,211	9,320,416	888,956	50,052,652	21.50%	6,060,146
FINANCE, INS, BANKS	3,231,988	73,047	0	312,418	25,268	79,580	290,247	415,239	1,195,800	0.51%	2,036,188
HOTELS, MOTELS, LODGES	10,537,560	1,381,670	341,497	206,288	201,657	95,730	565,793	526,254	3,318,890	1.43%	7,218,670
MANUFACTURING	29,376,775	22,062,192	0	3,835,566	549,883	60,078	97,254	1,000,333	27,605,305	11.86%	1,771,470
REAL ESTATE	35,493,279	1,962,240	1,683,667	8,501,421	2,021,442	560,973	156,602	2,108,486	16,994,830	7.30%	18,498,449
REMOTE RETAIL - ONLINE SALES	3,947,799	0	0	0	0	0	254,237	57,328	311,564	0.13%	3,636,235
RETAIL TRADE	46,185,760	2,172,883	0	1,108,275	4,409,253	786,070	4,852,022	2,789,973	16,118,476	6.92%	30,067,284
RETAIL TRADE - FOODS	82,212,672	3,860,876	0	14,749	3,309,407	437,843	18,853,988	9,215,987	35,692,849	15.33%	46,519,823
RETAIL TRADE, BARS & CATERERS	16,366,363	493,639	0	23,611	659,166	49,844	32,751	385,946	1,644,958	0.71%	14,721,405
RETAIL, AUTOMOTIVE	21,265,768	1,247,601	86,033	3,251,395	1,877,007	332,643	2,096,417	241,184	9,132,279	3.92%	12,133,489
RETAIL, SPECIALTY	19,423,185	666,885	0	34,740	487,701	316,862	1,666,040	11,642,667	14,814,895	6.36%	4,608,290
RETAIL, VAR, JEWELRY, CURIO	48,660,703	6,310,803	0	498,803	1,276,397	179,492	256,145	3,463,319	11,984,959	5.15%	36,675,744
SERVICES - ENTERTAINMENT	1,012,957	0	0	0	0	521,458	0	0	521,458	0.22%	491,499
SERVICES - GENERAL	11,847,727	665,750	85,774	2,241,487	413,866	325,888	2,176,845	523,921	6,433,531	2.76%	5,414,196
SERVICES - PROFESSIONAL	7,445,178	1,512,401	0	498,403	273,785	413,599	159,977	1,123,062	3,981,227	1.71%	3,463,951
TRANS, COMM, UTILITIES	44,971,867	5,619,350	167,599	446,189	1,202,791	964,456	12,206,563	5,760,374	26,367,321	11.33%	18,604,546
WHOLESALE TRADE	6,643,947	18,425	0	0	0	0	6,309,672	308,976	6,637,073	2.85%	6,874
	444,736,326	72,622,360	2,405,605	31,725,632	18,510,772	7,796,727	59,294,969	40,452,005	232,808,067	100.00%	211,928,259
Percent of Total by Exemption Type		31.19%	1.03%	13.63%	7.95%	3.35%	25.47%	17.38%			

Sales Tax Exemptions Claimed by Sales Category, By Exemption Type

City of Ketchikan Calendar Year 2021

	CY 2021 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	70,552,403	36,590,341	45,132	6,493,058	2,441,045	2,496,063	15,133,799	633,234	63,832,673	24.83%	6,719,730
FINANCE, INS, BANKS	3,206,039	107,618	0	224,642	58,506	92,003	284,894	376,540	1,144,203	0.45%	2,061,836
HOTELS, MOTELS, LODGES	17,783,528	1,326,041	185,132	418,487	860,515	274,505	1,169,733	308,990	4,543,402	1.77%	13,240,126
MANUFACTURING	24,174,242	15,229,545	0	4,221,189	621,640	17,998	174,446	1,596,718	21,861,536	8.50%	2,312,706
REAL ESTATE	38,796,520	1,923,300	2,036,600	9,644,460	2,113,064	853,972	223,945	2,209,164	19,004,505	7.39%	19,792,015
REMOTE RETAIL - ONLINE SALES	4,119,718	0	0	0	0	0	189,472	7,643	197,115	0.08%	3,922,603
RETAIL TRADE	50,967,671	2,670,120	0	1,299,111	5,320,056	705,683	5,321,200	2,482,972	17,799,142	6.92%	33,168,529
RETAIL TRADE - FOODS	86,259,115	5,193,967	0	0	7,391,419	681,072	18,005,804	6,063,540	37,335,802	14.52%	48,923,313
RETAIL TRADE, BARS & CATERERS	23,101,821	646,733	0	88,465	909,220	11,209	48,208	517,171	2,221,006	0.86%	20,880,815
RETAIL, AUTOMOTIVE	24,029,403	1,203,458	16,191	3,991,226	2,142,543	147,515	2,440,786	504,372	10,446,091	4.06%	13,583,312
RETAIL, SPECIALTY	19,658,208	372,764	2,478	49,781	559,495	233,761	674,388	12,494,265	14,386,932	5.60%	5,271,276
RETAIL, VAR, JEWELRY, CURIO	65,159,027	6,485,831	66,503	2,577,784	1,809,006	175,446	275,857	4,535,596	15,926,023	6.19%	49,233,004
SERVICES - ENTERTAINMENT	1,414,611	500	0	0	0	89,989	101,296	0	191,785	0.07%	1,222,826
SERVICES - GENERAL	13,899,252	1,232,115	800	2,695,186	462,475	312,330	2,378,734	620,491	7,702,130	3.00%	6,197,122
SERVICES - PROFESSIONAL	9,109,710	2,536,766	0	643,562	316,747	452,208	335,418	1,416,809	5,701,511	2.22%	3,408,199
TRANS, COMM, UTILITIES	53,731,118	7,743,917	144,736	437,006	1,220,676	1,003,048	9,684,717	7,485,604	27,719,705	10.78%	26,011,413
WHOLESALE TRADE	7,106,313	19,091	0	0	0	0	7,071,088	0	7,090,179	2.76%	16,134
	513,068,699	83,282,107	2,497,572	32,783,957	26,226,407	7,546,802	63,513,785	41,253,109	257,103,740	100.00%	255,964,959
Percent of Total by Exemption Type		32.39%	0.97%	12.75%	10.20%	2.94%	24.70%	16.05%			