



One Sealaska Plaza, Suite 200 • Juneau, Alaska 99801  
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## **AGENDA**

### **ALASKA MUNICIPAL LEAGUE SUSTAINABILITY COMMITTEE TUESDAY, AUGUST 16, 2016 3:30 P.M. – 5:30 P.M.**

#### **CURTIS D. MENARD MEMORIAL SPORTS CENTER WASILLA, ALASKA**

- I. Roll Call
- II. Select New Members  
    Vacant seats –
- III. Discussion of past and future events in Municipal Sustainability
- IV. Proposed Changes to Sustainability Plan
- V. Discussion of Distribution
- VI. Adjournment

## Sustainability Committee Members

Bob Harcharek – AML President

Linda Murphy – City of Soldotna

Bob Bartholomew – City & Borough of Juneau

Cynthia Lagoudakis – Petersburg Borough

Gary Hennigh – City of King Cove

Gayle Ralston – City of Kotzebue

Hendy Ballott, Sr. – Northwest Arctic Borough

Kathryn Dodge – Fairbanks North Star Borough

Mim McConnell – City & Borough of Sitka

Ron Long – City of Seward

Kathie Wasserman - AML



## **ALASKA MUNICIPAL LEAGUE**

### **SUSTAINABILITY PLAN**

The Alaska Municipal League appointed a committee of interested local elected and appointed officials tasked with the goal of helping to identify available options through a municipal perspective that will allow our State to remain financially healthy. As local elected officials, we are adamant that local governments are in great need of stability and predictability, a luxury that we do not have at the present time.

We believe that the leaders of our State, as they find ways to lower the cost of government, must also identify ways in which our State can raise revenues. Cuts can only accomplish a portion of the answer to our problems and cuts without restraint will have a serious impact on the credit rating of our state and will cause massive economic dislocation issues. The choices made by the Legislature and the Administration will have a huge impact on the viability of municipalities.

Local governments have only three ways in which to raise revenue:

- Taxation (sales/property)
- Fees
- Revenue passed down from the federal or state government

As the revenues from the federal or state government decrease, the gap must be filled through taxation and/or an increase in fees.

While we agree with the Governor that our fiscal situation is an “opportunity” to rethink how we spend money, local governments must still provide basic and essential services to their citizens.

We have discussed our findings at great length. While many of the revenue options are painful, we believe it is time to make the decisions that will bring us back to the path that will allow Alaska to remain a viable, inviting, safe and healthy state in which to live. Alaska’s municipalities are ready and willing to step up and be part of the solution rather than part of the problem. While we believe decisions to address this situation must be made immediately, we believe the actions themselves can be spread over a number of years in order to soften the effects to some degree.



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## ALASKA MUNICIPAL LEAGUE

### SUSTAINIBILITY COMMITTEE RECOMMENDATIONS

#### Endowment/Permanent Fund

- Imperative to protect corpus of Permanent Fund;
- Support and move to Permanent Fund Board's position on Endowment Fund or similar approach that sustainability utilizes earnings;
- Continue to ensure growth of the permanent fund, continue to inflation proof, and set a minimum floor on the Permanent Fund Dividend;
- Continue to pay permanent fund dividends without a cap while enabling an adjustable Percent of Market Value (POMV) or other sustainable system that allows a portion of permanent fund dividend earnings to support state government, benefitting all Alaskans.
- Using part of the permanent fund dividend payout, as one piece of a larger balanced and sustainable state fiscal plan, is now a necessary consideration;
- Action on a comprehensive state fiscal plan is required in the 2016 legislative session

#### Income Tax

- Income tax captures out-of-state employees
- Income leaving state is 20% of total Alaska income
- Income tax is deductible from Federal Income Tax
- Income Tax gives Alaska residents skin-in-the-game

#### Sales Tax

- This would be last choice of Alaska's municipalities
- Would erode tax base and simply shift revenue from one entity to another
- We believe it should remain a local government power
- Municipalities will, however, not take it off the table and agree to work on solutions revolving around Sales Tax

#### Other Revenues

- School Tax
- Collatorization of Assets is too risky
- Consider adjusting oil tax credits

A successful solution to our financial challenges involves shared sacrifices from Alaskans, resources industries and in finding government efficiencies.



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## ALASKA MUNICIPAL LEAGUE

### RESOLUTION #2016-01

#### **A RESOLUTION URGING THE ALASKA LEGISLATURE TO ADOPT A SUSTAINABLE BUDGET PLAN FOR FY2017 AND BEYOND; WHILE GIVING SERIOUS CONSIDERATION TO THE SUSTAINABILITY PLAN SUBMITTED BY THE ALASKA MUNICIPAL LEAGUE.**

**WHEREAS**, due to the drop in the price of oil, coupled with the decreased amount of oil in the pipeline, the State of Alaska has found itself with a \$3.5 billion gap in its budget for FY16; and

**WHEREAS**, last year, the Legislature alleviated some of the problem by severely cutting the capital budget; and

**WHEREAS**, substantial cuts were also made to the operating budget; and

**WHEREAS**, cutting either of those budgets as a sole means to solving our fiscal challenge will only serve to push our state into an economic recession; and

**WHEREAS**, the majority of the Legislature continues to feel that the solution is more government cuts; and

**WHEREAS**, historically the Legislature has felt the solution is more government cuts; and

**WHEREAS**, the President of the Alaska Municipal League created an ad hoc committee to address this issue from the perspective of local government; and

**WHEREAS**, this committee is cognizant of the fact that municipalities must have a sustainable commitment from the Legislature in order for municipalities to remain sustainable; and

**WHEREAS**, despite a fiscal challenge, municipalities must continue to provide basic and essential services; and

**WHEREAS**, with these facts in mind, the AML Sustainability Committee has developed a plan from the perspective of local government; and

**WHEREAS**, AML believes that the leaders of our state should immediately adopt changes to not only lower the cost of government, but move quickly to raise revenues; and

**WHEREAS**, at the same time, Alaska's local governments realize we must understand the state and/or federal government will no longer continue to fund local government as before; and


**WHEREAS**, as more responsibilities are passed down to the subdivisions of the state during this fiscal challenge, we must be given the "tools" to allow that to happen.

**NOW, THEREFORE BE IT RESOLVED** that the Alaska Municipal League urges the Alaska Legislature to adopt a sustainable budget plan for FY 2017 and beyond; while giving serious consideration to the Sustainability Plan submitted by the Alaska Municipal League.

**PASSED AND APPROVED** by the Alaska Municipal League on this 20<sup>th</sup> day of November, 2015.



Signed: \_\_\_\_\_  
Bob Harcharek, President, Alaska Municipal League

Attest:  \_\_\_\_\_  
Kathie Wasserman, Executive Director, Alaska Municipal League



**City of Homer**

[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)

OFFICE OF THE GOVERNOR  
MAILROOM

JUL 18 2016

491 East Pioneer Avenue  
Homer, Alaska 99603

(p) 907-235-8121

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July 15, 2016

Governor Bill Walker  
State of Alaska  
PO Box 110001  
Juneau, AK 99801

RE: State Sales Tax

Dear Governor Walker,

The City of Homer would like to take this opportunity to express how important sales tax revenue is to our community. Homer shoppers pay 7.5% sales tax (4.5% City of Homer and 3% Kenai Peninsula Borough) making Homer one of the highest sales tax rates in the State. Sales tax makes up over 70% of our tax revenue. The City of Homer's population is a little over 5,000. However, we serve as the hub for over a 30 mile radius. The City could not provide the services it does without contributions from non-residents through sales tax. These area residents use our roads, library, parks, and many other services. For the most part, they are happy to contribute their share to the services they enjoy. The City does not tax non-prepared food year round; only during the peak summer months (June-August).

The City understands the need to take immediate and decisive action to solve the state's fiscal crisis and was one of the first municipalities to pass a resolution to the Alaska State Legislature to pass a balanced, sustainable, and predictable state budget for the future (Resolution 16-007). However, when weighing fiscal options, please consider the impact of state sales tax on smaller communities who have a reduced tax base and depend on sales tax dollars to provide essential services.

Sincerely,

Katie Koester  
City Manager

CC:

John Hozey, Deputy Chief of Staff Office of the Governor  
Senator Gary Stevens  
Representative Paul Seaton

STATE CAPITOL  
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**Governor Bill Walker**  
**STATE OF ALASKA**

July 25, 2016

Ms. Katie Koester  
City Manager  
491 East Pioneer Avenue  
Homer, AK 99603

Dear Ms. Koester:

I appreciate your letter regarding our proposed Sales Tax legislation and its potential impact on the City of Homer and other Alaskan municipalities. I want to clarify that our proposed bill, introduced for the 5<sup>th</sup> Special Session (HB/SB 5004), would not reduce the ability for a community to collect its existing taxes.

Last fall my Administration realized balancing the budget was not going to be possible with only cuts and restructuring of the Permanent Fund. Other tax revenues, to include a broad-based component, were going to be required. Our internal analysis resulted in the introduction of an individual income tax over the other broad-based options. The reasons for this were described in committee by the Department of Revenue as the following:

- 1) Sales taxes have traditionally been an important revenue source for Alaskan municipalities. We expected that there would be significant concern (as expressed in your letter) with the State also using this tax;
- 2) The cornerstone of any fiscal plan will likely reduce Permanent Fund Dividends. The reduction has a regressive impact, because lower income Alaskans lose a larger share of their income than higher income Alaskans. In contrast, an income tax is inherently more progressive, taking a larger share from the highest income households. Taken together, these two measures had the most balanced impact across all income levels.
- 3) Retail prices vary widely across Alaska, thus a fixed percentage sales tax would disproportionately impact shoppers in rural, higher-cost areas of the state.

Unfortunately, our income tax proposals did not receive serious consideration during the 2016 legislative sessions. Some legislators indicated they wanted to compare our income tax proposals side-by-side with a sales tax option. So, for the fifth special session, we provided them one.

The bill we introduced was structured in large part on HB 293 from the 23<sup>rd</sup> Legislature in 2003. This bill made it through two House committees before stalling, and it incorporated input from the



Ms. Katie Koester  
Sales Tax Proposal  
July 25, 2016  
Page 2

Alaska Municipal League at that time. However, there are a number of differences between HB 293 and HB 5004, largely related to what purchases are exempted.

Both HB 293 and HB 5004 propose a 3 percent State tax. However, HB 293 set a “maximum” combined tax rate of 8 percent between the State and municipal rates. If the municipal rate was above 5 percent, the State would initially collect less, but this would phase out over time, and eventually the municipality would have to reduce its rate to 5 percent. That feature is not in the current bill; we did not wish to reduce any municipal sales tax rates should this bill pass.

The other major feature of both HB 293 and HB 5004 is that the State would take over statewide collection and distribution of the general sales tax. Over several years, all governments would work towards a consistent set of definitions and exemptions so that items taxable in one jurisdiction would not be non-taxable in another. This would simplify and reduce the costs of local management. The bill, as written, proposed municipalities continuing the administration of any special sales taxes – for example alcoholic beverages or lodging.

Both an income tax and a sales tax would require a substantial investment of State resources to build and staff the new programs. Both bills had similar fiscal notes, with about \$15 million in up-front cost and staffing needs between 60 and 74 new employees. Because of this, it would be inefficient to add both new taxes. My Administration’s preference is that we adopt an income tax to meet our needs for the broad-based tax component of any comprehensive fiscal solution. I intend to continue advocating for this as our preferred option. However, we will be open-minded to whatever gains acceptance by a majority of the Legislature. Therefore we must be prepared to implement a sales tax that is fair to municipalities, as well as to all Alaskans, should legislators ultimately choose that direction.

Thank you again for contacting me. I have heard from many municipalities about this important issue, and ask that you remain aggressively engaged in the legislative process to promote your desired outcome regarding a broad-based tax, as well as insisting that a fair and balanced overall fiscal plan is adopted as soon as possible. Please let us know if you require any additional information.

Sincerely,



Bill Walker  
Governor

cc: The Honorable Bob Harcharek, President, Alaska Municipal League

Governor's transmittal letter dated July 8:

Dear President Meyer:

2016-07-11

Senate Journal

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Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to the establishment of a statewide sales and use tax.

This bill would levy a statewide tax of three percent on sales and rents of tangible personal property and on sales of services beginning January 1, 2018. It is critical that a sales tax include a use tax in order to avoid purchases made out of state from being used in this state without paying the tax. Therefore this bill also would levy a tax on the privilege of using tangible personal property acquired on or after January 1, 2018, and either manufactured by the person using the property in this state, or acquired outside this state as the result of a transaction that would have been subject to sales tax in this state.

This bill addresses important components of a workable, fair, and revenue-generating sales tax. First, the bill addresses the needs of municipalities, some of which also impose sales or sales and use taxes by continuing to allow municipalities to collect and enforce their current sales and use taxes through December 31, 2021. After that, the State will assume responsibility for administering a municipal general sales and use tax. Municipalities will receive their share of the tax levied by the municipality. Administration of the statewide sales tax by the Department of Revenue will result in a more efficient and less costly system to administer for both the State and municipalities. Municipalities would continue to be able to levy and collect specific sales or excise taxes on single items of tangible or intangible personal property or services such as bed taxes, car rental taxes, liquor,

cigarette, motor fuel, and fish taxes. Further, in order to allow for efficient administration, the tax base, including exemptions, definitions, and sourcing rules shall be identical between the statewide sales and use tax and a general sales and use tax administered by a municipality.

Additionally, my proposal would exempt certain transactions from the statewide tax, including government sales (including sales or use by the federal, state, or municipal body), union dues, intangibles (such as wages, salaries, tips, or commissions), financial services, groceries, isolated or occasional sales, sales for resale, and real property. My proposed exemptions are reasonable and target particular activities or sales for exemption, based on fundamental policy concerns of reducing the tax burden on those least able to pay.

2016-07-11

Senate Journal

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Further, the bill allows for a number of technical provisions needed for a sales and use tax, such as exemption certificates, direct pay permits, sellers' permits and remedies for improper use of a purchase obtained with an exemption certificate.

Last, the bill would be effective January 1, 2018, to allow adequate time for preparation and education about the sales and use tax.

The bill also would provide the Department of Revenue with authority to enter the Streamlined Sales and Use Tax Agreement, an agreement approved by the Streamlined Sales and Use Tax Governing Board, Inc., with the goal of simplifying and modernizing sales and use tax administration in order to reduce the burden of tax compliance for sellers. By considering the Streamlined Sales and Use Tax Agreement, and its usefulness to our state, the Department of Revenue may consider a regulatory action best designed to meet our state's needs.

We must take meaningful and responsible action to close our fiscal gap and put in place revenue measures not tied to volatile natural resource commodity prices. Restructuring the Permanent Fund alone will not close the deficit. A broad-based tax is essential to a comprehensive fiscal plan, and this bill is a step in that direction. It is also an alternative option for the Legislature to consider in lieu of the proposed income tax. I am confident this legislature will see the benefits of comprehensive, broad-based, low-rate statewide sales and use tax and look forward to your prompt and favorable action on this measure. Further, this comprehensive broad-based tax is not targeted at only one group or industry. Instead, we will all contribute together to keep our state on a solid financial footing.

Sincerely,

/s/

Bill Walker

Governor

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	SB 5004
Fiscal Note Number:	1
(S) Publish Date:	7/11/2016

Identifier: 0516-DOR-TAX-07-08-16  
 Title: STATE SALES AND USE TAX  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

Department: Department of Revenue  
 Appropriation: Taxation and Treasury  
 Allocation: Tax Division  
 OMB Component Number: 2476

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services	450.0		4,600.0	8,100.0	8,100.0	8,100.0	8,100.0	8,100.0
Travel			50.0	100.0	100.0	100.0	100.0	100.0
Services	500.0		700.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Commodities			50.0	100.0	100.0	100.0	100.0	100.0
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>950.0</b>	<b>0.0</b>	<b>5,400.0</b>	<b>9,300.0</b>	<b>9,300.0</b>	<b>9,300.0</b>	<b>9,300.0</b>	<b>9,300.0</b>

## Fund Source (Operating Only)

1004 Gen Fund	950.0		5,400.0	9,300.0	9,300.0	9,300.0	9,300.0
<b>Total</b>	<b>950.0</b>	<b>0.0</b>	<b>5,400.0</b>	<b>9,300.0</b>	<b>9,300.0</b>	<b>9,300.0</b>	<b>9,300.0</b>

## Positions

Full-time	3.0		42.0	74.0	74.0	74.0	74.0
Part-time							
Temporary							

<b>Change in Revenues</b>			250,000.0	500,000.0	500,000.0	500,000.0	500,000.0
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) cost:** 14,000.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes  
 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/18

## Why this fiscal note differs from previous version:

Initial Version
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Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	07/07/2016 11:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	07/08/16
Agency:	Department of Revenue		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

## Analysis

**Bill Analysis**

This legislation would put into effect a 3% state sales and use tax effective January 1, 2018. This would be separate from and not impacted or reduced by any existing municipal sales and use taxes.

Municipalities would continue to collect and administer their own sales and use taxes; the state would take over statewide collection and administration in 2022. Municipalities would be able to request the state take over administration of the local tax before that date so long as the municipality has conformed its tax base, exemptions, definitions, and sourcing rules to the state tax. Nothing in this measure would prevent municipalities from continuing existing or imposing new excise taxes on specific goods and services, such as a hotel bed tax or car rental tax.

The state would be authorized to join the Streamlined Sales and Use Tax Agreement, a national organization formed to create and administer standardized rules and definitions to reduce the burden of tax compliance for businesses.

This legislation would provide exemptions from the state sales and use tax, including:

- \* Sales by and to government agencies
- \* Sales by and to tax exempt corporations
- \* Dues and membership fees
- \* Groceries (not including ready to eat food or meals sold in restaurants)
- \* Wages and salaries
- \* Interest and dividends
- \* Financial services, account fees, loan fees, insurance premiums etc.
- \* Personal effects when brought into the state for relocation or temporary residence
- \* Items purchased for resale
- \* Real estate purchases and rentals
- \* Jet fuel for international flights
- \* Transportation of Goods moved in state as part of interstate or foreign commerce
- \* Health care services including drugs & medical equipment obtained on prescription
- \* Child care

**Revenue Impact**

Our midpoint initial revenue estimate is \$500 million per year, with a wide range of possible results.

In 2015, the Tax Division estimated the revenue from a 3% statewide tax at \$420 million, or \$360 million if groceries were exempted. This was based on a bill similar to what was extensively debated by the 23rd Legislature in 2003. The current bill has fewer exemptions and correspondingly higher revenue. The most substantial change is from removing the Use Tax exemption on property used in manufacturing and natural resource extraction.

**Analysis Continued**

**Implementation Cost**

Adding a statewide sales and use tax would be a significant effort for the Department of Revenue. The initial need will be to engage a contractor to work with Department leadership to create an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The cost estimates in this fiscal note are a first attempt to anticipate the results of this analysis. Of our FY2017 request, \$500.0 will enable us to develop this plan. We are also requesting three new employees initially as the leadership team to coordinate the contract and staff recruitment.

We have recently completed implementation of the Tax Revenue Management System (TRMS), which is creating an integrated online tax application used by both taxpayers and administrators for the 24 tax types currently administered by the Division. We expect to engage FAST Enterprises, the TRMS contractor, to build a sales tax module into TRMS, with additional provisions for collection and distribution of local sales taxes.

The \$14,000.0 capital request reflects an estimate for our contract with FAST to add the sales tax module as well as the Department's other short term implementation costs. This is a multi-year process and much of the actual spending will not occur until after we begin collecting revenues. The initial fast-track need will be to outreach to municipalities and work towards uniform definitions and standards. In addition to the software development, this will require a rapid and robust outreach to the business community throughout Alaska.

Prior to the effective date, the contractor and staff will begin building the tax return filing and examination modules, with their associated databases, communications, and integration with our existing imaging, accounting, and collections systems. The legislation creates a monthly tax liability with a return due on the last day of the subsequent month. Therefore, the first tax filings and receipts will be received in late February, 2018.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax. The full staffing complement of 74 is taken from prior analysis on similar legislation, most significantly CSHB 293(FIN) from the 23rd legislature. We expect the new staff to be roughly split between our Juneau and Anchorage offices.

**An initial analysis of the staff needs within the Tax Division to implement a statewide sales and use tax is as follows:**

Title	FY17	FY18	FY19+
Audit Supervisor	1	2	3
Tax Auditor	0	12	24
Tax Technician	1	10	22
Sales Tax Specialist	1	2	3
Appeals Officer	0	2	4
Accountant	0	1	1
Accounting Technician	0	2	4
Admin Assistant	0	2	3
Analyst / Programmer	0	1	2
Imaging Operators & Office Assistants	0	8	8
<b>Total FT</b>	<b>3</b>	<b>42</b>	<b>74</b>