I. Call to Order
The meeting was called to order at 5:00 p.m. by Mary Becker, Chair.

Committee Members Present: Mary Becker, Jesse Kiehl, Jerry Nankervis and Kate Troll

Other Assembly Members Present: Karen Crane, Maria Gladziszewski, and Loren Jones

Staff Present: City Manager Kim Kiefer, Deputy City Manager Rob Steedle, Finance Director Bob Bartholomew, Sales Tax Administrator Clinton Singletary, Assistant City Attorney Chris Orman, Budget Analyst Elisabeth Jensen

II. Approval of Minutes – October 23, 2014 Minutes were not ready to be approved.

III. Committee Work Session to Discuss Certain Tax Exemptions and Determine if they will be Considered Further and put forth for Public Comment:
Bob Bartholomew began with an overview of page 2 of the packet, Basic Principles for Sales Tax Exemption originating from the 1986 Committee Working Group to use as guidance. Mr. Bartholomew outlined the bullet points within item III on the agenda, explaining three bulleted items to be exemptions impacting service providers and sellers of goods. The third bullet highlighted Senior Citizen Exemptions. The last two pages of the packet contained levels of income and income categories for the body to review - if the body were to decide they wanted to discuss.

Ms. Becker asked the body if they had questions in regards to Mr. Bartholomew’s overview. Mr. Nankervis opened the discussion by asking about item 3 on page 3, Exempt certain items from Sales Tax for all citizens* - Increase total Sales Tax from 5% to 6%. He asked what the difference would be between 5% and 6%. Mr. Bartholomew said, if you don’t increase Sales Tax from 5% to 6%, the gain of $2.3m would result in a deficit of roughly $6.3m. He went on to explain the Senior Citizen Exemption shrinks because it is net their essentials (food, gas, etc.).

Ms. Gladziszewski asked what the number would be at 5% - if the Assembly were to make no changes except eliminate the Senior Citizen Sales Tax Exemption. Mr. Bartholomew responded with a value of $2.8m.

Raise the tax cap on individual sale of goods or services from $7,500. Inflation since last change 65%.
Ms. Becker asked the body if they wanted to discuss increasing the Individual Sales $7,500 cap. Ms. Troll said she would like to discuss this item. She asked if the Assembly could limit the scope of the cap, to make sure the jewelry stores wouldn’t fall under this exemption and indicated she’d like to return the cap back to the original intent.
Mr. Orman responded by reading a quote from an Alaska Supreme Court decision, that is pertinent. “The state may legitimately encourage, through tax incentives or exemptions, industries or types of industries which it considers desirable, and this method of encouragement does not deprive other taxpayers, who do not qualify for the benefit of their equal protection rights.” (State v. Reefer King Co., Inc., 559 P.2d 56 (Alaska 1976))

Mr. Orman went on to say, as long as this committee in choosing to potentially limit the scope of an exemption, articulates a rational basis for meaning provides a sufficient reason for treating one industry differently than another industry, than it will be affirmed if legally challenged. Hypothetically, with regards to a jewelry store because of the shipment cost vs. vehicles/automobiles and their associated shipment costs, and the reason for the cap, this committee finds and articulates that because of shipment costs and offset costs to maintain competitive and retain a competitive level for the sales of the vehicles would be a rational or legitimate cause for limiting the tax on large items vs jewelry. This is hypothetical with a small item and a large item.

Ms. Crane recalled in 2011, the Assembly attempted to deal with the jewelry stores in just that way and received a tremendous pushback from the business community at the time.

Mr. Bartholomew clarified the sales cap effects sales within the Borough. If a sale goes outside of the Borough, the cap doesn’t apply because it is exempt. Reports of sales skirting taxation need to be addressed through audits. There is freedom to change and have different products taxed differently. Administration effort of tax policy should be considered as well.

Ms. Troll requested staff to provide language that might limit sales tax on big ticket items for locals that need to be cost competitive with shipments from Seattle.

A discussion ensued regarding the potential of tax avoidance, designing exemptions, and linking the tax cap to CPI with updates every five years. A number of members indicated they may be comfortable with raising the sales tax cap to a minimum of $11,500 or $12,500. Another topic of discussion centered upon whether the subject of Sales Tax increase should be discussed within TERC or AFC. Mr. Bartholomew reminded the committee that the charge for TERC includes deliberations on “other items” and the body may decide to forward or not forward items to AFC.

Ms. Becker asked the body if they preferred to keep raising the cap on the list for further information. The body agreed to keep it on the list.
Remove the Out-of-Borough sales exemption
The committee members agreed to remove this item from further review by TERC, leaving “Sale of Goods outside the Borough” status quo.

Exempt certain items from Sales Tax for all citizens
The committee members agreed to skip this item for now holding it for decision until after the Juneau Commission on Aging (JCOA) would be able to provide their report to TERC at the next meeting. It was discussed that the report would not be ready until Friday, November 14, 2014.

Eliminate the lobbyist sales exemption
Mr. Nankervis and Mr. Kiehl agreed that they were not willing to eliminate the exemption on lobbyist services in order to maintain Juneau as an open and welcome Capital City. Mr. Kiehl observed that what the lobbyist do spend on food and lodging remains taxable. Ms. Becker and Ms. Crane also agreed to keep the exemption and drop it from TERC’s scope. Ms. Troll maintained her objection, but asked that the committee move on, realizing this would simply be a recommendation to Mayor/Assembly.

Mr. Bartholomew reminded the body that if one were to view this policy from an equity perspective, it would be taxed. Realistically, taxing 3/12’s of the lobbyist’s activity – only during the three month Legislative session in Juneau would be challenging. The efficiency of collection could be burdensome - when services are provided in Juneau, tax would be collected; tax would not be collected on services outside Juneau. This could be an administrative burden.

Limit Senior Citizen Exemption to CBJ residents only
Ms. Crane, Mr. Nankervis, Mr. Kiehl, and Mr. Becker all agreed to recommend that Senior Citizen Exemptions in CBJ be limited to CBJ Senior Citizen residents only.

Limit Senior Citizen Sales Tax Exemption to food, heating fuel, and electricity
Mr. Bartholomew reminded the body that the JCOA goal is to get their recommendations to the TERC by November 14, 2014.

Ms. Becker asked if the body would like to discuss this issue. Mr. Nankervis recommended the committee wait on items 6, 7, 8, & 9 until receipt of the JCOA report.

Mr. Kiehl asked for help to understand Need’s based income and median based income. Mr. Bartholomew encouraged the body to review pages 5 and 6 of the packet, and to let him know if the body needed other cuts of the information. Setting thresholds,
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households, simplicity of potential program, needs-based and the potential of a rebate were touched on.

Mr. Jones asked if CBJ collects Sales Tax on Food Stamp sales. Staff responded, “No.” Mr. Jones suggested that if a Senior Citizen were to qualify based on poverty level, they may also qualify for Food Stamps and would not be subject to tax anyway. Mr. Bartholomew commented that it depends on the income level that TERC is comfortable with, and Staff can find a measurement tool that matches the policy that the Assembly would like to apply. Mr. Jones asked about the eligibility of non-Senior Citizen Spouses married to Senior Citizens. Mr. Bartholomew advised that a 59 year-old spouse married to a Senior Citizen is currently eligible for the Senior Citizen Exemption.

Ms. Gladziszewski asked for assistance to pick a number, perhaps information on what income currently qualifies for Food Stamps, etc. Mr. Nankervis concurred, and Ms. Becker asked for history regarding the rational for the particular level chosen for hardship property exemption. Mr. Bartholomew offered to provide information at the next TERC meeting.

Ms. Becker mentioned that there could be other topics from a list that TERC had developed that could still be considered for review by TERC, including Business Licensing. Mr. Bartholomew offered to prepare the current list for TERC to review.

Discussion revolved around meeting times, dates, and the possibility of taking inventory tax off of the list of considerations.

IV. Next Meeting Dates
   a. December 3rd, 2014, 5:00 P.M. – Presentation from Commission on Aging, followed by TERC Worksession
   b. December 18th, 2014, 5:00 P.M. – TERC Public Meeting on committee recommendations

V. Adjournment – The meeting was adjourned at 6:29 P.M.