I. Call to Order
The meeting was called to order at 5:00 p.m. by Jesse Kiehl, Acting Chair.

II. Roll Call
Committee Members Present: Jesse Kiehl; Kate Troll via teleconference; and Jerry Nankervis

Other Assembly members Present: Merrill Sanford, and Loren Jones

Staff Present: Finance Director Bob Bartholomew, City Manager Kim Kiefer, Deputy Manager Rob Steedle, Sales Tax Administrator Clinton Singletary, Assistant City Attorney Chris Orman, Print Shop Operator Glen Fairchild

III. Sale of Goods Outside the Borough Exemption
Bob Bartholomew summarized Out of Borough Sales Tax exemptions. Mr. Bartholomew explained when people from other Southeast Alaskan towns visit Juneau and purchase goods, they do pay taxes on those goods. However, if they call or email orders- from their communities they do not pay taxes on goods purchased in Juneau. Mr. Bartholomew did not have an exact number of lost tax dollars from purchases done remotely, but estimates it to be several hundred-thousand dollars. Six years ago CBJ exempted both types of sales, whether you came in physically or not. Five years ago non-residents could no longer get that exemption if they came in physically.

At 5:10pm Kate Troll joined via teleconference and Mr. Bartholomew caught her up on what had been discussed. Mr. Bartholomew noted the three footnotes on the Out of Borough Exemptions for Industry Resale, as the total dollar amount of $529,760,204 was different from a previously provided schedule and the footnotes explained why.

Jesse Kiehl asked for a clarification on the resale exemption. Mr. Bartholomew explained that a buyer may apply for a resale of goods card/certificate for sales taking place in Juneau. The buyer receives a resale exemption card that they then present to the vendor (i.e. Costco) and the buyer would not pay CBJ taxes on those goods. When the buyer then resells the item through their own business, they charge and collect the sales tax during that transaction. Mr. Singletary explained that the resale of goods exemption is limited to Juneau businesses purchasing items to be resold in Juneau. Mr. Bartholomew explained that out of town businesses do not qualify for a resale exemption card as they would use the Out of Borough exemption instead.

Jerry Nankervis asked for clarification on the largest category on the summery of exempt sales out of borough list, which is “Other”, totaling $423,566,700. Mr.
Bartholomew said Mining is the largest percentage of that number and it is basically the value of the mineral products that are being sold outside the borough.

Mr. Jones asked for clarification on the 3 different categories mentioning “food” and said he could understand the seafood and the brewery but asked for clarification on the “Food Stores” and “Food Service” categories. Mr. Singletary explained that “Food Stores” are generally your grocery stores such as A&P, SuperBear, etc. and “Food Service” are usually smaller entities than what is listed under Food and Kindred Products and consist of manufactures that produce specialized items, such as making jams or jellies without a store front.

Mr. Jones asked what the communications line referred to and Mr. Singletary explained those are companies such as GCI and AT&T, internet and cable companies.

Ms. Troll stated that if you look at this overall, if you were to take the primary manufacturing of goods off the table, which would be those listed in the “Other” and “Food & Kindred Products” category, that would leave approximately $52.6 million in sales that could be taxed and that would generate 2.6 million dollars. She asked how accurate that number might be and if a strategy to exclude the manufacturing of products and keep the resale exemption but tax everything else, how that might work. Mr. Bartholomew said he needed more time to look into that number and research those details. His goal would be to look at it to try to determine which of the sales in this category are going to final consumer which is what we are taxing in town. He said he thinks it would be a lot smaller number than $52million. Ms. Troll said she would be interested in understanding that level of analysis. Mr. Bartholomew explained that they anticipate several hundreds of thousands of dollars will be identified as they do their research. He also said that as part of the process they hope to contact some of the larger local businesses in each of the industry categories to ask them if they can help CBJ understand the ramifications of these exemptions. He anticipates this will ultimately going to lead to the public testimony on any proposed changes.

Mr. Kiehl said he felt it was worthwhile for committee members to spend some time thinking about the implications of changing this and whether and how they would want to engage in it if there are changes they wish to take up. He went on to say that the vast majority of categories of sales, many of the manufacturers could not stand the full application of sales tax. He said there are other items that they provide incentives for, including items in the property taxes which will be discussed in future meetings. On the other hand, services have to be paid for so he is more interested in those questions rather than whether something is for resale or not.

Mr. Bartholomew said they are taking a three-layered approach to reviewing these exemptions: 1) Law reviews it to see if we have the authority to change an exemption,
2) If it is OK to change per Law, Finance does the research and gives it to the Assembly to determine if it is something they wish to change, and 3) determine what the economics of a change might be for both CBJ and the industry. He said if they can answer those three questions, it is a good starting point for the committee to evaluate.

Mr. Jones asked about the Professional Services Exemptions and how those are calculated for services provided for clients in and out of Juneau. Mr. Singletary gave a breakdown of the Professional Services exemption and what is calculated as taxable vs. what is exempt. Most often, if services are done in Juneau, i.e.: if a person is doing the work at their office in Juneau for an out of state client, they are taxed. Services performed outside of the borough are exempt.

IV. Senior Sales Tax Exemptions

Mr. Bartholomew gave an overview of the breakdown of where dollars are being spent. There is approximately $55 million in exempted sales for seniors and the chart shows what industry the categories fall into. One category that has been talked about is the food stores. The graph shows $4 million being reported on food and $19 million on general merchandise which is the largest portion of that category. He said they hope to bring to the meeting next week the income breakout for seniors.

Mr. Singletary and Mr. Bartholomew addressed Assembly’s questions on items from the seniors’ exemption summery list. Ms. Troll questioned if senior exemptions could be so specific as to break down to essential services only, which means “essential” would have to be defined which might include items such as food, fuel, utilities, and health. Mr. Bartholomew explained that medical expenses are covered under a different exemption but for the rest, he said first they would check with Law about any limitations they would have and then have a conversation with the industry about the ease of administrating such a break down.

Mr. Kiehl asked Mr. Bartholomew to speculate why in many cases there’s a doubling and sometimes tripling in the past 13 years in sales of goods and services to seniors. Mr. Bartholomew pointed out the growth of the senior population in town as well as inflation of the cost of delivering goods for things like shipping and fuel.

V. Single Item/Service Sales Transactions Cap

Mr. Bartholomew explained the sales categories and the total dollar amount that exceeded the cap. He said the biggest challenge to determining the effect of raising the cap would first have to be determined by knowing the total number of transactions. The current cap is $7,500, and has been in place for 20+ years. Mr. Bartholomew provided a demonstration on how they might analyze each category by taking the current totals and reviewing the effect of raising the cap on each of those exemptions. Mr. Jones asked about Leasing Companies and why they are or are not taxed if there is a yearly or
monthly transaction. Mr. Singletary explained that leases are usually dealt with in a financing type of transaction and taxes are collected under those situations. Mr. Kiehl said he would like additional information on these transactions to better understand it.

Ms. Troll said she would be interested in seeing the effect of raising the cap to $10,000 and/or $15,000 or other benchmarks staff might recommend and how those figures would compare. Mr. Bartholomew agreed that is the next step of analysis. Mr. Jones was interested in an explanation of how a contractor might fit into a service vs. a sale. Mr. Singletary explained that it is often based on how the contractor codes the exemption.

Ms. Troll left the meeting and the committee took a 5 minute break at 6pm.

Discussed the single service cap for professional services as it related to contract administration by architects and other professionals. Also discussed those services being provided to government entities being exempt from taxation.

VI. Food Sales Information

Mr. Bartholomew reviewed the information provided in the packet on sales tax revenue from food. The numbers provided were accumulated from the major grocery stores and major combination stores such as Walmart which sales both food and major retail. Mr. Singletary had worked to get an idea of total sales from food, not from food, etc., in order to categorize them and came up with $102 million in food sales. Mr. Bartholomew explained that the stores not included into these numbers where convenience stores, with approximately 8-10 in town depending on how they are categorized. He said there may be roughly another $7 million in food sales with approximately $350,000 in tax for the convenience stores. Mr. Kiehl asked for an explanation in the difference between food items listed on the chart from page 9 as opposed to the senior exemption list of food from page 6, and Mr. Singletary gave an explanation on these differences. Discussion took place comparing exemptions for seniors from food sales vs. total merchandise sales and the differences between general merchandise stores and grocery stores. Mr. Bartholomew explained if you didn’t tax seniors on food you would be looking at approximately $112 million taxable in food sales.

Mr. Kiehl questioned what is going to constitute as food. Mr. Bartholomew referenced the three federal organizations that have tried to develop a standard definition of food which are: the Federal Food Stamps – Supplemental Nutritional Assistance Program (SNAP), Women, Infants, and Children (WIC) and Streamlined Sales Tax (SST) programs. The SST program has the broadest definition of food out of the three. Mr. Bartholomew suggested a list of common goods would have to be determined with the help of the industry to make it easier for the transaction and sale of these specific food items by the stores, for tracking purposes. Mr. Kiehl said he would think ease of administration of the program for the merchants would be an important consideration for them to keep in
mind and try to streamline it so readily available software programs like those created for the SNAP program can be used for CBJ sales tax purposes. Mr. Bartholomew explained that is some of the information they hope to get feedback from the vendors on when they reach out and discuss this process with them.

VII. **Next Meeting Date** – August 14, 2014

Mr. Bartholomew said they could try to cover the following items on the Future Agenda Items list at the August 14 meeting:

1. Income level information
2. CPI change 1991-2013
6. Review of Government Sales Tax Exemption

Coming out of this August 7 meeting, Mr. Bartholomew said he would like to make contact with the grocery industry and have that information to provide to the committee.

Mr. Jones explained that he and Ms. Crane will both be attending Alaska Municipal League meetings in Nome on August 14 and while they are not committee members, they have attended TERC meetings and will track the work of the committee.

VIII. **Adjournment** – The meeting was adjourned at 6:32 p.m.