City and Borough of Juneau  
Tax Exemption Review Committee (TERC) Minutes  
Thursday, January 8, 2015 – 5:30 p.m.  
Assembly Chambers – City Hall

I. Call to Order

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

Other Assemblymembers Present: Mayor Merrill Sanford, Karen Crane, Loren Jones, Maria Gladziszewski, Debbie White.

Staff present: Bob Bartholomew, Finance Director; Clinton Singletary, Sales Tax Administrator; Kim Kiefer, City Manager; Laurie Sica, Municipal Clerk; Rob Steedle, Deputy City Manager; Chris Orman, Assistant Attorney, Law Department; Mary Norcross, Controller.

II. Approval of Minutes – None.

III. Tax Exemptions – Proposed Changes Adopted by Committee

A. Finance Director Overview

Bob Bartholomew provided a list of the other tax exemption and revenue raising ideas reviewed by the TERC. It explained the work of the committee, and listed the exemptions reviewed with decisions made not to pursue any change, which included:

1) Change or eliminate the sales tax exemption for lobbyists
2) Change or eliminate the exemption for out of borough sales
3) Raise the age limit for senior sales tax exemption from 65 to 70, which could be done over a number of years, and
4) If a senior exemption for 3 essential items is adopted, initiate a set dollar year-end rebate/dividend program, vs. one based on actual sales transactions.

Ideas reviewed and moved forward to the Finance Committee included:

1) Raise the sales tax from 5% to 6% for 5 summer months.
2) Review property tax hardship exemption income threshold for consistency with what may be adopted for sales tax. (consider a tiered income approach vs. a single cut-off threshold).
3) Research opportunities for other Payment in lieu of taxes (PILT) agreements.
4) Establish local business license program.
5) Vehicle leasing exemption from Business Personal Property.
6) Exempt food from sales tax, for everyone, and increase the rate from 5 – 6%.
7) Inventory tax.
8) Used vehicle sales/use tax.
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Mr. Bartholomew said the TERC originated at the end of last year’s budget cycle. The ongoing FY16 budget was not balanced, and for the FY15 budget it was balance by $3 million in budget cuts, ($2 million operating, $1 million capital), and use of the available fund balance. The Mayor assigned this committee to look at existing tax exemptions for potential revenues as a part of effort to develop a sustainable budget. Additional reductions in excess of $1 million have been proposed by the manager for FY16, and additional revenues are also needed. This committee has held eleven meetings, there has been significant review and discussion, and four changes are proposed. Tonight’s meeting is to get input on those four changes.

B. Public Comment on increasing the amount of the sales tax CAP exemption on the sale of a single item or service from $7,500 to $14,000.

Ms. Becker outlined the process for public testimony and provided a 3 minute time limit for individual testimony.

Mr. Bartholomew explained the spending cap, saying it was designed for any individual single sale of a service or an item, if the price exceeds the cap, currently $7,500, there is sales tax on the first $7,500, and anything above that cap is not taxed. This was instituted to keep local businesses competitive with what it cost to purchase a vehicle etc. down south. The cap was established in 1983, and the last time this was changed was in 1991. The committee reviewed, took public testimony on Sept 26, and recommended that the cap be raised from $7,500 to $14,000.

Max Mertz, representing the Chamber of Commerce, said he appreciated the Assembly reviewing the tax policy. They submitted a letter on October 9, 2014 with their positions and it continues to represent the opinions of the Chamber. Regarding the tax cap, the proposal to raise it to $14,000 is too high. They suggested $10 – 11,000, which was reasonable. They also asked the Assembly to consider implementing a sunset date for the exemption of 5 years to initiate a re-evaluation.

Ron Somerville, said he has always purchased from local businesses when he could but if the cap was raised to $14,000, he would not likely buy a vehicle locally again. The businesses would be crazy to support this. People would be forced to look outside of Juneau for purchases. The inflation price of this cap was not so relevant because most seniors were on fixed incomes.

C. Public Comment on Senior Citizen Sales tax exemption change:  
   i. Remove senior sales exemption eligibility for non-Juneau residents
   ii. Implement an “income (needs) based” eligibility program, setting the household income level at 250% of poverty.
   iii. For seniors with household income above the 250% of poverty level narrow the tax exemption to 3 essential items (food, electricity & heating fuel).
Mr. Bartholomew reviewed the history of the program and the financial impact. The exemption was established in 1979. In 1988 and 1989 there was an expansion to allow any resident of Alaska and to include the senior’s spouse (who might not be 65). In 1999, 2005 and 2006, there were various efforts to review the exemption. There were recommendations for a phased out approach, or raising the age for those not in the program, but no changes were enacted. The exempted revenue totals $2.8 million for 2013. With the senior population slowly growing it was anticipated that exempted revenue would increase by $200 – 250,000 per year (not including revenue lost to property tax). Previous public testimony was taken, two more deliberative meetings took place, and three recommended changes were made by the TERC, as listed above.

CBJ staff has reviewed implementing the combination of a needs based program and essentials only (for those not qualified for needs based) and has commented that it would be a difficult program to administer but staff was continuing to review how it could be done.

*Patrick Owen* said many seniors have lived here a long time and contributed to the community, and removing the sales tax exemption would hurt. He would like to see a better account of the revenues taken in by CBJ and the expenditures, and CBJ needed to live within its needs.

*Dixie Hood* said she was 81 and could not afford to retire. She was lucky to be in good health and said she picked up any income producing jobs she could find. She supported the changes overall, and as a low income senior she was in favor of an income eligibility level and the recommended level seemed appropriate. It would be good to exempt food purchases for every age, less so for heating and energy. She spoke about the state heating assistance program, which was available. She did not support increasing the age for the exemptions. She supported the Assembly raising the mill rate and spoke to that point.

*Mary Anne VandeCastle* with Juneau Commission on Aging, said the committee continued to support the recommendations provided to the TERC about a month ago. She urged a slow, cautious approach and said anyone currently enjoying the tax benefit should not lose it. She said the income cut off was unwieldy to administrate and would have some social ramifications, but was glad to see a recommendation to allow all exemptions on essential items. The JCOA encouraged reissuing cards, and raising the age limit one year until the exemption got to age 70.

*Ron Somerville* said his main point of concern was that seniors lived on a fixed income. Seniors made a decision to stay in Juneau based on an agreement that this exemption was in place and did not have a lot of options. The exemption was a significant portion of a person’s income. CBJ would create a new administrative problem by ensuring that people qualified every year. Seniors would likely vote
against the sales tax ballot measures if the exemption was removed. He said Juneau
has one FTE for every 17 residents, and there was no other city that had that high of
a ratio. Juneau was a very expensive city to live in. He spoke in favor of
grandfathering the exemption for existing seniors in the program now.

_Sandi Warner_ spoke against removing the senior tax exemption but said there
needed to be more education about what the exemption covered and did not. She
had seen abuses. Businesses have the right to question purchasers. There were big
increases on the way in utility rates and garbage rates. She said that “essentials”
needed better definition regarding food, electricity, and heating. She suggested
taxing tours sold on cruise ships, cruise ship commissions, sales tax on hotel rooms,
and said the delinquent sales tax needs to be collected.

_Dan Komerick_, would like to see the existing seniors be grandfathered in but agreed
that something needed to change. He supported ending the exemption for out of
town seniors. He said the exemption was optional and people did not have to take
advantage of it if they could afford it. His retirement had not kept up with inflation.
He suggested cutting spending, eliminating the exemption for lobbyists, increasing
the senior exemption from 65 to 70. The needs based program needed to be
simplified. He suggested only having the addition 1% tax in the summer months.

_Tom Perkins_ said he has lived here for 57 years, retired 20 years ago and chose to
stay here. Eliminating the senior exemption would encourage the exodus of retired
people. He always purchased locally. He said the needs based program would be
complex to figure out and asked how heating and fuel would be exempted if they
were part of condo fees.

_Neal Adams_ said he supported Mr. Perkins comments and would forgo his
comments.

_Jim Carroll_ said he has lived here for 48 years and he appreciated the tax exemption
and understood it was a difficult issue to bring up. We need to look at senior
citizens and how much they volunteer, how much they take advantage of the
amenities, pool, skiing, arts, and seniors make up 10% of the population. He
suggested requiring seniors to sales tax on purchases of $20 or less. He hoped to
stay in Juneau and wished the committee luck with their work.

_Howard Shepard_ said the exemption was initiated as a way to show that the seniors
are valued, and apparently that was no longer the case. The senior’s income from
wages and benefits, their pension money, was spent in Juneau. He did not support
an income based program based on privacy issues, and said some would comply,
but some would refuse to report, some would mis-report, and some would leave
town if it were instituted.
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Blaine Garrett, said he was a non-retired senior citizen, and said the 5% tax exemption was not mandatory. He gave an example of TSA employees that left Juneau because their 25% cost of living was removed from wages. What will be the next impact in a few years? Maybe next was the free bus service. UAS increased their tuition waiver from 60-65. This exemption should be grandfathered. 75 was too old to wait for this exemption.

Raydene Garrison, spoke about her experience as a state revenue tax auditor and said she questioned the cost of enforcement of an income based tax exemption. She asked if the program would be based on earned income or investment income and suggested that if some wealthy seniors passed on drawing investment income in a year they could qualify for an exemption. She said that utilities such as sewer/water and garbage should also be considered in the essential list. She had been to few places that required seniors to show their cards. She said the Assembly needed to limit projects and CBJ had bonded itself to death.

Max Mertz said he agreed with Ms. Garrison. The Chamber believed that significant reductions in spending could be made and costs could be controlled. We recognize you can not close the hole without revenue enhancement. The Chamber has supported changing the program, but because of the cost to administer a needs-based program suggests changing it to staples as you define it. The matter still needs broad review at the Finance Committee level. The Chamber supported eliminating tax on essentials and everyone pay an increased sales tax of 6%.

Ella Bentley said she lived in Juneau since 1948 and many have paid a lot of sales tax over the long haul, so requested a break to keep the exemption. She voluntarily pays tax on anything under $20 and on our restaurant food.

Philip Gray, said he was in favor of retaining the senior sales tax exemption. He used to qualify for the property hardship exemption but that was raised. He suggested cutting subsidies to recreational facilities such as Eaglecrest and spoke about the high number of city employees. Encourage seniors to remain in the community – we continue to contribute.

Mr. Kiehl said CBJ employees include those at the hospital and airport, which if excluded as in other communities, would make Juneau on an even footing with other communities as far as full time employees.

Wayne Eckles said he had attended a previous meeting and said he was surprised to read in the empire that most seniors supported abolishing the tax, they were at a different meeting than he attended. Some of the recommendations increased administrative costs. He said he had no plans to move even if he had to sell pencils. He thought the matter was important enough for a public vote. There are many ways to reduce costs, spoke about his experience at the indoor shooting range and said that building codes were advisory, not law. The beautiful new high school has
many items that were not functional. Many city facilities could be run by
volunteers.

Arnold Liebelt said the issue was fairness. He had a family and paid taxes, and the
times were changing. When these exemptions were put in place there was a
different economy. He worried about an exodus of the middle class, and with the
price of oil, things did not look good for the state. People leaving town and taking
kids out of school was a worry. There was a demographic shift nationwide, with an
increasing senior population and decreasing population of the working age
population. The problem was no one’s fault and we are all part of the solution, we
need a strong middle class in this town. He suggested getting rid of exemptions
entirely, then the tax rates could come down and everyone could share the pain.
You have a difficult job and if you continue the path of making exemptions we
won’t solve it. I don’t have a good solution, it is incredibly complex.

Graham Rountree said there are two choices, to get rid of the exemptions or leave it
alone. He said the committee should wait and see what happens with the state
budget this year as Alaskans may end up with a state income tax or without a
permanent fund check. This exemption is too deeply imbedded. Many summer
stores make $100,000 a day and do not collect the sales tax.

Gail Smith said she had never been asked to show the card and there were abuses of
the program, especially at grocery stores. She could afford to pay taxes as a middle
class person. She supports an exemption on food for everyone, and appreciated Mr.
Liebelts comments. She encouraged the Assembly to do long range fiscal planning
as there were many people coming due for retirement in the community. She was
concerned about funding new projects such as a motor-cross or OHV park and was
concerned about continued salary increases for municipal employees.

Craig Orsborn encouraged the Assembly to look at the whole picture. He was very
concerned that the CBJ chose to spend an additional $2 million by paying non-
union employees the wages that the union members had bargained for, but were not
union members.

Scott Tiernen said he agreed with Graham Rountree on his comments on the
unknown. The recreational facilities were important to young people and we need
young people to stay in the community. Many people talk about moving out of
town but that was easier said than done and each state had its own benefits and
drawbacks regarding the financial picture in their communities. He did not support
means testing and said he was in favor of eliminating the senior exemption if it was
replaced by an elimination of tax on food and utilities, and everyone paid the
remaining taxes.

Ms. Troll commented about the high cost of living in Juneau, which was partially
offset by the high median income in the community.
Cheryl Jebe said she was against removing the exemption and against a needs based program as proposed. She said she would support the discontinuance of the program for entry by new people after 2016. She supported getting rid of all exemptions with the exception of food/fuel and utilities. She wanted to see the exemption cards be updated with a bar code to assist businesses. It was a sad day to balance the budget on the heads of senior citizens.

Jeff Boehm said if the matter was alone, inflation would take care of the issue. The budget has to be balanced and these items are designed to come up with quick money. He moved here to start a company and said the cap on sales is foolish. I have people tell me that they will buy something in Seattle because they need a trip and the items there are tax free. He encouraged the assembly to foster grown in a healthy business economy and to get some land on the market for businesses. He encouraged the Assembly to look at possibility of contracting out the airport and hospital.

Mr. Kiehl said the airport and hospital were self-funded. He asked about the cost of transportation on items purchased down south and Mr. Boehm said that was a fixed cost regardless of going out to purchase something or buying it in Juneau.

IV. Information Items

Mr. Bartholomew said information on the topics below was in the packet and he was available to answer questions. There were no questions from the committee.

A. Federal Poverty Income Matrix for Alaska

B. Financial Summary for the proposed tax exemption changes

V. Next Meeting Date

Mr. Bartholomew asked if the recommended changes were ready to go to Finance. Ms. Becker said she thought another meeting was needed.

Mr. Kiehl said he thought the property hardship exemption was on the table. Mr. Bartholomew said he thought that issue was referred to the Finance Committee. He thought it was not a recommendation of the committee. The Finance Committee could pick up the issues.

Mr. Kiehl wanted to recommend the 250% of poverty level to the Finance Committee. Ms. Troll said she would like to follow up on questions raised tonight, such as exemptions on utilities that are folded into condo fees and how that would be addressed.
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Mr. Nankervis said the goal next week was to be done, with a written recommendation to the Finance Committee.

The next meeting was set for Thursday, January 15, at 5:30 p.m. in Conference Room 224.

VI. Adjournment

There being no further business to come before the committee, the meeting was adjourned at 7:25 p.m.

Submitted by Laurie Sica, Municipal Clerk