City and Borough of Juneau
Tax Exemption Review Committee Agenda
Thursday, October 23, 5:00 p.m.
Assembly Chambers-City Hall

I. Call to Order

II. Approval of Minutes – September 23, 2014

III. Senior Citizen Sales Tax Exemptions
   • Finance Director Overview
   • Public comment on the following exemptions:
     i. Remove eligibility for non-Juneau residents.
     ii. Narrow the exemption to 3 essential items: food, residential electricity & heating fuel.
     iii. Narrow the exemption to a “needs based” program, based on income level.
     iv. Other options to change senior citizen exemptions.

IV. Public Comment on Other Tax Exemptions or Revenue Options, if time permits

V. Next Meeting Date October 29, 2014

VI. Information Items

VII. Adjournment

Future Agenda Items
1. PILT Program Overview & Options
2. Information on taxing internet sales
I. Call to Order
The meeting was called to order at 5:00 p.m. by Mary Becker, Chair.

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

Other Assembly members Present: Merrill Sanford, Loren Jones; Karen Crane

Staff Present: Deputy City Manager Rob Steedle, Sales Tax Administrator Clinton Singletary, Assistant City Attorney Chris Orman, Print Shop Operator Glen Fairchild

III. Approval of Minutes – September 11th, 2014 Minutes approved.

IV. Discussion on with Tax Exemptions to put forth for Public Comment
Bob Bartholomew began with an overview of the past 6 TERC. Mr. Bartholomew states there will be future hearings, and this evening’s hearings will focus on 3 exemption topics only: Spending CAP, Out of Borough and Lobbyist Sales.

Mr. Bartholomew briefly revisited tax policy, explaining the broader the base, the lower the rate can be and exemptions narrow the tax base. He explained the chart on page 4 of the handout referring to the $7,500 tax CAP on sales of single items/services. The CAP originated in 1983 at $5,000 was revised again in 1991 to $7,500.

Ms. Becker asked assembly if they had questions in regards to Mr. Bartholomew’s overview and they did not. Assembly was ready to move on to public discussion.

V. Public Comments on Spending Cap and Out of Borough Sales Tax Exemptions
Steve Allwine spoke first, representing himself and his business, Mendenhall Auto. Mr. Allwine was concerned the CAP increase would have a negative effect on his company. Mr. Allwine felt raising the cap to $10,000 could be manageable, but anything beyond that would drive customer away and would prefer $9,000.

Kate Troll mentioned how the cap was being used outside of automotive sales in the borough, mentioning the $6million in jewelry sales that was not originally intended to benefit from this exemption. Ms. Becker asked Mr. Allwine the cost for freighting vehicles to Juneau. Mr. Allwine said $1,300-$1,500 per car and that freight is standardized and consumers do not mention as a factor when making their purchases.
Mr. Allwine next talked about the Out of Borough Exemptions, and cautioned CBJ against removing it. Mr. Allwine’s business sells a lot of cars to other communities and Washington has no sales tax for Alaskan residences, he was fear full consumers would choose to shop out of state. Ms. Becker mentioned CBJ still has a CAP, which Mr. Allwine says he appreciates, but felt being taxed will drive customers away and mentioned that Ketchikan is halfway between Seattle and Juneau and felt removing the exemption would limit Juneau from being a shopping destination.

Ms. Troll asks Mr. Allwine for an estimate of sales to out of town customers, and Mr. Allwine estimated 35-40%. Mr. Allwine said customers choose to shop in Juneau rather than Washington because they understand the needs of the SE Alaskan consumer better and CBJ should continue to encourage the region to shop in Juneau.

Ms. Troll followed up with Mr. Bartholomew that consumers who physically come to town pay CBJ taxes, but those who do not touch ground do not pay taxes. Which Mr. Bartholomew confirmed to be accurate.

Ms. Becker asked if there were more questions for Mr. Allwine, and there were not.

Max Mertz spoke next on behalf of the Juneau Chamber of Commerce, as their sitting President. Mr. Mertz said they were getting a lot of member feedback and many members felt it had been a long time since there had been an adjustment to the CAP and some increase sounded reasonable.

Mr. Mertz continued with the Out of Borough Exceptions, mentioning the internet does not charge sales tax and the Chamber would oppose any change to this exemption. Juneau Chamber of Commerce believes this would drive customers to not shop in Juneau. Jesse Kiehl asked about the cost of shipping comparison from Juneau v. the lower 48 states. Mr. Mertz has spoken with freight companies and said that partial load shipments are causing freight and merchandise to go up. Ms. Troll mentioned how CBJ does not have an inventory tax while other communities do and Chamber has reviewed CBJ tax policies, agreeing Juneau has a business friendly tax structure. Mr. Mertz said any change that increased business costs collectively will be taking money from businesses as it relates to these items.

Karla Allwine spoke next. Ms. Allwine mentioned how the original exemption was due to minimal options in town and with heavy freight costs her business would lose customers to Washington to save on paying taxes. Ms. Allwine had requested a list of vehicles coming into Juneau and it averaged 15-18 cars per month and said people who do not
support local business should not be rewarded by not paying a registration tax on these vehicles.

Jesse Kiehl asked Mr. Bartholomew if staff from sales tax had looked into a use tax on vehicles coming into town. Chris Orman, assistant city attorney said legally CBJ can do this tax and mentioned how Sitka includes language of a Use Tax in their code, but does not apply it.

VI. Lobbyist Sales Tax Exemption
Mr. Bartholomew explained this exemption and briefed the assembly and chambers on the packet. CBJ would stand to make $175,000 per year in taxation if this exemption were removed.

Public comment began with Dennis Harris who is against the Lobbyist Sales Tax Exemption. Mr. Harris mentions how big corporations pay no sales tax on lobbyist yet poor people pay taxes on groceries. Mr. Harris felt this exemption should be removed and CBJ is a friendly business community without that exemption.

Mr. Kiehl asked Mr. Bartholomew if lobbying to non-profits would remain exempt and the answer was yes.

VII. Public Comment on Other Tax Exemptions or Revenue Options
Steve Allwine addressed items from past meeting minutes and thinks it would be a terrible idea to raise sales tax for summer months only, from 5% to 6%. The Bulk of Mr. Allwine’s sales happen in those months. Mr. Allwine wondered why there was currently a senior citizen sales tax exemption for non-residence.

Mr. Allwine provided suggestions on budget improvements. He said CBJ is missing out on taxes that could be collected on leased vehicles, but currently they do not reach the CAP exemptions and Juneau would gain from a business personal property tax. Mr. Allwine also suggested all vehicles brought to Juneau that had not been owned more than 6 months before moving to town should be taxed.

Assembly asked Mr. Allwine questions in regards to leasing vehicles and Mr. Allwine explained in the last 10 years he has only leased 6 vehicles and if the roadblocks where removed the number of leases would go up.

Mr. Mertz spoke on behalf of the Juneau Chamber of Commerce stating the Chamber has been following these issues closely and will submit a written statement. Chamber feels cuts can be made without hurting businesses.
Ms. Troll thanks Juneau Chamber of Commerce for their participation.

Mr. Harris spoke again and was also concerned about the non-resident senior citizen sales tax exemption and felt it should be removed. He also felt there should be a way to tax internet sales. Mr. Harris makes plenty of purchases online as he finds them to be cheaper than buying locally, and would be happy to pay CBJ taxes on those purchases.

Diane Mayer also spoke and supports taxation and feels CBJ does a lot for the community with their tax dollars. She felt that people get taxed out of their homes though. Ms. Mayer asked that any property tax increases the city was considering that it be done as a gradient over time, so people are not hit as hard by higher costs of living.

VIII. **Next Meeting Date** – October 23th, 2014
Ms. Becker thanked those who gave testimony and asked Mr. Bartholomew what is on the agenda for the next meeting. Mr. Bartholomew points to the past packets. There are (4) four more items to discuss.

Assembly took a 10minute break at 6:15pm. After the break discussion began again about the next meeting. Internet sales are of interest to be discussed and Mr. Bartholomew summarized internet sales regulations and much has to be done on a federal level. States would have to adopt a program before a municipality could implement an internet sales tax. Mr. Bartholomew felt CBJ should start to prepare for it however.

Assembly discussed their preparedness for discussing senior citizen tax exemptions and taking public testimony. Mr. Bartholomew said he would put together a bullet list of senior exemptions for discussion to make it easy for everyone to follow and understand what is to be talked about.

IX. **Adjournment** – The meeting was adjourned at 6:34p.m.
City and Borough of Juneau
Tax Exemption Review Committee
October 23, 2014

Senior Citizen Sales Tax Exemption

Summary: Anyone 65 years of age or older who is a resident of the state is exempt from CBJ sales tax for the sales of goods, services and rentals, with the exception of sales of alcoholic beverages, that are solely for the personal use or consumption of the cardholder, the cardholder's spouse, or same-sex domestic partner. [CBJ 69.05.045]

Tax Exemption Overview:
• Approx. $57 million in sales were exempted as senior citizen sales during 2013.
• Estimated sales tax revenue exempted in 2013 was $2.8 million.
  o Exemption Sub-categories
    ▪ Food - $550,000
    ▪ Residential Electricity - $130,000
    ▪ Residential Heating fuel - $235,000
    ▪ Non-resident exemption - $175,000
  • The state required senior citizen $150,000 property value exemption reduced CBJ property tax income by $2.6 million in 2013.
  • Based on the demographic information below, moving forward CBJ tax revenues (combined sales and property tax) will decline by an average $440,000 per year, into the foreseeable future.

Demographics
As of 2013 the citizens 65 and above were 9.8% of the Juneau population. The Alaska Department of Labor estimates that the growth in senior population will significantly exceed the overall Juneau population growth through 2025. Current estimates are that seniors will be 15% of the population in 2020 and be over 18% by 2025.

Previous Review of the Exemption Program
  • 2005 Assembly Tax Policy Subcommittee - recommend a 10 year process, beginning in 2006, evolving towards elimination of the exemption in 2016. Each year, for 10 years, the eligible age would be raised by 1 year transitioning from 65 up to 75 years old. Thus to be eligible you would have to have been 65 by January 1, 2006 and would have benefited from the exemption for 10 more years. There would have been no new seniors, below the age of 65 in 2006, qualifying for the exemption. The exemption would have completely ended in 2016.
  • 2006 Senior Sales Tax Exemption Task Force – recommended: 1) removing eligibility for non-Juneau residents, 2) each year, for 10 years, the eligible age would be raised by 1 year transitioning from 65 up to 75 years old, and 3) from 2016 forward residents 75 years of age and older would qualify for the exemption. From 2006 to 2016 seniors below the age of 65 in 2006 would have to wait at least 10 years to become eligible.