

City of Kodiak

Sales Tax Discussions – Phase IV
Planning for the Future

Climbing the Peaks



05.12.2016

05.12.2016 – FY 2017 Budget Presentation

- City Infrastructure Needs
 - How to fund aging infrastructure
 - How to fund aging equipment
 - How to maintain the City workforce
- Options for generating revenue –
 - Sales Tax Review

Upcoming City Needs

- In the next 6 years, \$73.9M in Water, Sewer, and Streets projects that will be required – 1/3 for each fund ~ \$24.6M per fund
 - Streets = General Fund
 - Water = Water Fund generated through Water Rates
 - Sewer = Sewer Fund generated through Sewer Rates
- Fire Department = General Fund ~ \$2.5M
 - Fire Truck (4 Years) = \$1.5M
 - Rescue Apparatus (3 Years) = \$200,000
 - Deferred Maintenance = \$50,000 per year until the new Fire Station has been completed
 - Fire Safety Equipment = \$250,000

Upcoming City Needs continued

- Finance / IT = General Fund ~ \$750,000
 - Full replacement of Microsoft Office ~\$100,000
 - Full replacement of the Phone System ~\$100,000
 - Secure chip readers for City IDs for computer / IT access ~\$150,000
 - Hardware Equipment ~\$300,000
 - Additional components to Financial Software ~\$100,000
- City Administration = General Fund ~\$250,000
 - Economic Development Plan Implementation ~\$50,000
 - Pending = HR related costs ~\$200,000

Upcoming City Needs continued

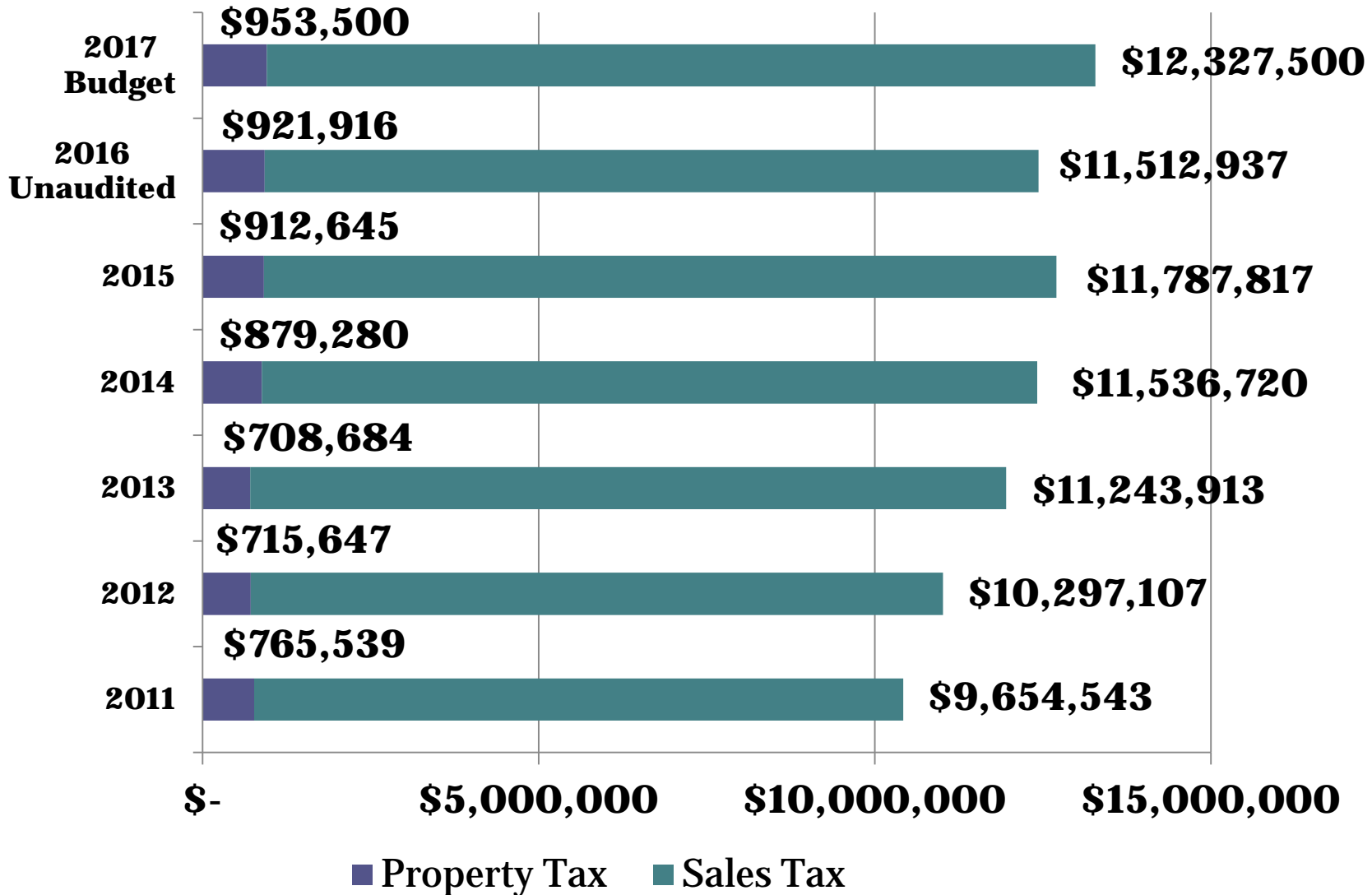
- Parks & Recreation = General Fund ~ \$2,450,000
 - Teen Center Siding~\$25,000
 - Fencing~\$15,000
 - Parking for Baranof ~\$300,000
 - Ice Rink Scoreboards ~\$10,000
 - Bathroom / Changing Facility ~\$100,000
 - Baranof Field turf replacement costs (6 years) ~ \$2,000,000
- City Clerks = General Fund ~\$100,000
 - Records Management software upgrades~\$50,000
 - Additional storage costs ~\$50,000

Upcoming City Needs continued

- Harbor = Harbor Fund~ \$29,000,000
 - St. Herman Harbor Replacement
- Cargo= Cargo Fund~\$5,000,000
 - Demolition of old Pier III and installation of new dolphins
- Shipyard = Shipyard Fund ~ \$8,000,000
 - Shipyard Building ~\$5,000,000
 - Shipyard pads ~ \$2,000,000

Sales Tax & Property Tax

Year over Year Comparison



General Fund Fund Balance

	Unassigned	Assigned	Nonspendable	Total
2010 Actual	5,604,877	1,440,324	1,807,369	8,852,570
2011 Actual	4,865,844	1,638,770	2,117	6,506,731
2012 Actual	5,238,816	1,490,854	-0-	6,729,670
2013 Actual	7,402,867	1,156,232	13,741	8,572,840
2014 Actual	7,461,144	1,132,088	8,885	8,602,117
2015 Actual	6,735,867	3,346,341	16,709	10,098,917
2016 Unaudited	8,675,304	-0-	24,513	8,699,817
2017 Budget	8,748,006	-0-	15,000	8,763,006

From FY 2012 to FY 2013, there was a sales tax increase and a tax cap increase, therefore greater revenues were achieved thus resulting in an increase in unassigned fund balance.

From FY 2014 to FY 2015, there was an increase in grant funds received from governmental sources.

From FY 2015 to FY 2016, there was an increase in grant funds received from governmental sources.

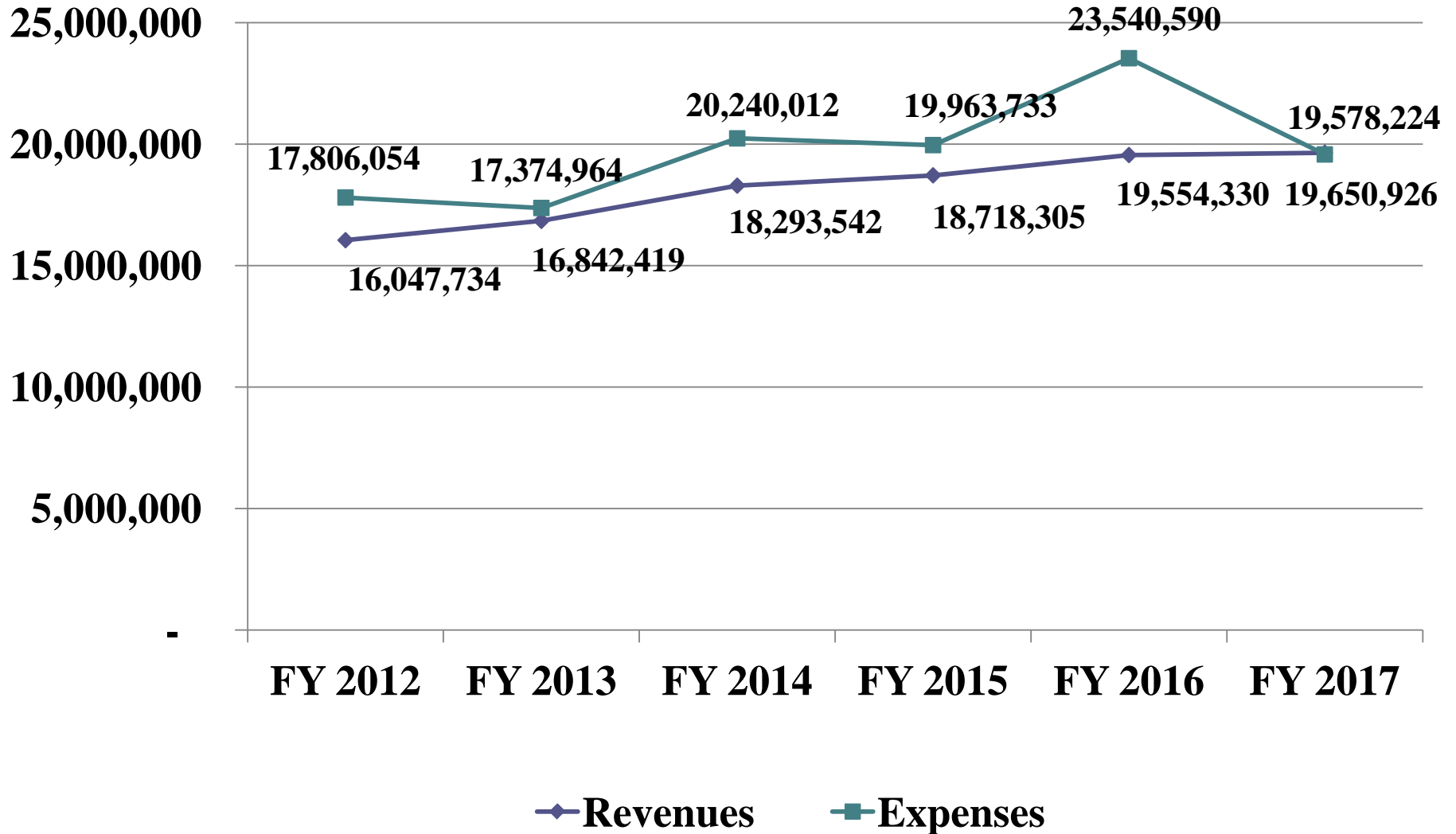
General Fund - Transfers

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Unaudited	2017 Budget
Disaster Admin	-0-	-0-	-0-	-0-	7,886	-0-
Enhancement	78,877	111,470	921,584	72,781	748,400	-0-
General Projects	565,500	409,500	927,500	274,000	20,000	-0-
Street Projects*	450,000	450,000	350,000	957,000	2,420,000	450,000
Building Projects	-0-	-0-	-0-	40,000	1,000,000	-0-
Cargo Projects	-0-	-0-	100,000	-0-	-0-	-0-
Harbor Projects*	500,000	500,000	500,000	500,000	500,000	500,000
Parks Projects*	50,000	50,000	50,000	50,000	50,000	20,000
Veh Replacement	21,812	66,882	85,312	98,574	174,663	203,594
Insurance fund	-0-	37,000	-0-	-0-	-0-	-0-
Total	1,666,189	1,624,852	2,934,396	1,992,355	4,920,949	1,173,594

* Per KCC, \$500,000 is transferred to the Harbor Fund Projects; \$450,000 to the Streets Projects; and \$50,000 to the Parks & Rec projects.

General Fund Revenue versus Expenses

Year over Year



Climbing the Peaks



07.12.2016

05.12.2016

07.12.2016 – Exemptions

- Review of all Kodiak City Code general sales tax exemptions
- Assumption 1 – Eliminate Senior Exemption
- Assumption 2 – Add \$200 rebate to Seniors to offset elimination of senior exemption
- Assumption 3 – Add Senior exemption for groceries only to offset elimination of senior exemption
- Assumption 4 – Add senior exemption for groceries and \$200 rebate to offset elimination of senior exemptions

07.12.2016 – Exemptions continued

- Assumption 5 – Decrease sales tax rate to 5% on groceries
- Assumption 6 – Decrease sales tax rate to 5% and eliminate the Tax Cap
- Assumption 7 – Decrease sales tax rate to 6% and eliminate the Tax Cap
- Assumption 8 – Decrease sales tax rate to 5% and increase Tax Cap to \$1,500
- Assumption 9 – Decrease sales tax rate to 6% and increase Tax Cap to \$1,500

07.12.2016 – Exemptions continued

- Assumption 10 – Decrease sales tax rate to 5% and increase Tax Cap to \$3,000
- Assumption 11 – Decrease sales tax rate to 6% and increase Tax Cap to \$3,000
- Assumption 12 – Sales tax rate remains at 7% and increase Tax Cap to \$1,500
- Assumption 13 – Sales tax rate remains at 7% and increase Tax Cap to \$3,000
- Assumption 14 – Sales tax rate remains at 7% and eliminate Tax Cap

Climbing the Peaks



08.09.2016

07.12.2016

05.12.2016

08.09.2016 – Casual & Isolated Sales / Implementation of City Business Licenses

- Clearly defining casual and isolated sales
 - Draft Ordinance to update City Code
- City Business Licenses
 - Draft Ordinance to update City Code
- Potential Impact to Revenue: Unknown

Climbing the Peaks



09.06.2016

08.09.2016

07.12.2016

05.12.2016

09.06.2016 – Alternative Revenue Sources

- Assumption 15 – Additional tax on Alcohol
- Assumption 16 – Additional tax on Tobacco
- Assumption 17 – Additional tax on Marijuana
- Assumption 18 – Internet Sales / Use Tax

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10.11.2016

09.06.2016

08.09.2016

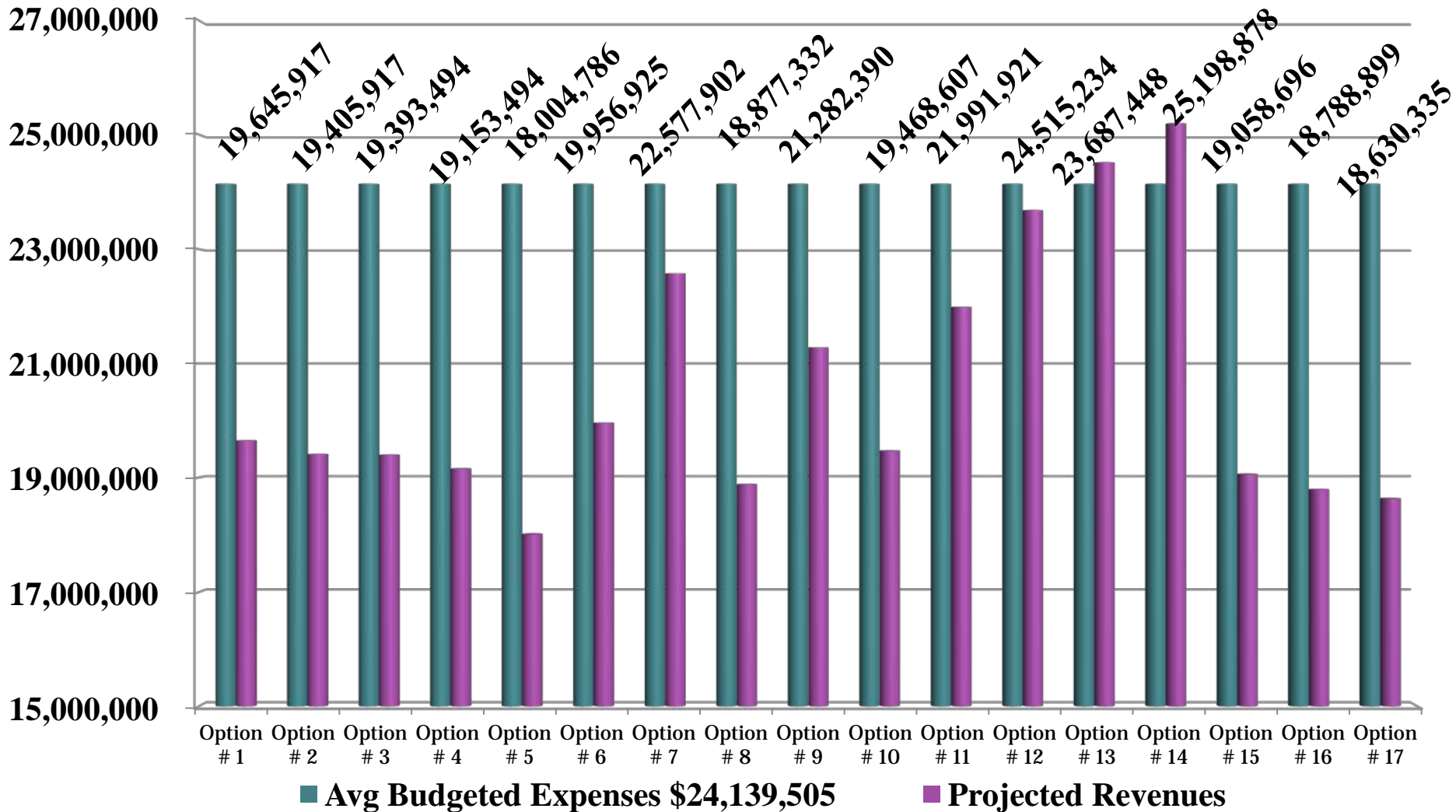
07.12.2016

05.12.2016

Future Budget Impacts

- Average Budgeted Revenues – 5 Year Period
~\$18,611,904
- Average Budgeted Expenses – 5 Year Period
~\$20,139,505
- Anticipated Increases in Expenses for FY 2018 Budget
~\$4,000,000
- Potential Increases in Expenses for current year FY 2017
and future periods ~ \$5,300,000
- **Future Budget Impacts: Anticipated Increase of
\$4,000,000 in expenses**

Potential Impacts for Revenues



Potential Impact to Fund Balance

	Potential Increase / (Decrease)	Projected Revenues (Potential Increase Plus Average Revenues of \$18,611,904)	Average Budgeted Expenses of \$20,139,505 Plus \$4,000,000	Increase / (Decrease) to Fund Balance
# 1 – Elim Senior Exempt	1,034,013	19,645,917	24,139,505	(4,493,588)
# 2 - \$200 Rebate to Srs & Elim Senior Exempt	794,013	19,405,917	24,139,505	(4,733,588)
# 3 – Elim Senior Exempt Except for Groceries	781,590	19,393,494	24,139,505	(4,746,011)
# 4 – Elim Sr Exempt Except for Groceries & \$200 Rebate to Srs	541,590	19,153,494	24,139,505	(4,986,011)
# 5 – Decrease ST Rate to 5% for Groceries Only	(607,118)	18,004,786	24,139,505	(6,134,719)
# 6 – Decrease ST Rate to 5% & Elim Cap	1,345,021	19,956,925	24,139,505	(4,182,580)
# 7 – Decrease ST Rate to 6% & Elim Cap	3,965,998	22,577,902	24,139,505	(1,561,603)
# 8 – Decrease ST Rate to 5% & Incr Cap to \$1,500	265,428	18,877,332	24,139,505	(5,262,173)
# 9 – Decrease ST Rate to 6% & Incr Cap to \$1,500	2,670,486	21,282,390	24,139,505	(2,857,115)

Potential Impact to Fund Balance

	Potential Increase / (Decrease)	Projected Revenues (Potential Increase Plus Average Revenues of \$18,611,904)	Average Budgeted Expenses of \$20,139,505 Plus \$4,000,000	Increase / (Decrease) to Fund Balance
# 10 – Decrease ST Rate to 5% & Incr Cap to \$3,000	856,703	19,468,607	24,139,505	(4,670,898)
# 11 – Decrease ST Rate to 6% & Incr Cap to \$3,000	3,380,017	21,991,921	24,139,505	(2,147,584)
# 12 – ST Rate Remains at 7% & Incr Cap to \$1,500	5,075,544	23,687,448	24,139,505	(452,057)
# 13 – ST Rate Remains at 7% & Incr Cap to \$3,000	5,903,330	24,515,234	24,139,505	375,729
# 14 – ST Rate Remains at 7% & Elim Cap	6,586,974	25,198,878	24,139,505	1,059,373
# 15 – 5% ST on Alcohol Sales	446,792	19,058,696	24,139,505	(5,080,809)
# 16 – 8% ST on Tobacco Sales	176,995	18,788,899	24,139,505	(5,350,606)
#17 – Estimated Marijuana ST	18,431	18,630,335	24,139,505	(5,509,170)
# 18 – Internet Sales / Use	Unknown	Unknown	Unknown	Unknown

Background Information

- Sales Tax History

- In July 2004, Ordinance No. 1171 became effective. This ordinance incrementally increased the sales tax cap from \$500 to \$1,500 (FY 2008). After FY 2008, the sales tax cap would be inflation proofed each year based on a predetermined factor and subsequently increased. In June 2005, this ordinance was rescinded and replaced with Ordinance No. 1190, which kept the sales tax cap in place at \$750. In October 2012, the sales tax rate was increased from 6% to 7%.
- Fund Balance = anticipated that the fund balance used to balance the General Fund will only remain through the end of Fiscal Year 2018. If unchanged, it is unlikely that much will remain for FY 2019 budget purposes. At that time, City services will need to be reviewed for additional decreases in order to balance the General Fund budget.

Option # 19 – Staff Considerations

- Consideration of a 5-year ordinance based on the following:
 - Year 1 – increase the sales tax cap to \$3,000
 - Year 2 – eliminate the sales tax cap
 - Year 3 through Year 4– Hold rate at 7% without a cap to evaluate fund balance stabilization
 - Year 4 through Year 5 – evaluate the potential to eliminate sales tax on residential rentals over 30 days (i.e. add an exemption that if a person has a residential rental over 30 consecutive days, then it is exempt from sales tax).
Potential decrease in revenues ~ \$500,000 - \$750,000
 - Year 6 through Year 10 – evaluate the stabilization of the fund balance, evaluate aging infrastructure. Begin potential evaluations of lowering the sales tax rate.

Option # 19 – 5 Year Projection

