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TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting City Manager

DATE: July 25, 2022

RE: **Ordinance No. 22-1949 – Amending Subsection (A) Of Section 3.04.020 Of The Ketchikan Municipal Code Entitled “Levy of Tax” To Provide For An Additional One Percent Consumer Sales Tax During The Period April 1 Through September 30; Amending Subsection (B) Of Section 3.04.040 Of The Ketchikan Municipal Code Entitled “Tax Added To Sales Price”; Amending Subsection (D) Of Section 3.04.130 Entitled “Use Of Proceeds Of Sales Tax”; And Establishing An Effective Date**

The attached ordinance was prepared by Finance Director Michelle Johansen and was considered in first reading by the City Council at the meeting of July 21, 2022. As discussed then by the City Council, Ordinance No. 22-1949 provides for enacting a seasonal consumer sales tax, increasing the rate from 4.0% to 5.0% annually April 1 through September 30. The rationale for adopting the 1.0% seasonal sales tax was detailed in Ms. Johansen’s transmittal memorandum dated July 12, 2022 and is reiterated again in her attached transmittal memorandum.

Ordinance No. 22-1949 was developed at the direction of the City Council to finance the General Fund’s share of the 2022-2024 Collective Bargaining Agreement between the City of Ketchikan and the International Brotherhood of Electrical Workers, Local 1547 (IBEW), approved at the July 7, 2022 City Council meeting, as well as the applicable aspects of the agreement that the City Council extended to the non-represented employees of the City, approved at the July 21, 2022 meeting. These improvements total approximately \$2,472,085 in General Fund expenditures over three years and cannot be financed from current reserves or projected revenues.

Councilmember Zenge with a second from Councilmember Bradberry placed the motion to approve Ordinance No. 22-1949 on the floor at the July 21, 2022 meeting. The City Council voted to table the motion prior to the vote until the meeting of August 4, 2022 and directed staff to develop an alternate seasonal sales tax strategy to finance the necessary wage and benefit improvements by enacting a 6.0% seasonal rate from April 1 through September 30 annually and a 3.0% rate during the “off-season” months.

Attached for City Council consideration are three alternative seasonal sales tax options and analyses prepared by Finance Director Michelle Johansen. As indicated by the Finance Director, each of the three options provide for a net 4.5% annual sales tax rate for local residents who make purchases throughout the year. All three options provide for increased revenues for the General Fund, but only Options 2 and 3 provide for the

revenue that will be necessary to finance the recently approved wage and benefit improvements. Additionally, seasonal spending by visitors would shoulder the majority of the revenue received in Options 2 and 3 and this in turn provides local residents with the flexibility to make purchases at alternative times of the year when the sales tax rate is less. Finally, as indicated by Ms. Johansen, the financial impacts of yet to be agreed to terms of the Public Safety Employees Association (PSEA) and International Association of Fire Fighters (IAFF) bargaining agreements remain unknown and not yet financed. Given these anticipated additional expenses, it would behoove the City Council to enact Option 3 to provide for ample funds for these costs.

Should the City Council wish to amend the below motion, a revised ordinance will be presented to the City Council at the meeting of August 18, 2022 for consideration in second reading. As stated at the July 21, 2022 meeting, the General Fund cannot support these expenses with current reserves or projected revenues received under the current sales tax rate. If the three financing options presented are not acceptable to the City Council, the City Council will need to present alternate options for financing the previously approved added costs for the General Fund.

The Finance Director will attend the City Council meeting of August 4, 2022, in order to address any questions and/or concerns that Councilmembers may have.

The motion that is before the City Council is detailed below:

Moved by Zenge, seconded by Bradberry that the City Council approve Ordinance No. 22-1949 in first reading, establishing a seasonal sales tax by increasing the sales tax levy one percent (1.0%) from four percent (4.0%) to five percent (5.0%) for the period of April 1 through September 30 by amending Ketchikan Municipal Code (KMC) Section 3.04.020 entitled "Levy of Tax," Subsection (B) of KMC Section 3.04.040 entitled "Tax Added to Sales Price" and Subsection (C) of KMC Section 3.04.130 entitled "Use of Proceeds of Sales Tax;" and establishing an effective date.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle L. Johansen, Finance Director
Camille Nelson, Financial Analyst
Phone: (907) 228-5621
Facsimile: (907) 228-5617

TO: Lacey G. Simpson, Acting City Manager/KPU General Manager

FROM: Michelle L. Johansen, Finance Director

DATE: July 26, 2022

SUBJECT: Seasonal Sales Tax – Comparison Information

At its meeting of July 7 and 21, 2022, the City Council approved the terms of the 2022-2024 City IBEW Collective Bargaining Agreement and changes to Non-Represented Employees salaries, wages and benefits. Council asked staff to provide additional options related to a sales tax rate increase that is needed to fund the increases to salaries, wages and benefits. Staff has included three options for consideration.

The three options included below are all an average of 4.5% annually. Each option identifies positive and negative effects for the Council to consider:

- **Option 1 - ½% Sales Tax Rate Increase** – This option would increase the sales tax rate from 4% to 4.5% as of January 1, 2023.
 - Low rate increase
 - Easy to implement
 - Everyone pays the same rate
 - Generates the least amount of revenue, approximately \$1,425,000 annually, and will not cover the increase in costs over the three year term of the City IBEW Collective Bargaining Agreement and Non-represented employees
- **Option 2 - 1% Seasonal Sales Tax Rate Increase** – This option would increase the current sales tax rate from 4% to 5% April 1 through September 30 starting April 1, 2023.
 - Moderate rate increase April 1 through September 30
 - Requires some modification for entities filing sales tax returns
 - Generates enough revenue, approximately \$1.9 million annually, to cover the increase in costs over the three year term of the City IBEW Collective Bargaining Agreement and Non-represented employees
 - This option does not consider the possible increase in PSEA and IAFF employee compensation that are currently in the process of negotiation or will be starting negotiation in 2022
- **Option 3 - 3% Off Season Sales Tax and 6% Seasonal Sales Tax** – This option would increase the sales tax rate to 6% April 1 through September 30 **and** decrease the sales tax rate to 3% October 1 through March 31, starting January 1, 2023.
 - Higher rate April 1 through September 30
 - Requires some modification for entities filing sales tax returns
 - Lower rate October 1 through March 31
 - Generates the most revenue of the three options presented, approximately \$2.9 million annually, and will likely cover other cost increases expected in labor negotiations
 - Allows residents the flexibility in purchasing at a lower sales tax rate in the offseason

The 2022 General Government Operating and Capital Budget estimated taxable revenue close to the 2016 revenues which was approximately \$285,000,000 and is a mid-range revenue estimate for Sales Tax Revenue projections. Looking back, 2020 was a low revenue year with approximately \$214,000,000 in taxable sales and 2019 was a high revenue year with approximately \$320,000,000 in taxable revenue. In order to compare the possible revenue for the three options identified above the mid-range revenue of \$285,000,000 was used.

Additional Revenue Generated Using 4.5% Sales Tax Rate					
	<u>Total</u>	<u>Sales Q-4</u>	<u>Sales Q-1</u>	<u>Sales Q-2</u>	<u>Sales Q-3</u>
Taxable Sales	\$ 285,000,000	49,400,000	43,800,000	87,200,000	104,600,000
	<u>Total</u>	<u>Collect Q-1</u>	<u>Collect Q-2</u>	<u>Collect Q-3</u>	<u>Collect Q-4</u>
Increase in Revenue	\$ 1,425,000	\$ 247,000	\$ 219,000	\$ 436,000	\$ 523,000
Additional Revenue Generated Using 4% Off Season and 5% Seasonal Sales Tax Rate					
	<u>Total</u>	<u>Sales Q-4</u>	<u>Sales Q-1</u>	<u>Sales Q-2</u>	<u>Sales Q-3</u>
Taxable Sales	\$ 285,000,000	49,400,000	43,800,000	87,200,000	104,600,000
	<u>Total</u>	<u>Collect Q-1</u>	<u>Collect Q-2</u>	<u>Collect Q-3</u>	<u>Collect Q-4</u>
Increase in Revenue	\$ 1,918,000	\$ -	\$ -	\$ 872,000	\$ 1,046,000
Revenue Adjustments Using 6.0% Seasonal Sales Tax Rate for Q2 & Q3 and 3.0% in Q1 & Q4					
	<u>Total</u>	<u>Sales Q-4</u>	<u>Sales Q-1</u>	<u>Sales Q-2</u>	<u>Sales Q-3</u>
Taxable Sales	\$ 285,000,000	49,400,000	43,800,000	87,200,000	104,600,000
	<u>Total</u>	<u>Collect Q-1</u>	<u>Collect Q-2</u>	<u>Collect Q-3</u>	<u>Collect Q-4</u>
Change in Revenue	\$ 2,904,000	\$ (494,000)	\$ (438,000)	\$ 1,744,000	\$ 2,092,000

At the July 21, 2022 meeting the Council also asked staff to look at the sales tax cap to determine the revenue that could be generated by increasing the cap. City staff consulted with the Borough to determine what changes have been discussed in their offices. The Borough has not proposed any changes to date. In addition to this, there isn't a way to provide an accurate revenue estimate for a cap increase because the information collected with the sales tax reports does not include transactional information. We do know that the percentage of exempted sales in the jewelry and curio category was 36% of the total exempted sales in 2019, which means that the remaining 64% of the exempted sales apply to other categories such as real estate, contractors, manufacturing, automotive and professional services that affect the cost to locals purchasing homes, cars and other

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services. It should also be noted that the cost of items in these categories is more likely to be in excess of, for example a \$12,000 cap, therefore, one can accept that increasing the cap alone on more costly purchases and services will not generate sales tax revenue on each dollar exempted and would not generate enough revenue to fund the increase in salaries, wages and benefits approved. For the reasons stated above I would not recommend increasing the sales tax cap at this time. Staff will continue to work with Borough staff to bring any proposed changes to the sales tax cap to the Cooperative Relations Committee.

Ordinance 22-1949 presented at the July 21, 2022 council meeting is currently under consideration and reflects Option 2 – 1% Seasonal Sales Tax Rate Increase April 1 through September 30. If this ordinance fails to pass the Council will need to give staff direction on how they expect to fund the increase in salaries, wages and benefits for the City IBEW collective bargaining unit and Non-Represented employees.

I will be attending the August 4, 2022 council meeting to answer any questions.

NEW BUSINESS

Budget Transfers – Fire Department Overtime Wages

Moved by Zenge, seconded by Mahtani the City Council authorize the Acting City Manager to transfer \$93,000 from the Fire Department’s 2022 Regular Salaries and Wages Account No. 500.01 and \$32,000 from the Fire Department’s 2022 Health Insurance Account No. 507.00 to the Fire Department’s 2022 Overtime Wages Account No. 501.01.

Motion passed with Gage, Zenge, Bradberry, Mahtani, Gass and Kistler voting yea; Flora absent.

Authorizing 2% Cost of Living Adjustment and Revised Monthly Health Insurance Co-Pays For Non-Represented General Government and Ketchikan Public Utilities Employees For 2022

Moved by Kistler, seconded by Zenge the City Council authorize a 2% cost of living adjustment and revised monthly health insurance co-pays for General Government and Ketchikan Public Utilities non-represented employees effective January 1, 2022 and August 1, 2022, respectively.

Acting City Manager and the Human Resources Manager answered questions from the Council.

Motion passed with Bradberry, Mahtani, Kistler, Gage and Zenge voting yea; Gass voting nay; Flora absent.

Resolution No. 22-2855 – Amending Section 6.2.1.1 And Section 6.1.1 of The City of Ketchikan Personnel Rules; And Establishing an Effective Date

Moved by Mahtani, seconded by Zenge the City Council approve Resolution No. 22-2855 amending Section 6.2.1.1 and Section 6.1.1 of the City of Ketchikan Personnel Rules; and establishing an effective date.

Motion passed with Gass, Gage, Zenge, Bradberry, Kistler and Mahtani voting yea; Flora absent.

Ordinance No. 22-1949 – Amending Subsection (A) Of Section 3.04.020 of The Ketchikan Municipal Code Entitled “Levy of Tax” To Provide For an Additional One Percent Consumer Sales Tax During The Period April 1 Through September 30; Amending Subsection (B) of Section 3.04.040 of The Ketchikan Municipal Code Entitled “Tax Added to Sales Price”; Amending Subsection (D) Of Section 3.04.130 Entitled “Use of Proceeds Of Sales Tax”; First Reading

Copies of Ordinance No. 22-1949 were available for all present.

Moved by Zenge, seconded by Bradberry the City Council approve Ordinance No. 22-1949 in first reading, establishing a seasonal sales tax by increasing the sales tax levy one percent (1.0%) from four percent (4.0%) to five percent (5.0%) for the period of April 1 through September 30 by amending Ketchikan Municipal Code (KMC) Section 3.04.020 entitled “Levy of Tax,” Subsection (B) of KMC Section 3.04.040 entitled “Tax Added to Sales Price” and Subsection (C) of KMC Section 3.04.130 entitled “Use of Proceeds of Sales Tax;” and establishing an effective date.

July 21, 2022

Councilmember Kistler said she would rather see a combination sales tax and sales tax cap increase which she felt would ease the burden on lower-income households. She informed the Borough is currently discussing this topic as well.

Councilmember Bradberry questioned if we changed the percentages to 6% in the summer and 3% during the winter would that be a better discount for the locals.

Acting City Manager Simpson stated we can certainly look at that, but this was the direction staff received from the Council was to pursue the 1% seasonal sales tax. She said 2022 the sales tax adjustment would not be effective until April 1, 2023, and the entire cost would have to be collected in a two-year period.

Councilmember Mahtani agreed with comments made by Councilmember Bradberry, but he would not be in favor of raising the sales tax cap.

Councilmember Gass said he was split on this and asked if this could be pushed out to the next meeting or to a work session.

Councilmember Gage was in favor of the seasonal sales tax and increasing the sales tax cap. She informed even if we raised the cap, we could still be competitive with other Southeast communities.

Acting City Manager Simpson stated this body agreed to the collective bargaining agreement, and now has approved a cost of living allowance and a health insurance premium reduction for your employees, and she felt it was incumbent upon the Council to develop a funding solution. She informed in 2019 when we went through the compensation plan study, and it resulted in increases, the Council at that time decided to fund those improvements by raising property taxes. She said that the funding mechanism has been brought before the Council and it has failed three times. She informed those wage improvements are being funded out of reserves. She indicated we cannot afford to do that with this wage improvements.

Moved by Bradberry, seconded by Mahtani to table this motion until the meeting of August 4, 2022 in order for staff to put together a revenue report to include a 6% / 3% seasonal sales tax.

Councilmember Zenge said she didn't see an issue as this was published on the agenda and we have seen in the past when there is strong opposition the people show up. She reminded the Council does have to make a decision and we have to stand up for our employees.

Councilmember Bradberry said she would like to see what revenue option is best and least impactful on the locals.

Councilmember Gage said she agreed with comments made by Councilmember Zenge and we can't afford to lose any more employees, and we need to stand by them.

Motion to table passed with Kistler, Bradberry, Mahtani, Gass and Zenge voting yea; Gage voting nay; Flora absent.

July 7, 2022

Exempting the Procurement of Annual Software and Services for the Telecommunications Division's 4G/LTE Network from the Competitive Bidding/Written Quotation Requirements of the Ketchikan Municipal Code – Ericsson Inc.

Moved by Bradberry, seconded by Gass pursuant to subparagraph 6 of Section 3.12.050(a) of the Ketchikan Municipal Code, the City Council exempt the procurement of Ericsson software and services from the Telecommunications Division's 4G/LTE network from the competitive bidding/written quotation requirements of the Ketchikan Municipal Code; authorize the Acting General manager to purchase such equipment, software and services from Ericsson Inc. at a cost not to exceed \$40,617; and approve funding from the Telecommunications Division's 2022 Software and Equipment Maintenance Services Account No. 635.04.

Motion passed with Mahtani, Kistler, Gass, Gage, Bradberry and Flora voting yea; Zenge absent.

Exempting the Procurement of Qwilt Media Delivery System Annual Support for the Telecommunications Division from the Competitive Bidding/Written Quotation Requirements of the Ketchikan Municipal Code – Qwilt

Moved by Bradberry, seconded by Gass pursuant to subparagraph 6 of Section 3.12.050(a) of the Ketchikan Municipal Code, the City Council exempt the procurement of Qwilt media delivery system annual support services for the Telecommunications Division from the competitive bidding/written quotation requirements of the Ketchikan Municipal Code; authorize the Acting General Manager to purchase such equipment, software and services from Qwilt at a cost not to exceed \$11,902; and approving funding from the Telecommunications Division's 2022 Software and Equipment Maintenance Services Account No. 635.04.

Motion passed with Mahtani, Kistler, Gass, Gage, Bradberry and Flora voting yea; Zenge absent.

Budget Transfer – Water Division Overtime

Moved by Bradberry, seconded by Gass the City Council authorize the Acting General Manager to transfer \$60,000 from the Water Division's 2022 Salaries & Wages Account No. 500.01 to its Overtime Wages Account No. 501.01 to fund unanticipated overtime expenditures through the end of 2022.

Motion passed with Mahtani, Kistler, Gass, Gage, Bradberry and Flora voting yea; Zenge absent.

UNFINISHED BUSINESS

This item was moved to the Consent Agenda.

NEW BUSINESS

2022-2024 Collective Bargaining Agreement Between the City of Ketchikan and the International Brotherhood of Electrical Workers, Local 1547

Moved by Bradberry, seconded by Flora the City Council approve the 2022-2024 Collective Bargaining Agreement between the City of Ketchikan, Alaska and the International Brotherhood of Electrical Workers, Local 1547 and direct the Acting City Manager to execute the agreement on behalf of the City Council.

July 7, 2022

Motion passed with Gage, Bradberry, Flora, Mahtani, and Kistler voting yea; Gass abstain; Zenge absent.

Discussion of Port Dock Vendor Booth Lease Program – Mayor Kiffer

Mayor Kiffer informed the reason he requested this on the agenda was because as we heard tonight, folks have been encouraging the Council to address this issue.

Councilmember Gage questioned how this would affect the Port Enterprise Fund if we adjust the bid amounts by 25% or 50%. She said she would be interested to see the type of program Juneau uses.

Acting City Manager Simpson indicated the six Dock Vendor Program brings in around \$350,000 for the season, so this would have a fairly nominal effect in the overall scheme of things in regards to what the Port Enterprise Fund typically brings in. She said the main source of revenue for the Port Enterprise Fund is comes from the ships themselves through dockage and wharfage fees.

Mayor Kiffer remembered from meeting years back, when this program first came about, it was never meant to cross-sell tours, but it was sporadically enforced.

Councilmember Gass questioned the city attorney if there were any legal problems adjusting the lease midterm and the possibility of being sued in the future if this happens again and the Council says no.

City Attorney Seaver said as to some form of reduction, in this case, the number of bidders matched the number of booths put out for bid this year which does not always happen. He gave a brief analogy as in contracts when unforeseen conditions that no one could have reasonably expected come up, the contractor provides a change order to make up for that cost. He stated moving forward there is a window at the end of the year where the City can without repercussions terminate the leases that are out there, revise the outdated lease agreement and rebid them.

Councilmember Gass questioned why the booths cannot broker other vendors' tours.

Acting City Manager stated this lease is very difficult to decipher. She pointed out and read the applicable section of the lease agreement which is "Exhibit B". She explained they can sell other tours, just not other dock vendor tours. She said this topic we discussed at great length in 2008 with no action taken by the Council. She indicated this has not been consistently enforced.

Councilmember Bradberry said she was in favor of a cost reduction for the dock vendors for this cruise ship season, and this would be a good way to help out some locals who are trying to stay in business. She indicated she was also in favor of terminating this contract at the end this year as long as the lease is revised in a timely manner, and the agent/broker rule is defined. She indicated the season is at the halfway mark and now is the time to start working on for next year.

Councilmember Kistler said she was in favor of the broker concept for cross-selling other tours. She felt the cancellation of the Crown Princess does give merit to a change order for the dock vendor bidders.