



	<i>Presented</i>
Date Action Taken:	<i>8/18/11</i>
Other:	
Verified by:	<i>Hornits</i>

WASILLA CITY COUNCIL INFORMATIONAL MEMORANDUM

IM No. 11-11

TITLE: ADMINISTRATION'S RESPONSE TO ORDINANCE SERIAL NO. 11-27 "AN ORDINANCE OF THE WASILLA CITY COUNCIL AMENDING WMC 5.16, SALES TAX, TO ALLOW FOR A SENIOR SALES TAX EXEMPTION FOR THE SALES OF GOODS, SERVICES AND RENTALS THAT ARE SOLELY FOR PERSONAL USE, OR CONSUMPTION, BY A SENIOR CITIZEN" AND ORDINANCE NO. 11-28 "AN ORDINANCE OF THE WASILLA CITY COUNCIL AMENDING WMC 5.16.035 AND 5.16.100B.2, TO CHANGE THE CAP PER TRANSACTION THAT IS SUBJECT TO SALES TAX FROM \$500 TO \$1,000".

Agenda of: August 8, 2011
Originator: Finance Director

Date: July 27, 2011

Route to:	Department	Signature/Date
X	Finance Director	<i>[Signature]</i>
X	Deputy Administrator	<i>[Signature]</i>
X	City Clerk	<i>[Signature]</i>

REVIEWED BY MAYOR VERNE E. RUPRIGHT: *[Signature]*

FISCAL IMPACT: yes no Funds Available yes no

Account name/number: 001-0000-313-10-00 Sales Tax

Attachments: N/a

SUMMARY STATEMENT:

This memorandum is being provided so Council may better understand the costs and concerns in administrating a program providing wide-spread sales tax exemptions. This memorandum further addresses the proposed sales tax cap increase.

Fiscal impact estimate:

The exact fiscal impact to the City of Wasilla is undeterminable as the detailed information necessary to calculate an estimate is not available (i.e., sales by age or exemptions by specific category). The below is a simplified approach to provide some magnitude of lost sales tax revenue as a result of offering such a program.

- 1) Ord. 11-27: Restricts the exemption to persons "65 years or older". Local, Mat Su Borough, and State demographic information was obtained from the 2010 census, which reflected the following percentage of individual's age 65 years and over;
 - a. Wasilla has 804 out of a total population of 7,831 or 10.3%;
 - b. Mat-Su Borough has 7,069 out of a total population of 88,995 or 7.9%;
 - c. The State of Alaska has 54,938 out of a total population of 710,231 or 7.7%.

These percentages were then applied to the FY2012 budgeted sales tax revenue of \$11,503,500. These percentages yield the following:

- i. 10.3% = \$1,184,861
- ii. 7.9% = \$908,777
- iii. 7.7% = \$885,770

The range of estimated fiscal impact to the City is approximately \$900,000 to \$1,200,000 loss of sales tax revenue.

- 2) Ord. 11-28: Increasing the maximum sales tax per transaction from \$500 to \$1,000.
 - a. The amount of increased sales tax revenue that would be generated by a changing the sales tax cap from \$500 to \$1,000 per transaction is not determinable. The information necessary to make an estimate is not captured on the City's sales tax returns or within the accounting system. For discussion purposes, a range of \$300,000-\$500,000 has been used. As this estimate is not based on supportive financial data, it would not be prudent to use a sales tax cap increase as a means to offset revenues detrimental to the current operating budget.
- 3) With FY2012 Budget underway, if the City were to lose up to \$1.2m in sales tax revenue, this could equate to the elimination of approximately 19 positions.

Administering the Program:

- (a) Ord. No. 11-27, Section 2: "Senior citizen" means a person who is a resident of the state of Alaska and is 65 years of age or older; where both conditions are satisfied by presentation of a valid state of Alaska drivers license or identification."

Questions and/or concern:

- Wasilla businesses would be required to document each and every exemption supported by the consumer "presenting a valid state of Alaska drivers license or identification".
- For audit purposes, the City does not have the ability to verify DMV records or identifications supporting the exemption. Therefore, exemptions could be taken without support.

- If a business allows the exemption, the business owner is liable for taking an exemption not supported. This creates an abuse situation greater than a business wishes to administer.
- Ordinance allows for age 65 and valid ID. This could be of any sort and thus, non residents could be allowed the exemption even though the ordinance also states “a resident of the state of Alaska”.

(b) Ord. No. 11-27, Section 3, B.20(a): “Sales of goods, services and rentals, with the exception of alcoholic beverages, that are solely for personal use or consumption by a senior citizen, provided that:

- a. “No person issued or authorized to use a senior citizen sales tax exemption may use it to obtain such tax exemption when the sales, services or rentals are for use in any trade or business, or are used or consumed by any person other than the senior citizen;”

Questions and/or concern:

- “...for use in any trade or business, or are used or consumed by any person other than the senior citizen.”
 - How would a business or the City know whether this is happening or not? There is no way finance can administer or even audit this.
- “alcoholic beverages that are solely for the personal use or consumption by a senior citizen” – How would a business know this? Is it not possible for a senior to purchase on behalf of another?
- Why would alcoholic beverages be singled out and not tobacco products or other goods or services for sale?

(c) Ord. No. 11-27, Section 3, B.20(b): “Sales of goods, services and rentals, with the exception of alcoholic beverages, that are solely for personal use or consumption by a senior citizen, provided that:

- b. “If a senior citizen is an invalid or is otherwise physically deterred from purchasing their own goods, services or rentals, the finance director will issue a card authorizing another person to purchase goods, services or rentals on behalf of the senior citizen.”

Questions and/or concern:

- There is NO cost proposed for this card, yet there are costs associated to each card issued in supplies and administrative time.
- With only 1 FTE to administer sales tax, creating additional duties by issuing and possibly mailing cards is not recommended.
- “...is an invalid or is otherwise physically deterred...”
 - If an individual is an invalid or is otherwise deterred, finance would probably not even meet or see this individual. Therefore, anyone may claim they are obtaining a card for an invalid or otherwise physically deterred individual.
- What determines a person an “invalid”?
- What determines a person “physically deterred”?

- Finance should not be placed in a position to judge an individual being an “invalid or “physically deterred”. This is for the medical profession to prove and finance should not ask for medical records regarding and individual’s physical or mental determination.
- What prevents an “authorize person” from purchasing “tax free”? Extreme abuse with this.
- “...used by another person...” – Does this mean anyone or someone specific? Only one individual or more than one?
- How is this “other person” determined?

Staff recommendation:

With the economy still reeling from the National recession and the investment markets still yielding low returns; it is not fiscally reasonable at this time for the City to implement a program that would significantly reduce revenues already targeted to support our current service level. Without a determinable plan to yield additional revenues to offset the proposed program, the FY2012 budget would be significantly impacted requiring possible personnel cuts and potentially elimination of entire departments. This, in turn, impacts the services the City can then provide its residents.