

Citizens' Taskforce
On
Revenue, Services and Fees

Report
And
Recommendations

April 2016

Rob Allen

Dyan Bessette

Hugh Bevan

Cynthia Gibson

Alene Henning

Maxwell Rule

Lawrence SpottedBird

Sitka faces budget pressures that are unprecedented in this century. The community has not experienced financial challenges of this magnitude since the pulp mill shut down more than a generation ago. A “perfect storm” of falling contributions from the federal and state governments, stagnant local tax revenues and increasing municipal expenses due to the Blue Lake Dam project, deferred maintenance on other infrastructure, and the rising cost of public employee benefits have combined to create a gaping hole in the City’s budget. At the same time, most of Sitka’s residents and business owners face difficulties balancing their own budgets. Seniors, people with disabilities and families raising children on low incomes face severe financial hardships, and are often forced to choose between paying for housing, food, medication or utilities. All trends suggest that these financial stresses will persist, as oil prices remain low, the state shifts expenses to local governments and the cost of housing, electricity and health care continue to rise.

Despite these pressures, Sitkans want to maintain all of the elements that contribute to our high quality of life, from quality education and healthcare to public safety, recreational services and cultural facilities and programs. Unfortunately, the City simply does not have the revenue to pay for mandatory expenses and continue its current level of support for the services residents want. After a contentious budget process last year, the Assembly decided to form an ad hoc committee to take a deeper look at Sitka’s revenues and expenses and make recommendations on how to balance our community’s budget. The Citizens’ Task Force on City Services, Revenues and Fees was launched in the fall of 2015.

Seven members of the Task Force were appointed out of a pool of citizens that volunteered. Of the initial seven, two dropped out for personal reasons and were replaced. The final seven included Rob Allen, Dyan Bessette, Hugh Bevan, Cynthia Gibson, Alene Henning, Maxwell Rule and Lawrence SpottedBird. Allen was elected Chair, Rule and SpottedBird Vice-chairs. The tasks assigned to the Task Force by the Assembly included to:

- Recommend what core services the City must maintain.
- Determine what funding is required to maintain these core services, including costs for capital improvements.
- Recommend what revenue streams and fees are most equitable and sustainable in order to maintain these services into the future.
- Educate and engage citizens about the financial challenges and seek their ideas for solutions.

Task Force members spent 40 hours over 20 meetings and significant personal time learning about City revenues, expenses and services. Municipal staff did an incredible job of presenting information on the various department budgets, projects, and future plans. Committee members also shared their expectations, priorities, and values. An area of common agreement developed around responding to the needs and concerns of citizens with fixed and low incomes. There was a general desire on the part of committee members to make Sitka’s structure of taxes and fees more progressive and sustainable. In other words, the Committee agreed that its recommendations should make the City’s revenue more predictable, and ensure that the tax burden on residents is reasonably related to their ability to pay. These became guiding principles for Task Force members to apply in their deliberations as options were discussed.

Task Force members quickly realized that the municipal budget is extremely complicated, and the time available to study it and develop recommendations that would be useful and timely was short. Accordingly, members decided to focus most of their attention on the General Fund, with some analysis of School District, Community Hospital and Capital budgets. The Task Force avoided delving too deeply into the enterprise funds due to their complexity and limited time, but consideration of the Electric Fund was essential due to the financial impact of the Blue Lake Dam expansion project.

The General Fund pays for the following services:

- Assembly, Administration, City Clerk and Attorney
- Finance and Human Resources
- Police and Fire Departments
- Public Works Administration, Building Official and Engineering
- Street maintenance and Parks Department
- Centennial Hall, Sitka Public Library, and Visitors Bureau
- Financial support for Sitka School District, Sitka Community Hospital non-profit organizations.

One of the first exercises of the Task Force was to identify the “core services” paid for by the General Fund by department. Task Force members reviewed activities and services and voted to categorize them by importance as follows:

- **Core Infrastructure/Public Safety (CIPS)** – services that are essential to maintaining required infrastructure and public safety
- **Core Regulatory** – services that are required by federal or state law or local charter
- **Core Community Value** – services that have very strong support from residents.

Addendum A shows how the Task Force chose to categorize each service, including votes. The consensus of the Task Force is that Core Community Values (CCV) are important, but should be considered for reductions before cutting services identified as core infrastructure, public safety or regulatory. The Assembly can use this as a guide to rank services and budget expenses. Addendum B is the individual recommendations from Taskforce members on line items in the General Fund. This is provided for context purposes to show the wide diversity of opinion on the Taskforce. It is recommended that this file be viewed in the Excel spreadsheet available on the Taskforce website, as it is difficult to read in print.

The Task Force reached a preliminary consensus on reducing the City’s contribution to the School District by \$200,000. Members believed that this would represent a meaningful share of overall budget cuts while having a relatively minor impact of the total District budget of more than of \$20 million. After receiving strong public comment in support of municipal investment in education, the Task Force revisited its recommendation, and set a cap on the City contribution not to fall below 92% of the permitted cap (as calculated by the city’s formula). The Task Force recommends that this cap be maintained for the next three years to provide the District with some certainty while allowing the actual City financial contribution to adjust to changes in the State funding formula.

The City dedicates 100 percent of its tobacco tax revenue to the Community Hospital. It also provides annual support of \$160,000 that is earmarked for the hospital's capital projects. The Task Force is not recommending any change to hospital support.

Addendum C includes the complete list of motions approved by the Task Force as recommendations for the Assembly to pursue or investigate. It also includes the motions that failed. Addendum F is the complete set of the Task Force minutes, which includes more detail on the motions.

Task Force members reviewed the various sales tax ordinances on taxable items and exemptions and made recommendations for changes. A consensus was reached that the Assembly should establish "sunset" clauses for exemptions or changes to the sales tax ordinances or institute a policy of reviewing exemptions on a three- to five-year basis. Reasons for exemptions have a tendency to change with time, but there is currently no mechanism to review and modify them to respond to different conditions or needs. The Task Force also recommends that the city revise the cap on individual sales to index it for inflation.

After reviewing the operation of the Assessment Department, the Task Force joins the Administration in recommending that the City invest the necessary funds to update assessing software and adjust all property to full value as soon as possible. Accurate and timely valuation of residential and commercial property will help ensure that property taxes are fully and fairly collected. The Task Force also recommends that the Assembly consider adjusting the exemption threshold for personal property from the existing \$25,000 to \$50,000 or \$100,000. The amount of time that this change would free up for the Assessment Department to concentrate on updating the software and implementing it should more than make up for the loss in revenue.

The Public Works Department provided an excellent presentation to the Task Force on the Capital Budget, including a prioritized list of projects, and scenarios illustrating how the City's infrastructure would be maintained at different levels of funding. The materials provided an easy way to see how projects and priorities could be moved around to achieve the most effective spending over a number of years at different funding levels. After listening to public comment, the Task Force voted to recommend a level of spending adequate to maintain paved roads, avoiding the need for conversion to gravel. Members recommend General Fund capital spending of \$3,000,000 per year, which represents a very significant increase of \$1,500,000, or 100 percent over this year's budget.

An important element added into the discussion and outside of the normal General Fund spending was the electricity rate. There are bond covenants relating to the level of capital reserves in the Electric Utility Fund that the city is required to maintain. Raising electric rates or cutting operating costs would be the typical route to covering those covenants. For a variety of reasons, electricity usage has been falling for several years. Two mild winters have contributed to less demand, as have lower fuel costs and increasing electricity rates. Electric rates are currently budgeted to increase by five percent next year. To meet the bond covenants, the rates would need to increase by 30 percent, to \$.17 a kilowatt-hour. However, this big an increase in the rates would certainly result in continuing declines in

consumption, as residential and commercial customers would conserve electricity, and possibly switch to alternative fuels. Depending on how much electricity consumption fell in response to the increase in price, rates could continue to rise steeply—annual double-digit increases could be a necessity. This would obviously be an undesirable scenario for households, businesses and the City. As an alternative, the Task Force is recommending a transfer of funds from the General Fund to limit the rate increase to 5 percent. This subsidy will be necessary for at least the next three years. It could be as much as \$1,900,000 in year one, \$1,500,000 in year two, and \$1,000,000 in year three.

While many residents who took the time to attend Task Force meetings recommended cutting municipal expenses, pleas from citizens to maintain public services were also loud and numerous. During the review of the General Fund budget, Task Force members developed a consensus that the City could not maintain core infrastructure and public safety, meet its regulatory obligations and maintain its commitment to community values through budget cuts alone. The numbers simply do not add up. A combination of spending cuts and revenue increases is a mathematical necessity if the City is going to avoid catastrophic negative impacts on public safety, infrastructure, public education and quality of life.

Local sources of revenue are limited. Given the commitment the Task Force made to a sustainable and fair tax structure, it became apparent to members that an increase in the property tax rate would be an integral part of their ultimate recommendation. The property tax is a stable and predictable source of revenue, and Task Force members believe that it is more connected to the ability of residents and businesses to pay than the sales tax. Under the Sitka Charter, a popular vote is required to increase the property tax from the current cap of six mills, i.e., six dollars per thousand dollars of property valuation.

As the Task Force meetings progressed, the concept of a “Grand Bargain” with the citizens of Sitka evolved. Members concluded that to persuade the citizens to vote for a property tax increase, the City would need to reduce the size of local government, increase efficiency, protect core services and education, and ensure that residents with low and fixed incomes are not asked to contribute more than they can realistically afford. Thus, the Grand Bargain, which includes a combination of spending cuts, reduction in sales taxes, and an increase in property taxes to maintain the things that we believe—and residents told us—that we need to maintain our quality of life.

The details of the Grand Bargain that the Task Force is recommending to the Assembly are included in Addendum D. Members believe that it will take three years to fully implement the necessary changes to the mill rate and budget that we recommend. Elements of our Grand Bargain include:

- Eliminating the sales tax on groceries for all Sitkans. This will represent a tax cut for most households, but will be especially helpful to families raising children on low incomes, who spend a much higher percentage of their household budgets on food.
- Directing 100 % of the Fish Tax to the Harbor Fund, which will provide revenue for projects that benefit commercial fishermen, maritime businesses and recreational boaters. Currently, the General Fund retains 10 percent of the Fish Tax.

- Institute a biennial vehicle registration tax of \$200. To reduce the impact on households with fixed incomes, the City could exempt one vehicle in households with at least one member over the age of 65.
- Providing significant General Fund support for the Electric Fund to prevent unaffordable increases in electric rates. Rates will continue to rise, but at a reasonable pace with municipal support.
- Investing \$3 million from the General Fund in capital projects per year. This amount will keep our streets and infrastructure from further deterioration.
- Raising new revenues by selling City-owned undeveloped land. This action should spur housing construction and job creation in Sitka and also add new land to the property tax rolls.
- Raising new revenues by opening a new rock quarry. Our existing quarries are almost depleted. A new rock source must be found to support public and private development and construction projects in Sitka.
- Raising new revenue by asking the voters to approve an increase of 2 mills in the property tax rate.
- Reducing the City's General Fund budget by a total of \$1.7 million over the next three years.
- Reducing the City's contribution to schools by a total of \$600,000 over the next three years, with a "circuit breaker" that would require smaller cuts to prevent school funding from dropping below 92 percent of the cap according to the state funding formula.

The Grand Bargain concept developed because increasing the property tax rate will require majority support from voters. Task Force members discussed options ranging from removing the cap entirely, raising the cap several mills and letting the Assembly set the mill rate yearly, to a set increase in the rate. The Task Force spent a lot of time looking at how to make the revenue tools more progressive and less dependent on our current sales tax, which is regressive, unpredictable, and bad for local businesses, as residents increasingly try to save money by purchasing more online. The discussion thus had two components—increasing revenue for the General Fund, and trying to make sure that taxes and fees are fair and affordable for all residents. We believe that our recommendations achieve these objectives. Addendum E are the worksheets the Taskforce used to evaluate how the Grand Bargain would affect different households in Sitka.

The Grand Bargain proposed by the Task Force has many elements that combine to create the financial resources that Sitka needs to maintain infrastructure, services and quality of life. Raising the property tax rate is an absolutely essential element of the plan. **Municipal leaders, taxpayers and voters need to understand that if a ballot initiative to increase the property tax is not conducted or fails to pass, major, unaffordable increases in electric rates, and much deeper cuts in core services will be required to balance the budget.** While there are alternatives to raising the property tax, members of the Task Force believe that all of these options will be bad for Sitkans in general, and much worse for our most vulnerable residents with low and fixed incomes.

Given the high stakes and short time frame for making decisions about revenue and expenses and possibly holding a ballot initiative on the property tax in October, the Task Force recommends that the Assembly develop a public information strategy designed to educate residents about our budget and the options for balancing it. We believe that increasing the property tax rate is necessary and important for the health and continued livability of Sitka. Our high quality of life and feeling of community will require citizens coming together in support of the Grand Bargain.

A final recommendation for the Assembly is to undertake a review of the Citizen's Task Force project. An evaluation of how the Task Force, City Staff, and citizens worked together to study a difficult city problem, look at various solutions, and present recommendations for the Assembly to consider could guide future ad hoc committees. It continues to be a challenge for the city to staff its various boards and commissions with citizen volunteers. Has it been effective enough to consider developing an ad hoc committee structure to bring citizen volunteers together for a shorter, intense time with a focused agenda? The consensus from the Task Force members is that this was a valuable exercise. The individual members will be watching closely what the Assembly chooses to do with its recommendations.

Respectfully submitted:

Rob Allen

Dyan Bessette

Hugh Bevan

Cynthia Gibson

Alene Henning

Maxwell Rule

Lawrence SpottedBird

Service	Core Designation	Vote
Administrator/Assembly	CR	5
Human Resources	CR	5
Municipal Clerk	CR	5
Municipal Attorney	CR/CIPS	4/1
Finance	CR	5
Assessing	CR	5
Planning	CR/CIPS	4/1
Annual Non-Profit Grant Support	CCV	5
SEDA	CCV	5
Historical Museum	CCV	5
SAFV	CIPS/CCV	3/2
The Ride	CCV	5
Chamber Visitors Bureau	CIPS/CCV	1/4
Senior Citizens Center	CCV	5
Police Administration	CIPS	5
Police Patrol	CIPS	5
Police Jail	CIPS	5
Animal Control	CIPS/CR/CCV	2/2/1
Police Services & Other	CIPS/CCV	4/1
Fire Administration	CIPS	5
Fire Volunteers & Other	CIPS	5
Fire Station	CIPS	5
Ambulance	CIPS	5
Search and Rescue	CCV	5
Public Works Administration	CIPS/CR/CCV	2/2/1
Engineering	CIPS/CR	3/2
Streets	CIPS/CR/CCV	2/2/1
Parks & Recreation	CCV	5
Building Officials	CR	5
Library	CCV	5
Centennial Building	CIPS/CCV	1/4
Hospital Support	CIPS/CR/CCV	1/1/2

KEY	Description
Core Infrastructure/Public Safety (CIPS)	Essential to our Infrastructure and Public Safety
Core Regulatory (CR)	Required by Local, State or Federal Law
Core Community Value (CCV)	Strong Community Commitment to this Service
Contractability 0 (C0)	Cannot contract
Contractability 1 (C1)	More expensive/reduced quality
Contractability 2 (C2)	Neutral
Contractability 3 (C3)	More expensive/improved quality or less expensive/reduced quality
Contractability 4 (C4)	Less expensive/improved quality

Service	Core Designation	Vote	FY16 Budget	5% Cut	10% Cut	Task Force Recommendation	Allen	Rule	Spottedbird	Bessette	Gibson	Bevan
Administrator/Assembly	CR	5	\$ 574,272	\$ 545,558	\$ 510,845	\$ 545,558	\$ 488,000	\$ 500,000	\$ 516,845			does not support cuts
Human Resources	CR	5	\$ 290,857	\$ 276,214	\$ 261,771	\$ 276,214	\$ 268,000	\$ 282,000	\$ 261,771			does not support cuts
Municipal Clerk	CR	5	\$ 416,670	\$ 395,837	\$ 375,003	\$ 395,837	\$ 388,000	\$ 375,000	\$ 375,003			does not support cuts
Municipal Attorney	CR/CIPS	4/1	\$ 318,891	\$ 302,946	\$ 287,002	\$ 302,946	\$ 250,000	\$ 297,000	\$ 250,000			does not support cuts
Finance	CR	5	\$ 1,730,477	\$ 1,643,953	\$ 1,557,429	\$ 1,643,953	\$ 1,505,000	\$ 1,500,000	larger than 10%			does not support cuts
Assessing	CR	5	\$ 331,933	\$ 315,336	\$ 296,740	\$ 315,336	\$ 400,000	\$ 432,000	\$ 315,336			does not support cuts
Planning	CR/CIPS	4/1	\$ 331,933	\$ 315,336	\$ 296,740	\$ 315,336	\$ 309,000	\$ 298,740	\$ 315,336			does not support cuts
Annual Non-Profit Grant Support	CCV	5	\$ 340,000	\$ 323,000	\$ 306,000	\$ 300,000	\$ 272,000	\$ -	\$ -	0 contributions		Revenue from museum fees
SEDA	CCV	5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 contributions		
Historical Museum	CCV	5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 contributions		
SAFV	CIPS/CCV	3/2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Make contribution		
The Ride	CCV	5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 contributions		
Chamber Visitors Bureau	CIPS/CCV	1/4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	merge with Chamber?		100% bed tax
Senior Citizens Center	CCV	5	\$ 89,003	\$ 84,553	\$ 80,103	\$ 84,553	\$ 80,000	\$ 80,000	\$ 89,003			\$ 100,000
Police Administration	CIPS	5	\$ 1,030,398	\$ 978,878	\$ 927,358	\$ 978,878	\$ 875,000	\$ 900,000	\$ 927,358			does not support cuts
Police Patrol	CIPS	5	\$ 2,360,749	\$ 2,242,712	\$ 2,124,674	\$ 2,242,712	\$ 2,479,000	\$ 2,100,000	larger than 10%			does not support cuts
Police Jail	CIPS	5	\$ 528,117	\$ 501,711	\$ 475,305	\$ 501,711	\$ 475,000	\$ 475,000	\$ 528,117			does not support cuts
Animal Control	CIPS/CCV	2/2/1	\$ 161,309	\$ 153,244	\$ 145,178	\$ 153,244	\$ 145,000	\$ 145,000	\$ 161,309			does not support cuts
Police Services & Other	CIPS/CCV	4/1	\$ 542,600	\$ 515,470	\$ 488,340	\$ 515,470	\$ 489,000	\$ 488,000	\$ 542,600			does not support cuts
Fire Administration	CIPS	5	\$ 610,650	\$ 580,118	\$ 549,585	\$ 580,118	\$ 519,000	\$ 550,000	\$ 549,585			does not support cuts
Fire Volunteers & Other	CIPS	5	\$ 45,000	\$ 42,750	\$ 40,500	\$ 42,750	\$ 40,000	\$ 40,000	\$ 45,000			does not support cuts
Fire Station	CIPS	5	\$ 1,042,927	\$ 990,781	\$ 938,634	\$ 990,781	\$ 887,000	\$ 900,000	\$ 938,634			does not support cuts
Ambulance	CIPS	5	\$ 340,732	\$ 323,695	\$ 306,659	\$ 323,695	\$ 306,500	\$ 306,500	\$ 340,732			does not support cuts
Search and Rescue	CCV	5	\$ 37,270	\$ 35,407	\$ 33,543	\$ 35,407	\$ -	\$ 35,000	\$ 37,270			does not support cuts
Public Works Administration	CIPS/CR/CCV	2/2/1	\$ 544,168	\$ 516,960	\$ 489,751	\$ 516,960	\$ 463,000	\$ 480,000	\$ 489,751			does not support cuts
Engineering	CIPS/CR	3/2	\$ 1,347,725	\$ 1,280,339	\$ 1,212,953	\$ 1,280,339	\$ 1,146,000	\$ 800,000	larger than 10%			does not support cuts
Streets	CIPS/CR/CCV	2/2/1	\$ 1,409,996	\$ 1,336,496	\$ 1,222,996	\$ 1,336,496	\$ 1,336,000	\$ 1,409,000	\$ 1,409,996			does not support cuts
Parks & Recreation	CCV	5	\$ 750,250	\$ 712,738	\$ 675,225	\$ 712,738	\$ 500,000	\$ 375,000	\$ 500,000	30% cut		does not support cuts
Building Officials	CR	5	\$ 257,380	\$ 244,511	\$ 231,642	\$ 244,511	\$ 244,000	\$ 230,000	\$ 231,642			does not support cuts
Library	CCV	5	\$ 882,666	\$ 838,533	\$ 794,399	\$ 838,533	\$ 707,000	\$ 700,000	\$ 838,533			does not support cuts
Centennial Building	CIPS/CCV	1/4	\$ 487,431	\$ 463,040	\$ 438,670	\$ 463,040	\$ 300,000	\$ 200,000	contract out			does not support cuts
Hospital Support	CIPS/CR/CCV	1/1/2	\$ 156,646	\$ 146,914	\$ 139,181	\$ 146,914	\$ 155,000	\$ 135,000	\$ 139,181			\$ 200,000
School Support			\$ 7,247,521	\$ 6,885,145	\$ 6,522,769	\$ 6,885,145	\$ 6,885,000	\$ 6,885,000	fund at current level			\$7M then grow by CPI
Capital Project Funding			\$ 2,287,000	\$ 2,172,650	\$ 2,058,300	\$ 2,172,650	\$ 2,200,000	\$ 2,104,000	cut out non-essentials			2 mils property tax
			\$ 26,552,551	\$ 25,224,923	\$ 23,897,296	\$ 25,224,923	\$ 23,423,000	\$ 23,225,240	\$ 23,225,240	\$ 8,833,036	\$ 24,959,398	\$ 300,000
			Difference	\$ 1,327,628	\$ 2,655,255	\$ 26,552,551	\$ 2,280,965	\$ 3,129,551	\$ 3,327,311	\$ 1,593,153	\$ 26,252,551	
				-5%	-10%	-100%	-9%	-12%	-13%	0%	-9%	-9%

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Notes:

Rob
 Centennial Building RFP to provide management (Chamber, Fine Arts Camp potentials)
 General fund 5% across the board
 Library 25% cut
 Parks & Rec \$250,000 cut

Notes: SpottedBird
 + Mill Rate to 8%
 Sales Tax 6% all year
 Groceries Exempt
 Keep S+ Tax Exempt
 Purchase Property assessing software immediately
 Increase Assessors staff capacity/cut other finance staff
 Initiate Constr. Tax Cut Engr. Staff
 Sell SCH to SEARHC
 Negotiate w/Unions for lower Salaries and staff cuts
 Open Bulk Water sales globally (Scrap Trapp)
 Consider bulk water prices in graduated levels (5 cents/.75 cents, 1.0 cents) to entice serious bidders
 Sell CBS Properties for Market rates
 Stop giving it away
 Form partnership w/SSD and Contractor on PAC Ops and Financial support
 Lobby w/State for Online Sales Tax
 Use Electric Vehicles in all areas of CBS operations (+SPD)
 Contract Pool to Private contractor
 Contract Centennial operations
 Sell Golf course
 Property for Housing Development

Notes: Bessette
 Cut 6% but let increase mils 2-3
 sales tax 6%& 7%
 groceries exempt
 med. Supplies exempt
 fund capital projects by necessity only
 no new buildings
 or new infrastructures
 use safety & necessity as guidelines
 consider basing senior exemptions on fixed income and/or income levels
 some merging of 2 hospitals it's a small town
 close Pacific High
 offer correspondence again, times are tough
 & Sitka is small
 get assessor's office working efficiently & maximize income

Addendum C
Citizens Task Force

Motions

Motions that Passed

4 January 2016

M–Rule/S–Gibson moved to recommend the City and Borough of Sitka Assembly evaluate and/or eliminate optional community purpose property tax exemptions, establish a criteria of such exemptions with a 3 to 5 year timeframe review of the real property exemptions and consider a payment in lieu of taxes over a certain threshold value. Motion carried unanimously.

M–Bevan/S–Rule moved to recommend to the Assembly that they review the tax exemptions in 4.09.100 of the Sitka General Code to determine if they all still apply.
Motion carried unanimously.

M–Bevan/S–Rule moved to recommend the Assembly hold a public hearing on the elimination of the long-term rental, whole sale, senior, and government supported agencies exemptions.
Motion carried unanimously.

M–Rule/S–Bevan moved to recommend the Assembly that they look into requiring all businesses report sales, show exemptions, and pay any tax due. Motion carried unanimously.

16 February 2016

M–Gibson/S–Bevan moved to recommend the Assembly review 14. Sales over the taxable transaction limit of \$3,000

to determine the need to increase the limit and index it for inflation. Motion passed 5-1.

M–Bevan/S–Gibson moved if legal to recommend the Assembly consider adding sales tax to telephone, telegraph, cable, internet, and wireless communication services. Motion passed unanimously.

M–Gibson/S–Bevan moved to recommend the Assembly review amount of short-term tax on vehicles and change to mirror the local sales tax rate. Motion passed unanimously.

M–SpottedBird/S–Bessette moved to recommend the Assembly eliminate 20. Long-term vehicle and equipment rentals exemption. Motion passed 5-1.

M–Gibson/S–Henning moved to recommend the Assembly review 26. Fees to attend youth camps and consider removing the exemption. Motion passed 5-1.

7 March 2016

M–Bevan/S–Henning moved to recommend to the Assembly to have two one mill property tax increase ballot questions. Motion passed unanimously.

28 March 2016

M – Bevan/S – Rule moved to recommend the City continue to pursue funding for the Blue Lake Project through our congressional delegation. Motion carried unanimously.

M – Bevan/S – Gibson moved to encourage the City to develop an electric rate structure that encourages consumption especially with regards to residential. Motion carried unanimously.

M – Bevan/S – Gibson moved to recommend leaving the \$200,000 decrease to the Sitka School District and to not go below 92% (according the City’s accounting) of the cap. Motion carried unanimously.

4 April 2016

M –Bevan/S – Gibson moved to recommend a future review of the personal property tax structure for possible changes to streamline the administrative demands of taxing personal property. Motion carried unanimously.

M –Gibson/S – Henning moved to approve the draft grand bargain budget framework that was presented at the public meeting. The motion passed by the following roll call vote. Yes: Allen, SpottedBird, Bessette, Gibson, Henning, Bevan. Absent: Rule.

Motions that failed

16 February 2016

M–Bessette/S–Bevan moved to recommend to the Assembly that 4. Dues and fees be removed from the exemptions.

Motion failed 2-4.

M–Gibson/S–SpottedBird moved to recommend the Assembly review 27. Long-term residential rent.

Motion failed 2-4.

M–Bevan/S–Bessette moved to recommend the Assembly review ticket sales, concert and performances as taxable.

Motion failed 3-3.

M–Bevan/S–Bessette moved to retain line item Elimination of Senior Sales Tax Exemption in the spreadsheet.

Motion failed 3-2.

Grand Bargain Budget Framework Addendum D

Prepared by CTF Member Rule

CTF

FY 17

FY 18

FY 19

PROJECTED FY '17 BUDGET DEFICIT

\$ (260,000) \$ - \$ -

FY 17 As reported by Sweeney on 2/29 CTF meeting and includes capital funding at \$1.5 million

New Expenses and Adjustments	
No Sales Tax On Groceries for all Sitkans	\$ 1,200,000
100% of Fish tax to Harbor Fund	\$ 100,000
General Fund Subsidy To Electric Fund	\$ 1,000,000
Maintain Infrastructure at Current Levels	\$ 1,500,000
Total New Expenses	\$ 3,800,000
Possible New Revenues Streams	
Licensed Vehicle Registration Tax	\$ 500,000
Annual CBS land sales	\$ 50,000
Lease revenue from new rock quarries	\$ 20,000
Two Mill Property Tax Increase	\$ 2,334,000
Total	\$ 2,904,000
Difference Between Revenues and Expenses	\$ (896,000)
Reductions To Balance Budget	
Reduced CBS General Fund Budget	\$ 700,000
Reduced Sitka School District Funding	\$ 200,000
Total	\$ 900,000
Grand Total	\$ 4,000

Notes			
\$ -	\$ 1,200,000	\$ 1,200,000	Contingent upon voter approval of 2 mill property tax increase
\$ 100,000	\$ 100,000	\$ 100,000	From 89% to 100%
\$ 1,900,000	\$ 1,500,000	\$ 1,000,000	Low oil prices and milder winters have driver down the projected consumption in lieu of general rate increase of more than 5%
\$ 150,000	\$ 750,000	\$ 750,000	
\$ 2,150,000	\$ 3,550,000	\$ 3,050,000	
Notes			
\$ -	\$ 500,000	\$ 500,000	The tax is \$200 for every car every two years; Seniors exempt on first vehicle, dedicated for streets
\$ 50,000	\$ 50,000	\$ 50,000	Based on a million dollars of land sale
\$ 20,000	\$ 20,000	\$ 20,000	
	\$ 2,334,000	\$ 2,334,000	Two, One Mill Ballot Propositions
\$ 70,000	\$ 2,904,000	\$ 2,904,000	
\$ (2,080,000)	\$ (646,000)	\$ (146,000)	
\$ 700,000	\$ 500,000	\$ 500,000	By the end of three years the total reduction in the budget would be 1.7 million
\$ 200,000	\$ 200,000	\$ 200,000	By the end of three years the total reduction in the budget would be \$600,000
\$ 900,000	\$ 700,000	\$ 700,000	
\$ (1,180,000)	\$ 54,000	\$ 554,000	

PROJECTED FY '17 BUDGET DEFICIT

\$ (1,440,000) \$ 54,000 \$ 554,000

Cumulative

\$ (1,386,000) \$ (832,000)

Addendum E(1)

Possible Impacts of Proposed Changes in Taxes, Fees & Electric Rates - Grand Bargain

The attached spreadsheet helped the Citizens' Task Force develop its "grand bargain" proposal. Members used it as a tool to illustrate how the changes proposed might affect different types of households in Sitka. The spreadsheet incorporates households with a variety of demographics and assumptions to show the possible financial impact the Task Force recommendations might have on a cross section of resident households. Scenarios incorporate the following exemptions from taxes:

- Senior exemptions from sales tax (current exemption mandated by the state)
- Senior exemption of the first \$150,000 in home value from the property tax (current exemption mandated by the state)
- Exemption of all groceries from sales tax (proposed by Task Force)
- Exemption of one vehicle from vehicle registration tax for household with members over age 65 (proposed by Task Force).

For the sake of simplicity, the spreadsheet assumes that consumption of groceries and electricity would not change in response to changes in taxes or rates. In reality, consumption of goods and services usually increases or decreases in response to changes in total price, including taxes. The spreadsheet also assumes that owners of rental property would pass 100 percent of any increase in property taxes on to tenants in the form of increased rent. In reality, this might or might not be the case, depending on the demand for housing.

Finally, it is important to note that the spreadsheet provides examples for the purpose of discussion. It is not intended to accurately represent the impact of the Task Force proposals on any particular household.

There are examples in three sections: Family of four homeowners (3 examples), family of two seniors (2 examples) and two families of renters (2 examples).

Each section has a line (line 2 for example) for an estimated annual cost of groceries and the projected savings as a result of eliminating sales tax on groceries for each type of household. The tax was figured at 5.5 percent to split the difference between the regular and the seasonal sales tax rates.

The next line (line 3 for example) is the estimated value of the home for each household and the financial impact of a two mill increase.

The next line (line 4 for example) represents the additional cost of the proposed motor vehicle registration tax. The different types of households were modeled

to have between one and two cars. A household with more than two vehicles would obviously pay more.

The next line (line 5 for example) is the minimum 5 percent increase in utility rates that will be necessary if the “grand bargain” is implemented, with the increase in the property tax.

The next line (line 6 for example) is the total annual financial impact of the changes in taxes and fees proposed under the “grand bargain” for each household. The “per year” column shows the difference between the two options.

If the Assembly does not support the elements of the “grand bargain,” or if voters do not approve the proposed increase in the property tax, the Task Force projects that electric rates will need to rise by 30 percent. That “choice” is illustrated in the following (pink) line (for example, line 7). The “per year” column shows that the same percentage increase would be applied to all households, regardless of ability to pay.

In summary, the spreadsheet shows that adopting the “grand bargain” would shift the cost of balancing our budget to people who own commercial real estate, multiple homes, and higher value properties. Some of these people would probably be seasonal residents. Owners of multiple vehicles, including business vehicles, would also pay more under the Task Force proposal.

Possible Impacts of Proposed Changes in Taxes, Fees Electric Rates - Grand Bargain

	Item cost	current tax @ 6 mills	proposed tax @ 8 mills	Annual change
1 Family of 4 (homeowners)				
2 Groceries @ \$15,000/yr, tax @ 5.5%	\$15,000	\$825		
3 Property Tax at 6 mills, 350,000 property value	\$350,000	\$2,100	\$2,800	
4 Motor vehicle tax, assuming two cars			\$200	
5 Electric consumption @ \$250/month, increase of 5%	\$3,000		\$150	
6 Total annual cost of taxes and increase in electric rates		\$2,925	\$3,150	\$225
7 No grand bargain, 30% increase in electric rates	\$3,000		No Bargain	\$900
8 Family of 4 (homeowners)				
9 Groceries @ 15,000/yr, tax @ 5.5%	\$15,000	\$825		
10 Property tax at 6 mills, \$1,000,000 property value	\$1,000,000	\$6,000	\$8,000	
11 Motor vehicle tax, assuming two cars			\$200	
12 Electric consumption @ \$300/mo, increase of 5%	\$3,600		\$180	
13 Total annual cost of taxes and increase in electric rates		\$6,825	\$8,380	\$1,555
14 No grand bargain, 30% increase in electric rates	\$3,600		No bargain	\$1,080
16 Family of 4 (homeowners)				
17 Groceries @ \$15,000/yr, tax @ 5.5%	\$15,000	\$825		
18 Property tax @ 6 mills, 750,000 property value	\$750,000	\$4,500	\$6,000	
19 Motor vehicle tax, assuming two cars			\$200	
20 Electric consumption @ \$350/mo, increase of 5%	\$4,200		\$210	
21 Total annual cost of taxes and increase in electric rates		\$5,325	\$6,410	\$1,085
22 No grand bargain, 30% increase in electric rates	\$4,200		No bargain	\$1,260
23 Family of 2 Seniors over age 65 (homeowners)				
24 Groceries @ \$8,000/yr, tax exempt	\$8,000	\$0	\$0	
25 Property tax @ 6 mills, \$450,000 property value	\$450,000	\$1,800	\$2,400	
27 Motor vehicle tax, assuming one car			\$0	
28 Electric consumption @ \$200/mo, increase of 5%	\$2,400		\$120	
29 Total annual cost of taxes and increase in electric rates		\$1,800	\$2,400	\$600
30 No grand bargain, 30% increase in electric rates	\$2,400		no bargain	\$720
31 Family of 2 Seniors over age 65 (homeowners)				
32 Groceries @ \$6,000/yr, tax exempt	\$6,000	\$0	\$0	
33 Property tax @ 6 mills, \$150,000 property value	\$150,000	\$0	\$0	
35 Motor vehicle tax, assuming one car			\$0	
36 Electric consumption @ \$150/mo, increase of 5%	\$1,800		\$90	
37 Total annual cost of taxes and increase in electric rates		\$0	\$90	\$90
38 No grand bargain, 30% increase in electric rates	\$1,800		no bargain	\$540
40 Family of 4 (renters)	Item cost	current with 6 mills	changes with 8 mills	Per Year
41 Groceries @ \$15000/yr, tax at 5.5%	\$15,000	\$825	\$0	
42 Rent of \$2,500/mo in a home of 350,000 value	\$30,000	\$0	\$700	
44 Motor vehicle tax, assuming two cars			\$200	
45 Electric consumption @ \$250/month, increase of 5%	\$3,000		\$150	
46 Total annual cost of taxes and increase in electric rates		\$825	\$1,050	\$225
47 No grand bargain, 30% increase in electric rates	\$3,000		no bargain	\$900
49 Family of 2 (renters)				
50 Groceries @ \$7000/yr, tax at 5.5%	\$7,000	\$385	\$0	
51 Rent of \$1,000/mo in a home of 150,000 value	\$12,000		\$300	
53 Motor vehicle tax, assuming two cars			\$200	
54 Electric consumption @ \$150/month, increase of 5%	\$1,800		\$90	
55 Total annual cost of taxes and increase in electric rates		\$385	\$590	\$205
56 No grand bargain, 30% increase in electric rates	\$1,800		no bargain	\$540

Family of 4	Item cost	current with 6 mills	No change	Per Year
No change in grocery sales tax	\$15,000	\$825	\$825	
No increase in Mill rate	\$350,000	\$2,100	\$2,100	
Utilities up by 30% - 250/mo	\$3,000		\$900	
Total anual costs of taxes		\$2,925	\$3,825	\$900
Family of 4				
No change in grocery sales tax	\$15,000	\$825	\$825	
No increase in Mill rate	\$500,000	\$3,000	\$3,000	
Utilities up by 30% - 300/mo	\$3,600		\$1,080	
Total anual costs of taxes		\$3,825	\$4,905	\$1,080
Family of 4				
No change in grocery sales tax	\$15,000	\$825	\$825	
House tax at 6 mills 750,000 value	\$750,000	\$4,500	\$4,500	
Utilities up by 30% - 350/mo	\$4,200		\$1,260	
Total anual costs of taxes		\$5,325	\$6,585	\$1,260
Family of 2 Seniors over age 65				
No change in grocery sales tax	\$8,000	\$0	\$0	
No increase in Mill rate	\$450,000	\$1,800	\$1,800	
This includes 150,000 prop tax exemption for seniors				
Utilities up by 30% - 200/mo	\$2,400		\$720	
Total anual costs of taxes		\$1,800	\$2,520	\$720
Family of 2 Seniors over age 65				
No change in grocery sales tax	\$6,000	\$0	\$0	
No increase in Mill rate	\$150,000	\$0	\$0	
This includes 150,000 prop tax exemption for seniors				
Utilities up by 30% - 150/mo	\$1,800		\$540	
Total anual costs of taxes		\$0	\$540	\$540
Renters				
Family of 4	Item cost	current with 6 mills	changes with 8 mills	Per Year
No change in grocery sales tax	\$15,000	\$825	\$825	
Rent of \$2,500/mo in a home of 350,000 value				
No increase in Mill rate	\$350,000	\$2,100	\$2,100	
Utilities up by 30% - 250/mo	\$3,000		\$900	
Total anual costs of taxes		\$2,925	\$3,825	\$900

Renters				
Family of 2				
No change in grocery sales tax	\$7,000	\$385	\$385	
Rent of \$1,000/mo in a home of 150,000 value				
No increase in Mill rate	\$150,000	\$900	\$900	
Utilities up by 30% \$150/mo	\$1,800		\$540	
Total anual costs of taxes		\$1,285	\$1,825	\$540