



# MATANUSKA-SUSITNA BOROUGH

## Department of Finance

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### Areawide Sales Tax Proposal, Ordinance 26-032

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Ordinance 26-032 proposes a 6.5% areawide sales tax, which is projected to generate \$118,522,100 in areawide revenue. FY2026 areawide property taxes are projected to generate \$125,506,177. Therefore, the Finance Department recommends at least a 7% areawide sales tax based on the following analysis to replace areawide property taxes.

The Borough currently does not collect an areawide sales tax and is using data from within the cities to project what sales tax revenue may look like outside of the cities. It is fair to assume there is a margin of error, since we do not have historical data to draw on.

1. **Sales taxes reported by each jurisdiction in Fiscal Year 2024.** These figures include online sales within the cities.

Fiscal Year 2024				
Location	Gross Sales	Sales Tax Rate	Sales Tax Revenue	1% Sales Revenue
Wasilla	\$1,001,009,160	2.5%	\$25,025,229	\$10,010,092
Palmer	\$370,306,433	3.0%	\$11,109,193	\$3,703,064
Houston	\$31,320,350	2.0%	\$626,407	\$313,204
Talkeetna	\$35,154,700	3.0%	\$1,054,641	\$351,547

2. **Price Elasticity of Demand.** As referenced in the McDowell Group study, a new or increased sales tax can reduce gross sales for some industries, as consumers choose not to purchase at a higher price and/or seek lower-cost alternatives elsewhere. The degree to which an industries' sales are impacted by price changes, known as the price elasticity of demand, varies by industry. With a large commuter population accustomed to driving to Anchorage from the Mat-Su, imposition of a borough-wide sales tax would likely impact gross sales of the wholesale and retail trade industries most within the borough and would increase Mat-Su resident spending with Anchorage retailers. **This analysis uses the McDowell Group study's assumption that gross sales decrease by 1.5% for each 1 percentage point increase in the sales tax.** The table below shows the gross sales for each area under 6%, 7%, and 8% sales tax rates, and projects the revenue.

Price Elasticity of Demand						
Location	Adjusted Gross Sales @ 6%	1% Sales Tax Revenue	Adjusted Gross Sales @ 7%	1% Sales Tax Revenue	Adjusted Gross Sales @ 8%	1% Sales Tax Revenue
Wasilla	\$910,918,336	\$9,109,183	\$895,903,198	\$8,959,032	\$880,888,061	\$8,808,881
Palmer	\$336,978,854	\$3,369,789	\$331,424,258	\$3,314,243	\$325,869,661	\$3,258,697
Houston	\$28,501,519	\$285,015	\$28,031,713	\$280,317	\$27,561,908	\$275,619
Talkeetna	\$31,990,777	\$319,908	\$31,463,457	\$314,635	\$30,936,136	\$309,361
Total		\$13,083,895		\$12,868,226		\$12,652,558

3. **Online Sales.** The total for online sales for the cities of Palmer, Wasilla & Houston is \$124,693,514. Using a base taxable population of 73,832 (outside city limits), that leads to an **online taxable sales per person of \$2,000.**

Online Sales					
Taxable Population	73,832	Low Range (-10%)	Mid Range	High Range (+10%)	
Taxable Sales Per Person	\$2,000	\$1,328,976	\$1,476,640	\$1,624,304	

4. **Direct sales outside of the cities.** Since the Borough has no historical data to support an analysis of how much revenue might be generated from direct sales outside the cities, this analysis used a ratio from the McDowell study (page 15) that shows the rest of the Borough's sales tax revenue at approximately 50% of the city of Wasilla's total sales.

Direct Sales Outside the Cities						
Location	Adjusted Gross Sales @ 6%	1% Sales Tax Revenue	Adjusted Gross Sales @ 7%	1% Sales Tax Revenue	Adjusted Gross Sales @ 8%	1% Sales Tax Revenue
Outside of Cities	\$455,459,168	\$4,554,592	\$447,951,599	\$4,479,516	\$440,444,030	\$4,404,440

5. **Estimating total sales tax revenue.** Total revenue is arrived at by combining the following estimates:
- City gross sales adjusted for elasticity and calculating revenues at 6.5%.
  - Projected online sales from outside of the cities and within the Borough.
  - Projected direct sales from outside of the cities and within the Borough.

Total projected sales tax revenue				
	6%	6.5%	7%	8%
City sales tax adjusted for elasticity (1 & 2)	\$78,503,369	\$83,643,471	\$90,077,584	\$101,220,461
Online sales from outside cities (3 - Low Range)	\$7,973,856	\$8,638,344	\$9,302,832	\$10,631,808
Direct sales outside of the cities	\$27,327,550	\$29,116,854	\$31,356,612	\$35,235,522
Total projected sales tax revenue	\$113,804,775	\$121,398,669	\$130,737,028	\$147,087,792