

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY AMENDING MSB 3.70.050, SERVICE AREA SALES TAX TO ADD EXEMPTIONS FOR SPECIFIED UTILITIES WHEN USED EXCLUSIVELY FOR RESIDENTIAL PURPOSES.

AGENDA OF: April 16, 2019

ASSEMBLY ACTION:

*Adopted without objection 5-2-19*

MANAGER RECOMMENDATION: Introduce and set for public hearing.

APPROVED *for* BY JOHN MOOSEY, BOROUGH MANAGER: *John Moosey*

Route To:	Department/Individual	Initials	Remarks
	Originator	NS	for Assemblymember Boeve
	Finance Director	<i>g</i>	
	Borough Attorney	<i>NS</i>	
	Borough Clerk	<i>JM</i>	4/8/19

ATTACHMENT (S) : Fiscal Note: YES X NO         
Ordinance Serial No. 19-055 (2 pp)  
Talkeetna Sewer and Water Service Area Board of Supervisors support letter (2 pp)

**SUMMARY STATEMENT:** This ordinance is being brought forward at the request of Assemblymember Boeve to exempt certain utilities from the 3% sales tax within the Talkeetna Sewer and Water Service Area (TS&WSA) when used exclusively for residential purposes.

The voters within the TS&WSA approved the TS&WSA Sales Tax at the Borough regular election in October, 2017. The 3% sales tax within the area took effect on January 1, 2018. The approved sales tax does not contain any exemptions for utilities. The advisory board has recommended exemptions for certain utilities which are "vital to mere existence" in the area.

Specifically, the TS&WSA Board has recommended that the Assembly pass an ordinance to exempt water, sewer, electricity, heating oil, and propane from the TS&WSA Sales Tax. The proposed ordinance here would exempt the residential uses of such utilities. The ordinance here is written broadly so that whether the particular utility is characterized as a "service" (i.e. electricity, sewer)

or a "good" (i.e. water, heating oil, propane), all of the specified utilities and associated delivery costs are exempt from the TS&WSA Sales Tax when applied exclusively to residential users. It is the intent of these exemptions that they apply only when such users of the utilities are exclusively residential in nature. Any use of even a portion of the specified exemption for commercial, business, or profit seeking motive will mean the exemption will not apply. For example, if a residential customer rents rooms in their house on a short term rental basis (i.e. BnB or AirBnB, etc.), the use of the utility is not exclusively residential. On the other hand, apartment rentals are intended to be considered residential.

Many other governments establish sales tax exemptions for utilities where doing so helps people live and encourage residential development. For example, the City of Kodiak exempts many of the same utilities as proposed here. The State of New York exempts residential energy purchases from the state sales tax. In the State of Maine, 750KWH per month for residential consumption of electricity, gas for residential heating and cooking, other heating sources (coal, wood etc.), and water for residential use are exempt from state sales tax. In the State of Texas, natural gas and electricity are exempt from state sales tax for residential and other specified uses.

The use of sales tax exemptions is also seen to encourage or support specific governmental objectives. For example, in the State of Washington, fuel used in farming is tax exempt from the state sales tax along with "propane or natural gas to heat chicken structures". In the State of Kansas, electricity, gas, and water consumed during manufacturing are exempt from the Kansas statewide sales tax.

Here, these residential tax exemptions are designed to encourage the continued residential existence and development in Talkeetna and preserve the historical nature of the town as a population hub. Residential existence far from larger population centers is expensive and utilities are vital to this existence.

Tax return information is confidential, but aggregate data suggests that the loss in revenue due to these exemptions will not materially affect the finances of the Service Area.

This change to the TS&WSA Sales Tax does not require voter ratification because it is not a new tax or change in the rate of levy. AS 29.45.650 provides that "Notwithstanding other statutes, exemptions may be granted by ordinance." The proposed ordinance here is just such an enactment.

**RECOMMENDATION OF ADMINISTRATION:** Adoption of Legislation

MATANUSKA-SUSITNA BOROUGH  
FISCAL NOTE

Agenda Date: April 16, 2019

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ORIGINATOR: NS for Assemblymember Boeve

FISCAL ACTION (TO BE COMPLETED BY FINANCE)	FISCAL IMPACT <u>YES</u> NO
AMOUNT REQUESTED *	FUNDING SOURCE <u>SA Sales Tax</u>
FROM ACCOUNT # <u>293.000.000.2xx xxx</u>	PROJECT #
TO ACCOUNT :	PROJECT #
VERIFIED BY: <u>Barbara Saunquist</u>	CERTIFIED BY:
DATE: <u>4/4/19</u>	DATE:

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Personnel Services						
Travel						
Contractual						
Supplies						
Equipment						
Land/Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING						

CAPITAL						
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REVENUE		*				
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FUNDING:

(Thousands of Dollars)

General Fund						
State/Federal Funds						
Other		*				
TOTAL		*				

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (Attach a separate page if necessary) \* Loss in revenue due to these exemptions will not materially affect the finances of the service area.

PREPARED BY:

PHONE:

DEPARTMENT:

DATE:

APPROVED BY:

DATE:

Cheyanne Hurd

4/4/19