

**KENAI PENINSULA BOROUGH
INITIATIVE ORDINANCE 2005-02**

Amending Kenai Peninsula Borough Code Chapter 5.18 “Sales Tax” by Setting the Maximum Borough Sales Tax Rate at 2% on the First Five Hundred Dollars Worth of Retail Sales; and to Require that any Future Increase to this Sales Tax Cap or Future Increase to the Computation of Maximum Sales Tax be Ratified by at Least 60% of Voters at a Regularly Scheduled Borough Election

WHEREAS, between FY 2002 and FY 2005 Kenai Peninsula Borough spending proposed by the mayor and authorized by the assembly has exceeded revenue by about \$12 million; and

WHEREAS, the proposed FY 2006 budget includes about \$7 million more spending than revenue, which if approved by the assembly would total almost \$19 million in deficit spending over a five year period; and

WHEREAS, the assembly has authorized use of the fund balance (or “savings”) to pay for this excess spending; and

WHEREAS, the fund balance is being used to balance the current deficit spending and will soon be at the minimum level required to retain favorable bond ratings, an indicator of fiscal responsibility for municipalities; and

WHEREAS, the petro-chemical industry, a major source of borough tax revenue, is shrinking and downsizing; and

WHEREAS, the size and cost of KPB government has substantially increased over the past few years despite an overall economic decline in the private sector; and

WHEREAS, the Borough Administration and Assembly have failed to act in such a way as to limit the size and cost of government to what is sustainable over the long term; and

WHEREAS, the Borough Administration and Assembly has spent savings to balance deficit spending and now has advanced proposals to raise taxes, without serious consideration of reductions in personnel, programs or agencies, which would reduce expenses and the overall cost of borough government; and

WHEREAS, the current deficit spending crisis is best addressed by first reducing the size and cost of borough government, before raising tax rates; and

WHEREAS, the awareness and direct participation of residents in the decision making process of borough government should be encouraged at all stages of the budget process;

NOW, THEREFORE, BE IT ORDAINED BY THE VOTERS OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That KPB 5.18.100(A) shall be amended to read as follows:

5.18.100 General--Levied--Amount.

- A. There is levied by the borough a consumer s sales tax of up to 2% maximum rate on all retail sales, on all rents, and on all services made or rendered within the borough, measured by the gross sales price of the seller. Any future increase to the sales tax maximum rate, as provided in this section, shall not take effect until ratified by at least 60% of voters at a regular borough election.

SECTION 2. That KPB 5.18.430 shall be amended to read as follows:

5.18.430. Computation--Maximum tax.

- A. The sales tax referred to in KPB 5.18.100 shall be applied only to the first \$500.00 of each separate sale, rent or service transaction, except as otherwise provided in this section.
- B. Except as provided below for long-term vehicle leases, the payment of rent, whether for real or personal property, in excess of \$500.00 and for more than one month, shall be treated as several separate transactions covering the rental/lease for one month each.
- C. Services provided on account and billed to the customer on a periodic basis are subject to application of the tax on a maximum of \$500.00 of each billing, per account. For

purposes of this section, any advance payment for services other than to a trust or escrow account is considered to be paid pursuant to a "billing."

- D. Each night's rental of each individual room shall be considered a separate transaction and therefore the maximum tax computation shall be calculated on a per room per night basis.
- E. Long-term vehicle leases shall be treated as one transaction per year, and per fractional year, of the lease term. The tax paid for any fraction of a year shall equal the tax paid for a whole year. The sales tax for the entire long-term vehicle lease shall be due and collected at the time of the first payment. Tax shall be calculated at the sales tax rate in effect on the day the lease is signed. There shall be no refund of such taxes should the lease terminate earlier than on its terms. Any extension of the initial lease term shall be treated as a new long-term vehicle lease.
- F. Any increase to the maximum sales tax described in subsection (A), above, shall not take effect until ratified by at least 60% of voters at a regular borough election.

SECTION 3. That these amendments shall take effect upon certification of the initiative election on this ordinance.

ENACTED BY THE VOTERS OF THE KENAI PENINSULA BOROUGH AT AN ELECTION HELD ON THE 4TH DAY OF OCTOBER, 2005.

Effective Date of Ordinance: October 11, 2005.