

HB

509

Introduced: 4/27/77
Referred: Community &
Regional Affairs

1 IN THE HOUSE

BY MEEKINS

2 HOUSE BILL NO. 509

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act exempting certain items from sales tax."

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 * Section 1. AS 29.53.415(a) is amended to read:

9 (a) A borough may levy and collect a sales tax not exceeding three
10 per cent on sales [OR RENTS,] and on services made within the borough.
11 The sales tax may apply to either or both [ANY OR ALL] of these sources
12 but may not apply to rent, prescription drugs or food products for human
13 consumption, nor may it apply to the sales of any energy source such as
14 electricity, fuel oil, coal, or natural or manufactured gas when the
15 energy source is sold for use in a residence by an occupant. Addi-
16 tional exemptions [EXEMPTIONS] may be granted by ordinance.

17 * Sec. 2. AS 29.53.415 is amended by adding a new subsection to read:

18 (e) For the purpose of this section "food products" includes,
19 except as otherwise provided in this section, but is not limited to,
20 cereals and cereal products; milk and milk products, including ice
21 cream; oleomargarine; meat and meat products; poultry and poultry
22 products; fish and fish products; eggs and egg products; vegetables and
23 vegetable products; fruit and fruit products; spices, condiments and
24 salt; sugar and sugar products; coffee and coffee substitutes; tea,
25 cocoa products; or any combination of these. "Food products" does not
26 include

27 (1) medicines, tonics, vitamins and medicinal preparations in
28 any form;

29 (2) carbonated and noncarbonated packaged soft drinks and

*where did he
get definition?*

1 diluted juices where sold in liquid or frozen form; and ice and candy;

2 (3) foods and drinks (which include meals, milk and milk
3 products, fruit and fruit products, sandwiches, salads, processed meats
4 and seafoods, vegetable juices, ice cream in cones or small cups)
5 served, prepared or sold ready for immediate consumption in or by
6 restaurants, drug stores, lunch counters, cafeterias, hotels or like
7 places of business or sold ready for immediate consumption from push
8 carts, motor vehicles, or any other form of vehicle; however, food and
9 drinks purchased by a common carrier for the purpose of serving passen-
10 gers traveling en route aboard the carrier are exempt.

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Ken Bond \$393,000 loss

Carlson - make local option
but ~~Alaska~~ law an definition of food -
Washington

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1 diluted juices where sold in liquid or frozen form; and ice and candy;

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9 drinks purchased by a common carrier for the purpose of serving passen-
10 gers traveling en route aboard the carrier are exempt.

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13 *paper products?*
14 *household cleaning*
15 *products?*
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CITY OF HAINES

TELEPHONE (907) 766-2231 — POST OFFICE BOX 239 — HAINES, ALASKA 99827

February 8, 1978

The Honorable Lisa Rudd, Chairman
House Community and Regional Affairs Committee
Pouch Y
Juneau, Alaska 99811

RE: HB-509

Dear Representative Rudd:

A discussion was held at the February 6, 1978 meeting of the Council of the City of Haines concerning House Bill #509, exempting certain items from sales tax. At that time I presented the estimates of local sales tax revenue which would be lost as a result of the passage of this Bill, as outlined in my letter to you dated February 3.

Because of the diverse needs of each Alaskan community, it is the position of the Council that the regulation of the collection of sales tax is a matter which should be left in the control of each individual municipality. Haines, for example, serves a very large transient population in relation to the number of permanent residents. HB-509 would reduce the transient's burden of paying for services rendered by the City of Haines, but would add significantly to the tax burden of the permanent population. The estimated loss of \$86,950 in annual sales tax revenues which would result from the passage of HB-509 would require a 58% increase

in the City's property tax levy, if it's present level of services were to be maintained.

Certainly it must be recognized that AS 29.53.415(a) already provides municipalities with the option of exempting the classifications of goods and services in question.

The members of the City Council concluded their discussion of this issue by casting a unanimous vote to express the City's opposition to HB-509. Please make the members of your committee aware of our position.

Sincerely,


Dan R. Bockhorst
City Administrator

cc: Hon. Jim Duncan - Representative
Hon. Mike Miller - Representative
Hon. Russ Meekins, Jr. - Representative



City and Borough of Sitka

P.O. BOX 79 • SITKA, ALASKA • 99835

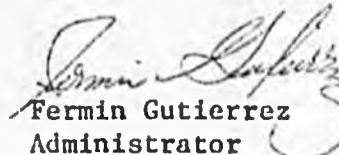
January 27, 1978

Representative Lisa Rudd
Chairman, House Community
and Regional Affairs Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Rudd:

Please be advised that the City and Borough of Sitka opposes HB 509 and HB 578. The legislation proposed in HB 509 and HB 578 can and is being taken care of by local government on a local preference basis. Our legislature should not be asked, nor should it volunteer to come up with a State-wide prescription for a local ailment.

Very truly yours,


Fermin Gutierrez
Administrator

cc: Pete Meland
Dick Eliason
Jim Rollie

Arguments against HB 509

1. Food, rent and fuel represents a large percentage of the tax income of most municipalities.
2. There would be a difficulty for the merchant in separating out items out at the store.
3. Some communities are in dire financial straits and cannot afford the loss of revenue unless it was supplanted with some state funds.

*limited to sales + prop. tax
how replace income?*

City	Population	Sales Tax Rate	Exemptions	Discount or Return to Collectors	Sales Tax Gross Revs.	% of Total Revenues	% of Budgetted Expenditures	% of Revs from Food, Rent, Energy	Sales Tax Dedication
Dillingham	1,269	3%	\$1,000 maximum single sale Out of town sales by mail order	none	\$214,624.	18.52%	18.52%	51%	Capital improvements & equipment \$30,000 to school district
Fairbanks, City (Fairbanks Boro)	30,462	3% 2%	Food, drugs, building materials Maximum \$30 tax on any single item	none	\$6 million		39%	Presently Exempted	1% general fund 2% capital improvements; debt ser
Haines, City	1,366	3%	Salaries & wages Casual sales, rentals & services Sales, rents, services less than \$100/mo.	none	\$217,968	17.46%	23.47%	Rent - 4.18% Food - 25.99% Energy 9.72%	2/3 to capital improvements 1/3 general administration
Haines Borough	1,924	1%	Insurance, Medical, dental fees & medicines Funeral services and materials Wharffages & cargo handling charges Wholesales SE Alaska State Fair sales & services to Sales to government	none	\$ 80,532	11.41%	10.48%	39.89%	Haines Borough: Retirement of principal & interest on school construction bonds
Kenai, City (Kenai Borough)	5,364	3% 2%	Casual, sales, rentals & services Hospital, medical, dental services & medicines Sales, svcs. & rentals to religious organizations School cafeterias Subscriptions to newspapers & magazines Sales to government Dues or fees to clubs, unions Sales of animal food, seed and fertilizer to farms Property sales and realator services \$500 maximum single sale	none	\$1,016,029	69%	—	52%	1% general fund 1% debt service 1% capital improvements
Kodiak Island Borough	4,950	3%	Salaries & wages \$500 maximum single sale Same as for Kenai, plus Transportation charges of airlines & steamships Banking, savings & loan, credit union services Certain sales for resale	2%	\$1,350,000	32%	—	25-30%	None
Ketchikan Boro (Ketchikan City)	11,490 7,928	1.5% 2.5%	none Senior citizens exempt from paying sales tax	none	\$930,000	8.86%	8.80%	—	None
North Pole	461	3%	Rentals; casual sales of personal property medical services and medicines Sales by charitable organizations School cafeterias Subscriptions of newspapers & magazines Sales to government Feed for farms Services under Real Estate sales Funeral services; Nursery services Senior citizens get \$60.00 annual rebate	none	\$250,000.	50%	50%	\$200,000	None
Palmer	1,859	2%	Government agencies All costs on one major piece of equipment whose value is over \$1,000, e.g., cars, tractors.	none	\$330,000	33%	—	—	None, except that sales tax is pledged to back up revenue bonds for Industrial Park
Petersburg	2,126	5%	Single sales over \$1,000	none	\$600,000	—	—	—	.5% to general administration remainder to specified purposes
Nome	2,585	3%	Medicines, rent, new construction Sales to government	none	\$600,000	—	—	—	None
Sitka	7,650	4%	Senior citizen purchases Others as per ordinance	\$100/quarter	\$1,500,000	42%	37%	—	2% education 2% general admin.
Soldotna	2,586	2%	Single sales over \$500 Churches and government agencies	none	\$323,894	27%	29%	\$98,000 food \$31,000 heat	None
Wrangell	3,152	5%	—	\$15/mo.	\$443,521	—	30%	60-70%	80% to schools, health, sanitation & street const.

P.O. BOX 5109
NORTH POLE, ALASKA
99705



TOP OF THE WORLD
PHONE: 488-2281
AT YOUR SERVICE

2/8/78

Community & Regional Affairs Comm.
Pouch Y
Juneau, Alaska 99811

ATTN: Lisa Rudd, Chairman

Dear Ms. Rudd;

This letter is in response to a letter from Jim Roelle, Alaska Municipal League, requesting our input on HB 509 and 578. I will reiterate Jim's questions and follow with our answer as it relates to the City of North Pole.

1. What percent do you charge?
3% on sales within the City limits of North Pole.
2. Are there any exemptions or limits by category of sales?
The City's sales tax ordinance exempts rentals and casual sales of personal property, medical services by doctors, dentists, osteopaths, optometrists, psychologists and chiropractors. Retail sales of prescription medicines. Sales by charitable organizations. Retail sales of food in school and college cafeterias. Subscription of newspapers and periodicals. Sales to the United States, State of Alaska or political subdivisions. Sales of feed for farm use. Services under a building or construction contract. Retail sales of real property. Funeral and burial services. Nursery and baby-sitting services.
3. Are there any exemptions as to who pays the tax?
Senior Citizens over 65 and disabled citizens are entitled to a \$60.00 annual rebate.
4. Gross income from sales tax.
\$250,000.00 sales tax revenue is projected for FY 1977-78 for the City of North Pole.
5. Percent of that income as it relates to your budgeted expenses.
The City of North Pole's General Fund Budget is projected at \$502,035.00 for FY 1977-78. Therefore, the \$250,000.00 sales tax revenue is approximately

50% of all monies collected.

6. Is there a dedication of all or any part of your tax for specific purposes?
The money is allocated from General Fund to perform city services. I think you can see that when such money totals 50% of the General Fund, whether or not it is allocated for a specific purpose becomes a moot point.

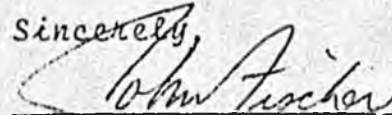
Almost all revenue received from sales tax is from food products sold at a local supermarket. Therefore, the elimination of sales tax from food items would cost the City of North Pole around \$200,000.00 annually in loss of revenue. Some confusion exists in our part as to whether cities should or shouldn't tax their populace. Several years ago North Pole was denied state aid because, as our legislators put it "you must first tax yourselves and try to help yourselves before the State will consider giving any aid." On the reverse side, we recently applied for a small CRA Grant on some street lighting and were told, "the monies should come from special assessments of the property owners, this program was designed for communities with no tax base and no other source of funding." As you can imagine, we are confused.

If the State denies the City the power to tax food items, it will be eliminating our greatest source of General Fund Revenue, even overshadowing our property tax assessment on the new 33 Million dollar North Pole Refinery. Budget estimates for FY 1978-79 with the refinery assessment could reach \$685,000.00. If the State eliminates sales tax on food items it will be \$485,000.00 or a reduction of \$17,000.00 from FY 1977-78. This would completely stalemate our capital improvements program and we would again be telling our residents "We would like to (pave this street, install water distribution, put up traffic lights) but we simply do not have the funds."

I have attempted to present the facts in a clear and concise manner. If I told you exactly what I thought about all this, I would be arrested for sending obscene mail.

Thank you for your consideration in this matter.

Sincerely,



John C. Fischer
Admin. Assistant
City of North Pole

JCF/pse
cc; Glen Hackney Randy Phillips
Sally Smith
Jim Roelle
Sarah Smith
Nels Anderson
Bill Males
Al Ose
Merce Snider
Tim Kelly
Kris Lovseth

FAIRBANKS, ALASKA
ALL AMERICA CITY

THE
GOLDEN
HEART
CITY

City of Fairbanks, Alaska

OFFICE OF CITY MANAGER

410 CUSHMAN STREET

452-1881

February 10, 1978

The Honorable Lisa Rudd
Chairman, Community and Regional
Affairs Committee
Pouch Y
Juneau Alaska 99811

SUBJECT: House Bills 509, 578

Dear Rep. Rudd

It is my understanding that the hearing on House Bill 509 and 578 has been continued to February 22, 1978. Therefore, I would like to have you consider the following as testimony on behalf of the City of Fairbanks.

Both of the above-mentioned bills are of great concern to Fairbanks as we currently have a sales tax within the City, the rate of which is 3%. The Fairbanks North Star Borough has a 2% sales tax.

The revenue from sales tax allows the City of Fairbanks to maintain a lower mill rate. The sales tax revenue to the General Fund will be approximately \$2 Million Dollars, and approximately \$4 Million Dollars will go to the Capital Improvement Fund.

Perhaps I should explain the division of the sales funds so that you have a better understanding of the situation. When the citizens of Fairbanks voted upon the sales tax they upheld a division of the tax as follows. One percent (1%) of the tax was to be used solely by the General Fund for any purpose thereof. Two percent (2%) of the tax was to go to the sales tax restricted fund. The restricted funds may be used for capital improvements, maintenance of capital improvements and debt service.

*Airmail
to Alaska
is Faster*

The Honorable Lisa Rudd
February 10, 1978
Page 2

Effective January 1, 1978 the City of Fairbanks exempted food and drug items similar to those exemptions provided in House Bill 509. Along with the exemptions provided for food and medical supplies all building materials are exempt from sales tax. Also, there is a maximum tax of \$30.00 per single item of purchase.

The total sales tax revenue represents approximately 39% of the Fairbanks Budget and, therefore, is a significant part of Fairbanks financing.

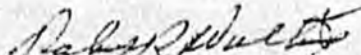
We strongly oppose the passage of House Bill 578 as it is a drastic intrusion upon the powers of the Home Rule City. If House Bill 578 were passed it would immediately mean a loss of \$292,500.00 to the City of Fairbanks. The loss, of course, would increase as the volume of business increased within the City.

With the action taken by our local government, I see no need for House Bill 509.

It is my belief that until such time as the State of Alaska has a statewide sales tax, as do most of the states in the Lower '48, the legislature should refrain from imposing restrictions on local government in their administration of Home Rule Cities.

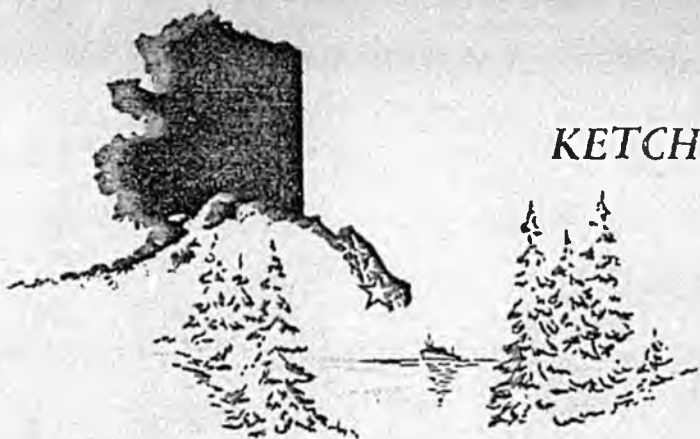
Sincerely

CITY OF FAIRBANKS


ROBERT R. WOLTING
City Manager

RRW:MET

c.c. CRA Committee Members



KETCHIKAN GATEWAY BOROUGH

344 FRONT STREET
KETCHIKAN, ALASKA 99901

February 10, 1978

Ms. Lisa Rudd, Chairman
Community and Regional
Affairs Committee
Pouch Y
Juneau, Alaska 99811

Dear Ms. Rudd:

To assist you in your deliberations on HB 509 and 578, we have compiled information, see below, about our local sales tax structure.

- 1) The Ketchikan Gateway Borough sales tax charge is 1 1/2% of the selling price. (Borough is collection agency for the City of Ketchikan which has a sales tax rate of 2 1/2% at present, thus within the city 4% is collected and 1 1/2% collected outside the city limits.)
- 2) There are no exemptions or limits by category of sales.
- 3) Both City and Borough exempt citizens over 65 paying sales tax providing they have made application.
- 4) Gross income from Borough sales tax collections are estimated at \$980,000 for 1977-78 fiscal year.
- 5) Percent of sales tax income as it relates to all income is 8.86%. To expenses - 8.88%.
- 6) The Ketchikan Gateway Borough does not dedicate sales tax income to any specific project or purpose, thus uses sales tax revenues to lessen the property tax burden.

I hope this information will be of assistance to you and your Committee.

Sincerely,

KETCHIKAN GATEWAY BOROUGH

Judith A. Slajer
Borough Manager

cc: Jim Rolle, Executive Director
Alaska Municipal League

Community and Regional Affairs
Committee Members

February 8, 1978

Lisa Rudd, Chairman
Community and Regional Affairs Committee
Pouch Y
Juneau, Alaska 99811

Re: House Bills 509 and 578

Dear Ms. Rudd:

The City of Kenai would like to have the Community and Regional Affairs Committee reflect the following data, as relates to the City of Kenai.

House Bill 509

1. Presently, the City of Kenai levies a three percent (3%) consumer sales tax and the Kenai Peninsula Borough levies two percent (2%), for a total of five percent (5%).
2. The following exemptions and maximum tax are allowable under the City of Kenai and Kenai Peninsula Borough Sales Tax Ordinance:

Section 25.10.020. Exemptions.

"The following classes of retail sales, services and rentals are exempt:

- (1) Casual, isolated sales of property and services or the rental of personal or real property not in the regular course of the business of the seller.
- (2) Hospital services and medical services performed by licensed medical doctors, dentists, osteopaths, optometrists, and chiropractors; and retail sales of medicinal preparations, drugs or appliances under a written prescription from one of the foregoing.
- (3) Retail sales, services and rentals to religious and charitable organizations in the conduct of their regular religious and charitable functions and activities as defined by the revenue laws of the United States.
- (4) Retail sales of food in college and school cafeterias which are operated primarily for teachers or students and which are not operated for profit.
- (5) Subscriptions to newspapers and periodicals.

- (6) Retail sales, services and rentals to the United States, the State of Alaska, or any instrumentality or political subdivision of either.
- (7) Dues or fees to clubs, labor unions, and fraternal organizations.
- (8) Sales of animal food, seed, plants, and fertilizers to farmers using such commodities to produce goods for sale.
- (9) Retail sales of real property. Services performed by a real estate broker or agent are not exempt under this section.
- (10) Retail sales or rent which the Borough is prohibited from taxing by the constitution or laws of the United States or the State of Alaska.
- (11) Services performed by morticians licensed under AS 08.44.010; and retail sales of funeral supplies by such persons."

Section 25.10.025. Maximum Tax.

"The tax shall be applied only to the first \$500.00 of each separate sale, rent or service transaction. 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 for one month each. A transaction involving payment for services or personal property to be rendered or delivered over a period of more than one month for a consideration in excess of \$500.00 shall be treated as several separate transactions occurring one each month over the period of time that the service or property is rendered or delivered."

3. Same as two (2) above.

4. Sales tax collections for the City of Kenai are as follows:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Percent</u>
1971-72	\$ 98,832	1%
1972-73	\$145,384	1%
1973-74	\$168,728	1%
1974-75	\$208,400	1%
1975-76	\$545,759	1% (7/1/75-9/30/75) 3% (10/1/75-6/30/76)
1976-77	\$1,016,029	3%
1977-78	\$655,076	3% (7/1/77-1/31/78)

5. Percent of Sales Tax Revenue
to Total Revenues by Fund

	Debt Service Fund	General Fund	Capital Improvement Fund
1971-72	40.4%	-	-
1972-73	33.2%	-	-
1973-74	30.6%	-	-
1974-75	34.1%	-	-
1975-76	33.3%	13.7%	-
1976-77	41.3%	27.7%	-
1977-78 (Estimate)	55.3%	12.1%	100%

6. Proceeds of the three percent (3%) sales tax levied by the City of Kenai are as follows:

General Fund	1%
Debt Service	1%
Capital Improvements	1%
Total:	3%

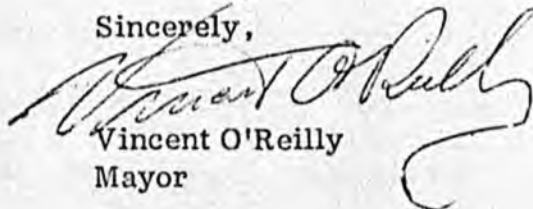
7. Sales tax collected for fiscal year 1977-78 for the period of July 1, 1977 through January 31, 1978 amounted to \$655,076. Of this amount \$237,000, or thirty six percent, was generated from food purchases. An additional \$41,594, or six percent, was generated from utilities (fuel for heating). The rental-related percentage is not identifiable, but is estimated as \$70,000 or ten percent. Therefore, these exemptions contained in House Bill 509 would eliminate fifty-two percent (52%) of our sales tax revenue.

House Bill 578

The additional cost to the City of Kenai by this proposed legislation would be \$21,000 or a loss of 3.2 percent.

Therefore, the City of Kenai must oppose House Bill 509, but would not vehemently object to House Bill 578.

Sincerely,



Vincent O'Reilly
Mayor

VOR/eh

cc:
Members, Community and Regional Affairs Committee
Mr. Roy Barton, Kenai Peninsula Borough Finance Director
Mr. Jim Rolle, Executive Director, Alaska Municipal League



CITY OF DILLINGHAM

P.O. BOX 191

DILLINGHAM, ALASKA 99576

TELEPHONE (907) 842-5211 or 842-5212

February 10, 1978

Re: HB 509 and HB 578

Lisa Rudd, Chairman
 House Community &
 Regional Affairs Committee
 Pouch Y
 Juneau, Ak 99811

Dear Chairman Rudd:

Mr Gordon Ryan, our city manager, has suggested that I might be able to supply your committee with some information pertinent to the effect that HB 509 and HB 578 would have on the City of Dillingham. Our community has three tax sources, real and personal property and a 3% sales tax. The tax base is extremely limited on real and personal property due to land status and lack of industry. For example, our neighboring Bristol Bay Borough which has several canneries within its jurisdiction had assessed real property of \$17,048,875 compared with Dillingham's \$9,659,245 and personal property valued at \$12,252,971 compared with Dillingham's \$5,588,379 in 1977. Bristol Bay Borough also has a raw fish tax which is a tremendous source of revenue for them. Dillingham is hamstrung in this area because the council feels that charging a raw fish tax in Dillingham would drive the fishermen from our only cannery, Peter Pan, since they can just as easily sell their fish to Queens Cannery which is located outside any taxing jurisdiction. I mention these facts to point out the importance of the sales tax revenue source to Dillingham.

HB 509 eliminates fuel oil, food, rent and electricity for residential use from the sales tax rolls. This would not only be a nightmare to administer for local markets but would also cut our revenue considerably. It is impossible to estimate how much of the total revenue from businesses engaged in providing these products is for home use only, but an example of the amounts presently collected by these businesses is as follows:

	FY 75-76	FY 76-77	6 mo. FY 77-78
Electricity	\$ 7,777	\$ 9,055	\$ 5,885
Oil	22,678	25,615	19,529
Food	57,066	70,820	41,645
Rent	<u>2,114</u>	<u>3,516</u>	<u>2,305</u>
Total of Above	\$ 89,635	\$ 109,106	\$ 69,365
Sales Tax Collected	\$ 173,691	\$ 214,624	\$ 151,070
% Affected by HB 509	52%	51%	46%

Lisa Rudd, Chairman
February 10, 1978
Page two

Our total budget for FY 77-78 is \$ 1,160,394. Of that total \$215,000 is estimated from Sales Tax and \$243,657 from Real and Personal Property Tax. The major portion of the remainder of the budget is from state and federal sources such as revenue sharing, CETA monies, grants, etc. By eliminating the suggested items from our taxing jurisdiction the bill would cut even further the amount of local revenue available to provide services to local residents. In Dillingham a comparatively small group of people are carrying the load of a 17 mill rate tax as far as property tax is concerned. Sales tax is something everyone share in including those who are transient or who have no property.

The effect of HB 578 is obvious. Revenues would be cut by 4% of the present amount of sales tax revenues collected or an estimated \$8,600 for 1977-78.

Thank you for your consideration of these factors when making your decision about the two proposed bills.

Sincerely,



Lois R. Hermansen
City Clerk
City of Dillingham