

# **Mat-Su Borough Area-Wide Sales Tax Revenue Analysis**

PREPARED FOR:

**Matanuska-Susitna Borough**

July 2019

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# Executive Summary

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The Matanuska-Susitna Borough contracted with McDowell Group to estimate revenue that would be generated by a borough-wide sales tax. This analysis considers revenue that would be generated at sales tax rates of four and five percent, which would be levied on the first \$500 of each taxable transaction.

Mat-Su municipalities which currently levy a sales tax had approximately \$1.56 billion in gross sales in Fiscal Year (FY) 2018, resulting in a combined \$23.8 million in sales tax revenue. A borough-wide sales tax would incorporate existing city taxes. Sales tax revenue available to support borough services would come from taxes levied on sales occurring outside cities already levying sales taxes and from the supplemental tax on purchases made within Wasilla and Palmer, which both have 3 percent sales taxes, and Houston, which has a 2 percent sales tax.

McDowell Group estimated sales tax revenue using industry-specific sales tax data provided by the cities of Palmer, Wasilla, and Houston and business sales data available through the Census Bureau and ESRI ArcGIS. In the absence of reliable sales tax data for certain industries, the following key assumptions were made to estimate borough-wide gross sales:

- Utility sales to commercial and residential customers, including electricity and natural gas, would be subject to tax.
- Most human health care services would be exempt from sales tax due to existing municipal sales tax exemptions in Palmer, Wasilla, and Houston and throughout the state.
- While online retail sales will impact sales tax revenue generation throughout Alaska in the future, estimates of sales tax revenues associated with online purchases by Mat-Su residents are not included in this analysis.

Economic theory suggests that an area-wide sales tax would result in slightly lower spending in certain sectors, as a result of price elasticity of demand (mainly in the retail trade and food services sectors). Consistent with national data, this analysis assumes retail trade and food services sales would decrease by 1.5 percent and 2.3 percent, respectively, for each one percentage point increase in sales tax. More detailed research would be required to precisely measure price elasticity of demand in Mat-Su specifically.

Research and analysis conducted for purposes of this study indicate that annual borough-wide gross sales total \$2.17 billion (approximately \$600 million more than total gross sales in Palmer, Wasilla, and Houston). These borough-wide sales would be expected to generate \$42.0 million in sales tax revenue under a four percent sales tax given a \$500 tax cap, \$14.7 million above expected annual sales tax revenue in the taxing municipalities. Under a five percent rate with a \$500 tax cap, sales tax would generate approximately \$51.9 million annually, an increase of \$24.6 million above expected annual municipal revenue.

Under a \$1,000 tax cap, an additional \$21.1 million above expected annual sales tax revenue would be generated by a four percent tax and an additional \$33.2 million would be generated by a five percent tax.

**Table 1. Estimated Total Borough-Wide Sales Tax Receipts by Tax Cap Scenario,  
Probable Gross Sales Analysis (\$000)**

Tax Cap Scenario	Expected Annual Tax Revenue at Current Rates	4% Borough-Wide rate		5% Borough-Wide Rate	
		Sales Tax	Change	Sales Tax	Change
\$500 Tax Cap Scenario	\$27,259	\$41,999	\$14,739	\$51,880	\$24,621
\$1,000 Tax Cap Scenario	\$27,259	\$48,349	\$21,089	\$60,436	\$33,176

Note: Values have been rounded.

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

Additional sales tax payments by Mat-Su households would depend on annual household expenditures and spending outside the borough. Households earning the median borough income (\$75,000) are expected to pay between \$1,100 (given a four percent sales tax with a \$500 tax cap) and \$1,500 (given a five percent sales tax with a \$1,000 tax cap) in annual sales tax, an increase between \$400 and \$800 above estimated current annual sales tax. These estimates may be slightly higher than the amount of taxes that would actually be paid by Mat-Su households, as they are based on conservative assumptions about household spending in Anchorage and via mail order/internet.

Visitors to the Mat-Su would contribute an estimated eight percent of total borough-wide sales tax revenue. This conservative estimate includes taxes on spending by non-Alaskans, and only that portion of spending by visitors from elsewhere in the state that is related to Alaska State Fair visitation.

# Introduction and Methodology

## Introduction

Matanuska-Susitna Borough contracted with McDowell Group to estimate revenue generated by a borough-wide sales tax. Three municipalities in the borough currently levy sales tax: Wasilla, Palmer, and Houston. Municipal tax rates and taxable sales per transaction vary by municipality, as indicated in the table below.

**Table 2. Sales Tax Rate and Effective Tax Cap by Municipality**

	Palmer	Wasilla	Houston
Sales Tax Rate	3%	3% <sup>a</sup>	2%
Taxable Portion per Transaction	\$1,000	\$500	\$500
Effective Tax Cap per Transaction	\$30	\$15	\$10

Note: Wasilla sales tax increased from 2% to 3% in January 2018.  
Source: Cities of Palmer, Wasilla, and Houston; McDowell Group calculations.

This analysis provides estimates of total revenue that would be generated by four and five percent area-wide sales tax rates. It is assumed the tax would be applied only to the first \$500 of each taxable transaction. It is anticipated the borough-wide sales tax would replace current municipal sales taxes, with an approximately equivalent portion of borough-wide sales tax revenue remitted to municipalities currently levying sales tax.

## Methodology

This analysis provides estimates of total annual business sales and potential sales tax revenue in the Matanuska-Susitna Borough, including sales that occur outside of municipalities which currently levy a sales tax. Gross sales and sales tax receipt data were provided by the cities of Palmer and Wasilla for fiscal years (FY) 2013 through 2018. Those cities also provided industry-specific sales tax data for FY2017 and FY2018. Total sales tax revenue data provided by the City of Houston was also used in this analysis. Businesses operating outside city limits are not required to report gross sales to local or state government.

This analysis describes the revenue which would be generated by a borough sales tax above the expected annual sales tax in cities which currently levy sales tax. Expected annual sales tax revenues in Palmer, Wasilla, and Houston were calculated by applying current sales tax rates to full year taxable sales in FY2018. For the City of Wasilla, this expected annual revenue is greater than actual FY2018 sales tax revenue because the city tax rate increased from two percent to three percent in the middle of the fiscal year (January 2018).

## Secondary Data Sources

Two key secondary data sources were used to model borough-wide gross sales and sales tax revenue, in addition to industry-specific data from Palmer and Wasilla. The US Census Bureau's Economic Census and ESRI ArcGIS Business Analyst both provide estimates of total business sales in the borough, by broad industry sector.

The Census Bureau's Economic Census conducts a survey of employer businesses every five years to estimate employment, payroll, and total revenue by industry. Establishments are surveyed based on their operations'

location and provide separate reports for each business location. Data are aggregated by self-reported industry classifications and geography and are available at the city level. The latest available Economic Census data represent sales in 2012, with 2017 data unavailable until late 2019. Due to changes in the overall Alaska economy and the Mat-Su Borough between 2012 and 2017, Economic Census data do not reliably estimate borough-wide sales in industries such as real estate, rentals and leasing; accommodation and food service; and others.

Industry-specific revenue data available through ESRI ArcGIS were also used to model borough sales. ESRI estimates revenue at the business level for a set of 12.5 million US businesses using publicly-available financial disclosures and a proprietary model of employment and revenue by business type and size. Businesses are grouped by industry and operating location and industry data is available at the city level. The ESRI model is updated annually, with the latest data representing 2018 annual sales.

For industries without reliable estimates from these sources, sales volume outside of the Palmer, Wasilla, and Houston city limits was estimated using industry-specific techniques, as detailed below. The following narrative also describes sectors where sales are partially or largely exempt from sales taxes.

### **WHOLESALE AND RETAIL TRADE**

Wholesale and retail trade sales require special analysis because there is significant overlap between the two sectors and data from ERSI and the Economic Census are inconsistent with city data. Gross sales in municipalities which levy sales tax are recorded according to the remitting companies' business license type, which may or may not accurately reflect the preponderance of its business sales. It is evident that some large grocery retail establishments are recorded in the wholesale trade sector.

In FY2018, retail and wholesale trade accounted for a total of \$964 million in total gross sales in Wasilla and Palmer. Based on high-level review of retail activity outside of those cities, total borough-wide retail sales are estimated at \$1.039 billion (including \$75 million outside of Wasilla and Palmer).

The Three Bears grocery store chain has a significant presence in Mat-Su. Only one of the chain's current Mat-Su locations is within a municipality which levies a sales tax.<sup>1</sup> Gross sales from the remaining Three Bears' stores in the borough would contribute to additional borough-wide sales tax revenue. Other commercial activity located along the Parks highway outside of Wasilla city limits, including furniture and vehicle sales, and primarily seasonal retail activity in Talkeetna area, are also expected to contribute to gross sales if a borough-wide tax were levied.

The recent US Supreme Court decision in the case of *South Dakota v. Wayfair* allows for state taxation of online sales. As of mid-2019, online retailers such as Amazon.com have started remitting sales tax to Alaska boroughs. While this analysis does not include the potential impact of online retail sales tax revenue, online sales are expected to have a significant, positive impact on borough revenue throughout the state and would increase revenue generated by a Mat-Su sales tax.

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<sup>1</sup> Three Bears – Houston location is within the taxing jurisdiction of the City of Houston.

## **UTILITIES**

Taxable utility sales were estimated using average household utility costs available through the Bureau of Labor Statistics' (BLS) Consumer Expenditure Survey (CES) and Census Bureau household data. Average household spending on all utilities in the Anchorage Metropolitan Statistical Area (which includes the Matanuska-Susitna Borough) was assigned to specific utilities (electricity, natural gas, water/sewer, and others) based on the average portion of total utility costs in each category in the Western US region.

Average consumer electricity costs were applied to all households in the borough. However, average natural gas costs were applied only to households in the Enstar service area to reflect the predominant use of heating fuel or wood stoves in some areas of the borough. Heating fuel costs are presumed to be included in the wholesale trade gross sales.

## **ACCOMMODATIONS**

Area-wide accommodations (lodging) gross sales estimates were based on the existing borough-wide five percent bed tax (which provides an indication of total sales) and industry-specific municipal sales tax data. A substantial portion of accommodations sales currently occur outside cities which levy a sales tax. In addition to numerous smaller establishments, accommodations like the Mt. McKinley Princess Wilderness Lodge and the Talkeetna Alaska Lodge represent significant gross sales in this sector.

This analysis assumes that the borough-wide sales tax would be levied on top of the current borough-wide bed tax.

## **RECREATION AND ENTERTAINMENT**

Mat-Su has a number of commercial recreation and entertainment opportunities for residents and visitors. Most recreation and entertainment businesses mainly serving residents are located within Palmer and Wasilla, including attractions like Valley Cinema, the Extreme Fun Center, and fitness centers.

There are a significant number of businesses operating outside of Palmer and Wasilla which primarily serve non-resident visitors, most notably in the Talkeetna area. Flightseeing is the top visitor activity in Talkeetna (14 percent of visitors), followed by wildlife viewing, and hiking (both with 13 percent of visitors participating).<sup>2</sup> Flightseeing companies are typically licensed as air passenger transportation businesses, which are not subject to sales tax.<sup>3</sup> Estimates of recreation and entertainment gross sales outside of Palmer, Wasilla, and Houston were calculated based on visitor-related spending on activities or tours in the borough excluding aviation sales which would not be subject to a borough-wide sales tax. Sales to non-resident visitors are described in a separate section of this report.

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<sup>2</sup> McDowell Group. *Alaska Visitor Statistics Program 7*. Prepared for Alaska Department of Commerce, Community, and Economic Development and the Alaska Travel Industry Association. Summer 2016.

<sup>3</sup> US Code Title 49 – Subtitle VII – Part A – Subpart i – Chapter 401.



## Price Elasticity of Demand

The imposition of new or increased sales tax can decrease gross sales for some industries as consumers choose not to make a 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. In this analysis, gross sales of the wholesale and retail trade industries were decreased by approximately 1.5 percent for each one percentage point increase in sales tax. For example, initial gross sales of \$100 are expected to decrease to \$98.50 given a change in sales tax from three percent to four percent, resulting in higher sales tax revenue of \$3.94 compared to \$3.00.

This analysis also assumes food service industry sales are responsive to increased sales tax rates, with gross sales expected to decrease by 2.3 percent for each one percentage point increase in sales tax.<sup>4</sup>

Several industries considered in this analysis are assumed to be relatively unresponsive to tax rate changes. These include industries which represent household necessities such as utilities, which are generally considered price inelastic. Due to the nature of Alaska's visitor industry, visitors to the state are generally considered unresponsive to small changes in accommodations price and this analysis assumes the accommodations industry gross sales would be unaffected by an increase in sales tax.<sup>5</sup>

Tax rate changes are not expected to impact industries for which a high portion of gross sales are tax exempt, including:

- construction;
- health care and social assistance;
- management of companies and enterprises;
- manufacturing;
- professional, scientific, and technical services; and
- transportation and warehousing.

## Taxable Sales

In addition to total gross sales, the amount of revenue generated by an area-wide sales tax will depend on the proportion of sales above tax cap, and types of sales that are exempt from tax, as established by Borough code. Tax caps and exemptions currently enforced in Mat-Su cities are described below.

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<sup>4</sup> Anderson, McLellan, Overton, and Wolfram. *Price Elasticity of Demand*. November 1997.

<sup>5</sup> Price elasticity of demand may have a higher impact on a visitor's selection between hotel types or categories, however, a sales tax would increase all accommodations prices by the same proportion and is not expected to impact accommodations selection between hotel types.

## TAX CAPS

In Palmer, sales tax applies to the first \$1,000 for each transaction, creating an effective tax cap of \$30. The tax cap is lower in Wasilla and Houston, where tax applies to the first \$500, creating effective tax caps of \$15 and \$10, respectively.

## EXEMPTIONS

A substantial volume of business sales in Mat-Su municipalities are not taxable, as described below. The municipal codes of Palmer and Wasilla include approximately the same sales tax exemptions. Any significant differences are noted below.

**Health Care and Social Assistance:** While Alaska Statute does not specifically prohibit the levy of sales tax on human health services provided by a licensed professional, these services are exempt from sales tax in Wasilla, Palmer, and Houston.<sup>6</sup> This analysis assumes that human health services would be exempt from a borough-wide sales tax. In the absence of this exemption, sales tax collected by the Borough would increase substantially due to the operations of Mat-Su Regional Medical Center (MSRMC), which is majority-owned by a for-profit corporation.

Palmer and Wasilla municipal codes vary in their exemption of receipts for social services, such as child day care services and assisted living facilities, which are both exempt from sales tax in Wasilla. This analysis assumes that these social services would not be tax exempt under a borough-wide tax.

**Construction:** A high percentage of construction industry sales are exempt from taxation due to municipal codes in both Palmer and Wasilla. Those codes exempt property used in construction or renovation to real property by a licensed contractor.<sup>7</sup> The Wasilla Municipal Code also exempts rental of equipment and services by a licensed contractor, which are subject to tax in Palmer. In both cities, construction industry revenue from repair and maintenance are subject to sales tax. This analysis assumes construction industry sales including sales of real property, equipment rental, and services by a licensed contractor would be exempt from borough sales tax.

**Real Estate and Rentals and Leasing:** Sales tax exemptions on real estate and rentals vary between Wasilla and Palmer. For example, Wasilla municipal code exempts from sales tax residential rentals of 30 or more consecutive days, while Palmer does not.<sup>8</sup> This analysis assumes that residential rentals of 30 or more consecutive days would be subject to a borough-wide sales tax.

**Wholesale Trade:** The Wasilla Municipal Code explicitly exempts sales made for resale purposes, wholesale trade, from sales tax.<sup>9</sup> However, Palmer does not have a similar overall wholesale trade exemption. This analysis uses a blended tax exemption rate based on Wasilla and Palmer taxable sales in the retail and wholesale trade

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<sup>6</sup> Alaska Statute 29.45.650; Wasilla Municipal Code 5.16.050; Palmer Municipal Code 3.16.050; Houston Municipal Code 4.20.050

<sup>7</sup> Wasilla Municipal Code 5.16.050 B3; Palmer Municipal Code 3.16.050 R and 3.16.055 G

<sup>8</sup> Wasilla Municipal Code 5.16.050 A.

<sup>9</sup> Wasilla Municipal Code 5.16.050 B1

industries to reflect that specific wholesale trade sales, such as food sold to a restaurant, would be exempt from sales tax.<sup>10</sup> However, this analysis does not assume that all wholesale trade receipts would be exempt.

### GROSS SALES COMPARED TO TAXABLE SALES

Specific data on the impact of the tax caps on the amount of total taxable sales versus total sales is not available for all sectors, nor is data on the impact of exemptions alone. The model developed to calculate revenue generated by an area-wide sales tax incorporates the impact of both together and is measured as taxable sales as a percentage of total sales in 27 different industry sectors. The combined effect of tax caps and exemptions across all sectors is that in Wasilla 57 percent of total sales have been taxable, on average over the past five fiscal years. In Palmer, 52 percent of sales have been taxable.

**Table 3. Municipal Effective Tax Caps and Taxable Sales**

	Palmer	Wasilla	Houston
Effective Tax Cap per Transaction	\$30	\$15	\$10
Taxable Sales as % of Gross Sales (avg. FY2013-FY2018)	52%	57%	-

Source: Cities of Palmer and Wasilla.

### Household Sales Tax Expenditures

Estimates of current household sales tax payments and those under a borough-wide tax are based on average annual household expenditures as reported by the BLS CES for various household income levels. Expenditures are based on (U.S.) West Region CES data (expenditure data by income level is not available for Alaska). Data on expenditures by seniors (age 65 and above) living alone are available only at the national level; these expenditure data are adjusted to reflect regional price differences between national prices and those in urban Alaska. The composition of expenditures by senior households in the Mat-Su may differ from the national average. The table below describes key characteristics of households in each category of the CES.

**Table 4. Average Characteristics of Consumer Expenditure Survey Households, 2016-2017**

Household Type	Number of People	Annual Income	Annual Expenditures
<b>Income Level (All Households)</b>			
Low Income (\$40,000-\$49,999)	2.9	\$44,695	\$48,964
Middle Income (\$50,000-\$69,999)	2.7	\$59,744	\$57,629
Median Income (\$70,000-\$99,999)	3.0	\$83,911	\$71,861
High Income (\$100,000-\$149,999)	3.2	\$120,443	\$88,636
<b>Single Senior (65+)</b>	1.0	<b>\$28,559</b>	<b>\$33,849</b>

Source: US Bureau of Labor Statistics – Consumer Expenditure Survey.

Estimates of current household sales tax payments calculated in this analysis are based on taxes paid by households residing within the Palmer or Wasilla city limits. Households living in Mat-Su outside Palmer or Wasilla city limits also pay sales tax on goods and services purchased within city limits, however their total annual payments are likely lower than those within city limits, where sales tax is levied on services like natural

<sup>10</sup> Wasilla Municipal Code 5.16.050 B; Palmer Municipal Code 3.16.050 P

gas, and electricity, and others. Estimates of current per-household sales tax payments are therefore somewhat higher than likely actual average payments.

Due to lack of reliable data on current borough resident expenditures in Anchorage (or elsewhere) on routine purchases such as groceries, this analysis assumes most purchases of goods and services by these households occur within the Mat-Su borough. This analysis therefore provides high estimates of current sales tax paid and future sales tax per household under a borough-wide sales tax. Actual household sales tax expenditures will likely be lower due to significant retail and service activity in the Anchorage market and purchases through online retailers not currently remitting sales tax to local governments.

## **Non-Resident Spending**

Non-Alaska resident spending in this analysis is based on Mat-Su visitor statistics as reported in the *Alaska Visitor Statistics Program 7* and the *Economic Impact of the Visitor Industry in the Mat-Su Borough*. Data from the report *The Socioeconomic Impacts of the Alaska State Fair* and State Fair sales tax data provided by the City of Palmer were also used to estimate the impact of non-borough resident sales on a borough-wide sales tax.

Expected non-resident contributions to a borough-wide sales tax are addressed in the final section of this report.

# Current Gross Sales and Sales Tax

In FY2018, combined gross business sales in Wasilla, Palmer, and Houston totaled just under \$1.6 billion, with more than 70 percent (\$1.1 billion) within the City of Wasilla. Gross sales resulted in combined municipal sales tax revenue of \$23.8 million.

**Table 5. Gross Sales and Sales Tax Revenue by Municipality (\$000), FY2018**

Municipality	Gross Sales	Sales Tax Revenue
Wasilla	\$1,122,509	\$16,413
Palmer	\$419,817	\$7,070
Houston	\$18,100	\$362
<b>Total</b>	<b>\$1,560,427</b>	<b>\$23,844</b>

Note: Values have been rounded.  
Source: Cities of Palmer, Wasilla, and Houston.

The wholesale and retail trade industries accounted for the largest share of combined gross sales in Wasilla and Palmer at \$963.9 million, followed by accommodation and food service (\$107.8 million), construction (\$106.8 million), and professional, scientific, and technical services (\$82.6 million).

**Table 6. Gross and Taxable Sales by Industry in Palmer and Wasilla (\$000), FY2018**

Industry	Gross Sales	Taxable Sales	% Sales Exempt
Wholesale and Retail Trade	\$963,910	\$620,402	36%
Accommodation and Food Service	\$107,841	\$106,885	1%
Other Services and Public Administration	\$72,318	\$48,128	33%
Information	\$27,561	\$25,428	8%
Real Estate, Rental and leasing	\$71,621	\$21,856	69%
Utilities	\$25,065	\$21,108	16%
Arts, Entertainment, and Recreation	\$19,540	\$17,265	12%
Professional, Scientific, and Technical Services	\$82,574	\$12,103	85%
Administrative Support and Waste Management Remediation	\$14,046	\$6,795	52%
Construction	\$106,833	\$5,340	95%
Manufacturing	\$20,837	\$4,561	78%
Health Care and Social Assistance	\$10,264	\$2,382	77%
Educational Services	\$3,541	\$1,313	63%
Finance	\$8,781	\$1,121	87%
Agriculture, Forestry, Fishing and Hunting	\$1,078	\$1,072	<1%
Transportation and Warehousing	\$6,403	\$802	87%
Management of Companies and Enterprises	\$98	\$7	93%
Mining	\$18	\$1	97%
<b>Total</b>	<b>\$1,542,327</b>	<b>\$896,580</b>	<b>42%</b>

Note: Values have been rounded.  
Source: Cities of Palmer and Wasilla and McDowell Group calculations.

In addition to having the highest gross sales, the wholesale and retail trade industries also account for the largest (68 percent) portion of current sales tax revenue generated in the area. The accommodation and food

service category is the second largest (12 percent) contributor to tax revenue; other services and public administration is the third largest industry, contributing six percent of sales tax in FY2018.

Although the construction sector is the third largest contributor to gross sales, a significant portion of activity in this industry is exempt from sales tax.

**Table 7. Sales Tax Revenue by Industry in Palmer and Wasilla (\$000), FY2018**

<b>Industry</b>	<b>Sales Tax Revenue</b>	<b>% of Sales Tax Revenue</b>
Wholesale and Retail Trade	\$16,084	68%
Accommodation and Food Service	\$2,825	12%
Other Services and Public Administration	\$1,310	6%
Information	\$670	3%
Real Estate, Rental and leasing	\$605	3%
Utilities	\$575	2%
Arts, Entertainment, and Recreation	\$441	2%
Professional, Scientific, and Technical Services	\$344	1%
Administrative Support and Waste Management Remediation	\$178	1%
Construction	\$139	1%
Manufacturing	\$126	1%
Health Care and Social Assistance	\$71	<1%
Educational Services	\$35	<1%
Agriculture, Forestry, Fishing and Hunting	\$31	<1%
Finance	\$29	<1%
Transportation and Warehousing	\$21	<1%
Management of Companies and Enterprises	\$0.2	<1%
Mining	\$0.2	<1%
<b>Total</b>	<b>\$23,482</b>	<b>100%</b>

Note: Values have been rounded.

Source: Cities of Palmer and Wasilla and McDowell Group calculations.

# Borough-Wide Sales Tax

The chapter provides two estimates of borough-wide sales tax revenue. The first is a baseline estimate representing the amount of incremental and total tax revenue generated by an increase in sales tax rate in the cities that already levy a sales tax. The second estimate represents the study team’s best estimate of total sales tax revenue generated by a borough-wide tax.

Both estimates provide incremental and total tax revenue generated based on a borough-wide sales tax of 4 or 5 percent with either a \$500 or \$1,000 tax cap.

## Baseline Estimate

The following sections provide a baseline estimate of the incremental increase in sales tax revenue from sales already taxed in Palmer (3 percent to 4 or 5 percent), Wasilla (3 percent to 4 or 5 percent), and Houston (2 percent to 4 or 5 percent). This measure represents the minimum amount of incremental and total tax revenue generation associated with an area-wide sales tax, as it does not capture any taxable sales activity in the communities of Big Lake, Sutton, and Talkeetna, and other areas currently outside jurisdictions with sales tax.

Based on current sales in Palmer, Wasilla, and Houston, revenue generated by a borough-wide sales tax ranges from approximately \$35.5 million (4 percent tax with a \$500 tax cap) to \$50.3 million (5 percent tax with a \$1,000 tax cap).

**Table 8. Estimated Total Borough-Wide Sales Tax Receipts by Tax Cap Scenario, Baseline Analysis (\$000)**

Tax Cap Scenario	4% Borough-Wide rate		5% Borough-Wide Rate	
	Sales Tax	Change	Sales Tax	Change
\$500 Tax Cap Scenario	\$35,493	\$8,233	\$43,820	\$16,560
\$1,000 Tax Cap Scenario	\$40,223	\$12,963	\$50,278	\$23,019

Note: Values have been rounded.  
Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## \$500 Sales Tax Cap Scenario – Baseline Estimate

Based only on business sales already occurring in Palmer, Wasilla, and Houston, a borough-wide sales tax of four percent with a \$500 tax cap would increase total tax revenue by approximately \$8.2 million. A borough-wide sales tax of five percent would increase total tax revenue by approximately \$16.6 million.

**Table 9. Estimated Total Borough-Wide Sales Tax Receipts, \$500 Tax Cap Scenario, Baseline Analysis (\$000)**

Municipality	Expected Annual Tax Revenue at Current Rates	Sales Tax Revenue at 4% Borough-Wide Rate		Sales Tax Revenue at 5% Borough-Wide Rate	
		Sales Tax	Change	Sales Tax	Change
Wasilla	\$19,828	\$26,375	\$6,547	\$32,543	\$12,715
Palmer	\$7,070	\$8,394	\$1,324	\$10,372	\$3,302
Houston	\$362	\$724	\$362	\$905	\$543
<b>Total</b>	<b>\$27,259</b>	<b>\$35,493</b>	<b>\$8,233</b>	<b>\$43,820</b>	<b>\$16,560</b>

Note: Values have been rounded.  
Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

A 33 percent increase in the tax rate on sales in Palmer and Wasilla (from 3 percent to 4 percent) does not translate exactly into a 33 percent increase in tax revenue because an areawide taxable sales cap of \$500 is assumed (Palmer is now at \$1,000). These estimates also reflect a slight decline in gross sales in the borough due to the increase in process that would result from a higher tax rate (the effect of price elasticity of demand, as described previously in this report).

## \$1,000 Sales Tax Cap Scenario – Baseline Estimate

Based on current sales in Palmer, Wasilla, and Houston, a four percent tax with a \$1,000 tax cap would increase total tax revenue by approximately \$13.0 million while a sales tax of five percent would increase revenue by approximately \$23.0 million.

**Table 10. Estimated Total Borough-Wide Sales Tax Receipts, \$1,000 Tax Cap Scenario, Baseline Analysis (\$000)**

Municipality	Expected Annual Tax Revenue at Current Rates	Sales Tax Revenue at 4% Borough-Wide Rate		Sales Tax Revenue at 5% Borough-Wide Rate	
		Sales Tax	Change	Sales Tax	Change
Wasilla	\$19,828	\$29,753	\$9,925	\$37,192	\$17,364
Palmer	\$7,070	\$9,746	\$2,676	\$12,182	\$5,112
Houston	\$362	\$724	\$362	\$905	\$543
<b>Total</b>	<b>\$27,259</b>	<b>\$40,223</b>	<b>\$12,963</b>	<b>\$50,278</b>	<b>\$23,019</b>

Note: Values have been rounded.

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## Sales Tax Revenue by Sector – Baseline Estimate

In this baseline analysis, levying a borough-wide sales tax would have the highest impact on tax revenue generated by the wholesale and retail trade sectors, with tax revenue increasing to \$23.7 million under a four percent tax and \$29.2 million under a five percent tax given a \$500 tax cap or \$27.1 million under a four percent sales tax and \$33.9 million under a five percent sales tax given a \$1,000 tax cap. Other industries which would have a significant impact on overall sales tax increase include accommodation and food service and miscellaneous services, which include services like auto repair and beauty salons.

*(See table on next page)*



**Table 11. Expected Sales Tax Receipts by Sector, Baseline Analysis (\$000)**

Industry	Expected Annual Tax Revenue at Current Rates	\$500 Tax Cap Scenario		\$1,000 Tax Cap Scenario	
		4% Tax	5% Tax	4% Tax	5% Tax
<b>Palmer/Wasilla Total</b>	<b>\$26,897</b>	<b>\$34,769</b>	<b>\$42,914</b>	<b>\$39,499</b>	<b>\$49,373</b>
Wholesale and Retail Trade	\$18,612	\$23,718	\$29,233	\$27,092	\$33,865
Accommodation and Food Service	\$3,207	\$4,182	\$5,113	\$4,189	\$5,237
Other Services and Public Administration	\$1,444	\$1,721	\$2,151	\$2,264	\$2,830
Information	\$763	\$1,051	\$1,313	\$1,051	\$1,313
Real Estate, Rental and leasing	\$656	\$888	\$1,093	\$1,576	\$1,970
Utilities	\$633	\$847	\$1,059	\$847	\$1,059
Arts, Entertainment, and Recreation	\$518	\$717	\$897	\$717	\$897
Professional, Scientific, and Technical Services	\$363	\$621	\$776	\$621	\$776
Administrative Support and Waste Management Remediation	\$204	\$272	\$340	\$360	\$450
Construction	\$160	\$242	\$302	\$242	\$302
Manufacturing	\$137	\$177	\$222	\$190	\$237
Health Care and Social Assistance	\$71	\$130	\$162	\$130	\$162
Educational Services	\$39	\$50	\$63	\$62	\$78
Agriculture, Forestry, Fishing and Hunting	\$33	\$43	\$54	\$43	\$54
Finance	\$34	\$50	\$62	\$50	\$62
Transportation and Warehousing	\$24	\$60	\$75	\$60	\$75
<b>Houston</b>	<b>\$362</b>	<b>\$724</b>	<b>\$905</b>	<b>\$724</b>	<b>\$905</b>
<b>Total</b>	<b>\$27,259</b>	<b>\$35,493</b>	<b>\$43,820</b>	<b>\$40,223</b>	<b>\$50,278</b>

Note: Numbers rounded

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## Probable Gross Sales Estimate

While Wasilla and Palmer represent the majority of business activity in the Mat-Su Borough, sales outside of these cities would also generate sales tax revenue. Commercial activity in the areas immediately outside of Palmer and Wasilla city limits and seasonal activity in Talkeetna would be the most significant sources of sales tax revenue. The following sections provide estimates of the incremental increase in sales tax revenue based on estimates of taxable sales occurring throughout the borough.

Gross sales outside of Wasilla, Palmer, and Houston are estimated at approximately \$606 million annually. Revenue generated by a borough-wide sales tax ranges from approximately \$42.0 million (4 percent tax with a \$500 tax cap) to \$60.4 million (5 percent tax with a \$1,000 tax cap).

**Table 12. Estimated Total Borough-Wide Sales Tax Receipts by Tax Cap Scenario, Probable Gross Sales Analysis (\$000)**

Tax Cap Scenario	4% Borough-Wide rate		5% Borough-Wide Rate	
	Sales Tax	Change	Sales Tax	Change
\$500 Tax Cap Scenario	\$41,999	\$14,739	\$51,880	\$24,621
\$1,000 Tax Cap Scenario	\$48,349	\$21,089	\$60,436	\$33,176

Note: Values have been rounded.

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## \$500 Sales Tax Cap Scenario – Probable Gross Sales Estimate

A borough-wide sales tax of four percent with a \$500 tax cap would generate total revenue approximately \$14.7 million more than expected annual municipal tax collections. A borough-wide sales tax of five percent with a \$500 tax cap would generate total revenue approximately \$24.6 million above expected annual collections. Sales within Wasilla would account for over half of the additional sales tax revenue at both proposed tax rates.

**Table 13. Estimated Local and Area-Wide Gross Sales and Expected Sales Tax Receipts, \$500 Tax Cap Scenario (\$000)**

Municipality/Area	Estimated Gross Sales	Expected Annual Tax Revenue at Current Rates	Sales Tax Revenue at 4% Borough-Wide Rate		Sales Tax Revenue at 5% Borough-Wide Rate	
			Sales Taxes	Change	Sales Taxes	Change
Wasilla	\$1,122,509	\$19,828	\$26,375	\$6,547	\$32,543	\$12,715
Palmer	\$419,817	\$7,070	\$8,394	\$1,324	\$10,372	\$3,302
Houston	\$18,100	\$362	\$724	\$362	\$905	\$543
Rest of Borough	\$605,533	-	\$6,506	\$6,506	\$8,061	\$8,061
<b>Total Borough-wide</b>	<b>\$2,165,960</b>	<b>\$27,259</b>	<b>\$41,999</b>	<b>\$14,739</b>	<b>\$51,880</b>	<b>\$24,621</b>

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## \$1,000 Sales Tax Cap Scenario – Probable Gross Sales Estimate

A borough-wide sales tax of four percent with a \$1,000 tax cap would generate total revenue approximately \$21.1 million more than expected annual municipal tax collections. A borough-wide sales tax of five percent with a \$1,000 tax cap would generate total revenue approximately \$33.2 million above expected annual collections.

**Table 14. Estimated Local and Area-Wide Gross Sales and Expected Sales Tax Receipts, \$1,000 Tax Cap Scenario (\$000)**

Municipality/Area	Estimated Gross Sales	Expected Annual Tax Revenue at Current Rates	Sales Tax Revenue at 4% Borough-Wide Rate		Sales Tax Revenue at 5% Borough-Wide Rate	
			Sales Taxes	Change	Sales Taxes	Change
Wasilla	\$1,122,509	\$19,828	\$29,753	\$9,925	\$37,192	\$17,364
Palmer	\$419,817	\$7,070	\$9,746	\$2,676	\$12,182	\$5,112
Houston	\$18,100	\$362	\$724	\$362	\$905	\$543
Rest of Borough	\$605,533	-	\$8,126	\$8,126	\$10,157	\$10,157
<b>Total Borough-wide</b>	<b>\$2,165,960</b>	<b>\$27,259</b>	<b>\$48,349</b>	<b>\$21,089</b>	<b>\$60,436</b>	<b>\$33,176</b>

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

## Sales Tax Revenue by Sector – Probable Gross Sales Estimate

The wholesale and retail trade industries would account for nearly half of the expected additional sales tax revenue. Tax revenue from those sectors would increase to approximately \$25 million under a four percent borough-wide tax and \$31 million under a five percent tax given a \$500 tax cap, or \$29 million under a four percent tax and \$36 million under a five percent tax given a \$1,000 tax cap. The accommodation and food service industry would also represent a large portion of increased tax revenue.

Utility sales would account for the second highest share of additional sales tax revenue, with expected total revenue of \$2.5 million under a four percent tax and \$3.1 million under a five percent tax given a either tax cap scenario. Sales tax on residential electricity and natural gas sales represent the majority of this expected revenue increase.

Real estate, rental, and leasing sales would also account for a high share of additional sales tax revenue, with expected total revenue of \$2.4 million under a four percent tax and \$2.9 million under a five percent given a \$500 tax cap, or \$4.2 million under a four percent tax and \$5.2 million under a five percent tax given a \$1,000 tax cap. This expected sales tax revenue would be substantially lower if residential rentals were exempt from sales tax. While a high percentage of construction industry sales would remain exempt from sales tax, high expected gross sales outside of current taxing municipalities contributes to a significant change in expected tax revenue from this industry.

**Table 15. Expected Sales Tax Receipts by Industry (\$'000)**

Industry	Expected Annual Tax Revenue at Current Rates <sup>a</sup>	\$500 Tax Cap Scenario		\$1,000 Tax Cap Scenario	
		4% Tax	5% Tax	4% Tax	5% Tax
Wholesale and Retail Trade	\$18,612	\$25,343	\$31,234	\$29,089	\$36,362
Accommodation and Food Service	\$3,207	\$4,652	\$5,688	\$4,661	\$5,826
Other Services and Public Administration	\$1,444	\$2,069	\$2,586	\$2,723	\$3,403
Information	\$763	\$1,051	\$1,313	\$1,051	\$1,313
Real Estate, Rental and leasing	\$656	\$2,354	\$2,897	\$4,177	\$5,221
Utilities	\$633	\$2,466	\$3,082	\$2,466	\$3,082
Arts, Entertainment, and Recreation	\$518	\$1,216	\$1,520	\$1,216	\$1,520
Professional, Scientific, and Technical Services	\$363	\$658	\$823	\$658	\$823
Administrative Support and Waste Management Remediation	\$204	\$599	\$749	\$687	\$859
Construction	\$160	\$975	\$1,219	\$975	\$1,219
Manufacturing	\$137	\$188	\$235	\$202	\$252
Health Care and Social Assistance	\$71	\$130	\$162	\$130	\$162
Educational Services	\$39	\$50	\$63	\$62	\$78
Agriculture, Forestry, Fishing and Hunting	\$33	\$137	\$171	\$138	\$172
Finance	\$34	\$50	\$62	\$50	\$62
Transportation and Warehousing	\$24	\$60	\$75	\$60	\$75
<b>Total</b>	<b>\$26,897</b>	<b>\$41,999</b>	<b>\$51,880</b>	<b>\$48,349</b>	<b>\$60,436</b>

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.

a. Sales tax at current rates by industry represent only Palmer and Wasilla sales tax. Data on sales tax by industry is unavailable for the City of Houston.

These estimates of baseline and probable sales tax revenue are based on FY 2018 business sales (and to a lesser extent previous years as well). Looking ahead, significant changes in economic conditions in Mat-Su and statewide would impact the level of spending in the borough and therefore sales tax generation.

# Household Sales Tax Expenditures

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Across Alaska, per-capita local sales tax revenue averaged approximately \$1,050 (excluding municipalities without sales tax) in 2018.<sup>11</sup> However, this measure does not account for the significant role of visitor spending on sales tax generation in many municipalities or the impact of taxable business purchases. For example, per-capita sales tax revenue ranges from a high of \$7,460 in Skagway to below \$100 in many small, remote communities.

This chapter provides estimates of the total tax expected to be paid by various households in the Mat-Su under a borough-wide tax and compares this to estimates of current household sales tax payments. As noted in the methodology section, the following estimates of household sales tax payments represent the highest expected payment level due to a high proportion of household expenditures assumed to occur in the Mat-Su borough. While exact estimates of Mat-Su resident household expenditures in Anchorage and online purchases are unavailable, both factors will likely result in lower annual household sales tax payments.

## \$500 Tax Cap Scenario

Households living within the Palmer, Wasilla, or Houston city limits are estimated to currently pay between \$400 (single seniors) and \$800 (high income households) in annual sales tax. Levying a borough-wide sales tax of four percent with a cap of \$500 per transaction would increase household annual payments between \$200 (single seniors) and \$500 (high income households) to an annual household average between \$600 and \$1,300.

Under a five percent sales tax, household tax payments are expected to increase between \$300 (single seniors) and \$800 (high income households), to an annual average between \$700 and \$1,600.

The sales tax increase, in percentage terms, is expected to be greater than the percentage change in the tax rate. This is because a higher share of household expenditures would be subject to sales tax. For example, household spending on groceries that now occurs in the borough but outside city limits would be subject to the borough-wide sales tax. The levy of sales tax on rental housing would also significantly impact annual household tax payments for renter households.

Residents currently living outside Palmer, Wasilla, or Houston city limits are also expected to see increased annual sales tax payments due to sales tax on utilities including electricity and natural gas.

*(See table on next page)*

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<sup>11</sup> Alaska Department of Commerce, Community and Economic Development – Office of the State Assessor. *Alaska Taxable 2018*. January 2019.

**Table 16. Annual Household Sales Tax Payments, \$500 Tax Cap Scenario**

Household Type	Current Annual Sales Tax Paid	4% Borough-Wide Rate		5% Borough-Wide Rate	
		Household Total	Additional Tax	Household Total	Additional Tax
<b>Income Level</b>					
Low Income (\$40,000-\$49,999)	\$500	\$800	\$300	\$1,000	\$500
Middle Income (\$50,000-\$69,999)	\$600	\$900	\$300	\$1,100	\$500
Median Income (\$70,000-\$99,999)	\$700	\$1,100	\$400	\$1,300	\$600
High Income (\$100,000-\$149,999)	\$800	\$1,300	\$500	\$1,600	\$800
<b>Single Senior (65+)</b>	\$400	\$600	\$200	\$700	\$300

Source: McDowell Group estimates.

## \$1,000 Tax Cap Scenario

Levying a sales tax with a per transaction limit of \$1,000 would further increase expected annual household sales tax payments. A borough-wide sales tax of four percent would increase household annual payments between \$300 (single seniors) and \$400 (high income households) to an annual household average between \$700 and \$1,400. Under a five percent sales tax, household tax payments would increase between \$400 (single seniors) and \$900 (high income households), to an annual average between \$800 and \$1,800.

**Table 17. Annual Household Sales Tax Payments, \$1,000 Tax Cap Scenario**

Household Type	Current Annual Sales Tax Paid	4% Borough-Wide Rate		5% Borough-Wide Rate	
		Household Total	Additional Tax	Household Total	Additional Tax
<b>Income Level</b>					
Low Income (\$40,000-\$49,999)	\$500	\$900	\$400	\$1,100	\$600
Middle Income (\$50,000-\$69,999)	\$600	\$1,000	\$400	\$1,300	\$700
Median Income (\$70,000-\$99,999)	\$700	\$1,200	\$500	\$1,500	\$800
High Income (\$100,000-\$149,999)	\$900	\$1,400	\$500	\$1,800	\$900
<b>Single Senior (65+)</b>	\$400	\$700	\$300	\$800	\$400

Source: McDowell Group estimates.

# Non-Resident Spending

Non-borough resident spending in Wasilla, Palmer, and Houston currently contributes to sales tax revenue generated by those municipalities. In addition to that spending, sales to non-residents outside of taxing municipalities would contribute to borough-wide sales tax revenue. This chapter provides an estimate of the total non-resident contribution to revenue generated by an area-wide sales tax.

In 2016, the latest year for which data were available, an estimated 391,000 non-Alaska resident visitors traveled to Mat-Su, including summer and fall/winter visitors.<sup>12</sup> Talkeetna was the most common destination, with 239,000 visitors. Based on average visitor spending, non-Alaska residents spent an estimated \$99 million in Mat-Su. This spending would result in approximately \$3.4 million in sales tax revenue under a four percent borough-wide tax and \$4.3 million under a five percent tax under either tax cap scenario. Industries most impacted by visitor spending include accommodation and food service; arts, entertainment, and recreation; and retail trade. Non-resident spending on flightseeing is significant but non-taxable.

While current data on Alaska resident visitors to the Mat-Su are unavailable, the Alaska State Fair is a major draw of non-borough residents to Mat-Su. Two-thirds (66 percent) of fair attendees are non-borough residents, spending approximately \$4.3 million at the fair annually.<sup>13</sup> Non-resident spending at the fair would account for \$136,000 in sales tax revenue under a four percent tax and \$170,000 under a five percent sales tax under either tax cap scenario. This includes sales taxes already collected by the City of Palmer.

Including non-Alaska resident visitor spending and non-borough spending at the State Fair, non-borough residents would account for approximately seven to eight percent of total revenue generated by a borough-wide sales tax, depending on the sales tax cap. This estimate is conservative. Anchorage residents travel to Mat-Su for a wide range of recreational purposes, as well as business purposes, often spending money during their visit. However, data on this visitation or related spending is not available.

**Table 18. Expected Sales Tax Receipts from Sales to Non-Borough Residents, (\$000)**

Resident Status	Gross Sales	\$500 Tax Cap Scenario			\$1,000 Tax Cap Scenario		
		4% Tax	5% Tax	% of Total	4% Tax	5% Tax	% of Total
<b>Non-Borough Resident</b>	<b>\$103,643</b>	<b>\$3,562</b>	<b>\$4,453</b>	<b>8%</b>	<b>\$3,562</b>	<b>\$4,453</b>	<b>7%</b>
Alaska State Fair	\$4,260	\$136	\$170	<1%	\$136	\$70	<1%
Non-Alaska Resident	\$99,383	\$3,426	\$4,283	8%	\$3,426	\$4,283	7%
<b>Resident</b>	<b>\$2,062,317</b>	<b>\$38,437</b>	<b>\$47,428</b>	<b>92%</b>	<b>\$44,787</b>	<b>\$55,983</b>	<b>93%</b>
<b>Total</b>	<b>\$2,165,960</b>	<b>\$41,999</b>	<b>\$51,880</b>	<b>100%</b>	<b>\$48,349</b>	<b>\$60,436</b>	<b>100%</b>

Source: Alaska Visitor Statistics Program 7, *The Socioeconomic Impacts of the Alaska State Fair*, and McDowell Group calculations.

<sup>12</sup> McDowell Group. *The Socioeconomic Impacts of the Visitor Industry in the Mat-Su Borough*. Prepared for Mat-Su Convention & Visitors Bureau. October 2017.

<sup>13</sup> McDowell Group. *The Socioeconomic Impacts of the Alaska State Fair*. Prepared for the Alaska State Fair. January 2015.

# Direct Borough Sales Tax

This chapter considers the revenue which could be generated if the Borough levied a sales tax of one or two percent directly, without replacing municipal sales taxes and remitting revenue back to the cities of Palmer, Wasilla, and Houston.

A borough-wide sales tax of one percent with a \$500 tax cap would generate approximately \$10.5 million in total revenue, with a two percent generating approximately \$20.7 million. A one or two percent sales tax levied with a \$1,000 tax cap would generate approximately \$12.1 million or \$23.9 million in revenue, respectively.

**Table 19. Estimated Direct Borough-Wide Sales Tax Receipts by Tax Cap Scenario, Probable Gross Sales Analysis (\$000)**

<b>Tax Cap Scenario</b>	<b>Estimated Gross Sales</b>	<b>1% Borough-Wide rate</b>	<b>2% Borough-Wide Rate</b>
\$500 Tax Cap Scenario	\$2,165,960	\$10,525	\$20,722
\$1,000 Tax Cap Scenario	\$2,165,960	\$12,117	\$23,920

Note: Values have been rounded.

Source: Cities of Palmer, Wasilla, and Houston and McDowell Group calculations.