

**CITY OF CRAIG
MEMORANDUM**

To: Craig City Council
From: Brian Templin, City Administrator
Date: July 13, 2022
RE: Ordinance 748 - Fuel Sales Tax Cap – First Reading

At the July 7th council meeting the council held a general discussion on the merits of instituting a cap on sales tax for fuel. Fuel prices have increased by \$2.75 - \$3.50 per gallon since January 2022.

At the July 7th meeting, the council directed staff to prepare an ordinance that would allow for general relief of fuel at the pump or delivered by the local fuel vendors. The council determined that currently exempting sales above \$4.50 per gallon would still allow additional sales tax revenue to the city to help with increasing fuel and other costs.

Ordinance 748, attached, defines fuel as:

“Fuel”, for purposes of this section, means fuel (refined gasoline, diesel fuel, and propane) that is subject to Craig sales tax. This does not include other products; pre-packaged fuel sold in cans or other containers; or any other types of fuel charges.

This excludes other petroleum products such as oil (other than vehicle/equipment or heating fuel) and prepackaged fuel such as small propane or camp fuel products. The intent of this ordinance is to cap the tax collected per gallon for traditional fuels pumped by vendors or delivered by fuel vendors.

The council also asked to be able to set the cap by resolution and that a sunset date of June 30, 2023 be applied to the exemption. Both of these provisions are contained in the ordinance.

If Ordinance 748 is passed for first reading, staff will prepare the public hearing and final consideration for the August 4th council meeting. Staff will also prepare a resolution setting the rates as directed by the council.

Recommendation: Approve first reading of Ordinance 748.

**CITY OF CRAIG
MEMORANDUM**

To: Craig City Council
From: Brian Templin, City Administrator
Date: July 13, 2022
RE: Ordinance 748 - Fuel Sales Tax Cap – First Reading

At the July 7th council meeting the council held a general discussion on the merits of instituting a cap on sales tax for fuel. Fuel prices have increased by \$2.75 - \$3.50 per gallon since January 2022.

The council briefly discussed the first reading of the ordinance on July 21st. At that meeting staff explained that the cap per gallon was not feasible for the point of sale systems. There are a couple of options that the council may want to consider to provide relief to consumers.

Option A: Set a flat dollar amount cap on the amount taxed. This would be similar to the exemption for cars and boats where only the first \$5,000 of the purchase is taxed. This would likely work well with fuel vendors, but as the size of the sale increases, revenue does not. In order to set this cap at a level that benefits individuals it would result in an outsized benefit to large users and likely a decline in overall sales tax revenue.

Option A is used by vendors in the region and should be fairly easy to implement, but will have the largest impact to sales tax revenue. It will likely cause us to collect less sales tax on this item than we did last year. If the council is inclined to choose this option it should consider narrowing the eligibility (i.e. home heating fuel delivered in Craig only). This will have a narrower benefit, but will have less budget impact.

Option B: Set a lower tax rate specifically for fuel. The current sales tax rate is 5%. This rate has been approved by voters. The city can set a lower tax rate and can raise the rate at a later date (as long as the raised rate doesn't exceed what the voters have approved). This would have the advantage of benefiting all sales and not overly benefiting large sales since the tax would apply to all of the fuel sold. We are waiting on further comment from vendors about the ability of the point of sale systems to track this. Ultimately this would be similar to vendors that sell alcohol and other products and are able to tax alcohol at one rate and other goods at another rate (6% and 5%).

Option C: Set a cap per gallon. This is the option that first reading of the ordinance shows. Based on feedback from vendors, this option likely cannot be implemented because there is no way for the vendor to program their point of sale systems to do this.

Option D: Fuel Tax Rebate. All of the other options assume that fuel vendors will manage the tax break at the point of sale. Another option that the council may choose is to require people to submit copies of receipts and a form set by the city on a periodic basis (likely quarterly or annually). This would provide a benefit for the public but would be retroactive and would not show at time of delivery. The rebate would be for a percentage of the taxable sale and would represent a general reduction in the rate. For example, a 1% rebate would bring the purchase down to an effective rate of 4%.

I have attached a draft of the language that would be attached to the ordinance for all of the options above. If the council is concerned about budget impacts, it can choose to narrow eligibility to certain types of fuel (identified in the accompanying resolution)

I have also attached a quick sheet of calculations showing the various amounts of tax collected based on the various options.

Recommendation: The council should discuss the options shown above choose the option to approve.

Recommended Motion: Move to approve Ordinance 748 with Option (A, B, C or D).

Fuel Tax Cap Options and Financial Impacts

| | Amount of Purchase and Tax Collected | | | |
|--|--------------------------------------|-----------|-------------|-------------|
| | \$ 100.00 | \$ 500.00 | \$ 1,000.00 | \$ 1,500.00 |
| Current Taxes (5% sales tax with no cap) | \$ 5.00 | \$ 25.00 | \$ 50.00 | \$ 75.00 |
| Option A Cap on Total Sale | | | | |
| Only first \$250 taxable | \$ 5.00 | \$ 12.50 | \$ 12.50 | \$ 12.50 |
| Only first \$500 taxable | \$ 25.00 | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| Option B Reduced Sales Tax for Fuel | | | | |
| 4% Tax on Fuel | \$ 4.00 | \$ 20.00 | \$ 40.00 | \$ 60.00 |
| 3% Tax on Fuel | \$ 3.00 | \$ 15.00 | \$ 30.00 | \$ 45.00 |
| Option C Fuel Tax Cap Per Gallon | | | | |
| Fuel tax capped at \$4.50/gallon (based on gallon estimates) | \$ 3.91 | \$ 19.57 | \$ 39.13 | \$ 58.70 |
| Fuel tax capped at \$5.00/gallon (based on gallon estimates) | \$ 4.35 | \$ 21.74 | \$ 43.48 | \$ 65.22 |
| Option D Rebate | | | | |
| 1% of redeemed receipts | \$ 4.00 | \$ 20.00 | \$ 40.00 | \$ 60.00 |
| 2% of redeemed receipts | \$ 3.00 | \$ 15.00 | \$ 30.00 | \$ 45.00 |
| Estimated Equivalent Gallons | | | | |
| Fuel (approximately \$5.75 per gallon) | 17.4 | 87.0 | 173.9 | 260.9 |
| Propane (approximately \$3.50 per gallon) | 28.6 | 142.9 | 285.7 | 428.6 |

OPTION A – CAP ON TOTAL SALE
ORDINANCE No. 748
ATTACHMENT A

Title 3 of the Craig Municipal Code is hereby amended by adopting a new definition for “Fuel” in Section 3.08.010 and adding a cap on sales tax collected on fuel in Section 3.08.020 to read as follows:

3.08.010 Definitions

“Fuel”, for purposes of this section, means fuel (refined gasoline, diesel fuel, and propane) that is subject to Craig sales tax. This does not include other products; pre-packaged fuel sold in cans or other containers; or any other types of fuel charges.

3.08.020 Levy of Sales Tax – rate

E. The following are exempt from the tax:

26. Gross receipts derived from sales of fuel for that portion of the sale above a rate set by resolution by the Craig City Council. This provision is effective until June 30, 2023.

OPTION B – REDUCED SALES TAX
ORDINANCE No. 748
ATTACHMENT A

Title 3 of the Craig Municipal Code is hereby amended by adopting a new definition for “Fuel” in Section 3.08.010 and adding a cap on sales tax collected on fuel in Section 3.08.020 to read as follows:

3.08.010 Definitions

“Fuel”, for purposes of this section, means fuel (refined gasoline, diesel fuel, and propane) that is subject to Craig sales tax. This does not include other products; pre-packaged fuel sold in cans or other containers; or any other types of fuel charges.

3.08.020 Levy of Sales Tax – rate

B.1. Sales of fuel shall be taxed at a rate set by resolution by the Craig City Council, not to exceed 5%. This provision is effective until June 30, 2023.

OPTION C – PER GALLON TAX CAP
ORDINANCE No. 748
ATTACHMENT A

Title 3 of the Craig Municipal Code is hereby amended by adopting a new definition for “Fuel” in Section 3.08.010 and adding a cap on sales tax collected on fuel in Section 3.08.020 to read as follows:

3.08.010 Definitions

“Fuel”, for purposes of this section, means fuel (refined gasoline, diesel fuel, and propane) that is subject to Craig sales tax. This does not include other products; pre-packaged fuel sold in cans or other containers; or any other types of fuel charges.

3.08.020 Levy of Sales Tax – rate

E. The following are exempt from the tax:

26. Gross receipts derived from sales of fuel for that portion of the per gallon cost above a rate set by resolution by the Craig City Council. This provision is effective until June 30, 2023.

OPTION C – FUEL SALES TAX REBATE
ORDINANCE No. 748
ATTACHMENT A

Title 3 of the Craig Municipal Code is hereby amended by adopting a new definition for “Fuel” in Section 3.08.010 and adding a cap on sales tax collected on fuel in Section 3.08.020 to read as follows:

3.08.010 Definitions

“Fuel”, for purposes of this section, means fuel (refined gasoline, diesel fuel, and propane) that is subject to Craig sales tax. This does not include other products; pre-packaged fuel sold in cans or other containers; or any other types of fuel charges.

3.08.020 Levy of Sales Tax – rate

B.1. Fuel Sales Tax Rebate:

- a. Customers who purchase fuel from vendors where the sale is subject to Craig Sales Tax are eligible to receive a rebate on a portion of the sales tax paid.
- b. Customers may submit copies of receipts, along with a form prescribed by the city to the city for processing of a rebate.
- c. Rebate submission and payment schedule shall be fixed by the city.
- d. Rebate amount shall be set by the council by resolution.
- e. This provision is effective until June 30, 2023.

**CITY OF CRAIG
ORDINANCE No. 748**

AMENDING SECTION 10.04 OF THE CRAIG MUNICIPAL CODE, ADDING SECTION 3.08.010 AND 3.08.020 ESTABLISHING A CAP ON SALES TAX COLLECTED ON FUEL

Section 1. Classification. This ordinance is of a general and permanent nature and the code sections adopted hereby shall become a part of the code of the City of Craig, Alaska.

Section 2. Severability. If any provision of this ordinance or its application to any person or circumstance is held invalid, the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

Section 3. Effective Date. This ordinance shall be effective September 1, 2022.

Section 4. Findings. The Craig City Council finds the following:

WHEREAS, on January 1, 2022, fuel costs for vehicle, equipment, and heating fuel were approximately \$4.00 per gallon; and

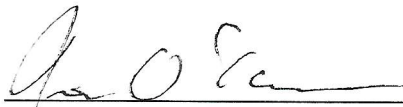
WHEREAS, as of July 10, 2022 fuel prices are between \$5.75 and \$6.50 per gallon depending on type of fuel; and

WHEREAS, the Craig City Council wishes to provide relief to consumers for high fuel prices; and

WHEREAS, the City of Craig is choosing to adopt an ordinance providing for the definition of "fuel" in this context and placing a cap on the amount of sales tax collected per gallon.

Section 5. Action. This ordinance adds Section 3.08.010 and 3.08.020 to the Craig Municipal Code as detailed in Attachment A.

Passed and approved this 24 day of August, 2022.



Mayor Tim O'Connor

Attest



Heather Mendonsa, City Clerk

