



"Village with a Past, City with a Future"

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MEMORANDUM

To: Chuck Kopp, Acting City Manager
From: Larry Semmens, Finance Director *LS*
Date: November 10, 2005
Subject: Potential Impact of Wal-Mart on Kenai Finances

Although I have not done extensive analysis on the impact of Wal-Mart coming to Kenai, I can draw some conclusions based on what happened to sales tax in Kenai when Kmart came in 1993.

The first full quarter of sales tax that included Kmart was 3rd quarter 1993, in which there was a \$7 million increase in sales, or 23% more than the same quarter in the previous year. The 4th quarter was up 33% over the prior year. Fiscal year 1994, which included these two quarters, ended up 22% higher than the prior year. Kmart sales alone did not account for all of the increase; other businesses in Kenai, taken together, also had increased sales. The City of Kenai benefited handsomely from increased sales tax and Kenai led the peninsula cities in taxable sales until Fred Meyer opened in Soldotna. This is significant! **If Wal-Mart is coming to the Peninsula, and it appears they are, I definitely want them to be in Kenai.** When Fred Meyer opened in Soldotna, Kenai taxable sales fell 6%. If Wal-Mart locates outside of Kenai, I expect a significant drop in taxable sales in Kenai – far more than the 6% that occurred previously.

I am expecting Wal-Mart to exceed Kmart in taxable sales, and I expect other businesses in Kenai to have increased sales due to increased traffic in Kenai. Therefore, I am confident that the first full year of Wal-Mart operations will set the new high mark for taxable sales in Kenai and that sales tax revenues will be up substantially, perhaps as much as \$1 million dollars. Note that it takes over \$33 million in taxable sales to generate a million dollars in sales tax. This is significant economic activity. Taxable sales in FY 2005 were \$140 million.

Wal-Mart will also be paying almost \$200,000 per year lease revenue to the Airport Fund; which, as everyone is aware, is in financial difficulty. The General Fund will also

benefit through property tax on this leasehold interest. I am not able to determine the exact amount of this tax, but it should exceed \$10,000 annually at our current mill rate of 4.5. There will also be real and personal property tax on the building and fixtures when they are built. Again, I do not know the exact values, but Wal-Mart is estimating \$18 million for construction and there will be taxable personal property in the store. This should generate about \$85,000 in annual property tax. Other buildings are very likely to be sited on the property. No values have been projected for these, but when they are built there will be additional property tax revenues. I believe it is a conservative estimate that property tax of over \$100,000 annually will be generated by the Wal-Mart complex at our current tax rate. The construction phase will also generate positive economic activity in Kenai.

To summarize the annual revenue picture:

Airport:	\$200,000 lease revenue
General Fund:	\$1,000,000 sales tax
	\$ 100,000 property tax

Some may ask whether Kenai needs the extra money. It is no secret that costs are escalating. Fuel, which affects many things, property and liability insurance, workers comp insurance, and health insurance are all up significantly and could easily continue to rise faster than the national inflation rate. The biggest increase in cost for the City will be our contribution to PERS. In FY 2003 the City paid \$128,000 or 2.63% of payroll, to PERS. In FY 2005 it was \$419,000 with a rate of 8.67%; and in 2007 the rate will be 18.67% and will cost about \$933,000. I expect the State to cover about \$275,000 of the FY 2007 amount. If rates continue to rise to the projected actuarially required amount of 30%, our PERS cost will exceed \$1.5 million annually. Even if the rates level off at 20%, which is a realistic probability, it will cost Kenai \$1.1 million annually, or the equivalent of 3 mills of property tax. This money will have to come from somewhere or draconian cuts to services will have to be made.

The question is, where will the money to cover these cost increases come from? Do we expect the State of Alaska to share revenues in amounts sufficient to cover these increases? I do not. Will property values rise enough to generate sufficient property tax revenues without increasing the mill rate? I don't think so. Are the taxpayers of Kenai going to support a significant mill rate increase?

Or would it be better to welcome Wal-Mart and seek to make Kenai the retail hub of the Peninsula? Imagine the possibilities!