FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: HB 537
(H) Publish Date: 3/18/04

Revision Date/Time (Note if correction):
Title: Tourism Services Sales and Use Tax
Sponsor: Governor
Requester: Rules Committee

Dept. Affected: Revenue
RDU: Revenue Programs & Services
Component: Tax Division
Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	1,008.5	1,187.1	1,064.6	1,064.6	1,064.6	1,064.6
Travel	20.0	23.0	16.0	16.0	16.0	16.0
Contractual	376.0	241.2	215.9	215.9	215.9	215.9
Supplies	26.0	19.5	17.0	17.0	17.0	17.0
Equipment	184.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**1,614.5**	**1,470.8**	**1,313.5**	**1,313.5**	**1,313.5**	**1,313.5**
CAPITAL EXPENDITURES	**272.5**					
CHANGE IN REVENUES* ( )	**19,000.0**	**49,000.0**	**49,000.0**	**49,000.0**	**49,000.0**	**49,000.0**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,614.5	1,470.8	1,313.5	1,313.5	1,313.5	1,313.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,614.5**	**1,470.8**	**1,313.5**	**1,313.5**	**1,313.5**	**1,313.5**

Estimate of any current year (FY2004) cost: ________
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: [ ]

POSITIONS

Full-time	23	20	17	17	17	17
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

* FY 2005 revenues are lower because of the January effective date of the bill. Additionally, because most tourism service revenues are realized in the May-September period, revenues for the January-June period will be lower than revenues for the July-December period. We used Anchorage bed tax data, cruise ship line schedule data and employment data to estimate the revenue in the first six months of the year.

**Please see attached for an analysis of cost and revenues.

Prepared by: Chuck Harlamert & Brett Fried — Phone 465-2320
Division: Tax Division — Date/Time 3/10/04 8:06 AM
Approved by: Steve Porter, Deputy Commissioner — Date 3/10/2004
Agency: Department of Revenue

(Revised 12/2003 OMB)

STATE OF ALASKA **BILL NO. HB 537**
2004 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

Revenue Analysis - Full Year
We estimate the tax base from accommodations other than cruise ships to be $300 million per year generating $15 million in revenue at the 5% rate. Sources include the "2002 Alaska Taxable" and business license data from the Department of Community and Economic Development and data from the Municipality of Anchorage and the Kenai Peninsula Borough.

We estimate approximately 776,000 cruise ship passengers spend an average of $1,000 (not including tours, sales and excise taxes or airfare) for the cruise ship portion of their Alaskan trip. After adjusting for the portion of their trip spent in other states or Canada, we estimate the tax base to be about $465 million per year generating about $23 million in revenue at the 5% rate. Sources of data include cruise line agency schedules, data from various internet sites and conversations with Lorene Palmer at the Juneau Convention and Visitors Bureau.

Although the per person Alaskan cruise price of $1,000 is probably conservative, it is very difficult to estimate the average price for a cruise ship cabin. The price of cabins varies widely by time of travel, time of booking, choice of cabin, choice of ship and other factors. The cruise line agencies have also recently estimated passenger arrivals in Juneau for 2004 at 850,000. We used the 2003 actual arrivals of 776,000 in Juneau as our estimate. The 850,000 passenger estimate would increase the revenue estimate by about $2.5 million.

We estimate total sales of taxable guided activity in the state to be $227 million per year generating about $11 million at the 5% rate. This estimate is very rough because of the lack of data on the total value of all guided activities in the state. Sources of data include the "1997 Economic Census", the "2001 National Survey of Fishing, Hunting and Wildlife-Associated Recreation: Alaska" and the "Economics of Sport Fishing in Alaska" for 1999 and 1993 produced by the University of Alaska Anchorage and the 2002 Annual Report from the Alaska Railroad Corporation.

Cost Analysis
Personal Services - Initial staffing levels reflect our estimates for personnel necessary to initiate and operate the program. Staffing levels are projected to decline from 23 FTEs in FY05 to 17 FTEs in FY07 and thereafter as a result of policy, technology, and program maturity.

The Department estimates there will be approximately 3,600 taxpayers. A significant percentage of these taxpayers will have little or no experience in the preparation and filing of excise tax returns. Filing is expected to fluctuate seasonally, peaking in summer with a significant volume of intermittent filers. We therefore expect an abnormal error rate through the first year of the program. Examination and accounting staffing projections reflect this expectation.

The cost projections are based on the assumption that the bill includes provisions to encourage electronic filing and payment and that funding exists to implement electronic filing during the first year of the program. Funding for electronic filing systems is included in the capital expenditures. Electronic filing reduces processing effort for returns and payments. In particular, electronic filing reduces the frequency of taxpayer and data entry errors that represent a disproportionate share of processing costs. The personnel and related costs assume 50% participation in web based filing by the end of the program’s second year. Some form of incentive to taxpayers will be necessary to achieve this level of participation.

The program will undergo a normal self-defining process during which unforeseen issues arise and are resolved via policy, regulation, and adjudication. The resources required to administer the program are expected to decline and stabilize as the program matures. The initial cost projections reflect our estimates of technical staff levels necessary to achieve an acceptably mature program within three years.

Travel - Projections for travel expenses reflect anticipated travel for taxpayer education, regulations, training and audit activities.
Contractual - The contractual cost projections reflect declining program start up and personnel related costs as the program matures.
Supplies - $1,000 per FTE.
Equipment - $8,000 per new FTE.
Capital Expenditures
Capitol costs represent information systems and related equipment necessary to implement web filing and payment. These costs are the incremental costs of planned systems replacement during FY05 and assume that the Department's existing FY05 capital requests are funded.