

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 13, 2010

9:08 a.m.

MEMBERS PRESENT

Representative Bob Herron, Co-Chair
Representative Cathy Engstrom Munoz, Co-Chair

MEMBERS ABSENT

Representative John Harris
Representative Wes Keller
Representative Charisse Millett
Representative Sharon Cissna
Representative Berta Gardner

COMMITTEE CALENDAR

OVERVIEW: VISITOR INDUSTRY IMPACT IN ALASKA

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CURTIS THAYER, Deputy Director
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Presented an overview entitled "Visitor Industry Impact."

STEVE HITES, Port Commissioner
Skagway Port Commission
Skagway, Alaska

POSITION STATEMENT: Encouraged passage of legislation reducing the commercial vessel passenger tax.

FRED REEDER, Port Manager
Cruise Line Agencies of Alaska
Sitka, Alaska

POSITION STATEMENT: Encouraged the committee to support the decrease in the commercial vessel passenger tax for Alaskans and Alaskan jobs.

CRAIG DUNCAN, Finance Director
City & Borough of Juneau
Juneau, Alaska

POSITION STATEMENT: Discussed the financial impact of the \$34.50 commercial vessel passenger tax in Juneau.

ACTION NARRATIVE

[9:08:52 AM](#)

CO-CHAIR CATHY ENGSTROM MUNOZ called the House Community and Regional Affairs Standing Committee meeting to order at 9:08 a.m. Representatives Munoz and Herron were present at the call to order.

Overview: Visitor Industry Impact in Alaska

[9:09:06 AM](#)

CO-CHAIR MUNOZ announced that the only order of business would be an overview of the impact of the visitor industry in the state.

[9:09:55 AM](#)

CURTIS THAYER, Deputy Director, Department of Commerce, Community, & Economic Development (DCCED), related that he would discuss a recent study DCCED commissioned from the McDowell Group regarding the economic impact of the tourism industry on Alaska's economy. He then turned attention to the slides entitled "By the numbers . . .," the first of which uses pie charts to relate the Alaska visitor volume as well as the cruise market share in the summer of 2009. He informed the committee that about two-thirds of summer visitors are cruise ship passengers. Approximately 65 percent of Alaska's [summer] visitors arrive by ship. Another way to measure the percent of visitors to the state is regarding how the tourist entered and exited the state. When tourists enter Alaska, they often exit by airplane, ferry, and highway. The total number of visitors to the state [in 2009] was 1.58 million. Referring to the first slide entitled "The Good," he pointed out that those visitors produced about \$2.1 billion in total visitor industry spending

and \$3.4 billion in direct, indirect, and induced spending. Visitor industry employment accounts for about 36,000 jobs. He then highlighted that in Southeast Alaska tourism amounts to about 21 percent of the economy whereas in the Interior tourism amounts to about 9 percent of the economy and in Southcentral it amounts to about 7 percent of the economy. Tourism produces \$1.1 billion in labor income and \$2.8 million in tax revenue to state and local governments. Tourism spending in Southeast Alaska amounts to about 35 percent, Southcentral Alaska about 43 percent or a little over \$600 million, Interior Alaska about \$230 million, Southwest Alaska about \$88 million, and the Far North about \$21 million. He then reviewed the visitor spending by region and sector as illustrated by the pie charts in the presentation. Mr. Thayer then reviewed the visitor industry employment totals per region, with Southcentral having the highest amount of employment in the visitor industry as 17,600 are employed in Southcentral Alaska. He mentioned that although the employment in the Far North region is the lowest with 300 employees, it is growing as there are a lot of small niche markets such as in Kaktovik and Prudhoe Bay. He noted that the Office of Economic Development through the tourism agency is mentoring smaller programs in the Far North region.

MR. THAYER reviewed the graph entitled "Selected Revenues to Municipal and State Governments October 2008-September 2009". The total municipal revenue tourism generated in the aforementioned timeframe was \$69.8 million. Revenue generated by tourism in the form of sales tax totaled \$28.9 million while the amount generated in bed taxes totaled \$23.5 million. He pointed out that the decline in tourism results in a decline in all economies across the state; the difference resulting from the decline is usually made up by private property owners. The state receives revenues from tourism that total \$138.8 million, including the commercial passenger vessel tax in the amount of \$46.4 million, the passenger gambling tax in the amount of \$6.3 million, and the Ocean Ranger program in the amount of \$4 million. The state revenues also include revenues in the following categories: nonresident fishing/hunting/trapping licenses and tags, Alaska Marine Highway, Alaska Railroad, vehicle rental tax, and corporate income tax. The total selected revenues amount to \$208.6 million.

MR. THAYER, referring to the slides entitled "The Not So Good", informed the committee that after decades of growth [in tourism], visitation declined 7 percent last year. The decline resulted in a loss of \$270 million in spending in Alaska. This summer alone, cruise ship passengers are expected to decline by

140,000 passengers. The decline in cruise ship passengers amounts to a \$150 million loss in the state's economy and the loss, over a two-year period, in nearly 5,000 jobs. These are jobs in mom and pop small businesses. He then directed attention to the slide with the chart entitled "Loss of government revenue from 2009 decline", which specifies the percent loss in bed tax revenues, vehicle rental tax revenues, Alaska Department of Fish & Game (ADF&G) license sales, and sales tax revenues. He told the committee that Whittier expects to have 88,000 less visitors, which will also impact Anchorage car and hotel rentals. He reminded the committee that losses in sales tax revenues have to be made up by residents in the area.

[9:17:19 AM](#)

MR. THAYER moved on to the slide "What can be done?" which highlights the governor's tourism enhancement legislation. The governor's legislation reduces the head tax from \$46 to \$34.50, but keeps intact the corporate income tax, the gambling tax, the Ocean Ranger tax, et cetera. The governor's legislation also clarifies the guidelines on appropriating tax proceeds, [relates] long-term and sustainable marketing efforts, and removes barriers that inhibit growth. Alaska's marketing efforts have slipped, especially in comparison to other countries. For instance, Australia spends almost \$70-\$90 million on marketing. Referring to the slide entitled "Benefits to state", he highlighted that the tourism industry has agreed to drop its lawsuit against the state and reconsider cruise ship deployments for 2012 beyond, if the head tax is reduced. He pointed out that cruise ships make these determinations 18-24 months ahead. Therefore, it took a while for the redeployments to occur after implementation of the head tax and will take time to get these ships back in Alaska. He emphasized that Europe is experiencing double digit increases in the number of visitors and ships are being built that aren't going to be deployed in Alaska. "So, it's not that there's a problem in the industry, the problem is that Alaska has the highest tax and environmental regulations in the world," Mr. Thayer said. He then highlighted other benefits to the state, including putting Alaskan families and businesses back to work and growing and diversifying the state's economy. In conclusion, Mr. Thayer related that reducing the head tax is the one piece of legislation that impacts more small businesses and the entire state than any other piece of legislation.

[9:19:53 AM](#)

CO-CHAIR MUNOZ noted her appreciation for Mr. Thayer's work and the information he has provided today.

9:20:36 AM

STEVE HITES, Port Commissioner, Skagway Port Commission, paraphrased from the following written testimony [original punctuation provided]:

I am a 37-year resident of Skagway, and have served on our City Council. I am currently serving as a Port Commissioner.

In 1986 my wife and I took our life saving and invested them in three 1920s antique automobiles for sightseeing tours. We drove all of our own city tours ourselves. My brother-in-law was the company mechanic and back-up driver. The morning that we finally started up our new tour business, we had exactly \$50 in the cash box, and it was the very last of our family's money. But the ships came in, they were full of people who wanted to see "Gold Rush Skagway", and we were there to show it to them.

The growing cruise industry allowed us to grow our business, create other jobs for other family members (my sister-in-law, her husband, my sister, my nephew, my son), and create new jobs for other people in the community. Some of these jobs are now year-around, even in a seasonal industry. We developed property, paid property taxes, started up several other businesses, and collected sales taxes on all of our transactions for the City. The City's revenue grew.

The individual job that is created by a private sector company in a community is essential to understanding the real value of cruise tourism. The person with a job in tourism job pays rent, buys groceries, goes to the hardware store, buys clothing, purchases gasoline for their car, goes to local restaurants and bars, and pays the local electric, phone, and internet provider for service. As all this is happening, the company this person works for is purchasing supplies and materials for their business in the same way. Tourism is a spending multiplier, and its effect puts the tourism dollar into the hands of a broad and diverse set of actors, reaching into many businesses and

touching a wider and wider range of individuals across a community.

In 1986 when we started our business there were 100,000 cruise visitors to Alaska. Alaska hit one million cruise visitors a year in the summer of 2007. It had never happened before: it was a huge milestone achievement. But since that time, the Alaska Cruise Ship initiative, which added a series of taxes, fees, and regulations onto the top of existing port expenses, increased the cost of operating in Alaska. For 2010, Alaska has lost 140,000 berths. This has never happened before, either.

Alaskan communities built "churches for Easter": docks and facilities that could handle the busiest days with stacks of four and five ships in port at the same time.

It was our decision to do this. We're the ones that went to the bank, took out the loans, and built the infrastructure. We bought extra buses, railroad cars, built new gift shops, restaurants, and theaters. *We did this all based on the optimistic business probability that this was all going to continue to happen the way we had seen it happen every year for 30 years.* And if there had been no Cruise ship initiative the probability is that things *might* have continued. Certainly there would have been fluctuations in traffic, but we would not have seen ships *removed* from the region *because of the unacceptably high cost to operate in Alaska* vs. the lower cost to operate *anywhere* else.

It's like moving money from a bank account: if you're going to get a better interest rate at another bank, you move your funds.

Remember: the cruise lines will ALWAYS fill their ships, one way or another, whether they have one ship or 25 ships sailing in the region. The question is: how much of a "push" do the cruise lines *put behind your region?* As they grew their fleet presence, the industry grew their marketing budgets until they were spending some \$75 million each year marketing Alaska to get their one million passengers. But when they remove ships from a region, they also pull back their

marketing dollars so that money follows the ships. With the loss of three big ships and 140,000 berths in 2010, Alaska has lost some \$11.75 million in cruise line marketing support *this year alone*. That's why the State needs to address a funding source for Alaska marketing: a huge chunk of it just sailed away! And 27% of the people who take an Alaska cruise returned as an independent traveler within three years. THAT'S where our "independent travelers" were coming from, too. Reduce your cruise ship traffic *now*, and you will reduce your independent traffic *down the road*.

So in addition to the thousands of jobs, hundreds of businesses, and the millions of dollars in economic benefits to communities, there is an overall benefit to *all* Alaska tourism, all of it as an outflow *from the ship*. This happens just by letting the ship come in. *None of it happens* because someone watching the ship sail by decides they "deserve a piece of the action".

This is a clean industry. The discharge water coming out of a cruise ship's outflow pipe is cleaner than the water coming out of any municipal sewage treatment plant in any city or town in Alaska. Many small Alaskan towns don't have recycling programs, programs that are in place on most cruise ships sailing in Alaska. The ships *have* to recycle their waste. But vocal citizen advocates in Alaska have succeeded in imposing a higher bar on the cruise industry than on any Alaskan community. One article in an extremist environmental publication described how cruise ships suck the life and beauty out of the land as they pass, leaving behind only a blue haze of exhaust hanging in the air, and a polluted ocean in their wake.

The implication is that cruise ships are destructive by their very existence. This is patently absurd.

Alaska's leaders need to stand up to the extremists and the extreme regulations and taxes they promote for their agendas. These extremists are the most dangerous opponents of Alaska's communities. Their course will wreck our economy, remove paths to wealth, and eliminate opportunities. *Alaskans don't want this*. But there are many people who are easily swayed by the seductive "spin" put out by the extremists. The only

way to counter this is to disseminate truthful information about the value of this industry with our neighbors, communities, and government. The end result will be a public that understands the facts, and that is open to supporting the industry.

The cruise tourism is a *partner* in our economy. They are just like oil and gas, mining, timber, and fishing. They are NOT a "target" to go after to try to balance a budget. They are not a source of unlimited funds that can be tapped to pay for everything. *They are an engine of regional economic growth.*

Those of us in business, in local Government, those who were the direct beneficiaries of the cruise industry's growth, we are the most to blame. We didn't properly stand up for the cruise lines, or rally our neighbors to our cause against the extremists. It's our fault. Quoting Pogo, the sage comic strip possum from the bayous of Louisiana: "We have met the enemy, and he is us."

It's no different than an auto manufacturer in Detroit looking at his cost of doing business there. If I can make more money, if I can be more profitable for my shareholders, if I cannot get the people in Detroit to understand the reality of my financial situation, I will move my factory to Tennessee. If you're the Mayor of Detroit, or the Governor of Michigan, or a member of the Michigan legislature, and you don't UNDERSTAND that, it's YOUR loss. It's no skin off the auto manufacturer. Really. He may not WANT to do it, but he will. He HAS TO. It's about the health and survival of his business.

The cruise lines don't WANT to leave. Alaska cruises have a good market niche. But they can make a whole lot more money putting their ships in other places where they don't have such high costs and restrictive regulations. The lines are building and launching almost two dozen brand new cruise ships in the next two years to meet the growing world demand for cruise vacations. NONE of them are coming to Alaska. Our destination is too expensive, and no longer competitive in the cruise industry. Economics absolutely *DOES* enter into the equation.

The extremists tried to tell the Alaskan public that economics didn't matter. They lied.

"It's only fifty bucks", they said. No, that's not right, that's not true or factual, it's over \$50 million every year, \$150 million in total so far, and so you can't say that.

Their \$50 million State head tax this year will be responsible for over \$93 million in lost revenues to businesses in Southeast Alaska, and over \$165 million lost statewide. So a "tax on cruise passengers" really ends up taking three times as much out of the pockets of Alaska small businesses. That was NEVER the intent of that legislation. It was NEVER the intent of the voters in Alaska.

Facing the loss of cruise passengers to Skagway this summer, after 15 years I have closed my Skagway retail businesses, and with it, eliminated 5 jobs. I have canceled orders with dozens of small "made-in-Alaska" family companies who were my suppliers. Those orders were worth thousands of dollars annually. These orders have stopped. I have had to reduce my driving staff by two full-time positions, and two half-time positions. And, because we know that with fewer ships again next year things will be even worse, my wife and I have already decided that we have to eliminate a minimum of two more full-time jobs next year as well. This was NEVER the intent of the cruise ship initiative. It was NEVER the intent of Alaska's voters.

No one knows what havoc and economic destruction will come in the wake of the loss of 140,000 cruise visitors: but employees will be laid off, jobs will be eliminated, businesses will close, and communities will lose their local tax base. All of this so the initiative sponsors can say they have created a "steady flow of tax money coming in" to the State from the cruise ships?

Where will that money come from when these excessive taxes and regulations drive away all but a handful of ships, and the source of all those taxes is no longer around to take further abuse? What will the State do when a dozen formerly prosperous communities, whose local tourism economies have been wrecked by the

initiative, come begging, hat in hand, pleading for help? What industry will the extremists, the *pirates*, try to extort money from next?

When the extremists started preaching their views, we ignored them, thinking their off-the-wall comments were the raving of crazed anarchists. We learned that if crazy things get said over and over enough times, unfortunately, unbelievably, *some people start to believe them.*

9:30:45 AM

MR. HITES continued:

We are greatly heartened by Governor Sean Parnell's historic visit to the Seatrade Cruise Shipping conference in Miami last month, where he personally met with our cruise line customers. The Governor carried our message to the cruise industry: *Alaska hears you. And Alaska is open for business.*

Now it's the crucial job of this body to pick up on the Governor's lead, and urge your colleagues in the House and Senate Finance Committees to move the needed legislation out onto the floors of these chambers for discussion and vote.

Deployment of cruise ships to Alaska is usually made by March 31st. At least one of the major lines has said that they will wait to make their deployment decisions until after this Legislative session ends. If the lines do not get some relief, I believe they will have no choice but to make additional reductions in tonnage in 2012. Given that, the next opportunity for Alaska to reverse this downward curve and the collateral damage it will cause will be for the summer of 2013.

Many small businesses will not make it that long. For many of us, our family businesses have been our life's work. We are watching that life's work crumble before our eyes. We are here to plead for help. You can stop this. With your vote, you can change this around.

There is a big wide world covered with ocean just out there. Cruise ships can go ANYWHERE on it. Thousands of working Alaskans and their families look forward to

welcoming some of them back in the not-so-distant future...to Alaska.

9:32:39 AM

CO-CHAIR HERRON inquired as to Mr. Hites' reaction to the recent briefing paper regarding the commercial vessel passenger tax and the newspaper article relating that there is a pending settlement pending legislation.

MR. HITES related that his first reaction was thank goodness there might be a chance for this. He clarified that although he has worked all his adult life in tourism, he doesn't work for the cruise industry but rather works with them. He referred to the cruise industry as his customer and like any other business trying to make a little money. Mr. Hites said that his second reaction was concern whether the [pending legislation] will make enough of a difference to matter soon enough. He related his belief that there is opposition to reducing the tax as well as confusion and misunderstanding. In fact, some believe the economy is the problem, which he opined isn't the case. He further related the desire to work with the government and make this work. Mr. Hites then acknowledged that the vocal opposition who led the initiative collected 10,000 signatures, but pointed out that he's representing 32,000 [tourism] jobs. The future, he opined, is terrifyingly uncertain.

9:36:20 AM

CO-CHAIR HERRON recalled that those in opposition to reducing the cruise vessel passenger tax suggest decreasing it to \$39 rather than to \$34.50 as is proposed in legislation. He inquired as to what's the meaningful difference in amount, most specifically he inquired as to why a reduction of approximately \$11 would work [for the cruise industry] and a \$7 reduction wouldn't.

MR. HITES responded that it's a formula of net onboard revenue. He emphasized that the opposition doesn't understand because they don't understand that after the cruise line takes all its costs, they make a 10-11 percent return. When the \$50 tax is added on top of that 10-11 percent return, it results in a 1-2 percent return. There isn't a profit margin there, which is why the cruise lines are going to the Mediterranean. At that point, the argument is no longer on a reduction of \$7 versus \$11 but rather is an argument with another country such as Spain. This matter isn't \$50, it's about the future of Alaska, he stressed.

[9:38:59 AM](#)

CO-CHAIR HERRON thanked Mr. Hites for his testimony.

MR. HITES said it's an honor to be a part of this industry and to be blessed to be in Alaska and share it with others.

[9:40:09 AM](#)

FRED REEDER, Port Manager, Cruise Line Agencies of Alaska, returned to the earlier question regarding why a reduction of the tax to \$34.50 was chosen. In order to understand why the \$34.50 was chosen, one needs to return to the founding fathers and the Articles of Confederation under which the states were more in charge than the federal government. As goods starting moving, communities taxed goods as they moved through their port such that those further down the line paid more for the goods. The founding fathers decided that just because the barge went by a community, that community couldn't just tax it. Therefore, the Tonnage Clause was inserted into the constitution specifying that the service provided to a vessel can be taxed, but just because a vessel passes by it can't be taxed. Because there was litigation in effect from the Alaska Cruise Association the original 2006 initiative specified that 25 percent of the proceeds from the tax would be used to create subaccount, the regional impact fund. He explained that \$34.50 is 25 percent of \$46.00. He then informed the committee that last year there was a case, Bridgeport Ferry Authority v. Bridgeport Ferry in which the Second Circuit Court of Connecticut found that the authority had raised the price of the ferry ticket by \$1 per head and then spent those funds on things not related to providing services to the ferry passengers. In that case, the judge said the authority couldn't [increase the ticket price by] \$1.00 if the entire \$1.00 wasn't spent on providing services for the ferry passengers. The judge, after reviewing the authority's expenditures of the \$1 per ticket, determined that the authority could only account for \$.25 of the \$1.00 it collected. Therefore, Mr. Reeder said he believes that there was review of what was legally defensible of the \$46.00, of which the regional impact fund was the first. The farther away the funds are spent from the port at which they were collected, the more the judge will review the line item expenses of the port. The aforementioned means that the state would be held [responsible] for money it already spent. He opined that the state has likely spent funds collected from the tax on projects that won't be defensible in the lawsuit. Therefore, although the state may

prevail in the lawsuit, it won't be at the full \$46.00 level and thus the state will have to reimburse passengers. He estimated that the state would have already spent about \$50 million. With regard to the community offsets for Juneau and Ketchikan, Mr. Reeder said those are already taxes that are being taxed and probably legally defensible expenses. The other good part in the proposed Senate legislation is that the final section discusses performing a study after three years in order to determine how much money was collected, spent, and the amount of needs requested. The aforementioned is the best part of the proposed Senate legislation, he opined.

[9:46:55 AM](#)

MR. REEDER informed the committee that the City of Sitka is facing a \$1 million loss in sales tax revenue because of the decrease in cruise ship passengers. The City of Sitka has already been before the legislature to increase the municipal revenue sharing. If the City of Sitka is given \$1 million extra to account for the loss in cruise ship passenger [revenues], then there's less money to provide to Anaktuvuk Pass or other sources of funds have to be sought. Those Alaska communities that can take care of themselves should do so. Such action frees up funds for those communities that don't have a strong economic base. He reviewed the losses Sitka is going to face, and questioned from where the funds will be obtained. He predicted that the City of Sitka will cut teachers, police officers, and other staff. In fact, such discussions are already occurring. Therefore, he emphasized that bringing back cruise ships is a good thing for the community.

[9:48:54 AM](#)

MR. REEDER related that he was born in Sitka in 1952 and has seen the community change since that time. He further related that when he graduated from Sitka High School in 1971, the Alaska world was available. Currently, Mr. Reeder has three children, who he always anticipated would work for him if they so chose. This summer his eldest son will work for him and earn \$9-\$11,000 for the summer. He explained that typically he hires seven college students, but this year he will only have two college students working for him. He said he has been saddened because he has had to turn away five college students. The City of Sitka, he related, is short 100 jobs in the tourism industry. Although many of the tourism jobs are seasonal in nature, they provide hopes and dreams for Alaska youth. He noted that although his middle son and daughter were lucky and did find

jobs in the tourism industry, they are not as good or as well paying as the jobs he offers. He then informed the committee that probably 15 fairly wealthy men have moved from Washington State to Sitka, [opened businesses], and employee people in Sitka. Upon contemplation as to why these men moved from Sitka to Washington, he determined it was due to the fact that Alaska has less taxes than Washington State. He opined that people living in areas that are over taxed move to an area that taxes less. "The economic benefits of those states that tax less is amazing. We are the benefit of Washington's high taxes much like the City of Sitka has low taxes and encourages people to move there, we need to make sure that in our visitor industry that we keep our taxes low and continue to ask people to come here," he opined. The state's low taxes benefit all Alaskans. In conclusion, Mr. Reeder encouraged the committee to support the decrease in the head tax for Alaskans and Alaskan jobs.

[9:55:56 AM](#)

CRAIG DUNCAN, Finance Director, City & Borough of Juneau, clarified that he is present to discuss the financial impacts of \$34.50 on Juneau, not the merits of the \$34.50 tax. He explained that the City & Borough of Juneau (CBJ) funds its operations with a combination of property taxes and sales taxes. In 2008 the property and sales tax was about equal. However, beginning in 2009-2010, the sales tax has declined rapidly and is actually less than the property tax by a significant amount. The decrease in the sales tax is due to a combination of things, including the economic down turn. In fact, there has been a 6 percent in local sales from local year round residents. However, the actual decrease in the sales tax is significantly greater, which he mainly attributed to a reduction in the cruise ship passengers. He informed the committee that approximately 20 percent or so of CBJ's sales tax revenues are from tourism, mainly from cruise ship passengers. The actual impact due to the decline in tourists is about 40 percent of the reduction. The tourism going from over 1 million [visitors] to a projected 860,000 [visitors] represents several million dollars of sales tax revenue to the city, which places the city in a negative financial situation along with other issues. Therefore, CBJ has had to reduce its operating budget by some \$4 million. Fortunately, that reduction was accomplished without eliminating occupied positions but rather it included the elimination of vacant positions. Mr. Duncan related that he has heard reports that those businesses that deal solely with tourism are simply not going to reopen this year. The aforementioned will impact the sales tax collected as well as the economy related to

employment in the year round businesses that [the seasonal tourism businesses] support. He then referred to a graph he provided to the committee which illustrates that the drop from 2008-2010 is about 6.5 percent. The critical part is that the city continues to have cost increases. Had the city continued to experience the same trend [prior to the decrease in tourism], the city would've collected 14 percent more than its current level. The sales taxes for CBJ are down to 86 percent of what was anticipated prior to the economic recession and decrease in cruise ship passengers. Of that 14 percent reduction, a more than proportional piece is due to the fact that the cruise industry is pulling ships from Alaska. Those 140,000 passengers will make about a 40 percent impact on the sales tax. The graph illustrates that in 2011-2012 CBJ's sales tax improves and some increases in the economy in terms of the Kensington Mine. However, the increase will not occur in the [tourism area] if the cruise industry continues to have fewer passengers in Juneau.

CO-CHAIR MUNOZ requested that Mr. Duncan comment on the impact of property tax reassessments due to property value decreasing in the visitor sector.

[10:01:16 AM](#)

MR. DUNCAN, in response to Co-Chair Munoz, said that at this point it's a little early because the assessments for the fiscal year ending in 2011 are assessed January 1, 2010, which was three months ago. He then related that commercial properties did decrease quite a bit last year, by about 8 percent boroughwide. However, he opined that the reductions will occur this summer when there is a full reduction in the cruise ship passengers on those businesses that target tourism. Therefore, there will likely be large reductions in the 2011 assessed value. How much the reduction will be, he said he could estimate.

[10:02:21 AM](#)

CO-CHAIR MUNOZ asked if the \$4 million deficit CBJ faces for this biennial budget cycle also take into account projections on property.

MR. DUNCAN replied yes, but clarified that the deficit is \$4 million per year. Therefore, [the deficit] is \$8.8 million in the two-year budget. Therefore, it's a significant cut and work on cuts has been going on for a year now. The \$8.8 million

deficit is due to a combination of things, perhaps 50 percent or less of it is attributable to sales taxes. The property tax projections assume stable commercial property, which is being assumed because the belief is that any reductions in commercial property reductions due to a decline in tourism will be offset by the opening of the Kensington Mine. However, he confirmed that there will be reductions in property valued of commercial properties that are seasonal.

[10:04:11 AM](#)

CO-CHAIR MUNOZ thanked everyone for their participation. She then related that she feels very confident that progress is being made and there will be legislation addressing the cruise ship passenger tax.

[10:04:55 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 10:04 a.m.