

SCOMM

83:1/2

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO: HCR 54

Revision Date: _____
Title: Establishing the Tourism Revenue
Task Force: _____
Sponsor: House Special Committee on ITT
Requestor: House Special Committee on ITT

Department Affected: Legislative Affairs Agency
BRU: Legislative Council
Component: Council & Subcommittees

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	35.1	0	0	0	0	0
TRAVEL	16.3	0	0	0	0	0
CONTRACTUAL	4.8	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	56.2	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE FUND SOURCE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	56.2					
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	56.2	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	1	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary)

HCR 54 establishes the Tourism Revenue Task Force. The following is requested to adequately support the task force:

Prepared By: Pamela A. Stoops, Director
Division: Administrative Services

Pamela A. Stoops

Phone: 465-3850
Date: 3/24/92

Approved By: Warren W. Endicott, Executive Director
Agency: Legislative Affairs Agency

Warren W. Endicott

Date: 3/24/92

Distribution (by preparer): Leg. Finance, Legislative Sponsor, Requestor, OMB, Gov., & Impacted Agency(ies).

CONTINUATION OF FISCAL NOTE:

HCR 54

PERSONAL SERVICES

Staff is requested as follows to assist the Tourism Revenue Task Force:

Legislative Assistant (Range 21A)
for 6.0 months (July 1-January 1)
 $\$4,303 \times 6.0 \text{ months} = \$25,818$
 $(\$25,818 \times 36\% \text{ benefits}) = \$35,112$

35.1

Funding for FY 93 is for 6.5 months. The task force is terminated January 11, 1993.

TRAVEL

It is anticipated there will be 5 meetings of the 9 member Tourism Revenue Task Force.

TASK FORCE MEMBER TRAVEL

5 meetings x (5 members requiring airfare each meeting) = 25
airfares x \$250 = \$6,250
2 days per diem x 25 = 50
50 x \$95 = \$4,750
5 meetings x (4 members not requiring airfare) = 20
2 days long-term per diem x 20 = 40
40 x \$65 = \$2,600

13.6

STAFF TRAVEL

5 meetings x (1 staff member requiring airfare each meeting) =
5 airfares x \$250 = \$1,250
3 days per diem x 5 = 15
15 x \$95 = \$1,425

2.7

CONTRACTUAL

Advertising - public notices of meetings \$3,200
Phones - \$1,600

4.8

SUPPLIES

Supplies for the task force will be absorbed within the Session Expenses and
Legislative Operating Budgets.

EQUIPMENT

Equipment for the task force will be absorbed within the existing Session Expenses
and Legislative Operating Budgets.

TOTAL

56.2

ANNUAL REVENUE TO THE STATE FROM TOURISM

DRAFT: MARCH 1992

Direct Revenues:

Alaska Tourism Marketing Council	\$ 1.12 million
Division of Tourism	\$.15 million

Revenues to other branches of State government:

1) Non-resident hunting & fishing licenses/tags-1991	\$ 7.49 million
2) State Parks non-resident fees and decals-1991	\$.27 million
3) Alaska Railroad Revenues from non-resident passengers and tour company pulling charges	\$ 5.72 million
4) Alaska Railroad dock fees in Whittier/Seward	\$.30 million
5) Airport System Revenues from visitor traffic	\$ 4.21 million
6) Airport System Fees to tourism businesses	\$20.00 million
7) Alaska State, Sheldon Jackson & UAF museums visitor fees	\$.36 million
8) Business license fees for tourism businesses	\$.13 million
9) Fuel tax on highway visitors	\$.20 million
10) Alaska Marine Highway non-resident revenue	\$17.00 million
11) Division of Motor Vehicles tour bus & driver fees	\$.09 million
12) Fuel tax on tour buses	\$.50 million
13) Corporate Income Tax	\$ 3.50 million
TOTAL	\$61.04 million

NOTES:

- 1) From Alaska Department of Fish and Game
- 2) From Alaska State Parks
- 3 & 4) From Alaska Railroad
- 5) From McDowell, updated by AIAS
- 6) From McDowell
- 7) From AVSP, Museum Staff
- 8) Based on just over 5000 businesses such as lodging, retail sales, food service, etc. at \$25 per year
- 9) Based on 25,000 vehicles driving 1000 miles at 10 mpg times 8¢
- 10) McDowell from AMHS in 1989
- 11-12) From Division of Motor Vehicles. Only includes those 472 vehicles registered as tour buses only. This is a low number. Over 1300 other buses are registered as commercial buses doing more than one type of business. (For example, the school buses used in Denali are not included.)
- 13) Over 35 million is collected from non-oil businesses. At least 10% of the basic industry economy of the state can be contributed to tourism. If corporate income taxes were apportioned along this line, we could expect \$ 3.5 million. However, there is presently no data available to support this or any other assumption. We did not analyze alcohol taxes.

The attached text from the McDowell Group's ALASKA'S VISITOR INDUSTRY: AN ECONOMIC PROFILE lists other taxes and fees collected by municipalities rather than the state.

DESTINATION: ALASKA

TAX COMMITTEE

✓ **Larry Anderson**
MarkAir
P.O. Box 196769
Anchorage, AK 99519
(907) 243-1414 248-0736f

✓ **Johne Binkley**
Riverboat Discovery
P.O. Box 80610
Fairbanks, AK 99708
(907) 479-6006 Fax is same

✓ **Bob Dindinger**
Alaska Travel Adventures
9085 Glacier Hwy, Suite 204
Juneau, AK 99801
(907) 789-0052 789-0054f

Senator Steve Frank
Alaska State Senate
1125 Sunset Drive
Fairbanks, AK 99709
(907) 452-3421 456-3346f

✓ **Wally Hickel Jr.**
Hotel Captain Cook
P.O. Box 102280
Anchorage, AK 99510-2280
(907) 276-6000 no fax

✓ **Kirk Lanterman**
Holland America Line
300 Elliott Avenue West
Seattle, WA 98119
(206) 281-3535 283-2687f

Representative Tom Moyer
AK State House of Representatives
119 N. Cushman St., #205
Fairbanks, AK 99701
(907) 456-8161 456-3346f

✓ **Dave Palmer**
Alaska Airlines
P.O. Box 68900
Seattle, WA 98168
(206) 433-3274 433-3366f

Summary of Alaska Municipality "Tourism" Taxes

<u>Municipality</u>	<u>Bed Tax Rate/ # Facilities Affected</u>	<u>Bed Tax Revenues (\$000)</u>	<u>Revenue Allocation</u>	<u>Year Began</u>	<u>Other relevant taxes/fees</u>
Municipality of Anchorage	8% 78	\$5,230. in FY91	50% to Convention and Visitors Bureau to promote industry; 12.5 % Egan Center; rest to tourism facilities maintenance	1975	None
City of Fairbanks	8% 35-40	\$1,300. FY91 \$1,500. FY92 (projected)	Up to 70% to visitors bureau; 15% tourism non-profit grants; 10% industrial development authority; 3% beautification	1979	None
Juneau city/borough	7% 30	\$600. FY91 \$700. FY92 (projected)	57% to visitors bureau; 43% for convention center operations*	1981	4% sales tax. Cruise ships charged docking fees (\$240/day or net ton rate), revs for dock improvements
Ketchikan Borough	4% 30-35	\$148. FY90	100% to visitors bureau, which is supplemented by other borough funds	1979	3.5% sales tax. Ship docking fees
City of Kodiak	5% 11	\$75. FY91 \$92. FY92 (projected)	85-90% to visitors bureau; rest to beautification	1983	5% sales tax. Ship docking fees
Mat-Su Borough	5% 110	\$36. FY91	Virtually all to visitors bureau through informal dedication	1989	None
City of Petersburg	3% 8	\$72. FY91	All to Chamber of Commerce for tourism promotion	1986	6% sales tax. Ship docking fees
City of Skagway	6% 9	\$115. FY92	All to visitors bureau	1982	5% sales tax
Seward city/borough	4% 20	\$87. FY90	Most to visitors bureau	1986	4% sales tax. Ship docking fees (\$200/day) to port improvements
Tenakee Springs	6% NA	\$2. FY91	All to city treasury	1984	1% sales tax
City of Wrangell	\$3/day 9	\$24. FY90	Most for tourism promotion, facility maintenance	1988	5% sales tax. Ship docking fees

* Juneau, six other Southeast municipalities and Whitehorse and Prince Rupert contribute a share of their bed tax revenues to the Southeast Alaska Tourism Council, a regional tourism promotion organization. For FY92, the Council budget is about \$600,000.

House Special Committee on International Trade and Tourism
November 1991

**Summary of Tourism Taxation Options
and Estimated Potential Revenues**
(See LRA Memo 91.220 for analysis of individual options.)

Notes	Type of Tax/Fee	Potential Revenue** (\$000)			Author's Ranking of Impact***			
		1%	2%	5%	Selects Visitors	Impacts Industry	Competes/W Other Gvt.	Ease of Administration
1.	Hotel Tax	1,200.0	2,400.0	6,000.0	2	2	5	2
2.	Tourism Business Sales Tax	2,100.0	4,200.0	10,500.0	2	2	5	2
3.	Food and Drink Tax	5,000.0	10,000.0	50,000.0	5	3	5	2
4.	Recreation Activity Tax	175.0*			2	2	5	2
5.	Rental Car Tax	163.0	326.0	815.0	2	2	5	2
6.	Airport Landing Fee	1,500.0*			3	2	4	5
7.	Cruise Ship Docking Fee	155.5*			1	2	4	4
8.	Visitor Head Tax	1,350.0*			3	2	4	5
9.	Gaming Tax	823.0	1,646.0	4,115.0	5	3	5	2
10.	Seasonal Sales Tax	9,500.0	19,000.0	47,500.0	3	3	5	2
11.	Foreign Corporations Tax	2,000.0*			1	4	1	2
12.	Rebated Hotel Tax	2,638.0*			2	3	5	2

*These revenue estimates assume a \$1.00 fee per entry in the case of landing and port fees, and a \$1.00 per day camping or recreational activity fee. The foreign corporations tax estimate assumes a tax rate similar to the current Alaska corporations tax rate. The rebated hotel tax estimate is based on a 10% state tax with rebates up to 8% to municipalities with local hotel taxes.

**All potential revenue estimates are gross revenue and do not consider administrative costs unless otherwise noted.

***Ranked on a scale of 1 to 5, with 1 being the most beneficial to Alaska, and 5 being the most detrimental.

Notes:

- Assumes a small increase in price will not lower demand for hotel rooms. Revenue estimate calculated assuming annual Alaska hotel earnings of \$120,450,000 (an average of \$39/room/day).
- Tourists spent \$415,900,000 in Alaska in the 89-90 season. Assume half of that amount is taxed.
- Alaska Department of Revenue estimates expenditures of \$507,780,400 in Alaska eating and drinking establishments in 1990.
- Revenue estimate provided by the Alaska Division of Parks and is net of administrative costs.
- Tourists spent \$16,300,000 on car rentals in Alaska in the 89-90 season. Revenue will likely be higher as residents also rent cars.
- Revenue estimate assumes an annual 1,500,000 commercial passenger arrivals in Alaska, including visitors and residents.
- 155,500 cruise ship travelers visited Alaska in the 89-90 tourist season.
- Revenue estimates calculated assuming 800,000 visitors per year, and each Alaska resident taking one taxable trip per year.
- According to the Department of Commerce, \$83,200,000 worth of pull tabs was sold in Alaska in 1989.
- Alaska Department of Revenue estimates revenues on sales of goods and services in Alaska for three months of 1990 equals about \$9,500,000. The revenue would likely be higher as there is more business activity in the summer months.
- This estimate was obtained from fiscal note analysis of CSHB 12. The estimate includes potential corporate tax revenue from all foreign shipping companies in Alaska and may overestimate revenues from passenger-carrying cruise ships.
- This estimate assumes a statewide hotel tax of 10%, with rebates to municipalities of their current hotel tax revenue (up to 8%). Estimates derived from actual recent (FY 90, FY 91 or FY 92) hotel tax revenues earned in 11 Alaska municipalities.

The source of estimated tourist expenditures and arrivals in the McDowell Group, unless otherwise noted.

Prepared by the Legislative Research Agency, October 1991 (91.220S1).

INTRA

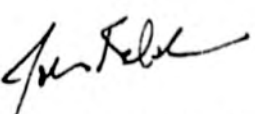
International Tourism and Resort Advisors

March 17, 1992

Memorandum

To: Larry Andersen
John Binkley
Bob Dindinger
Senator Steve Frank
Wally Hickel Jr.
Kirk Lanterman
Representative Tom Moyer
Dave Palmer
Bill Pedlar

cc: Karen Cowart

Fr: John T. Kelsh 

Re: Background Information for the Tax Committee Meeting

In preparation for the meeting, please review the enclosed material and bring it to the meeting.

Additional material on alternative tax scenerios will be presented at the meeting.

Thank you.

DRAFT

Background Paper on
Revenue Generation for Tourism
Development

prepared for

Destination: Alaska
Tax Committee

March 20, 1992

by

INTRA

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*section 8 will be presented at the tax committee meeting

INTRODUCTION

Discussion at the initial meeting of the Destination:Alaska Tax Committee centered on a review of potential fees and taxes which might be raised from visitor industry activity in the State of Alaska and the implications of implimenting specific fees or taxes. INTRA was directed to pursue investigation of two basic tax approaches - a seasonal sales tax and a combination of sector-specific taxes or fees on tourism/recreation/amusement activities in the State, and to determine the feasibility of tax assessments on airline property. Finally, these approaches were to be evaluated against key criteria.

SECTION 1

AVA POSITION ON TOURISM TAXES

The current public AVA position with regard to tourism-related taxes is as follows:

"We look for equity in the search for new sources of revenue for state government, and we simply ask that this search be guided by the principle of fairness in the imposition of any new taxes.

If it becomes clear that Alaska's current tax structure will not produce sufficient revenue to finance essential public services, we will support a broad-based approach to new taxes.

If it is desirable to encourage additional tourism growth, we support first of all a thorough effort to determine whether tourism already provides the revenue to fund additional state tourism expenditures, and secondly, assurance that revenues from special taxes on the visitor industry in turn be applied to the enhancement of the industry.

We are concerned about any inclination to export taxes to the "voteless" tourist as a relief to residents. To the extent that demand for Alaska vacations is sensitive to price changes, visitors are likely to vote with their feet, and travel elsewhere."

(testimony of AVA before the State House Committee on Tourism)

SECTION 2

VISITOR INDUSTRY ROLE IN THE ALASKAN ECONOMY

A logical comparison of Alaska's primary sector contributions to the statewide economy should begin with the identification of primary industries, their gross domestic product as a percent of the total, and the relative value-added components of each industry. In addition, it would be useful to compare the gross domestic product of each sector and its tax revenue to state government compared with government expenditures in direct support of each sector. This type of analysis would help to assess which industries are contributing a net gain to the state and how much.

Ironically, because few general taxes are collected on businesses in the state, base data on gross domestic product does not exist. Therefore a less formal comparison of the primary sectors is required.

Tourism is one basic component of an economy that is also based on the production of seafood, oil and gas, minerals and timber, military activity and management of federal interests in Alaska.

These comprise the Basic Sector industries which generate all economic activity in the state.

The Infrastructure Sector provides essential services to basic industries and to the residents of the state.

The Support Sector services primarily the residents of Alaska.¹

The Alaska economy has not been modeled accurately enough to make precise estimates of indirect impacts for any basic industry in Alaska.

The Oil and Gas Industry

- 9,200 employees
- \$600 million in wages
- 83% Alaska residents

Seafood Industry

- 22,400 annual equivalent employment
- \$781 million
- 59% Alaska residents

Forest Products Industry

- 3,860 employees
- \$152 million in wages
- 64% residents

Mining Industry

- 1,200 employees
- \$55 million in earnings

Federal Government

- 13,650 employees
- \$420 million in wages
- est. all residents

Military

- 24,645 personnel
- \$590 million payroll
- temporary residents

Tourism

- 10,300 employees (annual equivalent)
- \$186 million in payroll (less non-reporting sole proprietors and individuals)
- 84% residents

Taxes and Fees Paid by the Visitor Industry

It is estimated that the entire visitor industry paid approximately \$44 million in taxes and fees in 1990. This includes property taxes, airport fees, port fees, bed taxes, sales taxes, inventory taxes, and others. Over two-thirds (68%) of gross sales by these businesses are to non-residents, therefore about \$30 million can be attributed to tourism. *↑ % pleasure only travelers expenditures only*

is higher if go w ↑ %
The visitor industry spends about \$20 million on airport fees of which a portion can be attributed to tourism.

Property taxes paid by hotel owners and other property owners generate an estimated \$4.7 million in 1990. It is estimated that Alaska has 250 operating hotels, motels and lodges, 250 bed and breakfasts, and 60 RV parks.

Alaska hotels and motels also generated \$8 million in bed taxes in 1990. Anchorage hotels accounted for \$5.2 million, Fairbanks generated \$1.3 million and Juneau hotels paid \$700,000.

Visitor Industry vs. Tourism Industry
Non residents spent nearly \$7 million on fishing and hunting licenses in 1990. Non residents spent an estimated \$17 million on the Marine Highway in 1989.

Source: Information for this section taken from "Alaska's Visitor Industry- An economic profile" prepared by The McDowell Group, July 1991 for DCED. Estimates for employment in mining and forest products are likely underestimated.

Pleasure vs business purposes

SECTION 3

ALASKA REVENUE SOURCES AND EXPENDITURES COMPARED TO OTHER STATES

Overall Alaska shows a high tax effort because of its resource based taxes. However, effort measures are considerably below national norms for several major taxes commonly found in other states.

Tax	State-Local Tax Collections as % of U.S. Total	Alaska Effort Index 1982
General Sales	23.5%	29.1
Selected Sales	11.7%	102.0
Licnese Taxes	3.5%	118.0
Individual Income	19.7%	0.7
Corporate Income	5.6%	95.0
Property	31.8%	105.0
Estate and Gift	0.9%	22.9
Severance	3.4%	278.8

Compared to norm of other states based on 100

approx. self-suff. average

Source: Revenue Potential of a General Sales Tax. December 1986, Alaska Department of Revenue

The ones that affect indiv. are much less

State Taxes Paid

Alaskans pay approximately \$957 per capita in state and local taxes as compared to the national average of \$1,576. On a per capita basis, Alaska ranks 50th among the states and the District of Columbia. In terms of percentage of total personal income paid in state and local taxes, Alaskans rank last with 5.3 percent compared to the national average of 10.9 percent. In addition, Alaska collects no personal income tax, while this tax accounts for almost one-third of other states' tax revenues. Alaskans have been able to afford a low level of personal taxation since 1980 because almost three-quarters of the state's tax revenues are from "other" sources, primarily severance taxes on oil and gas development.

State Spending

In FY 87, the state of Alaska spent two and one-half times more per resident than Wyoming, the next highest state, and four and one-half times more than the national average. Five major factors contribute to Alaska's higher per capita spending. These factors and their respective costs are shown below.

		\$ Per Capita
• State's Share of Local Programs/Services	\$335 million	\$ 631
• Higher Cost of Goods and Services	307 million	578
• Higher Employee Benefit Costs	19 million	36
• Special Programs	675 million	1,271
• Higher Debt Service Costs	216 million	407
Total		\$1,552 million \$2,923

Together, these five factors account for 56% of the FY 90 budget (including the Permanent Fund Dividend program). With the exception of higher cost of goods and services, these additional costs are discretionary in that they can be changed by the legislature. Because dedicated revenues are constitutionally prohibited, the Alaska legislature exercises much greater "power of the purse" than most other state legislatures.

If per capita Permanent Fund dividends -- a negative personal income tax -- were subtracted from tax payments, Alaskans would certainly be in last place in terms of per capita taxes paid and the percentage of income paid in state and local taxes.

The Division of Policy identified five major factors that account for most of Alaska's higher per capita spending. These factors are as follows:

1. Alaska's state government provides a number of services and programs that in many states are delivered and financed at the local government level. In addition, Alaska state government covers a larger share of the costs of local services than other state governments.
2. The higher cost of goods and services in Alaska increases the expense of providing government services, especially in rural areas. The state's dispersed population, harsh climate, and lack of infrastructure, such as highways, all contribute to higher costs.
3. Salary and benefit levels for state employees are higher than in most other states. In part, salary levels probably reflect the higher cost of living in Alaska, but benefits for most state jobs exceed those of other states.

4. Alaska offers a number of costly special programs that are rare or nonexistent in other states. These include Permanent Fund dividends, municipal assistance, longevity bonus, pioneers' homes, power cost equalization, and student loans. Special programs accounted for approximately 23 percent of the FY 90 budget.

5. Alaska has the highest level of debt service per capita in the country. In FY 87, the state's per capita burden of general obligation and state-supported debt (including school debt reimbursement) was about ten times the national average.

Source: Memo to Rep. Mike Navarre from Legislative Analyst Ginny Fay; Research Request 90.047, November 14, 1989.

SECTION 4

SALES TAX

Alaska currently has no sales tax at the State level. A number of boroughs and municipalities do levy some form of general sales tax. However, it should be noted that Anchorage and Fairbanks, the most populous municipalities in the State, currently have no sales tax.

Currently forty-five of the fifty states levy some form of sales tax at the state level. Sales taxes are a significant source of state government revenues accounting for 19.7 percent of all State general revenues. The sales tax base varies considerably as to exemptions allowed and the degree to which services are taxed. Food purchases, except restaurant meals and alcohol, are exempt in twenty-nine of the forty-five states. Prescription drug purchases are exempt in most states. Gas and electric utility bills are exempt to some degree in thirty-two states. Eight states exempt clothing purchases to some degree. Also, seven states allow some credit for sales taxes paid against state income tax liability. These various exemptions and credits are meant to ameliorate the regressive incidence of the sales tax.

Services are taxed very comprehensively (i.e. covers all personal and professional services) in only three states. Twenty states either tax no services or tax services very narrowly and selectively. The remaining states tax services to some degree although no comprehensively with most exempting professional services.

The rates levied on taxable purchases of goods and services also varies considerably from state to state with a low of three percent to a high of seven and one half percent. The median rate levied by states is five percent.

Retail sales taxes tax consumer expenditure, thereby taxing income at its use, in contrast to income taxes, which taxes income at its source. The basic elements of any tax structure apply to the retail sales tax. These are tax base, rate(s) and credits against tax owed.

Tax Base

Tax base is characterized by what is included, excluded, and deductible from the base. It is also affected by the presence of exemptions from the tax.

Retail sales are the primary base of state and local sales taxes. Sales for resale generally are excluded to avoid problems of multiple taxation. While a general sales tax can cover services, in many cases services are partially or totally excluded. Thus, a substantial portion of consumer expenditure is not taxed. A few services are, however, included in the tax bases of some states. These include admissions, lodging and public utility services.

Equity considerations lead some states to exclude particular retail sales from the tax base. The most common exclusions are prescription drugs and food for consumption at home. Some taxing states allow non resident visitors to obtain exemption certificates for sales tax. All sales tax states have use taxes as part of their sales tax structure. These use provisions apply to goods bought outside the state and brought into the state for consumption.

Tax Rates

Tax rates are applied to the tax base. They can be separated into rate groups for various consumer goods. This can be done to help make the tax more equitable, (i.e. higher taxes on goods which are consumed by higher income taxpayers (luxuries and non health services) or taxing subsistence items (basic food purchases, children's clothing or utilities) at low rates or not at all. The tax rate can also be applied differentially for other social policy goals. Goods with high social costs associated with them such as alcohol can be taxed at higher rates.

Tax Credits

Tax credits against tax owed are deducted after the rate is applied to the tax base. Tax credits are available for special expenditures and can be effective in avoiding penalties or encouraging those qualifying expenditures. Credits can also be used to offset amounts paid to other governments thereby preventing double taxation of the same transactions.

Source: Revenue Potential of a General Sales Tax, December 1986; Department of Revenue

SECTION 5

CRITERIA FOR TAX SELECTION

The tables presented above summarize only the quantitative impacts of a seasonal sales tax proposal. There are other issues which need to be considered. The alternative tax structures should be analyzed briefly on a number of issues including how they affect taxpayer groups, how easily administered they are and how politically palatable they might be.

Economic Efficiency: What effect does the proposed tax have on incentives and economic decision making? How does the tax alter consumption, production or resource allocation decisions?

Equity: Who bears the burden of tax and how does that burden compare with ability to pay or benefits received? Is the tax progressive or regressive with respect to income and/or wealth?

Elasticity: What is the sensitivity of the tax revenue yield to changes in economic or demographic conditions? As income or population increase or decrease, does tax revenue increase or decrease in greater, lesser or equal proportion?

Administrative Efficiency: How costly is the tax to administer in terms of resources devoted to administration and compliance relative to the revenue yield of the tax? Who bears the burden of administrative cost, the taxpayer, the State or the tax collector (if different from the State)?

Political Feasibility: How acceptable is the proposed tax to the legislature and the electorate given existing social, political, and economic conditions? Who benefits, who loses, and who has the most political power?

Interstate Capture: How much of the tax owed by nonresident taxpayers who work or travel in Alaska is it possible to capture?

Intergovernmental Effects: Does the tax erode the tax base of higher level (federal) or lower level (local) governments? If such erosion should be mitigated, how can it be done? Do higher level or lower level government taxes erode the State tax base? If such erosion should be mitigated, how can it be done?

affected
on
small
comm
AML

Inflation Effects: What is the effect of inflation on the elements of the tax structure and the burden on the taxpayer? If this should be mitigated, how can it be done?

Source: Revenue Potential of a General Sales Tax, December 1986;
Department of Revenue

SECTION 6

TAXING AIRLINES AND AIR COMMERCE

The following federal statute appears to make the collection of a visitor tax via airlines or airports or airline property difficult, if not impossible.

§ 1513 State taxation of Air Commerce (in part)

(a) Prohibition; exemption

No State (or political subdivision thereof, including the Commonwealth of Puerto Rico, the Virgin Island, Guam, the District of Columbia, the territories or possessions of the United States or political agencies of two or more States) shall levy or collect a tax, fee, head charge, or other charge, directly or indirectly, on persons traveling in air commerce or on the carriage of persons traveling in air commerce or on the sale of air transportation or on the gross receipts derived therefrom: except as provided in subsection (e) of this section and except that any State (or political subdivision thereof, including the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the District of Columbia, the territories or possessions of the United States or political agencies of two or more States) which levied a tax, fee, head charge, or other charge, directly or indirectly, on persons traveling in air commerce or on the carriage of persons traveling in air commerce or on the sale of air transportation or on the gross receipts derived therefrom prior to May 21, 1970 shall be exempt from the provisions of this subsection until December 31, 1973.

(d) Acts which unreasonably burden and discriminate against interstate commerce; definitions

(1) The following acts unreasonably burden and discriminate against interstate commerce and a State, subdivision of a State, or authority acting for a State or subdivision of a State may not do any of them:

(A) assess air carrier transportation property at a value that has a higher ratio to the true market value of the air carrier transportation property than the ratio that the assessed value of other commercial and industrial property of the same type in the same assessment jurisdiction has to the true market value of the other commercial and industrial property;

(B) levy or collect a tax on an assessment that may not be made under subparagraph (A) of this paragraph: or

(C) levy or collect an ad valorem property tax on air carrier transportation property at a tax rate that exceeds the tax rate applicable to commercial and industrial property in the same assessment jurisdiction.

(e) Authority for imposition of passenger facility charges

(1) In General

Subject to the provision of this subsection, the Secretary may grant a public agency which controls a commercial service airport authority to impose a fee of \$1.00, \$2.00, or \$3.00 per each paying passenger of an air carrier enplaned at such airport to finance eligible airport-related projects to be carried out in connection with such airport or any other airport which such agency controls. For purposes of this subsection, financing an eligible airport-related project includes making payments for debt service on bonds and other indebtedness incurred to carry out such project.

(2) Use of revenue and relationship between fees and revenues

The Secretary may grant a public agency which controls a commercial service airport authority to impose a fee under this subsection to finance specific projects only if the Secretary finds, on the basis of an application submitted for such authority-

(A) that the amount and duration of the proposed fee will result in revenues (including interest and other returns on such revenues) which do not exceed amounts necessary to finance the specific projects; and

(B) that each of the specific projects is an eligible airport-related project which will-

(i) preserve or enhance capacity, safety, or security of the national air transportation system,

(ii) reduce noise resulting from an airport which is part of such system, or

(iii) furnish opportunities for enhanced competition between or among air carriers.

Airline Property taxation

Historical and Statutory Note to the above statute

Retroactive effect

Federal statute prohibiting state taxing authorities from taxing air carrier transportation property differently from commercial and industrial property in same assessment jurisdiction did not apply retroactively to assessments or airline property which were completed prior to effective date of statute.

SECTION 7

TYPES OF TOURISM TAXES BY STATES

Traditional Taxes

In general, states collect three types of special taxes from tourism-related activities and in some instances use those tax revenues to fund tourism development: hotel/motel taxes, amusement/admission taxes, and taxes on food and drink.

The Difference Between a Fee and a Tax: Discussions of revenue sources are complicated by differing definitions of taxes and fees. Although a fee generally differs from a tax in that it is paid for a specific service or for permission to perform a specific act, tax is defined broadly here to include charges that some states may consider fees, such as amusement taxes.

Hotel/Motel Taxes

Currently, 32 states impose a hotel/motel tax. The rates vary from one-tenth of 1 percent to 8 percent. Forty-four states, all but Connecticut, Delaware, Hawaii, Maine, New Hampshire, and South Carolina, also allow local governments to impose a hotel/motel tax. The local government rate averages 3 percent, though a few states allow even higher rates. (See Figure 4 for a complete listing of all the rates.)

In fiscal year 1988, states collected a total of nearly \$7 billion in hotel/motel taxes. Totals ranged from a low of \$887,000 (Rhode Island) to a high of \$270 million (Florida).

Currently, 17 states and Puerto Rico earmark the proceeds from state-imposed hotel/motel taxes. Tourism-related activities receive at least part of this revenue in nine states (Alabama, Delaware, Idaho, Illinois, Louisiana, Montana, Nevada, Rhode Island, and South Carolina) and all of it in four (Arkansas, Colorado, Nebraska, and Washington). In five states - Connecticut, Delaware, Louisiana, Michigan, and Rhode Island - local governments receive earmarked hotel/motel taxes. Only in Connecticut and Rhode Island, however, are the local governments allowed to use the revenue for whatever they choose. Delaware, Louisiana, and Michigan specify that local governments must use the money for tourism promotion; Delaware further specifies that a portion of the tax must be used for beach preservation.

Twenty-three states earmark the proceeds of hotel/motel taxes that are locally imposed. In all these cases, at least a portion of the proceeds is used for tourist-related activities.

Table

**Revenues Generated from State-Imposed Hotel/Motel Taxes
Fiscal Years 1988 and 1989**

State	FY1988	FY 1989
Alabama	\$ 12,412,330	\$ 13,479,318
Alaska	N/A	N/A
Arizona	28,500,000	41,500,000a
Arkansas		
California	N/A	N/A
Colorado	21,132,875	23,406,664
Connecticut	22,300,000	22,200,000
Delaware	3,908,310	4,313,703
Florida	270,184,175	336,996,669
Georgia	37,704,231	43,143,773
Hawaii	67,278,746	75,972,924
Idaho	8,408,000	9,435,000
Illinois	68,700,000	75,700,000
Indiana	N/A	N/A
Iowa	9,900,000	N/A
Kansas	N/A	N/A
Kentucky	20,000,000	21,000,000
Louisiana	17,400,000	18,300,000
Maine	14,600,000	16,600,000
Maryland	N/A	N/A
Massachusetts	53,833,223	57,895,999
Michigan	9,200,000	10,400,000
Minnesota	N/A	N/A
Mississippi	11,752,972	12,430,698
Missouri	N/A	N/A
Montana	3,372,658b	5,077,693
Nebraska	1,233,089	1,367,772
Nevada	9,506,395	10,386,181
New Hampshire	76,500,000	81,800,000
New Jersey	52,024,934	53,848,381
New Mexico	17,000,000	17,000,000
New York	N/A	N/A
North Carolina	29,237,000	30,944,000
North Dakota	4,624,962	5,465,365
Ohio	N/A	N/A
Oklahoma	N/A	N/A
Oregon	N/A	N/A

<u>State</u>	<u>FY1988</u>	<u>FY 1989</u>
Pennsylvania	N/A	N/A
Puerto Rico	11,283,517	13,580,770
Rhode Island	887,242	992,191
South Carolina	13,713,984	14,672,586
South Dakota	N/A	N/A
Tennessee	N/A	N/A
Texas	89,968,643	105,638,686
Utah	N/A	N/A
Vermont	39,793,764c	42,070,014c
Virginia	31,101,378	N/A
Washington	N/A	N/A
West Virginia	N/A	N/A
Wisconsin	N/A	N/A
Wyoming	4,200,410	4,376,867

Notes:

N/A = not available

a Arizona: Rate increase caused jump.

b Montana: This figure reflects three quarters of the receipts

c Vermont: These figures are a combined rooms and meals tax

Source: Survey of State Legislative Fiscal Officers and Revenue Staff (Denver: National Conference of State legislatures, December 1989).

Amusement/Admissions Taxes

In fiscal year 1989, 32 states taxed amusement and admission charges. The rates varied from one-tenth of 1 percent to 10 percent. Thirty-one states allowed local governments to tax these charges, at rates that ranged from 1 percent to 10 percent.

The revenue generated by amusement and admission taxes is much less than the revenue from hotel/motel taxes. State collections average about \$4 million, though they reached \$25 million in Tennessee.

Amusement taxes are also often earmarked, primarily for tourism-related activities (in Arkansas, Oklahoma, Puerto Rico, and South Carolina) or for education (in Alabama, Hawaii, and Tennessee). Other recipients of earmarked amusement taxes include conservation (South Carolina), State Aid Distribution Fund (North Dakota), and local government (Wisconsin).

Because data on collections of local amusement/admissions taxes is not always reported centrally, it is impossible to say how much is collected in the entire country. The amount collected by states that do have central reporting was under \$1 million except in Maryland (\$23 million), Pennsylvania (\$14 million), Washington (\$12 million), and New Jersey (\$1.8 million).

Only eight states provided information about the earmarking of these local taxes. The revenue is used for tourist-related activities in Kansas, North Dakota, and Wyoming. Atlantic County, New Jersey, dedicates the revenue collected from its amusement tax to the Atlantic County Improvement Authority, which is currently using the money to build a convention center. Indiana uses the revenue for capital improvement bonds. In both Alabama and Texas, localities have the option to control the earmarking and the variety of purposes is substantial.

Table
Earmarked Revenue from State-Imposed Hotel/motel Taxes
Fiscal Year 1988

State	Total Collections FY'88	% Earmarked	Recipient
Alabama	\$ 12,412,330	75% 25%	State General Fund Bureau of Tourism and Travel
Arkansas	7,673,678	100%	Dept. of Parks & Tourism
Colorado	21,132,875	100%	State General Fund
Connecticut	22,300,000		Single-town districts receive 4.5% of the room gross sales receipts. Multi-town districts receive 1.5% of the room gross sales receipts
Delaware	3,900,000	1% of 8%	Beach preservation account of Dept. of Natural Resources. County in which collected for Visitors Bureau and tourism.
Idaho	N/A	2%	Idaho Travel and Convention Account.

<u>State</u>	<u>Total Collections FY'88</u>	<u>% Ear- Marked</u>	<u>Recipient</u>
Illinois	68,700,000	10% 40% 50%	Ill. Tourism Fund Gen. Revenue Fund Build Illinois Fund
Louisiana	17,400,000	2.5%	Jefferson Parish Convention Centers/ tourism
Michigan	9,200,000	100%	Local government tourism development projects
Montana	3,372,658	1% 2.5%	Montana Historical Society, to be used for the installation or maintenance of roadside historical signs and historic sites. University system, for the establish- ment and maintenance of a Montana travel research program.

The balance as follows:

75%	Dept. of Commerce
25%	To be distributed by the department to regional non-profit tourism corporations in the ratio of the proceeds collected in each tourism region to the total pro- ceeds collected statewide. If 25% of the proceeds collected annually within the limits of a city or consoli- dated city-county exceed \$35,000, 50% of the amount available for distribution to the regional nonprofit tourism corporation

in the region where the city is located are to be distributed to the non-profit Convention & Visitors Bureau in that city of consolidated city-county

<u>State</u>	<u>Total Collections FY'88</u>	<u>% Bar- Marked</u>	<u>Recipient</u>
Nebraska	1,233,089	100%	State Visitor's Promotion Cash Fund
Nevada	N/A	3/8 of 1% 5/8 of 1%	State promotion of tourism. Retained at local level or promotion of tourism
North Dakota	4,624,962	10%	State Aid Distribution Fund
Puerto Rico	11,283,517		Anything in excess of 6%, General Fund; 1/6 of 6%, Puerto Rico Convention Bureau
Rhode Island	887,242	47% 20% 6% 27%	Regional Tourism District. City or town generating Roger Williams Reserve Fund R.I. Department of Economic Development statewide tourism promotion
South Carolina	13,713,984	25%	First \$25,000 to General Fund for municipality or county. Advertising & tourism promotion. Remaining balance must be used for tourism-related expenditures
Texas	89,968,643	8.33	TX Dept. Commerce
Washington	4,200,000	100%	State trade & convention center

Food and Drink Taxes

These taxes raise large revenues for tourism. Revenues are greatest in Tennessee (\$455 million) and smallest in Wyoming (\$9.5 million).

Only 14 states that tax food and drink earmark the proceeds. Colorado, Michigan, Wyoming and one county in Florida earmark some proceeds for tourist-related activities. Alabama, Hawaii, and South Carolina earmark the revenue for education. Nevada and North Dakota report that the money is used for state aid. The other five states use the revenue for a variety of purposes.

Recent Developments



Florida makes greater use of tourism taxes than any other state. The Florida Tourist Development Tax allows counties or special districts to impose a tax of 1 or 2 percent, subject to voter approval, on rentals or leases of living quarters or accommodations for a period of six months or less. Counties that have imposed this tax for at least three years may levy an additional tax of up to 1 percent and may also levy yet another tax of 2 percent to retire bonded indebtedness on a county or state economic development project.

Any county that has imposed the extra 3 percent tax (the last 3 percentage points mentioned) for at least one year may impose an additional 2 percent tax if the state is participating with the county in an economic development project for which the additional revenue is necessary to retire the bonded indebtedness; if the state's contribution toward the total cost of the project does not exceed \$3 million; and if the total cost of the project does not exceed \$12 million.

The revenue generated from these tourist development taxes may be used in the following ways: (1) To finance publicly owned convention centers, sports stadiums, and so forth; (2) to promote and advertise tourism; (3) to fund convention and tourist information centers; and (4) to finance beach improvement.

In addition to the Tourist Development Tax, three separate county convention development taxes of 1 percent each are levied on the cost of living quarters or accommodations rented or leased for a period of six months or less. Revenue from these taxes is used to fund convention centers in the three counties.

Florida also allows a "high tourism impact" county to impose an additional 1 percent tax on rentals or leases of living quarters

or accommodations for a period of six months or less. In general, a county is considered a high tourism impact county if the Department of Revenue certifies that the sales subject to the county tourism development tax exceeded \$600 million during the previous calendar year, or if at least 18 percent of the county's total sales were subject to the tourist impact tax. Currently, only the two counties surrounding Disney World qualify to impose this tax.

Listed below are programs other states have enacted in the past few years to promote tourism:

- Arizona has established a fund for the Office of Tourism that supplements its annual appropriation. The source of the fund is hotel/motel taxes; the amount in the fund in fiscal year 1989 was \$2 million.

- Arkansas levies a 2 percent tourism tax on camping fees; tourist attraction admissions; guest rooms furnished by hotels, motels, lodging houses, and condominiums; and rentals of watercraft and related items. The Department of Parks and Tourism uses the proceeds to promote tourism.

- Colorado imposes a two-tenths of 1 percent tax on accommodations; restaurant meals; ticket for lifts, tramways, gondolas, and other skiing facilities; automobile rentals; and sightseeing fares. The proceeds of the tax, which is in effect until 1993, are dedicated to the state tourism board.

- The Louisiana Legislature has initiated the Louisiana Tax-Free Shopping Program.

- The Montana Resort Tax allows designated resort communities (communities of fewer than 2,500 that derive major revenue from tourists) to impose a resort tax of up to 3 percent. The tax applies to sales by hotels, motels, and other lodging establishments; restaurants, taverns, bars, night clubs, and other public establishments that serve alcoholic beverages by the drink; and establishments that sell luxuries. Currently, only one community levies the tax.

- In 1989, Oklahoma enacted one-tenth of 1 percent tax on lodgings, food/drink, private tourist attractions, state tourist attractions, motor vehicle rentals, and tour bus tickets. Money collected from this new tax will go into the Oklahoma Tourism Promotion Revolving Fund.

- One-third of the net revenue from the sale of personalized license plates helps finance out-of-state advertising to promote travel and industrial development in North Carolina.

- The first \$3.5 million of South Carolina's bingo tax goes to the general fund, but 75 percent of the remainder goes to the Department of Parks, Recreation and Tourism.

SECTION 8

ALTERNATIVE ALASKA TOURISM TAX EFFECTS

This section will be distributed and presented at the tax committee meeting.

♦ ♦ ♦ ♦ ♦

Visitor Industry Spending and Investment in Alaska

Annual Visitor Industry Spending in Alaska

Visitors spend over a billion dollars each year on their Alaska travels, according to data from the *Alaska Visitor Statistics Program (AVSP)*. The AVSP is an Alaska Division of Tourism research program that generated six volumes of detailed information on visitors to Alaska, including arrival patterns, visitor opinions and attitudes, demographics, and spending patterns.

Visitors spend \$670 million each year traveling to and from the state, primarily on cruiseships and airlines. Nearly half a billion dollars (\$416 million in 1989) is spent in Alaska on lodging, food, tours, gifts and other items. In total, visitors spent \$1.08 billion on their Alaska travels in 1989.

It is obvious that Alaska's economy benefits from \$400 million in visitor in-state spending. But Alaska also benefits from the significant portion of out-of-state spending which is returned to Alaska indirectly through employee wages, in-state operations spending and in-state capital investment. Results of the Alaska Visitor Industry Business Survey provide a measure of this visitor industry spending in Alaska.

Statewide Spending

The 745 Alaska businesses that responded to the survey reported total in-state spending of \$402 million in 1990, excluding labor costs. Businesses in the transportation sector spent \$222 million in Alaska. Hotels and other lodging facilities spent \$64 million in Alaska in support of their operations, excluding labor.

The portion of this spending attributable to serving non-resident visitors is estimated at \$180 million, or about 45% of all spending. This spending estimate is calculated by applying a business's resident/non-resident sales ratio to its spending. In other words, if 30% of a business's sales are to non-residents, the assumption is that 30% of its spending is attributable to non-resident visitors.

Of course this is only a portion of the total in-state spending by visitor industry-related businesses. Businesses responding to the survey accounted for approximately \$681 million in Alaska visitor sales, or about 63% of the \$1.08 billion spent by visitors to Alaska in 1989, as reported in the *AVSP II*. Therefore, the assumption can be made that businesses responding to the survey also account for 63% of visitor industry spending in Alaska. Expanding the \$180 million in spending reported by surveyed business to account for all visitor industry businesses, it is estimated that total visitor industry spending in Alaska was approximately \$285 million, excluding spending on labor.

In summary, visitor industry spending in Alaska is estimated at approximately \$590 million annually. This includes \$285 million on non-labor spending and \$305 million on labor costs. The \$305 million labor cost estimate is based on \$244 million payroll (see Chapter II) and an estimated \$61 million in benefits.⁷

***Total In-state
and
Out-of-state
Spending***

In addition to the \$590 million in spending in Alaska in support of the visitor industry, it is estimated that another \$232 million was spent outside of Alaska. Survey results suggest that 58% of spending on inventory for resale in Alaska was spent in-state. Industry-wide, out of state spending on inventory is estimated at \$26 million.

Most marketing spending occurs outside Alaska. Of an estimated \$42 million in marketing spending, \$35 million was spent outside Alaska. A small number of very large corporations account for most of this marketing effort.

All other spending on supplies and services (fuel, food, utilities, rent, fees, etc.) in support of visitor industry operations totaled an estimated \$364 million. About one-third of this spending occurred out-of-state, or \$123 million. Most of this out-of-state spending is in support of cruise operations, which buy food, fuel and other supplies at or near their point of origin, most often Pacific Northwest.

Most visitor industry spending on labor, \$305 million out of an industry total of \$353 million, occurs in-state. Almost all of the non-Alaska labor spending is on crew for the two dozen cruiseships that travel to Alaska.

This estimate of total industry spending, approximately \$822 million in 1990, equals about 76% of total revenues generated in Alaska's visitor industry. This suggests that the \$260 million remaining was paid out in taxes, as payments on capital, and as profits to business owners.

⁷ Benefits and other employee overhead costs are typically about 20% of total labor costs. WC&L Pension and Benefits Fact Book, 1989. Compiled by the Chamber of Commerce of the United States.

Table IV-1

Spending by Alaska's Visitor Industry Estimated Annual Total* (Millions of Dollars)			
	In-state	Out-of-state	Total
Inventory for Resale	\$ 37	\$ 26	\$ 63
Marketing Spending	7	35	42
All Other Spending	241	123	364
Total Spending (Excluding Labor)	285	184	469
Labor	305	48	353
Total All Spending	\$590	\$232	\$822

*Source: Alaska Visitor Industry Business Survey.

Spending by Industry Sector

The \$285 million in in-state spending by the visitor industry is spread throughout the visitor affected economy. Most spending is by businesses in the transportation sector, particularly air transportation businesses. Airlines responding to the survey reported over \$158 million in spending (excluding labor) in 1990. Based on survey results, it is estimated that \$60 million of this spending is to serve the non-resident visitor market. Including firms that did not respond to the survey, it is estimated that airlines, air taxis, sightseeing and charter operations spent nearly \$100 million in Alaska, excluding the cost of labor, in support of non-resident visitors.

Another important sector of the economy that spends significantly on the non-resident visitor market includes hotel and other lodging places. A total of 138 lodging businesses responded to the survey. They spent a total of \$64 million in Alaska in support of operations, excluding labor. It is estimated that approximately \$40 million of this spending was due to non-residents, based on survey results.

In the following table, spending information gathered in the survey is presented for all visitor affected business sectors. These results are for surveyed businesses only and therefore are not industry totals.

Table IV-2

Visitor Industry Related Spending in Alaska
(excluding Labor)
by Business Sector

	Surveyed Businesses ¹	Total In-state Spending (\$ millions)	Estimated Spending due to Non-resident Visitors ² (\$ millions)
Transportation:			
Local and Interurban Transit	15	\$ 2.9	\$ 2.3
Water Transportation	31	43.0	41.0
Air Transportation	29	158.6	60.1
Transportation Services	18	17.0	15.9
Total Transportation Sector	93	\$221.5	\$119.3
Retail			
General Merchandise Stores	35	\$14.8	\$ 1.9
Clothing Stores	12	1.2	0.1
Food Stores	23	27.4	1.9
Eating and Drinking Places	74	25.8	6.2
Service Stations	14	11.1	1.0
Miscellaneous Retail	113	26.2	2.9
Total Retail Sector	271	\$106.5	\$14.0
Services			
Hotels/Other Lodging Places	138	\$63.9	\$39.8
Personal Services	11	1.1	0.1
Auto Repair Services/Car Rentals	35	11.0	1.2
Amusement/Recreation Services	103	6.8	5.5
Total Service Sector	287	\$82.8	\$46.6
Total for All Business Surveyed	651	\$401.3	\$179.9
Total for All Visitor Affected Businesses ³	n/a	n/a	\$285.5

¹ Number of businesses responding to the spending question in the Alaska Visitor Industry Business Survey.

² Weighted according to each businesses' percent of sales to non-resident visitors.

³ Businesses responding to the survey accounted for approximately \$681 million in Alaska visitor sales, or about 63% of the \$1.08 billion spent by visitors to Alaska in 1989, as reported in the AVS² II. Therefore, the assumption can be made that businesses responding to the survey also account for 63% of visitor industry spending in Alaska.

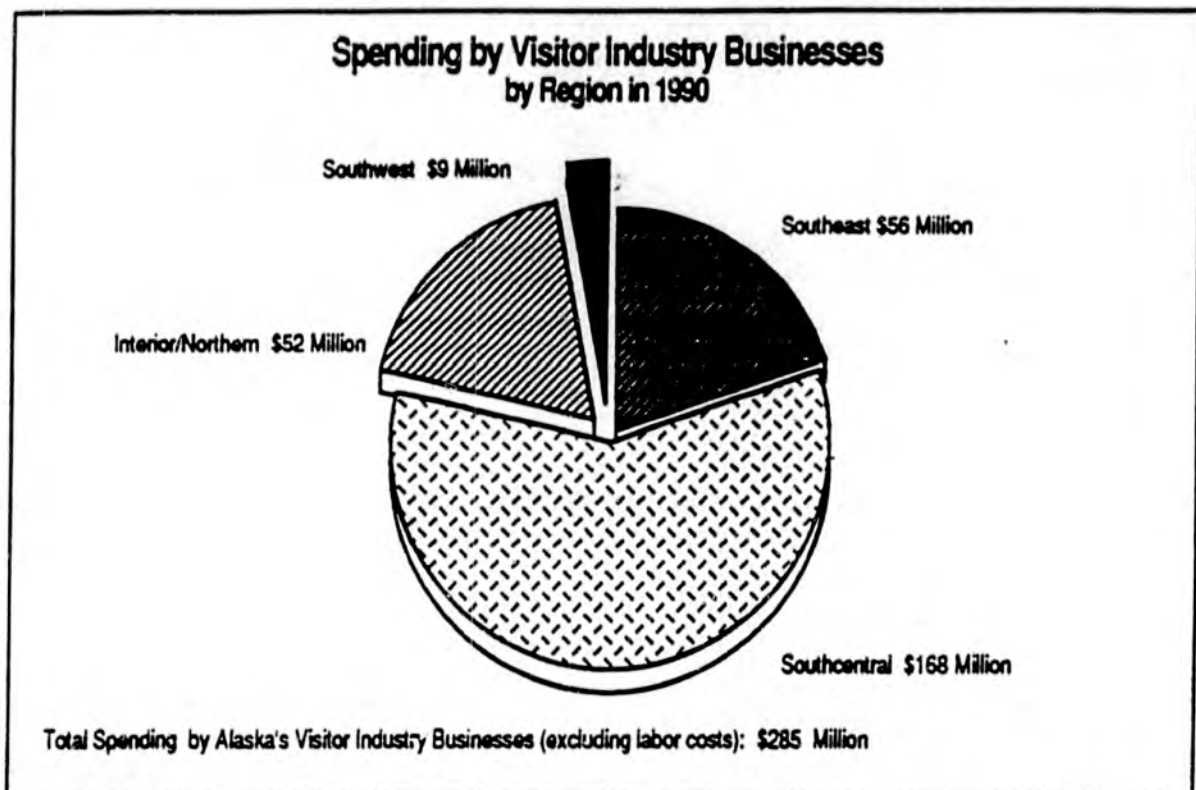
n/a Not applicable

Visitor Industry Spending by Region

The distribution of visitor industry spending around Alaska was also quantified in the Alaska Visitor Industry Business Survey. Southcentral, which hosts about two-thirds of all of Alaska's visitors, accounts for about 60% of all visitor industry spending. The visitor industry spent an estimated \$168 million in Southcentral in 1990, excluding labor costs.

Southeast Alaska benefited from approximately \$56 million in visitor industry spending in 1990, 20% of total visitor industry spending in Alaska. An estimated \$52 million in visitor industry spending occurred in the Interior/Northern region, 19% of the Alaska total. About 3% of 1990 industry spending occurred in Southwest Alaska, approximately \$9 million.

Graph IV-1



*Purchases of
Goods and Services
in Alaska*

No data is available on the total value of visitor industry spending on specific goods and services. However, surveyed businesses did provide a list of their most important vendors. The visitor industry's most important vendors are fuel distributors and wholesalers of food and drink. But virtually every other component of Alaska's service and supply sector is represented on the visitor industry vendor list. Construction contractors of all types (carpenters, plumbers, electricians and others) for example, benefit from visitor industry spending in Alaska.

Alaska manufacturers of goods sold by the visitor industry also benefit, including seafood processors and manufacturers of other food products, printing and publishing houses, and the hundreds of Alaskan artists who sell their work to retail outlets. This spending helps generate thousands of jobs in Alaska's support sector.

Communications and utilities providers provide services to Alaska's visitor industry. Radio and television stations and newspapers play an important role in marketing visitor industry products inside and outside of Alaska. Alaska's advertising and marketing firms are another link in this communications effort.

Public and private sector providers of utilities, including electric services, gas supply and distribution services, and waste disposal services all generate income as a result of visitor industry spending in Alaska.

In addition to serving visitors directly, Alaska's retail sector also provides support to other businesses in Alaska's visitor industry. Hardware stores, clothing stores, furniture stores, car dealers, boat dealers and others in the retail sector earn income by supplying visitor industry businesses.

A variety of businesses in Alaska's service sector provide services to visitor industry businesses. For example, laundry services provide an important service to hotels. Auto repair services earn income through sales to visitor industry businesses. Stevedoring services, legal services, accounting services and other services benefit from visitor industry spending in Alaska.

***Taxes and Fees Paid
by the Visitor
Industry***

Businesses responding to the Alaska Visitor Industry Business Survey reported paying \$40 million in taxes and fees in 1990. This includes property tax payments, airport fees, port fees, bed taxes, sales taxes, inventory taxes and others. Over two-thirds (68%) of gross sales by these businesses are to non-resident visitors, therefore, about \$28 million of the total taxes and fees paid can be directly attributed to the visitor industry. It is estimated that the entire visitor industry, including businesses that did not respond to the survey, paid approximately \$44 million in taxes and fees in 1990.⁸ Much of this spending goes to support local government operations throughout Alaska.

The leading visitor expenditure on taxes and fees is on airport operations. In 1990, airlines, air taxis and charter operators paid \$12 million in aircraft landing fees. Anchorage International Airport generated the bulk of these fees, \$9.5 million. Since non-residents account for about one-third of passenger ticket sales in Alaska, approximately one-third of total airport fees (\$4 million) are attributable to the visitor industry. Tie down fees, terminal rentals and land rentals are other important expenditure for airlines. Based on survey results, the visitor industry spends an estimated total of \$20 million on airport-related fees.

Moorage and lightering fees paid by the visitor industry are an important source of income for Southeast communities. Cruiseships paid \$331,000 in moorage and lightering fees to the City and Borough of Juneau, for example. Ketchikan earned \$189,000 from cruiseship fees in 1990. The cruise industry spends several million more on stevedoring fees in these ports. Other local governments generating revenues from cruiseship moorage and lightering fees include Sitka (\$24,000) and Wrangell (\$6,200). Cruiseships also pay moorage fees to private dock owners in Haines, Skagway, Petersburg, Whittier and other Alaska ports.

Property taxes paid by hotel owners and other property owners generate millions of dollars each year in local government revenues. For example, 109 hotels and other lodging places reported total property tax payments of \$917,000 in 1990, or about \$8,400 per facility. Obviously property tax payments range from zero to many times this figure. This average includes tax payments by hotels, lodges, bed & breakfasts, and RV parks. If this is typical of the lodging industry overall (560 businesses total), this sector paid about \$4.7 million in property taxes.⁹

⁸ Businesses responding to the survey account for 63% of all visitor industry sales. Therefore it is assumed that they also account for 63% of payments of taxes and fees paid by the industry.

⁹ It is estimated that Alaska has 250 operating hotels, motels and lodges, 250 bed & breakfasts (based on a count of business licenses) and 60 RV parks.

Alaska hotels and motels also generated \$8 million in bed taxes in 1990. Anchorage area hotels accounted for \$5.2 million in bed taxes, Fairbanks generated \$1.3 million, and Juneau hotels paid \$700,000 in bed taxes. Other communities, including Valdez (\$264,000), Ketchikan (\$148,000), Skagway (\$104,000), Kodiak (\$93,000) Sitka (\$87,000), Wrangell (\$23,000) and Petersburg (\$19,000) also received bed tax revenues in 1990. The Denali area began levying a bed tax in fiscal year 1991.

The visitor industry's impact on state government revenues includes visitor spending on hunting and fishing licenses and on Alaska Marine Highway travel. Non-residents spent nearly \$7 million on fishing and hunting licenses in 1990. Non-residents spent an estimated \$17 million on the Marine Highway in 1989.

Investment in Alaska's Visitor Industry

Businesses responding to the Alaska Visitor Industry Business Survey reported total investment in property in Alaska of \$355 million. These businesses also reported investment in operating equipment of \$201 million. This investment in property and equipment is to serve both the resident and non-resident markets.

Weighting these investment figures according to visitor sales versus Alaska resident sales provides an indication of investment in the non-resident market. Among businesses responding to the survey, visitor industry investment includes an estimated \$169 million in property and \$113 million in operating equipment that is used in Alaska.

No investment data is available for the businesses that did not respond to the survey. However, it is possible to roughly estimate investment by these firms. Businesses that did not respond to the survey account for about one-third of sales (37%) in Alaska's visitor industry. If the assumption is made that they also account for 37% of investment in the industry, then total investment is \$268 million in property and \$180 million in operating equipment. Total investment, therefore, is estimated at \$448 million.

These estimates do not include investment in cruiseships. Investment in cruiseships that travel to Alaska is probably in excess of \$2 billion. These ships spend from one-third to one-half of the year in the Alaska market. Clearly, a significant portion of this investment in cruiseships must be attributed to the Alaska visitor industry.

*Investment by
Industry Sector*

The lodging industry accounts for most of the investment in Alaska's visitor industry. The 122 hotels that responded to the survey reported total investment in property and equipment (reported as insured or assessed value) of \$216 million. Because 64% of hotel sales are to non-residents, approximately \$139 million of this investment can be attributed to the visitor industry. This total includes only those hotels that responded to the survey. Including those hotels that did not respond to the survey, total visitor industry investment in lodging facilities in Alaska is probably over \$200 million.

Investment in property, such as hotels, has a greater impact on the state's economy than does investment in operating equipment. Almost all operating equipment, airplanes, boats, buses, etc., is manufactured outside of Alaska, therefore the spending on this equipment does not directly benefit the state's economy. Hotels and other facilities, on the other hand, are constructed in Alaska by the Alaska construction industry. More of the investment dollar stays in the state's economy.

The transportation sector accounts for most of the remaining investment in Alaska's visitor industry. The transportation sector overall reported \$165 million in property and equipment investments in Alaska. Nearly \$100 million of this investment is directly attributable to non-resident visitors. The largest component of transportation sector investment is in transportation services. The major cruiselines are included in this category of businesses and they have substantial investment in Alaska in addition to their hotels and lodges.

Air transportation businesses reported total investment of \$71 million, primarily in operating equipment. Approximately 40% of this investment is due to non-residents. Actual investment in aircraft that serve Alaska is certainly far greater than this. Many of the aircraft serving Alaska also serve other markets and it is difficult to attribute some portion of investment in such aircraft to the Alaska market. No doubt, hundreds of millions of dollars worth of aircraft serve Alaska.

Table IV-3

Visitor Industry Related Investment in Property and Equipment in Alaska by Business Sector			
	Number of Businesses ¹	Total In-state Investment (\$ million)	Estimated Investment due to Non-resident Visitors ² (\$ million)
Transportation			
Local and Interurban Transit	14	\$16	\$13
Water Transportation	25	30	17
Air Transportation	23	71	29
Transportation Services	14	48	40
Total Transportation Sector	76	\$165	\$99
Retail			
General Merchandise Stores	28	\$26	\$3.4
Clothing Stores	10	5	0.3
Food Stores	16	11	0.8
Eating and Drinking Places	56	42	11.0
Service Stations	12	5	0.5
Miscellaneous Retail	76	24	2.6
Total Retail Sector	198	\$113	\$19
Services			
Hotels/Other Lodging Places	122	\$216	\$139
Personal Services	6	1	-
Auto Repair Services/Car Rentals	24	28	3
Amusement/Recreation Services	99	28	22
Total Service Sector	251	\$273	\$164
Total for All Business Surveyed	525	\$556	\$282
Total for All Visitor Affected Businesses ³			\$448

¹ Number of businesses responding to the investment question in the Alaska Visitor Industry Business Survey.

² Weighted according to each business's percent of sales to non-resident visitors.

³ Based on the assumption that businesses responding to the survey account for 63% of visitor industry investment in Alaska.

**Visitor Industry
Investment in
Alaska by Region**

Information gathered in the survey of businesses in Alaska indicates that almost half (45%) of all visitor industry investment in property has occurred in Southcentral Alaska. Just over one-quarter (28%) of visitor industry investment in property has occurred in Southeast Alaska. About one in five (21%) visitor industry property investment dollars are in the Interior/Northern region. The remaining 6% is invested in the Southwest region.

The visitor industry has invested \$180 million in operating equipment. Some of this equipment is used statewide, but over half (53%) of this equipment is used primarily in Southcentral, and one-quarter (25%) is used in Southeast. Survey results suggest that 13% of operating equipment investment is in the Interior/Northern region.

Table IV-4

Investment in Alaska's Visitor Industry by Region (Millions of Dollars)			
	Investment in Property	Investment in Operating Equipment	Total Visitor Industry Investment
Southeast	\$ 73	\$ 45	\$ 118
Southcentral	118	95	213
Interior/Northern	55	24	79
Southwest	13	11	24
Unattributed	9	5	14
Total Investment	\$268	\$180	\$448

***Future Investment
in Alaska's Visitor
Industry***

Visitor industry investment in 1991 and 1992 could increase total visitor industry investment in Alaska by as much as 20%. Among surveyed businesses, \$76 million in capital outlays were scheduled for this year. Half of this investment, or about \$39 million is attributable to the non-resident visitor market. Thirteen million dollars in hotel investment was slated for 1991, among businesses responding to the survey. Another \$11 million in investment in the water transportation sector was scheduled for 1991.

For 1992, investments totaling \$34 million are planned, among businesses responding to the survey. The non-resident visitor market accounts for about two-thirds of this investment, or approximately \$23 million. Most of this new investment (\$10 million) is in the water transportation sector. Another \$7 million in hotel investments are included in this total.

These investment projections for 1991 and 1992 present only a partial picture of upcoming investment in Alaska's visitor industry. Actual investment this year and next is impossible to gauge at this time. It is almost certain, however, that total investment in the visitor industry in Alaska will reach half a billion dollars by 1992.

Whittier to charge tourists \$3

12/3/91

By DANIEL R. SADDLER

TIMES WRITER

WHITTIER — The City Council approved Monday a \$3 per passenger fee on cruise ships whose tourists pass through town each summer but do not pay for police, fire or other city services.

The fee, approved unanimously, would be collected from the cruise lines and take effect within 60 days. If the cruise lines can collect the fees within a 30-day period during the summer tourist seasons, they will get a 5 percent deduction.

Residents and the industry debated the merits of the fee at a public hearing Monday. About 40 people attended.

"You are a resident in this community as much as I am, and you ought to fund the operation of this community," Don Stevens

told representatives of the cruise ship industry Monday.

The measure is needed because the town of 300 spends money for police and fire protection and other city services, but gets no revenue from the tourists, said City Manager Hal Dunn.

"It's probably one of the most important ordinances the council ever has or will consider, because you can't continue to pay out and not get anything back," Dunn said.

The city spends about \$21,000 each summer for extra police service for the cruise ship influx, including three part-time reserve officers. The city also would like to add a second ambulance and marine firefighting equipment for the volunteer fire department

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Whittier

Continued from page B1

to help protect the tourists and the town.

At the hearing, the council and industry dickered over possible compromises.

"I'm up for any creative financing," Vice Mayor Scott Walther said. "Possibly this ordinance was a ticket to negotiation."

Earlier in the evening, the council discussed possible exemptions for government ships, small boats and short-term visits by larger ships.

The cruise ship industry testified against the tax, saying it already pays for the few services it uses.

"I don't mind paying for the things we use, but I can't see what this usage fee is for," said Tim Worthen, vice president of Regency Alaska Tours whose two ships carried 28,000 passengers through Whittier last year.

Tim Kirschbaum, director of

tour products for Alaska Sightseeing Tours, did not know if the ordinance would apply to smaller day boats, like his company's 75-passenger Glacier Seas.

"It's not that difficult for some of the major players to go to Seward for an alternate, so it could be self-defeating to try to raise revenue that way," he said.

The Alaska Railroad owns and operates the dock where most cruise ships tie up, about 63 ships this year. Worthen said his company pays the railroad a daily moorage fee of about \$1,000 plus \$2 per passenger to use the dock, he said. The railroad reimburses

the city for police protection during the summer.

Cruise ship passengers scarcely leave railroad-owned property as they move from their ships to rail cars bound for Anchorage, Worthen said. The cruise ship lines pay each time their passengers require an ambulance.

"We certainly understand that our bringing in large amounts of passengers into the communities impacts them, and the services they provide, and certainly dollars are tight for everyone," said Phil Broderick, Alaska-Yukon operations director for tour in-

dustry giant Holland America Line.

The industry is willing to pay for the services it uses, Broderick said. The city of Skagway bought a \$50,000 ambulance with contributions from Holland America and Princess Cruise Ship lines, the two biggest cruise ship lines operating in Alaska.

Other cities have moorage fees, and some are trying to impose head taxes or user fees, as

is Whittier. Skagway collects a \$5.90 per-passenger fee, which is paid for use of the dock owned by the White Pass and Yukon Railroad. Ketchikan is attempting to impose a 4 percent sales tax on tour packages sold to passengers on board ships in Ketchikan waters, Worthen said.

But Whittier is a unique situation, Dunn said. The Alaska Railroad, a state-owned corporation, is tax exempt and is not liable for local property taxes.