

HB

2

24-LS0003VL
Kurtz
4/1/05

CS FOR HOUSE BILL NO. 2()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION**

BY

**Offered:
Referred:**

CMN - TRA Fin JUD

Sponsor(s): REPRESENTATIVE GATTO

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to taxes regarding certain commercial passenger vessels operating in
2 the state; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * Section 1. AS 43.52 is amended by adding new sections to read:

5 **Article 2. Excise Tax on Passengers Traveling Aboard**
6 **a Commercial Passenger Vessel.**

7 **Sec. 43.52.100. Levy of excise tax on passengers traveling aboard a**
8 **commercial passenger vessel.** There is imposed an excise tax on passengers
9 traveling in the marine waters of the state aboard a commercial passenger vessel that
10 provides overnight accommodations *AND that calls in at least one*

11 **Sec. 43.52.110. Rate of tax.** The tax imposed by AS 43.52.100 - 43.52.199 is *ALASKA PORTS*
12 levied at a rate to be determined each calendar year by the department based on actual
13 costs of services to commercial passenger vessels; the rate may not exceed \$50 a
14 passenger a voyage.

1 **Sec. 43.52.120. Liability for payment of tax.** (a) A passenger traveling in
2 the marine waters of the state aboard a commercial passenger vessel that provides
3 overnight accommodations is liable for the tax imposed by AS 43.52.100 - 43.52.199.

4 The tax

5 (1) shall be collected by the person who provides the travel to the
6 passenger; and

7 (2) is due and payable to the department

8 (A) by the person who provides the travel to the passenger,
9 regardless of whether the person actually collects the tax from the passenger;
10 and

11 (B) in the manner and at the times required by the department
12 by regulation.

13 (b) A passenger is not liable for the tax under AS 43.52.100 - 43.52.199 if that
14 passenger was liable for the tax within the preceding 30 days.

15 (c) A person who provides travel for a passenger who, under (b) of this
16 section, would not be liable for the tax under AS 43.52.100 - 43.52.199 is not required
17 to collect and pay the tax to the department if the person reasonably believes that the
18 passenger is not liable for the tax under (b) of this section.

19 **Sec. 43.52.130. Disposition of proceeds.** (a) The proceeds from the tax
20 imposed by AS 43.52.100 - 43.52.199 shall be deposited in a special commercial
21 vessel passenger tax account in the general fund. The legislature may appropriate
22 money from the account for the purposes described in (b) and (c) of this section, to
23 provide to vessels services that enhance the safety and efficiency of interstate and
24 foreign commerce, and for any other lawful purpose.

25 (b) For each sailing of a commercial passenger vessel providing overnight
26 accommodations, the commissioner shall identify the first five ports of call in the state
27 and the number of passengers on board the vessel at each port of call. Subject to
28 appropriation by the legislature, the commissioner shall distribute to each port of call
29 10 percent of the tax revenue collected under AS 43.52.100 - 43.52.199 from each
30 passenger visiting that port. If the port of call is a city located within a borough that is
31 not unified with the borough, the commissioner shall, subject to appropriation by the

1 legislature, distribute five percent for each passenger to the city and five percent to the
 2 borough. Each port of call receiving funds under this subsection shall use the funds
 3 received to provide to vessels services that enhance the safety and efficiency of
 4 interstate and foreign commerce.

5 (c) Within the special commercial vessel passenger tax account established in
 6 (a) of this section, a regional cruise ship impact subaccount is established. The
 7 subaccount consists of 25 percent of the proceeds from the tax on travel aboard
 8 commercial passenger vessels providing overnight accommodations in the marine
 9 water of the state. Subject to appropriation by the legislature and regulations adopted
 10 by the department, the commissioner shall distribute funds from the subaccount to
 11 municipalities or other governmental entities within the Prince William Sound region,
 12 Southeast Alaska, or any other distinctive region affected by cruise-ship-related
 13 tourism activities but not entitled to receive funds based on port-of-call visitation as
 14 allowed by (b) of this section. The commissioner shall make the distribution
 15 authorized by this subsection only if the funds are used by the recipient to provide to
 16 vessels services that enhance the safety and efficiency of interstate and foreign
 17 commerce.

18 **Sec. 43.52.140. Administration.** (a) The department shall

- 19 (1) administer AS 43.52.100 - 43.52.199; and
- 20 (2) collect, and supervise and enforce the collection of, taxes due under
 21 AS 43.52.100 - 43.52.199 and penalties as provided in AS 43.05.

22 (b) The department may adopt regulations to carry out the purposes of
 23 AS 43.52.100 - 43.52.199.

24 **Sec. 43.52.199. Definitions.** In AS 43.52.100 - 43.52.199, unless the context
 25 otherwise requires,

26 (1) "commercial passenger vessel" means a vessel that is used in the
 27 common carriage of passengers in commerce; "commercial passenger vessel" does not
 28 include a

29 (A) vessel with an overnight accommodation capacity for fewer
 30 than ²⁵12 passengers;

31 (B) noncommercial vessel or a vessel operated by the state, the

1 United States, or a foreign government; or

2 (C) vessel licensed under AS 16.05.490 and used in charter
3 service for the recreational taking of fish and shellfish;

4 (2) "marine waters of the state" means the marine bays, sounds, rivers,
5 inlets, straits, passages, canals, Pacific Ocean, Gulf of Alaska, Bering Sea, and Arctic
6 Ocean within the territorial limits of the state, and all other bodies of marine water that
7 are wholly or partially within the state or are under the jurisdiction of the state;

8 (3) "passenger" means a person with whom a common carrier has
9 contracted for carriage from one place to another.

10 * Sec. 2. AS 43.52.100, 43.52.110, 43.52.120, 43.52.130, 43.52.140, and 43.52.199 are
11 repealed.

12 * Sec. 3. The uncoded law of the State of Alaska is amended by adding a new section to
13 read:

14 TRANSITION: REGULATIONS. The Department of Revenue may proceed to adopt
15 regulations to implement sec. 1 of this Act. The regulations take effect under AS 44.62
16 (Administrative Procedure Act), but not before the effective date of sec. 1 of this Act.

17 * Sec. 4. The uncoded law of the State of Alaska is amended by adding a new section to
18 read:

19 REVISOR'S INSTRUCTION: The revisor of statutes shall substitute "AS 43.52.010 -
20 43.52.099" for "this chapter" wherever "this chapter" occurs in AS 43.52.010 - 43.52.099.

21 * Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section to
22 read:

23 CONDITIONAL EFFECT. Section 2 of this Act takes effect only if the initiative
24 petition 03CTAX, an Act providing for taxation of certain commercial ship vessels, pertaining
25 to certain vessel activities and related to ship vessel operations taking place in the marine
26 waters of the state of Alaska, becomes law.

27 * Sec. 6. If, under sec. 5 of this Act, sec. 2 of this Act takes effect, it takes effect on the
28 effective date an Act providing for taxation of certain commercial ship vessels, pertaining to
29 certain vessel activities and related to ship vessel operations taking place in the marine waters
30 of the state of Alaska, proposed in initiative petition 03CTAX.

31 * Sec. 7. Section 3 of this Act takes effect immediately under AS 01.10.070(c).

1 * Sec. 8. Except as provided in secs. 6 and 7 of this Act, this Act takes effect January 1,
2 2006.

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MEMORANDUM

April 15, 2005

SUBJECT: Head Taxes and Embarkation/Disembarkation Taxes (HB 2)

TO: Representative Carl Gatto
Attn: Cody Rice

FROM: Kathryn L. Kurtz *KLK*
Legislative Counsel

You asked whether there was a legal difference between a head tax and an embarkation or disembarkation tax.

These terms are simply labels of convenience used to describe specific taxes imposed by state and local governments. Each state or local tax will differ in its exact language and construction.

Black's Law Dictionary (6th ed.) defines "head tax" as a "[t]ax of flat amount per person." It does not define "embarkation tax" or "disembarkation tax," although both of those, if assessed on a flat, per person basis, could fall within the definition of "head tax."

A Lexis search of state and federal case law revealed no references to either "embarkation tax" or "disembarkation tax." There were 375 references to "head tax."

I hope this is helpful. Please contact me if you require anything further on this point.

KLK:med
05-263.med

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHE 2(), Draft Version "L"

- 1 Page 1, line 10, following "accommodations":
- 2 Insert "and that calls in at least one Alaska port"

Amend 12 to 35

Research - California Laws *
Sale of Ticket -
TAX Imposed on
Purchase of
Ticket
6 months - 1 yr

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January 27, 2004

The Honorable Carl Gatto
Alaska State Legislature
State Capitol, Room 411
Juneau, AK 99801

Dear Representative Gatto:

In response to your request, I have attached informational documents produced by the Department of Revenue (DOR) and Governor's Office of Management and Budget (OMB) that may prove useful as backup material for your presentation of HB 207, *Tax on Commercial Vessel Passengers*, to the Economic Development, International Trade and Tourism Committee on Tuesday, January 27, 2004. Included are a few schedules that may be of particular interest to committee members.

These are:

- Cruise Ship Port Fees in Selected U.S. Ports
- Cruise Ship Fees - Other Countries
- State Costs Incurred Supporting the Visitor Industry in Alaska

Questions on cruise ship fees can be directed to Dan Dickinson, Director, DOR, Tax Division at 269-1033. Questions on state costs to support the visitor industry can be directed to Brad Pierce, OMB, Senior Policy Analyst at 465-4677.

We hope this information will prove to be helpful.

Sincerely,

A handwritten signature in black ink that reads "Michael Tibbles".

Michael Tibbles
Legislative Director

Attachments

Cruise Ship Port Fees In Selected U.S. Ports

City/Port	Passenger Fees	Docking	Selected Port Fees	
				Other
CALIFORNIA				
Los Angeles	\$9.35 for passengers embarking/debarking, no charge for in-transit passengers	\$72-\$10,340		
San Diego	\$5 for passengers embarking/disembarking, \$4 for in-transit passengers	\$3.72/foot for 688 foot vessel		
FLORIDA				
Port Canaveral	\$1.30-\$5.05 depends on length of trip	\$2.10-\$9/foot		\$185-\$740/movement based on ship length and day of week
Port Everglades	\$8.20/each embark/disembark & in transit, multi-day cruises; \$1.41/each embark/disembark & in-transit, daily cruise (minimum 25 cruises/month)	\$0.167/GRT, multi-day cruises; \$0.077/GRT, daily cruise (minimum 25/month)		\$215-\$273/day harbormaster rate; \$228-\$490/movement line handler rate (tie ups)
Tampa Port Authority	\$5.75 embark/disembark & in-transit	\$4.36-\$7.982/foot length overall (LOA)		\$0.35/foot LOA harbormaster fees, \$250/service for line handling (+OT & holiday rates)
HAWAII				
Ports of Hawaii	\$2.50 embark/disembark	\$25-\$2,857/day/arbtor, based on LOA and harbor		\$25-\$637.50 (based on overall length), port entry fee/harbor
MASSACHUSETTS				
Cruiseport Boston		\$8.50 \$2/foot, minimum \$1,200		
TEXAS				
Port of Galveston	\$4/passenger in-transit, \$4.25 for embark/disembark	\$1.91-\$9.74/foot		harbor fee \$385/visit, wharf cleaning fee \$207/visit, line handling done by others
Port of Houston	\$4/passenger for embark/disembark	\$5.60-\$10.62/foot based on LOA		
WASHINGTON				
Port of Seattle	\$5.50-\$6.00 embark/disembark for homeport vessels, \$6.00 embark/disembark, \$6.00 for in-transit	\$153-\$14,077/day based on LOA (90% of regular dockage fees)		

Source: Legislative Research Report 00.072, February 5, 2002, Page 12. Port of Seattle passenger fees updated for 2003 by the Department of Revenue.

Notes and Sources: Docking rate for 24-hour period, except as noted.

Los Angeles- Port Tariffs, Port of Los Angeles website, <http://222.portoflosangelesw.org/tariff.asp> (accessed January 22, 2002).

San Diego- Richard Winchip, Chief Wharfinger, Port of San Diego.

Port Canaveral- Port Tariffs, Port Canaveral website http://www.portcanaveral.org/business/tariffs_ruleF.htm (accessed January 25, 2002).

Port Everglades- "Section Five - Wharfage," Port Everglades Tariff Number 11, Port Everglades, <http://www.co.broward.fl.us/poi04705.htm> (accessed January 25, 2002).

Tampa- Tampa Port Authority Tariffs, Sections D & E (accessed online January 25, 2002).

Hawaii- "Chapter 44. Subchapter 6: Wharfage", Title 19- Hawaii Administrative Rules, Hawaii Department of Transportation, <http://www.state.hi.us/dot/harbors/adminrules/htm> (accessed January 22, 2002).

Boston- Massachusetts Port Authority Tariff, Section 2, 3, & 7, Massport website <http://www.massport.com/ports/cruis.html> (accessed January 23, 2002).

Galveston- Port of Galveston Tariff, Section 400 & 500, website <http://www.portogalveston.com> (accessed January 23, 2002).

Houston- Tom Heidt, Port of Houston.

Seattle- Port of Seattle Terminals Tariff No. 4, website www.portseattle.org/harbor/tariffs (accessed January 23, 2002).

Cruise Ship Fees – Other Countries

There are countries that levy passenger fees. We were able to find the following fees levied by countries in the Caribbean:

Summary of Head Taxes in Caribbean Region, 2003		
Destination	Head Tax (\$)	Incentives
Antigua/Barbuda	7.50	Incentives to \$6
Aruba	3.50	Incentives to \$2
Bahamas	15	Incentives to \$7.50, 2nd port is free
Barbados	6	
Belize	5	
Bermuda ¹ -	60	Arrival Tax, regardless of length of stay
-	14	Per night, May through August
-	10	Per night, September through April
Bonaire	0	
British Virgin Islands	7	Incentives to \$2
Cayman Islands -	11.22	Seasonal
-	9.27	Year-round
Costa Rica	2.50	
Curacao	3.50	Incentives to \$1.75
Dominica	5	Incentives to \$3
Dominican Republic	1	
Grenada	4.50	
Guadeloupe - Pointe-a-Pitre	1.85	
Jamaica - Ocho Rios	15	Incentives to \$8.50
- Montego Bay	13	Incentives to \$8.50
Martinique	0	
Mexico - Cozumel	3.85	
Nicaragua	2	
Panama	4.50	Rebates to \$12
Puerto Rico - San Juan	10.30	Incentives to \$8.50
St. Kitts	5	Incentives to \$3.50
St. Lucia	6.50	Incentives to \$6
St. Maarten	5	
St. Vincent and the Grenadines	6	
Trinidad & Tobago	5	
U.S. Virgin Islands - St. Thomas	7.50	Fixed until 2006
- St. Croix	0	Fixed until 2006
Port Canaveral	5.05	In-transit
Port Everglades	6.62	In-transit
Key West	8	
Miami	7.25	In-transit
Palm Beach	4	In-transit
Tampa	5.75	In-transit

Source: Florida Caribbean Cruise Association

State Costs Incurred Supporting the Visitor Industry in Alaska

Special legal issues are present when a tax falls on the Alaska cruise ship industry. The Department of Law (DOL) has addressed these in an extensive memorandum dated November 17, 2003. Incidentally, many of these same issues have been addressed in several memoranda by John R. Corso of the City and Borough of Juneau Legal Department as they examined the same issues in relation to their head tax.

In brief, DOL's conclusion is that it is entirely possible to construct a defensible tax which falls on cruise ship accommodations as long as it is used to recoup, through taxes, related governmental expenses. Table 19 sets forth one such preliminary estimate of government expenses for the current fiscal year. As can be seen, public money spent far exceeds what will be recouped in tax. Because of the enormous amount of spending by state visitors with Alaskan merchants and service providers, it is entirely appropriate that the state government subsidizes the visitor industry. This is especially true in areas where the expenditures can benefit everyone, visitor and non-visitor alike. However, it is also entirely appropriate, and legal, for the state to recoup some of those expenses through its taxing power.

		FY 2004	Potentially	
	Operating Budget	Component	Attributable	Notes on Methodology
	Component	Total	to Cruise	
	Name	Appropriations	Industry	
		(\$ Thousand)		
FY 04 Operating Budget				
Debt	Harbor Project Debt Service	14,459.1	6,069.0	See OMB harbors debt service spreadsheet.
	International Airport Bond Debt Service	17,701.3	5,535.2	59% of traffic during high demand months are visitors and 53% of visitor traffic is one-way cruise users, <i>Alaska Visitor Arrivals: Summer 2003</i> , Northern Economics, December 2003.
DOA	Risk Management	24,483.9	-	Some portion of liability insurance for public transportation: \$1.5m/yr. marine transportation; \$890k/yr. international airports.
	Motor Vehicle Licensing	9,611.5	14.5	Licensed tour bus - 1,163 proportion of 770,000 total licensed vehicles X budget.
DCED	State Match to AK Travel Industry	4,000.0	1,926.0	FY 04 budget amount billed to cruise industry from department.
	Marine Pilot Licensing Program	225.4	112.7	Assumes cruise ship operations are 1/2 of total.
	Alaska Railroad	10,000.0	7,130.0	71.3% of passenger are directly associated with cruise lines so that percentage was applied to the passenger operations budget.
DEC	Food and Safety Sanitation	2,838.5	30.0	Estimate provided by department based on food service inspections of ships operating in AK.
	Environmental Compliance Fee	706.9		Paid entirely by cruise ship industry.
	Spill Prevention and Response	5,587.4		No current basis for allocating cost to cruise industry.
ADFG	Sport Fisheries	35,459.7	10,818.3	81% of sportfish licenses sold to nonresidents in CY '02 assumes that 1/2 were sold to cruise ship visitors.
	Wildlife Conservation	29,100.2		No current basis for allocating cost to cruise industry.
DHSS	Epidemiology	18,678.1		No current basis for allocating cost to cruise industry.
	Medical Examiner	1,245.1		No current basis for allocating cost to cruise industry.
	Public Health Laboratories	5,141.1		No current basis for allocating cost to cruise industry.
Labor	Marine Training Program	240.0	120.0	Assumes cruise ship operations are 1/2 of total.
	Wage and Hour	1,300.0		No current basis for allocating cost to cruise industry.
DMVA	Homeland Security and Emergency Services	5,346.8		No current basis for allocating cost to cruise industry.
	Local Emergency Planning Committee	409.0		No current basis for allocating cost to cruise industry.
DNR	State Parks	7,909.4	1,502.8	19% of visitors to state parks are nonresidents
DPS	Fish and Wildlife Protection	18,045.5	2,400.1	Assumes same proportion of enforcement effort as commercial fishing for sport with 1/2 attributable to cruise visitors. Ref: court approved <i>Carlson</i> methodology.
	Search and Rescue	368.1		No current basis for allocating cost to cruise industry.
DOT/PF	Marine Highway System	85,813.8		No current basis for allocating cost to cruise industry.
	International Airports	236,818.7		No current basis for allocating cost to cruise industry.
FY 04 Operating Budget Subtotal		535,479.3	35,858.6	

Operating Budget Component Name		FY 2004 Component Total Appropriations (\$ Thousand)	Potentially Attributable to Cruise Industry	Notes on Methodology
FY 04 Capital Budget				
DMVA	State Homeland Security Grant Program	18,225.0	758.6	Port Security Grants
DOT/PF	International Airport System Projects and Costs	38,274.8	11,343.1	Anchorage (see formula above)
	Corps of Engineers Harbors Program	8,450.0	8,450.0	St. Paul and Wrangell Projects (both cruise ports)
	International Airport System Projects and Costs	28,808.7	9,008.5	Fairbanks
	Ted Stevens International Airport Projects	134,593.0	42,087.2	Anchorage
Alaska Railroad		12,000	8,556.0	\$12 million/year passenger-related capital expenditure X 73.1%
FY 04 Capital Budget Subtotal		238,351.5	80,203.4	
GRAND TOTAL		773,830.8	115,861.9	

Note that the potentially attributable cost figures in the table refer only to the cost side of the ledger without regard to how those activities and projects are funded. Because the Alaska constitution does not allow for dedication of funds, public revenue can be spent on anything and those funds spent on regulation, support and enforcement of cruise ship activities could be spent on other public services if the industry did not exist. This legal rationale was delineated by the Alaska Supreme Court in *Carlson, et al v. State of Alaska*. The only exception in the table is the DEC Environmental Compliance Fee which is paid directly by the cruise ship industry.

***Preliminary Estimates of Cruise Industry Fiscal Impacts
on the State's General Fund***

**with a
Preliminary analysis of State of Alaska support material
for HB207, Tax on Commercial Vessel Passengers**

***Prepared for:
North West CruiseShip Association***



Juneau • Anchorage

April 22, 2004

Preliminary Estimates of Cruise Industry Fiscal Impacts on the State's General Fund

The following estimates and accompanying explanations are developed by the McDowell Group, Inc., at the request of the North West CruiseShip Association in response to the support material attached to a letter by Micheal Tibbles, Legislative Director for Governor Murkowski, to Representative Carl Gatto dated January 27, 2004. The material accompanying the letter was used to support a tax proposal. An initial cursory examination of the support material brought into question the basis for the estimates of cruise industry fiscal impacts. The McDowell Group was then assigned the task of conducting a preliminary professional review of the assumptions, as part of an ongoing comprehensive assessment of the cruise industry's economic impacts in Alaska. The result is a preliminary estimate of cruise industry General Fund impacts of \$900,000, compared to the original estimate of \$115,861,900 in state government impacts presented in the Tibbles support material. These findings are preliminary and subject to change, pending the outcome of McDowell Group's detailed analysis of the expenditure and revenue impact of the cruise industry on state and local governments in Alaska.

- **International Airport Bond Debt Service** **Original estimate: \$5,535,200**
McDowell Group cruise market data and official statistics from the international airports shows that 314,000 cruise passengers used the Anchorage and Fairbanks airports in 2003, out of 5,222,619 total passengers using the airports (enplanements and deplanements) in the last fiscal year, for an attribution rate of 6.0 percent, not the 22 percent assumed in the Tibbles letter. More important, according to Airport officials, the International Airport system receives no General Fund money. **Revised estimate: \$0**

- **State Match to Alaska Travel Industry** **Original estimate: \$1,926,000**
Original calculation ignores cruise industry contribution of \$2.4 million to the overall statewide marketing program that benefits all visitor markets. Cruise industry contribution more than accounts for stated attributable funds. **Revised estimate: \$0**

- **Alaska Railroad** **Original estimate: \$7,130,000**
Revenues to the railroad related to the cruise industry more than compensate for the portion of the operating budget attributable to the cruise industry, according to Alaska Railroad executives. ARR receives no general fund monies. ARR would likely show a net profit from cruise-related operations. **Revised estimate: \$0**

- **Sport Fisheries** **Original estimate: \$10,818,300**
McDowell Group statewide survey data shows that 6 percent of all cruise passengers participated in sport fishing in 2003. This represents 16 percent of all non-resident sport fishing licenses (not the 50 percent incorrectly assumed in the Tibbles letter) and 10 percent of all sport fishing licenses. General Fund money to Sport Fisheries totals approximately \$18.4 million (FY04 Authorized). Ten percent of that total is \$1.8 million. Subtracted from that is the approximate \$1.2 million in cruise passenger fishing license revenue. **Revised estimate: \$600,000**

- **Marine Training Program** **Original estimate: \$120,000**
Marine pilots pay for the training program as part of their annual licensing fees. **Revised estimate: \$0**

- **State Parks** **Original estimate: \$1,502,800**
 Tibbles material attributes all non-resident park visits to the cruise industry, while cruise visitors constitute approximately 50 percent of full-year Alaska visitor traffic. Cruise visitors are not as likely as non-cruise visitors to visit the state's widely-distributed parks, as they rarely utilize campgrounds, and their itineraries are shorter and more concentrated. Most cruise passenger visitation to state parks is likely to be covered by commercial user fees. In the absence of specific visitation data, this analysis estimates a state park attribution rate of 20 percent of all non-resident usage, although the actual percentage is likely much lower.
Revised estimate: \$300,000
- **Fish and Wildlife Protection** **Original estimate: \$2,400,100**
 See Sport Fisheries note. Cruise visitors account for only 10 percent of all sport fishers and virtually no hunters or commercial fishing activity – which involve major enforcement expenditures. It is not known if Tibbles material eliminated hunting and commercial fishing enforcement costs.
Revised estimate: not yet determined
- **Harbor Project Debt Service** **Original estimate: \$6,069,000**
 Most Alaska harbor project debt service is not related to cruise dock facilities. Tibbles material is unclear as to what ports and facilities are included in this debt service. Little state money is likely involved in cruise port development in the three major Southeast ports.
Revised estimate: \$0
- **State Homeland Security Grant Program** **Original estimate: \$758,600**
 As a federally funded grant program, this budget item likely has no general fund impacts.
Revised estimate: \$0
- **International Airport System Projects and Costs (ANC)¹** **Original estimate: \$11,343,100**
 McDowell Group data shows that 261,000 cruise passengers used the Anchorage airport in 2003, out of 4,392,204 million total passengers using the airport (enplanements and deplanements) in the last fiscal year, for an attribution rate of 5.9 percent, not 22 percent as Tibbles material assumed. In any case, the International Airport system receives no General Fund money.
Revised estimate: \$0
- **Corps of Engineers Harbors Program** **Original estimate: \$8,450,000**
 Tibbles material refers to harbor projects in Wrangell and St. Paul that consist of fishing industry-related improvements. According to city officials in both communities, neither project has any relation to the cruise ship industry.
Revised estimate: \$0
- **International Airport System Projects and Costs (FBX)¹** **Original estimate: \$9,008,500**
 McDowell Group data and official airport statistics show that 53,000 cruise passengers used the Fairbanks airport in 2003, out of 830,415 total passengers using the airport (enplanements and deplanements) in the last fiscal year, for an attribution rate of 6.4 percent. In any case, the International Airport system receives no General Fund money.
Revised estimate: \$0

¹ According to officials at the Department of Transportation, the Tibbles material double-counts the airport-related budget items. The airport capital expenditures are financed through the international airport bond debt service. Expenditures on the capital budget side are referenced that are already accounted for on the operating budget side.

- **Ted Stevens International Airport Projects¹** **Original estimate: \$42,087,200**
 McDowell Group statewide survey data shows that 261,000 cruise passengers used the Anchorage airport in 2003, out of 4,392,204 total passengers using the airport (enplanements and deplanements) in the last fiscal year, for an attribution rate of 5.9 percent. Further, the International Airport system receives no General Fund money.

Revised estimate: \$0

- **Alaska Railroad** **Original estimate: \$8,556,000**
 Revenues to the railroad related to the cruise industry more than compensate for the portion of the operating budget attributable to the cruise industry, according to Alaska Railroad executives. The ARR is not a state agency and receives no general fund monies.

Revised estimate: \$0

TOTAL ORIGINAL ESTIMATE	\$115,861,900
TOTAL PRELIMINARY REVISED ESTIMATE	\$900,000

***THE ECONOMIC IMPACTS OF THE
CRUISE INDUSTRY IN ALASKA, 2003***

FINAL REPORT

***PREPARED FOR:
NORTH WEST CRUISESHIP ASSOCIATION***

OCTOBER 2004

THE ECONOMIC IMPACTS OF THE CRUISE INDUSTRY IN ALASKA, 2003

FINAL REPORT

**PREPARED FOR:
NORTH WEST CRUISESHIP ASSOCIATION**

PREPARED BY:



JUNEAU • ANCHORAGE

OCTOBER 2004

TABLE OF CONTENTS

Executive Summary	1
Introduction.....	5
Scope of Work.....	5
Methodology.....	5
Alaska Cruise Industry Profile.....	8
Overview of the Cruise Industry in Alaska	8
Cruise Passenger Volume	9
Cruise Industry Investments in Alaska.....	10
Alaska Cruise Itineraries and Tour Packages	12
Cruise Passenger Profile	13
Cruise Industry-Related Spending in Alaska	15
Cruise Line Purchases of Goods and Services.....	15
Cruise Passenger Spending.....	17
Crew Member Spending	19
Total Direct Spending by Region.....	20
Cruise Industry-Related Employment and Payroll.....	21
Role of the Cruise Industry in the Statewide and Regional Economies.....	24
Cruise Industry Impacts on State and Local Government.....	26
State Government Revenue and Program Impacts.....	26
Impacts on Local Governments.....	27
Appendix	33

EXECUTIVE SUMMARY

The cruise industry has become a major economic force in Alaska, bringing nearly 780,000 visitors to the state in 2003 alone. To better understand how the cruise ship industry affects the Alaska economy, the North West CruiseShip Association (NWCA) contracted with McDowell Group, an Alaska research and consulting firm, to prepare a study of the impacts of the Alaska cruise industry on the state during 2003.¹ Impacts were also summarized for Southeast, Southcentral and Interior/North regions of Alaska (see map). Cruise industry impacts are expressed in terms of spending, employment and payroll. Key findings are presented below.

Cruise Passenger and Crew Member Spending

- The average out-of-pocket spending per passenger in 2003 was \$511, for total spending of \$393 million. This does not include airfare to and from the state, or any trip components included in the cruise or cruisetour package (such as hotel, rail, and bus components).
- Cruise passengers make the bulk of their out-of-pocket purchases in Southeast Alaska, where they spend the most time. It is also where they have the most opportunity to make independent purchases on tours, retail items, and meals.
- Approximately 20,000 crew members spent an estimated \$13 million in Alaska in 2003, nearly all of it in Southeast Alaska.

Cruise Passenger Spending by Region, 2003

Region	Total Spending	Percent of Total
Southeast	\$334 million	85%
Southcentral	34 million	9
Interior/North	12 million	3
Unattributed*	13 million	3
Total	\$393 million	100%

*Unattributed spending includes spending that cannot be obviously attributed to a region.

Cruise Line Spending on Goods and Services

- Cruise lines and their subsidiaries purchased approximately \$149 million in goods and services from Alaska businesses and organizations during 2003. Included in this figure is spending on operational expenses as well as capital projects. According to cruise line data, approximately \$35 million of the \$149 million is attributable to capital projects. Direct payroll is not included.
- Southcentral captured about half of cruise line spending at \$76 million. Southeast and the Interior/North each captured about a quarter of spending at \$39 million and \$34 million, respectively.
- The high level of spending in Southcentral reflects, in part, cruise line subsidiary operations such as lodges, railcars, and other land tour components, many of which are based and/or supplied by businesses located in that area.

¹ This study considers impacts from NWCA member lines only, which represent 98 percent of the Alaska cruise market.

Cruise Line Direct Purchases of Goods and Services by Region, 2003

Region	Total Spending	Percent of Total
Southcentral	\$76 million	51%
Southeast	39 million	26
Interior/North	34 million	23
Total	\$149 million	100%

Total Direct Cruise Industry Spending

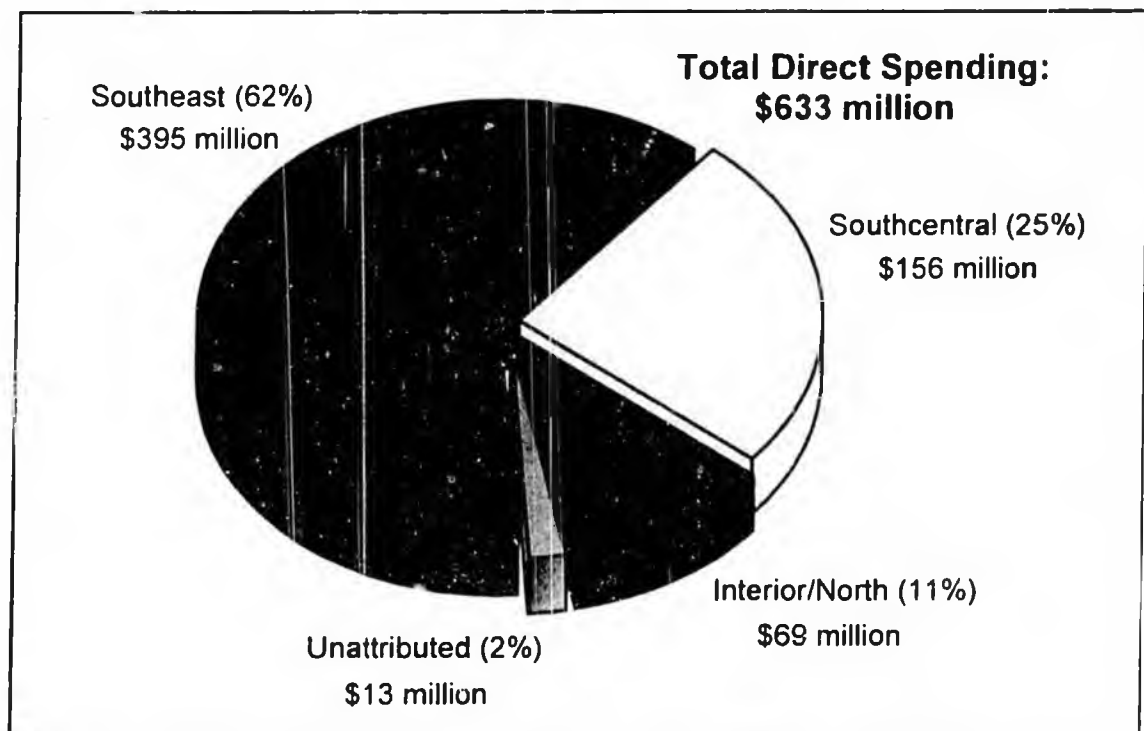
- Cruise lines, crew members, and passengers directly accounted for \$633 million in spending in Alaska in 2003. This figure includes \$393 million in passenger spending, \$149 in cruise line spending on goods and services, \$46 million in cruise line payroll spending, \$32 million in passenger airfare, and \$13 million in crew member spending.

Total Direct Cruise Industry Spending, 2003

Region	Total Spending
Cruise passenger spending	\$393 million
Cruise line spending on goods and services	149 million
Cruise line payroll	46 million
Cruise passenger airfare ²	32 million
Crew member spending	13 million
Total	\$633 million

- The following table shows the direct spending by cruise lines (purchases and payroll), passengers (out-of pocket spending and airfare), and crew members, by region.

**Total Direct Spending by Cruise Lines, Passengers, and Crew Members
By Region, 2003**



² Cruise passenger airfare refers to the portion of passenger airfare that is estimated to stay in the state of Alaska.

Cruise Industry Employment and Payroll

- In 2003, the cruise industry directly employed an average of 1,630 workers, with peak employment of 3,130. Direct payroll accounted for \$46 million. These figures do not include jobs created by passenger spending or by cruise line spending with Alaska businesses.
- Counting both direct and indirect employment and payroll, the cruise industry generated 12,430 jobs (annual-equivalent) in 2003. Cruise industry-related employment peaked at approximately 21,000 jobs during the summer. The industry accounted for \$384 million in total payroll.
- The cruise industry has the greatest impact in Southeast, where it accounts for 7,300 jobs and \$212 million in payroll. These figures represent 14 percent of all employment and 12 percent of all payroll in Southeast.

Total Statewide Employment and Payroll Impacts of the Cruise Industry, 2003 (Including Direct, Indirect, and Induced Impacts)

	Jobs	Payroll (\$ millions)
Statewide		
Cruise line employment and spending	4,830	\$152.7
Passenger and crew spending	7,600	231.4
Total	12,430	384.1
Southeast		
Cruise line employment and spending	800	\$28.4
Passenger and crew spending	6,500	183.6
Total	7,300	212.0
Southcentral		
Cruise line employment and spending	1,970	\$81.5
Passenger and crew spending	900	37.3
Total	2,870	118.8
Interior/North		
Cruise line employment and spending	1,960	\$42.6
Passenger and crew spending	300	10.6
Total	2,260	53.2

Note: Regional totals may not add up to statewide totals due to rounding.

Cruise Industry Impacts on State and Local Governments

- At the municipal level, it is estimated that local governments earned over \$30 million from the cruise industry in 2003, including \$14 million in sales tax from passenger and crew spending.

Statewide Municipal Revenues from the Cruise Industry, 2003

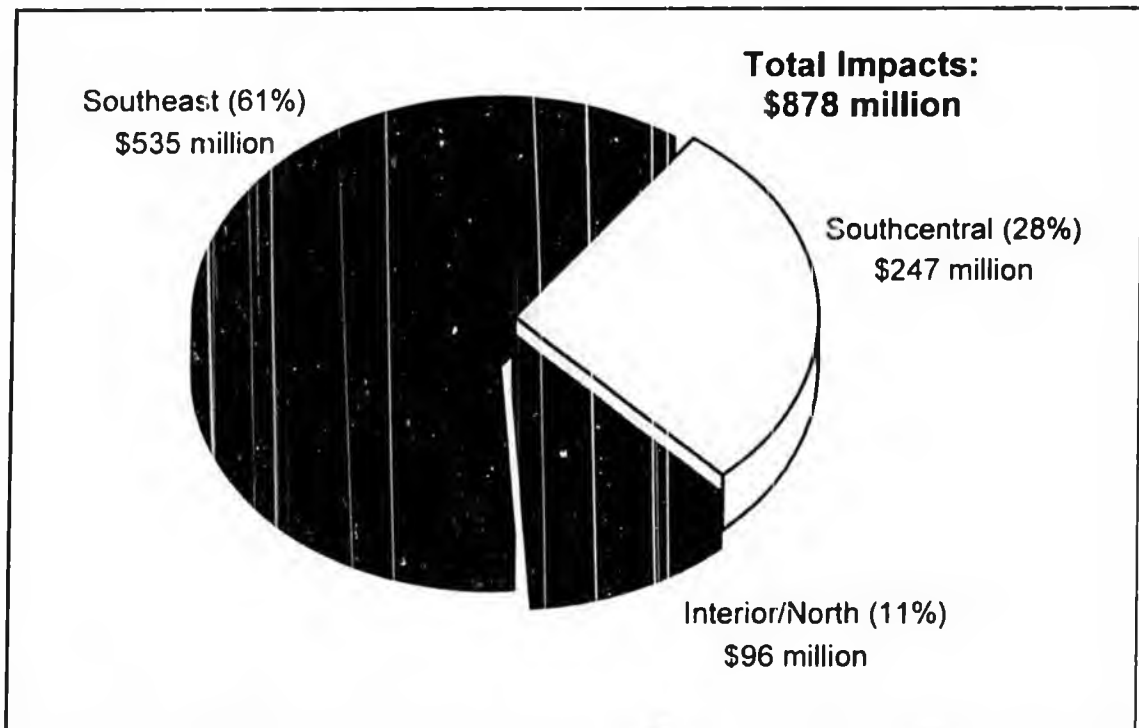
	Total Revenues
Passenger/crew sales tax revenues	\$13,906,000
Cruise line sales tax revenues	1,500,000
Cruise line dockage/moorage fees	7,834,000
Bed tax revenues	4,489,000
Property tax revenues	3,000,000
Total	\$30,729,000

- All available data suggests that the cruise industry provides an overall net benefit to local governments, with cruise-related revenues significantly exceeding cruise-related expenses.
- Though it is not possible to measure all state government costs and revenues associated with the cruise industry, available information suggests that revenues exceed costs.
- Based on interviews with state departments and cruise industry data, it is estimated that in 2003, \$2.1 million was generated by the cruise industry in revenue to the state, with \$775,000 in verified program costs attributed to the cruise industry.

Total Spending Impact

- Statewide, total spending attributable to the cruise industry was approximately \$878 million in 2003. This is a measure of all the direct, indirect, and induced spending in support of the industry, its passengers, and its labor force. Direct cruise line spending, passenger spending, crew member spending, cruise line payroll, and all associated indirect and induced spending and payroll are included in this number. This is a total measure of all dollars moving through the Alaska economy as a result of the cruise industry.
- Below is a chart that shows how total spending activity (including direct, indirect, and induced impacts) is spread out regionally in Alaska.

**Total Spending Impact of the Cruise Industry by Region, 2003
(Including Direct, Indirect, and Induced Impacts)**



Scope of Work

Over the last decade, the cruise ship industry has clearly become a major economic force in the state of Alaska. Like the visitor industry as a whole, it is a difficult sector to analyze. The cruise industry exists within a wide variety of economic sectors: services, amusement/recreation, hotel lodging, and transportation, among others. To better understand how the industry affects the Alaska economy, the North West CruiseShip Association (NWCA) contracted with McDowell Group, an Alaska research and consulting firm, to prepare a study of the impacts of the Alaska cruise industry on the state during 2003.

The 2003 Alaska large cruise ship market was almost entirely comprised of eight cruise lines, all members of NWCA: Carnival Cruise Lines, Celebrity Cruises, Crystal Cruises, Holland America, Norwegian Cruise Line, Princess Cruises, Royal Caribbean International, and Radisson Seven Seas Cruises.³ Passengers from these lines represented over 98 percent of the 2003 Alaska cruise market. This study examines the impacts of these lines only, not small cruise ship lines, or other non-NWCA member lines.

The study includes:

- Alaska Cruise Industry Profile
- Cruise Industry-Related Spending in Alaska
 - Cruise line spending
 - Cruise passenger spending
 - Cruise industry-related employment and payroll
- Cruise Industry Role in the Alaska and Regional Economies
- Cruise Industry Impacts on State and Local Government Revenues

Methodology

Cruise Line Purchases of Goods and Services

The study team received 2003 purchasing data, by vendor and by location, from seven of the eight NWCA member lines operating in Alaska in 2003. (These seven lines represented 98 percent of all passengers in 2003.) The data included all purchases by cruise lines in support of their operations, as well as subsidiary operations, over the course of the year. Capital expenditures are also included in the data.

For this report, the study team only analyzed expenditure data for purchases made with Alaska businesses. The data was reviewed and categorized into sectors (such as construction, transportation, and government) in order to facilitate the analysis of indirect economic impacts. Purchasing data was also categorized by community and region.

³ Two more cruise lines, Seabourn Cruise Line and World Explorer Cruises, are members of NWCA but did not send any ships to Alaska in 2003.

The purchasing list was further sorted to avoid duplication. Payments to tour operators were eliminated where those expenditures were included in passenger spending data.

The cruise lines also provided information on their charitable donations (both in-kind and cash) and payments made to local membership organizations.

Cruise Passenger and Crew Spending

Cruise passenger spending estimates were derived primarily from McDowell Group's biennial, proprietary visitor research program, the *Alaska Travelers Survey*. In a 2003 exit survey of cruise passengers, respondents were asked to estimate how much their party spent on their entire Alaska trip, not including their cruise or cruisetour package or airfare. Passengers were also asked to estimate their expenditures in several specific communities where the surveys were conducted.

It is important to note that the *Alaska Travelers Survey* expenditure data does not include any tip components paid for in the cruise or cruisetour package – for example, hotel stays, meals, bus transfers, and train transportation. These purchases are accounted for in the spending by cruise lines. The passenger expenditure data *does* include spending on shore excursions, even if the excursions were purchased through the cruise line before the cruise.

For a more detailed explanation of cruise passenger spending estimates, please refer to page 16.

To estimate 2003 crew member spending, the study team drew up on data from a 1995 McDowell Group study estimating crew spending for Juneau and Sitka, McDowell Group's 1999 Southeast cruise industry impacts study, and interviews with local retailers and crew members.

Cruise Industry Employment and Payroll

Detailed employment and payroll data for 2003 was obtained directly from the cruise lines. McDowell Group also received monthly employment data for all cruise industry-owned operations in Alaska (including land tour and hotel operations) from the Alaska Department of Labor and Workforce Development.

The study team used IMPLAN econometric models for Alaska to estimate indirect (and induced) impacts from cruise industry activity at the regional and statewide level. To verify the relevancy of the IMPLAN model, the study team used known direct expenditures provided by the cruise industry to evaluate the relationships between cruise-related activities and other businesses in Alaska. The direct, indirect, and induced impacts on output, employment, and payroll were aggregated to obtain total impact.

Impacts on State and Local Governments

At the state budget level, both revenues and expenses related to the cruise industry were analyzed for the report. The budgets of each individual state department were assessed for links to the cruise industry. Department, division, and section directors were interviewed to determine specific expenses and revenues from cruise passenger activity. This information was supplemented by McDowell Group visitor data – for example, cruise passenger sportfishing participation data was used to determine fishing license revenue, and cruisetour traffic data was used to determine airport usage by cruise passengers. Cruise line vendor data provided further information on revenues to the state budget.

This level of effort was not possible at the local level, considering the large number of communities across the state affected by the cruise industry. However, findings from the McDowell Group's 1997 study *Cruise Industry Impacts on Local Governments in Southeast Alaska* provide valuable insight into how the cruise industry affects municipal budgets in port communities.

Using current data, the study team also estimated 2003 municipal revenues, including sales tax revenues, docking and moorage fees, bed tax revenues, and property tax revenues. The data is presented at the regional level where possible.

Note on Previous Cruise Industry Economic Impact Analysis

The cruise industry impact numbers presented in this study differ from another recent analysis of cruise industry impacts. In *The Contribution of the North American Cruise Industry to the U.S. Economy in 2003*, a report prepared for the International Council of Cruise Lines (ICCL), cruise industry activity in Alaska in 2003 included \$694 million in direct spending and 13,650 in total employment. Methodological differences account for relatively minor variations between numbers presented in the ICCL report and this study.

ALASKA CRUISE INDUSTRY PROFILE

Overview of the Cruise Industry in Alaska

Alaska's Role in the Global Cruise Industry

Alaska captured 6.7 percent of the worldwide cruise market in 2003.⁴ It is the third most popular cruise destination in the world, after the Caribbean/Bahamas at 51.5 percent and the Mediterranean at 15.0 percent. Alaska's share has declined just slightly from 2002 when it captured 7.0 percent of the market, following market shares of 5.5 percent in 2000 and 6.6 percent in 2001.

The worldwide cruise industry has expanded at an average rate of 8 percent for more than two decades, and continued growth is forecasted. According to the Cruise Industry News Annual, "Only 15 percent of the North American population has ever taken a cruise... Moreover, cruising is said to account for only 3 percent of the North American leisure travel market. That leaves a huge potential of cruise passengers among all those who take vacations."⁵

Cruise Lines Operating in Alaska

The 2003 Alaska large cruise ship market was almost entirely comprised of eight cruise lines, all members of the North West CruiseShip Association (NWCA):⁶

- Carnival Cruise Lines
- Celebrity Cruises
- Crystal Cruises
- Holland America
- Norwegian Cruise Line
- Princess Cruises
- Royal Caribbean International
- Radisson Seven Seas Cruises

Together, these eight cruise lines sent a total of 26 ships to Alaska in 2003, on nearly 450 individual trips. Several of these cruise lines are affiliated with one another. Holland America is a subsidiary of Carnival Corporation; Princess was recently acquired by Carnival Corporation; and Royal Caribbean International and Celebrity Cruises are owned by one parent company, Royal Caribbean Cruises Ltd.

Average large ship capacity for the 2003 season was 1,700 passengers, with individual ship capacities ranging from 700 to 2,600. Average ship capacity has grown steadily over the last decade as new, larger ships have been introduced to the market.

⁴ *Cruise Industry News Annual 2003*, published by Cruise Industry News, 2003.

⁵ *Cruise Industry News Annual 2003*.

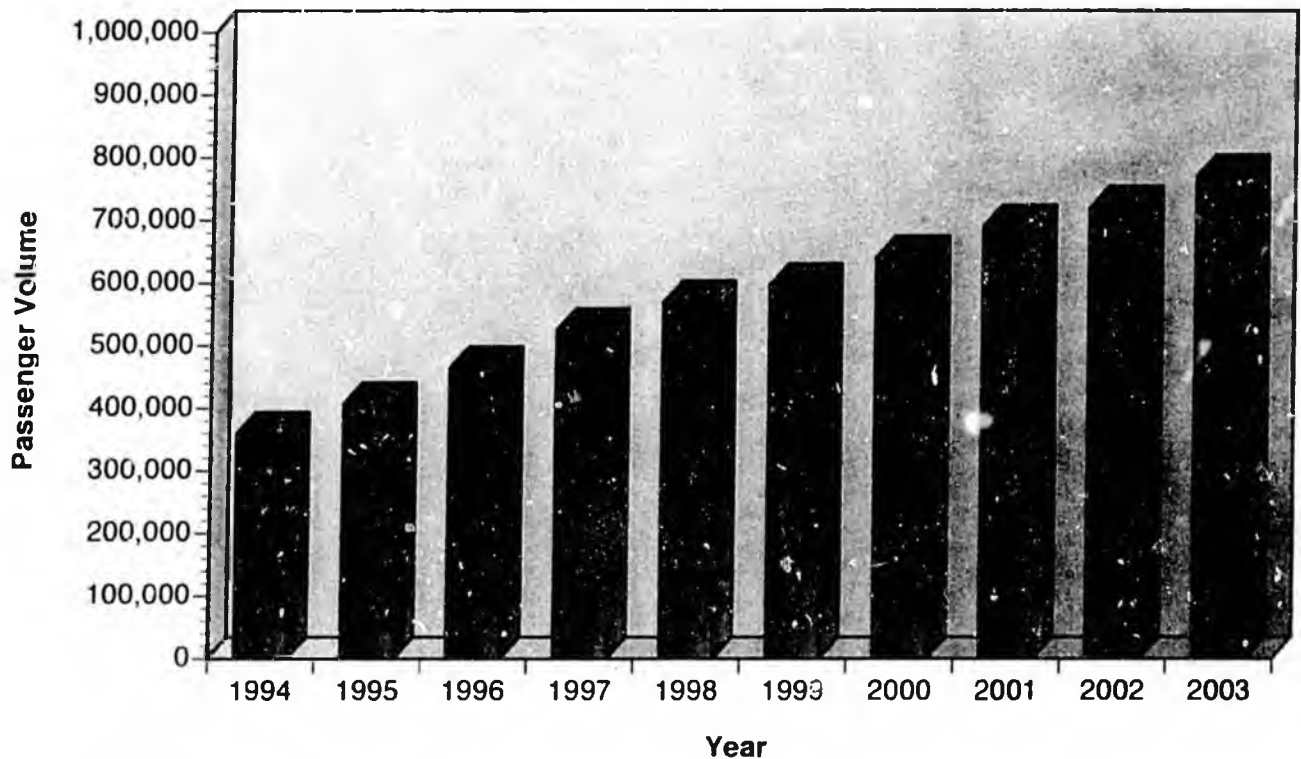
⁶ Two more cruise lines, Seabourn Cruise Line and World Explorer Cruises, are members of NWCA but did not send any ships to Alaska in 2003.

Cruise Passenger Volume

Cruise passenger volume to Alaska has grown dramatically over the last decade, increasing by 120 percent since 1994. In 2003, 780,000 people cruised to and/or from Alaska, an 8 percent increase over the previous year. The vast majority (98 percent) traveled on large cruise ships, which have a capacity of 250 passengers or more.

Industry projections indicate continued growth for the Alaska cruise market. A recent study conducted for the City of Ketchikan predicted that cruise passenger demand would reach 1.3 million passengers by 2015.⁷ This estimate reflects an average annual growth rate of 5 percent.

Chart 1
Alaska Cruise Passenger Volume, 1994-2003



Source: Cruise Line Agencies

Alaska's primary cruise ship ports are Juneau, Ketchikan and Skagway. Over 80 percent of the total market visits these three ports, and their market share changes little from year to year. Other ports experience more fluctuation in traffic and market share, as cruise lines experiment with different itineraries, and as new ports come onto the market (such as Icy Strait Point near Hoonah). Table 1, below, shows the 2003 passenger volume and market share by Alaska port; Table 2 shows the trend in cruise passenger volumes by Alaska ports for the past decade.

⁷ *Port and Harbors Facility Development Plan, Phase I: Inventory and Needs Assessment Report*, KPFF Consulting, City of Ketchikan, 2003.

Table 1
Cruise Passenger Volume and Market Share by Port, 2003

Port of Call	Volume (# of passengers)	Market Share of Total Volume (%)
Total Volume	780,000	-
Juneau	777,000	99.5%
Ketchikan	770,700	98.7
Skagway	628,000	80.4
Seward	293,200	37.5
Sitka	256,800	32.9
Wrangell	39,100	5.0
Haines*	28,500	3.6
Valdez	17,000	2.2

Note: These figures include both large and small cruise ship passengers.

* Does not include Skagway passengers who visit Haines on shore excursions

Source: Cruise Line Agencies

Table 2
Cruise Passenger Volume by Alaska Ports, 1994 – 2003

Location	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Juneau	360,000	407,000	464,000	525,000	569,000	596,000	640,000	690,000	740,000	777,000
Ketchikan	379,600	380,000	426,200	480,700	531,100	565,000	572,500	665,200	701,000	770,700
Skagway	202,900	252,800	268,400	435,600	486,600	515,000	563,700	610,100	619,600	628,000
Seward	158,000	137,000	230,000	208,900	280,500	280,200	274,700	337,200	316,600	293,200
Sitka	200,000	221,000	252,300	183,600	163,400	168,000	156,000	206,300	249,500	256,800
Wrangell	n/a	n/a	24,400	8,300	11,200	12,000	6,700	4,800	6,000	39,100
Haines	43,200	64,700	85,200	132,300	104,500	159,700	187,400	40,200	82,000	28,500

Note: These figures include both large and small cruise ship passengers.

Source: Cruise Line Agencies.

Glacier Bay is the most popular geographical point of interest, followed by the Hubbard Glacier, College Fjord, Misty Fjords, and Prince William Sound. Ports not specified in the above table include many communities that are visited only by small ships, such as Elfin Cove, Petersburg, Metlakatla, Dutch Harbor, Homer, and Nome.

Cruise Industry Investments in Alaska

The cruise industry has a substantial amount of investment in property and facilities throughout Alaska. These include hotels/lodges, rail cars, motorcoaches, offices, and maintenance shops. Most assets are owned by the three cruise lines with cruisetour operations: Princess (Princess Tours/Royal Highway Tours), Holland America (Holland America Line Westours/Gray Line), and Royal Caribbean/Celebrity (Royal Celebrity Tours). Cumulatively, these three lines have spent nearly \$560 million in capital projects in Alaska since they began operations.

Hotels represent the cruise industry's most substantial assets in the state. Two cruise lines own and/or operate hotels in Alaska: Princess and Holland America. The following table lists the properties and their capacity, by cruise line.

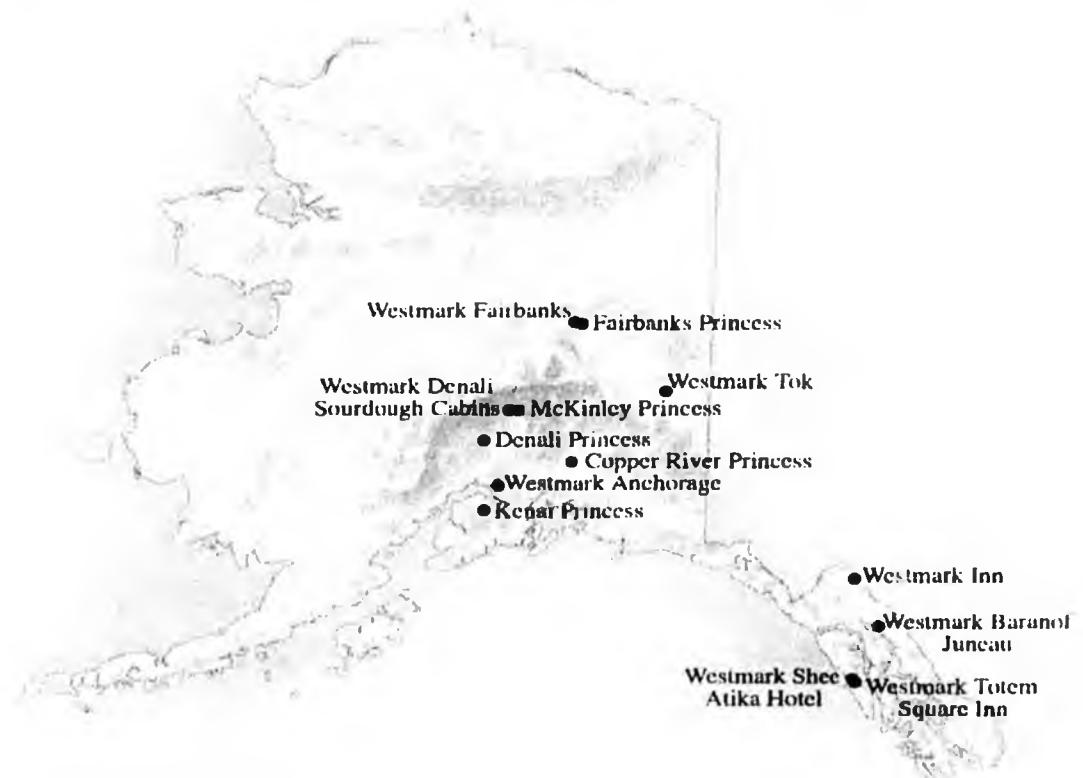
Some cruise line holdings serve other markets besides cruise passengers, such as the Westmark Anchorage hotel. Others, like Princess' hotels in Denali, serve almost exclusively cruise passengers.

Table 3
Cruise Line-Owned (or Operated) Hotels in Alaska

	Location	Capacity
Princess		
Fairbanks Princess	Fairbanks	325 rooms
Denali Princess	Denali	436 rooms
McKinley Princess	Talkeetna	324 rooms
Kenai Princess	Cooper Landing	86 rooms
Copper River Princess	Copper Center	85 rooms
Holland America		
Westmark Anchorage	Anchorage	198 rooms
Westmark Fairbanks Hotel	Fairbanks	136 rooms (400 as of 5/04)
Westmark Tok	Tok	92 rooms
Westmark Denali Sourdough Cabins	Denali	45 cabins
Westmark Inn Skagway	Skagway	151 rooms
Westmark Baranof Juneau	Juneau	196 rooms

Note: This table does not include properties managed but not owned by cruise line subsidiaries, such as the Westmark Shee Atika Hotel and the Westmark Totem Square Inn, both in Sitka.

Examining the number of hotel rooms by region, of the 2,084 total room capacity available in 2003, 1,119 rooms are located in the Interior/North, 618 rooms in Southcentral, and 347 rooms in Southeast. The map below shows where cruise line-associated hotel properties are located in Alaska.



Alaska Cruise Itineraries and Tour Packages

Cruise routes and itineraries vary among and within cruise lines, although there are general similarities. Cruises tend to supplement port calls with visits to geographical points of interest such as Tracy Arm and Glacier Bay. Round-trip itineraries usually use Vancouver or Seattle as the embarkation/disembarkation port. "Cross-gulf" itineraries use these same ports as a base, but also sail across the Gulf of Alaska, traveling between Vancouver/Seattle and Seward. (In 2004, Whittier will become an additional Southcentral port.) Passengers on cross-gulf itineraries cruise one-way and fly one-way. In 2003, round-trip cruises accounted for approximately 60 percent of all traffic, cross-gulf 40 percent. Alaska cruises generally last seven days, although some variations exist in cruise length.

Passengers on cross-gulf itineraries can choose from an array of land tour itineraries that last anywhere from three to ten days. Cruisetours spread out passengers, who embark and disembark their ships in large volumes, to different properties and locations – airplanes, hotels, buses, and railcars clearly have much lower capacities than cruise ships. As a result, there are many variations in tour length, accommodations, and transportation used to get from place to place.

Land tours usually consist of a rail segment and overnights in Fairbanks, Denali, and Anchorage. Other cruisetour destinations include Girdwood, the Kenai Peninsula, Talkeetna, Glennallen, and the Yukon. Cruise passengers can also choose optional add-on trips to such destinations as Nome, Prudhoe Bay and the Arctic Circle. In 2003, about 15 percent of all cruise passengers participated in a land tour.

Tour participation in Alaska is extremely high compared to other cruise destinations. Between 80 and 90 percent of all passengers purchase at least one tour through their cruise line. Recent years have seen an increase in the demand for more active, adventure-oriented tour options. In response, tour operators have created a wide array of adventure tours, including hiking on a glacier, dog sledding, scuba diving, kayaking, canoeing, river rafting, and driving a Jeep on mountain roads.

The table below shows the percentage of cruise visitors that participated in each type of tour during their Alaska vacation in 2003. The most popular tour in Alaska is the White Pass and Yukon Route train in Skagway. City tours are also very popular, followed by glacier tours, day cruises, and wildlife viewing tours.

(see table next page)

Table 4
Cruise Passenger Tour Participation
Alaska Travelers Survey⁶, Cruise Passengers, Summer 2003

	Total
White Pass/Yukon Route train	47%
City tours	39
Glacier tours	29
Day cruises	27
Wildlife viewing tours	25
Native culture tours/activities	16
Museums/historical sites	14
Helicopter flightseeing	10
Tramway/gondola	10
Lumberjack show	10
Gold panning/gold mine tours	10
Small plane flightseeing	9
Salmon bake	9
Hiking/nature walk	8
City walking tours	6
Charter fishing	6
Rafting	4
Dog sledding	3
Kayaking	3
Canoeing	3
Bear viewing	3
Horseback riding	2
Bike tours	2
Other tours/excursions	9

Cruise Passenger Profile

The following section includes data from the McDowell Group's ongoing, proprietary research program: *Alaska Travelers Survey⁶*. In addition to 2,000 surveys of independent visitors, over 1,500 cruise visitors were surveyed at cruise ship docks in Ketchikan and Juneau and at the Fairbanks and Anchorage airports in the summer of 2003. The cruise sample included passengers on large cruise ships only.

Demographic Characteristics

Alaska cruise passengers are predominantly from the United States (84 percent). The Western US is the largest market, representing one-third of all passengers, followed by the South, Mid-west, and the East. Canadians represent about one in ten passengers.

Cruise passengers tend to travel in 2-person parties, showing an average party size of 2.6. They report an average age of 56 years old. The average age among cruise passengers continues to trend downward gradually. Over half of cruise passengers have a college degree. Of passengers who reported their household income, 60 percent earned over \$75,000 annually.

Table 5
Demographics
Alaska Travelers Survey[®], Cruise Passengers, Summer 2003

	Total
Average age	55.8 years
Average party size	2.6 people
Household income > \$75,000	60%
Origin	
Western U.S.	34%
Southern U.S.	26
Midwestern U.S.	14
Eastern U.S.	12
Canada	9
Other International	5
Gender	
Male	43%
Female	57%
Educational Attainment	
High school graduate	78%
College graduate	54%

CRUISE INDUSTRY-RELATED SPENDING IN ALASKA

Money spent by cruise lines, its subsidiaries, and passengers affect the Alaska economy both directly and indirectly. Direct impacts include:

- Expenditures for goods and services
- Payroll (shore-side employees only)
- Government revenue
- Cruise passenger spending
- Crew member spending

Indirect and induced spending is sometimes referred to as a "multiplier effect." Cruise industry employees and passengers spend money with Alaska businesses; those businesses employ others and purchase goods and services; this in turn generates additional jobs and expenditures.

Cruise Line Purchases of Goods and Services

Cruise Line Purchases by Sector

Cruise lines and their subsidiaries spent approximately \$149 million on goods and services from Alaska businesses during 2003. This amount includes approximately \$35 million in spending on capital projects; it does not include cruise line payroll. Spending data is derived from purchasing information provided by NWCA member lines. The data was sorted to eliminate spending outside of Alaska, as well as payments to tour vendors accounted for under passenger spending.

Total Alaska expenditures are categorized by the industry sector in the table below. The top five sectors affected by cruise line direct purchases of goods and services were: hotels and accommodations (\$42 million); construction (\$29 million); transportation, including air, rail, ground and water (\$24 million); government fees and taxes (\$19 million); and wholesale and retail trade (\$12 million). NWCA member lines purchased goods and services from more than 1,770 Alaska businesses, organizations or government entities in 2003.

Table 6
Cruise Line Direct Purchases of Goods and Services by Sector, 2003

Sector	Total Expenditures (\$ million)	Percent of Total
Accommodations	\$41.9	28.1%
Construction	28.8	19.3
Transportation*	23.9	16.0
Local, state, and federal government	18.5	12.4
Trade (retail and wholesale)	12.3	8.3
Professional and business services	12.0	8.1
All other sectors**	11.7	7.8
Total	\$149.1	100%

* Expenditures with the Alaska Railroad are included under transportation, not state government.

**Other sectors include utilities, health services, financial activities and manufacturing.

Source: NWCA member lines

Cruise Line Purchases by Region

The \$149 million spent on goods and services by cruise lines almost entirely occurs in three regions: Southcentral, Southeast, and Interior/North (see map below). When categorizing spending by region, just over half (51 percent; \$76 million) occurs in Southcentral Alaska, a quarter (26 percent; \$39 million) in Southeast Alaska, and another quarter (23 percent; \$34 million) in Interior/North Alaska.

These figures reflect, in part, expenditures related to cruise line subsidiary operations such as lodges, railcars, and other land tour components, which are based primarily in Southcentral. In addition, purchasing data reflects the location of the company's headquarters – not necessarily where the service was provided. Of the 1,770 Alaska businesses, organizations or government entities from which purchases were made, 820 were based in Southcentral Alaska, 480 in Interior/North Alaska, and 470 in Southeast Alaska.

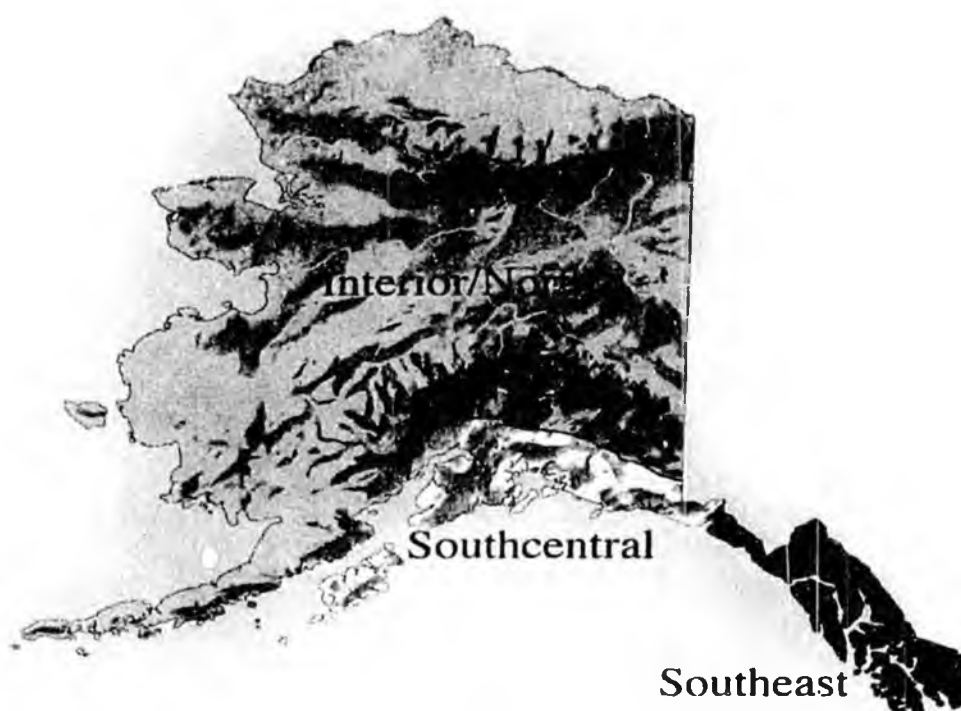


Table 7
Cruise Industry Direct Purchases of Goods and Services by Region, 2003

Region	Total Expenditures (\$ million)	Percent of Total
Southcentral	\$76.0	51%
Southeast	39.3	26
Interior/North	33.8	23
Total	\$149.1	100%

Source: NWCA member lines

Contributions to Non-Profit Organizations

The cruise industry had an additional impact on the Alaska economy in its charitable contributions to non-profit organizations. Based on data provided by NWCA member lines, in 2003, the cruise industry made in-kind and cash contributions to more than 256 non-profit organizations in Alaska, totaling \$522,000.

Table 8
Cruise Industry Contributions to Non-Profit Organizations in Alaska, 2003

Total Contributions	
Cash	\$349,000
In-Kind	\$173,000
Total	\$522,000

Source: NWCA member lines

These non-profit organizations ranged from church groups to social service organizations to scholarship programs. Support for community services and civic organizations (food banks, fire departments, senior centers, etc.) and educational programs (scholarship programs, school districts, etc.) are the two types of organizations that receive the highest support from the cruise industry.

Table 9
Cruise Line Contributions to Non-Profit Organizations in Alaska by Type of Organization, 2003

Type of Organization	Cash	In-Kind	Total
Community and civic	\$122,000	\$86,000	\$208,000
Education	\$90,000	\$26,000	\$116,000
Arts and humanities	\$56,000	\$11,000	\$67,000
Youth activities	\$32,000	\$13,000	\$45,000
Health/social services	\$14,000	\$29,000	\$43,000
Alaska Native	\$18,000	\$6,000	\$24,000
Other	\$17,000	\$2,000	\$19,000
Total	\$349,000	\$173,000	\$522,000

Source: NWCA member lines

Contributions were made throughout the state. Southeast Alaska received the most contributions (\$253,000), followed by Southcentral (\$164,000) and Interior/North (\$105,000).

Cruise Passenger Spending

Cruise or cruisetour packages usually include hotel accommodations, meals, transportation, and some tours in addition to the cruise itself. Cruise passengers also spend money on items not included in their package: shore excursions, meals, gifts, and transportation, for example. Cruise passengers who choose to travel on their own in Alaska before or after their cruise spend additional money on lodging, meals, and tours.

Total Cruise Passenger Spending

The average out-of-pocket spending per passenger in 2003 was \$511, for a total spending figure of \$393 million (NWCA passengers only).

**Table 10
Statewide Cruise Passenger Spending, 2003**

Average Per Person Out-of-Pocket Spending	Passenger Volume*	Total Spending
\$511	768,500	\$393 million

* NWCA member lines only

This per-passenger spending figure is derived from McDowell Group's biennial, proprietary visitor research program, the *Alaska Travelers Survey*, which includes both cruise and non-cruise visitors in its sample. In the summer of 2003, 1,149 cruise passengers were interviewed before they exited the state at three locations: the docks in Ketchikan, the Anchorage airport, and the Fairbanks airport. Results were weighted according to cruise line and cruise type (round trip, cross-gulf, and cruisetour) to ensure statistical representation of the entire large cruise ship market.

Respondents were asked to estimate how much their party spent on their entire Alaska trip, not including their cruise or cruisetour package or airfare. To arrive at a per person spending figure, the average per party figure (\$1,182) was divided by the average party size. The total expenditure figure (\$393 million) is a result of applying the \$511 average per person figure to the total number of NWCA cruise passengers in 2003 (768,500). The majority of cruise passenger spending is on tours, followed by retail. Cruise passengers traveling independently also spend money on lodging.

It is important to note that the *Alaska Travelers Survey* expenditure data does not include any trip components paid for in the cruise or cruisetour package – for example, hotel stays, meals, bus transfers, and train transportation. These purchases are accounted for in the spending by cruise lines, discussed in the preceding section. The passenger expenditure data *does* include spending on shore excursions, even if the excursions were purchased through the cruise line.

Cruise Passenger Spending by Region

Cruise passengers make nearly all of their out-of-pocket purchases (\$334 million out of \$393 million) in Southeast Alaska, where they spend the most time. Southcentral destinations (including Anchorage, the Mat-Su Valley, the Kenai Peninsula, and Prince William Sound) generate approximately a tenth as much spending. The Interior/North region, where spending is largely concentrated in two locations (Fairbanks and Denali), generated approximately \$12 million in passenger spending in 2003.

Not only do cruise passengers spend the most time in Southeast, it is also where they have the most opportunity to make independent purchases. Passengers on cruisetours to the Interior/North have most of their land tour included in their package, including transportation, day tours, and accommodations.

**Table 11
Cruise Passenger Spending by Region, 2003**

Region*	Total Spending	Percent of Total
Southeast	\$334 million	85%
Southcentral	\$34 million	9
Interior/North	\$12 million	3
Unattributed*	\$13 million	3
Total	\$393 million	100%

*Unattributed spending includes spending that cannot be obviously attributed to a region.

Regional spending figures are derived from *Alaska Travelers Survey* data, cruise line data, and past spending data acquired by the McDowell Group. The study team determined an estimated per-passenger spending amount for each port of call as well as each community visited on cruisetours. Communities frequently visited by cruise passengers traveling on their own were also considered.

The 2003 *Alaska Travelers Survey* program included acquiring passenger spending in certain communities. Other communities' spending levels were determined using past McDowell Group spending estimates as well as information provided by cruise lines on tour sales.⁸

Cruise line spending estimates were applied to passenger volume estimates for each community. For port communities, Cruise Line Agency passenger volume data was used.⁹ For other communities, the study team estimated visitation using *Alaska Travelers Survey* data. During the survey, cruise passengers were asked where they had overnights, and for how long. Applied to the total volume of NWCA cruise passengers, this data provides the volume of passengers for each community, as well as their length of stay. Visitation volume data was verified by checking known volumes of passengers on various cruisetour patterns.

Cruise Passenger Spending on Air Travel

While four out of ten cruise passengers either enter or exit Alaska by air, neither the cruise line purchasing data nor the cruise passenger spending data includes passenger travel to and from Alaska.

Some of this spending on air travel to and from Alaska impacts the state's economy, in the form of landing fees, fuel purchases, airline employee wages, and other purchases in support of airline operations. To estimate this economic impact, one half the cost of an average one-way Seattle-Anchorage ticket was assumed to stay in the state. This methodology is inexact: some passengers fly to and from Fairbanks rather than Anchorage, and many passengers fly to or from points other than Seattle. In the absence of more specific data, this provides a reasonable and conservative estimate of impacts from cruise passenger airfare in and out of the state.

Using arrival and departure data generated by McDowell Group, an estimate of air ticket costs, and the portion of these costs that have an economic impact in Alaska, total 2003 air travel spending by cruise passengers that affects the Alaska economy is estimated at \$32 million.¹⁰ Over 80 percent of this figure is associated with the Anchorage airport (\$27 million) with the remaining \$5 million associated with the Fairbanks airport. Southeast airports receive a nominal amount of traffic associated with large cruise ships. This distribution reflects cruise passenger traffic through Alaska airports.

Crew Member Spending

Approximately 20,000 crew members visited Alaska in 2003 aboard NWCA ships. Their spending in Alaska ports is difficult to quantify, as there has never been a survey of crew members on their spending habits in the state.

⁸ *The Economic Impacts of the Cruise Industry in Southeast Alaska, 1999* (2000); *The Economic Impacts of the Cruise Industry in Anchorage, 1999* (2001); and *The Economic Impacts of the Cruise Industry in Fairbanks/Denali, 2000* (2001).

⁹ For the purposes of determining total expenditures, passenger volumes were adjusted from CLA data to reflect the fact that not all passengers disembark in every community.

¹⁰ Approximately 323,000 passengers cruised one-way to or from Alaska in 2003. An average one-way Seattle-Anchorage fare is around \$200. Assuming 50 percent is attributable to Alaska, \$100 per passenger stays in the state, for an overall impact of \$32 million.

In 1995, the McDowell Group estimated Juneau and Sitka crew spending using surveys of local merchants. To estimate 2003 spending, the study team drew upon the 1995 data, the 1999 cruise impacts study, and interviews with local retailers, former crew members, and the owner of a crew service operation. These sources led to a conservative estimate of per crew member, per port estimate of spending for the entire season. Spending ranged significantly from port to port, from \$25 to \$300 per crew member, per season. Per-port spending reflects the number of crew member visits in each port, the level of retail development, and typical length of in-port time.

According to interviews, crew members' largest portside expense is food and beverage. They also spend a large amount of money on communications: phone cards, Internet use, and postage. In addition, crew members are frequent visitors to retail centers such as Fred Meyer's and Costco in Juneau. The table below provides community estimates of crew spending.

Table 12
Crew Member Spending, 2003

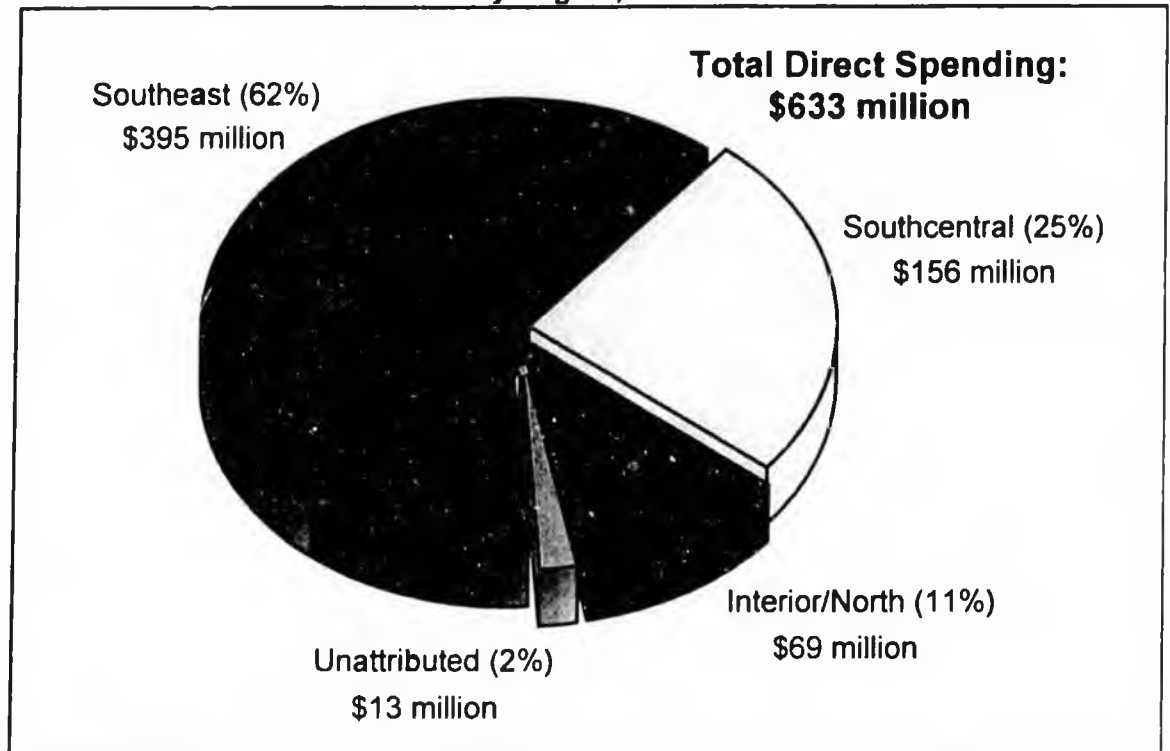
	Total Spending
Juneau	\$5.7 million
Skagway	\$3.5 million
Ketchikan	\$2.9 million
Sitka	\$572,000
Seward	\$236,000
Wrangell	\$54,000
Haines	\$43,000
Total	\$13 million

Economic activity associated with crew members also comes in the form of flying crew members in and out of the state and housing them when necessary. These expenditures are included under cruise line spending on goods and services. According to cruise line estimates, over 3,000 one-way trips were made by crew members in or out of the state in 2003.

Total Direct Spending by Region

The following chart combines cruise line, passenger and crew member spending totals by region. Southeast benefits from over half (62 percent) of all direct spending. Southcentral receives one-quarter of all spending (25 percent), and the Interior receives 11 percent. These distributions change significantly for payroll spending, discussed in the following section.

Chart 2
Total Direct Spending by Cruise Lines, Passengers, and Crew Members
By Region, 2003



Cruise Industry-Related Employment and Payroll

Direct Impacts

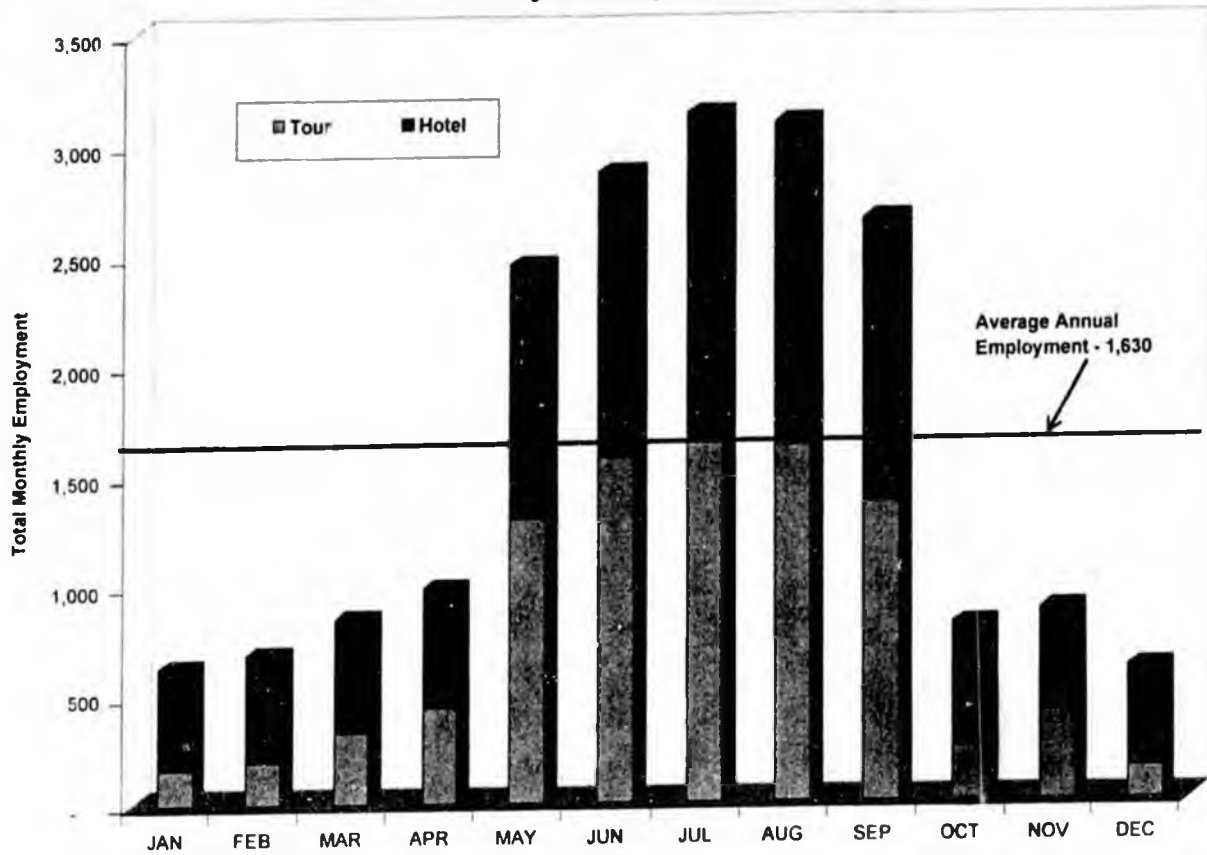
Cruise line employment includes a wide variety of occupations: managers, administration and clerical workers, luggage handlers, drivers, mechanics, restaurant servers, cleaners, and tour guides, among others. Using seasonal and year-round employment estimates from NWCA member lines, approximately 1,630 annual average jobs were created directly by cruise lines in Alaska in 2003.¹¹ These lines reported that they spent \$46 million on Alaska payroll during 2003.

Cruise line direct employment can be divided into hotel employment and tour employment. Tour employment includes all land-based tour employees, such as rail car workers and motorcoach tour guides. Hotel employment refers to employment at hotels owned by cruise lines or their subsidiaries – whether or not the hotel caters to cruise passengers. Of the 1,630 annual average jobs created in 2003, 850 were related to hotel operations, while the remaining 780 jobs were in tour operations.

Employment in the cruise industry is largely seasonal, fluctuating dramatically between summer and winter. During its seasonal summer peak, cruise lines directly employed approximately 3,130 workers (July 2003) in Alaska. This number dropped to a low of 600 workers in December.

¹¹ Labor data provided by the Alaska Department of Labor and Workforce Development.

**Chart 3
Cruise Industry Monthly Employment, 2003**



Source: Alaska Department of Labor and Workforce Development

The following table shows how the direct employment and payroll impacts of the cruise industry break down by region. Interior/North Alaska accounts for 65 percent of all direct cruise industry employment. About a quarter of direct cruise industry employment is found in Southcentral Alaska (23 percent) and one-eighth in Southeast Alaska (12 percent).

**Table 13
Cruise Line Direct Employment¹ in Alaska, By Region, 2003**

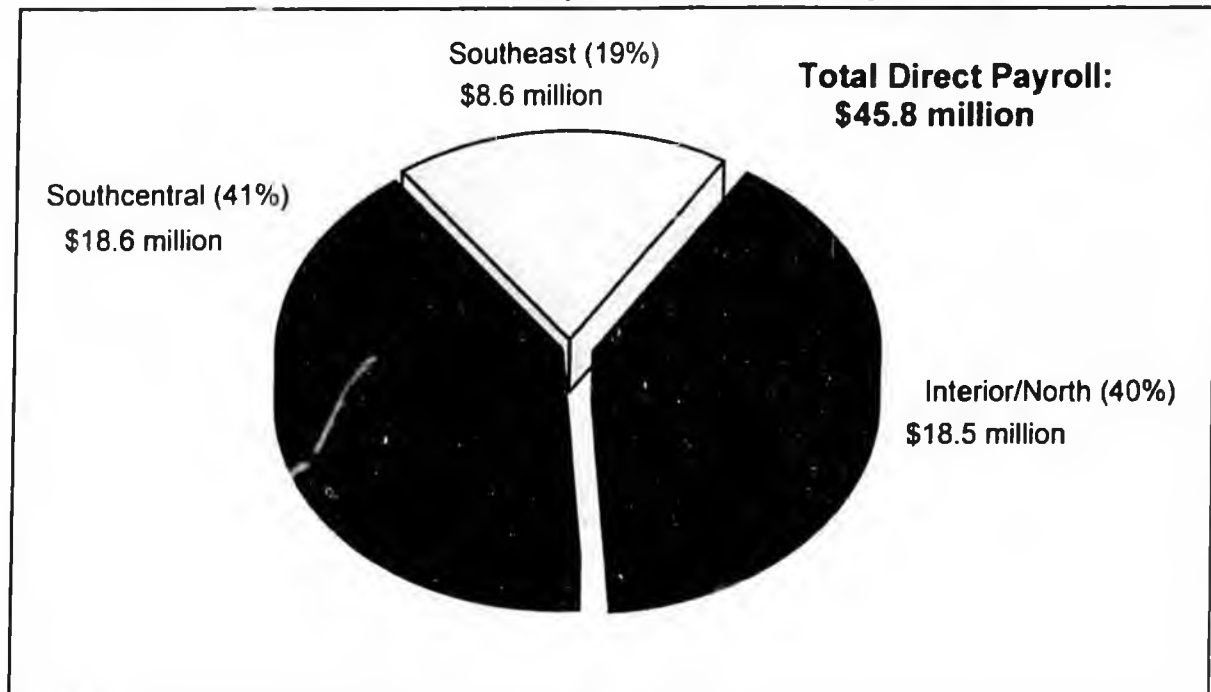
	Tour Employment	Hotel Employment	Total Employment	Percent of Total
Interior/North	68	585	653	40%
Southcentral	436	199	634	39
Southeast	196	147	343	21
Total	700	930	1,630	100%

¹ Annual average employment

Source: Total employment reflects Alaska Department of Labor and Workforce Development annual average figures for 2003. Regional employment is based on NWCA cruise line employment data.

Regionally, payroll is distributed evenly between Southcentral Alaska (\$19 million) and Interior/North employees (\$19 million) with the remaining \$9 million paid in Southeast Alaska.

Chart 4
Cruise Line Direct Payroll in Alaska, by Region, 2003



Source: NWCA member lines' payroll data

Total Cruise Industry Impacts (Direct, Indirect and Induced)

Cruise line spending on goods, services and payroll, in addition to out-of-pocket expenditures by passengers and crew, create additional jobs and spending that are not considered "direct" impacts, but rather "indirect" and "induced" impacts. For example, a cruise passenger buying a meal creates employment and payroll at the restaurant. These are indirect impacts. In turn, the employees at the restaurant create jobs and spending with their own purchases from other businesses, called induced impacts. The repeated rounds of spending produce a multiplier effect that increases the economic impact by a substantial amount. Commonly, indirect and induced impacts are grouped together under the label of indirect impacts.

To estimate the indirect economic impacts of cruise industry-related activity in Alaska, the study team used IMPLAN, predictive input-output model of local and state economies. IMPLAN is widely used to measure the economic impact of industries and industrial/commercial development.

Not all cruise passenger spending was entered into the IMPLAN model. Most shore excursions that passengers participate in are purchased through their cruise lines, which charge a commission. These commissions do not necessarily enter into the Alaskan economy and were therefore subtracted from passenger spending for the purposes of IMPLAN modeling.

In summary, IMPLAN analysis indicates that employment directly or indirectly related to cruise line spending totaled 4,830 jobs in 2003, accounting for \$153 million in payroll. Passenger and crew spending directly or indirectly created a total of 7,600 jobs and \$231 million in payroll in 2003. In total, the cruise industry accounted for 12,430 jobs throughout Alaska and \$384 million in labor income. Cruise industry-related output (a measure of all direct and indirect spending related to the cruise industry) totaled \$878 million.

Table 14
Total Statewide Economic Impacts of the Cruise Industry
(Including Direct, Indirect, and Induced Impacts)

	Jobs	Payroll (\$ millions)	Total Spending Impact (\$ millions)
Cruise line employment and spending	4,830	\$152.7	\$281.2
Passenger and crew spending	7,600	231.4	596.4
Total	12,430	\$384.1	\$877.6

Total Impacts by Region

The Southeast region experiences the highest degree of economic impact from the cruise industry, with 7,300 jobs and \$212 million in payroll, from \$535 million in economic output. Southcentral receives nearly 3,000 jobs and \$119 million in payroll, while the Interior/North receives 2,260 jobs and \$53 million in payroll.

Table 15
Regional Economic Impacts of the Cruise Industry
(Including Direct, Indirect, and Induced Impacts)

	Jobs	Payroll (\$ millions)	Total Spending Impact (\$ millions)
Southeast			
Cruise line employment and spending	800	\$28.4	\$67.5
Passenger and crew spending	6,500	183.6	467.3
Total	7,300	212.0	534.8
Southcentral			
Cruise line employment and spending	1,970	\$81.5	\$146.4
Passenger and crew spending	900	37.3	100.6
Total	2,870	118.8	247.0
Interior/North			
Cruise line employment and spending	1,960	\$42.6	\$67.3
Passenger and crew spending	300	10.6	28.5
Total	2,260	53.2	95.8

While a detailed assessment of the cruise industry's local-level economic impacts is beyond the scope of this study, some data is available on the larger communities of Anchorage and Fairbanks.

Approximately 292,000 passengers visited Anchorage in the 2003 season. Direct spending in Anchorage by cruise lines totaled \$72 million, not including cruise line-related payroll, which totaled \$17 million. Cruise lines made purchases from 588 Anchorage businesses. Cruise passengers spent an estimated \$19 million in Anchorage in 2003. This is a conservative estimate which includes only out-of-pocket purchases and does not include pre-paid expenditures, such as hotels and some local tours.

Fairbanks was visited by about 134,000 passengers in 2003. Direct cruise line spending in Fairbanks totaled \$15 million. Cruise line-related payroll totaled \$12 million. In total, cruise lines made purchases from 349 Fairbanks businesses in 2003. Cruise passengers spent an estimated \$8 million in Fairbanks. This is also a conservative estimate, and it does not include pre-paid expenditures.

Role of the Cruise Industry in the Statewide and Regional Economies

Having estimated cruise industry spending, employment, and payroll, it is important to look at these figures in the context of the regional and statewide economies. Out of all jobs in the state of Alaska, the cruise industry accounts for approximately 3.0 percent – including direct and indirect employment. The industry accounts for 2.3 percent of all payroll in the state.

The cruise industry plays the greatest role in Southeast Alaska, where it accounts for 14.2 percent of all employment in the region, and 12.0 percent of total wages. In the Interior/North the figures drop to 3.8 percent of all employment and 2.3 percent of all wages. In Southcentral, the cruise industry accounts for 1.2 percent of all employment and 1.1 percent of all wages.

Table 16
Cruise Industry and Regional/Statewide Employment and Payroll Impacts¹
(Including Direct, Indirect, and Induced Impacts)

	Total for Region	Cruise Industry Total	Cruise Industry as % of Total
Southeast			
Employment	51,535	7,300	14.2%
Payroll	\$1.7 billion	\$212.0 million	12.0%
Southcentral			
Employment	240,805	2,870	1.2%
Payroll	\$10.4 billion	\$118.8 million	1.1%
Interior/North			
Employment	59,420	2,260	3.8%
Payroll	\$2.4 billion	\$53.2 million	2.3%
Statewide			
Employment	413,995	12,430	3.0%
Payroll	\$17.1 billion	\$384 million	2.3%

¹Statewide and regional employment and payroll data presented in this table are total full-time and part-time employment as measured by the US Bureau of Economic Analysis. This data differs from Alaska Department of Labor data in that it includes self-employed workers.

CRUISE INDUSTRY IMPACTS ON STATE AND LOCAL GOVERNMENT

The cruise industry generates significant revenues for state and local governments in Alaska. User fees, sales taxes, property taxes, income taxes and others payments all flow to state and local governments in Alaska directly or indirectly from the cruise industry. At the same time, state and local governments expend resources in support of the cruise industry. This chapter details, to the extent possible, the state and local government expenditures and revenues that can be attributed to the cruise industry.

State Government Revenue and Program Impacts

The study team contacted Alaska's state government departments and agencies to determine the revenue and program impacts that could be attributed to cruise-related activity. Since there is no explicit accounting of most cruise impacts in the state budget, it is not possible to track the full extent of all revenue and program impacts. However, based on interviews and cruise industry data it was estimated that \$2.1 million was generated in revenue to the state, with only \$775,000 in verified program costs attributed to the cruise industry.

Details on how these figures were estimated can be found in the Appendix.

Table 17
Cruise Industry-Related Revenue and Program Impacts
on Alaska's State Government by Department, 2003
(General Fund Impacts Only)

Alaska State Departments	Estimated Revenue	Estimated Costs
Administration	\$102,000	No attributed cost
Education and Early Development	\$121,000	No attributed cost
Environmental Conservation	\$742,000	\$456,000
Fish and Game	\$618,000	No attributed cost
Natural Resources	\$172,000	\$309,000
Health & Social Services	\$0	\$10,000
Additional direct payments to State of Alaska*	\$385,000	No attributed cost
Estimated Total	\$2,140,000	\$775,000

*These revenues were evident in the cruise line expenditure data but could not be attributed to a specific state government department.

The table above addresses only revenues generated in FY 2003. In FY 2003, the legislature "swept" leftover Cruise Ship Program funds from previous years (administered by the Department of Environmental Conservation) into the General Fund. The \$1,099,970 consisted of fees and fines collected since the establishment of the program in 2001 that were not used for program expenses.

It is also important to point out that cruise lines contributed a total of \$1.8 million in 2003 to the Alaska Travel Industry Association, which by government mandate is required to raise funds from the tourism industry.

Impacts on Local Governments

Impacts of the cruise industry on local governments include a broad range of both revenues (sales tax, bed tax, property tax, moorage fees, etc.) and expenses (public parks, police, fire protection, medical, etc.). Studying impacts of the cruise industry at the local level introduces another layer of complexity to an already complex study. Each community has a unique relationship to the industry – Girdwood, for example, may host several thousand passengers on overnight stops, while Juneau hosts nearly 800,000, but for day visits only.

Expenses incurred on behalf of the cruise industry (such as police and fire safety) are particularly difficult to gauge. For the purposes of this study, the McDowell Group compiled current data on municipal *revenues*: from sales tax, bed tax, property tax, and moorage fees. Individual community data was used wherever possible.

Cruise-related *expenses* (as well as revenues) are discussed below, in a summary of a McDowell Group study conducted for Southeast Conference in 1999, *Cruise Industry Impacts on Local Governments in Southeast Alaska, 1997*. That study included in-depth analysis at the local level of municipal expenses such as libraries, convention and visitors bureaus, museums, emergency medical services, etc. Although in-depth analysis of cruise-related expenses has not been conducted since 1999, the net effect on municipal budgets is not likely to have changed significantly since that time.

Local Government Revenues

In 2003, Alaskan municipalities received significant amounts of revenue related to the cruise industry in the form of taxes and fees. Following are estimates of revenues to municipalities, statewide, from: sales tax, bed tax, moorage/dockage fees, and property tax.

Sales Tax Revenues

Cruise Passenger and Crew Spending

Sales tax revenues for 2003 were estimated using McDowell Group crew and **cruise** passenger spending data, local sales tax rates, and data from cruise lines related to taxable spending by cruise passengers. For a complete explanation of how **cruise** passenger and crew expenditures were determined, please see page 16.

Local sales tax rates cannot be applied to all cruise passenger spending, because not all cruise passenger spending is taxable. For example, flightseeing purchases are non-taxable under federal regulation. (Only the flightseeing portions of tours are non-taxable; other portions of flightseeing tours, such as transfers, trekking, and dog-sledding, remain taxable.) In addition, commissions on tours, travel and lodging are non-taxable, including the commissions earned by cruise lines from on-board sales of tours.

Taxable spending rates were determined for each community with a sales tax that was affected by cruise passenger spending in 2003. Using data from the *Alaska Travelers Survey* as well as tour revenue data provided by cruise lines, the study team estimated:

- how much spending in each community was on tours
- how much spending in each community was on flightseeing
- an average tour commission rate.

These estimates yielded a taxable spending rate for each community with a sales tax. As a point of reference, the total sales tax revenue figure was compared with each community's total tax revenues for the fiscal year 2003. In Juneau, for example,

cruise passenger sales tax revenue accounted for approximately 15 percent of all FY 2003 sales tax revenue for the city.

Because crew members very rarely take tours, all of their spending is assumed to be taxable.

The following table shows sales tax revenues from cruise passenger and crew spending, divided by region. The primary cruise ports (Juneau, Ketchikan, and Skagway) are broken out to show specific data for those communities. The Southcentral region shows lower revenue in part because most passenger spending occurs in areas without a sales tax (including Anchorage). The Interior/North region is not included because virtually all passenger spending occurs in areas without a sales tax

Table 18
Sales Tax Revenues from Cruise Passenger and Crew Spending,
By Community and Region, 2003

Region/Community	Taxable Passenger Spending	Taxable Crew Spending	Total Taxable Spending	Sales Tax Revenues
Southeast	\$256,004,000	\$12,740,000	\$268,744,000	\$13,339,000
Juneau	\$87,754,000	\$5,715,000	\$93,469,000	\$4,674,000
Ketchikan	\$85,231,000	\$2,858,000	\$88,089,000	\$4,845,000
Skagway	\$58,008,000	\$3,499,000	\$61,507,000	\$2,460,000
Southcentral	\$11,329,000	\$236,000	\$11,565,000	\$567,000
Total	\$267,333,000	\$12,976,000	\$280,309,000	\$13,906,000

Note: The Interior/North region is not included because virtually all passenger spending occurs in areas without a sales tax.

Cruise Line Spending

Sales tax revenues from cruise line spending are difficult to measure, particularly at the local level. Each community has different sales tax rates as well as exemption policies, and each community experiences different types of cruise line spending. For example, Juneau has a sales tax exemption on the portion of transactions over \$7,500. At the same time, they do not charge a sales tax to cruise lines on their per passenger fees – which constitute a major portion of cruise line spending in the community. They also do not charge a sales tax on medical spending.

Examining these complexities in every cruise-affected community is beyond the scope of this study. However, it is possible to estimate statewide cruise line spending sales tax revenues using an overall taxable spending rate, spending per community from cruise line purchasing data, and sales tax rates for each community.

Using this methodology, it is estimated that statewide, communities earn approximately \$1.5 million in sales tax revenues from cruise line spending. Over 95 percent of sales tax revenues occurred in Southeast Alaska, as few communities in Southcentral and Interior/North charge sales tax.

Cruise Line Fees

Most municipal governments in Alaska's cruise port communities earn revenues from cruise lines in the form of moorage and docking fees. Skagway and Seward are two exceptions, as their dock facilities are privately owned. Juneau has both private and public docks, while the remaining ports have only publicly owned docks for large cruise ship use.

Each community has its own system of charging cruise lines for using port facilities. Dock charges are generally assessed on a per foot/per day basis. Additional charges include tonnage fees, passenger fees, lightering fees, and water fees – varying among communities. Juneau has several unique fees: a \$5 per passenger “head tax” and a \$25 per hour “transfer bridge fee.” Sitka has only one fee: a per-day lightering charge, as there is no large cruise ship dock. Haines offers a discount on docking fees for day calls (as opposed to evening calls).

Docking and moorage revenue data were collected from port officials in each community with municipally-owned docks used by large cruise ships. The total revenues for 2003 were \$7.8 million, all of it collected in Southeast. (Seward’s docks are privately owned.) Because of a new passenger fee introduced in Ketchikan for the 2004 season, that figure is expected to increase to \$11 million in 2004.

Not all docking and moorage revenues go towards port operations or municipal general funds. Revenue from Juneau’s \$5 passenger fee is dedicated to visitor industry-related projects. Likewise, Ketchikan charges a \$1.90 per foot/per day “port development” fee that is earmarked for cruise-related development of port facilities.

Bed Tax Revenues

Passengers on cruisetours to the Interior/North and Southcentral regions of Alaska generate a significant amount of bed tax revenue for local municipalities. Bed tax revenues were determined using *Alaska Travelers Survey* data, which identified where passengers spent every night of their trip, and average lodging expenditure data provided by cruise lines. As a point of reference, cruise-related bed tax revenues were compared with total bed tax revenues from fiscal year 2003. It is important to note that not all communities have bed taxes.

Anchorage had the highest amount of bed tax revenue of all Alaska communities in 2003, at \$1.8 million, followed by Fairbanks at approximately \$1.5 million.¹² The Southeast region is not included in this analysis because with very few (large ship) cruise passengers overnighing in the region, their bed tax revenues from this market are negligible.

Table 19
Bed Tax Revenues from Cruise Ship Passengers
By Region, 2003

Region	Lodging Expenditures	Bed Tax Revenues
Southcentral	\$30,531,000	\$2,161,000
Interior/North	\$31,018,000	\$2,328,000
Total	\$61,549,000	\$4,489,000

Note: These revenues are from large cruise ship passengers only. Southeast Alaska receives a nominal amount of overnight visits from large cruise ship passengers.

Property Tax Revenues

The cruise industry also directly and indirectly contributes property tax revenues to local governments in Alaska. Property taxes are paid on cruise-line owned facilities and equipment. Property taxes are also paid by many businesses that are dependent on cruise passenger spending, including gift shops in high-cruise passenger traffic areas (especially in Ketchikan, Juneau and Skagway), flightseeing operations (particularly in Juneau), and bus tour operations, among others. Property taxes are also paid by residents dependent on the cruise industry for their livelihood.

¹² Estimated cruise-related bed tax revenues in Anchorage of \$1.8 million represent 16 percent of total Anchorage bed tax revenues for 2003 of \$11 million. Estimated revenues in Fairbanks of \$1.5 million represent 83 percent of total Fairbanks revenues of \$1.8 million.

It is beyond the scope of this study to measure property tax revenues in each Alaska community affected by cruise traffic. The analysis would be very complex; most property tax revenues are indirect, that is, paid by businesses that provide goods and services to cruise ship passengers. Many cruise-affected businesses also provide goods and services to independent visitors and Alaska residents. Therefore, not all of the property taxes paid by these businesses could be attributed to the cruise industry.

Cruise line data shows that NWCA lines made direct payments of nearly \$2 million in property taxes in 2003. To provide some measure of impacts from cruise-related businesses, the study team examined the commercial property tax rolls for Juneau. Businesses that are 75 percent or more dependent on the cruise industry account for approximately \$60 million in assessed valuation. At Juneau's 11.64 mill rate, that accounts for \$700,000 in annual property tax revenues. This does not include property taxes paid by businesses less dependent on cruise activity (but still deriving income from cruise passengers) or taxes paid by households of employees of cruise-related businesses.

Based on this data, the study team developed a model that links cruise visitor spending in key communities (which to a degree reflects local investment in facilities and equipment to service visitors) and local property tax rates. The analysis indicates that, statewide, the cruise industry accounts for at least \$3 million in property tax revenues. This is only a partial measure of property tax revenues in that it does not include taxes paid by businesses that are only partially dependent on the cruise industry, or taxes paid by household earnings from the industry.

Summary of Government Revenues from Cruise Industry

This overview of local government revenues from the cruise industry indicates measurable revenues totaled approximately \$30 million. This is an incomplete measure, however, because some indirect and all induced taxes are excluded (induced taxes are those paid by cruise industry employee households).

**Table 20
Statewide Municipal Revenues from the Cruise Industry, 2003**

	Total Revenues
Passenger/crew sales tax revenues	\$13,906,000
Cruise line sales tax revenues	\$1,500,000
Cruise line dockage/ moorage fees	\$7,834,000
Bed tax revenues	\$4,489,000
Property tax revenues	\$3,000,000
Total	\$30,729,000

As described previously, this is only a partial measure of cruise industry related revenues to local governments. It does not include, for example, property taxes and sales taxes paid by employees of cruise lines or employees of other businesses providing goods and services to cruise lines, passengers and crew.

The assessment of cruise industry impacts on state government indicated revenues of about \$1.7 million in general fund revenue attributable to the cruise industry. (This does not include corporate income taxes paid by businesses providing goods and services to cruise lines, their crew and their passengers.)

In addition to indirect employment and payroll data, IMPLAN provides an estimate of total state and local government revenues stemming from cruise-related spending in Alaska. IMPLAN indicates the total state and local government revenues from the

industry total approximately \$46 million annually. This is an estimate all direct, indirect and induced revenues. The methodology employed in the IMPLAN model is imprecise in terms of tax revenue analysis, however, the model's data appears reasonable given what is actually measurable.

Summary of 1997 Study: Cruise Industry Impacts on Local Governments in Southeast Alaska

The McDowell Group conducted a study for Southeast Conference in 1997 examining the impacts of the cruise industry on local governments in Southeast Alaska. Municipal entities studied included: City of Ketchikan, Ketchikan Gateway Borough, City of Wrangell, City of Petersburg, City and Borough of Sitka, City and Borough of Juneau, City of Haines, Haines Borough, and City of Skagway. The study focused on local government revenues and expenditures during the 1997 cruise season (which included 525,000 passengers).

Revenues

The study measured municipal revenues in terms of two general categories:

- **Sales tax revenues:** These include the sales taxes generated by local governments as a result of local spending by cruise ship passengers, crew and cruise lines. Sales tax rates were applied only to estimated taxable spending, which excludes tour commissions and flightseeing sales.
- **User fees and other revenues:** These revenues include fees paid by cruise lines and cruise passengers. This includes passenger fees, docking fees, lightering fees, and water service fees.

Cruise industry related revenues not measured in the study include property tax payments made by businesses selling goods and services to cruise visitors or sales taxes paid by business people as they make local purchases in support of their operations. It also did not include any secondary or indirect tax revenues (such as sales and property tax payments made by employees of the cruise industry).

Sales tax revenues to Southeast Alaska municipalities totaled an estimated \$7.0 million in 1997, while port fees totaled \$3.2 million, for a total of \$10.2 million in revenues.

Expenditures

Services provided by local governments that are affected by the cruise industry include police protection, emergency medical services, harbors/docks, libraries, museums, convention and visitors bureaus, public utilities/public works, and occasionally other services, depending on the community. To assess costs to these services, budget information was gathered and interviews were conducted with representatives of each affected municipal department. The study measured cruise-related expenditures in two different ways:

- **Marginal Costs:** These are direct *additional or new costs* incurred by local government over and above what would be incurred in the absence of the cruise industry. For example, if the police department does not need to hire additional patrol or traffic officers as a result of cruise traffic, there are no marginal costs in that department, even though officers spend some of their time serving cruise visitors.
- **Direct Overhead Costs (Average Cost or Full Allocation):** These are costs allocated according to services rendered rather than dollars spent. Returning to our police department analogy, if a patrol officer is spending 25% of his time dealing with cruise visitors, the approach dictates that 25% of his salary and

overhead should be allocated to the cruise visitor industry. The theory underlying this approach is that while there may be no new cost associated with serving visitors, there is an "opportunity cost" in terms of reduced service for residents.

In addition to operating expenses, the study also considered capital projects that were related to the cruise industry, although these are not included in the following table.

Total marginal costs to municipalities in Southeast were estimated to be \$2.1 million, direct costs were estimated at \$1.2 million, for total costs of \$3.3 million. That compares to total estimated revenues of \$10.1 million.

The 1997 study found that in general, municipalities gained far more from the cruise industry than they lost. This is not surprising, considering how few municipal services cruise passengers really require: they are highly unlikely to commit crimes; they rarely use major municipal facilities like schools and swimming pools; and they only occasionally require emergency medical services. On the other hand, they are highly likely to shop, dine and take tours - and in doing so contribute significantly to local sales tax revenues.

State Government Revenue and Program Impacts

Department of Administration

The only area of the Department of Administration with direct ties to the cruise industry is the Division of Motor Vehicles, which issues licenses to tour bus drivers. Based on cruise industry vendor data, it is estimated that \$102,000 was directly paid to the state for motorcoach licensing. The division is not able to precisely quantify how much of their activity is cruise industry-related. (Each Commercial Drivers License costs \$100.) It is true that the cruise industry represents a very small portion of the division's activities. Further, it is clear that while the DMV serves the cruise industry, it does not incur any costs that it would not incur in the absence of the industry. Any administrative expenses incurred by cruise industry activity are likely covered by the license fees.

Department of Community and Economic Development

Cruise industry vendor data shows direct payments of several million to the Alaska Railroad Corporation. Corporation officials indicated that the fees paid by the cruise industry for pull or haul fees of industry-owned rail cars and cruise passenger fees covered all operational costs this activity incurred. The railroad receives no general fund money from the state.

Marine pilot licensing is also handled under the DCED. The marine pilots pay wholly for the department's administration of their occupational licensing program through their annual licensing fees (a total of \$120,000). While the Southeast marine pilots pilot other large ships, a significant portion of their business is cruise-related. Cruise-related business for Southcentral and Southwest pilots is a less significant portion.

Department of Education and Early Development

One area of the Department of Education and Early Development is directly involved with the cruise industry: State Museums. The Division of Alaska State Museums manages two museums, both visited by cruise passengers: the Alaska State Museum in Juneau, and the Sheldon Jackson Museum in Sitka. In FY 2003, 70,870 people visited the Juneau state museum. Of that number, 23,940 (or 34 percent) were cruise passengers on shore excursions. In FY 2003, 18,710 people visited the Sheldon Jackson Museum, of which 4,590 (25 percent) were cruise passengers on shore excursions.

In FY 2003, the Juneau state museum collected \$102,340 in admissions from shore-based tour companies serving cruise passengers, according to museum staff. The Sheldon Jackson Museum collected \$18,190.

In discussions with the Chief Curator as well as the Acting Director of Libraries, Archives and Museums, it was noted that the vast majority of the division's budget is allocated to expenses that would be incurred whether or not cruise passengers patronized the facilities (such as exhibit research and design). The only difference in expenditures attributable to the cruise industry is additional staff time due to the increased visitation. Both of those interviewed agreed that the fees paid by cruise passengers and shore excursion companies most likely make up for the additional staff time required to accommodate them.

Department of Environmental Conservation

There are two divisions in the Department of Environmental Conservation that have direct ties to the cruise industry: the Division of Spill Prevention and Response, and the Division of Water. The Division of Spill Prevention and Response did not handle any cruise ship spills in 2003. According to a program director in the division, none of the division's expenses can be attributed to the cruise industry. On the rare occasions when cruise ship spills occur, the division does participate in clean-up. However, the responsible cruise line is billed for the entire expense, including administrative time, as well as clean-up.

The Division of Water runs a program called Commercial Passenger Vessel Environmental Compliance Program (otherwise known as the Cruise Ship Program). This program has two main areas of focus: wastewater discharges and opacity (visible emissions). Cruise ships pay a fee to the Division that covers the environmental monitoring. The fee is based upon passenger capacity multiplied by number of voyages they make in Alaska. The program's budget is occasionally augmented when fines are collected from cruise lines.

According to the program's director, in FY 2003, \$742,250 was collected from NWCA member lines and these fees collected from the cruise lines more than cover the cost of the program. It cost \$456,370 to run the program. In FY 2001 and 2002, the excess monies were applied to the program's budget for the following year. In FY 2003, the legislature "swept" the leftover Cruise Ship Program funds into the General Fund. The \$1,099,970 consisted of fees and fines collected since the establishment of the program in 2001 that were not used for program expenses.

Department of Fish and Game

The one area of Fish and Game with ties to the cruise industry is the Division of Sport Fish. According to the McDowell Group's survey of over 1,100 cruise passengers in the summer of 2003, 6 percent of passengers participated in sport fishing on their Alaska trip. Applied to the total volume of cruise passengers, this translates into 46,800 participants. (Of the 292,844 non-resident fishing participants in the state in 2003, 46,800 represents 16 percent.) Each participant is assumed to participate in one day of sport fishing. At \$10 for a one-day license, cruise passengers generated \$468,000 in regular license fees in 2003. Based on interviews, approximately one-third of participants also purchase king salmon stamps, at \$10 each, for \$150,000 in king salmon stamp sales. Total fees generated from cruise passengers are therefore estimated at \$618,000 for 2003. This figure represents 6 percent of total gross sales from non-resident fishing licenses and king salmon stamps.

According to both the Assistant Director and the Southeast Regional Supervisor for the Sport Fish Division of the Department of Fish and Game, no part of the division's expense budget can be attributed to the cruise industry. The division's efforts are focused on research (such as port sampling and creel census), regulation, and management. These activities would occur whether there were cruise passengers fishing or not. While cruise passenger traffic (and related sport fishing activity) has grown dramatically since 1993, the division's program has not changed in response. Division contacts confirmed that if the cruise industry were to disappear, their program expenses would not be affected.

Department of Health and Social Services

The only office in the Department of Health and Social Services with a noticeable amount of cruise industry-related activity is the Section of Epidemiology, in the

Division of Public Health. According to its website, the office of Epidemiology is responsible for "surveillance, investigation and control of acute and chronic diseases and injuries through defining causal factors, identifying and directing control measures and providing a basis for policy development, program planning and evaluation." The office is occasionally affected by the cruise industry when cruise ship passengers bring communicable diseases to Alaska cruise ports. (The federal Center for Disease Control is responsible for ship-board prevention and control.) The Section of Epidemiology has a budget of \$10,947,800, of which \$7,994,800 (or 73 percent) is federally funded.

According to a Medical Epidemiologist in the Division, it would be virtually impossible to determine exactly what percentage of their activities or budget could be attributed to the cruise industry. However, the office did recently compile a list of tourism-related disease control efforts that occurred between 1995 and 2003, along with details of each effort. Three of the operations occurred in fiscal year 2003 and were cruise ship-related: an outbreak of "norovirus" aboard four ships in the summer of 2002, influenza aboard two ships in June of 2003, and a SARS case aboard one ship, also in June of 2003. For each case, the Office of Epidemiology estimated how much staff time and travel was required. These three cases combined resulted in the expenditure of six weeks of Epidemiology staff time, including two weeks of doctor time, two weeks of nurse time and two weeks of support staff time. The cost of this time is estimated at approximately \$10,000. The cruise industry does not pay any fees to make up for these expenses to the state.

Department of Natural Resources

State Parks is the only area of the Department of Natural Resources with clear links to the cruise industry. State parks that are utilized by cruise passengers include Totem Bight State Historical Park in Ketchikan, Baranof Castle State Historical Site in Sitka, Chilkat Bald Eagle Preserve in Haines, Chilkoot Lake State Recreation Site in Haines, and Denali State Park, among others. In some cases, such as Totem Bight, passengers pay a fee (as part of their tour price) to visit the state park; in others there are no fees paid by either cruise or non-cruise visitors.

No data is available to estimate exactly how many visits are made to state parks by cruise visitors. It is also difficult to determine how much the fees paid by cruise passengers cover the cost of their usage of the parks. Cruise visitors account for approximately half of all Alaska visitors. However, they are not as likely as non-cruise visitors to visit the state's widely-distributed parks, as they rarely utilize campgrounds, and their itineraries are shorter and more concentrated. They are also more likely than non-cruise visitors to be part of a commercial tour, and thus subject to fees.

According to State Park estimates, 800,000 out of the total 4.2 million annual state park visits are by non-residents, or 19 percent. An estimate of cruise passenger visitation to state parks of 20 percent of all non-resident visitation would represent 4 percent of all state park visitation, residents included. (The actual percentage is likely even lower.)

The FY 2003 operating budget for Parks and Recreation Management, together with Parks Management, was \$7,724,400. Four percent of that figure is \$309,000. Cruise vendor data shows that the cruise industry payment of \$152,000 directly to State Parks for use of Totem Bight State Park in the 2003 season. An additional \$20,000 was paid directly for park ranger services.

Department of Public Safety

There are two divisions in the Department of Public Safety with links to the cruise industry, the Division of State Troopers (Bureau of Wildlife Enforcement) and the Division of Fire Safety.

The Bureau of Wildlife Enforcement (until recently Fish and Wildlife Protection) is a program administered by the Alaska State Troopers. The Bureau handles the enforcement of wildlife and fisheries-related regulations, including commercial fishing, sport fishing, hunting, guiding, and trapping. The only area affected by cruise passenger activity is sport fishing regulation enforcement. As discussed in the section on Division of Sport Fish, cruise passengers represent 16 percent of non-resident sport fishing participants, and approximately 10 percent of all sport fishing participants. An Assistant Bureau commander estimated that of all the Bureau's activities, less than 1 percent would be related to cruise passenger activity.

One of the programs offered by the Division of Fire Prevention is Fire Service Training, and several cruise lines take advantage of this service. Cruise lines contract with the Division to train crew members and bus drivers in fire safety while in Alaska ports. The Supervisor of Fire Service Training estimates that between 5 and 10 percent of the Division's activity is related to cruise lines. The supervisor also stated that all of the services provided to crew members are billed to the cruise lines, including overhead costs. The cruise lines are "more than compensating" for their costs, he said. Princess, the major cruise line contract of the Division, pays for Division instructors to be trained in England, in order to teach in the way the cruise line prefers. This extra training benefits Division instructors, and in turn the Division's other training recipients. "We are a huge beneficiary of the cruise industry," the contact stated.

Department of Transportation and Public Facilities

The airports are the most obvious link to the cruise industry in the Department of Transportation and Public Facilities (DOT&PF), since many cruise passengers use the Anchorage and Fairbanks airports as part of a one-way cruise or cruise-tour.

Based on discussions with DOT&PF officials, the study team calculated the revenue impacts from cruise passengers using the Fairbanks and Anchorage International Airports at about \$2 million.

There are two major sources of revenue. The first is the passenger facility fee. This is a fee that the airport charges its departing air passengers to pay for capital improvements to the airport. All of the money collected goes into the capital fund.

Table 21
Cruise Passenger Revenue to Anchorage and Fairbanks Airports
From Passenger Fees, 2003

	Anchorage Airport	Fairbanks Airport
Per passenger fee	\$3.00	\$4.50
Number of exiting cruise passengers	130,500	26,500
Revenue	\$391,500	\$119,000
Total revenue to Capital Fund	\$511,000	

The second source is monies collected through landing fees and fuel "flow" fees. DOTPF gave us an average of \$696.36 per the average sized flight used for passenger

travel (largely 737, 757, and 767). They also suggested an average of 150 cruise passengers per flight. All money goes into the operating fund.

Table 22
Cruise Passenger Revenue to Anchorage and Fairbanks Airports
From Landing and Fuel Fees, 2003

Total annual passengers	314,000
Average number of seats per plane	150
Number of annual landings	2,100
Revenue per landing	\$700
Total airport operation revenue	\$1,458,000
Anchorage	\$1,210,000
Fairbanks	\$248,000

Table 23
Cruise Passenger Revenue to Anchorage and Fairbanks Airports, 2003

	Anchorage Airport	Fairbanks Airport	Total
Total passenger revenues	\$392,000	\$119,000	\$511,000
Total landing and fuel revenues	\$1,210,000	\$248,000	\$1,458,000
Total revenues	\$1,601,000	\$367,000	\$1,968,000

It is important to note that the international airports receive no Alaska state general fund money. All airport operations are supported by federal money and revenue. Because there are no general fund impacts, cruise related costs and expenditures are not included in the summary table.

The Division of Measurements and Commercial Vehicle Enforcement (CVE) is another area of DOT&PF affected by the cruise industry, as this division is responsible for doing safety inspections on motorcoaches. According to a representative of the office of Commercial Vehicle Enforcement, out of 8,258 total commercial vehicle inspections, 103 (1.2 percent) were of motorcoaches. The cruise lines do not pay anything to the department for these services, and violation fines are very rare. The total budget for CVE was \$3,542,531 in FY04.

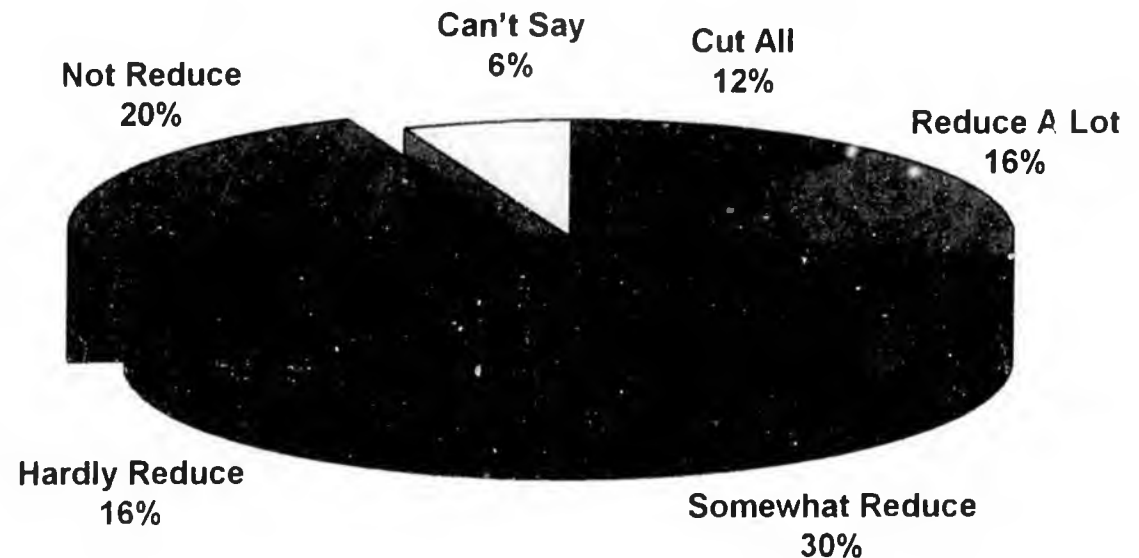
Other State Departments

While the cruise industry may have indirect impacts on other departments within the Alaska state government, no significant or apparent link to the cruise industry could be found in the Departments of Corrections, Labor and Workforce Development, Law, or Military and Veterans Affairs.

ALASKA BUSINESSES WILL PAY

While people may still choose to cruise, it is the last \$50 or \$100 most at risk...whether it's one less night at a hotel in Fairbanks, one less Alaskan handicraft, or one less walking tour

Almost 75% of potential visitors say they will reduce shore excursions if faced with a head tax.



NORTH WEST
CRUISE SHIP
ASSOCIATION

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HB 2 (CRA)

ANALYSIS CONTINUATION

Assumption

For purposes of this fiscal note we assume that the bill, in its current or final form, does not violate the Maritime Transportation Security Act of 2002, which amended 33 U.S.C. Section 5. This Federal legislation currently reads:

(b) No taxes, tolls, operating charges, fees, or any other impositions whatever shall be levied upon or collected from any vessel or other water craft, or from its passengers or crew, by any non-Federal interest, if the vessel or water craft is operating on any navigable waters subject to the authority of the United States, or under the right of freedom of navigation on those waters, except for-

- (1) fees charged under section 208 of the Water Resources Development Act of 1986(33 U.S.C. 2236); or
- (2) reasonable fees charged on a fair and equitable bases that:
 - (A) are used solely to pay the cost of a service to the vessel or water craft,
 - (B) enhance the safety and efficiency of interstate and foreign commerce, and
 - (C) do not impose more than a small burden on interstate or foreign commerce

Cost Estimates

We estimate Revenue's cost of administering the program at \$178,500 annually. These are the costs of one Revenue Auditor (range 20) and one Accounting Technician (range 16) representing the bundle of costs and activities necessary to administer the program

Revenue Estimates

We estimate that the tax, at the \$50 per passenger level would raise \$16,469,300 in FY06 and \$45,748,100 in FY07 and thereafter. This estimate assumes 914,962 passengers (estimate of the number of cruise ship visitors to Juneau) at \$50 per person. We also assume that 36 percent of the passengers or 329,386 arrive in Alaska in May-June. We did not adjust for commercial passenger vessels that do not stop in Juneau.

No provision has been made for a change in the number of passengers as a result of this bill or any other changes in the visitor industry.

Revenue Sharing

We estimate that in a full-year approximately \$16,469,316 would be shared. This assumes that on average there are 3.6 ports of call (914,962 passengers x \$5.00 per passenger x 3.6 ports of call).

After sharing there would be an estimated \$29,278,784 remaining in a full year.

Sources

Juneau Convention & Visitors Bureau "2005 Cruise Ship Roster," Cruise Line Agencies - "Alaska Cruise Ship Calendar for 2004"

FLY IN
HEAD TAX!

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 2 (CRA)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Tax on Commercial Passenger Vesse RDU Tax and Treasury
 Component Tax Division
 Sponsor Representative Galto
 Requester (H) CRA Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 00
 Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

* See page 2

Prepared by: Chuck Harlamert and Brett Fried Phone 465-2320
 Division Tax Division Date/Time 3/25/05 2:35 PM
 Approved by: Jerry Burnett, Special Assistant to the Commissioner Date 3/25/2005
 Agency Department of Revenue

24-LS0003\G

Kurtz

2/17/05

Rep. Gatto

Cap. 411

w/memo

CS FOR HOUSE BILL NO. 2()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVE GATTO

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to taxes regarding certain commercial passenger vessels operating in
2 the state; and providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 43.52 is amended by adding new sections to read:

5 Article 2. Excise Tax on Passengers Traveling Aboard
6 a Commercial Passenger Vessel.

7 Sec. 43.52.100. Levy of excise tax on passengers traveling aboard a
8 commercial passenger vessel. There is imposed an excise tax on passengers
9 traveling in the marine waters of the state aboard a commercial passenger vessel that
10 provides overnight accommodations.

11 Sec. 43.52.110. Rate of tax. The tax imposed by AS 43.52.100 - 43.52.199 is
12 levied at a rate of \$50 a passenger a voyage.

13 Sec. 43.52.120. Liability for payment of tax. (a) A passenger traveling in
14 the marine waters of the state aboard a commercial passenger vessel that provides

1 overnight accommodations is liable for the tax imposed by AS 43.52.100 - 43.52.199.
2 The tax

3 (1) shall be collected by the person who provides the travel to the
4 passenger; and

5 (2) is due and payable to the department

6 (A) by the person who provides the travel to the passenger,
7 regardless of whether the person actually collects the tax from the passenger;
8 and

9 (B) in the manner and at the times required by the department
10 by regulation.

11 (b) A passenger is not liable for the tax under AS 43.52.100 - 43.52.199 if that
12 passenger was liable for the tax within the preceding 30 days.

13 (c) A person who provides travel for a passenger who, under (b) of this
14 section, would not be liable for the tax under AS 43.52.100 - 43.52.199 is not required
15 to collect and pay the tax to the department if the person reasonably believes that the
16 passenger is not liable for the tax under (b) of this section.

17 **Sec. 43.52.130. Disposition of proceeds.** (a) The proceeds from the tax
18 imposed by AS 43.52.100 - 43.52.199 shall be deposited in a special commercial
19 vessel passenger tax account in the general fund. The legislature may appropriate
20 money from the account for the purposes described in (b) and (c) of this section, for
21 state-owned port and harbor facilities, for other services to properly provide for vessel
22 or watercraft visits, to enhance the safety and efficiency of interstate and foreign
23 commerce, and for other lawful purposes as determined by the legislature.

24 (b) For each sailing of a commercial passenger vessel providing overnight
25 accommodations, the commissioner shall identify the first five ports of call in the state
26 and the number of passengers on board the vessel at each port of call. Subject to
27 appropriation by the legislature, the commissioner shall distribute to each port of call
28 \$5 for each passenger of the tax revenue collected from the tax levied under
29 AS 43.52.100 - 43.52.199. If the port of call is a city located within a borough that is
30 not unified with the borough, the commissioner shall, subject to appropriation by the
31 legislature, distribute \$2.50 for each passenger to the city and \$2.50 to the borough.

1 Each port of call receiving funds under this section shall use the funds received in a
2 manner calculated to improve port and harbor facilities, for other services to properly
3 provide for vessel or watercraft visits, and to enhance the safety and efficiency of
4 interstate and foreign commerce.

5 (c) Within the special commercial vessel passenger tax account established in
6 (a) of this section, a regional cruise ship impact subaccount is established. The
7 subaccount consists of 25 percent of the proceeds from the tax on travel aboard
8 commercial passenger vessels providing overnight accommodations in the marine
9 waters of the state. Subject to appropriation by the legislature and regulations adopted
10 by the department, the commissioner shall distribute funds from this subaccount to
11 municipalities or other governmental entities within the Prince William Sound region,
12 Southeast Alaska, or any other distinctive region affected by cruise-ship-related
13 tourism activities but not entitled to receive funds based on port-of-call visitation as
14 allowed by (b) of this section. The commissioner shall make the distribution
15 authorized by the subsection only if the funds are used by the recipient to provide
16 services and infrastructure directly related to passenger vessel or watercraft visits or to
17 enhance the safety and efficiency of interstate and foreign commerce related to vessel
18 or watercraft activities.

19 **Sec. 43.52.140. Administration.** (a) The department shall

20 (1) administer AS 43.52.100 - 43.52.199; and

21 (2) collect, and supervise and enforce the collection of, taxes due under
22 AS 43.52.100 - 43.52.199 and penalties as provided in AS 43.05.

23 (b) The department may adopt regulations to carry out the purposes of
24 AS 43.52.100 - 43.52.199.

25 **Sec. 43.52.199. Definitions.** In AS 43.52.100 - 43.52.199, unless the context
26 otherwise requires,

27 (1) "commercial passenger vessel" means a vessel that is used in the
28 common carriage of passengers in commerce; "commercial passenger vessel" does not
29 include a

30 (A) vessel with an overnight accommodation capacity for fewer
31 than 12 passengers;

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(B) noncommercial vessel or a vessel operated by the state, the United States, or a foreign government; or

(C) vessel licensed under AS 16.05.490 and used in charter service for the recreational taking of fish and shellfish;

(2) "marine waters of the state" means the marine bays, sounds, rivers, inlets, straits, passages, canals, Pacific Ocean, Gulf of Alaska, Bering Sea, and Arctic Ocean within the territorial limits of the state, and all other bodies of marine water that are wholly or partially within the state or are under the jurisdiction of the state;

(3) "passenger" means a person with whom a common carrier has contracted for carriage from one place to another.

* Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: REGULATIONS. Notwithstanding sec. 5 of this Act, the Department of Revenue may proceed to adopt regulations to implement sec. 1 of this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of sec. 1 of this Act.

* Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to read:

REVISOR'S INSTRUCTION: The revisor of statutes shall substitute "AS 43.52.010 - 43.52.099" for "this chapter" wherever "this chapter" occurs in AS 43.52.010 - 43.52.099.

* Sec. 4. Section 2 of this Act takes effect immediately under AS 01.10.070(c).

* Sec. 5. Except as provided in sec. 4, this Act takes effect January 1, 2006.


Alaska State Legislature

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Representative Carl Gatto

FROM: Representative Carl Gatto 

TO: Representative Kurt Olson, Co-Chair
Representative Bill Thomas, Co-Chair

DATE Wednesday, March 02, 2005

RE: HB 2 Tax on Commercial Vessel Passengers

I respectfully request you to schedule a hearing on HB 2 at your earliest possible convenience.

Enclosed are:

- 1.) The most recent version of HB 2
- 2.) Sponsor Statement
- 3.) Sectional Analysis
- 4.) Teleconference request
- 5.) Request for a projector from DP
- 6.) Additional documents in support

Thank you for your consideration.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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MEMORANDUM

February 17, 2005

SUBJECT: Disposition of Proceeds of Commercial Passenger Vessel Tax and CSHB 2 (Work Order No. 24-LS0003/G)

TO: Representative Carl Gatto
Attn: Cody Rice

FROM: Kathryn L. Kurtz
Legislative Counsel

Enclosed is the amendment you requested, incorporating the language on distribution of proceeds from the cruise ship tax initiative into HB 2. I have made some editorial and stylistic changes to the language from the initiative to clarify it and conform it to the drafting manual.

The language of the initiative appears to conform more closely to the requirements of 33 U.S.C. 5 than the original language in HB 2. Still, there are some additional changes that could be made to the language of the initiative that may help increase the chances that a court would find the tax permissible under the federal statute.

The federal statute permits fees that:

- a) are used solely to pay the cost of a service to the vessel or water craft;
- b) enhance the safety and efficiency of interstate and foreign commerce;
- and
- c) do not impose more than a small burden on interstate or foreign commerce.

33 U.S.C. 5(b)(2).

An Alternate Version of the Distribution of Proceeds Provision

The original version of HB 2 did not require or suggest that the proceeds of the tax be used to pay for the cost of services to vessels. As you know, dedicating the tax proceeds to this purpose would likely be held to violate Art. IX, sec. 7, Constitution of the State of Alaska. In contrast, the initiative seems to suggest that the legislature appropriate all of the proceeds of the tax for vessel related purposes, while still leaving room for legislative discretion (which is necessary to avoid the dedication of funds problem).

If your purpose is to draft an allocation of proceeds that will comply as fully as possible with 33 U.S.C. 5 without running afoul of the state constitution, please consider the following alternate language. The language from the initiative seems to suggest in

places, particularly sec. 43.52.130(a), that the tax proceeds could be used "to enhance the safety and efficiency of interstate commerce" independently from providing services to vessels. However, the language of the federal statute expressly states that the proceeds may be used *solely* for services to vessels, so I do not think using funds for a purpose other than providing services to vessels, even if that purpose served to enhance the safety and efficiency of interstate commerce, would suffice under the federal statute. For that reason, the following suggested language speaks in terms of appropriating the tax proceeds for services to vessels. What constitutes a service to a vessel would remain open to interpretation.

On a practical level, it is difficult to imagine what service a municipality or other government entity that is not a port of call would provide to a vessel. The intent of this subparagraph of the initiative simply may not be consistent with the federal statute. Still, I have reworded subsection (c) and included it here as well. The original language permits appropriation to "municipalities or other governmental entities" within affected regions. The term "governmental entity" is not defined here; its meaning is not clear and there are various different statutory definitions of the terms "public entity" (AS 37.23.900 and AS 44.62.310) and "state entity" (AS 42.45.310). You may want to add a definition of the term to this draft.

Sec. 43.52.130. Disposition of proceeds. (a) The proceeds from the tax imposed by AS 43.52.100 - 43.52.199 shall be deposited in a special commercial vessel passenger tax account in the general fund. The legislature may appropriate money from the account for the purposes described in (b) and (c) of this section, and to provide to vessels services that enhance the safety and efficiency of interstate and foreign commerce.

(b) For each sailing of a commercial passenger vessel providing overnight accommodations, the commissioner shall identify the first five ports of call in the state and the number of passengers on board the vessel at each port of call. Subject to appropriation by the legislature, the commissioner shall distribute to each port of call \$5 for each passenger of the tax revenue collected from the tax levied under AS 43.52.200 - 43.52.299. If the port of call is a city located within a borough that is not unified with the borough, the commissioner shall, subject to appropriation by the legislature, distribute \$2.50 for each passenger to the city and \$2.50 to the borough. Each port of call receiving funds under this section shall use the funds received to provide to vessels services that enhance the safety and efficiency of interstate and foreign commerce.

(c) Within the special commercial vessel passenger tax account established in (a) of this section, a regional cruise ship impact subaccount is established. The subaccount consists of 25 percent of the proceeds from the tax on travel aboard commercial passenger vessels providing overnight accommodations in the marine water of the state. Subject to appropriation by the legislature and regulations adopted by the department, the commissioner shall distribute funds from the subaccount to municipalities

Representative Carl Gatto
February 17, 2005
Page 3

or other governmental entities within the Prince William Sound region, Southeast Alaska, or any other distinctive region affected by cruise-ship-related tourism activities but not entitled to receive funds based on port-of-call visitation as allowed by (b). The commissioner shall make the distribution authorized by this section only if the funds are used by the recipient to provide to vessels services that enhance the safety and efficiency of interstate and foreign commerce.

Dedicated Funds and Municipalities

Finally, I should mention that the dedicated fund issue may apply to municipalities as well; it is not clear. Attorney General opinions have not been consistent as to whether a municipality may create a dedicated fund. At least two opinions conclude that Art. IX, sec. 7 applies only to state and not to municipal funds. (1960 Inf. Op. Att'y Gen., December 5, Havelock; Att'y Gen. Op. No. 660-88-0525, July 29, 1988, Odland) On the other hand, another opinion warns that receipts of a municipal liquor tax could not be dedicated to "costs created by abuse of alcohol" without violating Art. IX, sec. 7. (Memorandum to the Honorable Jay S. Hammond, Oct. 8, 1976, Peter) At this point the Alaska Supreme Court has noted that the issue exists and has declined to express an opinion on it. (Fairbanks v. Convention and Visitors Bureau, 818 P.2d 1153, 1158, n. 7 (Alaska 1991) ("We note that neither party addressed the issue of whether the ordinance itself violates article IX, section 7 of the Alaska Constitution, prohibiting dedicated revenues. Our decision today should not be read as expressing any opinion on that question."))

My understanding is that some municipalities have comparable provisions in their charters prohibiting the dedication of funds. However, those municipalities may also include an exception for dedications required by the state in order to participate in state programs, which might cover the situation here.

KLK:med
05-111.med

Enclosure

MEMORANDUM

State of Alaska
Department of Law

To: The Honorable Loren Leman
Lieutenant Governor

Date: October 6, 2003

File No. 663-03-0179

Tel. No. 465-3600

From: Gregg D. Renkes
Attorney General

Re: Review of Initiative Petition
Application Relating to Cruise
Ship Activities

I. INTRODUCTION

At your request, we have reviewed a proposed initiative application relating to cruise ship activities, or in the parlance of the proposed bill, "commercial passenger vessels." The measure is entitled "An Act providing for taxation of certain commercial ship vessels, pertaining to certain vessel activities and related to ship vessel operations taking place in the marine waters of the State of Alaska."

This is a resubmittal of a similar initiative application that was rejected by your office based on our August 15, 2003, advice that the proposed bill violated the single-subject rule. The single-subject problems of the original initiative measure have been remedied. We also conclude that the proposed initiative does not violate the dedicated fund prohibition set out in article XI, section 7 of the Alaska Constitution. The initiative measure does not raise any other legal concerns under AS 15.45.040, AS 15.45.010, or article XI, section 7 of the Alaska Constitution. The proposed initiative complies with the constitutional and statutory provisions governing initiatives.

Provided the required number of signatures and addresses of qualified voters have been submitted in the application, we recommend that you certify the application. Preparation of the petitions may then commence in accordance with AS 15.45.090.

II. SUMMARY OF BILL

The proposed bill would have several effects on cruise ship operations:

- (1) the measure would levy an excise tax on commercial passenger vessels providing overnight accommodations in state marine

waters, and would provide for the proceeds to be distributed to municipalities;

- (2) it would levy a tax on certain gambling activities conducted on cruise ships operating in Alaska;
- (3) it would allow the calculation of Alaska Net Income Tax for cruise ships to be based on worldwide income rather than domestic income;
- (4) it would require large commercial passenger vessels to have discharge permits for sewage, graywater, or other wastewater before discharging into state marine waters, and would require them to gather and report certain information about discharges;
- (5) it would require commercial passenger vessels to carry a state-employed marine engineer while in state waters to monitor operations, and would levy a fee to cover the cost of this requirement;
- (6) it would authorize citizen suits to enforce marine discharge statutes and permits; and
- (7) it would require disclosures about on-ship promotions of shore-side businesses.

III. ANALYSIS

The scope of our review is set by statute and confirmed by court decision. An initiative committee is required under AS 15.45.020 to submit an initiative application to the lieutenant governor for review. The lieutenant governor's review of the proposed initiative should include analysis of its compliance with the statutory and constitutional provisions that regulate initiatives. *Boucher v. Engstrom*, 528 P.2d 456, 461 (Alaska 1974), *overruled in part on other grounds, McAlpine v. University of Alaska*, 762 P.2d 81 (Alaska 1988).

Our initial inquiry is whether the defect in the original proposed initiative has been corrected and the initiative is confined to a single subject. After considering whether the initiative is properly limited in subject matter, we will also consider the express restrictions set out in article XI, section 7 of the Alaska Constitution, specifically whether the initiative is a proscribed dedication of revenues.

A. The Proposed Initiative Does Not Violate the Single-subject Rule

As discussed in my August 15, 2003 opinion, the contents of the original proposed initiative were not confined to a single subject as required by AS 15.45.040(1) and by the Alaska Constitution. While the constitution does not expressly apply the single-subject rule to initiatives, it provides that "[u]nless clearly inapplicable, the law-making powers assigned to the legislature may be exercised by the people through the initiative, subject to the limitations of article XI." Alaska Const. art. XII, § 11. The Alaska Supreme Court has determined that the foregoing provision makes the single-subject rule of article II, § 13 applicable to both the legislature and direct legislation by initiative. *Yute Air Alaska, Inc. v. McAlpine*, 698 P.2d 1173, 1179 n.2 (Alaska 1985). The initial proposed initiative was rejected on this basis.

The sponsors of the initiative have redrafted their measure so that each section relates to the general topic of cruise ships ("commercial passenger vessels"). As a general matter, the Alaska Supreme Court has required only that the bill "embrace[] one single general subject." *Evans ex rel Kutch v. State*, 56 P.3d 1046, 1069 (Alaska 2002). While the various provisions of a single enactment must "fairly relate to the same subject, or have a natural connection therewith," *Short v. State*, 600 P.2d 20, 24 (Alaska 1979), "'what constitutes one subject for purposes of article II, § 13 is broadly construed,' and . . . only a 'substantial and plain' violation of the one subject rule will lead [the Court] to strike down legislation on this basis." *Evans*, 56 P.3d at 1069 (quoting *State v. First Nat'l Bank of Anchorage*, 660 P.2d 406, 415 (Alaska 1982)).

The proposed bill covers taxes, discharge permits, gaming, unfair trade practices, and others issues, and generally unites these topics with the consistent theme of regulation of commercial passenger vessels. The three initiative sections that originally contained subject matter extending beyond the single subject of regulating cruise ships (sections 2, 3, and 9) have been changed to limit the topic of the proposed bill to regulation of cruise ships. We conclude that the initiative does not violate the single-subject rule.

B. The Proposed Initiative Does Not Violate the Dedicated Fund Prohibition of the Alaska Constitution

The initiative also suggests the possibility of another constitutional problem. Under article XI, section 7 of the Alaska Constitution, the initiative process "shall not be used to dedicate revenues."¹ This prohibition is meant "to preserve control of and

¹ Article XI, § 7 provides in relevant part that "[t]he initiative shall not be used to dedicate revenues, make or repeal appropriations, create courts, define the jurisdiction of

responsibility for state spending in the legislature and the governor” and to ensure that “the legislature would be required to decide funding priorities annually on the merits of the various proposals presented.” *Sonneman v. Hickel*, 836 P.2d 936, 938 (Alaska 1992); see also *City of Fairbanks v. Fairbanks Convention and Visitors Bureau*, 818 P.2d 1153, 1158 (Alaska 1991) (the purpose of the prohibition is to maintain flexibility in budgeting).

On its face, the language of the proposed initiative does not create a prohibited dedicated fund. It states the intent that the tax proceeds, which are segregated and deposited in a special account in the general fund, will be used for purposes related to cruise ship activities, and that certain municipalities be the beneficiaries of the revenues. Proposed AS 43.52.010 and .040. Despite the expressed intent that the fund should be used for particular purposes, the initiative measure is careful to assure that the legislature has final authority for determining how to spend the proceeds and provides that the legislature “may” appropriate money from the account for limited purposes. See proposed AS 43.52.040(a) (legislature “may appropriate” money from account for stated purposes); AS 43.52.040(b) and (c) (distribution of the funds to ports is “subject to appropriation by the legislature”).

The Alaska Supreme Court has held that such a segregation of funds, even with a stated express purpose regarding their intended usage, does not create a dedicated fund. See, e.g., *Sonneman*, 836 P.2d at 938-39 (provision in act that legislature “may appropriate” amounts in fund back to the Marine Highway system did not legally restrict the power of the legislature to appropriate and did not, by implication, prohibit the legislature from appropriating amounts from the fund for other purposes).²

While the language of the initiative itself does not create a dedicated fund, an argument can be made that a dedicated fund is created by federal law, which mandates that the state must spend revenues collected from vessels for specific purposes. The

courts or prescribe their rules, or enact local or special legislation.” See also Alaska Const. art. IX, § 7 (providing in part that “[t]he proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this Article or when required by the federal government for participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.”).

² Missing in the proposed bill is the explicit statement found helpful by the court in *Sonneman* that the purpose of the bill was to not create a dedicated fund. 836 P.2d at 939-40. However, we believe that a court would probably infer that intent from the express provisions of the initiative measure.

Maritime Transportation Security Act of 2002, P.L. 107 – 295 (codified at 33 U.S.C. § 5(b)), places certain limits on the ability of states to collect taxes on commercial passenger vessels operating in state waters. This federal law permits the state to collect reasonable fees from ships and passengers, provided that the revenue collected is used “solely to pay the cost of a service to the vessel or water craft” and to “enhance the safety and efficiency of interstate and foreign commerce.” 33 U.S.C. § 5(b)(2)(A), (B). While there are limitations imposed by federal law on the purposes for which the excise tax in section 1 of the proposed bill can be used, it would be a mistake to interpret this federal restriction as creating a prohibited dedicated fund.

There is no precedent on point that can guide our analysis of this unique dedicated funds question. In reviewing challenges to initiatives, the court generally is protective of the limitations the Alaska Constitution imposes on lawmaking by initiative, consistently stating that “[a]lthough liberal construction of initiative proposals is the general rule, constitutional limitations on the initiative power must also be broadly interpreted.” *Alaskans for Legislative Reform v. State*, 887 P.2d 960, 962 (Alaska 1994) (quoting *Citizens Coalition for Tort Reform v. McAlpine*, 810 P.2d 162, 168 (Alaska 1991)). This analysis would suggest that the court would be concerned that the cruise ship initiative might create a dedicated fund. On the other hand, in describing the general rule of liberal construction of initiatives, the court has stated that “[w]hen one construction of an initiative would involve serious constitutional difficulties, that construction should be rejected if an alternative interpretation would render the initiative constitutionally permissible.” *Boucher v. Engstrom*, 528 P.2d at 462.

The court has analyzed the issue of whether an initiative oversteps the constitution’s limitations on the initiative power by comparing the effect of the initiative’s provisions with the underlying purpose of the limitation. So, for example, in *City of Fairbanks v. Fairbanks Convention and Visitors Bureau*, 818 P.2d 1153, the court found that an initiative that would repeal a city ordinance designating that bed tax revenues be used for tourist and entertainment facilities was not a initiative that repealed an appropriation, which would have been unconstitutional under article IX, section 7. The court stated that while the city ordinance was arguably an appropriation, the purpose of the constitutional prohibition on repeal of appropriation by initiative – to retain control of the appropriation process in the legislative body – was not met by construing the term “appropriation” broadly in this context. *City of Fairbanks*, 818 P.2d at 1156-57; *see also Id.* at 1158-59 (court looked at fact that the initiative “does not infringe on flexibility in the budget process” – the reason for the prohibition against dedicated funds – in determining that it was not a dedicated fund). This analysis suggests that the court will consider whether the purpose of the constitution’s prohibition on dedicated funds would be met by finding that the cruise ship initiative effected a dedicated fund.

The cruise ship initiative does not create the harm that the dedicated fund provision was intended to prevent. As discussed above, the cruise ship initiative itself does not infringe on flexibility in the budget process. And it seems unlikely that the delegates to Alaska's Constitutional Convention meant to limit the state's taxing power whenever a federal law might restrict the use of the particular tax revenues. The federal restrictions on the use of state tax revenues would not create the harm that the delegates intended the dedicated fund prohibition to prevent – earmarking of funds that future legislatures could otherwise annually appropriate according to current priorities.

In this case, the state would not be able to collect taxes on vessels that fall under 33 U.S.C. § 5(b) unless it spends the proceeds “solely to pay the cost of a service to the vessel or water craft” and to “enhance the safety and efficiency of interstate and foreign commerce.” 33 U.S.C. § 5(b)(2)(A), (B). There is no possibility that these funds could be otherwise appropriated by the legislature.³ They can be collected for the purposes specified in federal law, or they may not be collected. Thus, we conclude that the restriction on spending set by federal law is not a prohibited dedication of revenues by initiative, as contemplated by the Constitutional Convention delegates.

IV. IMPARTIAL SUMMARY OF THE PROPOSED BILL

It is our practice to provide you with a proposed title and summary to assist you in complying with AS 15.45.090(2) and AS 15.45.180. We believe that it is a good practice for the petition and ballot to conform to the requirements of a title (six words) and ballot summary (100 words) under AS 15.45.180. We do this in order to reduce the chance of collateral attack due to a divergence between the ballot and petition summaries. We therefore propose the following ballot and petition title and summary for your review:

CRUISE SHIP TAXATION AND REGULATION INITIATIVE

This initiative would impose a per person per voyage tax on cruise ships to pay solely for vessel services, and would tax

³ It is possible to comply with the federal statute without dedicating the proceeds of the cruise ship tax. Federal law would be satisfied without any earmarking of tax proceeds as long as the legislature authorizes expenditures for the stated purposes in an amount equivalent to the tax collected. *See, e.g., Evansville – Vanderburgh Airport Authority v. Delta Airlines, Inc.*, 405 U.S. 707, 720 (1972) (alright for the state to reimburse local expenditures through unrestricted revenues; “so long as the funds received by local authorities [don’t] . . . exceed their airport costs, it is immaterial whether those funds are expressly earmarked for airport use”).

cruise ship gambling in state waters. It would base cruise ship income tax on worldwide, not domestic, income. It would require cruise ships to gather and report information on, and get permits for, wastewater discharges. It assesses a fee for and requires cruise ships to have licensed marine engineers observe operations. It would authorize citizen suits to enforce wastewater discharge statutes and permits. It would require disclosures about on-ship promotions of shore-side businesses.

Should this initiative become law?

This summary has a readability test score of 52.733. We believe this summary meets the readability standards of AS 15.60.005.

V. CONCLUSION

For the reasons discussed above, we conclude that the proposed initiative complies with the constitutional and statutory provisions governing the uses of the initiative. Therefore, provided the required number of signatures and addresses of qualified voters have been submitted in the application, we recommend that you certify the application and so notify the initiative committee. Preparation of the petitions may then commence in accordance with AS 15.45.090.

Please let us know if you have any questions.

Alaska State Legislature

SESSION ADDRESS:
Alaska State Capitol
Juneau, Alaska 99801
Phone: (907) 465-3743
1 800-565-3743
Fax: (907) 465-2381



INTERIM ADDRESS:
600 E Railroad Avenue
Wasilla, AK 99654
Phone: 907-376-2679
Fax: (907) 373-4745

Sp
Stat
HB

Representative Carl Gatto

SPONSOR STATEMENT

HOUSE BILL 207

"AN ACT RELATING TO TAXES REGARDING CERTAIN COMMERCIAL VESSELS OPERATING IN THE STATE; AND PROVIDING FOR AN EFFECTIVE DATE."

HB 2 makes cruise ship companies liable to the State for costs attributable to their operations in state waters. The Dept of Revenue would determine the amount of reimbursement required. Revenue collected would be paid at the rate of \$50.00 per passenger per trip and would reimburse the state for a portion of the actual expenses incurred.

Information received from the Alaska Dept of Revenue and the Alaska Office of Management and Budget suggests that costs to the state resulting from cruise ship presence annually exceeds \$100 million. The NW Cruise Ship Association representing cruise ship interests disagrees with the State and places the annual cost to the state at under \$1 million. The exact cost may be unclear but what is clear is that some cost is borne by the state and should be reimbursed.

Cruise ships will disembark 900,000 passengers in Alaska ports during the 2005 visitor season. They are able to sell these excursions because visitors enjoy a scenery and wildlife adventure unlike any in the world. Cruise ships sell this adventure yet pay nothing to the state that supplies it. A web check of cruise ship sailings to other ports reveals that advertised prices separate out the government fees they collect. Port fees charged to passengers by cruise lines for visiting three or four ports in the Mexican Riviera to Mazatlan, Puerto Vallarta, and Cabo San Lucas are quoted in cruise advertising as \$145.00 in addition to other taxes. In Alaska the same passenger pays less than \$2 to the State of Alaska.

HB 2 is properly attempting to collect revenue to replace the costs of hosting so many visitors and such large vessels. I urge your support.

Sectional Analysis for HB 2

Section 1 has several subsections and constitutes the majority of the bill:

Sec. 43.50.100 levies an excise tax on passengers traveling on a commercial passenger vessel in state waters.

Sec. 43.52.110 sets the rate of the tax at a maximum of \$50 per passenger per voyage based solely on actual costs.

Sec. 43.52.120:

(a) States that the passenger is liable for the tax, collected by the travel provider, and owed to the Department of Revenue whether the tax is collected or not.

(b) States that a passenger is exempt from the tax if they have paid it within the last 30 days.

(c) States that the travel provider is not liable for the tax if they reasonably believe the passenger is not liable under (b).

Sec. 43.52.130:

(a) Creates a special commercial vessel passenger tax account in the GF where the tax receipts will be deposited. The funds from this account may be appropriated to enhance the safety and efficiency of interstate and foreign commerce and other legal purposes determined by the legislature.

(b) Allows for distribution of \$5 per passenger to each of the first five Alaskan ports of call.

(c) Creates a regional cruise ship impact subaccount from 25% of the tax proceeds. This money is to be distributed to municipalities or other governmental entities affected by cruise related tourism activities but not otherwise eligible under (b). Funds shall only be appropriated if the funds are used to provide services and infrastructure directly related to passenger vessel or watercraft visits or to enhance the safety and efficiency of interstate and foreign commerce related to vessel or watercraft activities.

Sec. 43.52.140 allows the Department of Revenue the authority to collect the tax and adopt necessary regulations to do so.

Sec. 43.52.199 defines "commercial passenger vessel," "marine waters of the state," and "passenger."

Section 2 Allows the Department of Revenue to begin working immediately on regulations to implement section 1 by the effective date.

Section 3 adds a section with revisor's instructions.

Section 4 provides an immediate effective date for section 2.

Section 5 provides a January 1, 2006 effective date for all other sections.

Teleconference Order Form FAX TO 465-2864

Sponsor and/or Committee Name			Date
Start/End Time	Chairing site	Juneau Room	Testimony
			Yes ___ No ___ Invitational ___
Contact Person and	Phone Number	Other sites may add?	Testimony Limit

Subject of meeting and/or Bills on agenda

HB 2- Tax on Commercial Vessel Passengers

Sites - LIOs		Sites - Offnets	Phone #
Anchorage	✓		
Barrow			
Bethel			
Cordova			
Delta Junction			
Dillingham			
Fairbanks	✓		
Glennallen			
Homer			
Juneau			
Kenai			
Ketchikan			
Kodiak			
Kotzebue			
Matsu	✓		
Nome			
Petersburg			
Seward			
Sitka			
Tok			
Valdez			
Wrangell			

Notes

Cody Rice

From: Tia Brown
Sent: Thursday, February 24, 2005 10:05 AM
To: Cody Rice
Subject: RE: Request for projector

Just let us know in advance of the date, time and location.

-----Original Message-----

From: Cody Rice
Sent: Thursday, February 24, 2005 9:50 AM
To: Tia Brown
Subject: Request for projector

Rep. Gatto is requesting a hearing for HB 2 and the Chairmen of (H) C&RA want a copy of a request for any specialized equipment from DP. We will have a PowerPoint presentation so a projector and laptop will be necessary. If DP could provide those on the date scheduled by the Chairmen we would appreciate it. Thank you.

cody

Cruise Ship Head Taxes

HB 2

Cruise ship taxes

Issues for Discussion

- Ability to pay
- Current contributions to the State
- Impact
- Legality

Lawsuit accuses Royal Caribbean & Celebrity cruise lines of fraud

THE ASSOCIATED PRESS

MIAMI — A lawsuit claims Royal Caribbean Cruises and subsidiary Celebrity Cruise Lines overcharged passengers by charging them for at least \$150 million in fraudulent taxes.

The Miami-based cruise lines have engaged in deceptive trade practices since the spring of 2001 by collecting the hidden taxes to offset rising costs without notifying customers beforehand, according to the suit filed Friday in Miami-Dade Circuit Court.

"All they had to do was raise their cruise prices like any merchant," attorney Thomas Tew told The Miami Herald. "Instead, they buried an increased fare in a bogus tax."

Royal Caribbean would not address the lawsuit. "It is not our practice to comment on litigation," said spokeswoman Lynn Martenstein.

Tew's firm seeks class-action

All they had to do was raise their cruise prices like any merchant. Instead, they buried an increased fare in a bogus tax.

THOMAS TEW

attorney

status on behalf of an estimated 5.7 million customers, claiming the companies appropriated \$15 to \$25 from each passenger in fraudulent taxes.

The plaintiffs are seeking reimbursement for the unauthorized taxes and a court order banning the companies from continuing the practice.

Head tax could make bad tourism year worse, cruise official says

By Nancy Pounds
Journal Assistant Editor
Publication Date: 12/10/01
Alaska Journal of Commerce

With Alaska tourism facing a possible decline in summer 2002 visitors, a \$50 per person head tax proposed by some lawmakers is ill timed, said one cruise line representative.

John Fox, a senior vice president with Royal Caribbean Cruises Ltd., spoke Nov. 30 at Sheraton Alaska Hotel during the Resource Development Council for Alaska Inc. annual conference.

He presented his views as a member of the Vancouver, British Columbia-based North West CruiseShip Association.

A study by the state trade organization, conducted before Sept. 11, showed that 58 percent of those people surveyed said an additional \$50 charge could cause them to decrease spending for onshore activities, Fox noted.

"Over the past few years, however, a number of major lines have settled class action lawsuits for allegedly inflating port fees. Carnival Cruise Lines, for example, settled a port charge lawsuit last month, paying \$125 million in future cruise vouchers."

-Travel Agent – Vol. 303, Issue 9, p.6

"Cruise Sellers 'See Red' in More Noncommisionable Charges."

Ability to pay

- Royal Caribbean Cruises increased revenues 24% for the 9 months ended 9/3/04.
- Carnival Cruises increased revenues 53% for the 9 months ended 8/31/04.
- Royal Caribbean Cruises increased net income 66% over the same period.
- Carnival Cruises increased net income 58% over the same period.

- Source: Forbes.com from SEC filings



[Click here to return to the original story](#)

Prices rise, but travelers still cruising

Passengers close to spending as much as in 1999, 2000

"I think people are generally feeling optimistic about the economy. It's been nice and cold across the country, which always encourages people to take a (cruise) vacation," said Andy Stuart, NCL Corp. Ltd.'s executive vice president of marketing, sales and passenger services. NCL operates Norwegian Cruise Line, NCL America and Orient Lines.

Travel agent Joe Canino said his clients still seem willing to pay an extra \$500 or \$1,000 for the same trip they took a year or two ago.

"They question why it's higher, but it doesn't deter them," said Canino, a cruise expert at Hebron Travel in Hebron, Conn.

Cruise.com, one of the largest online cruise travel agencies, has been selling trips at prices averaging about 20 percent higher than last year, managing director Anthony Hamawy said.

After expected increases through the rest of this year, Carnival's average ticket prices should be about 3 percentage points below the peak levels before the terror attacks, said Robin Farley with UBS Investment Research.

Net revenue yields measure the average profit cruise lines get from each passenger per day. Carnival's are expected to rise 4 percent to 6 percent this

Charlie Ball, President
of Princess Lines:

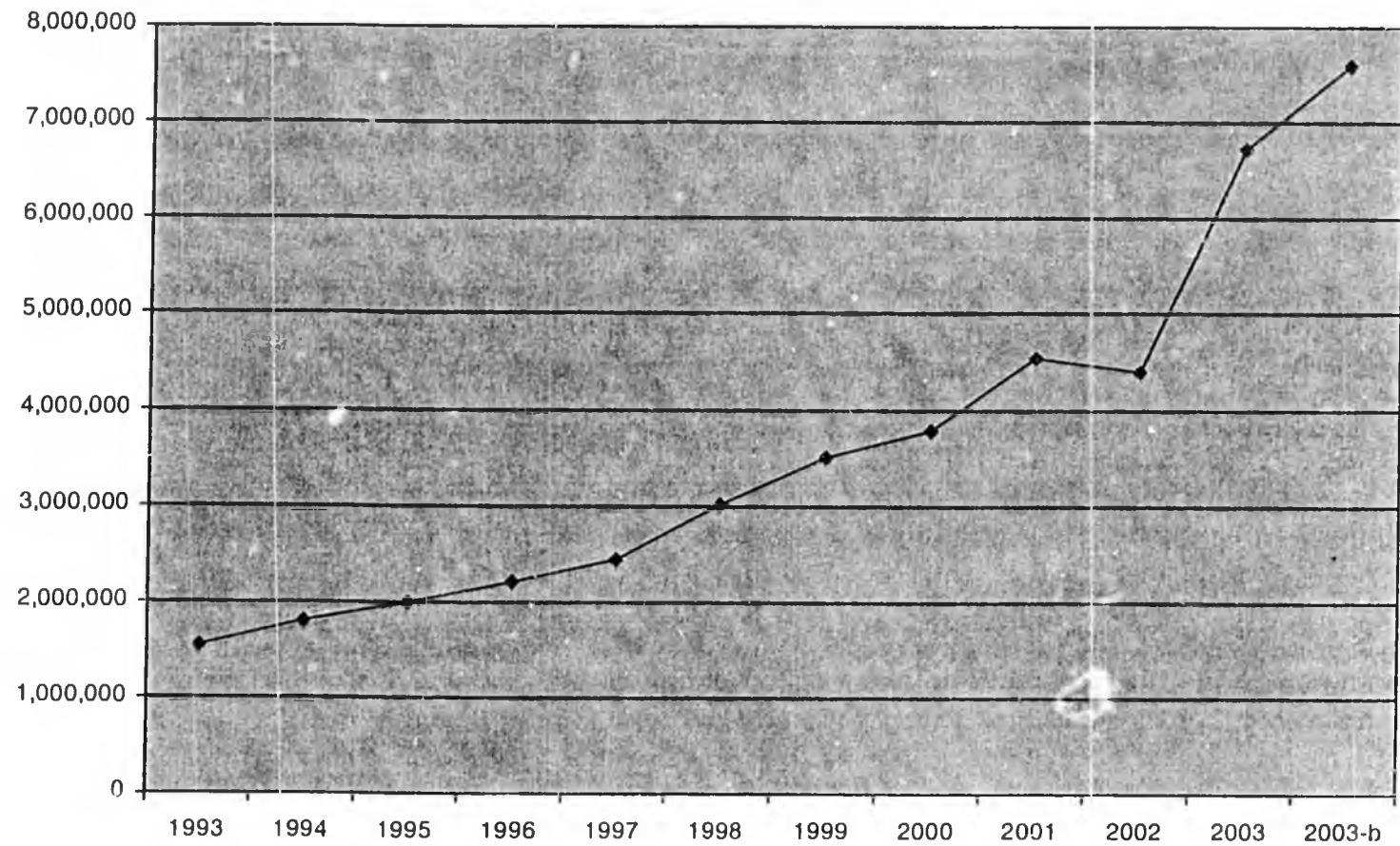
"Stated that people typically pay for their vacations in cash and the packages are sold "in total". A \$50 dollar increase on a \$1200 package would be a significant increase."

House Finance Minutes

1/25/05 - 2:49pm

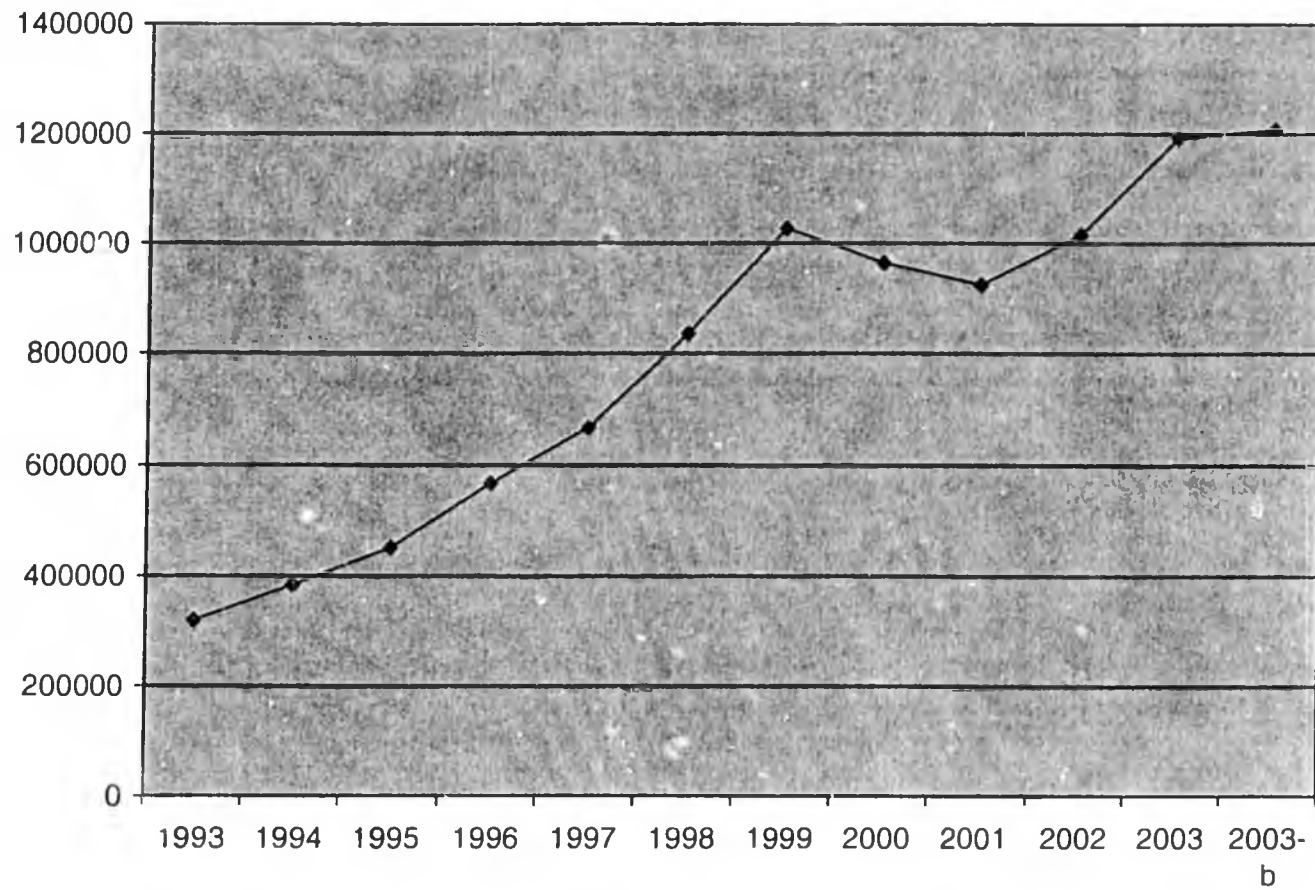
Carnival Cruise Lines Revenues

Revenue (in thousands)



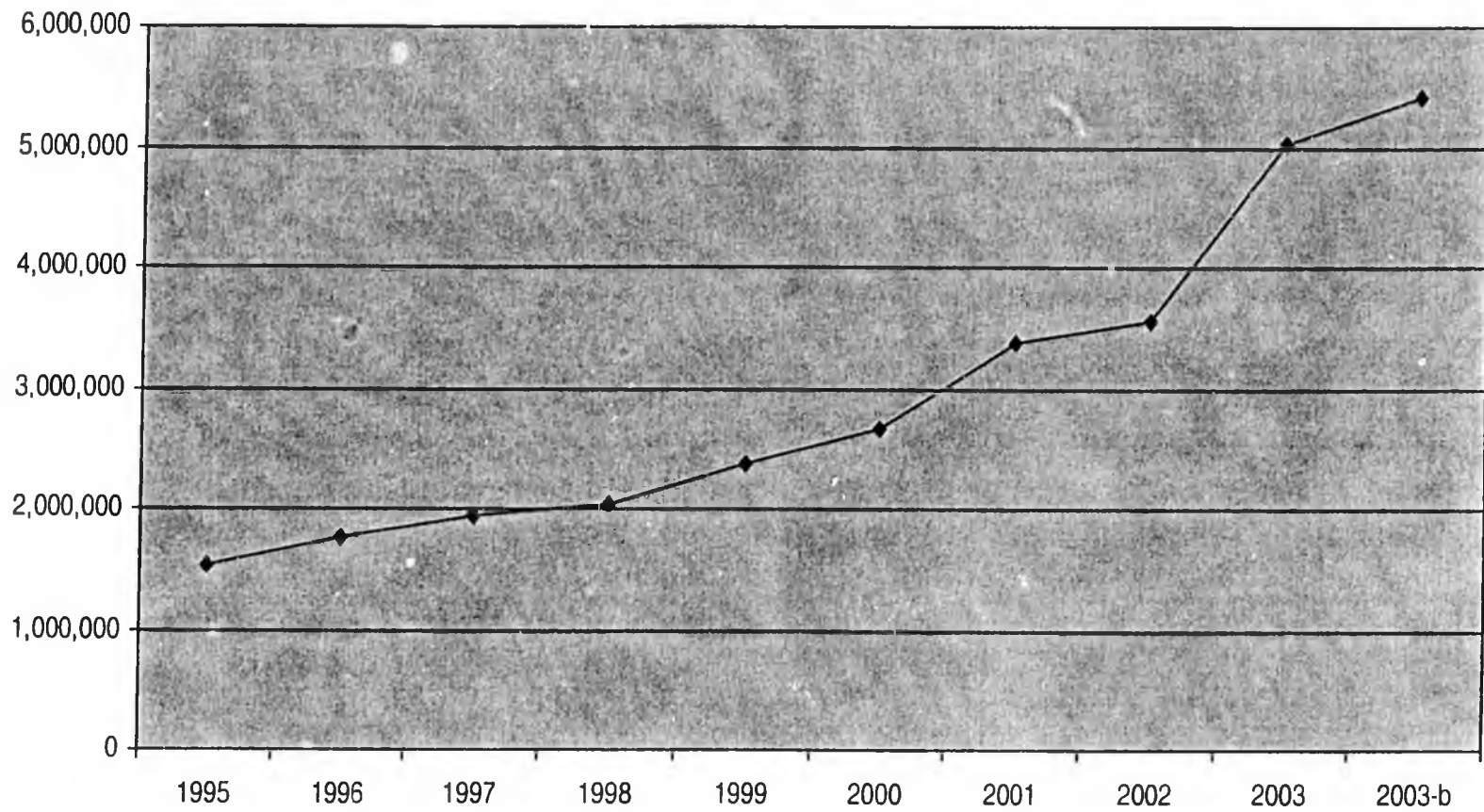
Carnival Cruise Lines Profits

Net Income (in thousands)



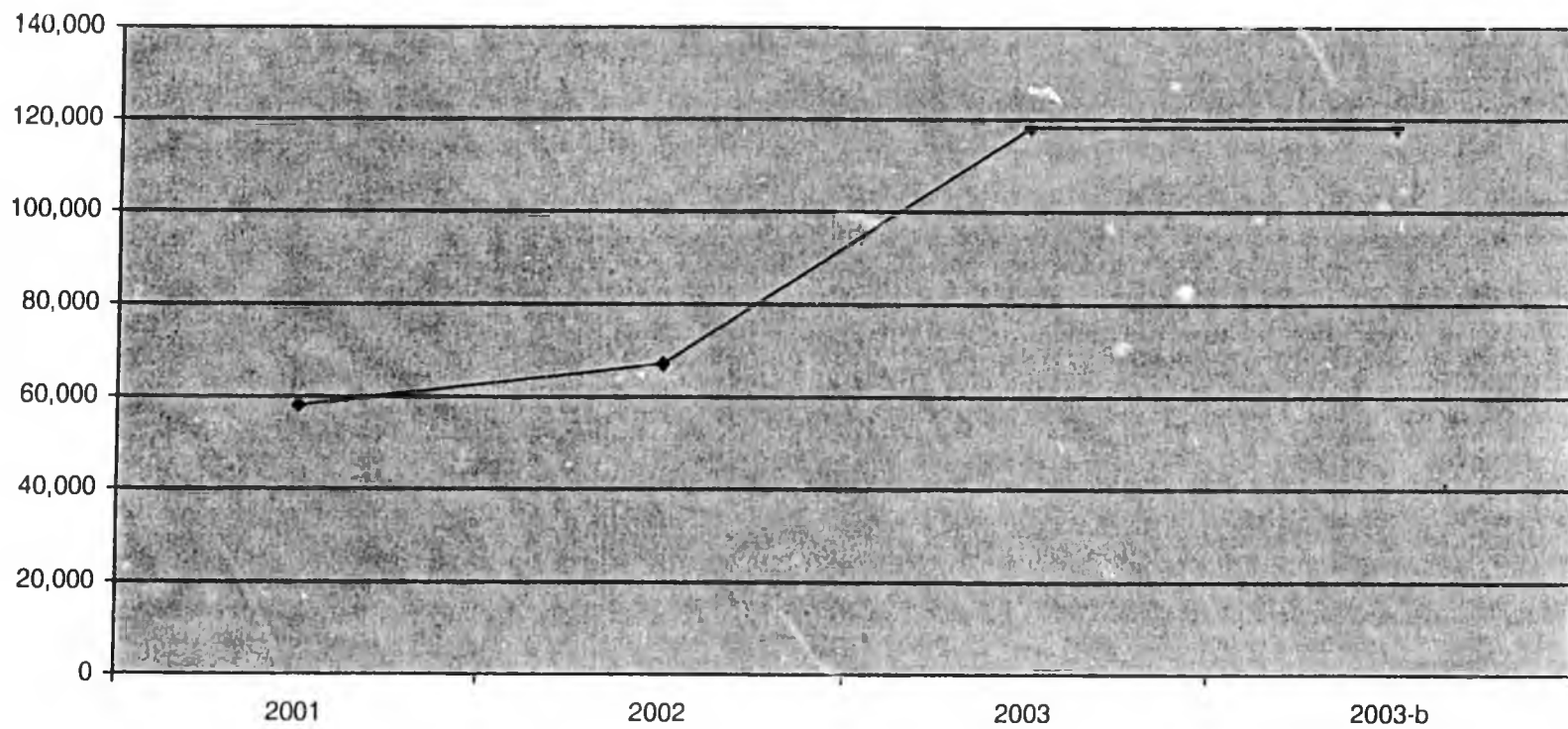
Carnival Cruises

Passengers Carried

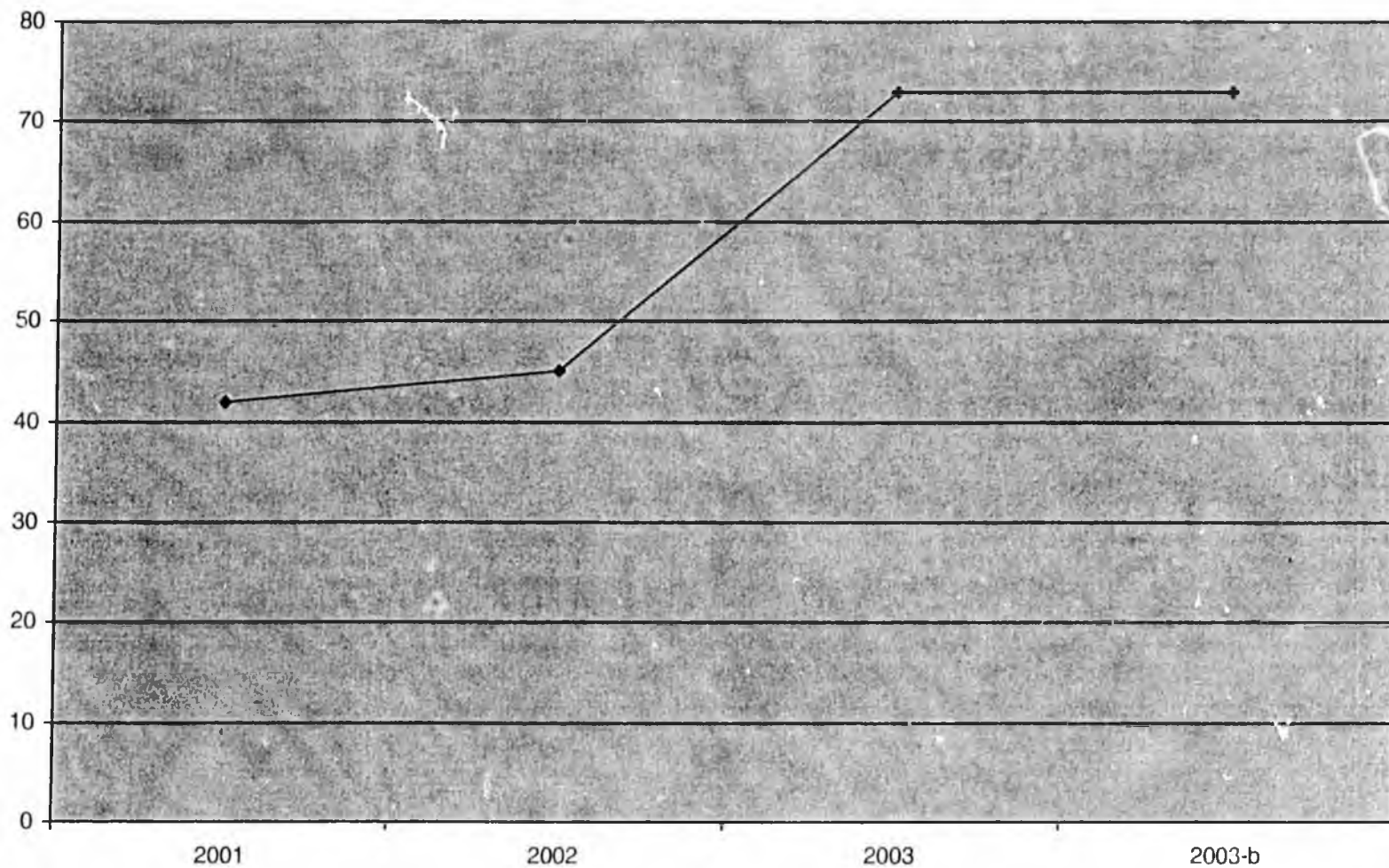


Carnival Cruises

Passenger Capacity



Carnival Cruise Ships



Current Contributions

- NWCA donates more than \$500,000 a year to charities in AK.
- For DEC Air and Water Quality Monitoring:

FY2002 - \$1,115,500

FY2003 - \$764,000

FY2004 - \$844,750

Costs Attributable to the Cruise Ship Industry as Determined by OMB and the Department of Revenue

Operating Budget Component Name		FY 2004 Component Total Appropriations (\$ Thousand)	Potentially Attributable to Cruise Industry	Notes on Methodology
FY 04 Operating Budget				
Debt	Harbor Project Debt Service	14,459.1	8,069.0	See OMB harbors debt service spreadsheet.
	International Airport Bond Debt Service	17,701.3	5,535.2	59% of traffic during high demand months are visitors and 53% of visitor traffic is one-way cruise users. Alaska Visitor Arrivals Summer 2003, Northern Economics, December 2003. Some portion of liability insurance for public transportation.
DOA	Risk Management	24,483.9		\$1.5m/yr marine transportation; \$890k/yr international airports. Licensed tour bus - 1,163 proportion of 770,000 total licensed vehicles X budget.
	Motor Vehicle Licensing	9,611.5	14.5	
DCED	State Match to AK Travel Industry	4,000.0	1,925.0	FY 04 budget amount billed to cruise industry from department.
	Marine Pilot Licensing Program	225.4	112.7	Assumes cruise ship operations are 1/2 of total.
	Alaska Railroad	10,000.0	7,130.0	71.3% of passenger are directly associated with cruise lines so that percentage was applied to the passenger operations budget.
DEC	Food and Safety Sanitation	2,838.5	30.0	Estimate provided by department based on food service inspections of ships operating in AK.
	Environmental Compliance Fee	708.9		Paid entirely by cruise ship industry.
	Spill Prevention and Response	5,567.4		No current basis for allocating cost to cruise industry.
ADFG	Sport Fisheries	35,469.7	10,818.3	81% of sportfish licenses sold to nonresidents in CY '02 assumes that 1/2 were sold to cruise ship visitors.
	Wildlife Conservation	29,100.2		No current basis for allocating cost to cruise industry.
DHSS	Epidemiology	18,678.1		No current basis for allocating cost to cruise industry.
	Medical Examiner	1,245.1		No current basis for allocating cost to cruise industry.
	Public Health Laboratories	5,141.1		No current basis for allocating cost to cruise industry.
Labor	Manne Training Program	240.0	120.0	Assumes cruise ship operations are 1/2 of total.
	Wage and Hour	1,300.0		No current basis for allocating cost to cruise industry.
DMVA	Homeland Security and Emergency Services	5,346.6		No current basis for allocating cost to cruise industry.
	Local Emergency Planning Committee	409.0		No current basis for allocating cost to cruise industry.
DNR	State Parks	7,909.4	1,502.8	15% of visitors to state parks are nonresidents.
DPS	Fish and Wildlife Protection	18,045.5	2,460.1	Assumes same proportion of enforcement effort as commercial fishing for sport with 1/2 attributable to cruise visitors. Ref court approved Carlson methodology.
	Search and Rescue	368.1		No current basis for allocating cost to cruise industry.
DOT/PF	Marine Highway System	85,813.8		No current basis for allocating cost to cruise industry.
	International Airports	238,816.7		No current basis for allocating cost to cruise industry.
FY 04 Operating Budget Subtotal		535,479.3	35,658.5	

Operating Budget Component Name		FY 2004 Component Total Appropriations (\$ Thousand)	Potentially Attributable to Cruise Industry	Notes on Methodology
FY 04 Capital Budget				
DMVA	State Homeland Security Grant	18,225.0	758.6	Port Security Grants
	International Airport Program			
DOT/PF	System Projects and Costs	36,274.8	11,343.1	Anchorage (see formula above)
	Corps of Engineers Harbors Program	8,450.0	8,450.0	St. Paul and Wrangell Projects (both cruise ports)
	International Airport System Projects and Costs	28,808.7	5,008.5	Fairbanks
	Ted Stevens International Airport Projects	134,593.0	42,087.2	Anchorage
	Alaska Railroad	12,000	8,556.0	\$12 million/year passenger-related capital expenditure X 73.1%
FY 04 Capital Budget Subtotal		238,351.5	80,203.4	
GRAND TOTAL		773,830.8	115,861.9	
<p>Note that the potentially attributable cost figures in the table refer only to the cost side of the ledger without regard to how those activities and projects are funded. Because the Alaska constitution does not allow for dedication of funds, public revenue can be spent on anything and those funds spent on regulation, support and enforcement of cruise ship activities could be spent on other public services if the industry did not exist. This legal rationale was delineated by the Alaska Supreme Court in <i>Carlson, et al v. State of Alaska</i>. The only exception in the table is the DEC Environmental Compliance Fee which is paid directly by the cruise ship industry.</p>				

Legality

- **MTSA – Maritime Transportation Security Act**
 - **No taxes or tolls EXCEPT:**
 - **“Reasonable fees charged on a fair and equitable basis that” –**
 - **“Are used solely to pay for the cost of a service to the vessel or watercraft”**
 - **“Enhance the safety and efficiency of interstate commerce”**
 - **“Do not impose more than a small burden on interstate or foreign commerce.”**

Legality

- **Distribution of proceeds:**
 - The disposition of proceeds in HB 2 is modeled after the Cruise Ship Initiative.
 - Attorney General Renkes addressed issues of dedicated funds and legal questions associated with the disposition of proceeds in an Oct. 6th 2003 Memo.

“While there are limitations imposed by federal law on the purposes for which the excise tax in section 1 of the proposed bill can be used, *it would be a mistake to interpret this federal restriction as creating a dedicated fund.*”

Oct. 6th 2003 AG Memo, pg. 5

FROM THE DESK OF JOHN PEARSON

Ref: HB 2 (Vessel Passenger Tax)

The attached information deals with proposed changes in the cruise vessel passenger tax issue.

I plan to attend the meeting and address the following:

1. Exemption of the international waters of the Portland Canal
2. Inclusion of Hyder as a participant at the time an actual port call takes place in the community.
3. Inclusion of unorganized communities such as Hyder in the disposition of proceeds section of the bill based on proof of having met specific conditions.

I have also included several resolutions, a **letter from the Mayor of Stewart BC**, a map showing the Portland Canal, as well as the type of demonstrated proof the commissioner should receive prior to authorizing any disposition of proceeds from an unorganized community entity.

If there are any questions please give me a call me

Thanks,



John
789-1402
jpearson@ptialaska.net



DISTRICT OF STEWART

Office of the Mayor

March 30, 2005

Honourable Frank Murkowski
Governor of the State of Alaska
3rd Floor State Capitol
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Murkowski:

RE: Proposed Taxation on Passenger Vessels

At the regular Council meeting of the District of Stewart held on March 29th, 2005 the issue of the proposed taxation on passenger vessels in the Alaska State Legislature was discussed and a resolution expressing our concerns was unanimously endorsed.

As the legislation is proposed, passenger vessels traveling to and from Canadian ports would be subject to the proposed vessel tax simply due to the fact that they enter Alaskan waters; in the Portland Canal trans-boundary movement is required for vessel and passenger safety.

The District of Stewart believes that any taxation on passenger cruise vessels entering waters of the State of Alaska regardless of their port of call is absolutely unacceptable. It will create very negative consequences for any "explorer class" cruise passenger vessels utilizing the Portland Canal waters in programs involving port calls in Prince Rupert, Metlakatla (BC), Port Simpson, Port Edward, Kincolith, Greenville and Stewart.

The District of Stewart strongly supports the resolution of the Hyder Board of Trade Inc. in which passenger vessels traveling the Portland Canal are clearly exempt unless such vessels are making a port call at the Port of Hyder.

Sincerely,

Angela Brand Danuser
Mayor

Cc: Nathan Cullen, MP Skeena
Bill Belsey, MLA North Coast
Gary Benedict, Hyder Board of Trade Inc.
City of Prince Rupert
District of Port Edward

Post Office Box 480, Stewart, British Columbia V0T 1W0 Phone: (250) 636-2251 Fax: (250) 636-2417
Email: mayor@districtofstewart.com

**A HYDER BOARD OF TRADE, INC. RESOLUTION
REQUESTING AN EXEMPTION IN ALL PASSENGER
VESSEL TAXATION SCHEMES ON VESSELS SAILING IN
THE INTERNATIONAL WATERS KNOWN AS THE
PORTLAND CANAL, UNTIL SUCH TIME AS A VESSEL MAKES
A PORT CALL AT THE PORT OF HYDER**

Resolution: 05-06

WHEREAS The 24th session of the Alaska State Legislature has before it, three taxation proposals of passenger carrying cruise vessels entering the waters of the State of Alaska; and,

WHEREAS The proposed legislation identifies the "marine waters of the state" as meaning the marine bays, sounds, rivers, inlets, straights, passages, canals, Pacific Ocean, Gulf of Alaska, Bering Sea, and Arctic Ocean within the territorial limits of the state, and all bodies of marine water that are wholly or partially within the state or under the jurisdiction of the state; and,

WHEREAS The length of the Portland Canal separating Alaska, United States of America and British Columbia, Canada, serving as the International Boundary between two nations is approximately ninety (90) miles in length and provides for the sailing of resource barges, log ships, fishing boats, small cruise vessels and other water craft; and,

WHEREAS The nautical route within the Portland Canal requires the trans-boundary movement of vessels back and forth over the international boundary of the two national jurisdictions in navigating the Portland Canal waters for purposes of vessel and passenger safety and acceptable marine protocols; and,

WHEREAS Vessels traveling between two British Columbia ports or two Alaska ports are often required to transition into the waters of the neighboring nation for reasons of safe vessel navigation and passenger safety while sailing the Portland Canal; and,

WHEREAS The proposed legislation and initiative wording will require all passenger vessels traveling the Portland Canal to or from Stewart, British Columbia to be subjected to the State of Alaska vessel tax because of their need to enter Alaska waters; and,

WHEREAS Such taxation as proposed by the State of Alaska on vessels traveling between two ports in Canada and not making a port calls in Alaska would be considered in violation of international maritime law; and,

WHEREAS Retaliatory schemes of taxation by British Columbia, against Alaska could easily develop and result in an international incident due to inclusion of the Portland Canal in the proposed legislation; and,

WHEREAS The effect of the proposed legislation and proposed initiative could easily destroy the potential of Stewart, British Columbia to develop programs in cruise tourism to their community as the result of Alaska's legislative action.

NOW THEREFOR BE IT RESOLVED THAT

All legislation and initiatives related to any passenger vessel tax under consideration by the Alaska Legislature, the Governor and Lieutenant Governor of the State of Alaska, must clearly exempt the application of a passenger vessel tax on all vessels traveling in the Portland Canal, unless such vessels are making a port call at the Port of Hyder and the port call is calculated in the aggregate of total Alaska port calls for the vessel, and,

BE IT FURTHER RESOLVED THAT

The disposition of proceeds resulting from any passenger vessel tax include a distribution to the unincorporated community of Hyder port security entity as recognized by the United State Coast Guard as the Hyder Board of Trade Inc, the not-for -profit (chamber of commerce) entity meeting and providing the federal homeland security mandate in Hyder: and

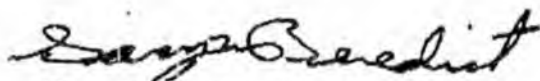
BE IT FINALLY RESOLVED THAT

The Hyder Board Trade Inc., in an effort to stimulate the frail economy of Hyder by development of a tourism market for "Explorer Class" vessels, has heavy expenses associated with performance of the federal vessel and facility security mandates and should be recognized as for inclusion as the local unincorporated community service provider (the Hyder Board of Trade Inc.) requiring assistance in meeting the financial challenge of security and port facilities development.

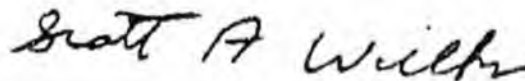
Approved on March 29, 2005 as a Resolution of the Hyder Board of Trade Inc.

Witness:

Attest:

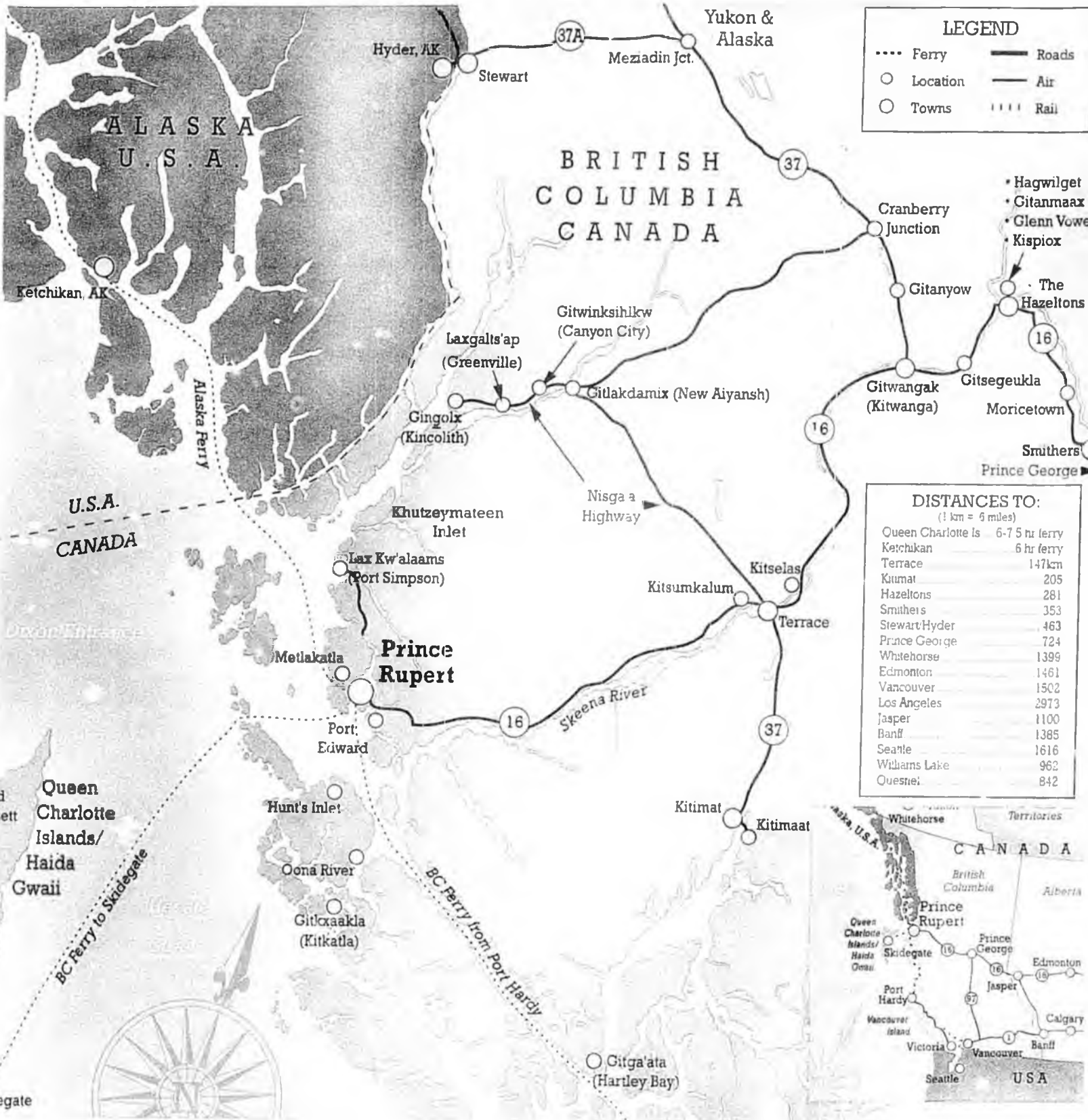


Gary Benedict
President
Hyder Board of Trade, Inc.



Scott Wilks
Treasure (acting Secretary)
Hyder Board of Trade, Inc.

Copy: Governor Frank Murkowski
Lt. Governor Loren Lehman
Senate President Ben Stevens
House Speaker John Harris
Representative Thomas
Representative Elkins
Representative Gatto
Representative Seaton
Mayor Angela Brand Danuser, District of Stewart B.C.
Hyder Community Association



LEGEND

- Ferry
- Location
- Towns
- Roads
- Air
- Rail

DISTANCES TO:
(1 km = 6 miles)

Queen Charlotte Is.	6-7.5 hr ferry
Ketchikan	6 hr ferry
Terrace	147km
Kumai	205
Hazelton	281
Smithers	353
Stewart/Hyder	463
Prince George	724
Whitehorse	1399
Edmonton	1461
Vancouver	1502
Los Angeles	2973
Jasper	1100
Banff	1385
Seattle	1616
Williams Lake	962
Quesnel	842



Definition of Boundary between Canada and United States
 NAD27 Official Values
 Portland Canal

Définition de la frontière entre le Canada et les États-Unis
 NAD27 coordonnées officielles
 Canal Portland

000000	PT A OF THE AWARD	54 39 45.1648	132 40 57.1770
000010	PT B OF THE AWARD	54 42 27.93	130 36 50.05
000020	TURNING POINT 1	54 43 30.15	130 37 37.01
000030	TURNING POINT 2	54 44 18.18	130 37 26.50
000040	TURNING POINT 3	54 45 48.13	130 39 26.45
000060	TURNING POINT 4	54 46 58.92	130 37 37.86
000070	TURNING POINT 5	54 47 32.88	130 33 59.44
000080	TURNING POINT 6	54 50 13.12	130 28 42.81
000090	TURNING POINT 7	54 51 05.78	130 27 09.69
000100	TURNING POINT 8	54 52 25.27	130 25 15.67
000110	TURNING POINT 9	54 55 04.93	130 20 39.25
000120	TURNING POINT 10	54 58 27.34	130 16 17.83
000130	TURNING POINT 11	55 03 47.25	130 11 09.04
000140	TURNING POINT 12	55 05 29.52	130 10 45.00
000150	TURNING POINT 13	55 07 29.62	130 09 02.55
000160	TURNING POINT 14	55 08 35.23	130 08 39.85
000170	TURNING POINT 15	55 11 34.35	130 06 04.02
000180	TURNING POINT 16	55 16 55.85	129 58 20.76
000190	TURNING POINT 17	55 18 02.28	129 58 29.69
000200	TURNING POINT 18	55 20 17.45	130 01 09.73
000210	TURNING POINT 19	55 27 07.14	130 02 21.96
000220	TURNING POINT 20	55 29 53.65	130 05 16.98
000230	TURNING POINT 21	55 34 52.65	130 07 33.91
000240	TURNING POINT 22	55 40 59.36	130 06 35.38
000250	TURNING POINT 23	55 42 54.57	130 08 45.33
000260	TURNING POINT 24	55 45 59.55	130 09 02.04
000270	TURNING POINT 25	55 48 21.22	130 07 22.52
000280	TURNING POINT 26	55 49 19.05	130 04 53.94
000290	TURNING POINT 27	55 54 27.68	130 00 06.98
000300	TURNING POINT 28	55 54 43.84	130 00 06.98

A RESOLUTION OF THE HYDER BOARD OF TRADE REQUESTING THE INCLUSION OF UNORGANIZED COMMUNITIES IN THE "DISPOSITION OF PROCEEDS" SECTION OF ANY PASSENGER CRUISE VESSEL TAXATION LEGISLATION IF CERTAIN QUALIFICATION CONDITIONS CAN BE CLEARLY DEMONSTRATED

Resolution: 05-07

WHEREAS The Alaska Legislature is considering legislation placing a tax on passenger carrying cruise tour operators making port calls in Alaska communities; and,

WHEREAS The proposed legislation identifies organized Alaska municipalities to share in the dispositions of proceeds resulting from the legislation; and,

WHEREAS The Alaska cruise tour industry includes vessels carrying only a few passengers, up to several thousands passengers, making port calls in both organized municipalities and unincorporated communities within the state; and,

WHEREAS The focus of the smaller often called "explorer class" vessels are often eco-tour operators with programs centered around unique experiences involving small communities, cultural experience and natural history aspects of Alaska tourism; and,

WHEREAS Cruise vessels involved in Alaska ports calls are strictly controlled and monitored by the U.S. Coast Guard, Department of Homeland Security requiring approvals as cited from the federal mandate; and,

WHEREAS All recognized municipalities or unorganized communities of the State of Alaska participating in the Alaska cruise tourism industry and included in the framework of the proposed legislation will be known to the Alaska Department of Commerce, Community & Economic Development, and,

WHEREAS The federal mandate for passenger vessel port calls in Alaska demands federal approvals related to Homeland Security Facility Operations and Plan requiring strict procedures prior to and during a cruise vessel port call; and,

WHEREAS Like a municipality, the ongoing costs to an unorganized community, recognized by the Department of Commerce and Economic Development to attract, market and provide for the federally mandated day-to-day homeland security requirements are very substantial and require year round participating in performance of drills and service; and,

WHEREAS Tourism development in rural Alaska should be viewed as a viable economic development element in stimulating local economies by introduction of programs involving the smaller passenger vessel segment of the cruise industry when possible; and,

WHEREAS Efforts in rural tourism development involving the smaller cruise vessel port calls additionally requires a significant sacrifice of scarce community resources to meet the mandated federal security requirements related to facilities, training and ongoing shore support security services for passenger vessels.

NOW THEREFOR BE IT RESOLVED THAT: That the "Disposition of proceeds," sections of HB 2 and HB 24 be changed to reflect full inclusion of unorganized communities found in the records of the Commissioner of the Department of Commerce, Community & Economic Development, for participation in the disposition of proceeds along with the municipalities receiving cruise vessel port calls; and,

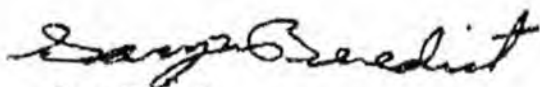
BE IT FURTHER RESOLVED THAT; Participation in the disposition of proceeds by an unorganized community require demonstration to the commissioner that the unorganized community entity has in place, a recognized federal authority of the U.S. Department of Homeland Security / U.S. Coast Guard to receive passenger carrying vessels at the designated local port or harbor facility; and,

BE IT FINALLY RESOLVED THAT: Inclusion of Hyder Alaska in the distribution of proceeds is critical to performing the federally mandated marine security function for passenger carrying cruise vessels in this "open border" community that is providing volunteers of the Hyder Board of Trade Inc. (chamber), in order to stimulate tourism development while meeting the federal mandate on a year round basis.

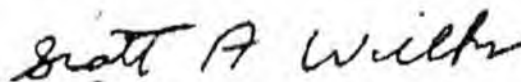
Approved on March 29, 2005 as a Resolution of the Hyder Board of Trade, Inc.

Witness:

Attest:



Gary Benedict
President
Hyder Board of Trade, Inc.



Scott Wilks
Treasurer (acting Secretary)
Hyder Board of Trade, Inc.

Copy: Governor Frank Murkowski
Senate President Ben Stevens
House Speaker John Harris
Representative Thomas
Representative Elkins
Representative Gatto

U.S. Department of
Homeland Security

United States
Coast Guard



Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: G-MPS-1
Phone: (202) 267-4143
Fax: (202) 267-4130

16600

AUG 11 2004

Hyder Board of Trade, Inc.
Attn: Mr. John Pearson
8216 Cedar Drive
Juneau, AK 99801

Dear Sir:

We reviewed your submission for a waiver, dated June 3, 2004, wherein you requested a full and complete waiver from the requirements of Part 105 of Title 33 of the Code of Federal Regulations (33 CFR Part 105). We are pleased to inform you that your waiver request is approved with the following conditions:

1. Facility shall participate in the Area Maritime Security Plan for notification of heightened threat levels.
2. Facility personnel shall conduct terminal searches 2 hours prior to receipt of all SOLAS vessels. The float dock shall be dedicated to the visiting vessel and not shared with any other vessel or floating attachments.
3. Facility personnel shall control access to the float dock when a SOLAS vessel is moored by only allowing passengers, crew, and authorized personnel on the float dock. This will be accomplished by the use of a gate and facility employee stationed at the float dock entrance to conduct passenger/crew screening. The float dock will be designated as a restricted access area and shall be marked with the appropriate signage.
4. Facility personnel will conduct random security patrols throughout the duration of the vessel visit and will increase the number of patrols at increased MARSEC levels.
5. Facility personnel shall restrict vehicle access to the pier in close proximity to the float dock.
6. Records shall be maintained of each vessel visit and an appropriate Declaration of Security (DOS) will be completed for each vessel. Facility and vessel security communications will be established and maintained throughout the duration of the visit.
7. No embarkation or disembarkation of new passengers or crew shall occur and no baggage or stores will be received.
8. Facility shall not receive passenger vessels on an international voyage or carrying more than 150 passengers.

Please contact LT T. Fasceski at (202) 366-9754 if you have any further questions regarding this decision.

Sincerely,

A handwritten signature in black ink that reads "C. L. Stowe".

C. L. STOWE
Commander, U. S. Coast Guard
Chief, Vessel & Facility Security
By direction

Copy: Commander, Coast Guard Pacific Area (Pmr)
Commander, Coast Guard Seventeenth District (m)
Commander, Coast Guard Marine Safety Office Juneau
Black and Veatch