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March 16, 2004

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill that would impose a five percent sales and use tax on tourism and other services in our state. This tax would apply to a broad range of activities, such as: taxes on items sold or used on cruise ships, shore side activities, transient accommodations, and guided tours. The tax would raise approximately \$19 million in FY 05 and \$49 million for the state's general fund on an annual basis thereafter.

In many regards, this proposal represents a modest "user-pay" approach. The state would be partially reimbursed for costs of providing a wide variety of services related to the travel industry. The Office of Management and Budget recently completed an informal survey of state agencies to determine the amount of tourism related expenditures in their respective FY 04 budgets. The resulting list of costs potentially attributable to the cruise industry totaled \$116 million, some of which is currently offset by other "user-pay" revenues.

Some local communities have benefited over the years as passengers and crewmembers purchased goods and services in communities and paid local sales, use, and "head" taxes. At the same time local communities were taxing the cruise ship industry, passenger traffic increased dramatically. For example, cruise ship passenger traffic to Ketchikan increased from 321,780 passengers in 1993 to an expected 830,000 passengers in 2004. The increase in passenger traffic occurred despite the effects of the SARS epidemic, global terrorism, and moderate economic growth, a record 9.52 million passengers cruised worldwide in 2003 -- a 10.2 percent increase over 2002. Cruise lines anticipate another record year in 2004, with approximately 10.6 million guests.

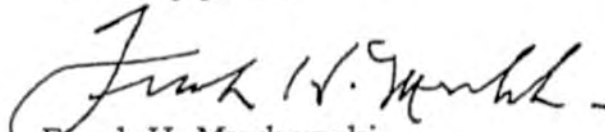
Given the growth of the industry and the fact Alaska is such a unique and wonderful destination for cruise ship companies and their passengers, I am convinced Alaska can recover part of its costs through reasonable taxes without appreciably affecting the growth of the Alaska cruise ship industry.

The Honorable Pete Kott
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Alaska will always welcome its guests. However, Alaska should join 48 of the other 49 states and such countries as Jamaica and the Bahamas that raise revenue from transient accommodation through some form of tax or fee. This is only fair. Alaska residents have been paying, and will continue to pay, such taxes when travelling or cruising within these states or abroad.

I urge your support for this bill.

Sincerely yours,



Frank H. Murkowski
Governor

Enclosure

CS FOR HOUSE BILL NO. 537
"AN ACT RELATING TO TOURISM TAX"

SECTIONAL ANALYSIS
OFFICE OF THE ATTORNEY GENERAL

Section 1: adds a new chapter to Title 43 with several subsections.

010. Levies a sales tax on the sale of tourism services in the state, and for any tourism service used in the state not subject to the sales tax, a use tax.

020. establishes the tax rate at 5%

.030 requires sellers or providers of tourism services to register with the department.

.040 establishes the procedures by which a tourism service that takes place both in and out of the state are allocated between Alaska where they are taxable, and outside of Alaska, where they are not.

.050 sets forth that a seller of tourism services in the state has the obligation to collect the tax, and that the commercial provider shall collect the tax, if the seller did not. This provision further details the conditions under which the collector of the tax must remit them to the department, including the incentives the department can use to encourage electronic filing.

.060 requires the proceeds from the tax to be deposited in the general fund.

.990 defines terms including "commercial provider" and "tourism service"

Section 2: establishes that the tax will apply to all services that are both used after January 1, 2005 and sold after the effective date of the act.

Section 3: has the act take effect immediately.

MEMORANDUM

STATE OF ALASKA

Department of Revenue
Tax Division

550 W. 7th Avenue, Suite 500
Anchorage, AK 99501

Date: March 24, 2004

Visitor Industry Package - HB 537

Alaskans often travel outside, and when we do, we pay our share of the infrastructure costs through many devices.

- 45 states have statewide sales taxes (see table 1).
- 48 states have either a statewide accommodations tax or a statewide sales tax that applies to lodging (see table 1a).
- 18 states have statewide taxes on accommodations (see table 2).
- 2 states (South Dakota and Arkansas) have explicit statewide taxes on tourist attractions.
- Many nations, and other ports or cities have head taxes, transit taxes, arrival taxes or departures taxes, or other forms of asking cruising passengers to share in infrastructure costs (see tables 3 & 4).

Many Alaskan communities already ask visitors to contribute to their civic costs.

- 95 have a sales tax (see table 5).
- 38 have an accommodations tax (see table 6).
- 26 have both a sales and an accommodations tax (see table 6a).
- 2 have cruise ship passenger taxes (see table 7).

Alaska welcomes its visitors with open arms, and recognizes the important role the visitor industry plays in the state's economy. However, the state now has few methods of recapturing the costs caused by those visitors. This proposal will levy a five percent across the board tax on visitor services including:

- Accommodations
- Guided Activity (including scenic and sightseeing transportation and certain specific recreational activities)
- Cruising

Accommodations

A 5% tax on the estimated 300 million dollars a year in spending on land-based accommodations would generate about 15 million dollars a year. When a visitor visits a lodge or bed and breakfast and pays a single fee for both food and lodging, that entire sales price is taxable. However, a visitor paying a separate invoice for meals at a hotel that includes a restaurant would not pay a tax on that meal.

Alaska Department of Revenue –Tax Division

Guided Activity

We divide guided activity into smaller categories, but the key notion is that tourist activities that are accompanied or provided by a local provider – a driver, a ship captain, a tour leader – are taxed.

Scenic and sightseeing transportation on land, air, and water will include cruise ships, buses, trolleys, taxis, railroads, snowmobiles, carriages, aircraft, helicopters, and many other kinds of transportation, but does not include common carrier transportation from one destination to another.

Recreational activities accompanied by, led by or on behalf of, or directed by a commercial provider include horseback riding, climbing, camping, dog sledding, boating, fishing or hunting, as well as many others.

A 5% tax on the estimated 227 million dollars in spending on guided activities would generate about 11 million dollars a year.

Cruise Ships

Although cruising is in fact covered by the two activity categories mentioned above, it is worth examination on its own. At a 5% tax, we estimate that cruising will account for an additional 23 million dollars in annual revenues.

While certain legal issues have been raised in connection with cruise ship taxation, we believe this tax will stand up to any court challenge. A broad tax that captures many activities beyond cruise ships is more defensible than a narrow tax targeted at only cruising.

Alaska Department of Revenue –Tax Division

Table 1. State Sales Tax Rates

State	State Rate	Maximum Local Rate [1]	Maximum State/Local Rate [1]	State	State Rate	Maximum Local Rate [1]	Maximum State/Local Rate [1]
1. Alabama	4.00%	7.00%	11.00%	24. Nebraska	5.50%	1.50%	7.00%
2. Arizona	5.60%	4.50%	10.10%	25. Nevada	6.50%	1.00%	7.50%
3. Arkansas	5.13%	5.50%	10.63%	26. New Jersey	6.00%	N/A	6.00%
4. California*	6.00%	2.75%	8.75%	27. New Mexico	5.00%	2.25%	7.25%
5. Colorado	2.90%	7.00%	9.90%	28. New York	4.25%	4.50%	8.75%
6. Connecticut	6.00%	N/A	6.00%	29. North Carolina	4.50%	3.00%	7.50%
7. Florida	6.00%	1.50%	7.50%	30. North Dakota	5.00%	2.50%	7.50%
8. Georgia	4.00%	3.00%	7.00%	31. Ohio	6.00%	2.00%	8.00%
9. Hawaii	4.00%	N/A	4.00%	32. Oklahoma	4.50%	6.00%	10.50%
10. Idaho	6.00%	3.00%	9.00%	33. Pennsylvania	6.00%	1.00%	7.00%
11. Illinois	6.25%	3.00%	9.25%	34. Rhode Island	7.00%	N/A	7.00%
12. Indiana	6.00%	N/A	6.00%	35. South Carolina	5.00%	2.00%	7.00%
13. Iowa	5.00%	2.00%	7.00%	36. South Dakota	4.00%	2.00%	6.00%
14. Kansas	5.30%	3.00%	8.30%	37. Tennessee	7.00%	2.75%	9.75%
15. Kentucky	6.00%	N/A	6.00%	38. Texas	6.25%	2.00%	8.25%
16. Louisiana	4.00%	6.25%	10.25%	39. Utah	4.75%	2.25%	7.00%
17. Maine	5.00%	N/A	5.00%	40. Vermont	6.00%	1.00%	7.00%
18. Maryland	5.00%	N/A	5.00%	41. Virginia	3.50%	1.00%	4.50%
19. Massachusetts	5.00%	N/A	5.00%	42. Washington	6.50%	2.40%	8.90%
20. Michigan	6.00%	N/A	6.00%	43. West Virginia	6.00%	N/A	6.00%
21. Minnesota	6.50%	1.00%	7.50%	44. Wisconsin	5.00%	1.00%	6.00%
22. Mississippi	7.00%	0.25%	7.25%	45. Wyoming	4.00%	2.00%	6.00%
23. Missouri	4.23%	4.50%	8.73%				

[1] Highest local rate known to be actually levied by at least one jurisdiction. Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.
Source: The Federation of Tax Administrators -- January 2004

Alaska Department of Revenue -Tax Division

Table 1a. Statewide Sales Tax Rates on Accommodations

State	State Rate	State	State Rate
1. Alabama*	4.00%	25. Nebraska*	6.50%
2. Arizona*	5.50%	26. Nevada*	1.00%
3. Arkansas*	7.13%	27. New Hampshire*	8.00%
4. Colorado	2.90%	28. New Jersey	6.00%
5. Connecticut*	12.00%	29. New Mexico	5.00%
6. Delaware*	8.00%	30. New York	4.25%
7. Florida	6.00%	31. North Carolina	4.50%
8. Georgia	4.00%	32. North Dakota	5.00%
9. Hawaii*	7.25%	33. Ohio	6.00%
10. Idaho*	8.00%	34. Oklahoma	4.50%
11. Illinois*	6.00%	35. Oregon*	1.00%
12. Indiana	6.00%	36. Pennsylvania	6.00%
13. Iowa	5.00%	37. Rhode Island*	12.00%
14. Kansas	5.30%	38. South Carolina	5.00%
15. Kentucky	6.00%	39. South Dakota*	5.00%
16. Louisiana	4.00%	40. Tennessee	7.00%
17. Maine*	7.00%	41. Texas*	6.00%
18. Maryland	5.00%	42. Utah	4.75%
19. Massachusetts	5.00%	43. Vermont*	9.00%
20. Michigan	6.00%	44. Virginia	3.50%
21. Minnesota	6.50%	45. Washington	6.50%
22. Mississippi	7.00%	46. West Virginia	6.00%
23. Missouri	4.23%	47. Wisconsin	5.00%
24. Montana*	7.00%	48. Wyoming	4.00%

* These states have a separate accommodations tax that either applies in addition to or instead of the sales tax rate. The listed rate is the total statewide tax on accommodations.

Sources: Statewide sales tax rates from the Federation of Tax Administrators -- January 2004. Statewide accommodations tax rates from sources shown on Table 2.

Alaska Department of Revenue -Tax Division

Table 2. Statewide Transient Accommodations Tax Rates

State	Lodging Taxes (%)		Sales Taxes (%)		Sales Tax Applies		Total (%)
	Statewide	Local Highest	Statewide	Local Highest	Statewide Lodging	Local Lodging	Lodging Highest
Alabama ¹	4	7	4	6	no	no	11
Arizona ²	5.5	6.57	5.6	3	no	no	12.07
Arkansas ³	2	none	5.13	3	yes	yes	10.13
Connecticut ⁴	12	none	6	none	no	n/a	12
Delaware ⁵	8	2	none	none	n/a	n/a	10
Hawaii ⁶	7.25	none	4	none	yes	n/a	11.25
Idaho ⁷	2	4	6	3	yes	no	12
Illinois ⁸	6	8.5	6.25	3	no	no	14.5
Maine ⁹	7	none	5	none	no	no	7
Montana ¹⁰	7	3	none	none	n/a	n/a	10
Nebraska ¹¹	1	4	5.5	1.5	yes	yes	12
Nevada ¹²	1	11	6.5	1.0	no	no	12
New Hampshire ¹³	8	2	none	none	n/a	n/a	10
Oregon ¹⁴	1	12.45	none	none	n/a	n/a	13.45
Rhode Island ¹⁵	5	none	7	none	yes	n/a	12
South Dakota ¹⁶	1	3	4	2	yes	no	8
Texas ¹⁷	6	11	6.25	2	no	no	17
Vermont ¹⁸	9	1	5	1	no	no	10

¹ Alabama Department of Revenue (334.242.1380). Maximum county lodging tax rates of 5% in the Mountain Lakes Area and maximum city lodging rate of 2%.

² The Arizona Department of Revenue (602.716.6927). The local rate used here is for Phoenix (county 4.8% and city 1.77%) Statewide and local sales taxes do not apply.

³ Arkansas Department of Finance and Administration (504.682.7140). Local and statewide sales tax applies to lodging and there is an additional 2% "tourism tax" that applies to "tourist attractions, rent accommodations of less than a month, watercraft rental, boat motors and related marine equipment, life jackets and cushions, water skis, and oars and paddles."

⁴ The Connecticut Department of Revenue Services (860.266.6829). Statewide sales tax does not apply.

⁵ Delaware Department of Finance Division of Revenue (302.577.8455). Maximum city tax rate of 2%.

⁶ Hawaii Department of Taxation (808.587.1440). Statewide sales tax rate does apply to lodging.

⁷ Idaho Tax Commission (208.972.7660). Accommodations are subject to the 6 percent state sales tax plus a 2% statewide Travel and Convention Tax. Additionally, in Boise there is a 4% Auditorium District Tax.

⁸ Illinois Department of Revenue (312.814.5232). Lodging tax rate of 6% on 94% of gross receipts, plus in Chicago there is a 2.5% Metropolitan Pier and Exposition Authority Tax, a 4% city tax and a 2% Sports Facilities Authority Tax.

⁹ Maine Revenue Service - Sales, Fuel and Special Tax Division (207.624.9693). Maine has a higher sales tax on hotels (7%), liquor (7%), prepared food (7%) and vehicle rentals (10%) then it does on other tangible personal property (5%).

¹⁰ Montana Department of Revenue (406.444.2031). Montana has a 4% statewide lodging facility use tax, and a local resort tax with a maximum rate of 3%. In addition, there is a statewide 3% sales tax that was enacted by the 2003 legislature on rental vehicles and accommodations.

¹¹ Nebraska Department of Revenue (402.471.5729). Nebraska has a 1% statewide lodging tax, a 2% maximum local lodging county tax if the population is less than 300,000 and 4% for larger counties. The statewide and local sales taxes do apply.

¹² Nevada Legislative Council Bureau (Russell Guindon, 775.684.6821). Nevada has a 1% statewide accommodations tax and county taxes that range from 5% to 11%.

¹³ New Hampshire Department of Revenue Administration (603.271.6121). New Hampshire has a statewide 8% tax on lodging with a maximum tax rate of 2% for local lodging taxes.

¹⁴ Oregon Department of Revenue (503.945.8113). The highest local lodging tax is in Troutdale (city 6.95% and county 5.5%).

¹⁵ Rhode Island Division of Taxation (401.222.2950). The statewide hotel tax of 5% is in addition to the 7% statewide sales tax.

¹⁶ South Dakota Department of Revenue and Regulation (605.773.3311). South Dakota has a 1% "Tourism Tax" on hotels and lodging establishments, campgrounds, recreational equipment rentals, recreational services, spectator events, visitor attractions and visitor intensive businesses. With the exception of visitor-intensive businesses (June-September), the tax applies for the full year. In addition, the 4% statewide sales tax and local bed tax on lodging of 3% do apply.

¹⁷ Texas State Comptroller's Office (512.936.6269). Apparently, Houston has the highest local rate with 6% statewide, 7% city, 2% county and 2% special district taxes. Statewide and local sales taxes do not apply.

¹⁸ Vermont Department of Taxes (802.828.2551). Vermont has a 9% tax on "rooms" with a local option "rooms" tax of 1%. Statewide and local sales taxes do not apply.

Alaska Department of Revenue –Tax Division

Table 3. Cruise Ship Port Fees in Selected U.S. Ports

City/Port	Passenger Fees	Selected Port Fees	
		Docking	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	\$6.20/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; \$226-\$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/arbor, 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	
Port of Houston	\$4/passenger for embark/disembark	\$5.60-\$10.62/foot based on LOA	harbor fee \$385/visit, wharf cleaning fee \$207/visit, line handling done by others
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)	

Alaska Department of Revenue -Tax Division

Table 4. 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, 2 nd 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. Marten	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

Alaska Department of Revenue –Tax Division

Table 5. 2003 Municipal Sales Tax Rates and Revenues		
Municipality	Sales Tax	Revenues
1. Adak	3%	\$570,978
2. Aleknagik	5%	\$106,606
3. Ambler	3%	\$20,600
4. Angoon	3%	\$100,471
5. Aniak	2%	\$48,847
6. Bethel	5%	\$4,603,797
7. Brevig Mission	3%	\$29,146
8. Buckland	2%	\$24,231
9. Chefnak	2%	\$5,840
10. Chevak	3%	\$83,738
11. Clarks Point	5%	\$5,895
12. Cordova	6%	\$2,124,800
13. Craig	5%	\$1,231,647
14. Deering	3%	\$10,128
15. Dillingham	6%	\$1,838,724
16. Diomede	3%	\$13,198
17. Eek	2%	\$21,400
18. Elim	2%	\$37,073
19. Emmonak	3%	\$122,902
20. False Pass	2%	\$82,598
21. Fort Yukon	3%	\$99,279
22. Galena	3%	\$150,000
23. Gambell	3%	\$65,989
24. Haines Borough	5.5%	\$1,899,249
25. Homer	3.50%	\$3,978,578
26. Hoonah	5%	\$374,101
27. Hooper Bay	4%	\$160,299
28. Hydaburg	4%	\$11,273
29. Juneau, City & Borough of	5%	\$29,739,796
30. Kake	5%	\$142,142
31. Kenai	3%	\$3,953,561
32. Kenai Peninsula Borough	2%	\$14,370,582
33. Ketchikan	3.5%	\$7,364,065
34. Ketchikan Gateway Borough	2%	\$4,832,084
35. Kiana	2%	\$24,937
36. King Cove	3%	\$926,188
37. Kivalina	2%	\$19,184
38. Klawock	5.5%	\$457,237
39. Kodiak	6%	\$7,003,452
40. Kotlik	3%	\$80,658
41. Kotzebue	6%	\$2,405,615
42. Koyuk	2%	\$28,948
43. Kwethluk	5%	\$91,607
44. Larsen Bay	3%	\$6,317
45. Manokotak	2%	\$24,807
46. Marshall	4%	\$52,845
47. Mekoryuk	2%	\$7,616
48. Mountain Village	3%	\$82,776

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Table 5 (continued). 2003 Municipal Sales Tax Rates and Revenues		
Municipality	Sales Tax	Revenues
49. Napakiak	2%	\$26,779
50. Nenana	4%	\$127,480
51. Newhalen	2%	NR
52. Nightmute	2%	\$9,687
53. Nome	4%	\$2,621,576
54. Nondalton	3%	\$692
55. Noorvik	3%	\$106,979
56. North Pole	3%	\$1,336,630
57. Nunam Iqua (Sheldon Point)	2%	\$4,185
58. Nunapitchuk	3%	\$38,238
59. Ouzinkie	3%	\$8,134
60. Palmer	3%	\$2,914,417
61. Pelican	4%	\$46,570
62. Petersburg	6%	\$2,312,188
63. Pilot Station	4%	\$78,166
64. Port Alexander	4%	\$13,475
65. Quinhagak	3%	\$70,150
66. St. Mary's	3%	\$106,347
67. St. Michael	4%	\$85,092
68. Saint Paul	3%	\$294,629
69. Sand Point	3%	\$338,881
70. Savoonga	3%	\$34,789
71. Saxman	3.50%	\$92,811
72. Scammon Bay	2%	\$26,700
73. Selawik	3%	\$74,991
74. Seldovia	2%/4.5%	\$116,133
75. Seward	3%	\$2,165,586
76. Shaktoolik	2%	\$30,000
77. Shishmaref	2%	NR
78. Shungnak	2%	\$16,910
79. Sitka, City & Borough of	5%	\$7,119,114
80. Skagway	4%	\$2,531,977
81. Soldotna	3%	\$5,232,283
82. Stebbins	3%	\$55,504
83. Tanana	2%	\$19,628
84. Teller	3%	\$18,523
85. Tenakee Springs	1%	\$6,612
86. Thorne Bay	5%	\$79,252
87. Togiak	2%	\$58,000
88. Toksook Bay	2%	\$22,365
89. Unalakleet	5%	\$253,717
90. Unalaska	3%	\$5,906,859
91. Wasilla	2%	\$6,497,070
92. White Mountain	1%	\$7,390
93. Whittier	3%	\$117,418
94. Wrangell	7%	\$1,761,568
95. Yakutat, City & Borough of	4%	\$588,561
TOTAL SALES TAX REPORTED		\$ 132,839,856
Source -- 2003 Alaska Taxable		

Alaska Department of Revenue - Tax Division

Table 6. Municipal and Alaska Ferry Transient Accommodations

Municipality	Rate (%)	Revenue (\$)	Tax Base (\$)	Tax Base (%)
1. Aleknagik*	5	6,574	131,480	0.0%
2. Angoon*	3	9,244	308,133	0.1%
3. Aniak	2	1,254	62,700	0.0%
4. Atka	10	3,957	39,570	0.0%
5. Bethel	3	77,250	2,575,000	0.9%
6. Bristol Bay Borough	10	57,244	572,440	0.2%
7. Cold Bay	8	16,536	206,700	0.1%
8. Cordova	6	54,418	906,967	0.3%
9. Denali Borough	7	1,233,331	17,619,014	6.1%
10. Dillingham	10	39,162	391,620	0.1%
11. Fairbanks	8	1,821,459	22,768,238	7.9%
12. Fairbanks North Star Bor.	8	1,305,822	16,322,775	5.6%
13. Haines Borough	4	101,683	2,542,075	0.9%
14. Juneau, City & Borough	7	940,000	13,428,571	4.6%
Kenai Peninsula Borough**	**	**	17,562,950**	6.1%
15. Ketchikan	6	273,338	4,555,633	1.6%
16. Ketchikan Gateway Bor.	4	32,771	819,275	0.3%
17. Klawock	6	29,196	486,600	0.2%
18. Kodiak	5	101,795	2,035,900	0.7%
19. Kodiak Island Borough	5	30,412	608,240	0.2%
20. Kotzebue	6	46,212	770,200	0.3%
21. Lake & Peninsula Bor.	6	117,639	1,960,650	0.7%
22. Matanuska-Susitna Bor.	5	676,780	13,535,600	4.7%
23. Municipality of Anchorage	8	11,007,248	137,590,600	47.5%
24. Nome	4	88,988	2,224,700	0.8%
25. Pelican	10	3,872	38,720	0.0%
26. Petersburg	4	33,077	826,925	0.3%
27. Port Alexander	6	1,688	28,133	0.0%
28. Port Lions	5	3,409	68,180	0.0%
29. Sand Point	7	3,194	45,629	0.0%
30. Seward	4	217,482	5,437,050	1.9%
31. Sitka, City & Borough	6	311,892	5,198,200	1.8%
32. Skagway	8	91,782	1,147,275	0.4%
33. Tenakee Springs	6	1,981	33,017	0.0%
34. Unalakleet	5	5,395	107,900	0.0%
35. Unalaska	5	125,792	2,515,840	0.9%
36. Valdez	6	256,803	4,280,050	1.5%
37. Wrangell***	***	***	***	***
38. Yakutat, City & Borough***	***	***	***	***
Alaska Ferries	N/A	N/A	4,695,000	1.6%
TOTAL BED TAX REPORTED		\$19,128,680	\$289,884,600	

*Used 2002 Alaska Taxable document for these two communities.

**Estimate of the bed tax base for the Kenai Peninsula Borough from Troy Tankersley (KPB, 2003) of \$23,000,000. KPB has a sales tax on accommodations. The KPB tax base is reduced by the Seward tax base to avoid double counting, since Seward has a separate accommodations tax.

***Wrangell is not included because it has a per night tax of \$4 and for Yakutat bed taxes were not separately reported.

Source: 2003 Alaska Taxable, the Kenai Peninsula Borough and the State Department of Transportation and Public Facilities.

Alaska Department of Revenue –Tax Division

Table 6a. Combined Sales and Bed Tax Rates

Municipality	Sales Tax	Bed Tax	Combined Rate
1. Aleknagik	5.0%	5.0%	10.0%
2. Angoon	3.0%	3.0%	6.0%
3. Aniak	2.0%	2.0%	4.0%
4. Bethel	5.0%	3.0%	8.0%
5. Cordova ¹	6.0%	6.0%	12.0%
6. Dillingham ²	6.0%	10.0%	10.0%
7. Haines Borough	5.5%	4.0%	10.0%
8. Juneau, City & Borough of ³	5.0%	7.0%	12.0%
9. Ketchikan	3.5%	6.0%	9.5%
10. Ketchikan Gateway Borough	2.0%	4.0%	6.0%
11. Klawock	5.5%	6.0%	11.5%
12. Kodiak	6.0%	5.0%	11.0%
13. Kotzebue ⁴	6.0%	6.0%	12.0%
14. Nome	4.0%	4.0%	8.0%
15. Pelican ⁵	4.0%	6.0%	10.0%
16. Petersburg	6.0%	4.0%	10.0%
17. Port Alexander	4.0%	6.0%	10.0%
18. Sand Point	3.0%	7.0%	10.0%
19. Seward	3.0%	4.0%	7.0%
20. Sitka, City & Borough of	5.0%	6.0%	11.0%
21. Skagway ⁶	4.0%	4.0%	8.0%
22. Tenakee Springs	1.0%	6.0%	7.0%
23. Unalakleet	5.0%	5.0%	10.0%
24. Unalaska	3.0%	5.0%	8.0%
25. Wrangell	7.0%	\$4/per night	**
26. Yakutat, City & Borough of	4.0%	4.0%	8.0%

** Combined rate for Wrangell unavailable because bed tax rate is a flat tax of \$4 per night.

¹Cordova's sales tax rate applies to lodging. Confirmed by telephone call to the city of Cordova (424-6200).

²In Dillingham the sales tax does not apply to lodging. Confirmed by telephone call to the city of Dillingham (842-5211).

³Juneau's sales tax rate applies to lodging. Confirmed by telephone call to the city of Juneau (Joan, 586-0362).

⁴Kotzebue's sales tax rate applies to lodging. Confirmed by telephone call to the city of Kotzebue (442-3401).

⁵According to both Betty and Carol at the city of Pelican, the bed tax is 6 percent and the sales tax is 4 percent for a combined rate of 10 percent. Alaska Taxable shows a bed tax rate of 10 percent and sales tax rate of 4 percent.

⁶Skagway's sales tax rate applies to lodging but total tax is 8 percent. Confirmed by telephone call to the city of Skagway (983-2854).

Caution: The source of the data is the 2003 Alaska Taxable document. Only those municipal codes with the highest combined sales tax and bed tax rates were checked (see footnotes).

Alaska Department of Revenue –Tax Division

Table 7. Cruise Ship Port Fees in Major Alaska Ports

City/Port	Cruise Ship		Selected Port Fees	
	Passenger Fees	Docking	Lightering	Other
Dutch Harbor		\$150-\$3,000 for vessels under 800'. \$3,000 + \$3.75/foot for each foot over 800') rates for 12-hour period		3% tax on shore tours
Haines		\$0.60 to \$2.40/foot length over all (LOA) plus surcharge of \$0.15- \$0.60/foot	\$250/day	\$100/day for passenger accommodation ladder and 4% tax on shore tours
Juneau (City)	\$5	\$0.70-\$2.56/foot	\$374/24-hour period	\$25/hour for transfer bridge, \$0.23/net ton for port dues
Ketchikan (City)	\$4 docked passenger and \$2 lightered passenger	\$0.31-\$2.42/foot/day, depends on LOA and number of days	\$280	\$1.60-\$2.70/foot LOA for port development fee, \$30- \$125 for a monthly port access pass for vehicles
Seward (ARRC)	\$4.30 "service & facility charges"	\$1.30-\$3.50/foot, \$50 minimum	\$450/day	
Sitka		\$500/ship/day for use of lightering dock		
Skagway (City)		\$1 per passenger, \$125 minimum		
Skagway (White Pass)	\$6.40	\$250/day for vessels under 300'. \$500 for vessels 301'-400', and \$2.10/foot for vessels over 401'		
Valdez			\$100-\$2,568, depending on LOA	
Whittier (ARRC)	\$4.30 "service & facility charges"	\$1.30-\$3.50/foot, \$50 minimum	\$450/day	
Wrangell		\$0.75-\$1.50/foot		7% city sales tax on all fees

Source: Legislative Research Report 00.072, February 5, 2002, Page 10. Passenger fee data updated (2004) by Department of Revenue.

Notes and Sources: "Docking and lightering rates for 24-hour period, except as noted.

Dutch Harbor- Port of Dutch Harbor Terminal Tariff, Section 2, Items 225 & 272, and Jim Severns, Director, Port of Dutch Harbor.

Haines- Dave Gross, Harbormaster.

Juneau- Joe Graham, Port Director. Table shows Juneau's 2001 fees which expired on December 31, 2001 and are being renegotiated.

Ketchikan- Ketchikan Municipal Code, Section 12.08.100-110.

Seward- Dock tariff, Alaska Railroad Corporation (ARRC), Items 80, 180, 230, and Karen Morrissey, Director of Real Estate. The Seward dock is owned by the ARRC, and fees (including passenger fees) are established by and paid to the corporation.

Skagway- Lizzie Carlson, Assistant Clerk, City of Skagway, 907.938.2854, and Curt Dodd, Chief Financial Officer, White Pass & Yukon Railroad, 907.983.2214. The City of Skagway owns 1/3 of the Alaska Marine Highway dock and charges cruise ships for docking there. Most ships dock at the dock owned by the White Pass & Yukon Railroad, and the railroad sets the fees.

Valdez- Valdez port rates, Rule 3, Items 300-310, website <http://www.glenrate.com/valdez/t0000020.htm> (accessed January 23, 2002).

Whittier- Karen Morrissey, Director of Real Estate, January 24, 2002. The dock is owned by the ARRC and, according to the corporation, cruise ships have not docked in Whittier since the early 1990s when the City implemented a passenger fee in addition to the fee imposed by the ARRC.

Wrangell- Carol Rushmore, Economic Development Director, City of Wrangell.



Holland America Line, Inc.

Government and Community Relations

Via Fax

April 1, 2004

Representative Mike Hawker
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Dear Representative Hawker:

I am writing you as a follow-up to the testimony I presented to the House Ways and Means Committee yesterday regarding HB 537. I appreciate the opportunity to testify and to provide this written information.

The short version of what I am going to say here is that this tax will negatively affect the growth of tourism in Alaska, reduce spending at Alaska businesses, and is structured in a way that leaves a number of unanswered questions for those of us in the cruise industry and in other sectors of the tourism industry.

I will divide my comments into four sections: Governor Murkowski's transmittal letter, the packet of information the committee had available to it yesterday morning, some general comments relating to the bill itself, and the potential negative impacts of the bill on the cruise industry.

Governor Murkowski's Transmittal Letter

There are three items in the Governor's transmittal letter that I would like to bring to your attention. The first item is the revenue projections contained in the first paragraph. Those projections indicate revenues of \$19 million in FY 2005 and \$49 million annually thereafter.

I noticed that, although the Department of Revenue provided a number of pieces of information to the committee, they did not provide the calculations for their revenue projections. This bill is fairly complicated, particularly when it comes to the cruise industry, and, therefore, without seeing the basis for the department's projections, it is impossible for us to determine the accuracy of those projections. I hope that the committee and the tourism industry will have an opportunity to review and comment on those calculations before action is taken on the legislation.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

The next issue in the Governor's letter is the assertion that there are \$116 million of costs for state government "potentially" attributable to the cruise industry "some of which is currently offset by other 'user-pay' revenues." Such language would lead one to believe that the cruise industry drain on the general fund budget is substantial.

I do note that the list of costs was not made available to the committee, although the Governor's Office did provide the list to Rep. Gatto, and he used it while testifying in support of his bill to impose a \$100 per person head tax on cruise ship passengers.

In my view, the list of costs can best be described as being somewhere between fantasy and fabrication. Some of the services listed we or our passengers already pay for, such as the Alaska Railroad, where we are one of the railroads largest customers, or sport fish management, where our passengers purchase non-resident licenses. In other instances, such as the Anchorage and Fairbanks airports (which don't receive general fund money), our passengers provide a benefit to the state because of passenger and landing fees. Most of the large dollar items on the list such as those for the airports and railroad are capital items and therefore would be amortized over a number of years, if we weren't already paying for them, which we are.

Some items such as the St. Paul harbor have nothing to do with the cruise ship industry.

Therefore, I would advise the committee to ignore the suggestion that the cruise industry is responsible for \$116 million of state government costs.

The third and last item in the Governor's letter that I would like to call to your attention to is the statement at the bottom of the first page, which says "...without appreciably affecting the growth of the Alaska cruise ship industry." Inherent in this statement is the concept that there will be a negative impact on the cruise ship industry. I don't know how the Governor's Office defines "appreciably", but it really doesn't matter. Both they and we in the industry recognize that there will be a negative impact. We believe the impact could be substantial. I don't believe that the legislature should be supporting legislation that will reverse the growth of one of the few bright spots in the Alaska economy.

House and Ways Committee Information Packet

There are several issues relating to the information packet that I would like to discuss. The first is that, although the Department of Revenue has provided several pages of information on taxes that are collected in other jurisdictions, none of those taxing jurisdictions has a tax on cruise ship accommodations similar to the one being proposed by the department.

On page 6 of the packet the department has listed taxes and fees collected on the cruise industry in other states. It should be recognized that none of these taxes are of a statewide nature or are collected for deposit into a state's general fund. The fees are collected by local governments and port authorities and used to provide services to the cruise industry. This system is in keeping with requirements of the United States Constitution and federal law,

which restrict the use of taxes on the cruise industry to the provision of services to the industry.

I would next like to comment on page 7 of the packet, which lists taxes and fees collected by taxing jurisdictions outside the United States. First, it is important to note that these countries have different constitutions than the United States, and therefore the restriction cited in the paragraph above may not apply.

More importantly, if you look at the amounts being charged at these foreign ports, other than Bermuda, the taxes and fees are quite comparable to those charged at Alaska ports (see page 12 of the packet). In addition, a number of those ports offer incentives to the cruise lines. These incentives reduce the tax burden if the lines exceed bringing a certain number of passengers to these destinations, a regime obviously design to grow the cruise business. HB 537 provides no such incentive.

On page 12 of the packet there is a listing of fees and taxes the cruise industry pays in local communities in Alaska. There are several things worthy of note about this page, the most important of which is the cruise industry does pay for the services we receive locally. The state provides none of these services.

In addition, this page does not recognize the substantial impact out passengers have on local sales tax revenues. However, a review of sales tax revenues by quarter in these communities will show the contributions our industry is making to the general funds of these communities.

Also missing is any analysis of the property taxes that the industry pays for what we own (hotels, commercial buildings, buses, train cars) or the property owned by businesses, which serve us and/or our passengers. We also account for a substantial amount of the bed taxes collected in Anchorage, the Mat-Su Borough, the Denali Borough and Fairbanks.

The Bill (HB 537)

The bill itself is confusing. We have a number of questions about it. These questions include the following:

1. Sec. 43.51.010 levies a tax on the sale of "tourism services." Why are there references elsewhere in the bill to "goods?" See, for example, page 2, line 19; page 2, line 21, and page 5, line 24.
2. How will a provider of services collect the use tax where the sale took place outside of Alaska, probably by a travel agent?
3. Where the sale was for a single service, how would the provider know precisely how much the travel agent charged the customer/user?
4. If items are "bundled" (page 5, line 24) will airfare be taxed if it is part of a package, and, if so is that legal?
5. The tax is on the "total consideration" and includes "any fee, commission, or other consideration derived by the seller" (page 5, lines 10-13). How is the

- provider of the service going to know how much the travel agent charged?
Assuming an out of state sale, on what basis can Alaska tax the commission of a travel agent working outside of Alaska?
6. Where the sale was a package tour, how will an individual provider know how much of the total package price was for his or her particular segment of the package?
 7. Where the sale was a package tour, how will the individual provider know whether the sales tax has already been paid – perhaps by an in-state travel agent?
 8. Sec. 43.51.020 requires that the tax be “stated as a separate item on the invoice or other receipt issued by the . . . commercial provider.” (Page 2, lines 2-3.) Where the service was purchased through a travel agent, the provider of the service normally does not issue any sort of “invoice or other receipt” to the customers when they show up to take their tour. How is that supposed to work?
 9. Are there any other jurisdictions that impose sales and use taxes on the cruise industry similar to the one proposed in this legislation?
 10. How do we collect the tax when passengers purchase their ticket so that they don’t get an “Alaskan surprise” by being charged the tax on their shipboard account, a practice which would damage both our credibility with our customers and Alaska’s image as a friendly place to visit?
 11. On page 2, lines 14-18, the bill proposes a method of allocating the tax based on the proportion of “days” a cruise ship is in “Alaska”. This section raises several questions. What is a day? What happens when a ship is in Alaska for part of a day and Canada for part of a day? What is “Alaska” – Alaska waters? An Alaskan port?

These questions are not meant to be all-inclusive, as we have not had enough time to thoroughly analyze the bill. However they should be answered before the bill moves forward.

Impacts on the Cruise Industry

The cruise industry has been one of the few bright spots in the Alaska economy over the past decade. We have shown slow but steady growth in the number of people we bring to Alaska over that period.

However, there are storm clouds on the horizon. Alaska’s market share has been in an overall decline since 1996. Summer destinations in direct conflict with Alaska include the Caribbean, Mexico, Hawaii, Eastern Canada and even Europe. Because there are now homeports all along the eastern seaboard and along the coast of the Gulf of Mexico, more Americans than ever can drive to a cruise, but very few can drive to an Alaskan cruise, which is one of the reasons that Alaska is a high priced destination.

Another potential problem is that Americans are taking more but shorter vacations. The extensive use of the Internet has made our customers much more price conscious. Also more families are cruising these days.

All of these trends pose problems for Alaska, the highest priced cruise venue in North America. A tax that would amount to \$150 or more for a family will exacerbate this situation.

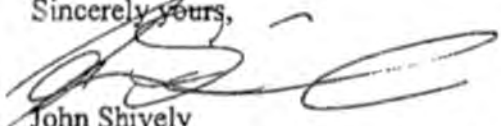
Also, because of the way this tax is structured, it will encourage the use of Canadian ports such as Prince Rupert as a substitute of some of the Alaskan ports.

Clearly the cruise industry will not go away if HB 537 is adopted. However, the growth the industry has experienced over the past decade will be decreased or reversed. In addition, people will be spending money on taxes that they could be spending to help grow jobs in the Alaska economy.

I do recognize that our state has fiscal challenges that need to be addressed. However, I am opposed to addressing them by instituting a tax that targets one sector of the economy, especially since the tax does little to solve the fiscal problems Alaska faces. Therefore I urge you to reject HB 537.

Thank you for your consideration.

Sincerely yours,



John Shively

Vice President - Government and Community Relations



Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-4431 • Fax: (907) 343-4499 <http://www.muni.org>

Mayor Mark Begich

Office of the Mayor

March 19, 2004

The Honorable Mike Hawker
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Representative Hawker:

I write to register my strong opposition to House Bill 537, introduced yesterday by Gov. Frank Murkowski, which would impose a 5 percent statewide "tourism tax" on various visitor activities, including hotel and motel stays.

I commend the efforts of the Alaska Legislature and governor to come to grips with the budget gap facing all Alaskans. Residents of Anchorage have stepped forward to address the city's \$33 million budget gap through increased fees and reduced services, and without requesting a reinstatement of state Municipal Assistance and Revenue Sharing. Likewise, we are willing to do our part to help the state balance its books. However, this statewide tourism tax will cripple Anchorage's ability to expand its tourism industry and would effectively kill on-going efforts to build a new Alaska Convention and Civic Center in Anchorage.

As you know, a locally imposed hotel/motel tax is a key mechanism for communities to promote and expand their visitor industries. Currently Anchorage's 8 percent hotel/motel tax generates about \$11 million annually, half of which goes directly to the Anchorage Convention & Visitors Bureau to expand this vital industry which contributes \$152 million to Anchorage's economy annually. The other half of the bed tax pays for vital municipal services, such as roads, public safety and facilities maintenance.

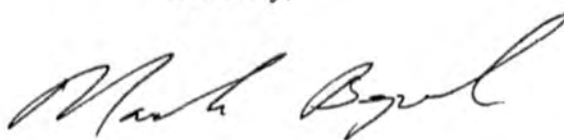
The Municipality recently issued a request for proposals to build a new Convention and Civic Center in Anchorage to be funded with an increase of approximately 4 percent in Anchorage's hotel/motel tax. Those proposals are due to the city Monday. The new center would create 700 new jobs and 800 construction jobs and generate 90,000 new room nights in our community. Without a new center, Anchorage is projected to lose an estimated \$37 million in economic impact between 2005 and 2007.

The governor's proposed statewide tourism tax would deny Anchorage and other communities across Alaska one of our few tools for economic development. It will cripple Anchorage's tourism industry by pricing our community beyond the reach of the average visitor. Today, Anchorage's 8 percent bed tax is low compared to the national average of 12.4 percent. But adding the governor's 5 percent tax to a 4 percent increase for a new convention center would mean the Anchorage bed tax would total 17 percent. This would serve as a serious disincentive for visitors to our community, and cripple our current convention sales effort. To keep Anchorage's bed tax at a competitive level with other destinations, it is unlikely Anchorage could move forward with the 4 percent needed to fund a larger center. The governor's 5 percent tax will kill the proposed new convention center and the related economic development it means for Anchorage.

Community, Security, Prosperity

TI urge you to explore other means for raising new revenues to fill the state's budget gap and to reject this ill-conceived statewide hotel/motel tax.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Begich". The signature is fluid and cursive, with the first name "Mark" and last name "Begich" clearly distinguishable.

Mark Begich
Mayor

CC: Governor Frank Murkowski
Anchorage Legislators



April 2, 2004

Dear Representative Hawker,

Thank you for affording me the opportunity to testify yesterday morning on HB537. Below is a copy of my testimony in full:

Name: Ron Peck
President of Alaska Travel Industry Association

Here to speak in opposition to HB537, because it is a targeted tax that will not benefit tourism or the state in the short or long run, and because **a 5% tourism sales tax is too high!** ATIA opposes this tax for the following reasons:

- None of the revenues will go to tourism marketing A substantial portion of any revenue derived from the visitor industry needs to be invested into tourism marketing so that our industry will grow and prosper.
- The 5% tourism tax is a targeted tax. ATIA has a long-standing position in opposition to targeted visitor industry taxes.
- A 5% tourism tax adds to the price tag for visiting Alaska. Potential travelers booking travel itineraries and/or tour packages will see a significant price increase for accommodations that might make them re-evaluate their decision to come to our state. Alaska is perceived by many as an expensive visitor destination.
- A 5% tourism tax will put many Alaska accommodation providers in the red. The primary visitor season in Alaska is short. The revenue earned during this period must carry many businesses through the entire year. Accommodation providers will see little or no return on capital. This, in turn, will discourage new tourism infrastructure development.

- Alaska visitor industry businesses will lose access to nationwide cooperative marketing programs. A 5% tourism tax will force many businesses to drop out of and/or to substantially reduce or eliminate their ability to participate in ATIA. Our association is the only organization in the state overseeing statewide tourism marketing.
- Alaska will be unable to compete with other visitor destinations. Most of Alaska's statewide tourism-marketing funding comes from the private sector. If Alaska's visitor industry businesses cannot afford to participate in these marketing programs, private sector revenues will drop, which, in turn, will reduce state matching funding. Alaska needs a more competitive marketing budget, not less.
- Alaska's visitor industry has a better solution. ATIA is working with our legislature and with a number of visitor industry organizations to create a tourism-marketing assessment. The financial impact of the assessment is considerably less than the 5% tourism tax and the proceeds of the assessment go back into tourism marketing!

March 28, 2004

Honorable Governor Frank Murkowski
State of Alaska
PO Box 110001
Juneau, AK 99811-0001

Dear Governor Murkowski:

In February 2004, the ATIA board of directors met in Juneau to discuss long-term funding and our proposed legislation. We also met with our state legislators at our annual industry fly-in to obtain support for the assessment from our elected leaders.

During the board meeting significant discussion took place to identify a context for supporting the assessment that addresses other significant concerns for your administration and all Alaskans. To that end, the ATIA board approved a motion to support

- (1) The Administration and Legislature's efforts to identify and implement a long-term fiscal plan for the state with continued focus on budget discipline; and
- (2) The appropriation of a portion of the earnings from the Permanent Fund to help support state services. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

ATIA, as the official statewide tourism-marketing arm for Alaska, carries a continuing obligation to its membership to promote their businesses and the industry. The assessment is the most likely means to fulfilling that mandate by making our state's tourism marketing efforts competitive with other major destinations.

The revenue generated from the assessment is significant for marketing purposes but falls short of closing the fiscal gap. It is our belief that implementing the POMV structure to the Permanent Fund, combined with sound budget discipline, will provide both you and the legislature with a meaningful way to address our state's current budget situation.

Sincerely,



Ron Peck
President & COO

RP:jf



M/V 'HERON'

Alaska Passages, Inc.

P.O. Box 213

Petersburg, Alaska 99833

(907) 772-3967

www.alaska.net/~akpassag/

voice & fax

Email: akpassag@alaska.net

March 29, 2004

Dear Chairman Hawker and Members of the House Ways and Means Committee;

I am dismayed to see the introduction of HB 537 this session. I am an owner of a small charter boat operation in Petersburg, and this bill could have devastating consequences for my business.

A five per cent tax on one of our weeklong trips for a family of six would be nearly \$950. Most of our trips are a week to ten days long. Without a cap on the amount of money taxed, this bill could put me out of business. I would ask that if this bill does go farther, you amend it to include a cap at \$50 at the most.

Here in Petersburg we pay a six percent sales tax on our trips, but the tax is capped at \$1200 so my clients are already paying \$72. Adding hundreds of dollars in taxes on top of this amount will mean our business will be unable to compete with the large cruise lines. Because of their high volume of passengers, the big cruise ships can offer discounted weeklong trips for less than what my clients would pay in taxes.

Even though the language of this bill seems directed at the cruise ship industry the big cruise ships would not be subject to this tax due to federal regulations on inter-state commerce. I think this places an undue burden of taxation on smaller Alaska businesses like mine.

Petersburg has been hit hard by the downturn in the salmon industry. Our town is starting to turn towards tourism and is encouraging independent travelers to visit Petersburg. This tax would knock small local tourism businesses to their knees by forcing them to charge taxes which would make coming to Petersburg more expensive than traveling on a big cruise ship.

I fully understand the serious nature of the budget deficit. I am not trying to dodge fiscal responsibility. My business pays corporate income tax here in Alaska, unlike the big cruise lines. I would also be willing to pay a personal income tax as well. If HB 537 goes through, I may not have an income to pay taxes on.

I ask you please to reconsider this kind of targeted tax. It would not just affect tourists. It would hurt Alaskans who own small tourism businesses and the communities we live in. It would turn more business over to the cruise ships that would not be subject to this tax.

Sincerely,
Julie Hursey
Alaska Passages Adventure Cruises

Subject: Testimony on HB 537

Date: Sun, 4 Apr 2004 14:42:10 -0800

From: Gary Mendivil <Gary_Mendivil@ci.juneau.ak.us>

To: "Representative_Mike_Hawker@legis.state.ak.us" <Representative_Mike_Hawker@legis.stat

"Representative_Bruce_Weyhrauch@legis.state.ak.us" <Representative_Bruce_Weyhrauch@

CC: "paulyn_swanson@legis.state.ak.us" <paulyn_swanson@legis.state.ak.us>

Representative Hawker, Representative Weyhrauch and members of the House Ways and Means Committee-

Thank you for the opportunity to testify on HB 537. My concern with HB537 has to do with the language in the definition section of the legislation. Some items may be open to interpretation due to the broad language used. Given the definitions included, "Guided activities" might be determined to include ski and snowboard lessons or school field trips to a ski area.

It appears that this issue can be remedied through the regulation process by the Department of Revenue. I am hoping that is the intent of the Department of Revenue.

Also, for the record it should be noted that while there is one destination ski area in Alaska, there are also at least six community ski areas and four ski areas located on military bases in the State of Alaska.

Gary Mendivil, Business Mgr.
Eaglecrest Ski Area
155 S. Seward St.
Juneau, AK 99801
907 586-5284 ph
907 586-5677 fax

www.skijuneau.com

Subject: HB537: Written testimony

Date: Thu, 01 Apr 2004 12:27:55 -0800

From: Lorene Palmer <lorene.palmer@traveljuneau.com>

To: paulyn_swanson@legis.state.ak.us

CC: 'Sharon Gaipman' <sharon_gaipman@dot.state.ak.us>, 'Bea Findlay' <bcoastal@gci.net>, 'Betsy Fischer' <foggytn@alaska.net>, 'Bill Hagevig' <bhagevig@princesscruises.com>, 'Diane Pearson' <book@pearsonspend.com>, 'Diane Pearson' <diane@pearsonspend.com>, 'Gerd Krause' <wmbnf-gm@hollandamerica.com>, 'Gwen Rivas' <grivas@alaskapacificbank.com>, 'Jeff Keys' <atajeff@gci.net>, 'Joanne Wiita' <joanne.wiita@Goldbelt.com>, 'Kim Kiefer' <kim_kiefer@ci.juneau.ak.us>, 'Marsha Squires' <marsha.squires@uas.alaska.edu>, 'Pete Carlson' <pcarlson@alaska.net>, 'Rick Kasnick' <rkasnick@gci.net>, 'Sen. Kim Elton' <Senator_Kim_Elton@legis.state.ak.us>, 'Rep. Beth Kertula' <Representative_Beth_Kerttula@legis.state.ak.us>, 'Rep. Bruce Weyhrauch' <Representative_Bruce_Weyhrauch@legis.state.ak.us>

Dear Representative Hawker and Committee Members:

Thank you for the opportunity to testify at the March 31 hearing on HB537. On behalf of the Juneau Convention & Visitors Bureau's board of directors and 275 members, I'm submitting comments in opposition to the proposed 5% tourism tax.

The tourism tax will be an additional burden on an industry that already pays its way locally and statewide through numerous taxes, fees, licenses and special permits. Beside the negative impact this tax would have on the tourism side of the industry, it will also impact all other travelers including Alaska residents, visiting friends and relatives, business travelers, and those traveling to Alaska for conventions and meetings.

The convention and meeting market is very important to Juneau. The economic impact associated with meetings and conventions is worth millions of "new" dollars and helps to diversify our local economy.

We request that the House Ways and Means Committee take the following points into consideration:

1. Juneau has a city sales tax of 5% and bed tax of 7% for a total check-out rate of

12%. The proposed 5% tourism tax will push Juneau to 17% and put us among the highest tax rates in the nation. Knoxville, Tenn. was recently sited as the highest among 30 top cities at 17.25%. A statewide sales tax pushed them into that range and they believe it has cost them business, particularly in the convention and meeting sector. The average check-out tax rate for North America is 10.5%, with top tier cities averaging between 12-14% (Source: Int'l Association of Convention & Visitors Bureaus).

2. Like many communities across the state, bed tax is a revenue source to fund a number of visitor related programs. In Juneau, the bed tax is used to fund Centennial Hall convention center operations and the Juneau Convention & Visitors Bureau. The additional 5% tax will eliminate any opportunity for us to raise our local rate. We need the flexibility to raise revenue in order to meet our local needs. Both Centennial Hall and the Bureau are facing a \$200,000 decrease in bed tax for FY05, further illustrating the need to have the ability to raise revenue locally.

3. HB537 will negatively impact our efforts to attract out-of-state conventions and meetings. Meeting planners for national associations look for destinations that are appealing to their members at a price that will encourage participation and make a profit. The stiff competition between destinations has created a 'buyer's' market for meeting planners. Communities go to great lengths to make their destination cost effective in order to attract convention business; a 17% tax on room costs for attendees will deter many meeting planners from considering Juneau as a meeting destination.

The consequence of the proposed tourism tax will be to inhibit the prosperity of our communities and businesses and it will leave a bad taste in the traveler's memory, whether they are here for business or pleasure.

We fully appreciate the difficult fiscal situation Alaska faces and the difficult task before you. We respectfully request that Alaska's guests not be asked to contribute further to solving our fiscal problems.

Lorene Palmer

President/CEO

Juneau Convention & Visitors Bureau

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Subject: [Fwd: SB 537 Testimony - Dot Wilson]
Date: Thu, 01 Apr 2004 05:55:41 -0900
From: Mike Hawker <Representative_Mike_Hawker@Legis.state.ak.us>
Organization: Alaska State Legislature
To: Pauly Swanson <Pauly Swanson@legis.state.ak.us>

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

Subject: SB 537 Testimony - Dot Wilson
Date: Wed, 31 Mar 2004 16:13:38 -0900
From: Dot Wilson <dotw@gsi.net>
To: Representative_Mike_Hawker@legis.state.ak.us

To: House Ways & Means Committee

March 31, 2004

Re: HB 537 – An Act Related to the Levy, Collection and Administration of Sales and Use Taxes on Tourism Services; and Providing for an Effective Date.

Thank you for the opportunity to express my opposition to HB 537. This bill effectively "punishes" the tourism industry for bringing people and dollars into the State and sharing our beautiful State with the rest of the world.

My husband and I own Coastal Helicopters here in Juneau. We are small and totally locally owned. Many people describe us as a "Mom and Pop" business. Imposition of the regulations described in this bill will place an onerous burden on a business such as ours.

The Tourism Industry was developed by citizens who are excited about the beauty of our State and who want to share it with others. It would be my guess that if you polled the tourism businesses you would find most of them are one and two-man shops have limited accounting capability and are already burdened to the maximum with taxes and regulations. It seems every facet of the government wants to take the money **WE** earn and increase **their** income.

There is a limit to how many times you can slice a pie and have everyone get a taste.

One of the reasons the tour portion of our business has been successful is that we've been able to competitively price our tours. Imposition of this State Sales taxes will not only require that we collect them and make payments to the State, but also that we do much related paperwork; file additional returns; pay an accountant up to \$250 per hour to see that we don't get fined or arrested; and stay awake even more nights during the year worrying that we got it right. It will also require us to increase our competitive pricing to meet the increased demands.

It is easy to say we "just collect" the tax from the user and send it to the State, but unfortunately it is MUCH more complicated than that. This bill is very complex and fraught with possibilities for Regulations that are far above the intent of the legislation.

The aircraft industry is already regulated by SO many government agencies, and now you want to add yet another burden on us. Soon it will be impossible for anyone except the companies owned by huge corporations to stay in business. Not because we aren't capable and worthwhile, but because Government requirements are so onerous small businesses can't live with them. The large tour companies may decide they don't want to do business in Alaska because the costs are getting so high. These companies can pull out of Alaska and continue their business; but Coastal's business IS ALASKA. We have lived here for 35 years. This business is how my husband and I support ourselves and provide full time jobs for 11 additional Juneau residents. During the summer months we hire up to 20 more employees almost all of whom are college students or retirees. If we continue to increase the cost of traveling to the State the number of tourists will decrease and small businesses such as ours will be out of business.

I have not seen the fiscal note that accompanies this legislation, but while the cost to the tourists, brokers, tour agents, and operators will be significant, the contribution to solving the State's fiscal problems will surely be minimal. The cost of implementing and enforcing the regulations **maybe** paid for by this Sales Tax, if we are really lucky. However it will have a totally negative impact on the tourism industry and will provide little or no additional funds to the State coffers above the cost of implementation.

The statement was made that the funds collected with the passage of this Sales Tax will pay for the "cost of tourism to the State." Should this bill be passed, the biggest cost to the State will be implementing and enforcing the regulations. It is my belief that the municipalities individually are responsible for maintaining their own tourism costs and there is little (if any) cost to the State at the present time..

This Legislation targets a specific industry and will have a negative impact on tourism in Alaska.

I sincerely hope you will find a more fair means of solving the State's financial problems that are and should be the responsibility of EVERYONE in Alaska – not just the tourist industry. Thank you.

Dorothy S. Wilson, Coastal Helicopters, Inc.

8995 Yandukin Drive, Juneau AK 99801

Phone: 789-5600 email: dotw@gci.net

Subject: Alaska Budget Relief

Date: Thu, 25 Mar 2004 09:52:17 -0900

From: "Larry Lemke" <llemke@acsalaska.net>

To: <Representative_Mike_Hawker@legis.state.ak.us>

March 25, 2004

Dear Representative Hawker:

The car rental industry and the RV rental industry pay Municipal and State taxes that range from 11% to 28% plus property taxes, gas taxes and license fees. The majority of hotel rooms in the state pay a 10% "bed tax" and property taxes. The cruise industry pays almost nothing yet we allow them to use the valuable resources of the State of Alaska without contributing to the costs associated with the operation of our State.

The cruise industry talks big about their guests contributing to the state through spending. But the truth is most of their spending is with the cruise lines themselves and the large majority of that revenue leaves the state of Alaska and the United States.

A 10% (progressive) tax, not a head tax, on cruise fares would bring into the state more that \$120 million a year in revenue. We should NOT continue to allow the cruise industry to use the resources of our state without paying their fair share.

As a friend of mine once said, it's a good thing that we were not frightened by the scare tactics of the oil industry 30 years ago when they told us that if we taxed them they would not come.

Respectfully,

Larry Lemke
Anchorage



Rep Hawker

Alaska State Legislature

Please enter into the record my testimony to the House Ways & Means
committee name

committee on HB 537, dated 3-31-04
bill/subject

J. PAGES

Signed:

ROGER GAY

Testifier

SELF

Representing (Optional)

PO Box 521215 Big Lake AK 99652

Mailing Address

Phone Number

I do not like the piecemeal approach to taxation where you target one weak group after another based upon their ability to defend themselves or not. Under the Equal protection clause everyone should be treated the same. If you can justify a sales tax on tourism services you should be able to justify a tax on all services.

Taxes have a negative impact on the people who are subjected to it. Money taken from tourists is likewise taken from local businesses who would normally have received it.

One is given the impression that this tax is meant to affect out of state tourists, but it in fact turns all Alaskans seeking Recreation into tourists.

A 5% tax amounts to a 5% hit similar to inflation which, at this time, would be fairly significant, not painless.

I don't know if Alaska has a motto or not but if we do it should be changed to "Alaska, We tax the other guy and pass the savings on to you."

CS FOR HOUSE BILL NO. 537
"AN ACT RELATING TO TOURISM TAX"

SECTIONAL ANALYSIS
OFFICE OF THE ATTORNEY GENERAL

Section 1: adds a new chapter to Title 43 with several subsections.

010. Levies a sales tax on the sale of tourism services in the state, and for any tourism service used in the state not subject to the sales tax, a use tax.

020. establishes the tax rate at 5%

.030 requires sellers or providers of tourism services to register with the department.

.040 establishes the procedures by which a tourism service that takes place both in and out of the state are allocated between Alaska where they are taxable, and outside of Alaska, where they are not.

.050 sets forth that a seller of tourism services in the state has the obligation to collect the tax, and that the commercial provider shall collect the tax, if the seller did not. This provision further details the conditions under which the collector of the tax must remit them to the department, including the incentives the department can use to encourage electronic filing.

.060 requires the proceeds from the tax to be deposited in the general fund.

.990 defines terms including "commercial provider" and "tourism service"

Section 2: establishes that the tax will apply to all services that are both used after January 1, 2005 and sold after the effective date of the act.

Section 3: has the act take effect immediately.