

11392 HOUSE COMMUNITY & REGIONAL AFFAIRS

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.

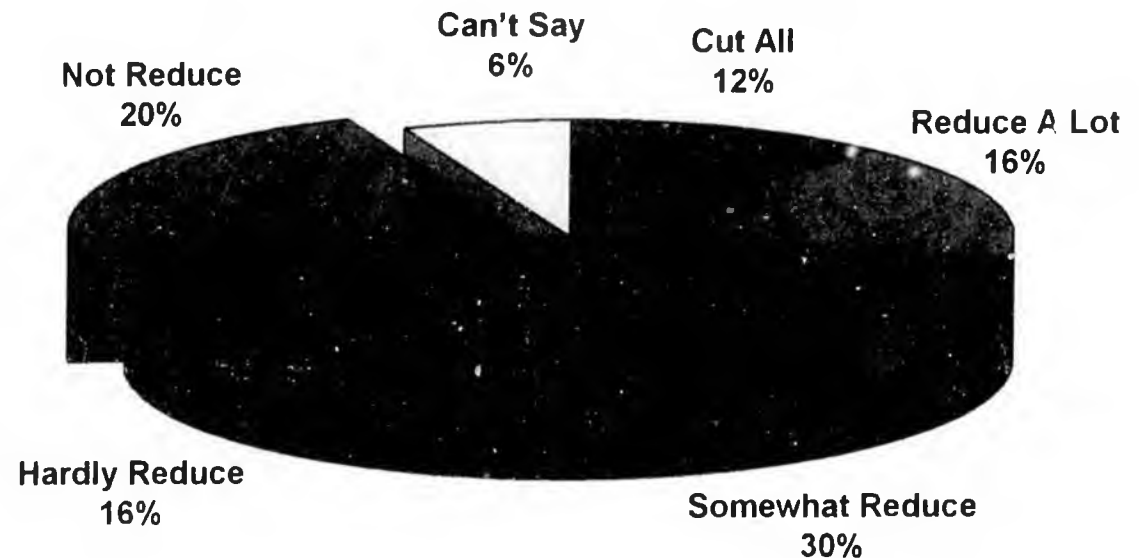
Other State Departments

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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Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

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:

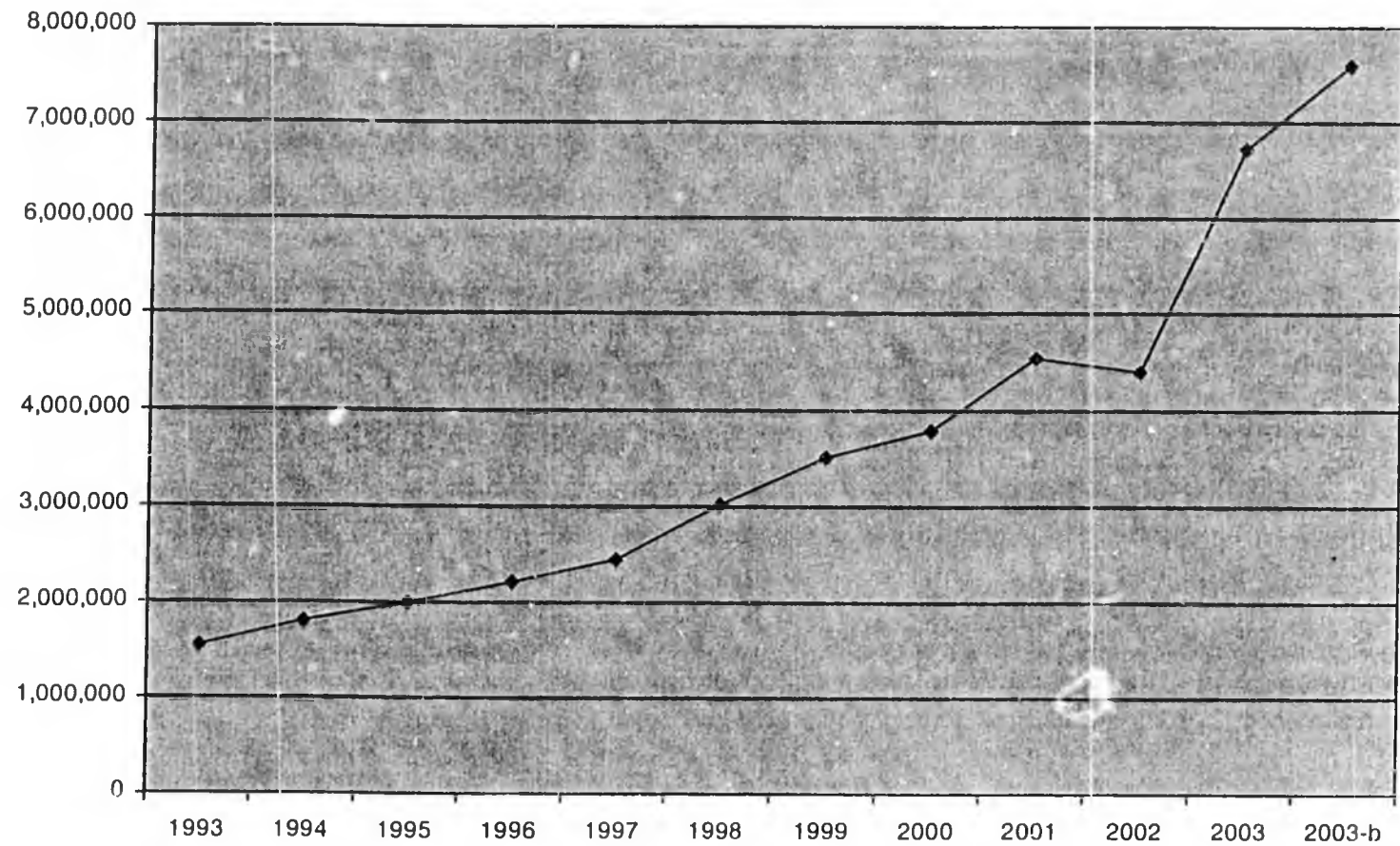
"Stated that people typically pay for their vacations in cash and the packages are sold "in total". A \$50 dollar increase on a \$1200 package would be a significant increase."

House Finance Minutes

1/25/05 - 2:49pm

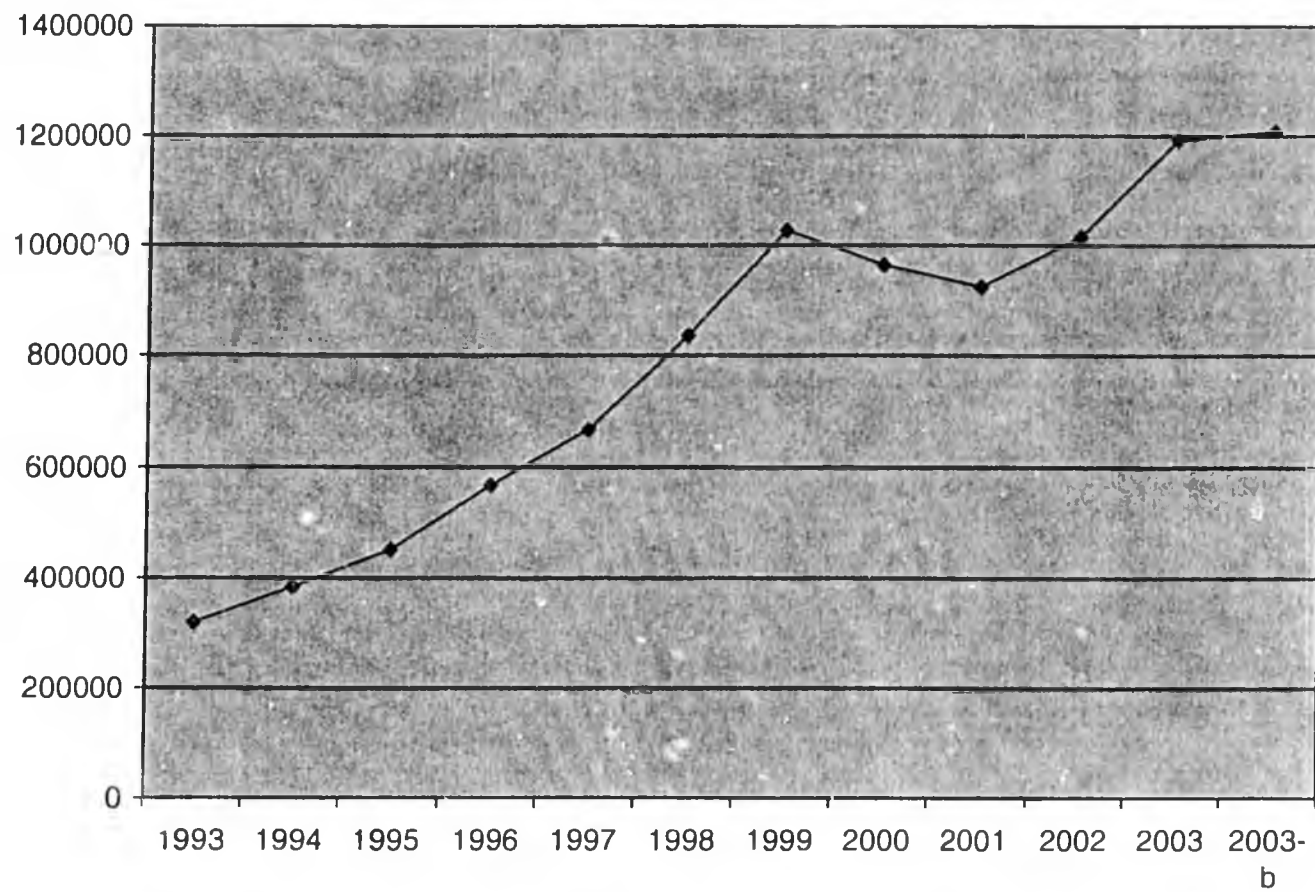
Carnival Cruise Lines Revenues

Revenue (in thousands)



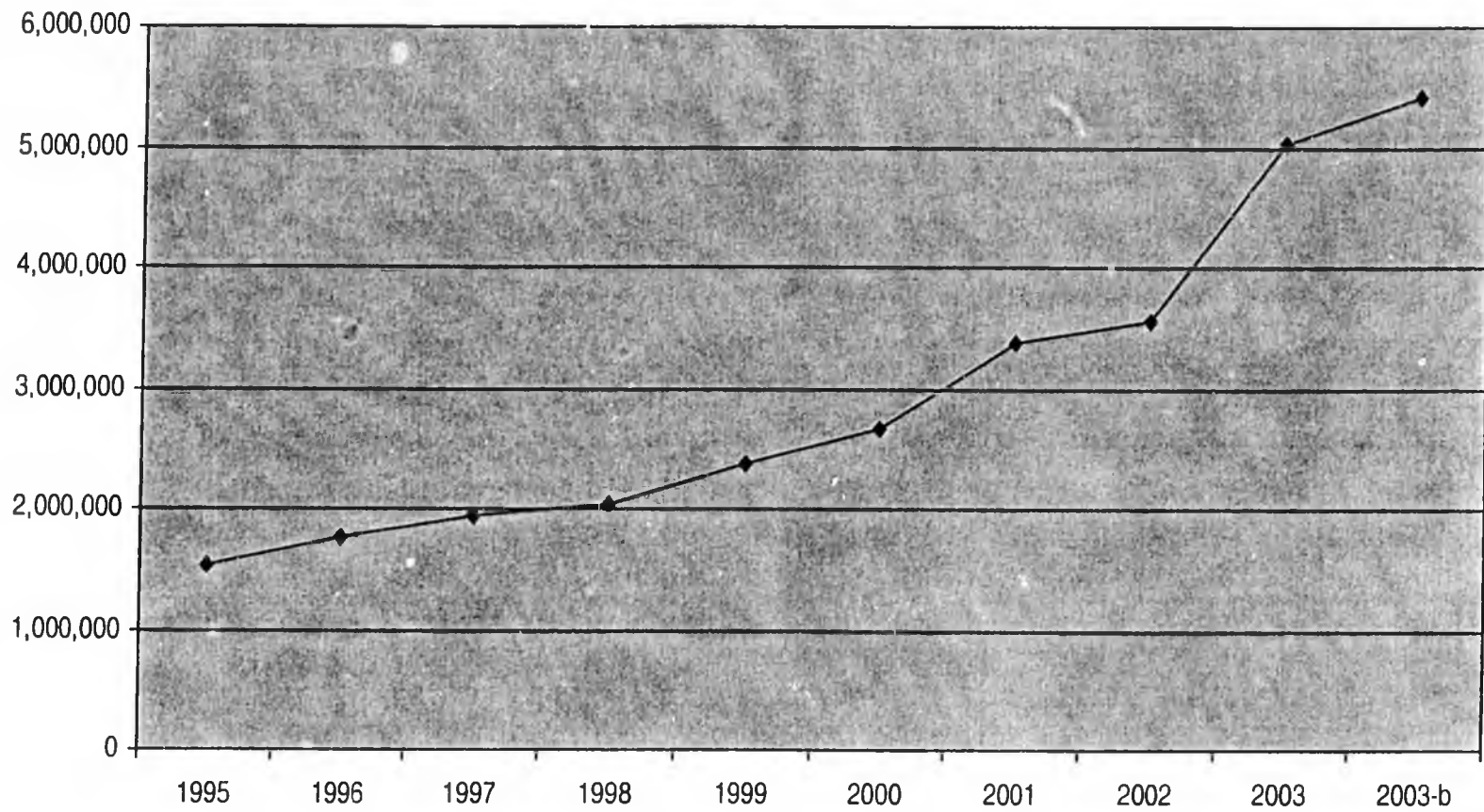
Carnival Cruise Lines Profits

Net Income (in thousands)



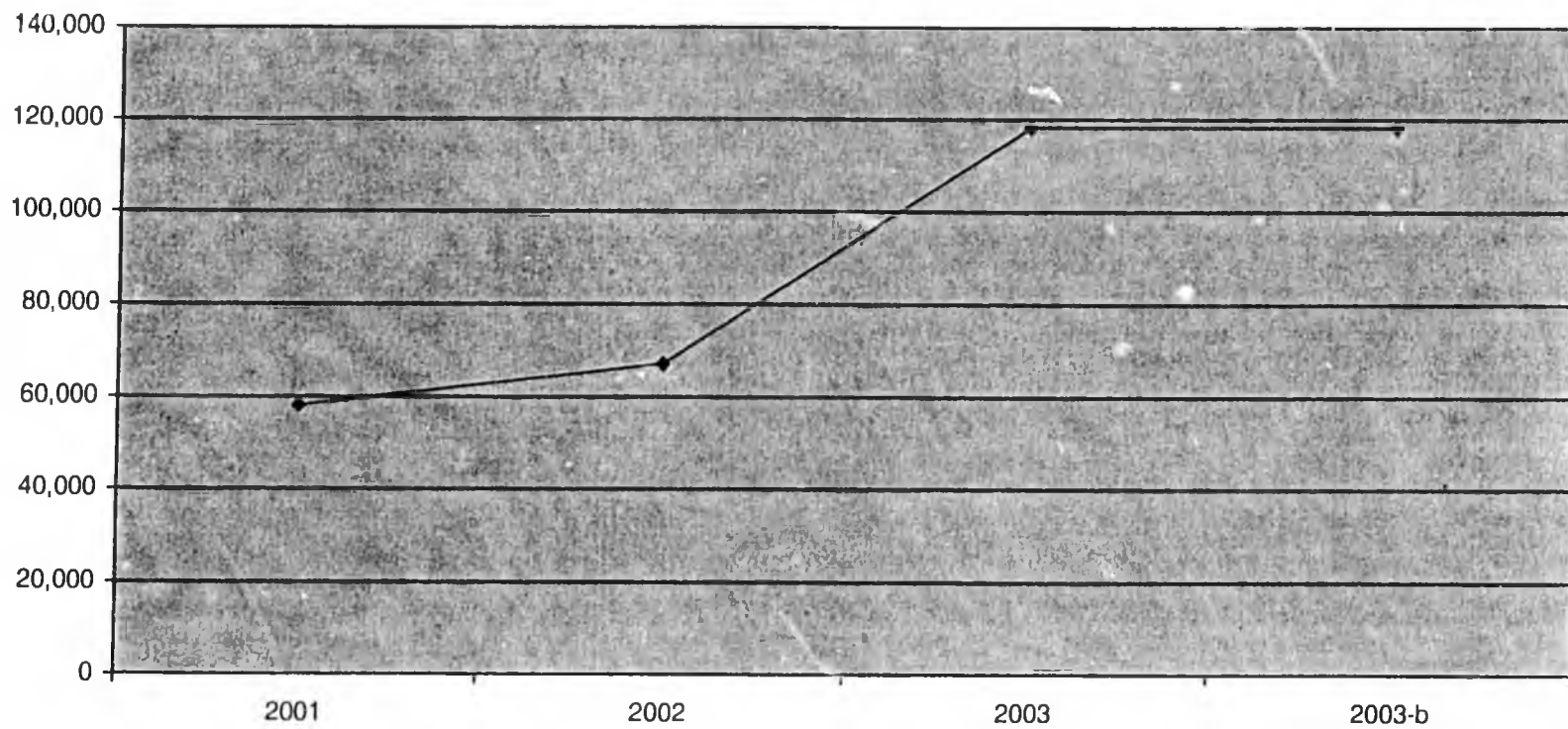
Carnival Cruises

Passengers Carried

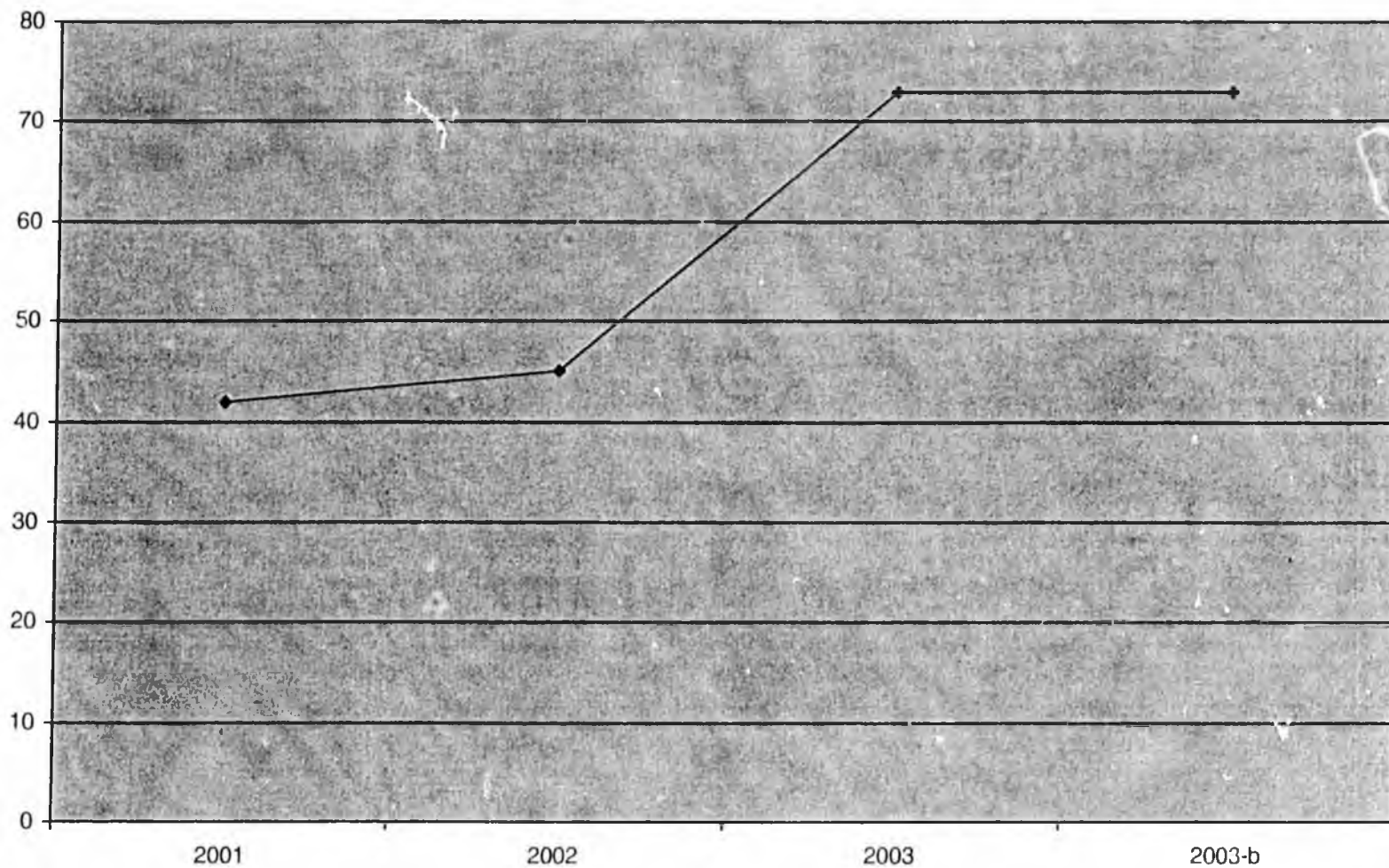


Carnival Cruises

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	2,400.1	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

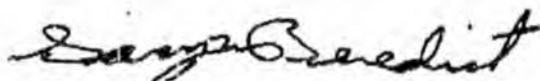
BE IT FINALLY RESOLVED THAT

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.

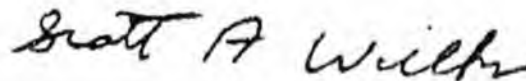
Approved on March 29, 2005 as a Resolution of the Hyder Board of Trade Inc.

Witness:

Attest:

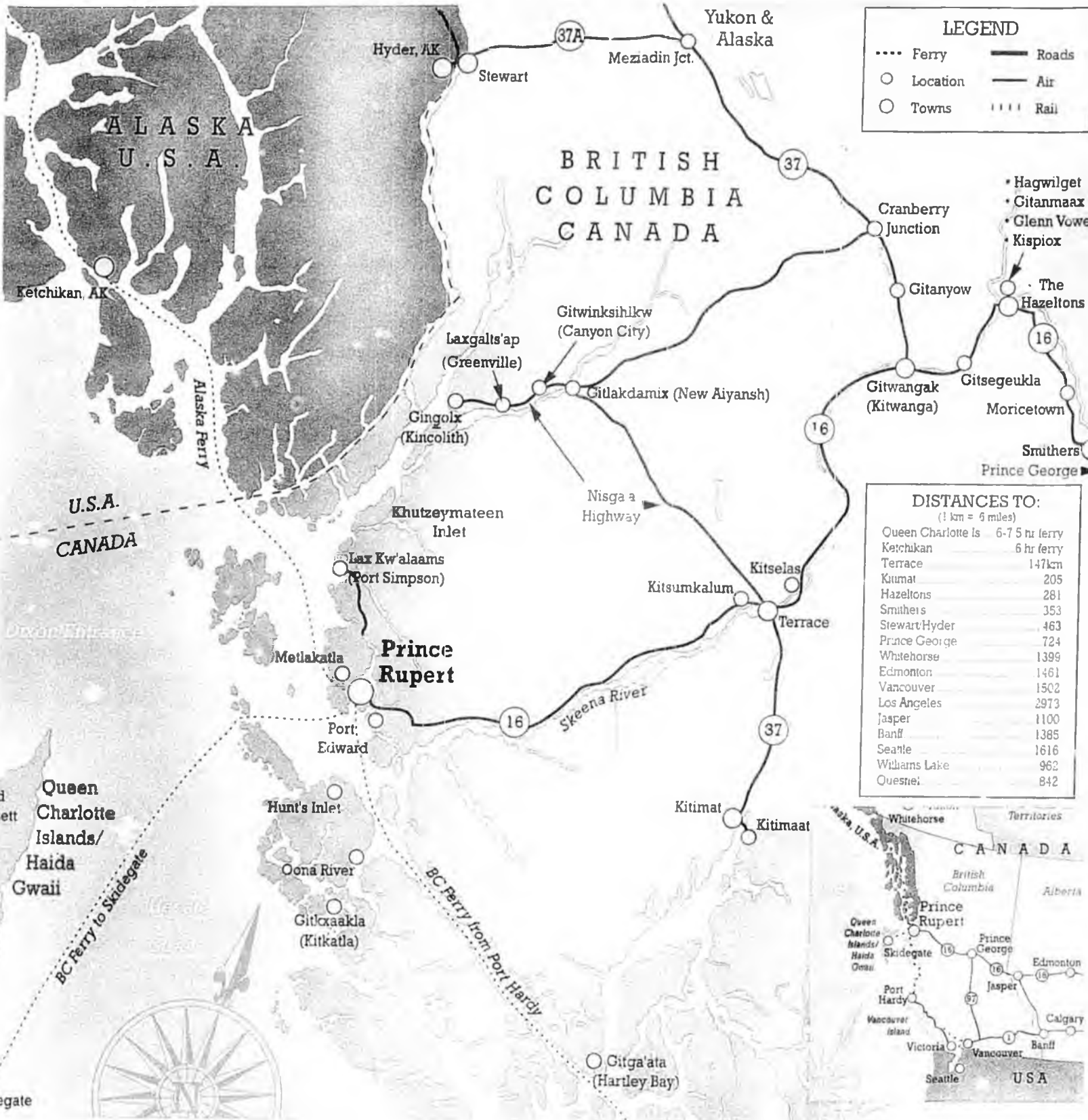


Gary Benedict
President
Hyder Board of Trade, Inc.



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,

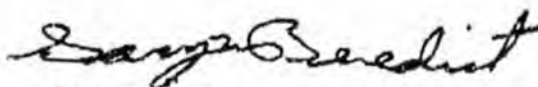
BE IT FURTHER RESOLVED THAT; Participation in the disposition of proceeds by an unorganized community require demonstration to the commissioner that the unorganized community entity has in place, a recognized federal authority of the U.S. Department of Homeland Security / U.S. Coast Guard to receive 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.

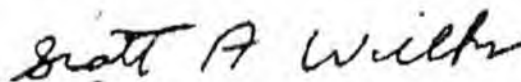
Approved on March 29, 2005 as a Resolution of the Hyder Board of Trade, Inc.

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 cursive script 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

HB

9

Alaska State Legislature
House of Representatives

Received
1-11-05

Alaska State Capitol
Juneau, Alaska 99801-1182
1-907-465-3438 (phone)
1-888-478-3438 (toll free)
1-907-465-4565 (fax)



Interim Address
716 West Fourth Avenue
Anchorage, Alaska 99501-2133
(phone) 1-9 269-0100
(fax) 1-907-269-0105

Representative Harry Crawford
District 21

Memorandum

TO: Representative Kurt Olson
Co-Chair, House Community and Regional Affairs Committee

FROM: Representative Harry T. Crawford

DATE: January 10th, 2005

RE: House Bill 9

I respectfully request that House Bill 9, Hydrogen Energy Research Program, be scheduled for hearing in the House Committee on Community and Regional Affairs at your earliest possible convenience. I have attached a sponsor statement, and background information.

Alaska State Legislature
House of Representatives

received
1-11-05

Alaska State Capitol
Juneau, Alaska 99801-1182
1-907-465-3438 (phone)
1-888-478-3438 (toll free)
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Interim Address
716 West Fourth Avenue
Anchorage, Alaska 99501-2133
(phone) 1-907-269-0100
(fax) 1-907-269-0105

Representative Harry Crawford
District 21

SPONSOR STATEMENT FOR HB 9

House Bill 9 establishes a hydrogen energy partnership within the Department of Community and Economic Development. The partnership is tasked with facilitating the development of a hydrogen fuel industry in Alaska.

Hawaii has already established a similar commission in preparation for potentially using their geothermal energy resource for producing hydrogen for dispersal throughout the Pacific Rim. If Alaska is going to remain competitive in the field of energy in the United States and throughout the world, we must prepare for the possibility that hydrogen will become a viable fuel.

House Bill 9 addresses this eventuality and establishes the structure necessary for the State of Alaska to accept funding for a hydrogen project in the state.

Fuel Cells Provide Reliable Power to U.S. Postal Service Facility in Anchorage, Alaska

Combined heat and power project provides reliable power at reduced cost

Overview

Working together, the U.S. Postal Service (USPS) and Chugach Electric Association, partnering with the Department of Defense (DOD), Department of Energy (DOE), US Army Corps of Engineers Construction Engineering Research Laboratories (USA CERL), Electric Power Research Institute (EPRI), and National Rural Electric Cooperative Association (NRECA), developed and installed one of the largest fuel cell installations in the world.

The one-megawatt fuel cell combined heat and power plant sits behind the Anchorage U.S. Postal Service Mail Processing and Distribution Facility. Chugach Electric owns, operates, and maintains the fuel cell power plant, which provides clean, reliable power to the USPS facility. In addition, heat recovered from the fuel cells, in the form of hot water, is used to heat the USPS Mail Processing and Distribution Facility. By taking a leadership role, the USPS will save over \$800,000 in electricity and natural gas costs over the 5½-year contract term with Chugach Electric.

"Fuel cells solved a handful of problems."

—Cathe Grosshandler, Alaska District Environmental Coordinator, U.S. Postal Service

Background

The U.S. Postal Service Mail Processing and Distribution Facility, adjacent to the Anchorage International Airport, serves as the postal hub for all of Alaska. The facility processes, on average, over one million pieces of mail every day,

operating 24 hours per day, 365 days per year. Annual energy costs for the 270,000-square-foot facility exceeded \$300,000 for electricity and \$35,000 for natural gas.

The facility faced a series of issues that needed to be addressed. To meet new environmental codes, the facility needed to upgrade an existing underground fuel oil tank serving the facility's 600-kW emergency generator. As a result of an expansion to the facility and adding new optical mail processing equipment, the facility's peak electric demand had grown larger than the existing emergency generator could support. Upgrades were also needed to the UPS (uninterruptible power supply). In addition, the two 80-horsepower boilers (2,700,000 Btu/h), which heat the facility, also needed some improvements.



The Mail Processing and Distribution Facility, adjacent to the Anchorage International Airport, is key to the Alaska mail system.

Rather than solving each issue separately, the District Environmental Coordinator wanted a comprehensive solution. The answer seemed to lie in a highly reliable, highly efficient combined heat and power plant.



Combined Heat and Power

Case Study



Project Summary

Initially, a combined heat and power plant using natural gas engine generators was proposed. However, after attending a local energy technology show, the USPS began to consider fuel cells. By coincidence Chugach Electric Association, the serving electric utility, was developing expertise in fuel cell technology and supported the USPS interest in the emerging technology.

Fuel cells produce electricity through an electrochemical reaction rather than combustion. While more expensive than conventional power generating equipment, fuel cells provide efficient, reliable power with minimal emissions. (For more information on fuel cells, see FEMP's Federal Technology Alert, "Natural Gas Fuel Cells," at http://www.eren.doe.gov/femp/prodtech/fed_techalert.html.)

To increase overall reliability, the combined heat and power plant consists of five fuel cells with room for a future sixth unit. Thus, the system can meet the facility's peak 800-kW demand even when one fuel cell is off-line. The resulting one-megawatt (1,000-kW) combined heat and power plant consists of five fuel cells, a nitrogen tank, heat recovery equipment, a pump house, and the site management system (SMS).

The fuel cells, manufactured by International Fuel Cells, Inc. (formerly ONSI), are rated at 200 kW each and are fueled by natural gas. Nitrogen is used to purge the fuel cells during startup and shutdown cycles. The pump house is used to move the heat generated by the fuel cells to either the facility for space heating or to the cooling modules, where the excess heat is rejected.

What makes the system a success is the site management system. The SMS



Set against the Chugach Mountains, five fuel cells supply reliable and clean power to the USPS facility.

includes fuel cell load control, grid interconnection, and a high-speed switching system. The SMS allows the multiple fuel cell system to transfer between grid-parallel and grid-independent in under 4 milliseconds ($\frac{1}{4}$ cycle in a 60-Hz system), fast enough that the highly sensitive computer systems in the USPS facility are not interrupted by the transfer. Normally, the fuel cells operate in parallel with the Chugach electric grid. Excess power generated by the fuel cells flows out into the Chugach grid. However, in the case of a grid outage, the SMS identifies the outage, isolates the USPS facility from the grid and allows the fuel cells to transfer to grid-independent mode seamlessly. The SMS was developed under this project but is now commercially available and being specified for use in other fuel cell power systems.

The entire project cost \$5.5 million, including the research and development for the SMS. Funding for the project came from the many partners involved in the effort. What made the project work economically for the U.S. Postal Service is a special contract between the USPS and Chugach

Electric. Chugach Electric owns, operates, and maintains the fuel cell power plant, which is located on the USPS property. The plant is remotely operated by Chugach Electric. The only cost to the USPS was the \$1 million up-front cost as part of a 5 $\frac{1}{2}$ -year contract for baseline electrical service. In return, Chugach Electric provides electricity to the mail processing facility for the 5 $\frac{1}{2}$ -year term. If electricity requirements at the USPS facility grow above the set baseline, which the USPS believes is unlikely, additional electricity is purchased at standard rates.

In addition, the USPS facility owns the use of the heat recovered from the fuel cells. Heat energy from the fuel cells is available in the form of hot water at two temperatures: 240°F and 140°F. At this time, the higher temperature water is used for heating the facility. The lower temperature heat is rejected through the cooling modules.

Benefits

The fuel cell CHP plant provides a number of benefits to the USPS. The most significant benefit has been the increased reliability of electric service.

Restarting the mail processing equipment after a power outage requires a significant level of effort. The increased reliability results in fewer power outages, thereby avoiding unscheduled shutdowns and restarts. The fuel cell and SMS have worked flawlessly since commissioned. In fact, the week before Christmas, on one of the busiest days of the year, construction at the airport caused a local power outage. The entire area was without power for over 4 hours. All, except the U.S. Postal Service, that is. The SMS system automatically switched the facility to operate grid-independent with no interruption. The USPS facility went on to set records, processing over 1.4 million letters and parcels that day, while the neighbors were sitting in the dark.

While the combined heat and power project does not reduce electricity consumption at the USPS facility, it does significantly reduce USPS energy costs. The contract between the USPS

and Chugach Electric provides baseline electrical service to the USPS facility for 5½ years at a cost of \$1 million. Previously, electricity for the USPS facility averaged over \$300,000 per year.

Heat recovered from the fuel cells is being used for space heating in the mail processing facility, thereby displacing the load on the original boiler heating system. In fact, savings have exceeded the original estimate. Initially, it was determined that the fuel cell heat energy could meet around 50% of the total facility space heating needs. During the first year of operation, the heat recovered has satisfied all the space heating needs. Although the winter of 2000-2001 was milder than average, heat recovered from the fuel cells has exceeded expectations.

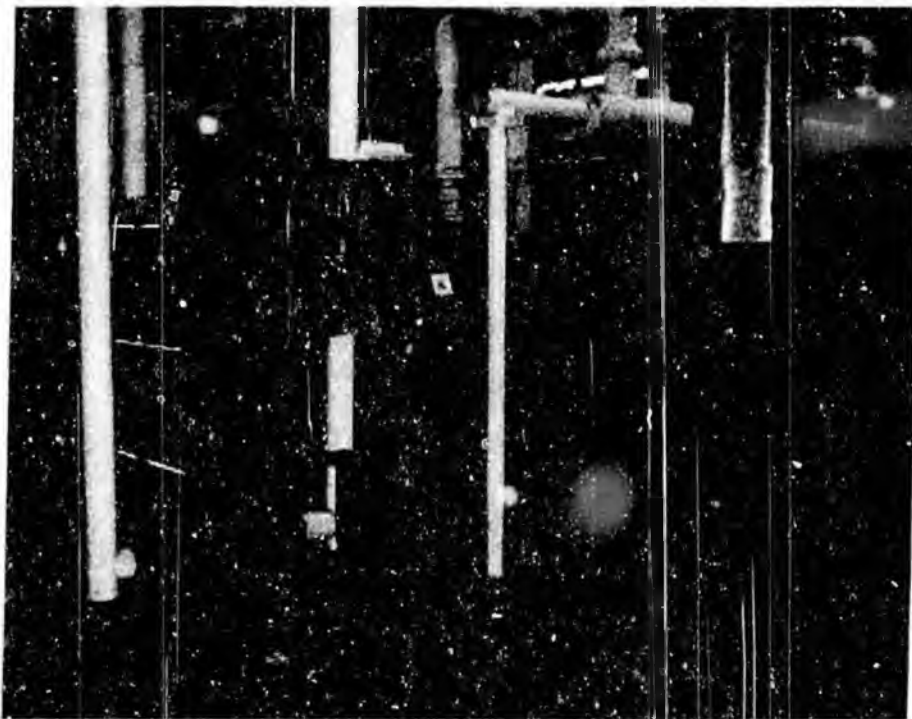
Some capital cost reductions were also achieved. The demonstrated reliability of the fuel cell and site management system has eliminated the need to upgrade

the existing emergency generator. However, the old 1000-gallon, single-wall, below-grade fuel oil tank still needed to be replaced. A new dual-wall, 500-gallon, above-ground fuel oil tank was determined to be sufficient because of the increased reliability of the new power supply system. In addition to the cost reduction from the less expensive, smaller tank, the environmental code features were also less expensive for the smaller tank size. Avoiding the need to upgrade the emergency generator and installing a smaller fuel oil tank saved the USPS an estimated \$500,000 in capital costs.

Lessons Learned

The USPS recommends that any site thinking about a similar project should consider the following:

- Projects of this nature require "champions." Each of the parties involved in the project recognized the value of local champions who could think outside the box, overcome barriers, and push the project through.
- Consult with the local utility, DOE regional office, and other organizations to investigate potential partnerships. Both the USPS and Chugach Electric Association believe a more effective solution was achieved as a result of the partnership.
- Take a holistic approach to solving facility needs. The USPS had to address a series of issues. Although each facility need could have been solved individually, the fuel cell combined heat and power plant solved several of the needs simultaneously and at a lower cost.



Heat recovered from the fuel cells offsets heat supplied by the boiler system. The boilers were not needed during the winter of 2000-2001.

Being the largest fuel cell installation of its time made this a distinctive installation. However, it will not remain unique. The development of the SMS will lead to more multi-unit fuel cell power plants with high-speed reliability.

Looking Ahead

The USPS facility is looking for additional uses for the heat recovered from the fuel cells. While the high temperature heat recovered is perfect for space heating, there is still significant heat energy available at 140°F, which has yet to be utilized. The USPS is still investigating several potential uses for this valuable heat energy.

The SMS has additional capabilities that the USPS may use in the future. In addition to controlling fuel cell operation, the SMS is also capable of controlling peak electrical demand through load shedding. This feature could be used to prevent overloading the power plant when the electric grid is down and the fuel cells are operating independent of the electric grid. The ability to load shed while operating grid-independent could prevent a shutdown of the fuel cell power plant as a result of an overload condition.

At the end of the contract period, the USPS and Chugach Electric will renegotiate the future of the fuel cell combined heat and power plant. No one knows what the future may bring, but all agree the project has been a success.

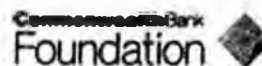


Key text

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Which way ahead for hydrogen cars?



Rising petrol prices and diminishing oil supplies may drive motorists to demand alternative forms of fuel – such as hydrogen.

BACK TO



You will get more from this topic if you have mastered the basics of energy – this link will take you to an annotated list of sites with helpful background information.



[Printer-friendly version of complete topic](#)

Competitors in the men's and women's marathons at the 2000 Sydney Olympics had an exciting glimpse of the future. The pace vehicle that led them round the 42-kilometre circuit looked like a typical family wagon, but looks were deceptive. Under the bonnet was a stack of fuel cells, not an internal combustion engine. And as the car glided silently forward it emitted no smelly fumes or greenhouse gases – just a little water vapour.

The car was powered by hydrogen, the simplest and most abundant of all chemical elements. The fuel cells under the bonnet converted the hydrogen directly into electricity.

Many experts think hydrogen will replace petrol, diesel and natural gas as the main fuel for cars, buses and trucks over the next few decades. Already car manufacturers around the world have invested billions of dollars in research and development.

The advantages of hydrogen are enormous: no more smog-forming exhaust gases, no more carbon dioxide emissions that contribute to global warming, no more worries about diminishing oil supplies and rising prices.

But some tricky questions need to be answered before mass-produced hydrogen cars start appearing on the streets:

- Where will the hydrogen come from?
- How will motorists fill up?
- How will cars store the fuel?

And there's also the question of how best to tap the energy in the fuel for

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good on-road performance.

The choice – combustion or fuel cells?

Two kinds of engines can use hydrogen as a fuel – those that have an internal combustion engine converted to use hydrogen and those that are made up of a stack of fuel cells.

Internal combustion engines

Internal combustion engines have powered cars since they first began to replace horse-drawn carriages more than 100 years ago. These engines can be converted to run on a variety of fuels, including hydrogen. When hydrogen burns, the only by-product is water – not the polluting cocktail given off by burning petrol and other fossil fuels.

BMW successfully demonstrated this technology in a fleet of 15 sedans used to ferry people to and from EXPO 2000, the world fair in Hanover, Germany. The fact that no major changes need to be made to the basic internal combustion engine design is a major attraction.

Fuel cell engines

However, most car makers think that fuel cells powering an electric motor offer a better alternative. Electric cars are hardly a new idea, but the need to recharge heavy stacks of batteries after relatively short journeys has stopped them becoming popular. Now fuel cells have made electric cars practical.

Unlike batteries, which store electricity, fuel cells make electricity as they go. Recent developments in technology have greatly increased the amount of power that a stack of cells – small enough to fit under a car's bonnet – can provide. This has opened up the prospect of non-polluting electric cars with the levels of performance we expect from conventional vehicles.

Fuel cell technology sounds simple. The hydrogen fuel reacts with oxygen from the air to produce water and electricity – the reverse of the familiar electrolysis process that releases oxygen and hydrogen from water. In reality it's much more complicated. Box 1 outlines how fuel cells will power our cars.

The big advantage of a fuel cell engine over an internal combustion engine running on hydrogen is its greater efficiency. The same amount of hydrogen will take a fuel cell car at least twice as far as one with a converted internal combustion engine.

Fill 'er up please

Hydrogen has many advantages as a fuel for vehicles, but a big disadvantage is that it is difficult to store. This is because at normal temperatures hydrogen is a gas. The hydrogen must be packed tightly into a car's tank, otherwise a filling stop will be needed every few kilometres.

The obvious solution is to strongly compress the hydrogen, or liquefy it. However, large amounts of energy are needed for this – an estimated 20–40 per cent of the energy content of the fuel. Also, tanks designed to hold hydrogen at extremely high pressures, or at temperatures approaching absolute zero, are heavy and expensive.

A futuristic filling station kept EXPO 2000's fleet of converted BMWs running. Drivers pulled up at the pump, pressed a button on their dashboard, and watched from inside the car as a laser-guided robotic arm connected the store of liquid hydrogen to their tank. Filling took about 3 minutes. It was wise to keep well out of the way – at minus 253°C, liquid hydrogen is unimaginably cold.

The special insulated tanks in the BMWs held 140 litres of hydrogen, enough to drive at least 300 kilometres. (That's a reasonable range, although a 95 litre tank of petrol would take the same cars twice as far.) The hydrogen-powered marathon car at the Sydney Olympics also ran on liquid hydrogen. Its much smaller tank (75 litres) gave it a range of about 400 kilometres, a sign of the greater efficiency of fuel cell cars.

High cost and the large amount of energy needed to liquefy the fuel are likely to be the main problems with refuelling with liquid hydrogen. Filling up with compressed hydrogen gas will probably prove more practical, even though it may reduce the distance between fills. Cars could store the hydrogen in high pressure tanks similar to those used for compressed natural gas. Or, if current research proves successful, some high-tech alternatives could be employed.

Scientists have found that various metals can absorb up to a thousand times their own volume of hydrogen gas. Specially treated carbon may also hold large amounts. These discoveries could shape the fuel tanks of the future (Box 2).

But where will the hydrogen come from?

There's no risk that we'll ever run out of hydrogen, it's by far the most plentiful element in the universe. On Earth, however, it exists naturally only

in chemical compounds, not as hydrogen gas. Water and the main components of coal, oil and natural gas are prime examples of these compounds.

Natural gas currently provides most of the hydrogen used in industry. The relatively simple technology employed – **steam reforming** – could also produce hydrogen gas for cars at central plants or filling stations. Alternatively fuel tanks could be filled with petrol or methanol, with the cars using on-board 'reformers' to generate hydrogen for their fuel cells. This shows promise as a transitional measure while research proceeds on the problems of storing hydrogen.

In steam reforming the hydrocarbon fuel reacts with water at high temperatures to produce hydrogen gas. A major drawback is that carbon dioxide and smog-causing gases such as nitrogen oxides are given off too, although emissions per kilometre of car travel would be less than from petrol-burning vehicles.

An alternative approach now under development, **autoreforming**, should increase the attractiveness of on-board hydrogen production. Use of a catalyst will allow the reforming to occur at much lower temperatures – too low for the production of nitrogen oxides.

Water is the only potentially pollution-free source of hydrogen. Researchers are looking at new ways of producing hydrogen – using algae, bacteria or photovoltaic cells to absorb sunlight and split water into hydrogen and oxygen. But the technology most likely to be adopted on a large scale is electrolysis, which uses an electric current to split water into oxygen and hydrogen.

Is it safe?

'Remember the Hindenburg' – that's a phrase often heard when hydrogen is discussed. This German passenger airship, kept aloft by hydrogen, crashed in flames as it came in to land at Lakehurst, New Jersey, USA in May 1937. Thirty-five people died. Nowadays helium, which can't burn, is the gas of choice for lighter-than-air craft.

Hydrogen is highly flammable, but recent research has indicated that the airship's fabric, not hydrogen, was the culprit in the Hindenburg disaster. Properly handled, there's no reason to think hydrogen is any more dangerous as a fuel than petrol, the explosive liquid now carried safely in the tanks of untold millions of motor vehicles.

Looking forward

Recent technological advances, particularly in fuel cell design, have made hydrogen-powered cars a practical proposition, and car makers expect to start mass-producing them within the next decade or so. Their power and acceleration should match those of today's petrol-powered vehicles, but they may have to be refuelled more often.

The best ways to produce, distribute and store the hydrogen still have to be sorted out. In the short term fossil fuels may remain in demand as a hydrogen source. However, the idea that in the not too distant future most of us will be driving non-polluting cars fuelled by hydrogen from a clean, renewable source is no longer a flight of fantasy.

Boxes

1. [Plenty of power from fuel cells](#)
2. [Alternative hydrogen storage systems](#)

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[Fuelling the 21st century](#)

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Posted May 2001.

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Hawaii Hydrogen Partnerships

In 2000 the Hawaii Legislature passed a joint House-Senate resolution tasking the Department of Business, Economic Development & Tourism (DBEDT) to conduct a feasibility study to assess the potential for large-scale use of hydrogen, fuel cells, and renewable energy in Hawaii. HNEI, in collaboration with Sentech, Inc., presented preliminary results to the Legislature in January 2001. The final report, "[Nurturing a Clean Energy Future in Hawaii: Assessing the Feasibility of the Large-Scale Utilization of Hydrogen and Fuel Cells in Hawaii](#)," was completed in July 2004. In addition to identifying areas where hydrogen and fuel cells have the potential to contribute to Hawaii's energy mix, the study recommended the development of public-private partnerships to develop the necessary hydrogen infrastructure. The means to move forward with these partnerships was benefited by the passage of Act 283 by the 2001 Legislature, providing initial funding for the development of hydrogen partnerships in Hawaii.

HNEI, in collaboration with our state energy office (DBEDT) and other government and industrial partners, has made significant progress in identifying projects and partnerships to move forward with the development of hydrogen infrastructure in Hawaii. Partnerships will involve relationships with UTC Fuel Cells, Stuart Energy Systems, Hawaiian Electric Company, Hawaii Electric Light Company, Sentech, Inc., The Gas Company, Sunline Services Group, the California Energy Commission, and National Renewable Energy Laboratory. Initial successes include the establishment of the [Hydrogen Power Park](#) being built by HNEI with funding from the U.S. DOE via the State Energy Partnership program. In August 2002, a Hydrogen Partnering Meeting, attended by DOD, DOE, industry, and local utilities, was held on the Big Island to provide additional focus and coordination. The partners are actively seeking several multimillion-dollar systems application projects in the areas of hydrogen, fuel cells, and renewable energy. These projects are designed to take advantage of Hawaii's unique energy situation, including a vast array of potential renewable energy resources and high costs for conventional energy. Generous State of Hawaii research and development tax incentives contribute to the positive climate for developing new energy technologies and products. In the immediate future, HNEI will also be working on the [Hawaii Hydrogen Center for Development and Deployment of Distributed Energy Systems \(HHC\)](#). This project will be funded by U.S. DOE and activities will include assessing fuels purity requirements for fuel cell operation, obtaining larger quantities of high purity hydrogen in support of fuel cell testing, evaluating the feasibility of using fuel cells for electricity generation, and conducting membrane testing at the

HFCTF in support of fuel cell technology development.

Hydrogen Power Park

The Hydrogen Power Park is an effort to bring hydrogen systems into the marketplace by establishing a hydrogen infrastructure and concurrently advancing the goals of the U.S. Department of Energy's (DOE's) hydrogen program. Project plans call for deployment and demonstration of an integrated system comprising electrolysis for hydrogen production, hydrogen storage, and a 50 to 75kW grid-connected fuel cell. Phase 1A has already been funded for \$150,000 and will involve design of the hydrogen production and storage infrastructure. Phase 1B will focus on installation of the hydrogen production and storage systems, and the second phase will combine a fuel cell with these systems.

The project is slated to be located on one of the Hawaiian Islands, where a renewable energy source would be used for hydrogen production. The entire system will be portable, so it can be tested in various sites on the original island or transported to other islands. Later phases will consist of experiments for system optimization, market development activities, and expansion of the state's hydrogen outreach and education efforts.

Participants include local and national industry and government partners, including the California Energy Commission, Stuart Energy Systems, Sentech, Inc., SunLine Services Group, UTC Fuel Cells, The Gas Company, Hawaiian Electric Company, and Hawaiian Electric Light Company. Funded by DOE under the State Energy Partnership Program, the Hawaii Department of Business, Economic Development & Tourism serves as the lead agency with HNEI serving as the implementing partner and providing technical coordination and support.

Contact: Richard E. Rocheleau, HNEI Director

Hawaii Natural Energy Institute • 1680 East West Road, POST 109 • Honolulu, HI 96822
Ph: (808) 956-8890 • Fax: (808) 956-2336 • Email: hnei@hawaii.edu

This page last updated on Thursday, December 9, 2004
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GM, Energy Department to develop fuel cell cars

WASHINGTON (AP) -- General Motors Corp. and the U.S. Energy Department have signed a five-year, \$88 million deal to build a fleet of 40 hydrogen fuel vehicles, the world's largest automaker said Wednesday.

Under the program, GM will spend \$44 million on fuel cell vehicle demonstration fleets in Washington, New York, California and Michigan. The Energy Department will also provide \$44 million in a deal set to expire in September, 2009.

GM also announced that Shell Hydrogen LLC will set up five hydrogen refueling stations in Washington, New York, California and along the Eastern seaboard.

The automaker said the U.S. Army at Fort Belvoir, Virginia, and Quantum Technologies in Lake Forest, California, would provide facilities for GM to store and maintain fuel cells.

Rather than gasoline, fuel cell vehicles run on the energy produced when hydrogen and oxygen are mixed. The only byproduct of a fuel cell is water. The technology has been used in experimental vehicles and as a power supply for some buildings.

President George W. Bush has pushed a \$1.7 billion research program to develop hydrogen as America's next energy source. Within two decades, Bush predicted, Americans will drive cars operated by hydrogen-powered fuel cells.

Most major automakers are developing fuel cells but say the cost of the vehicles and a lack of fueling stations make them unmarketable at this time.

GM's announcement coincided with the National Hydrogen Association's annual conference in Washington, where Energy Secretary Samuel Bodman was scheduled to speak.

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Find this article at:

<http://www.cnn.com/2005/TECH/03/30/gm.fuel.cells.ap/index.html>

Check the box to include the list of links referenced in the article.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 9
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title: Hydrogen Energy RDU: Executive Admin and Dev (119)
Research Program Component: Office of Economic Development
 Sponsor: Crawford, Berkowitz, Ramras
 Requester: House Community & Regional Affairs Component No.: 2743

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	95.0	.	.	.	.	.
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	95.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1108)	95.0
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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						
1108 Statutory Designated Program Rcpts	95.0	.	.	.	.	.
TOTAL	95.0	.	.	.	.	.

Estimate of any current year (FY2005) cost: 0.0

Mark 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)

This legislation creates the Hydrogen Energy Partnership to facilitate the development of a hydrogen fuel industry in Alaska. The partnership would consist of nine members and be housed in the department. The department is charged with securing federal and private funding sources to cover the costs of establishing and operating the partnership. The department does not currently have sufficient resources to actively seek funding. If funding is secured, the department would appoint partnership members, RSA funds to the Alaska Energy Authority and begin to provide staff support.

After FY06, federal and/or private funding sources, if obtained, would fund partnership operations and staff. In the event funds are not obtained, provisions would be repealed as outlined in the bill.

Prepared by: Albert Clough, Deputy Commissioner Phone 907-465-2500
 Division: Commerce, Community, and Economic Development Date/Time 4/11/05 3:45 PM
 Approved by: Edgar Blatchford, Commissioner Date 4/11/2005
 Agency: Commerce, Community, and Economic Development