



Alaska's Fiscal Regime

Does It Work for Industry & Communities?

Charlie Ball, Princess Tours
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Alaska's Fiscal Regime

Key Observations

- Present structure almost entirely separates consumers of service from funding of same
 - Fails to generate “pocketbook tension” to moderate spending
- Funding is based on “externalities” which result in boom and bust cycles
- As government spending is the true “up like a rocket down like a feather” industry, each successive bust is harder to manage
- Everyone knows that the present structure is not, in the long run, sustainable and the suspense is killing us!



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Industry Issues

- Alaska is already an expensive place to do business. Front loading fiscal solutions inevitably discourages investment
 - Short season
 - Expensive COS
 - Expensive capital development costs
- Of all options, taxation of industry at the “pre-production” level acts most like a tariff in discouraging growth
- Business taxation should be based on marginal cost basis
- Because much of any industry's benefits are created downstream, in the end targeted businesses pay much more than a “fair share”
 - Taxation applied at the point of greatest resistance/cost



Cruise Industry Fiscal Impacts

AK Dept. of Revenue Analysis

Dept. of Revenue initial estimate	\$115,862M
Less Non General Fund Items	(\$77,288)M
Less projects unrelated to Cruise Industry	(\$14,519)M
Less adjustments for assumption errors	(\$12,741)M
Less fees paid	<u>(\$10,376)M</u>

REVISED ESTIMATED IMPACT **\$938K**

Source – McDowell Group Preliminary Estimates of Cruise Industry Fiscal Impacts on the State's General Fund, April 2004



Cruise Industry Fiscal Impacts

Juneau \$5 Head Tax

- Collection began in 2000
- Approximately 50% allocated to general gov't operations and tourism related impacts
- Balance allocated to capital projects
 - Approximately 25% (2M) is presently unspent
- Many expenditures would not pass equal protection tests



Targeted Tax Problems

Alaskan Community and Business Implications

- “Tourism Tariff” reduces economic activity in two ways
 - It reduces overall volume by applying the full tax burden on the initial purchase price, where the market offers the consumer many, attractive alternatives
 - It reduces in-state revenue per transaction by replacing community spending with taxation
 - Impacts retail, activities, how long they visit and local tax collections
- Current market demands more, not less value



Targeted Tax Problems

Research supports reduced visitor spending

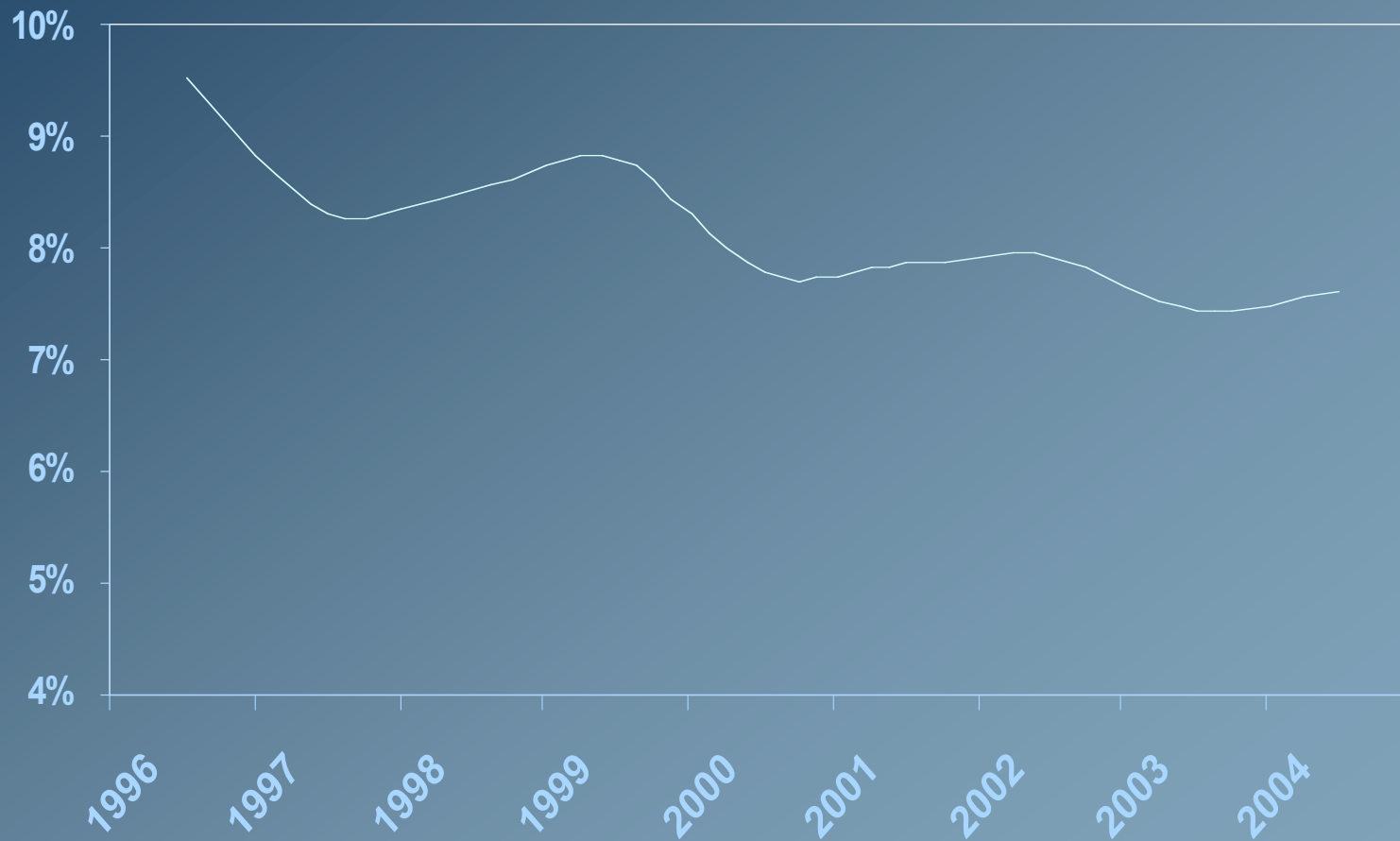
- 48% of those who report there was a good chance of their taking an Alaska cruise said a \$50 head tax would cause them to reconsider their plans.
 - 21% possibly will not cruise due to tax
 - 17% probably will not cruise due to tax
 - 10% absolutely will not cruise due to tax
 - 48% head tax will have not influence
 - 5% unknown



Targeted Tax Problems

Market Share – Alaska

Cruises



Targeted Tax Problems

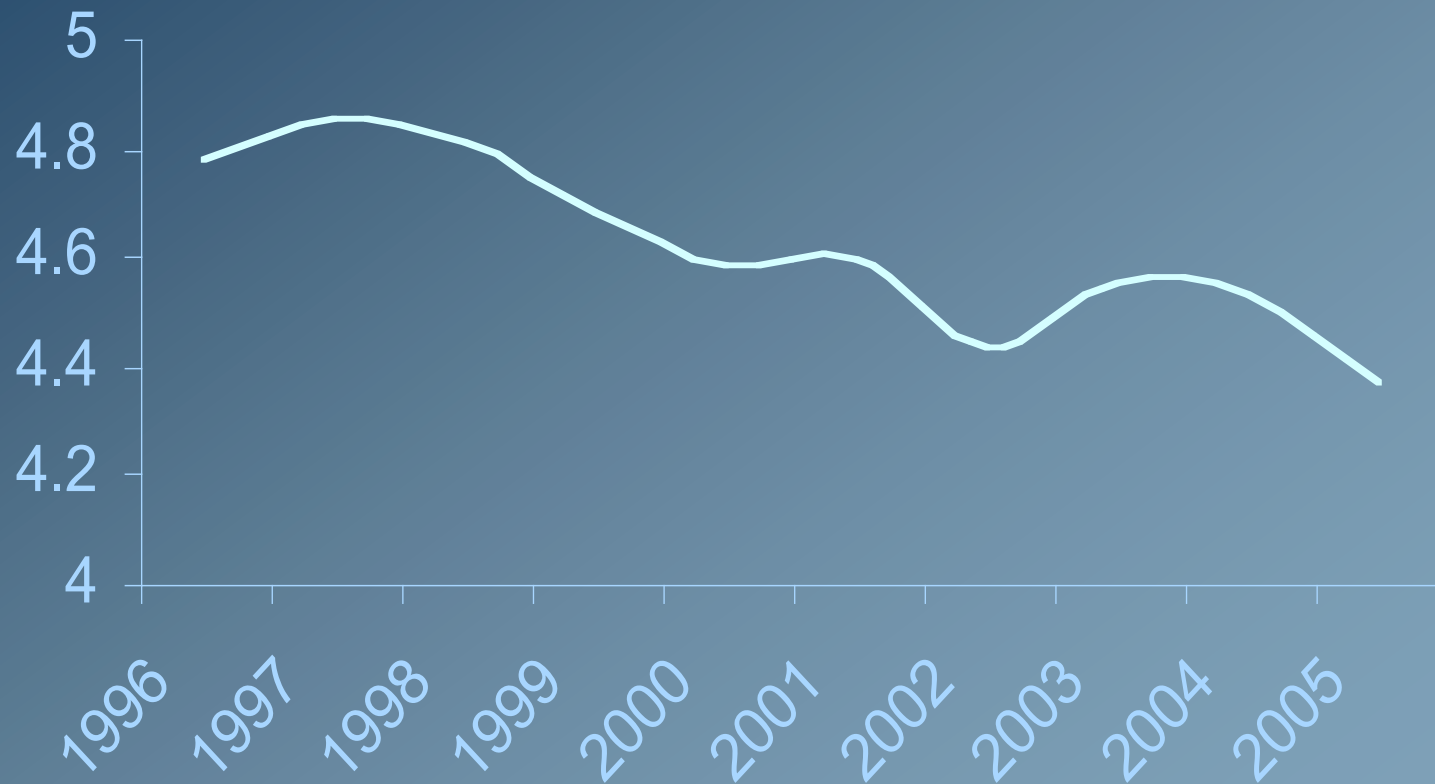
Research supports reduced visitor spending

- Of those anticipating 1-2 shore excursions
 - 18% said they would cut out altogether
 - 16% would reduce significantly
 - 30% would reduce somewhat
 - 18% hardly reduce
 - 15% not reduce at all
 - 3% Can't say



Targeted Tax Problems

Average land stay – Princess
Cruisetours



Targeted Tax Problems

Its Not Legal

- Commerce Clause of the Constitution
 - Regulation of foreign and interstate commerce is the role of congress vs. states
- Tonnage Clause of the Constitution
 - “Under the Tonnage Clause, a municipality cannot levy a general tax on ships for the privilege of entering a port” – John Hartle, Juneau City Atty.
- Maritime Transportation Security Act of 2002
 - No taxes, tolls, operating charges, fees or any other impositions whatever shall be levied upon or collected from any vessel or 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...
- Federal Law asserts, if there is no nexus between the tax and the services or fees consumed, the tax is not legal



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Final Comments

- Fiscal restraint is best achieved when beneficiaries have a significant role in funding government
- Taxation of industry to resolve the problem is no solution
 - Tariffs tourism, hampering competitiveness
 - Reduces spending with Alaska businesses and in the interior
- As spending in Alaskan communities is reduced, the economic activity which drives their funding also goes away
- The philosophy which drove the federal govt to keep the management of interstate commerce to themselves applies to any business.
 - Business should only be accountable to pay the marginal costs it burdens on the jurisdiction



