Report Highlights

Why DLA Performed This Audit

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Department of Commerce, Community, and Economic Development's and the Department of Revenue's Commercial Passenger Vessel Tax Program.

What DLA Recommends

1. Municipality of Skagway Borough management should only use CPV shared tax revenues for allowable purposes.
2. Ketchikan Gateway Borough management should ensure CPV shared tax revenues are only used for allowable purposes.
3. City and Borough of Sitka management should ensure CPV shared tax revenues are only used for allowable purposes.

A Performance Audit of the Department Of Commerce, Community, and Economic Development and Department Of Revenue Commercial Passenger Vessel (CPV) Tax Program

February 29, 2016
Audit Control Number 04-30083-16

REPORT CONCLUSIONS

The State has received approximately $271 million of CPV tax receipts since the program began in 2007 through FY 15. Of those receipts, $99 million (37 percent) was distributed back to port communities as part of the shared tax program. Another $130 million (48 percent) was appropriated as grants to communities or other recipients, and $35 million (13 percent) was appropriated as grants to the Department of Transportation and Public Facilities and the Department of Natural Resources.

The audit concluded that the CPV tax structure could allow CPV tax receipts to fall short of the amounts to be distributed. To date, CPV receipts have been sufficient to fund the amounts required to be distributed to port communities. However, significant increases to the number of passengers that visit a high number of ports would threaten the solvency of the CPV fund.

The audit also concluded that shared tax revenues spent by communities to improve port facilities and harbor infrastructure were spent in compliance with State law. However, CPV funds expended by communities for services other than port facilities and harbor infrastructure often lacked the documentation necessary to verify the expenditures complied with State law. One instance was found where CPV shared taxes were spent on unallowable activities.

Additionally, the unspent balance of shared taxes was determined to be reasonable based on community efforts to initiate or complete CPV projects. Furthermore, the audit concluded that unexpended CPV grants are supported by ongoing projects. However, the audit noted grants have been provided to ineligible recipients.

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ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
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March 18, 2016

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT AND
DEPARTMENT OF REVENUE
COMMERCIAL PASSENGER VESSEL
TAX PROGRAM

February 29, 2016

Audit Control Number
04-30083-16

The audit examines the receipt and distribution of commercial passenger vessel (CPV) taxes, including the amounts distributed as shared taxes to port communities and the amounts distributed as grants.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

Kris Curtis, CPA, CISA
Legislative Auditor

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ABBREVIATIONS

AAC	Alaska Administrative Code
ACA	Alaska Cruise Association
ACN	Audit Control Number
Art.	Article
AS	Alaska Statute
ch	Chapter
CISA	Certified Information Systems Auditor
cl.	Clause
Const.	Constitution
CPA	Certified Public Accountant
CPV	Commercial Passenger Vessel
CY	Calendar Year
DCCED	Department of Commerce, Community, and Economic Development
DCRA	Division of Community and Regional Affairs
DLA	Division of Legislative Audit
DOR	Department of Revenue
FY	Fiscal Year
IT	Information Technology
RCSI	Regional Cruise Ship Impact
SLA	Session Laws of Alaska
U.S.	United States
USC	United States Code

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Exhibits

ORGANIZATION AND FUNCTION

Department of Commerce, Community and Economic Development

The Department of Commerce, Community, and Economic Development's Division of Community and Regional Affairs (DCRA) is responsible for administering legislatively designated commercial passenger vessel (CPV) grants. After grants are awarded, DCRA obtains and reviews the detailed scope of work for CPV funded projects to ensure that the planned usage of the funding is aligned with requests provided to the legislature. DCRA issues grant agreements and is responsible for monitoring grant expenditures to ensure compliance with CPV statutes.

The Division of Economic Development is responsible for preparing a triennial report to the legislature, governor, and public that summarizes the projected needs of communities to safely and efficiently host cruise ships and passengers, and the associated costs.

Department of Revenue

The Department of Revenue's Tax Division is responsible for collecting CPV taxes and distributing $5 per passenger to the first seven port communities visited. The $5 distribution is referred to as shared taxes.

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BACKGROUND INFORMATION

Commercial Passenger Vessel (CPV) Excise Tax

The CPV excise tax is imposed on passengers traveling on commercial passenger vessels[1] providing overnight accommodations that anchor or moor on the State's marine water with the intent to allow passengers to embark or disembark. The tax is only imposed if the voyage lasts more than 72 hours on the State's marine water.

Currently, the tax rate is $34.50 per passenger per each voyage and is collected by the person or company providing travel to a passenger aboard a commercial vessel for which the CPV excise tax is payable. The taxes are remitted to the Department of Revenue (DOR) monthly and are due on the last day of the month following the month in which the voyages were completed.

History of the CPV Tax Program

The CPV excise tax was enacted by the 2006 Primary Election Ballot Measure No. 2 which became effective December 17, 2006. The ballot measure set the amount of the tax at $46 per passenger. The tax was to be deposited into a special account within the State's general fund. According to the law, $5 of receipts per passenger were to be distributed to the first five ports of call to which the passenger travelled. Port communities were required to use the funds to improve port and harbor facilities and other services to properly provide for vessel visits and to enhance the safety and efficiency of interstate and foreign commerce. Additionally, 25 percent of tax receipts were set aside in a sub-account called the Regional Cruise Ship Impact (RCSI) Fund to be available for appropriation to communities that were not eligible to receive the $5 per passenger distribution but were otherwise impacted by cruise ship related activities. RCSI funds were to be used to provide services or infrastructure directly related to passenger vessel or water craft visits or to enhance the safety and efficiency of interstate and foreign commerce related to vessel or water craft activities.

[1]Per AS 43.52.295(1)(A), *commercial passenger vessels* do not include vessels with fewer than 250 berths or other overnight accommodations for passengers.

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A legislative legal memorandum issued September 2009 stated that federal limitations imposed by the Commerce Clause[2] and Tonnage Clause[3] of the United States Constitution, and 33 USC 5(b)(2) should be considered when appropriating and spending money generated by a cruise ship passenger tax. According to 33 USC 5(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 to 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);*
>
> *(2) Reasonable fees charged on a fair and equitable basis 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; or*
>
> *(3) Property taxes on vessels or watercraft, other than vessels or watercraft that are primarily engaged in foreign commerce if those taxes are permissible under the United States Constitution.*

The memorandum cautions against spending the CPV tax on general operations and provides court case examples where a tax was deemed unallowable because it was used for non-vessel purposes. The memo describes criteria used by the U.S. Supreme Court in evaluating such a case. The Supreme Court held that a levy is reasonable *"if it (1) is based on a fair approximation of use the facilities, (2) is not excessive in*

[2]The U.S. Constitution prohibits states from imposing a "*duty of tonnage*" without the consent of Congress. Congress consented to the limited imposition of taxes related to vessels and water craft in the Maritime Transportation Security Act of 2002 Section 445 which is codified at 33 USC 5(b).

[3]Per U.S. Const. Art. I, § 8, cl. 3, *"The Congress shall have the power…to regulate Commerce with foreign Nations and among the several States and with the Indian tribes."*

relation to the benefits conferred, and (3) does not discriminate against interstate commerce." The CPV tax should not be used to raise "general funds."

After becoming law, the CPV tax faced criticism from the cruise ship industry. In September 2009, the Alaska Cruise Association (ACA) filed a lawsuit against DOR alleging that the tax:

> *Blatantly violates federal constitutional and statutory protections that circumscribe a state's permissible charges to a vessel or its passengers, limiting those charges to fair and equitable fees that (a) are used solely to compensate the state for specific services provided to the vessels charged, (b) impose a minimal burden on interstate or foreign commerce, and (c) enhance the safety and efficiency of commerce.*

A settlement agreement was reached with the ACA in April 2010 to resolve the lawsuit. Terms of the agreement were made part of state law during the 2010 legislative session.

The 2010 legislation reduced the tax rate from $46 to $34.50 per passenger. The amount remitted to DOR was further reduced by any CPV municipal taxes imposed on a passenger that were in effect prior to December 17, 2007. The legislation also expanded the $5 per passenger distributed to communities from the first five to the first seven ports visited. Furthermore, the provision that prohibited ports of call that levied a municipal CPV tax from receiving the $5 per passenger distribution was removed. These changes were effective for the 2011 cruise season. Appendix C shows the current CPV statutes.

Receiving and Distributing CPV Tax Receipts

DOR's Tax Division is responsible for collecting CPV taxes and distributing the $5 per passenger to the first seven port communities visited. The $5 distribution is referred to as *shared taxes* throughout this report. The Department of Commerce, Community, and Economic Development's Division of Community and Regional Affairs is responsible for administering legislatively designated CPV grants. CPV grants are appropriated for a five-year term. After the five-year term, grants may be extended for a one-year period for

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up to 10 consecutive years. Extensions are granted if a grantee can demonstrate a project is ongoing. Additionally, grants may also be re-appropriated by the legislature, thereby providing a grantee with funds for five more fiscal years with the option of renewed extensions.

REPORT CONCLUSIONS

This audit was requested to determine whether Alaskan communities are using commercial passenger vessel (CPV) excise taxes in accordance with state law. Audit objectives were to:

- Identify inception-to-date balances of unspent shared tax revenues by community, and determine the reasonableness of balances;
- Evaluate each community's use of shared tax revenues, and determine whether the revenues were used for statutorily defined purposes;
- Identify the amount and purpose of appropriations made to communities and other recipients, whether related projects were initiated as expected and, if applicable, reasons for delay; and
- Evaluate the CPV fund balance and determine fund solvency.

The State has received approximately $271 million of CPV tax receipts since the program began in 2007 through FY 15. Of those receipts, $99 million (37 percent) was distributed back to port communities as part of the shared tax program. Another $130 million (48 percent) was appropriated as grants to communities or other recipients, and $35 million (13 percent) was appropriated as grants to the Department of Transportation and Public Facilities and the Department of Natural Resources. Exhibit 1 (page 9) summarizes the CPV distributions for FY 07 through FY 15 as well as the unexpended balances as of June 30, 2015.

The audit concluded that the CPV tax structure could allow CPV tax receipts to fall short of the amounts to be distributed. To date, CPV receipts have been sufficient to fund the amounts required to be distributed to port communities. However, significant increases to the number of passengers that visit a high number of ports would threaten the solvency of the CVP fund.

The audit also concluded that shared tax revenues spent by communities to improve port facilities and harbor infrastructure were expended in compliance with State law. However, the audit determined that CPV funds expended by communities for services other than port facilities and harbor infrastructure often lacked the documentation necessary to verify the expenditures complied with

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State law. One instance was found where CPV shared taxes were spent on unallowable activities.

Additionally, the unspent balance of shared taxes was determined to be reasonable based on community efforts to initiate or complete CPV projects. Furthermore, the audit concluded that unexpended CPV grants are supported by ongoing projects. However, the audit noted grants have been provided to ineligible recipients.

Detailed report conclusions are as follows.

The tax structure threatens solvency of the CPV fund.

Two main aspects of the CPV tax program create a risk that CPV receipts will be less than amounts required to be distributed to port communities. First, the amount of the tax per passenger is less than the maximum amount that may be distributed. The tax collected is $34.50 per passenger, and the tax to be shared (distributed) is $5 per port up to the first seven ports visited for a maximum of $35. Therefore, it is possible, on a per passenger basis, for the State to owe $35 to port communities when the maximum collected is $34.50. To date, this issue has not created a funding problem because many passengers visit less than seven ports.

Secondly, there are two communities that levy a municipal CPV tax on cruise ship passengers that visit their port; the City and Borough of Juneau ($8 per passenger) and the City of Ketchikan ($7 per passenger).[6] Per statute, the amount of CPV taxes remitted to the State per passenger must be reduced by the amount of tax imposed by these communities, if applicable.[7] Yet, the amounts required to be distributed as shared taxes to the City of Ketchikan and the City and Borough of Juneau are not likewise adjusted.

The following example demonstrates the impact of these two issues. Cruise ship passenger Jane Doe visits seven communities on her cruise including Juneau and Ketchikan. The total CPV tax paid by Jane Doe is

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[6]The City of Ketchikan imposes a $7 per passenger tax for ships that dock at its port or $4 per passenger tax for ships that anchor and use its lightering dock. The audit identified that, in FY 15, more than 99 percent of ships that visited Ketchikan docked at its port.

[7]Per AS 43.52.255, the tax imposed on a passenger shall be reduced by the total amount of the tax on the passenger traveling on a commercial passenger vessel that is imposed and collected by a home rule or general law municipality under a law enacted before December 17, 2007.

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Exhibit 1

Recipient Name	Shared Taxes[4] Total Shared	Shared Taxes[4] Unexpended/ Unobligated June 30, 2015	Grant Appropriations[5] Total Awarded	Grant Appropriations[5] Unexpended June 30, 2015	Total Total Distributed	Total Unexpended/ Unobligated June 30, 2015
Summary of CPV Revenues Provided to Communities and Other Recipients FY 07 through FY 15 (Stated in Thousands)						
Alaska Aviation Heritage Museum	-	-	500	-	500	-
Alaska Native Heritage Center	-	-	695	-	695	-
Alaska Wildlife Conservation Center, Inc.	-	-	1,400	-	1,400	-
Alaska Zoo	-	-	800	-	800	-
Anchorage Museum at Rasmuson	-	-	2,000	78	2,000	78
City & Borough of Juneau	17,240	643	17,100	446	34,340	1,089
City & Borough of Sitka	5,666	28	13,800	8,929	19,466	8,957
City and Borough of Yakutat	-	-	650	-	650	-
City of Cordova	-	-	1,000	-	1,000	-
City of Homer	108	13	6,000	876	6,108	889
City of Hoonah	5,241	1,908	3,500	129	8,741	2,037
City of Hooper Bay	33	-	-	-	33	-
City of Ketchikan	8,198	3,600	22,300	1,300	30,498	4,900
City of Kodiak	146	-	2,934	384	3,080	384
City of Palmer	-	-	100	-	100	-
City of Saxman	-	-	1,500	-	1,500	-
City of Seward	2,814	-	5,130	-	7,944	-
City of Unalaska	22	-	-	-	22	-
City of Valdez	65	-	5,800	2,467	5,865	2,467
City of Wasilla	-	-	104	-	104	-
City of Whittier	7,056	2,969	325	281	7,381	3,250
City of Wrangell	115	68	6,215	466	6,330	534
Fairbanks North Star Borough	-	-	1,000	-	1,000	-
Haines Borough	1,274	-	6,354	-	7,628	-
Kenai Peninsula Borough	2,921	-	-	-	2,921	-
Ketchikan Gateway Borough	17,284	1,572	-	-	17,284	1,572
Kodiak Island Borough	146	-	-	-	146	-
Marine Exchange of Alaska	-	-	3,650	375	3,650	375
Morris Thompson Cultural and Visitors Center	-	-	1,000	-	1,000	-
Municipality of Anchorage	208	-	11,495	-	11,703	-
Municipality of Skagway Borough	30,550	12,554	10,100	371	40,650	12,925
Petersburg Borough	-	-	4,640	-	4,640	-
Total	99,087	23,355	130,092	16,102	229,179	39,457

Source: State accounting system and self-reported by communities and other recipients

[4]Total shared taxes include the City and Borough of Sitka and the Ketchikan Gateway Borough's accrued interest of $383 thousand and $114 thousand, respectively.
[5]Total grants exclude those CPV grants provided to the Department of Transportation and Public Facilities and the Department of Natural Resources. Between FY 07 and FY 15, $35 million was provided to those agencies and approximately $2 million remained unexpended as of June 30, 2015. These grants were excluded from the scope of our audit as the audit request focused on CPV revenues provided to non-state entities.

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$34.50. However, the State's portion of the tax ($34.50) is reduced by $8 remitted to Juneau and $7 remitted to Ketchikan leaving a net tax revenue remitted to the State of $19.50. The Department of Revenue must distribute $5 to each of the seven ports visited for a total of $35. The impact of Jane Doe's cruise on the CPV fund is negative $15.50 ($19.50 minus $35).

Exhibit 2 further demonstrates the impact of municipal CPV taxes and the number of ports visited on the CPV fund balance by summarizing the tax revenues collected and distributed by vessel for calendar year 2015. Vessels that show a negative net revenue are the result of the issues described above. In total, the fund collected $2 million more than it distributed during FY 15 because many of the passengers visited less than seven ports. If a greater percentage of passengers visit a high number of ports, the amounts to distribute would exceed the amounts collected. Department of Revenue management does not have a method to reduce allocations in the event the fund balance is not sufficient. Per management, in the event distributions exceed receipts, the department would either ask for general funds or seek legislative guidance as to a method for reducing distributions. At the end of FY 15, the unobligated available CPV fund balance was $7.6 million.

The unspent balance of shared taxes is reasonable based on community efforts to initiate or complete CPV projects.

The audit reviewed the balance of unspent shared taxes to determine whether communities were using the CPV shared tax revenues to appropriately and timely address the impacts of vessels and vessel passengers. Exhibit 3 summarizes CPV shared tax unexpended balances. Since the inception of the CPV tax program, $98.6 million of shared tax revenues have been distributed to 18 communities. As of June 30, 2015, $31.6 million was unexpended; of this amount, $8.3 million was encumbered[8] for use in ongoing projects. The remaining balance, $23.3 million, was unexpended/unobligated.

Approximately 82 percent of the unexpended shared taxes were held by three communities: the City of Whittier, the City of Ketchikan, and the Municipality of Skagway Borough. A review of the supporting documentation concluded that the unexpended/unobligated

[8]Encumbered balances represent shared tax revenues that were obligated by the community for use on a CPV related project, but were unexpended as of June 30, 2015.

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Exhibit 2

	CY 15 CPV Tax Collections and Distributions (Stated in Thousands) (Unaudited)					
	Revenues					
Vessel Name	Gross CPV Revenues	Reduction for Juneau Levy	Reduction for Ketchikan Levy	Net CPV Taxes Remitted	Taxes Distributed By Vessel	Net Balance
Carnival Legend	1,437	(333)	(291)	813	625	187
Coral Princess	1,351	(313)	(274)	764	773	(10)
Crown Princess	2,035	(472)	(413)	1,150	885	265
Crystal Symphony	32	-	(6)	26	18	8
Disney Wonder	1,259	(288)	(252)	719	546	173
Golden Princess	1,250	(290)	(228)	732	543	189
Grand Princess	1,669	(387)	(339)	943	967	(24)
Infinity	1,109	(257)	(225)	627	503	124
Jewel of the Seas	1,351	(313)	-	1,038	392	646
Millennium	1,318	(306)	(268)	744	955	(210)
Noordam	1,246	(289)	(253)	704	542	162
Norwegian Jewel	1,858	(431)	(377)	1,050	844	206
Norwegian Pearl	1,904	(441)	(386)	1,077	852	224
Norwegian Sun	1,366	(317)	(277)	772	847	(75)
Oosterdam	1,297	(310)	(269)	718	750	(32)
Pacific Princess	351	(82)	(68)	201	201	1
Radiance of the Seas	1,341	(311)	(272)	758	972	(214)
Regatta	246	(30)	(50)	166	154	12
Ruby Princess	2,158	(501)	(438)	1,219	938	282
Seven Seas Navigator	290	(63)	(49)	178	191	(12)
Silver Shadow	238	(52)	(46)	140	165	(25)
Solstice	1,997	(463)	(405)	1,129	868	261
Star Princess	1,676	(389)	(340)	947	958	(11)
Statendam	373	(85)	(74)	214	373	(158)
Volendam	797	(185)	(162)	450	347	104
Westerdam	71	(17)	(14)	40	31	9
Zaandam	843	(208)	(181)	454	512	(58)
Total Revenues	30,863	(7,133)	(5,957)	17,773	15,752	2,024

Source: Department of Revenue, Tax Division

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balances for these three communities were reasonable based on community efforts to initiate or complete CPV projects. Community efforts are described below.

City of Whittier: Whittier has an unexpended/unobligated balance of CPV tax revenues of approximately $3 million as of June 30, 2015. The city has designated the material portion of their balance to fund the construction of a public safety building. Whittier's public safety building will house its police department, fire department, and other emergency services. The building is projected to cost $8.6 million. Whittier management believes that the use of CPV funds for the building, which is not exclusively used for CPV purposes, is appropriate given the impact vessels and passengers have on the small community's emergency services. However, no definitive basis for allocating building costs to CPV purposes was provided.

City of Ketchikan: Ketchikan has an unexpended/unobligated balance of CPV tax revenues of $3.6 million as of June 30, 2015. Ketchikan has designated their CPV tax balance to fund the reconstruction of the Thomas Basin Seawall in Ketchikan. A $4.4 million contract for this purpose was awarded in August 2015. Ketchikan's Thomas Basin Seawall is a prerequisite step necessary to complete construction of the Ketchikan Promenade which is a walking path that will extend more than one mile from the dock to the historical district, thereby allowing cruise ship passengers to safely and easily access local attractions.

Municipality of Skagway Borough: Skagway has the highest unexpended shared tax balance of approximately $12.6 million (54 percent). A review of assembly meeting minutes revealed that the community wants to use the funding to construct a new Panamax dock to accommodate larger cruise ships. However, the municipality has faced challenges with securing additional funding for the design and construction of the project. In May 2015, the Skagway assembly passed a resolution to earmark $10 million of CPV shared tax revenues as matching funds for a federal transportation grant. After the close of FY 15, the grant for this purpose was denied.

During October 2015, Skagway voters rejected the extension of the White Pass & Yukon Route Railway lease on more than 78

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acres of municipal owned land. The decision to not extend the lease adds a layer of complexity to issues relating to Skagway's port. The land lease includes a dock which is used for mining and ore transport purposes. The existing lease will expire in 2023. Skagway is re-evaluating options with regard to port expansion including whether to demolish or refurbish the existing dock.

As of January 2016, the assembly continued to strategize the most efficient methods to address its port issues and to secure additional funding. Although no plans have been finalized, it was evident that the $12.6 million unexpended shared taxes would be an essential piece of the funding necessary to construct and/or refurbish Skagway's port facilities.

The audit also reviewed encumbrances to gain assurance the balances were supported by valid CPV related obligations. Specifically, the encumbrances for the City and Borough of Juneau, City and Borough of Sitka, and the Ketchikan Gateway Borough were reviewed. These three communities make up 86 percent of the June 30, 2015, encumbered balance. The audit concluded that the encumbrances were supported by valid obligations as described below.

City and Borough of Juneau: Juneau encumbered approximately $4 million of its CPV tax revenues to fund the construction of two new docks and the extension of the existing seawalk. The docks will accommodate larger cruise ship vessels and allow more ships to dock at Juneau's port rather than anchoring in the Gastineau Channel. Construction of the first dock began in September 2015, and construction of the second dock is planned to begin in September 2016. Construction of both docks is estimated to be completed by the end of FY 17. Expansion of the seawalk began in December 2015 and is expected to be completed by the end of FY 17.

City and Borough of Sitka: Sitka encumbered $1.8 million of its CPV tax revenues to fund the construction of its Centennial Hall. Upon its completion, Centennial Hall will house a visitor's center, museum, public restrooms, and an auditorium. Construction of the building began in August 2015 and is expected to be completed by the end of FY 17.

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Ketchikan Gateway Borough: Ketchikan Borough's encumbrance balance of $869 thousand largely relates to grants awarded to the City of Ketchikan, the Ketchikan Visitor's Bureau, and the City of Saxman. Grants were for port and harbor projects managed by the City of Ketchikan, operations of the Visitor's Bureau, and the expansion of the carving center at Totem Row Park located in the City of Saxman.

CPV shared tax revenues spent for port facilities and harbor infrastructure were allowable per State law.

Exhibits 4 and 5 show that between FY 07 and FY 15, the 18 communities that received shared tax revenues had expended $67 million of the $99 million received. Of the $67 million expenditures, 12 percent was spent improving harbor infrastructure, 29 percent was spent improving port facilities, and 59 percent was spent providing other services to vessels or passengers.

The audit concluded that CPV funds were expended on port facilities and harbor infrastructure in compliance with CPV statutes. However, it was noted that CPV funds were used to service debt for port projects that were initiated and the related debt incurred prior to beginning of the CPV program in 2007. Because statutes do not prohibit the use of funds on debt service and do not specifically identify the need for funds to be used on new projects, the audit considered these expenditures allowable per State law.

Conclusions regarding allowability of expenditures were based on review of material CPV funded projects listed as follows.

Port Facilities

More than 82 percent of the $19.7 million of port facility expenditures were incurred by the City and Borough of Juneau and the City of Ketchikan.

City and Borough of Juneau: Juneau is currently in the process of constructing two new cruise ship docks. The $12.5 million of expenditures relate to the design, engineering, and pre-purchase and fabrication of materials portion of the project, which has been underway for several years. Construction of the docks began in September 2015 and is expected to be completed by the end of FY 16.

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