

NORTH WEST
CRUIESHIP
ASSOCIATION

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*File
7. Juneau
City of Juneau*

March 21, 2007

Mr. Rod Swope
City Manager
City and Borough of Juneau
155 Seward Street
Juneau, AK 99801

Dear Rod,

Subject: FY07 Cruise Passenger Fee Proceeds

Thank you for providing a copy of your memo dated March 7, 2007 on the proposed allocation of the proceeds for the coming year. As always we appreciate having the opportunity to review and comment on the proposal.

I am pleased to offer the following comments.

1. First, we would note the importance of vigilance in reference to federal laws (as summarized in 33 USC sec. 5.b) and the need to be mindful that projects funded from of proceeds from passenger fees must clearly provide services or facilities to those that pay the fee. While some of listed projects do meet the criterion, others (for example, the proposed study of a downtown circular bus, reconstruction of the floats in Aurora harbor, aircraft re-engining) do not appear to meet the test.
2. In a similar vein, the allocation of 20% (\$1,102,000) for city overhead is based on a flawed analysis of cost allocation. It is incorrect to imply, in the paragraph under "General Support", that the North West Cruiseship Association conducted an audit and incorrect to imply that the NWCA concluded that the formula "provided a fair and accurate assessment of costs." It would be correct to state that CB Juneau conducted a study in 2003 and NWCA commented on it. A copy of our comments submitted in February 2004 is attached.
3. With respect to the applications for funding for aircraft re-engining we believe that it is very important for CB Juneau to develop more rigorous criteria for assessment taking into account the amount of noise abatement for the funds spent,

NWCA Member Lines:

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

Exhibit EJ
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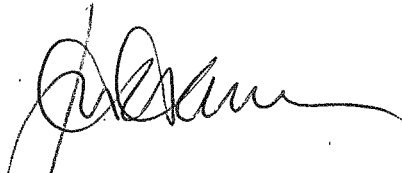
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and specifically linked to cruise operations. This should be completed in order to provide better transparency in the process before any further funding is provided. On first glance, it does not appear to us that the \$500,000 proposal included in the list would meet the test.

4. The memo proposes \$500,000 towards rehabilitation of "A" Float in Aurora Harbor. While we understand the attractiveness of leveraging government grants in partnering on projects, the link to cruise operations appears to be a stretch. Furthermore, this is not a project requested by the cruise lines nor AMAK Towing.
5. We are concerned about the proposed study of a circular bus route. There are already such services in place. We believe that a study is neither necessary nor appropriate.
6. Finally, \$125,000 is proposed towards evaluation of proposals for the downtown cruise ship berth enhancement. This is a worthwhile effort and we fully support it. What is not clear is what exactly this would cover in the broader context of the full evaluation/concept design/pre-engineering. We recognize that this phase of a major project is expensive, and \$125,000 may cover only a small portion of this phase, and would not object to increasing the amount allocated for this.

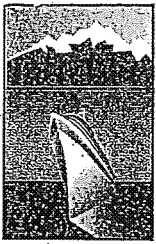
Again, thank you for the opportunity to comment. We look forward to continuing discussion with you on this matter.

Sincerely,



John Hansen
President, NWCA

cc Mayor Botelho
Members of the Assembly



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February 26th, 2004

Mr. Rod Swope
City Manager
City and Borough of Juneau
155 Seward Street
Juneau, Alaska 99801

Dear Rod,

Thank you for providing a copy of the "Full Cost Allocation Plan" with regard to the Marine Passenger Fee Allocation.

We have reviewed the document and while this report contains a large amount of detail that could be dissected and discussed, we are wish to offer the following preliminary general comments regarding the allocations.

1. The first is that while the Plan attempts to allocate costs to the cruise operations, there is no effort to factor in the revenues to the City and Borough resulting from the cruise industry. (i.e. sales taxes from cruise passenger spending; property taxes from the business that cater to cruise ships, passengers and crew; sales taxes on dockage, water, tonnage and lightering fees).
2. Secondly we submit that the costs of some services (e.g. policing, street cleaning) in the downtown core are already being paid for through the tax revenues noted above. Thus applying the cruise ship head tax revenue is in fact double payment for the required service.
3. Thirdly we believe the cost allocation for some services (e.g. the library) is flawed because it does not establish a direct relationship between the cruise guest visiting the library and the marginal costs they incur. In the case of the library, the methodology appears to be to estimate the number of cruise guests visiting as a percentage of the total and then allocate the resulting estimated percentage to the total cost. A more correct methodology would be to estimate the cost of the services provided, and then estimate the marginal cost incurred because of the usage by cruise passengers. In the case of the library, the proper question, phrased differently, would be: "how much would CBJ save if cruise guests were not permitted

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Princess Cruises • Radisson Seven Seas Cruises • Royal Caribbean International • World Explorer Cruises

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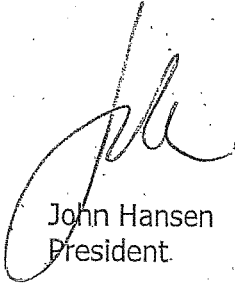
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in the library?" In fact we believe that it would be a good discipline to apply this type of question to all categories of spending.

These preliminary comments, of course, address only the methodology and some of the policy assumptions underlying the proposed cost allocation plan as it relates to the expenditure of passenger fee proceeds on "general support." As you are aware, there are also legal issues that will need to be discussed in light of the recent federal legislation concerning state and local taxation of vessels and vessel passengers -- issues that relate to the use of passenger fee proceeds both for "general support" as well as a number of other proposed FY05 uses that are listed in your November 7, 2003 memorandum to the Passenger Fee Proceeds Committee.

In summary, we appreciate having the opportunity to review the allocation plan. This has helped us understand the methodology and provide feedback. We look forward to discussing this with you further.

Sincerely,



John Hansen
President