

# Alaska Dispatch News

**Business/Economy**

## Cruise ship tax falling short of financial expectations in Sitka

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Approximately 120,000 passengers stepped off cruise ships in Sitka last year, and municipal officials expected \$5 for each one as the city's share of Alaska's \$34.50 state cruise ship passenger tax.

Sitka's check from the state, however, arrived with a surprise: Fewer than 83,000 passengers who stopped at the port were assessed the tax.

It turns out that not every guest aboard a major cruise ship stopping at an Alaska port is taxed. Under state law, the \$34.50 tax is assessed only for passengers who spend 72 hours or more per voyage in state waters. The Alaska Department of Revenue concluded that a third of the cruise visitors who stopped in Sitka did not qualify for the tax.

City officials are not sure why, but they have seen revenue for passengers visiting the city fall from \$1.3 million to \$414,310 over four fiscal years.

"We're very concerned we could see a dramatic reduction in 2012," said the city's public works director, Michael Harmon. "They are setting up itineraries in 2012 similar to itineraries in 2011 in which they did not have to pay, is our understanding. The information we get is very limited from the Department of Revenue so it's very difficult to connect the dots with certainty, but that's kind of the trend we're seeing."

Given the enthusiasm with which cruise lines opposed the tax when it was passed by voter initiative nearly six years ago, Sitka officials wondered if cruise companies were planning itineraries to avoid the tax on passengers, lingering outside territorial waters of the state. That's not the case, said Sally Andrews, an executive with Holland America Line, the main cruise company that stops at Sitka.

Consumer demand for destination and sufficient time for customers to enjoy it are prime considerations, Andrews said. So are ship speed and tidal changes. The tax is not, Andrews said.

Holland America plans itineraries two to three years in advance, Andrews said, and consults with state tax officials to determine whether vessels will be in Alaska territorial waters for 72 hours.

Exhibit AV  
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"The tax is collected from guests and we remit that to the Alaska Department of Revenue, per Alaska law," she said. "So the tax is paid by guests, not Holland America line. If we are not in an area for a certain amount of time, we don't collect it. So it has no impact on our profitability, and thus would not be a reason for us to consider that."

A voter initiative created the tax in 2006. Supporters said it would help cover the cost of infrastructure needed for large ships. Cruise interests argued the tax was unconstitutional and sued. The Alaska Legislature, at the urging of Gov. Sean Parnell, in 2010 cut the head tax from \$46 to \$34.50 with deeper offsets for ships stopping in Juneau or Ketchikan, and the lawsuit was dropped.

The state collected \$16.4 million last year on 820,238 passengers. Johanna Bales, deputy director of the Tax Division in the Department of Revenue, said Sitka is the only Panhandle community to mention a shortfall.

Sitka officials wondered if ships were lingering in Glacier Bay, where the National Park Service exerts jurisdiction for vessel traffic, or Tracy Arm, which is surrounded by federal Tracy Arm-Fords Terror Wilderness. However, both are considered state waters, said Andrews and Chris Poag, an assistant attorney general.

Poag said specific tax cases cannot be discussed but he speculated that the shortfall for Sitka may be because of its location on the Pacific Ocean side of Baranof Island.

He suggested cruise ships transiting north from Seattle or Vancouver, British Columbia, could be in international waters beyond the Inside Passage for much of voyage and not in Alaska waters for 72 total hours, even with stops in Juneau and Ketchikan.

Juneau attorney Joe Geldhof, one of the sponsors of the 2006 initiative, said the 72-hour requirement was picked in part to reflect a sufficient link between the tax and time spent by passengers in the state.

"It just seemed like the right point, if you will, on which to strike the balance -- when are you over-regulating or under-regulating," he said.

Harmon, the Sitka public works director, said it's of little consequence to his community if a cruise ship spends more than 72 hours in state waters.

"It impacts us the same way as if they had been in our waters for 365 days," he said. "It wouldn't make a difference. It's still the same visit."

Sitka was Alaska's first capital. The community of nearly 9,000 bills itself as a place to enjoy a mix of Tlingit Indian and Russian-American influences.

Cruise passenger revenue must be spent on projects that benefit cruise passengers. The state share is spent on specific projects and is paying for an upgrade of Sitka's Centennial Hall, the emergency assembling point for passengers.

Sitka has discretion on how to spend its \$5 per cruise passenger. The money is put into a fund that has paid for security guard facilities, visitor restrooms and signs that lead to historic sites, said municipal administrator Jim Dinley.

"The main criterion always is, 'Did we serve the cruise ship passenger?'" he said.

Andrews said Holland America expects to bring 78,000 passengers to Sitka on 41 sailings in 2012, primarily on the Oosterdam and the Westerdam.

"Both of those will be in Alaska waters more than 72 hours," she said. "We have been collecting the applicable tax on those sailings since we began taking reservations on those sailings, which started in January of last year."

According to the company website, those vessels are each scheduled for 20 seven-day cruises that include Sitka. Another vessel, the Amsterdam, is scheduled for one seven-day cruise.

The Amsterdam, according to the website, will also make seven 14-day voyages that include stops in Sitka.

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