

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.

A handwritten signature in black ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

Exhibit BY
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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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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 vessels¹ 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.

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

A legislative legal memorandum issued September 2009 stated that federal limitations imposed by the Commerce Clause² and Tonnage Clause³ 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

²The 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).

³Per 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

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

**The tax structure
threatens solvency of
the CPV fund.**

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.

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

⁶The 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.

⁷Per 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.

Exhibit 1

Summary of CPV Revenues Provided to Communities and Other Recipients FY 07 through FY 15 (Stated in Thousands)						
Recipient Name	Shared Taxes ⁴		Grant Appropriations ⁵		Total	
	Total Shared	Unexpended/ Unobligated June 30, 2015	Total Awarded	Unexpended June 30, 2015	Total Distributed	Unexpended/ Unobligated June 30, 2015
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

⁴Total shared taxes include the City and Borough of Sitka and the Ketchikan Gateway Borough's accrued interest of \$383 thousand and \$114 thousand, respectively.

⁵Total 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.

\$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 encumbered⁸ 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

⁸Encumbered 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.

Exhibit 2

CY 15 CPV Tax Collections and Distributions (Stated in Thousands) (Unaudited)						
Vessel Name	Revenues					
	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

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

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.

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

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.

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.

Exhibit 3

Summary of Shared Tax Unexpended Balances FY 07 through FY 15 (Stated in Thousands)						
Community Name	Shared Tax	Interest ^a	Expended	Encumbered	Unexpended/ Unobligated June 30, 2015	Percent of Unexpended/ Unobligated
City & Borough of Juneau	17,240	-	12,522	4,075	643	3%
City & Borough of Sitka	5,283	383	3,510	2,128	28	0%
City of Homer	108	-	95	-	13	0%
City of Hoonah	5,241	-	2,496	837	1,908	8%
City of Hooper Bay	33	-	33	-	-	0%
City of Ketchikan	8,198	-	4,572	26	3,600	15%
City of Kodiak	146	-	146	-	-	0%
City of Seward	2,814	-	2,501	313	-	0%
City of Unalaska	22	-	22	-	-	0%
City of Valdez	65	-	65	-	-	0%
City of Whittier	7,056	-	4,088	-	2,968	13%
City of Wrangell	115	-	47	-	68	0%
Haines Borough	1,274	-	1,266	8	-	0%
Kenai Peninsula Borough	2,921	-	2,921	-	-	0%
Ketchikan Gateway Borough	17,170	114	14,843	869	1,572	7%
Kodiak Island Borough	146	-	146	-	-	0%
Municipality of Anchorage	208	-	208	-	-	0%
Municipality of Skagway Borough	30,550	-	17,996	-	12,554	54%
Total	98,590	497	67,477	8,256	23,354	100%

Source: Self-reported by communities

City of Ketchikan: Ketchikan’s CPV shared tax expenditures were materially used to fund bond, lease, and loan payments related to port berths III and IV. The design and engineering of berth III was funded by an interfund loan during FY 03. After the receipt of its first shared tax in FY 12, Ketchikan used \$1.3 million of CPV shared taxes to pay the remaining balance of the interfund loan. The construction of berth III was funded by a bond that was issued during FY 07. In FY 13, Ketchikan used \$1.1 million of CPV tax revenues to make bond principle and interest payments.

Harbor Infrastructure

Nearly half of the \$8 million of harbor infrastructure expenditures were incurred by the Municipality of Skagway Borough.

^aThe City and Borough of Sitka and the Ketchikan Gateway Borough reported accrued interest of \$383 thousand and \$114 thousand, respectively. The sum of shared taxes and interest were used to fund CPV related expenditures. Communities were not asked to report interest earned on CPV funds as part of this audit. Therefore, the lack of interest reported by other communities in Exhibit 3 does not indicate that the communities did not earn interest on the funds.

CPV funds expended for other CPV services often lack the documentation necessary to verify the expenditures complied with State law.

Municipality of Skagway Borough: Skagway's harbor infrastructure expenditures were for small boat harbor improvements and construction of a boat maintenance building. Improvements included constructing a seawalk and wave barrier (breakwater) to enhance CPV passenger safety as passengers transit between the large vessel dock and the small boat harbor where they access tours. The boat maintenance building provides services for boat owners that use the small boat harbor including boats that provide tours to cruise ship passengers.

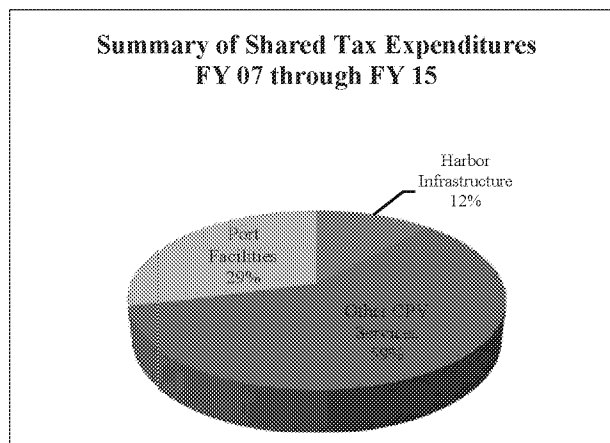
Approximately \$39.8 million of CPV shared tax expenditures were spent on services for vessels and vessel passengers (shown as Other CPV Services in Exhibit 5). This category of services included, in part, utilities provided to cruise ships, public safety and emergency response services, public transportation, and visitor center operations. The audit reviewed material other CPV services expenditures for the port communities of the City and Borough of Sitka, the Municipality of Skagway Borough, and the Ketchikan Gateway Borough. These communities represent 77 percent of the expenditures in this category. The review included on site review of expenditure documentation and tours of CPV projects.

The audit found that although some expenditures were for specific CPV projects or to cover specific CPV related costs, there were many instances where CPV funds were used to pay for general municipal costs or to fund a portion of capital projects not exclusively dedicated to vessels or vessel passengers. Often the use of CPV revenues for general municipal costs were not justified by data such as square footage for CPV versus non-CPV duties, time worked on CPV versus non-CPV activities, people served, or other objective data. With the exception of the Municipality of Skagway Borough, municipal representatives provided anecdotal evidence regarding how vessels and passengers generally increase the need for certain services.

As discussed in Background Information, federal law prohibits the use of CPV taxes to raise funds for general purposes. Consequently, CPV taxes may only fund general operations to the extent benefits are conferred to vessels and passengers. The audit could not confirm that expenditures for a portion of other CPV services at Ketchikan Gateway Borough and City and Borough of Sitka met these limitations. (See Recommendations 2 and 3.)

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Exhibit 4



Detailed descriptions of the three communities that materially used CPV funds for other CPV services are provided below.

Ketchikan Gateway Borough: Since the beginning of the CPV tax program, the Ketchikan Borough expended or granted more than \$13 million of shared tax revenues. Material expenditures include transit services (\$2.0 million), airport services (\$1.3 million), other municipal services (\$2.8 million), the Ketchikan Visitor's Borough (\$2.5 million), and the First City Players (\$500,000). Appendix B provides a detailed listing of shared tax expenditures. While some of the expenditures are directly linked to CPV costs such as the installation of bathrooms to serve vessel passengers, expenditures for some municipal services such as transit and airport costs were supported by estimates.

City and Borough of Sitka: Approximately \$2.8 million of Sitka's expenditures are composed of transfers to its general fund, harbor fund, and its capital projects fund. General fund transfers were intended to offset the costs of operating its Centennial Hall building, emergency services, public safety services, and other general municipal costs. Transfers to the harbor fund were for operations of the cruise ship lightering dock which is located in Sitka's harbor. Transfers to its capital projects fund support the ongoing Centennial Hall reconstruction project. The Centennial Hall building will serve as a loading area for passengers.

Municipality of Skagway Borough: Since FY 07, Skagway has used \$11 million of CPV funds to pay its general water, sewer and garbage expenditures. Annually, these CPV taxes fund approximately 20 to 27 percent of its budget for these costs. According to municipal representatives, the use of shared tax revenues to fund general municipal operations is justified by a cruise ship impact survey completed in FY 08. The survey concluded that approximately 55 percent of Skagway's municipal service hours are spent providing services to cruise ships and passengers. The impact survey serves as an objective basis for using CPV funds for general municipal operations. However, the audit noted that the survey was six years old at the time of the audit and in need of being updated. The audit also noted one instance where CPV funds were inappropriately used to buy playground equipment for Skagway's elementary school. (See Recommendation 1.)

Exhibit 5

Shared Tax Expenditures by Community FY 07 through FY 15 (Stated in Thousands)				
Community Name	Port Facilities	Other CPV Services	Harbor Infrastructure	Total Expenditures
City & Borough of Juneau	12,522	-	-	12,522
City & Borough of Sitka	-	3,145	366	3,511
City of Homer	35	30	31	96
City of Hoonah	190	2,296	10	2,496
City of Hooper Bay	33	-	-	33
City of Ketchikan	3,819	753	-	4,572
City of Kodiak	-	146	-	146
City of Seward	433	1,098	970	2,501
City of Unalaska	-	22	-	22
City of Valdez	33	32	-	65
City of Whittier	-	1,210	2,878	4,088
City of Wrangell	-	47	-	47
Haines Borough	649	618	-	1,267
Kenai Peninsula Borough	-	2,921	-	2,921
Ketchikan Gateway Borough	1,776	13,017	50	14,843
Kodiak Island Borough	-	146	-	146
Municipality of Anchorage	208	-	-	208
Municipality of Skagway Borough	17	14,306	3,673	17,996
Total Expenditures	19,715	39,787	7,978	67,480

Source: Self-reported by communities

Unexpended CPV grants were supported by ongoing projects.

Between FY 07 and FY 15, 72 designated legislative CPV grants totaling \$130 million were issued to 27 communities and other recipients. As of June 30, 2015, \$16.1 million (12 percent) of the grants were unexpended. Unexpended grants are summarized in Exhibit 6. Material unexpended grants were reviewed to determine whether the related projects were initiated as expected and the cause of delays if applicable. The audit concluded that unexpended balances were supported by ongoing projects.

Exhibit 6

Unexpended Legislative CPV Grants FY 07 through FY 15 (Stated in Thousands)						
Recipient	Appropriation Year	Grant Name	Amount Authorized	Unexpended Balance at June 30, 2015	Percent Unexpended	
Anchorage Museum at Rasmussen	FY 11	Major Maintenance Project	2,000	78	0%	
City & Borough of Juneau	FY 15	Salmon Creek Water Treatment	650	446	3%	
City & Borough of Sitka	FY 10	Commercial Passenger Vessel Lightering Facility Improvements	2,000	1,053	7%	
City & Borough of Sitka	FY 11	Commercial Passenger Vessel Facilities and Visitor Improvements	4,500	2,076	13%	
City & Borough of Sitka	FY 12	Commercial Passenger Vessel and Visitors Facility Improvements	3,000	2,500	16%	
City & Borough of Sitka	FY 15	Commercial Passenger Visitor Facilities Improvements	3,300	3,300	21%	
City & Borough of Wrangell	FY 11	Commercial Passenger Vessel Facility	3,250	466	3%	
City of Homer	FY 12	Cruise Ship Dock and Passenger Facility Improvements	6,000	876	5%	
City of Hoonah	FY 11	Hoonah Harbor Improvements	1,000	129	1%	
City of Ketchikan	FY 14	Ketchikan Promenade	1,300	1,300	8%	
City of Kodiak	FY 12	Pedestrian Pathway Planning and Design	384	384	2%	
City of Valdez	FY 10	Dock Improvements	3,325	1,667	10%	
City of Valdez	FY 10	City Dock Information and Interpretative Center	800	800	5%	
City of Whittier	FY 10	Railroad Station Improvements	325	281	2%	
Marine Exchange of Alaska	FY 14	Marine Exchange Building	1,000	375	2%	
Municipality of Skagway Borough	FY 15	Float Extension to Serve Cruise Passenger Vessels	800	371	2%	
Total			33,634	16,102	100%	

Source: State accounting system and budget documents from the Office of Management and Budget

The material portion of the unexpended balances as of June 30, 2015, was \$8.9 million (55 percent) for grants awarded to the City of Sitka, \$2.5 million (15 percent) for grants awarded to the City of Valdez, and \$1.3 million for a grant awarded to the City of Ketchikan (8 percent). The audit found that these projects were progressing as described below:

City and Borough of Sitka: Sitka's unexpended balance of \$8.9 million relates to commercial passenger vessel lightering facility and visitor improvements grants. The grants are being used as a source of funding for the reconstruction of Sitka's Centennial Hall and adjacent Crescent Harbor parking lot. The audit verified that construction of the project began in August 2015. Prerequisite design and engineering procedures were performed prior to the construction period. The project is expected to be completed by the end of FY 17.

City of Valdez: In FY 10, Valdez was appropriated \$4.1 million for city dock improvements and the interpretive center. Both grants were due to terminate on June 30, 2014; however, the unexpended balance of \$2.5 million was reappropriated during FY 15. Valdez recently completed prerequisite steps necessary to begin the dock improvement projects. The city is in the process of planning the construction of the interpretive center and dock improvements.

City of Ketchikan: In FY 14, Ketchikan was appropriated \$1.3 million to extend its existing promenade. The promenade is a pedestrian pathway that will extend more than one mile along the cruise dock area upon completion. As of June 30, 2015, none of the grant had been expended as the project was waiting for the reconstruction of the Thomas Basin Seawall to be completed prior to beginning construction of the promenade. Construction of the promenade is expected to begin in FY 16.

CPV grants were awarded to ineligible recipients.

Alaska Statute 43.52.230(e) states that after October 31, 2010, and before November 1, 2015, communities that impose a CPV tax through a municipal law may not receive a CPV funded grant. Two communities are subject to this prohibition, the City and Borough of Juneau and the City of Ketchikan. Appendix A shows that both communities were awarded CPV grants regardless of this statutory prohibition.

FINDINGS AND RECOMMENDATIONS

**Recommendation 1:
Municipality of Skagway
Borough management
should only use
commercial passenger
vessel (CPV) shared tax
revenues for allowable
purposes.**

Municipality of Skagway Borough management used CPV funds to purchase playground equipment for the Skagway elementary school at a cost of \$114,450. Management believes the use of CPV funds for this purpose was appropriate because school playground equipment is used by visiting cruise passengers and children of seasonal workers. Additionally, management states that the school serves as a disaster response location for cruise ship passengers.

Alaska Statute 43.52.230(b) states that funds must be used for port facilities, harbor infrastructure, and other services to the commercial passenger vessels and the passengers on board those vessels. Additionally, 33 USC 5(b)(2) limits the use of CPV shared taxes. Per 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 USC 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.*

Playground equipment primarily used for the elementary school does not qualify as an allowable purpose under state or federal law.

By using CPV shared tax revenues for purposes other than those defined in AS 43.52.230(b) and 33 USC 5(b)(2), the municipality's reduced funding available to pay for costs related to port facilities, harbor infrastructure, or other services to vessels and passengers.

We recommend the municipality's manager only use CPV shared tax revenues for allowable purposes.

**Recommendation 2:
Ketchikan Gateway
Borough management
should ensure CPV shared
tax revenues are only used
for allowable purposes.**

Ketchikan Gateway Borough funded a portion of general transit, airport, and other municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Borough management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes.

Management believes the CPV funded expenditures are allowable per state statute. Management has not developed a cost allocation methodology to support paying municipal services with CPV revenues because, per management, the costs of doing so are not outweighed by the benefits.

Alaska Statute 43.52.230(b) states that funds must be used for port facilities, harbor infrastructure, and other services to the commercial passenger vessels and the passengers on board those vessels. Furthermore, 33 USC 5(b)(2), limits the use of CPV shared taxes. Per 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 USC 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.*

Cruise ship port calls greatly impact the general operations of the communities visited. However, the extent to which operational costs were increased as a result of vessels and passengers was not identified. Consequently, auditors could not verify that the CPV expenditures were for an allowable purpose per statute. By not specifically justifying the use of CPV shared taxes in terms of benefiting vessels or vessel passengers with objective support, the allowability of the CPV tax may be questioned.

We recommend the Ketchikan Gateway Borough management ensure CPV shared tax revenues are used only for allowable purposes. Furthermore, we recommend the management develop a cost allocation methodology to support the use of CPV shared taxes to pay for municipal services that appropriately allocates costs between CPV and non-CPV services.

**Recommendation 3:
City and Borough of Sitka
management should
ensure CPV shared tax
revenues are only used for
allowable purposes.**

City and Borough of Sitka funded a portion of general municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Sitka management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes.

Sitka management stated that the municipality has been conservative in allocating CPV revenues for municipal services and believes that CPV funded expenditures are allowable per state statute. Management was unaware that detailed support was necessary to justify the use of CPV funds for general municipal services.

Alaska Statute 43.52.230(b) states that funds must be used for port facilities, harbor infrastructure, and other services to the commercial passenger vessels and the passengers on board those vessels. Furthermore, 33 USC 5(b)(2), limits the use of CPV shared taxes. Per 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 USC 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.*

Cruise ship port visits greatly impact the general operations of the communities visited. However, the extent to which operational costs were increased as a result of vessels and passengers was not specifically identified. Consequently, auditors could not verify that CPV expenditures were for an allowable purpose per statute. By not specifically justifying the use of CPV shared taxes in terms of benefiting vessels or vessel passengers with objective support, the allowability of the CPV tax may be questioned.

We recommend the City and Borough of Sitka management ensure CPV shared tax revenues are used only for allowable purposes.

Furthermore, we recommend that management develop a cost allocation methodology to support the use of CPV shared taxes to pay for municipal services that appropriately allocate costs between CPV and non-CPV services.

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OBJECTIVES, SCOPE, AND METHODOLOGY

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 commercial passenger vessel (CPV) tax program administered by the Department of Commerce, Community, and Economic Development (DCCED) and the Department of Revenue (DOR).

Objectives

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.

Scope

The audit evaluated CPV receipts and distributions from FY 07 through FY 15.

Methodology

To gain a general understanding of the CPV excise tax program, we reviewed and evaluated:

- CPV statutes (AS 43.52.200-295) to understand the nature of the tax program and to evaluate the impact of statutory changes on current accounting practices and the CPV fund balance.
- DOR's CPV tax procedures to understand the tax collection process.
- DCCED's annual capital budget for FY 07 through FY 15 to obtain a listing of CPV funded designated legislative grants.
- CPV revenue and expenditure information from the state accounting system to identify receipts and distributions by fiscal year and by

recipient. Information was also used to verify unexpended grant balances reported by grant recipients.

- A legislative legal memorandum regarding federal limitations on the cruise ship passenger tax imposed under AS 43.52.200-.295, dated September 4, 2009, to understand federal restrictions on the allowability of CPV expenditures.

To further understand the CPV tax program, interviews were conducted with:

- DCCED grant accountants to gain an understanding of the CPV grant award, reimbursement, and monitoring process.
- The DOR Tax Division director and accountants to gain an understanding of the CPV revenue receipt and distribution process.
- CPV grant recipient management and staff to understand the nature of projects or other municipal services funded by CPV revenues, and accounting practices used to record CPV revenues and expenditures. Examples of individuals interviewed include:
 - o City managers, administrators, or executive directors;
 - o Finance directors or accounting managers;
 - o Finance, grant, and accounting staff;
 - o Public works directors;
 - o Port and harbor masters and/or engineers.

A questionnaire was provided to all recipients of CPV shared taxes and grants, with the exception of state agencies, to identify unexpended shared tax balances, uses of shared taxes, and project timelines for CPV funded grants. All questionnaires were returned. Communities and other recipients of CPV taxes and grants were selected for more detailed review based on the following criteria:

- Recipient's shared tax receipts exceeded more than 10 percent of total shared taxes distributed to port communities.
- Recipient's grant awards exceeded more than 10 percent of total grants provided to all communities and other recipients.

-
- Recipient's unexpended grant balance as of June 30, 2015, exceeded more than 10 percent of the total unexpended grant balances or the unexpended grant balance was greater than \$500,000.
 - Recipient's unexpended shared tax balance as of June 30, 2015, exceeded more than 10 percent of the total unexpended shared tax balances.

Based on these criteria, 10 communities and other CPV recipients were selected for detailed review as described below.

Communities With CPV Tax Receipts or Grant Awards That Exceeded More Than 10 Percent of Total

The following communities had CPV tax receipts or grant awards that exceeded more than 10 percent of the total: City and Borough of Juneau (Juneau), City of Ketchikan (Ketchikan), Ketchikan Gateway Borough (Ketchikan Borough), City and Borough of Sitka (Sitka), and Municipality of Skagway Borough (Skagway). For this group of CPV recipients, auditors visited each community and reviewed expenditure support and toured CPV funded projects. More specifically, the following were reviewed and evaluated:

- The Office of Management and Budget's total project snapshot reports and DCCED's Division of Community and Regional Affairs (DCRA) grant agreements to understand the nature of projects funded by CPV appropriations.
- Recipients' policies and procedures to understand internal controls related to expenditure approval and cost allocation processes.
- Community resolutions and/or ordinances that designated the use of CPV tax revenues.
- Invoices, timesheets, contracts, or other formal project documentation that supported shared tax and grant expenditures.
- Single audit and/or comprehensive annual financial reports to understand the nature of prior year audit findings and to identify the risk of potential misuse of funds.

-
- Accounting data from recipients' accounting systems to validate the accuracy of the data reported in questionnaire responses.
 - At least 75 percent of the projects funded by shared tax revenues were selected for review to understand the nature of the projects and to determine if the projects were aligned with CPV statutes. From this group of projects, a haphazard sample of large dollar transactions was selected for testing. The sample size was designed to provide at least 30 percent coverage of the overall shared tax expenditures balance. Results of sample testing were projected to a recipient's universe of shared tax expenditures.

Communities With Unexpended CPV Grant Balances That Exceeded More Than 10 Percent of Total or \$500,000

The following communities or other recipients whose unexpended grant balance exceeded more than 10 percent of the total unexpended grant balances or \$500,000 include: City of Valdez, City of Homer, City of Wrangell, and the Marine Exchange of Alaska. The following were reviewed and evaluated for this group of CPV recipients:

- The Office of Management and Budget's total project snapshot reports and DCCED's DCRA grant agreements to understand the nature of projects funded by CPV appropriations.
- A haphazard sample of three to 10 grant reimbursements processed between FY 12 and FY 15 were selected for grants that had unexpended balances on June 30, 2015. The sample ensured large dollar transactions were selected, thereby obtaining appropriate evidence to support the audit conclusions.
- Invoices, timesheets, contracts, or other formal project documentation that supported grant expenditures and project timelines.
- Auditors visited the Marine Exchange of Alaska and toured CPV funded projects.

Communities With Unexpended CPV Shared Tax Balances That Exceeded More Than 10 Percent of Total

Communities whose unexpended shared tax balance exceeded more than 10 percent of the total unexpended shared tax balances include: Ketchikan, Skagway, and the City of Whittier. The following were reviewed and evaluated for this group of CPV recipients:

- Community resolutions and/or ordinances that designated the use of shared tax revenues.
- Budget documents or contracts that summarized estimated costs of projects and identified project timelines.
- Assembly meeting minutes that discussed the use of shared tax receipts for upcoming projects.

Government Auditing Standards issued by the Comptroller of the United States requires that auditors obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions. For the purposes of this audit, the following entities were considered responsible officials because of the entities' significance to the report conclusions:

- DOR;
- DCCED;
- Juneau;
- Ketchikan;
- Ketchikan Borough;
- Sitka;
- Skagway; and
- City of Whittier.

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APPENDIX A

Community/ Named Recipients	Appropriation Year	Legislative Grant Balances by Recipient FY 07 through FY 15 (Stated in Thousands)			
		Grant Name	Authorized	Expenditures as of June 30, 2015	Unexpended Balance
City of Saxman	FY 09	Saxman Community Center Visitor and Cruise Passenger Facility Improvements	1,500	1,500	-
Petersburg Borough	FY 09	Commercial Passenger Vessel Berthing and Power Upgrades	1,250	1,250	-
Petersburg Borough	FY 10	Commercial Dock and Vehicle Drive Down Design and Construction	3,390	3,390	-
Municipality of Skagway	FY 09	Seawalk Intermodel Cruise Ship Access Project	2,000	2,000	-
Municipality of Skagway	FY 10	Municipal Wastewater Treatment Facilities Improvements Due to Seasonal Cruise Impacts	2,500	2,500	-
Municipality of Skagway	FY 11	Commercial Passenger Vessel Lightering and Harbor Improvements	4,000	4,000	-
Municipality of Skagway	FY 11	Municipal Wastewater Treatment Facilities Improvements Due to Seasonal Impacts	800	800	-
Municipality of Skagway	FY 15	Float Extension to Serve Cruise Passenger Vessels	800	429	371
Municipality of Anchorage	FY 10	Egan Center Cruise Passenger Staging Upgrades	1,000	1,000	-
Municipality of Anchorage	FY 10	Port of Anchorage Expansion	10,000	10,000	-
Municipality of Anchorage	FY 12	Alaska Aviation Museum Energy & Safety Improvements	495	495	-
Morris Thompson Cultural and Visitors Center	FY 10	Exhibit Completion	1,000	1,000	-
Marine Exchange of Alaska	FY 10	Vessel Tracking System Upgrades	450	450	-
Marine Exchange of Alaska	FY 11	Alaska Vessel Tracking System Upgrades and Expansion	600	600	-
Marine Exchange of Alaska	FY 12	Alaska Vessel Tracking System Upgrades and Expansion	600	600	-
Marine Exchange of Alaska	FY 14	Marine Exchange Building	1,000	625	375
Marine Exchange of Alaska	FY 14	Alaska Vessel Tracking System Upgrades and Expansion	500	500	-
Marine Exchange of Alaska	FY 15	Alaska Vessel Tracking System Upgrades and Expansion	500	500	-
Haines Borough	FY 09	Port of Chilkoot Cruise Ship Dock Repairs and Debt Retirement	1,544	1,544	-
Haines Borough	FY 10	Port of Chilkoot Waterfront Improvements	1,900	1,900	-
Haines Borough	FY 11	Port Chilkoot Cruise Ship Dock Upgrade	2,910	2,910	-
Fairbanks North Star Borough	FY 10	Carlson Center Improvements	1,000	1,000	-

Exhibit BY
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APPENDIX A (Continued)

Community/ Named Recipients	Appropriation Year	Legislative Grant Balances by Recipient FY 07 through FY 15 (Stated in Thousands)			
		Grant Name	Authorized	Expenditures as of June 30, 2015	Unexpended Balance
City of Whittier	FY 10	Railroad Station Improvements	325	44	281
City of Wasilla	FY 10	Airport Train Station Improvements	105	105	-
City of Valdez	FY 09	Cruise Ship Dock Renovation and Uplands Repair	1,675	1,675	-
City of Valdez	FY 10	Dock Improvements	3,325	1,657	1,668
City of Valdez	FY 10	City Dock Information and Interpretative Center	800	-	800
City of Seward	FY 10	Bus Transportation Assistance for Cruise Ship Passengers	167	167	-
City of Seward	FY 10	Dredging Cruise Ship Berthing Basins and Approaches	2,508	2,508	-
City of Seward	FY 11	Commercial Passenger Vessel Harbor Security - Coast Guard Building Relocation	300	300	-
City of Seward	FY 11	Security and Fire Protection for Commercial Passenger Vessels	2,000	2,000	-
City of Seward	FY 12	Cruise Ship Boardwalk Extension	25	25	-
City of Seward	FY 12	Harbor Restroom Improvements	130	130	-
City of Palmer	FY 10	Visitor Information Center Restrooms	100	100	-
City of Kodiak	FY 09	Cruise Ship/Pier II Master Plan	250	250	-
City of Kodiak	FY 10	Pedestrian Improvements Between Cruise Ship Dock (Pier II) & Downtown Kodiak	700	700	-
City of Kodiak	FY 12	Pedestrian Pathway Planning and Design	384	-	384
City of Kodiak	FY 12	Pier and Downtown Pedestrian Improvements	1,600	1,600	-
City of Ketchikan	FY 09	Port of Ketchikan Berths I and II Replacement Project	3,000	3,000	-
City of Ketchikan	FY 10	Reconstruction of Downtown Bridges and Trestles	5,000	5,000	-
City of Ketchikan	FY 10	Port of Ketchikan Berths I and II Replacement	3,000	3,000	-
City of Ketchikan	FY 11	Replace Cruise Ship Berths I and II	10,000	10,000	-
City of Ketchikan	FY 14	Ketchikan Promenade	1,300	-	1,300
City of Hoonah	FY 11	Hoonah Harbor Improvements	1,000	871	129
City of Hoonah	FY 11	Cruise Ship Passenger Walkway Construction and Upgrades	1,500	1,500	-
City of Hoonah	FY 12	Berthing Facility	1,000	1,000	-
City of Homer	FY 12	Cruise Ship Dock and Passenger Facility Improvements	6,000	5,124	876

Exhibit BY
Page 40 of 88

APPENDIX A (Continued)

Community/ Named Recipients	Appropriation Year	Legislative Grant Balances by Recipient FY 07 through FY 15 (Stated in Thousands)			
		Grant Name	Authorized	Expenditures as of June 30, 2015	Unexpended Balance
City of Cordova	FY 10	Cordova Center Construction Equipment	1,000	1,000	-
City and Borough of Yakutat	FY 09	Fuel Dock with Cruise Ship Platform	650	650	-
City and Borough of Wrangell	FY 10	Construction Activities to Complete the Marine Passenger Service Center	2,500	2,500	-
City and Borough of Wrangell	FY 10	Stikine Avenue Sidewalk Extensions	390	390	-
City and Borough of Wrangell	FY 11	Commercial Passenger Vessel Facility	3,250	2,784	466
City and Borough of Wrangell	FY 11	Waterfront Master Plan	75	75	-
City & Borough of Sitka	FY 10	Commercial Passenger Vessel Lightering Facility Improvements	2,000	947	1,053
City & Borough of Sitka	FY 11	Commercial Passenger Vessel Facilities and Visitor Improvements	4,500	2,424	2,076
City & Borough of Sitka	FY 11	Crescent Harbor Sidewalk Widening	1,000	1,000	-
City & Borough of Sitka	FY 12	Commercial Passenger Vessel and Visitors Facility Improvements	3,000	500	2,500
City & Borough of Sitka	FY 15	Commercial Passenger Visitor Facilities Improvements	3,300	-	3,300
City & Borough of Juneau	FY 09	Airport Passenger Baggage and Facility Safety	1,300	1,300	-
City & Borough of Juneau	FY 09	Commercial Passenger Vessel Dock Retaining Wall Repair & Replacement	1,500	1,500	-
City & Borough of Juneau	FY 10	Auke Bay Seawalk Construction	800	800	-
City & Borough of Juneau	FY 10	Cruise Ship Dock Improvements	2,500	2,500	-
City & Borough of Juneau	FY 11	Cruise Ship Dock Improvements	9,000	9,000	-
City & Borough of Juneau	FY 15	Last Chance Basin Well Field	1,350	1,350	-
City & Borough of Juneau	FY 15	Salmon Creek Water Treatment	650	204	446
Anchorage Museum at Rasmuson	FY 11	Major Maintenance Project	2,000	1,922	78
Alaska Zoo	FY 10	Infirmery and Commissary for the Animals	800	800	-
Alaska Wildlife Conservation Center, Inc.	FY 10	Visitor Education and Research Sanctuary	1,000	1,000	-
Alaska Wildlife Conservation Center, Inc.	FY 12	Bear Education Awareness and Research	400	400	-
Alaska Native Heritage Center	FY 10	Village Site Completion	275	275	-

Exhibit BY
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APPENDIX A

(Continued)

Community/ Named Recipients	Appropriation Year	Legislative Grant Balances by Recipient FY 07 through FY 15 (Stated in Thousands)			
		Grant Name	Authorized	Expenditures as of June 30, 2015	Unexpended Balance
Alaska Native Heritage Center	FY 11	Parking Expansion Project	420	420	-
Alaska Aviation Heritage Museum	FY 10	Major Facility Safety, Energy, and Collections Care	500	500	-
Total			130,093	113,990	16,103

Source: Session Laws of Alaska, OMB budget document, and self-reported by communities and other recipients

APPENDIX B

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
City & Borough of Juneau	Port Facilities	Cruise Berth Improvements	12,366
	Port Facilities	Downtown Cruise Ship Berth Improvements	156
	Subtotal		12,522
City & Borough of Sitka	Harbor Infrastructure	Harbor Fund	366
	Other CPV Services	Advertising	7
	Other CPV Services	Building Repair	8
	Other CPV Services	Contracted Services	554
	Other CPV Services	Equipment Rentals	8
	Other CPV Services	Interdepartment Services	42
	Other CPV Services	Telephone	14
	Other CPV Services	Tools & Small Equipment	5
	Other CPV Services	Maintenance Fund	14
	Other CPV Services	General Fund	1,019
	Other CPV Services	IT Fund	18
City of Homer	Harbor Infrastructure	Cruise Ship Passenger Staging Area	31
	Other CPV Services	Guard House Restrooms	30
	Port Facilities	Ramp 3	35
	Subtotal		96
City of Hoonah	Harbor Infrastructure	Harbor Upgrades	9
	Other CPV Services	Administrative Costs	51
	Other CPV Services	HIA Fisherman Totem Pole Project	8
	Other CPV Services	Passenger Experience & Carver's Den	35
	Other CPV Services	Brush Cutting - Scenic Walkway	2
	Other CPV Services	Tourism WSG	16
	Other CPV Services	Water Line Canary Main Extension	400
	Other CPV Services	Canary Walking Path Maintenance	1
	Other CPV Services	Fencing for Graveyard	4
	Other CPV Services	Public Library Summer Access	36
	Other CPV Services	Ambulance Call Outs	16
	Other CPV Services	Extra Police Patrol	5
	Other CPV Services	Tunnel Rock Project - Passenger Safety, Cultural Significance	951
Other CPV Services	Public Restroom	89	

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
City of Hoonah (Continued)	Other CPV Services	Visitor Restroom Janitor	9
	Other CPV Services	Community Readiness Passenger Experience	4
	Other CPV Services	Visitor Center Employees	27
	Other CPV Services	Visitor Center Furniture	9
	Other CPV Services	Website Development	6
	Other CPV Services	Passenger Services	50
	Other CPV Services	Passenger Services, Park, and Walking Path Maintenance	477
	Other CPV Services	Visitor Center Employee, Extra Police, and Seasonal Harbor Staff	101
	Port Facilities	Seafloor Survey Guest Dock Area	10
	Port Facilities	Boat Launch Ramp Matching 5.5%	150
	Port Facilities	Caley Marina Handicap Lift	10
	Port Facilities	Ports & Harbors Project Matching	15
	Port Facilities	Transient Dock Upgrades	5
		Subtotal	
City of Hooper Bay	Port Facilities	Dock Repairs and Maintenance	33
		Subtotal	33
City of Ketchikan	Other CPV Services	Centennial Building & Totem Heritage Center Site Improvements	1
	Other CPV Services	Spruce Mill Sheet Pile	22
	Other CPV Services	Thomas Basin Seawall Pedestrian Decking, Footing and Seawall	544
	Other CPV Services	2013 Seasonal Litter Program	64
	Other CPV Services	2014 Seasonal Litter Program	60
	Other CPV Services	2015 Seasonal Litter Program	10
	Other CPV Services	Centennial Building Restroom Expansion	1
	Other CPV Services	2014 Tour Guide Program	51
	Port Facilities	Loan Payment for Berth III Engineering	1,302
	Port Facilities	Port Bonds and Lease Payment for Berth IV	2,083
	Port Facilities	Replace Fender Piles on Berths 1C and 1D	434
	Subtotal		4,572
City of Kodiak	Other CPV Services	Operating - Direct Services for Ships and Passengers	146
		Subtotal	146
City of Seward	Harbor Infrastructure	Harbor Breakwater	969
	Other CPV Services	Ambulance Service	90
	Other CPV Services	Fire Boat Outboards	30
	Other CPV Services	Security Float for Response Vessels	163

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
City of Seward (Continued)	Other CPV Services	United States Coast Guard Relocation	333
	Other CPV Services	Water Storage Tank (Fire Safety)	98
	Other CPV Services	Harbor Restroom Improvement	43
	Other CPV Services	Bus Transportation	341
	Port Facilities	Cruise Ship Terminal	201
	Port Facilities	Dock Dredging	233
	Subtotal		2,501
City of Unalaska	Other CPV Services	Operating Costs - Admin Assistant II - General Billing	22
	Subtotal		22
City of Valdez	Other CPV Services	Picnic Tables	6
	Other CPV Services	Flowers	1
	Other CPV Services	Landscaping Mulch	1
	Other CPV Services	Benches	19
	Other CPV Services	Pennants	3
	Other CPV Services	Signs & Welcome Banners	1
	Port Facilities	Kelsey Dock Decking	28
	Port Facilities	Kelsey Dock Sea Floor Soundings and Uplands Building Steel Fish in Waves Art Sculpture	5
	Port Facilities	Kelsey Dock Piling Caps & Jersey Barrier Chains	1
Subtotal		65	
City of Whittier	Harbor Infrastructure	EDA 070105881 - Harbor Project	172
	Harbor Infrastructure	Emergency Repairs Harbor	65
	Harbor Infrastructure	Harbor Float Replacement	336
	Harbor Infrastructure	Harbor Project	234
	Harbor Infrastructure	Public Facilities' Harbor Facility Grant Program	2,000
	Harbor Infrastructure	Transfer to COOP 10-037 Matching Portion	71
	Other CPV Services	Request for Proposal Ad - Public Facilities' Harbor Grant Program	1
	Other CPV Services	Whittier Museum Assoc. Contribution	55
	Other CPV Services	Bear Proof Trash Cans - Harbor Project	11

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
City of Whittier (Continued)	Other CPV Services	Whittier Creek Levee Emergency Watershed Protection	6
	Other CPV Services	Harbor Triangle Area Gazebo Construction	12
	Other CPV Services	Emergency Medical Services Equipment Purchase	43
	Other CPV Services	Purchase of Ambulance	19
	Other CPV Services	P-12 (Public Safety) Roof Survey	29
	Other CPV Services	Public Safety Vehicle Purchase	23
	Other CPV Services	Transfer to Police/Emergency Medical Services/Fire	1,011
		Subtotal	
City of Wrangell	Other CPV Services	Downtown Revitalization Project - Banners, Bumpouts, and Landscaping	14
	Other CPV Services	Park Benches and Trash Receptacles	33
		Subtotal	47
Haines Borough	Other CPV Services	Cruise Ship Survey	20
	Other CPV Services	Other Miscellaneous Material & Equipment	5
	Other CPV Services	Refurbish Keystone Drill	23
	Other CPV Services	Totem Pole Project	5
	Other CPV Services	Picture Point Grant Match	62
	Other CPV Services	Signage	44
	Other CPV Services	Bear Saver Trash Cans	6
	Other CPV Services	Dock Flowers	43
	Other CPV Services	Park Benches	3
	Other CPV Services	Chilkoot Bear Monitor	2
	Other CPV Services	Electric Hand Dryers for Dock Restrooms	6
	Other CPV Services	Restroom Janitorial	70
	Other CPV Services	Temporary Restroom	67
	Other CPV Services	Cruise Ship Shuttle	137
	Other CPV Services	Repairs and Maintenance to People Mover Cart	7
	Other CPV Services	Repair Restrooms in Visitor Center	11
	Other CPV Services	Tourism Kiosk PC Dock	20
	Other CPV Services	Tourism Labor	87
	Port Facilities	Dock Facility Maintenance	17
	Port Facilities	PC Dock Trestle Replacements	528
Port Facilities	Electricity to Lightening Dock	8	

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
Haines Borough (Continued)	Port Facilities	Lightering Dock Repair	7
	Port Facilities	Port/Harbor Labor	89
	Subtotal		1,267
Kenai Peninsula Borough	Other CPV Services	Pass-Through	2,921
	Subtotal		2,921
Ketchikan Gateway Borough	Harbor Infrastructure	Creek Street Trestle Berths I-III	1,224
	Harbor Infrastructure	Harbor View Sea Walk	50
	Other CPV Services	Administrative Fees	1,160
	Other CPV Services	Distribution/Marketing Plan	110
	Other CPV Services	Downtown/Neighborhood/CPV Planner	566
	Other CPV Services	A Fish Story	160
	Other CPV Services	An Art/Native Culture Story	490
	Other CPV Services	Deer Mountain Hatchery	150
	Other CPV Services	Hopkins Alley Revitalization Project	25
	Other CPV Services	Ketchikan Maritime Education	21
	Other CPV Services	Ketchikan Stories	325
	Other CPV Services	Saxman Dewitt Carving P1	76
	Other CPV Services	Saxman Dewitt Carving P2	75
	Other CPV Services	Saxman Totem Restoration	135
	Other CPV Services	Sculpture "The Rock"	100
	Other CPV Services	St. John's Sprinkler	42
	Other CPV Services	Trainbird Trail	30
	Other CPV Services	Walking Tour Signs	4
	Other CPV Services	Water Street Pedestrian Improvements	138
	Other CPV Services	Wayfinding Signs	26
	Other CPV Services	Beautification	857
	Other CPV Services	Harbor View Park	50
	Other CPV Services	Historic Resources Downtown/Newton Survey & Inventory	15
	Other CPV Services	Hole in the Wall Harbor	49
	Other CPV Services	Marquee Rain Canopy	186
	Other CPV Services	Aquatic Center	110
	Other CPV Services	Nonareawide Library	50
Other CPV Services	Recreation	96	
Other CPV Services	Flight Simulator Rent	16	

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
Ketchikan Gateway Borough <i>(Continued)</i>	Other CPV Services	Ketchikan Volunteer Rescue Squad - Personal Locator Beacon	83
	Other CPV Services	Service Areas (Fire Departments)	553
	Other CPV Services	Southern Southeast Emergency Training Center - Emergency Response Training	100
	Other CPV Services	Herring Cove Tourism Management	32
	Other CPV Services	Seasonal Code Enforcement Officer	70
	Other CPV Services	General Fund (Other than Recreation and Transit)	388
	Other CPV Services	City Park Restroom	14
	Other CPV Services	Public Restrooms - First City Players	500
	Other CPV Services	SAN-I-PAK Equipment	200
	Other CPV Services	Saxman Totem Row Restroom	80
	Other CPV Services	Airport Operations Support	1,297
	Other CPV Services	Borough Transit Operations	1,887
	Other CPV Services	Transit Bus Match	33
	Other CPV Services	Transit Bus Painting	14
	Other CPV Services	Bus Shelters	100
	Other CPV Services	Ketchikan Visitors Bureau	1,379
	Port Facilities	Berth I Improvements	156
	Port Facilities	Berth IV Dock Improvements	50
	Port Facilities	Berth IV Dock Improvements	204
	Port Facilities	Drive Down Dock	1,340
Port Facilities	Transportation Worker Identification Credential	27	
	Subtotal		14,843
Kodiak Island Borough	Other CPV Services	2008 Tourism Funding	146
		Subtotal	146
Municipality of Anchorage	Port Facilities	Wharf Pile Enchantment Project (Port of Anchorage) 2011-2015	208
		Subtotal	208
Municipality of Skagway	Harbor Infrastructure	Seawalk/Wave Barrier	3,009
	Harbor Infrastructure	Small Boat Harbor Maintenance Building	218
	Harbor Infrastructure	Small Boat Harbor Master Plan	25
	Harbor Infrastructure	Small Boat Harbor Upgrades	420
	Other CPV Services	Artic Brotherhood Hall Improvements	10
	Other CPV Services	Cemetery Improvements	8
	Other CPV Services	Dyca Improvements	108
	Other CPV Services	Museum Collection	48

APPENDIX B

(Continued)

Shared Tax Expenditure Detail by Community FY 07 through FY 15 (Stated in Thousands)			
Community Name	Expenditure Category	Expenditure Description	Total Expenditures
Municipality of Skagway (Continued)	Other CPV Services	Rapuzzi Collection	94
	Other CPV Services	Street Light Emitting Diode Conversion	58
	Other CPV Services	Street Maintenance	285
	Other CPV Services	Trail Maintenance	5
	Other CPV Services	Upper Dewey Lake Trail	10
	Other CPV Services	Bear Proof Garbage Lids	11
	Other CPV Services	Booster Station	178
	Other CPV Services	Incinerator Repairs	471
	Other CPV Services	IT28 Loader	191
	Other CPV Services	Transfers to Garbage Fund	1,005
	Other CPV Services	Transfers to Water/Sewer Fund	1,043
	Other CPV Services	7th Pasture Dike	5
	Other CPV Services	Library Expansion/Parking	11
	Other CPV Services	Playground Equipment	229
	Other CPV Services	Recreation Center Entry	179
	Other CPV Services	Recreation Center Expansion	28
	Other CPV Services	Recreation Center Improvements	196
	Other CPV Services	Redwood Water Tank	64
	Other CPV Services	Water Well Exploration	67
	Other CPV Services	Waste Water Treatment Plant Upgrades	75
	Other CPV Services	Dock Security/Signage	15
	Other CPV Services	Fire Department Occupational Safety and Health Administration Compliance	53
	Other CPV Services	Fire Department Water Tank Building	13
	Other CPV Services	Fire Training Facility	7
	Other CPV Services	Rural Fire Suppression	1
	Other CPV Services	Public Safety Engineering	703
	Other CPV Services	Transfers to General Fund	9,096
	Other CPV Services	Bicycle Racks	10
	Other CPV Services	Transfers to Tourism Fund	30
	Port Facilities	Transportation Worker Identification Credential Equipment	17
	Subtotal		17,996
	Total		67,480

Source: Self-reported by communities and other recipients

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APPENDIX C

ALASKA STATUTES REGARDING EXCISE TAX ON TRAVEL ABOARD COMMERCIAL PASSENGER VESSELS

Sec. 43.52.200. Levy of excise tax on overnight accommodations on commercial passenger vessels.

There is imposed an excise tax on passengers traveling on commercial passenger vessels providing overnight accommodations that anchor or moor on the state's marine water with the intent to allow passengers to embark or disembark.

Sec. 43.52.210. Rate of tax.

The tax imposed by AS 43.52.200 - 43.52.295 is levied at a rate of \$34.50 for a passenger for each voyage.

Sec. 43.52.220. Liability for payment of tax.

A passenger subject to the excise tax imposed by AS 43.52.200 - 43.52.295 is liable for the payment of the tax. The tax shall be collected from the passenger by the person who provides travel aboard a commercial vessel and shall be paid to the department in the manner and at the times required by the department by regulation.

Sec. 43.52.230. Disposition of receipts.

- (a) The proceeds from the tax imposed under AS 43.52.200 - 43.52.295 shall be deposited in a special "commercial vessel passenger tax account" in the general fund. The legislature may appropriate money from this account for the purposes described in (b) and (d) of this section.
- (b) For each voyage of a commercial passenger vessel, the commissioner shall identify the first seven ports of call in the state and the number of passengers subject to the tax imposed under AS 43.52.200 - 43.52.295 on board at each port of call. Subject to annual appropriation by the legislature, the commissioner shall distribute to each port of call \$5 for each passenger subject to the tax imposed under AS 43.52.200 - 43.52.295. If the port of call is a city located within a borough not otherwise unified with the borough, the commissioner shall distribute \$2.50 for each passenger to the city and \$2.50 to the borough. A city or borough that receives a payment under this subsection shall use the funds for port facilities, harbor infrastructure, and other services provided to the commercial passenger vessels and the passengers on board those vessels.
- (c) *[Repealed, Sec. 12 ch 101 SLA 2010].*
- (d) In addition to making an appropriation for the payments described in (b) of this section, the legislature may appropriate money from the commercial vessel passenger tax account to projects that

APPENDIX C

(Continued)

- (1) improve port and harbor infrastructure,
 - (2) provide services to commercial passenger vessels and the passengers on board those vessels, or
 - (3) improve the safety and efficiency of the interstate and foreign commerce activities in which the vessels and the passengers on board those vessels are engaged.
- (e) After October 31, 2010, and before November 1, 2015, a home rule or general law municipality that imposes and collects a tax on a passenger traveling on a commercial passenger vessel under a law enacted by the municipality before December 17, 2007, may not receive an appropriation under (d) of this section.

Sec. 43.52.255. Tax reduction for local levies.

The tax imposed on a passenger by AS 43.52.200 - 43.52.295 shall be reduced by the total amount of a 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.

Agency Response the from Department Of Commerce, Community, and Economic Development



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

OFFICE OF THE COMMISSIONER

P.O. Box 110800
Juneau, AK 99811-0800
Main: 907.465.2500
Fax: 907.465.5442

April 7, 2016

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
APR 07 2016
LEGISLATIVE AUDIT

RE: Preliminary Audit Report on the Department of Commerce, Community and Economic Development and Department of Revenue Commercial Passenger Vessel Tax Program

Dear Ms. Curtis:

Thank for the Division of Legislative Audit's work with my department on the audit of the Commercial Passenger Vessel Tax Program. The preliminary audit makes no recommendations for the Department of Commerce, Community and Economic Development.

Regards,

A handwritten signature in black ink, appearing to read "CHLADICK".

Chris Hladick
Commissioner

Cc: Catherine Reardon, Administrative Services Director, DCCED
Katherine Eldemar, Division of Community and Regional Affairs Director, DCCED
Micaela Fowler, Legislative Liaison, DCCED

Exhibit BY
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Agency Response from the Department of Revenue



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

State Office Building
333 Wroughton Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2039

April 8, 2016

Kris Curtis, Legislative Auditor
Legislative Budget & Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
APR 08 2016
LEGISLATIVE AUDIT

Re: Department of Revenue, Commercial Passenger Vessel Tax Program Preliminary Audit

Dear Ms. Curtis:

Thank you for the opportunity to address the recommendations in Preliminary Commercial Passenger Vessel Tax Program report. The Department of Revenue, Tax Division has no comment on the preliminary report.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall Hoffbeck".

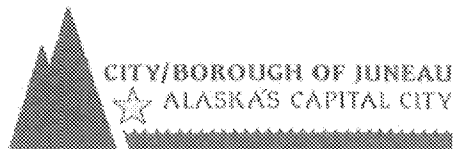
Randall Hoffbeck
Commissioner

cc: Brian Blackwell, Audit Manager, Legislative Audit
Ken Alper, Director, Tax Division
Dan DeBartolo, Director, Administrative Director

Exhibit BY
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Agency Response from the City and Borough of Juneau



CITY & BOROUGH OF JUNEAU
City Manager's Office
155 S. Seward St., Juneau, AK 99801
Phone: (907) 586-5240 Fax: (907) 586-5385
Kim.Kiefer@juneau.org

April 7, 2016

Kris Curtis, CPA, CISA
Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
P.O. Box 113300
Juneau, Alaska 99811-3300

RECEIVED
APR 07 2016
LEGISLATIVE AUDIT

Dear Ms. Curtis:

Thank you for providing me with an opportunity to review and comment on the preliminary audit report: Department of Revenue, Commercial Passenger Vessel Tax Program, February 29, 2016, CAN 04-30083-16.

The three specific recommendations outlined in the report do not pertain to Juneau so I have no comments on those.

Currently the CPV program is solvent. The City and Borough of Juneau would like to work with the Department of Revenue on a policy that would assure a sustainable CPV program going forward, and which does not risk a potential draw on general fund funding. The CPV tax has provided Juneau with the ability to improve infrastructure directly related to passengers and/or vessels.

I request a copy of the AG's opinion dated September 4, 2009 that is referenced on page 28.

Sincerely,


Kimberly A. Kiefer
City and Borough Manager

155 So. Seward Street, Juneau, Alaska 99801-1397

Exhibit BY
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Agency Response from the City of Ketchikan



City Manager
334 Front Street
Ketchikan, AK 99901
Phone (907) 225-5603
Fax (907) 225-5075

April 4, 2016

RECEIVED
APR 04 2016
LEGISLATIVE AUDIT

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811-3300

Dear Ms. Curtis:

Re: Confidential Preliminary Audit Report – Department of Commerce, Community and Economic Development and Department of Revenue Commercial Passenger Vessel Tax Program

With regard to the above referenced subject, please be advised that I am in receipt of the Legislative Budget and Audit Committee's confidential preliminary audit report dated February 29, 2016. You have requested that I respond to the Report Conclusions as well as the Findings and Recommendations by April 7, 2016. On behalf of the City of Ketchikan I would offer the following comments:

Consistent with its conclusions, the City of Ketchikan is pleased that the preliminary audit report affirmed that the City's expenditure of CPV shared tax revenues to improve port facilities and harbor infrastructure was accomplished in compliance with State law and that the City's unexpended balance of shared tax revenues is reasonable based on its efforts to initiate or complete CPV projects. These conclusions are supported by the fact that the preliminary report offered no recommendations specific to the City of Ketchikan's use of CPV shared tax revenues for allowable purposes.

The preliminary audit report contained two additional conclusions, one of which was specific to the City of Ketchikan, that warrant further response. Page 7 of the report states the following:

"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."

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While the City recognizes that the potential exists under the current program for overall allocations to exceed revenues should a greater number of ships visit more than four Alaskan ports on each cruise, the chance of this occurring is extremely unlikely. Based on the City's interaction with the industry, we believe the cruise lines themselves have been steadily increasing their marketing efforts on one week cruises that "turn" in Alaskan ports, in order to steer more travelers towards cruise line owned resorts and attractions. Coupled with the time and distance constraints associated with a seven day cruise, these cruises will almost certainly never exceed three or four ports of call in Alaska, thus minimizing the potential of CPV receipts falling short. A net balance of CY 15 CPV Tax Collections and Distributions (Exhibit 2 of the preliminary audit report) in excess of \$2M would appear to support such a conclusion.

Additionally, the issue of potential funding shortfalls is the direct result of credits imposed against passengers visiting Ketchikan and Juneau pursuant to AS 43.52.255. Such credits are the direct result of the settlement agreement that was reached by the Alaska Cruise Association and the State of Alaska in 2010. While the City of Ketchikan was supportive of the settlement in the context of the overall economic benefit that the State and port communities derive from the cruise ship industry, perhaps it is appropriate for the State and industry representative to review the issue of the credits in light of ongoing investments that the Ports of Ketchikan and Juneau will likely be required to undertake to support the infrastructure and service needs of the industry in the years to come. In Ketchikan's case, this would be particularly appropriate as unlike most of Alaska's other ports of call, under AS 43.52.255 the City of Ketchikan, which owns and operates the Port of Ketchikan, only receives \$2.50 per passenger of CPV shared tax revenues.

Page 20 of the report states the following:

"Alaska Statute 43.52.230(e) states that after October 31, 2010, and before November 1, 2015, communities that impose a CPV tax through a municipal law may not receive a CPV funded grant. Two communities are subject to this prohibition, the City and Borough of Juneau and the City of Ketchikan. Appendix A shows that both communities were awarded CPV grants regardless of this statutory prohibition."

As detailed in Appendix C of the preliminary audit report, paragraphs (d) and (e) of Alaska Statute 43.52.230 state the following:

"(d) In addition to making an appropriation for payments described in (b) of this section, the legislature may appropriate money from the commercial vessel passenger tax account to projects that

- (1) improve port and harbor infrastructure,
- (2) provide services to commercial passenger vessels and the passengers on board those vessels, or

(3) improve the safety and efficiency of the interstate and foreign commerce activities in which the vessels and passengers on board those vessels are engaged.

(e) After October 31, 2010, and before November 1, 2015, a home rule or general law municipality that imposes and collects a tax on a passenger traveling on a commercial passenger vessel under a law enacted by the municipality before December 17, 2007, may not receive an *appropriation* under (d) of this section." (Emphasis added).

This provision was analyzed by former Attorney General Daniel Sullivan as set forth in 2010 Op. Att'y. Gen. No. JU 2010 201403 (May 4, 2010). The opinion states, in part, the following:

"Section 7 of the bill provides the legislature with guidance on appropriating tax proceeds remaining in the commercial vessel passenger tax account on infrastructure and services needed to safely and efficiently host passengers in Alaska. *Section 7 of the bill also guides the legislature not to appropriate the remaining tax proceeds on projects in municipalities that already impose a local passenger tax until the year 2015.* The intent of this language is to encourage the legislature to use remaining proceeds on port and harbor development in political subdivisions with emerging ports. *Because the legislature, despite this guidance, remains free to appropriate all the proceeds in the commercial vessel passenger tax account for any public purpose, this language does not create a prohibited dedicated fund.*" (Emphasis added).

As Attorney General Sullivan points out, AS 43.52.230(e) merely provides guidance to not appropriate the tax proceeds to municipalities that impose a local passenger tax until the year 2015. As he also points out the Legislature remains free to appropriate all the proceeds in the commercial vessel passenger account to any public purpose.

Additionally, AS 43.52.230(e) concerns receipt of an appropriation, not receipt of a grant. The funds for the legislative grants listed in Appendix A of the preliminary audit report were appropriated prior to November 1, 2010 and would not fall within the guidance of AS 43.52.230(e). The legislative grant for the Ketchikan Promenade project was funded by a re-appropriation of the appropriation made in Sec. 16 Ch. 43, SLA 2010, page 150, lines 12-14 for the Berth IV traffic signal. SLA 2014, Ch. 18, Sec 42. The original appropriation was made prior to the October 31 effective date of AS 43.52.230(a). SLA 2010 Ch. 101, Sec. 14. It was not, therefore, within the guidelines of the statute. The re-appropriation did not involve any of the remaining tax proceeds that the Attorney General stated AS 43.52.230(e) encouraged the legislature to use to support political subdivisions with emerging ports.

Additionally, the City received an appropriation of \$5,000,000 for the Port of Ketchikan's Berths I and II Replacement Project in 2011. SLA 2011 Ch. 5, Sec. 1, page 141, lines 24-25. The City also received an appropriation of \$7,000,000 for the same project in 2012. SLA 2012, Ch. 17, Sec. 1, page 27, lines 31-32. Although these appropriations were made within AS 43.52.230(e) time window, the funding source was the General Fund and they were, therefore, not shown in Appendix A of the preliminary audit report. The previous appropriations discussed above were from CPV funds. These facts show that the Legislature has properly followed AS 43.52.230(e). Appropriations including re-appropriations, which did not involve the proceeds remaining on the statute's effective date, were made from CPV funds. Appropriations for port and harbors projects made after that date were made from general funds.

Based on the above facts, the City was eligible to receive the CPV funds that were appropriated to it. Even if AS 43.52.230(e) applied to the receipt of grants as opposed to appropriation and even if it applied to the re-appropriation for the Ketchikan Promenade project the appropriations were proper. As pointed out by Attorney General Sullivan, the funds were available for any public purpose and were appropriated by legislative enactments.

Although a minor narrative point, I would lastly note that Page 12 of the preliminary audit report describes the City's waterfront promenade as "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." In order to be consistent with the description of the waterfront promenade detailed on Page 20 of the report, I suggest that the language be revised to read ". . . to complete construction of the Ketchikan Promenade which is a more than one mile long walking path that connects the four cruise ship berths to each other and to the nearby historical district, thereby allowing cruise ship passengers to safely and easily access local attractions."

In closing, the Legislative Budget and Audit Committee's confidential preliminary audit report clearly finds that

- (1) ". . . shared tax revenues spent by communities to improve port facilities and harbor infrastructure were expended in compliance with State law"; and
- (2) ". . . 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."

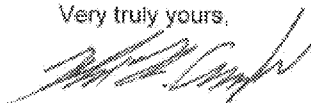
While the report cites minor deficiencies regarding the use and/or allocation of CPV funds by certain communities, it offers no credible documentation that the Department of Commerce, Community and Economic Development and Department of Revenue Commercial Passenger Vessel Tax Program is being improperly managed or that the funds are being willfully expended in a manner that is inconsistent with the original intent of the Legislature.

Specific to the City of Ketchikan, I believe the preliminary audit report clearly demonstrates that the City has been and will continue to be a good steward of the State

CPV revenues that it receives. The City strives to ensure that its share of CPV funds are expended for facilities and services that directly benefit cruise ships and their respective passengers. The City attempts to foster an ongoing collaborative relationship with industry representatives, in order to make certain that funds are expended in a manner that meets the needs of cruise ship visitors to Alaska and the community that enthusiastically hosts them year after year.

Should you have any questions on this matter, please do not hesitate to contact me.

Very truly yours,



Karl R. Amylon
City Manager

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Agency Response from the Ketchikan Gateway Borough

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KETCHIKAN GATEWAY BOROUGH

1900 First Avenue, Suite 210, Ketchikan, Alaska 99901

• Telephone: (907) 228-6625 • Fax (907) 228-6684

Office of the Borough Manager

March 30, 2016

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811-3300

RECEIVED
MAR 30 2016
LEGISLATIVE AUDIT

Re: Division of Legislative Audit – Preliminary Audit Report – Commercial Passenger Vessel Tax Program

Dear Ms. Curtis:

This responds to the preliminary *Audit Report – Department Of Commerce, Community, and Economic Development and Department Of Revenue – Commercial Passenger Vessel Tax Program*, prepared by the Alaska Division of Legislative Audit (February 29, 2016), hereafter “*CPV Audit*.”

The *CPV Audit* examines expenditures of State-shared CPV tax proceeds from 2007 through Fiscal Year 2015 by the Ketchikan Gateway Borough (hereafter “Borough”), other municipal governments, and the State of Alaska.

On page 23, the *CPV Audit* states:

We recommend the Ketchikan Gateway borough management ensure CPV shared tax revenues are used only for allowable purposes. Furthermore, we recommend the management develop a cost allocation methodology to support the use of CPV shared taxes to pay for municipal services that appropriately allocates costs between CPV and non-CPV services.

The *CPV Audit* observed on pages 4 and 5 that a September 2009 legislative legal 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 *CPV Audit* notes that the memo went on to state that, “[t]he Supreme Court held that a levy is reasonable ‘if it (1) is based on a fair approximation of use [of] the facilities, (2) is not excessive in relation to the benefits conferred, and (3) does not discriminate against interstate commerce.’”

The Borough, of course, agrees with the first recommendation in the *CPV Audit* that the Borough must ensure that CPV shared tax revenues are properly spent. The Borough maintains the position that

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expenditures of CPV funds by the Borough during the period covered by the *CPV Audit* have been proper and have reflected a fair approximation of use of the facilities and services by cruise passengers. Those cost allocations were not excessive considering the benefits conferred.

The second recommendation urges the Borough to develop a cost allocation methodology. In fact, the Borough developed a CPV-cost allocation method for FY 2013. Details of that cost allocation model were provided to the Division of Legislative Audit last year.¹ The model was partially utilized by the Borough in FY 2013, FY 2014, and FY 2015. It is noteworthy that a review of the Borough's expenditures of CPV tax proceeds during that timeframe led the Alaska Department of Commerce, Community, and Economic Development to report that "[t]he Ketchikan Gateway Borough uses an analytical approach to spending Commercial Passenger Vessel Excise Tax (CPV) revenue." The Department reported further that the Borough "uses CPV revenue primarily for passenger safety and enhanced passenger services."

The cost allocation model was fully implemented by the Borough in FY 2016. It is expected that the model will continue to be used in future years, with frequent updates to the data to ensure fairness. The FY 2016 allocation was conservative – 50% of the rate supported by the impact analysis (except in the case of particular services such as the free downtown passenger shuttle operated exclusively for cruise passengers). The figure proposed for FY 2017 is even more conservative – 33% of the rate supported by the impact analysis (again, with exceptions for special projects such as the passenger shuttle).

The methodology fully implemented by the Borough in FY 2016 is similar to (but more conservative than) the one used by the Municipality of Skagway.² The Skagway model was examined in the *CPV Audit* and was characterized on page 18 of the *CPV Audit* as "an objective basis for using CPV funds for municipal operations." Other than taking a more conservative approach, the Borough's current method is functionally indistinguishable from the Skagway methodology which is sound and was viewed favorably by the Division of Legislative Audit.

In the upcoming fiscal year, beginning July 1, 2016, the Borough will also institute measures (e.g., careful recording of employees' time, update of transit ridership analysis, etc.) to document that the cost allocation model continues to reflect proper CPV-related expenditures. Efforts will continue to ensure that CPV tax revenues are used only for allowable purposes.

A more detailed response to the *CPV Audit* follows.

¹ On June 30, 2015, I provided Ms. Brittany Abbott, Auditor in Charge of the *CPV Audit*, with details of the Borough's cost-allocation methodology outlined in my 22-page memorandum to the Ketchikan Gateway Borough Mayor and Assembly on December 30, 2011. The 12 attachments referenced in that memorandum, comprising 156 pages, were also provided to Ms. Abbott.

² The City and Borough of Juneau also uses a similar model for allocation of its municipal marine passenger fee, which is subject to the same federal limits as CPV taxes (Commerce Clause, Tonnage Clause, and 33 USC 5(b)(2)).

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1. REQUEST FOR BOROUGH RESPONSE TO THE CPV AUDIT

The *CPV Audit* was transmitted to the Borough in a letter from you dated March 21, 2016. Your letter indicates that the Legislative Budget and Audit Committee has requested a written response from the Borough by April 7, 2016, regarding the Report Conclusions as well as the Findings and Recommendations.

You requested that the Borough clearly state in its response whether it agrees or disagrees with any recommendations in the *CPV Audit* specific to the Ketchikan Gateway Borough. Further, you indicated that if the Borough concurs with a recommendation, that the Borough should indicate the methods planned for implementation of the recommendation and the scheduled completion date. You also asked that the Borough explain any reasons for disagreement if it did not concur with a recommendation.

The following responds to those requests.

2. CPV AUDIT FINDINGS AND RECOMMENDATIONS REGARDING THE KETCHIKAN GATEWAY BOROUGH

Pages 22 – 23 of the *CPV Audit* states the following with regard to the Ketchikan Gateway Borough:

Ketchikan Gateway Borough funded a portion of general transit, airport, and other municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Borough management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes.

Management believes the CPV funded expenditures are allowable per state statute. Management has not developed a cost allocation methodology to support paying municipal services with CPV revenues because, per management, the costs of doing so are not outweighed by the benefits.

[Summary of AS 43.52.230(b) and 33 USC 5(b)(2) limiting the use of CPV shared taxes]

Cruise ship port calls greatly impact the general operations of the communities visited. However, the extent to which operational costs were increased as a result of vessels and passengers was not identified. Consequently, auditors could not verify that the CPV expenditures were for an allowable purpose per statute. By not specifically justifying the use of CPV shared taxes in terms of benefiting vessels or vessel passengers with objective support, the allowability of the CPV tax may be questioned.

We recommend the Ketchikan Gateway Borough management ensure CPV shared tax revenues are used only for allowable purposes. Furthermore, we recommend the management develop a cost allocation methodology to support the use of CPV share

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taxes to pay for municipal services that appropriately allocates costs between CPV and non-CPV services.

3. THE CPV AUDIT RECOGNIZED THAT CRUISE SHIP PORT CALLS GREATLY IMPACT THE GENERAL OPERATIONS OF THE BOROUGH.

The Borough concurs with the conclusion on page 23 of the *CPV Audit* that “cruise ship port calls greatly impact the general operations” of the Borough.

To be more specific, during the period covered by the audit, 6,868,176 cruise passengers who paid CPV taxes visited the Ketchikan Gateway Borough. The annual average – 763,132 cruise passengers – is more than 50 times the resident Borough population of 13,778. The figure for 2015 was estimated to be 892,100 passengers – nearly 65 times the population.

The Ketchikan Gateway Borough welcomes every cruise ship visitor, and strives to ensure that those passengers are well served by the Borough. Tourism is a critical component of Ketchikan’s economy.

4. USE OF CPV FUNDS FOR BOROUGH SERVICES

The *CPV Audit* found that transit, airport, and other municipal services were funded with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers.

The Borough strongly disagrees with the statement in the *CPV Audit* that “Borough management provided [only] anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes.” As noted above, details were provided to the Division of Legislative Audit regarding the Borough’s cost allocation method which relied on objective data to conservatively determine appropriate funding levels. That model was fully implemented in FY 2016. While the model was only partially implemented for the prior three years, the Alaska Department of Commerce, Community, and Economic Development nonetheless found that the Borough used an analytical approach to spending CPV funds and that those funds were used by the Borough primarily for cruise passenger safety and enhanced passenger services.

It is essential to put the Borough’s CPV expenditures in perspective. Over the nine-year period covered by the *CPV Audit* CPV revenues paid for:

- 13.9% of Borough Transit costs;
- 2.9% of Borough Airport costs; and
- 1.9% of the costs of all other services by the Borough.³

A more detailed review of CPV expenditures by the Borough follows.

³ For purposes of this review, “all other services by the Borough” excludes the cost of education. If education were included, the percentage of CPV funds used for other services would drop from 1.9% to less than 1 percent.

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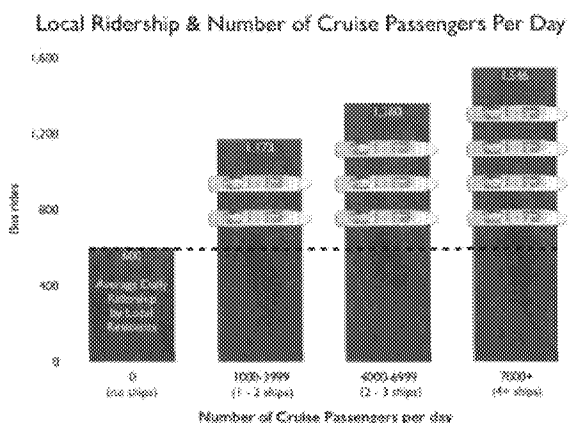
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(a) A Closer Look at Transit Services to Cruise Ship Passengers

Empirical data regarding ridership on Borough buses clearly illustrates that the Borough's allocations of CPV funds for transit operations are unassailable.

Cruise ships visited Ketchikan on 144 days (40% of the year) during the May-September 2015 cruise season. The Ketchikan Visitors Bureau estimates that 892,100 cruise passengers visited Ketchikan during that time. That equates to an average of 6,195 visitors during each of those 144 days.

As shown in the graph to the right reflecting FY 2010 and FY 2011 ridership data, transit ridership more than doubled when there were 4,000 to 6,999 cruise passengers present. On the busiest cruise ship days, ridership increased beyond two and one-half times the volume of local riders.



No Borough service is more heavily impacted by the cruise industry than transit. Through its Transit Department, the Borough operates a free downtown shuttle during the cruise ship season. The downtown shuttle is designed and operated *exclusively* for the benefit of cruise ship passengers. Cruise passengers also make extensive use of the Borough's general transit services.

The Borough is delighted to offer world-class transit service to cruise passengers. One widely used cruise passenger port guide describes the Borough's transit service for cruise passengers and compares that service to services offered in Boston Massachusetts, Newport Rhode Island, Greece, Ireland, Italy, and France as follows:

Compared with other ports, Ketchikan public buses offer a phenomenally convenient bus route for cruise passengers! The buses pick up passengers at cruise ships and take them to ALL of the tourist sites along the 16-mile coast! -- Tom Sheridan's Ketchikan Alaska Cruise Port Guide

The Ketchikan Public Bus System is Unique Compared with Other Cruise Ports

In most cruise ports, it's a hassle getting from the ship to the public bus system to visit tourist sites. Use of the public buses often involves a lot of walking and time consuming,

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complex bus connections. Also, the bus system, schedule, location of stops, and connections can be confusing for the first time visitor.

Cruise passengers want a simple, reliable, fast connection between the ship and tourist sites. To address this need, most ports or cruise ships provide a direct bus from the ship to the main tourist area.

Below is a tabular summary for several cruise ports showing the cost and distance traveled by the direct bus from the ship's dock to the main tourist area. See my port guides for details:

- Boston, MA = \$ 15 round-trip, 3 miles to Faneuil Hall.
- Newport RI = \$ 6/day, 3.8 mile loop through downtown to the mansions and cliff walk with 6 stops.
- Mykonos Greece = \$ 10 round-trip, 1.4 miles to the center of town.
- Dublin, Ireland = \$ 16 round-trip, 4 miles to Trinity College in center city.
- Livorno (Florence/Pisa) Italy = \$ 10 round-trip, 5 miles to center city Livorno, Piazza del Municipio.
- Marseille, France = \$ 20-30 round-trip, 5 miles to center city, Vieux Port.
- Ketchikan, AK = \$ 1 adult, 50 cents senior/ride, 16-mile route to ALL tourist sites with 24 stops!

Compared with other ports, Ketchikan public buses offer a phenomenally convenient bus route for cruise passengers! The buses pick up passengers at cruise ships and take them to ALL of the tourist sites along the 16-mile coast! In addition to being convenient, the public bus in Ketchikan is dirt cheap!⁴

(b) The Ketchikan International Airport Provides a Vital Service to the Cruise Industry

The Ketchikan International Airport (hereafter "Airport") is the fifth busiest airport in Alaska. The Airport, which is operated by the Borough, serves an estimated 352,000 persons annually.

Of those 352,000 individuals, it is estimated that 2.84% are arriving or departing cruise ship passengers and 0.57% are arriving or departing cruise ship crew members.⁵ The sum of those figures, 3.41%, exceeds the 2.9% of Borough Airport costs that have been funded with CPV shared taxes during the nine-year period covered by the audit.

⁴ See *Ketchikan Alaska Port Guide* at <http://www.tamsporguides.com/uploads/5/9/5/4/59547429/ketchikan-02-26-2014.pdf>

⁵ Source: Ketchikan International Airport Manager (March 25, 2016).

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Impacts from the cruise industry may not always be readily apparent or direct. This may be the case with the Airport in particular. Borough Airport ferries transport passengers in a cross-traffic pattern through an extremely congested area of Tongass Narrows. Virtually every one of the more than 6.8 million cruise passengers that visited Ketchikan during the period covered by the *CPV Audit* passed through this congested environment. Hundreds of thousands of those cruise passengers enjoyed flightseeing adventures on float planes and fishing charters also operating in this congested environment.

During the 144-day cruise season in 2015, the Airport ferry made 9,216 crossings – 7,344 (80%) of which were during periods of intense congestion. The Airport ferries must be maintained to rigorous U.S. Coast Guard standards, and the crews are well trained to ensure not only the safety and comfort of the passengers on the ferries (some of whom are cruise passengers), but those in the congested environment in which they operate, many of whom are cruise passengers.

In addition to routine operations, the Airport must be ready in times of need to serve cruise passengers. For example, it is estimated that at least 25 cruise ship passengers or crew members are medevaced from the Ketchikan International Airport each year.⁶ That is an average of nearly two cruise-related medevacs each week during the 5-month cruise season.

When other misfortune strikes cruise passengers, the Airport is a critical resource. For example, nine months ago a flightseeing plane with nine aboard crashed 20 miles northeast of Ketchikan. During the search for the downed aircraft, the Borough Airport Manager was engaged as part of a coordinated community emergency response including the hospital command and caregivers.

The Borough Airport Manager and his staff made exceptional accommodations to respond to the tragic crash last year by assisting the families of the victims, US Coast Guard, and others during the search and subsequent recovery efforts. Later, during the formal investigation into the tragedy, the Airport provided equipment for use by a five-member high-level team of National Transportation Safety Board officials from Alaska and Washington, D.C.

Another example of the Airport's critical role in serving the cruise industry in times of need occurred in 2013 when mechanical problems aboard a 965-foot cruise ship caused the cancellation of a cruise at Ketchikan. As a result, an estimated 2,138 cruise passengers were stranded in Ketchikan for three days. The cruise line chartered upwards to twenty planes and utilized the facilities at the Airport to ferry the passengers from Ketchikan to Anchorage. Airport staff made extraordinary arrangements and accommodations to facilitate the screening and boarding of those extra 2,138 passengers in addition to routine daily operations.

As an aside, during the stranded cruise ship incident, Borough schools and recreational facilities were offered to assist in the care and comfort of those cruise passengers that were stranded. Additional accommodations by the Borough's transit operations were also offered.

⁶ Ibid.

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In July and August 2007, there were two separate tragic crashes involving the deaths of 5 people in each incident, some of whom were cruise ship passengers on flightseeing tours.

If the Airport were ever unprepared to address the needs of cruise passengers and crew in routine operations or, particularly in times of tragedy, criticism that more CPV funding had not been provided for the Airport could be expected.

Impacts of the cruise industry don't occur strictly during the five-month cruise season. Borough staff must train and be ready for all contingencies. Much of that training occurs during the seven months from October through April. Borough Airport police and firefighters undergo rigorous training. Last week, for example, Airport staff was among the 33 law enforcement officers and first responders from 10 different federal, state, and local agencies in Ketchikan that came together for a two-day anti-terrorism training exercise.

Use of CPV funds to support Airport functions is legitimate. The conservative percentage of CPV funding for Airport operations over the nine-year audit period reflects frugality and value for each dollar of funding, given the breadth of services and critical nature of the facility. As noted above, preparedness is critical.

(c) The Borough uses CPV-Shared Revenue to Fund a Small Portion of Other Costs of Delivering Services and Maintaining Infrastructure for Cruise Passenger Safety and Enhanced Passenger Services.

In 2014, the Alaska Department of Commerce, Community, and Economic Development (DCCED) prepared a 42-page report to the Governor, Legislature, and public titled *Commercial Passenger Vessel Excise Tax: Community Needs, Priorities, Shared Revenue, and Expenditures – Fiscal Years 2007 – 2014* (hereafter “DCCED Report”). The requirement for that report is noted on page 1 of the *CPV Audit*.

The *DCCED Report* reviewed expenditures of CPV tax proceeds for Fiscal Years 2007 – 2014 (one year less than the nine-year period reviewed by the *CPV Audit*). The *DCCED Report*, which is required by AS 43.52.260, addressed the projected needs of communities to safely and efficiently host passengers that pay CPV taxes and the extent to which CPV tax proceeds have been used to defray the cost of those needs.

With regard to the Ketchikan Gateway Borough's expenditures of CPV tax proceeds, the *DCCED Report* stated as follows on page 22:

The Ketchikan Gateway Borough uses an analytical approach to spending Commercial Passenger Vessel Excise Tax (CPV) revenue. On an annual basis, the borough determines (1) the costs of maintaining infrastructure that cruise passengers and crew rely heavily upon and (2) costs of delivering public services to the passengers and crew. The borough apportions these costs between residents and visitors based on their proportion of

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overall use. Borough staff completes the analysis and makes recommendations for expending revenue to the borough assembly. The Ketchikan Gateway Borough Assembly hears public comment on proposed expenditures and makes the final decision on how to spend the CPV revenue.

On page 23, the *DCCED Report* stated:

The Ketchikan Gateway Borough uses CPV shared revenue to cover the costs of delivering services and maintaining infrastructure for the benefit of the cruise industry. The borough uses CPV revenue primarily for passenger safety and enhanced passenger services. Examples of expenditures include upgrades to the borough's transit system, rain and weather shelters, and passenger enhancement projects through the Ketchikan Visitors Bureau, pedestrian safety upgrades (i.e. walkway improvements, street crossing improvements), emergency services upgrades such as locator beacons for trail use, and emergency services response materials and equipment.

Beyond transit and Airport services addressed earlier, the Borough provides a multitude of other services that benefit cruise ship passengers, crew members, and vessels. The following is a summary of the specific services offered by the Ketchikan Gateway Borough. Included are examples of the manner in which services benefit the cruise industry.

Borough Service	Description of Service and Examples of how the Service Benefits Cruise Visitors
Airport (areawide)	Addressed in detail above
Animal Control (areawide service)	Through its animal control services, the Borough licenses and permits animals, provides for impoundment of animals, rabies control, response to dangerous animals, restraint of animals, and public nuisances. Cruise passengers benefit from diligent animal control efforts including dog waste control and leash laws in the downtown core, the area most congested when ships are in port.
Docks (service provided on a service area basis)	The Borough maintains docks on a service area basis. Any use of the service area docks by CPV passengers is de minimis. Thus, none of the dock service area costs are funded with CPV tax proceeds.
Economic development (areawide)	Through its economic development power, the Borough established and operates the Herring Cove Tourism Management Program to ensure the health, safety and welfare of visitors. See KGBC 4.17.010 -- 090.
Education (areawide)	The Borough operates an areawide system of public schools. Any use of the school facilities by CPV passengers or crew is de minimis. Thus, none of the education costs are funded with CPV tax proceeds.

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Borough Service	Description of Service and Examples of how the Service Benefits Cruise Visitors
Emergency Medical Services (provided on a service area basis)	Many hundreds of thousands of cruise passengers utilize areas in which the Borough provides emergency medical services. In the event of a medical emergency, Borough staff – trained and equipped by the Borough – respond. The service area emergency service providers have mutual aid agreements with other EMS providers in Ketchikan. Thus, the service area EMS providers may be called upon to serve any of the nearly 900,000 cruise passengers that visit Ketchikan annually.
Fire Protection (provided on a service area basis)	Each year, several hundreds of thousands of cruise passengers utilize areas in which the Borough provides fire protection services. In the event of a fire-related emergency, Borough staff respond. As is the case with emergency medical services, the service area fire departments have mutual aid agreements with other fire departments in Ketchikan. Thus, the service area fire departments may be called upon to serve any of the nearly 900,000 cruise passengers that visit Ketchikan annually.
Land use regulation (areawide)	The Borough: (1) issues approximately 15 triennial conditional use permits (CUPs) for cruise industry related concessionaires; (2) conducts annual reviews by Planning Department staff of each of the CUPs for cruise industry related concessionaires; (3) issues sign permits for cruise industry related businesses; (4) issues zoning permits for cruise industry related businesses; and (5) responds to inquiries and complaints about signage and zoning permit issues involving businesses that serve cruise passengers.
Library (nonareawide service)	The Borough provides library services on a nonareawide basis. The library is visited by cruise passengers that utilize wireless services and other services.
Municipal planning (areawide)	The Borough: (1) manages CPV grants (prepare grant agreements, monitors progress of grant projects, processes pay requests, prepares reports); (2) initiated the Hopkins Alley Revitalization Project which includes improving infrastructure connecting Ketchikan's Cruise Ship Berth IV and the downtown area; and (3) develops and implements the Borough's comprehensive municipal plan as mandated by AS 29.40.020 – 030, with particular attention to the tourism industry, and (4) identifies the needs of cruise visitors and projects designed to serve cruise ship passengers and crew.
Parks and Recreation (areawide)	The Borough provides parks and recreation facilities which are utilized by cruise passenger and cruise ship crew members.
Road maintenance (service provided on a service area basis)	The Borough maintains a number of roads on a service area basis. Some of the service area roads are used by the cruise industry, however, the use is not significant. Thus, none of the road service area costs are funded with CPV tax proceeds.

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Borough Service	Description of Service and Examples of how the Service Benefits Cruise Visitors
Solid waste (nonareawide service)	Through its solid waste powers, the Borough works to ensure environmentally sound collection and/or disposal of solid waste. Doing so adds to the health and safety of cruise passengers.
Tax Assessment (areawide)	The Borough assesses taxable property in accordance with State law. No portion of this service is funded with CPV funds.
Transit (areawide)	Addressed in detail above.
Wastewater Regulation (nonareawide service)	The Borough exercises wastewater powers to protect public health, maintain environmental quality, preserve property values, promote economic development, and meet the community land use goals of the Borough. While cruise passengers arguably benefit from such services, and while at least one other municipal government used CPV funds for such services, the Borough does not.
General government	Accounting for and management of the specific services listed above are carried out through general governmental operations of the Borough.

CONCLUSION

In conclusion, the Borough recognizes that it must ensure that CPV shared tax revenues are properly spent within the limits of State and Federal laws.

Beginning in FY 2013, the Borough partially implemented a CPV-cost allocation method to ensure that the apportionment of CPV funds is based on a fair approximation of use of the facilities, and that the allocation is not excessive in relation to the benefits conferred. That allocation model was fully implemented using conservative measures in FY 2016 and is proposed to be used in an even more conservative manner in FY 2017. Apart from using a more conservative approach, the Borough's method is functionally indistinguishable from the Skagway model which was viewed favorably by the Division of Legislative Audit.

In FY 2017 and beyond, the Borough will continue to carefully monitor measures to document that the cost allocation model accurately reflects proper CPV-related expenditures. Efforts will continue to ensure that CPV tax revenues are used only for allowable purposes.

Cordially,



Dan Bockhorst
Borough Manager

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Agency Response from the City and Borough of Sitka



City and Borough of Sitka

100 Lincoln Street Sitka, Alaska 99835

Coast Guard City, USA

March 23, 2016

Kris Curtis
Legislative Auditor
Alaska Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
MAR 25 2016
LEGISLATIVE AUDIT

Dear Ms. Curtis,

The City and Borough of Sitka ("Sitka") strives to ensure that any expenditures of, or reimbursements from, Commercial Passenger Vessel (CPV) excise taxes are in compliance with Federal and State law.

As noted on page 4 of the *Department of Commerce, Community, and Economic Development and Department of Revenue Commercial Passenger Vessel Tax Program Legislative Audit Report* dated February 29, 2016 ("Audit"), fees charged to vessels are allowable under 33 USC 5(b) if such fees are charged on a fair and equitable basis in order to pay the cost of service to a vessel or watercraft; enhance the safety and efficiency of interstate and foreign commerce; and do not impose more than a small burden on interstate or foreign commerce. The Audit further states that the United States Supreme Court held that a levy on vessels is reasonable if it is based on a fair approximation of use of facilities, is not excessive in relation to the benefits conferred, and does not discriminate against interstate commerce.

In Recommendation 3 of the audit, contained on pages 23-24, an assertion is made that the City and Borough of Sitka funded a portion of general municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Sitka responds that it uses an allocation methodology that it considers reasonable and that such methodology was not requested by the Legislative Audit team. Sitka does not feel that the Audit reflects efforts made by Sitka, following a consistent allocation methodology, to conservatively and judiciously use CPV funds for reimbursement for the use of public facilities.

From CPV inception through December of 2012, Sitka has used the methodology contained in Attachment A. An example of the methodology used during that period is as follows:

Providing for today ... preparing for tomorrow

Exhibit BY
Page 77 of 88


For the 5-month cruise ship season, 50% of Centennial Building expenditures, less user fees charged and the cost of temporary wages, was reimbursed from CPV shared taxes. This was considered reasonable because (a) the Centennial Building is located immediately adjacent to the main access gangway where cruise ship passengers embark and disembark; (b) cruise ship passengers heavily use the Centennial Building during cruise season for purposes of restroom facilities and other services; and (c) the main visitor information desk staffed during cruise ship port calls is located in the lobby of the Centennial Building.

From January 2013 to date, Sitka has tracked all reimbursable costs through its cost accounting system. All costs reimbursed through CPV funds can be traced back to time cards or other source documents from 2013 forward. Reimbursements for general governmental purposes were also significantly reduced from 2013 forward. For example, in all of calendar year 2014, a total of \$699 was reimbursed to Sitka's General Fund, all of which was for police traffic enforcement labor, recorded on time cards, directly related to ensuring that vehicles did not block loading/unloading zones for cruise ship passengers.

On page 24 of the Audit, the assertion is made that auditors could not verify that CPV expenditures were used for an allowable purpose per statute. We refer again to page four of the audit, which states *"the United States Supreme Court held that a levy on vessels is reasonable if it is based on a fair approximation of use of facilities, is not excessive in relation to the benefits conferred, and does not discriminate against interstate commerce"*. The term fair approximation is not defined and does not include a requirement that such approximation be based on some auditable allocation methodology. Sitka maintains that it has based its reimbursements from CPV funds on a consistent methodology which is based on a fair approximation of the use of public facilities.

Going forward, Sitka will ensure that all expenditures reimbursed from CPV funds are supported by fully auditable documentation which can support the direct passenger-related purpose for which the original expenditure was made.

Sincerely,



Mark Gorman
Municipal Administrator

Enclosure

CPET Operating Transfer
 General Fund
 Summer 2011
 May-September

		Total 5 months	Total Transfer Amount
Centennial Bldg			
	Revenue	\$ 30,760	
	Expenditures	\$ (205,318)	
	less temps	\$ 3,770	
		\$ (170,788)	
	1/2 to cruise ship passengers	\$ (85,394)	\$ (85,394)
Ambulance			
	Revenue	\$ 166,792	
	Expenditures	\$ (102,781)	
		\$ 64,011	
	1/2 to cruise ship passengers	\$ 32,006	
Fire Fighter/Driver	H Pitts		
	31.37 x 22 weeks x 48 hours	\$ (33,127)	
	Benefits 40%	\$ (12,228)	
		\$ (45,355)	
Ambulance/Firefighter/Driver total		\$ (13,350)	
	1/2 to cruise ship passengers	\$ (6,675)	\$ (6,675)
Police - Multiservice Officer	Puckett		
	28.55 x 22 weeks x 20 hours	\$ (12,562)	
	Benefits 40%	\$ (5,025)	
	all to cruise ship passengers	\$ (17,587)	\$ (17,587)
Public Works/Streets			
	Expenditures	\$ (524,312)	
	10% to cruise ship passengers	\$ (52,431)	\$ (52,431)
	sub total	\$ (162,087)	
	plus fy2011 admin fee % 12.44%	\$ (20,164)	\$ (20,164)
General Fund Expenditures covered by CPET monies summer 2010			\$ (182,251)

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Agency Response from the Municipality of Skagway



Municipality of Skagway

Gateway to the Klondike
P.O. Box 415
Skagway, Alaska 99840
Phone: (907) 983-2397 Fax: (907) 983-2151
www.skagway.org

April 7, 2016

Kris Curtis, CPA, CISA
Legislative Auditor
State of Alaska
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811

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APR 08 2016

LEGISLATIVE AUDIT

Dear Kris Curtis:

I do not have any additional comments on the Preliminary Audit of CPV funds. Thank you for allowing us to participate and I hope we were helpful during your research. The comments about our playground project will be kept in mind for the future. We intend to continue to be good stewards of the CPV funds and do our best to provide for and deal with the enormous impacts of the cruise ship industry on Skagway.

Sincerely,

Scott A. Hahn
Skagway Borough Manager

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Agency Response from the City of Whittier



THE CITY OF WHITTIER

Gateway to Western Prince William Sound
P.O. Box 608 • Whittier, Alaska 99693 • (907) 472-2327 • Fax (907) 472-2404

April 7, 2016

State of Alaska Budget and Audit Committee
and
State of Alaska Division of Legislative Audit

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LEGISLATIVE AUDIT

City of Whittier
Response to Draft Commercial Passenger Vessel Tax Program Audit
Issued February 29, 2016
Audit Control Number: 04-30083-16

To Whom It May Concern;

The City of Whittier respectfully submits this document in response to the Legislative Audit of the Commercial Passenger Vessel Tax Program issued February 29, 2016.

The City of Whittier is unique in that having a population of only 220 residents, the City sees annual visitor numbers of approximately 700,000. Of this number approximately 150,000 visitors are from cruise ships. The remainder are from Marine Highways users, tourists, and a large number are Alaska residents who use Whittier as their access to Prince William Sound.

For the City of Whittier, CPV funds are critical for maintaining operations that support the Cruise Vessel Passengers, such as Fire, Police, EMS and Public Works. Our Public Works are critical to cruise ships because they fill with water while in Whittier, as well as our Public Works maintaining streets, trails and infrastructure that are necessary for cruise ship passenger enjoyment.

Whittier also sees a disproportionate use for emergency services being dedicated to the cruise ships. For example, the City ambulances make over 300 trips per year to Anchorage hospitals, and usually fewer than 20 of these runs are for local residents. Nearly every cruise ship that docks has one or more passengers requiring emergency medical transport. Likewise our police

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provide coverage at the cruise ship terminal for every ship in order to provide the passengers a safe Alaska experience.

On page 12 of the Audit there is a reference to \$3,000,000 of unexpended/unobligated CPV funds. The City has been using CPV funds for Harbor improvements, and in 2015 completed a \$4,000,000 improvement project, supported by \$2,000,000 of CPV funds. In July 2015 the City Council passed Resolution #59-2015 which obligated an additional \$4,250,000 in CPV funds to future Harbor improvements. This encumbered all existing CPV funds, and future funds for several years. Additionally, the City Council passed Resolution #61-2015 in August 2015 committing \$2,500,000 of CPV funds to a new Public Safety facility. In April of 2016 the City Council increased this commitment to \$3,500,000 via resolution #11-2016. This facility is much larger than would be required by a community of 220 residents because of the necessity of supporting Fire, Police, Ems and Public Works for the cruise ship industry.

The Audit mentions that the City of Whittier had no “definitive basis for allocating the building costs to CPV purposes.” Using the example above of annual cruise ship passengers vs full time residents, the ratio is 150,000:220 or 682:1. Based on this ratio the allocation of total cost of the building would be \$8,587,408 CPV and \$12,592 local. In fact, the City of Whittier will be using less than 50% CPV funds for this building. Additionally, the City of Whittier will provide all future maintenance, insurance and utility costs for the new facility.

On page 19 of the Audit there is a table of unexpended Legislative CPV grants and Whittier is shown as having one such grant for Railroad Station Improvements. This project is currently underway and is expected to be completed this summer. It is a joint project between the City and the Corps of Engineers due to the historic nature of a 1940s monument that is being relocated as part of this project. This will be a great tourist and cruise ship passenger attraction when complete.

Once again, on page 31 of the Audit, the City of Whittier is listed as having an unexpended balance that exceeded more than 10% of total. I would like to point out once more that while CPV funds may be unexpended they are obligated and encumbered for allowable harbor and public safety projects under AS 43.52.230.

The City would like to thank the Budget and Audit Committee for allowing us this opportunity to provide local feedback on the contents of the draft audit.

Mark Lynch
City Manager

Legislative Auditor's Additional Comments

ALASKA STATE LEGISLATURE



LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit

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legaudit@akleg.gov

April 11, 2016

Members of the Legislative Budget
and Audit Committee:

We have reviewed the responses to the audit report, and with the exception of the Ketchikan Gateway Borough response, nothing contained in the responses provided sufficient information to persuade us to revise the audit conclusions or recommendations.

The Ketchikan Gateway Borough response to the audit stated that a cost allocation methodology had been created and partially implemented during the audit period. We confirm this statement. Consequently, the following excerpt of Recommendation 2 on page 24 is inaccurate:

Ketchikan Gateway Borough funded general transit, airport, and other municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Borough management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes.

Management believes that CPV funded expenditures are allowable per state statute and have not developed a cost allocation methodology to support paying municipal services with CPV revenues because per management the costs of doing so are not outweighed by the benefits.

A methodology for justifying the use of CPV funds for transit and airport services was provided to the audit team. Therefore, the bolded language above is not accurate. Upon review, the audit team found the cost allocation methodology flawed. The allocation rate used to support CPV revenues transferred to the Ketchikan Gateway Borough's airport and transit funds was calculated based on municipal services provided to all cruise ship passengers, residents, and other visitors, yet the rate was applied to select service categories which were not used by all cruise ship passengers, residents, or other visitors. Additionally,

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the allocation methodology was only partially implemented and did not support approximately 50 percent of CPV tax revenues used for airport and transit services.

As further clarification regarding adequate support for the use of Ketchikan Gateway Borough's CPV shared taxes, the audit identified that CPV tax revenues were used to purchase three vehicles and related maintenance supplies and to fund the salary of one city planner position for four years during the audit period. The vehicles were used for CPV and non-CPV purposes and the planner's responsibilities were only partially related to CPV activities. Management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes in this manner.

The two paragraphs in Recommendation 2 as described above should have read:

Ketchikan Gateway Borough funded general transit, airport, and other municipal services with CPV shared taxes without specifically identifying the related CPV services rendered to the vessels and passengers. Borough management provided anecdotal evidence regarding the impact that vessels and passengers have on the borough as support for the use of CPV shared taxes. Additionally, a cost allocation methodology was developed and partially implemented to further justify the use of CPV shared taxes for municipal services. However, the audit team found the methodology to be applied incorrectly and the cost allocation methodology only partially supported the use of funds during the audit period.

Management believes that CPV funded expenditures reflect a fair approximation of the use of facilities and other services by cruise ship passengers. We could not confirm this statement due to a lack of objective data.

Two additional communities reported disagreements with the audit's conclusions or recommendations. We offer the following points of clarification for the City and Borough of Sitka's and the City of Ketchikan's responses.

City and Borough of Sitka: In its response, management states that Sitka "uses an allocation methodology that it considers reasonable and that such methodology was not requested by the Legislative Audit Team." This statement is not accurate. The allocation methodology referred to by management and included in Attachment A of Sitka's response was provided to the audit team and evaluated as part of the audit. However, it was not considered a cost allocation methodology as it does not justify the use of CPV taxes with objective data that shows the extent operational costs were increased as a result of vessels or vessel passengers.

City of Ketchikan: Management stated that the FY 14 Ketchikan Promenade grant was a re-appropriation of a grant originally awarded in FY 10. We confirm this statement. However, we do not confirm that the re-appropriation was not subject to the restrictions of AS 43.52.230(e) which provides that municipalities that impose a local passenger tax are ineligible for grant appropriations.

Members of the Legislative Budget
and Audit Committee:

- 3 -

April 11, 2016

In summary, we reiterate all three recommendations that communities develop a cost allocation methodology to support the use of CPV shared taxes to pay for municipal services that appropriately allocates costs between CPV and non-CPV services.

Sincerely,



Kris Curtis, CPA, CISA
Legislative Auditor

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