

**OFFICE OF THE MANAGER**

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Mr. John Hansen, President  
North West Cruiseship Association  
100 – 1111 W. Hastings Street  
Vancouver, BC V6E 2J3

Dear John:

Thank you for your preliminary comments on the Full Cost Allocation Plans that you received the last time we met in Juneau. I had good intentions of responding to you earlier, but have been occupied with putting the city budget together and introduced before the Assembly.

With regard to the three points contained in your letter, I offer the following comments:

- 1) There is no question that the cruise ship industry provides a considerable amount of revenue and benefits to the City & Borough. Having just finished the exercise of trying to balance the city's budget for the next two fiscal years, I can assure you that I am very appreciative of the partnership we have with the cruise ship industry and the revenue we receive as a result. The request from the cruise industry was to provide accountability and justification for the way in which the general government portion of the Marine Passenger Fee was being allocated. The Full Cost Allocation Plan addresses that question, but was not intended to also consider revenues generated by the cruise ship industry.
- 2) The costs of some services do increase during the summer months due to the large influx of visitors. Police officers and our paramedics respond to many more calls during the summer than other times of the year. Those additional costs, and the cost of having those officers and paramedics not available to the rest of the community during the times they are responding to calls downtown, are paid for through the revenues noted above. However, due to concerns with pedestrian safety and wanting our visitors to have a positive experience while in Juneau, we fund a separate program to provide additional bike and foot patrol officers on duty in the downtown area during the summer. This is a special program that is necessary in addition to the normal summer increase in demand on our officers and paramedics. The general fund revenue identified in item one above does cover the additional costs of litter pickup and street cleaning that the city incurs during the summer months. However, we are not funding a separate project that deals with street cleaning so it's not clear to me where the double payment issue may exist in that regard.

- 3) The costs allocated to the library in the Full Cost Allocation Plan did appear to be high. We will take a look at that, and I'll also have the Finance Director review your questions with regard to the methodology employed by the full cost allocation approach. I do know this is an accepted approach to determining indirect costs and we did have the report and methodology reviewed by the certified public accounting firm of Elgee Rehfeld Mertz, LLC. As Mr. Mertz stated in his transmittal letter to me after reviewing the plan, "based on my review of the plan, none of the bases appear to be inappropriate. As a result, the marine passenger costs determined by the Cost Allocation Plan appear reasonable."

After reviewing the options for cost allocation, we decided that a reasonable approach would be to allocate costs using the Federal Government's standard cost allocation methodology. The federal government allows costs to be allocated based upon certain principles and standards set out in Federal Circular No. A-87. The State of Alaska also accepts this methodology. It is important to note that we are only allocating direct operating costs, not city facilities or infrastructure.

As you know, for several years the cruise ship industry has been requesting some accountability and justification regarding the use of the general fund portion of the marine passenger fees. I am pleased that we were finally able to do that analysis and provide you with a report that details how those funds are being expended. I would also be glad to discuss with you any of the specific projects that are being proposed for funding from passenger fee proceeds.

Again, I very much appreciate the contributions of the cruise ship industry that Juneau does benefit from and for the opportunity to meet with you and the North West Cruiseship Association.

Sincerely,

Rod Swope  
City & Borough Manager