



DATE: April 10, 2025

TO: Chair Woll and Assembly Finance Committee

FROM: Angie Flick, Finance Director

SUBJECT: Visitor Industry Revenue Options

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The purpose of this memo is to provide a framework and scenarios to assist the Assembly Finance Committee (AFC) in determining how to proceed with the implementing action "Evaluate ways to increase revenue from visitor activity" as part of the Assembly goals.

Permits and Fees

Staff are happy to explore options for changes, additions, subtractions to fees that the Body would like to consider. Dockage fees is one area that was discussed at a recent AFC meeting with action forthcoming. As these fees will not be in place until later in FY26, there is time to determine how that revenue will be allocated. Commercial Use Fees are also another mechanism currently utilized by CBJ. These fees were recently increased. Changes to some Passenger Fees is an area that could be explored further. There are some fees that CBJ could adjust, but would require careful navigation. The State portion of the fees are not changeable by the Assembly. If the Body wishes to explore these in more detail, staff can prepare the necessary information.

Exemptions

There has been a request to look at exemptions on real and business property. Any changes made to these exemptions during the calendar year 2025, would impact property values on January 1, 2026 and therefore the 2027 Fiscal Year. While this doesn't necessarily target revenue from the visitor industry, it could be part of a package that may make other changes more palatable to voters.

Sales Tax on Visitor Tours

Under current CBJ code, the sale of tours that operates both within and outside the boundaries of CBJ's jurisdiction are only taxable for the portion of time they are within our boundaries. Tour operators, which would primarily include whale watches, fishing charters, and the like, must develop an estimate for the portion of time their tour spends outside of the boundaries on average, as well as a breakdown of what portion of the tour price can be attributed to the time on the water when they may be in and out of the jurisdiction. The tour provider must maintain records of how they made this determination and be able to provide that if they are audited. The portion of the tour service that is provided outside the borough is not taxable and not reportable under CBJ code, so the Sales Tax Office does not have an idea of how much is being excluded. It should be noted that for tours where there may be food, drink, and/or other merchandise for sale onboard the vessel while underway, those sales are taxable while within CBJ boundaries. Likewise, air operators segregate the portion of the tour fare that is applicable to the flight, which cannot be taxed, from any experience that may happen on the ground within CBJ's boundaries.

Seasonal Sales Tax

This is a concept that has been mulled over in various forms for some time. The applicability to visitor revenue is simply that a higher sales tax percentage is used in the visitor season and offset by a lower sales tax in the off season, recognizing that year-round residents will also pay a higher tax in the summer. Currently, we know of a handful of municipalities that have already set up a seasonal sales tax: Ketchikan, Sitka, Skagway and the municipalities within the Kenai Borough.

There are several questions before the body on sales tax. It is important to remember that changes to the sales tax requires voter approval, and therefore anything going to the voters in October 2025 will need to be solidified by early June.

First, let's look at the myriad of questions. Then, we'll walk through some assumptions and scenarios to help make the options make sense.

Questions:

1. Do you want to pursue a seasonal sales tax?
2. Do you want to pursue exempting basic food from sales tax?
3. Do you want to pursue exempting sales tax on 'utilities' (water, wastewater, electricity, heating oil, etc.)?
4. Do you want to pursue other changes?

Here are some basic foundational facts:

1. Each 1% of sales tax brought in \$13M in revenue in FY24.
2. Each 1% of sales tax during COVID brought in \$9M in revenue (FY20)
3. CBJ currently has a total of 5% sales tax, however only 1% is permanent.
 - a. 1% - permanent used for operations
 - b. 3% - temporary (July 1, 2022 to June 30, 2027) – Ballot Oct 2026
 - i. 1% for operations
 - ii. 1% projects, grants and other services (mostly operational)
 - iii. 1% infrastructure (roads, sidewalks and related)
 - c. 1% - temporary (October 1, 2023 to September 30, 2028) – Ballot Oct 2027
 - i. CIP and other projects
4. Sales taxes is not PAID by businesses, rather merchants collect and remit sales tax on behalf of their customers.
5. Most businesses file sales tax quarterly:
 - a. Q1: January – March
 - b. Q2: April – June
 - c. Q3: July – September
 - d. Q4: October – December

Temporary vs. Permanent

Historically, the CBJ voters have been supportive of the 3% and 1% temporary sales tax initiatives. Recently the State discussed imposing their own sales tax. Once multiple jurisdictions are imposing taxes on the same transaction, it is difficult for the individuals being taxed to distinguish what they are being taxed for and why. Relying on temporary sales tax dollars for ongoing operations is inherently risky. If more taxes are imposed on sales, it may be more difficult to continue to get support for the local tax. In 2016, the voters overwhelmingly rejected a question to make the 3% temporary sales tax a permanent tax.

**** DISCLAIMER ****

The rest of this memo will outline some HYPOTHETICAL SCENARIOS to outline and demonstrate the impact of the questions above. In no way, shape or form are these intended to represent any action by the Assembly! These are for illustrative purposes only.

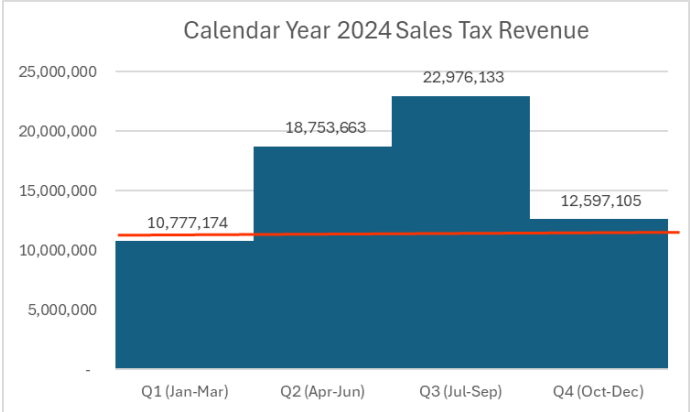
Seasonal Sales Tax and Potential Exemptions

Staff have developed a tool to help illustrate the impact of various sales tax scenarios including quarterly rates, removal of food and a potential major economic crisis modeled after the pandemic. We will use 2024 as the

measuring stick for change as it is a complete year of sales tax data. The underlying assumption is that no matter the tax rate or the exemptions, CBJ will be collecting \$65M in sales tax, which is equivalent to the same amount collected in 2024.

How do we measure the tax burden of the year-round resident compared to the visitor? This is a hard question to answer precisely as we do not currently have a mechanism to measure which sales are tied to which people or businesses. However, we can use a proxy to give a sense of this tax burden shift.

The chart to the right summarizes the sales tax by quarter in calendar year 2024. If we assume the year-round resident was the only taxpayer in Q1 and Q4, and their spending is relatively stable year-round, then we can presume the amount of tax above the line is from visitors. Accepting these assumptions, residents pay approximately \$46.7M in sales taxes and visitors account for \$18.4M of the revenue. We can extrapolate the quarterly sales generated from the resident and apply it to various taxing scenarios.



Using this modeling, the tax burden shift has been approximated. The chart below summarizes the sales tax rates and tax burden under various scenarios.

	Status Quo	Seasonal - Big	Seasonal - Small	Seasonal - Big	Seasonal - Small	Seasonal - Big	Seasonal - Small
Sales tax during:				Exempt: Food		Exempt: Food & Utilities	
April - September	5.00%	7.25%	5.75%	8.00%	6.00%	8.75%	6.75%
October - March	5.00%	1.00%	4.00%	1.00%	4.50%	1.00%	4.50%
Rate Difference	0.00%	6.25%	1.75%	7.00%	1.50%	7.75%	2.25%
Visitor Paid Sales Tax	\$18.4M	\$26.6M	\$21.1M	\$29.1M	\$23.1M	\$31.8M	\$26.7M
Tax Shift	\$0M	\$8.2M	\$2.7M	\$10.7M	\$4.7M	\$13.4M	\$8.3M

Timing of a change in sales tax

The above changes would require voter approval. If the Body wishes to pursue any of these for the October 2025 election, room should be made in the budget cycle to consider these changes to meet the upcoming deadlines. If the Body wishes to pursue making a change to the percent of permanent tax, language in the initiative could be crafted to care for that change and the impacts on the prior voter approvals.

Conclusion

The purpose of this memo was to provide a framework and scenarios to assist the Assembly Finance Committee in determining how to proceed with the implementing action “Evaluate ways to increase revenue from visitor activity” as part of the Assembly goals. Staff awaits direction from the Body on the next steps.