

**Discussion ~ Direction** of use of Commercial Passenger Excise Tax (CPET) funds for a downtown shuttle.

**POSSIBLE MOTION**

**I MOVE** to approve the use of CPET funds for a downtown shuttle pilot project and direct the Administrator to prepare a supplemental budget ordinance.

**City and Borough of Sitka Finance Department**

# Memo

**Thru: Phil Messina, Interim Municipal Administrator**

**To: City and Borough of Sitka Assembly**

**From: Jay Sweeney, Chief Finance and Administrative Officer**

**Date: June 20, 2017**

**Re: Use of CPET Funding for Downtown Shuttle**

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Mayor Hunter and Assembly Members,

Administration has received a request from local merchants for an appropriation from the Commercial Passenger Excise Tax (CPET) Fund to fund the operating costs of a downtown shuttle trolley for a limited trial run. The concept of a shuttle trolley is that a free conveyance of some sort (trolley, van, bus) would operate on a fixed circuit through the downtown business district. I have been asked to opine as to whether or not an expenditure of CPET funds for a trolley concept is an eligible use.

Federal law governing the use of CPET funds is contained in 33 USCS(b), and states that fees such as CPET taxes must be used for paying for the cost of a service to a vessel, and, enhancing the safety and efficiency of interstate commerce. In the past, CPET funds have been used as a supplemental funding source for both services that directly impact cruise ship visitors (bus transportation) and as a supplemental funding source for capital improvements that improve the visitation experience of cruise ship passengers, but, which also benefit local residents and visitors who are not arriving via cruise ship.

In 2016, the Division of Legislative Audit, Alaska State Legislature, conducted an audit of the use of CPET funds in accordance with Federal law, and, found that numerous Alaskan communities, including Sitka, were utilizing CPET funds to pay for expenditures not 100% attributable to services provided to cruise ship passengers, or, which were not exclusively used to enhance the safety and efficiency of interstate commerce. In discussions with officials from the Division of Legislative Audit, Administration was informed that use of CPET funds for purposes that improve the visitation experience of cruise ship passengers, but, which also benefit local residents and visitors who are not arriving via cruise ship, were acceptable so long as the Municipality used some auditable criteria in determining the percentage of usage by cruise ship passengers and allocated costs henceforth on a pro rata percentage.

The request for an appropriation of CPET funds to assist with funding of a downtown shuttle trolley could potentially fall in either the category of being fully eligible for CPET funding, or, partially eligible for CPET funding. The discriminating factor between full or partial funding would be whether or not the trolley's operation was limited to cruise ship port call hours. If the trolley were to only operate during port call hours of a cruise ship, then justification could be made that it essentially operates to enhance the efficiency of interstate commerce and is not serving local residents. If, on the other hand, were the trolley to operate on a fixed schedule regardless of whether the schedule coincides with cruise ship port call hours, then the operating costs would be partially eligible for CPET funding, on a percentage basis of port call hours to total operating hours.

The total operating hours for a trolley and the total port call hours are all easily discernable and auditable, so partial reimbursement from CPET funds would meet the auditability criteria set forth by the Division of Legislative Audit.