

# Memo

**Thru:** Mark Gorman, Municipal Administrator

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

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

**Date:** April 5, 2017

**Re:** **Use of CPET Funding for Sitka Historical Society Museum Expansion**

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Mayor Hunter and Assembly Members,

Administration has received a request from the Sitka Historical Society (SHS) for an appropriation from the Commercial Passenger Excise Tax (CPET) Fund to assist with funding for the Sitka History Museum expansion (see attached memo).

Federal law governing the use of CPET funds is contained in 33 USC 5(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 the Sitka History Museum falls in the partial use category. The proximity of the Museum to the shuttle bus transfer point and Harrigan Centennial Hall means that the facility will be visited by many cruise ship passengers. At the same time, however, the Museum is open to all and not exclusively dedicated to cruise ship passengers. Thus, some auditable criteria must be used in arriving at the amount of costs for the Museum which could be paid for by CPET funds.

Administration met with Mr. Spackman in regards to his requests and explained the auditable criteria requirement. The fact that the funding is needed prior to opening, however, makes the obtainment of auditable visitation statistics by cruise ship passengers more challenging, but not impossible, to obtain. The SHS is requesting an appropriation of \$50,000 to assist with the completion of the Museum. In relationship to a total projected cost of \$700,000, this request does not seem, on the surface, to be unreasonable.

Administration suggests that the Assembly consider making the requested appropriation with the following conditions:

- (1) Once the Museum is open and operating during cruise ship season, and no later than September 30, 2017, require the Museum to obtain detailed sample data as to the nature and character of visitors during a set time period (say 2 weeks). Employing quantitative analysis techniques, subsequently use the sample data to estimate the percentage of total visitation attributable to cruise ship passengers. Apply this percentage to the estimated total cost of \$700,000 to determine the allocable cost to enhancing cruise ship commerce.
- (2) If the total calculated in step (1) above is less than \$50,000, reimburse the Municipality for the difference.
- (3) Retain detailed records of the sampling and quantitative analysis process for future audit.

As of April 5, 2017, the CPET Fund has \$495,495 contained in it. A portion of this balance will be needed in the summer of CY2017 for bus transportation of cruise ship passengers.