




TRANSMITTAL MEMORANDUM

TO:	The Honorable Mayor & City Council	Initials:	
FROM:	Delilah A. Walsh, City Manager	File #:	MGR25-062
DATE:	January 30, 2025	Mtg. #:	02/06/25 NBh
RE:	Ordinance № 25-1999 Repealing Subsection (X) of Section 3.04.100 of the Ketchikan Municipal Code Entitled "Exemptions" to Remove the Sales Tax Exemption On Goods Sold On Cruise Ships; and Relettering The Remaining Subsections of that Section; and Establishing an Effective Date		

On January 17, 2025, the Cooperative Relations Committee of the City of Ketchikan and Ketchikan Gateway Borough met to discuss the application of sales tax on cruise ships within the City and Borough. The motion detailed below was prepared by City Attorney Mitch Seaver at the request of the Committee. The Ketchikan Gateway Borough will be considering a similar proposal at their assembly meeting of February 3, 2025. If adopted, the motion provides for approving Ordinance № 25-1999 in first reading, which removes the sales tax exemption on goods sold on cruise ships.

This initiative stems from a Council priority directive in April 2023, requested by Councilmembers Mark Flora and Riley Gass, to maximize port and visitor revenues. Tourism Manager Laurie Booyse, recognizing the City's potential to collect sales tax on food and beverage sales from cruise ships within city limits, has been diligently working on this project since early 2024. Her efforts have included developing detailed city limit maps within the Tongass Narrows with our GIS technician and initiating communication with Borough finance and management staff on April 30, 2024. Ms. Booyse also proactively contacted CLIAA representatives last year to inform them of our intention to pursue this action.

While the initial target was to bring ordinances forward in July 2024 for an effective date of January 1, 2025, the collaborative nature of this process with the Borough has required additional time. We appreciate the Borough's engagement in these important discussions. The ordinance now before you has a proposed effective date of April 1, 2025.

Mr. Seaver provides further detail and rationale in his enclosed memorandum. I fully support the passage of this ordinance.


A motion has been prepared for City Council consideration.

Recommended Motion:

I move the City Council approve Ordinance № 25-1999 in first reading: an Ordinance of the Council of the City of Ketchikan, Alaska; repealing Subsection (x) of Section 3.04.100 of the Ketchikan Municipal Code entitled "exemptions" to remove the sales tax exemption on goods sold on cruise ships; and re-lettering the remaining Subsections of that Section; and establishing an effective date.

MEMORANDUM

TO: Mayor Sivertsen
Members of the City Council
Delilah Walsh, City Manager
Lacey Simpson, Assistant City Manager

FROM:  Mitch Seaver
City Attorney

DATE: January 28, 2025

SUBJECT: Proposed Repeal of Cruise Ship Sales Tax Exemption

Transmitted herewith is a proposed ordinance repealing KMC 3.04.100(x) exempting the sale of goods aboard cruise ships from sales taxation and which states:

Sales of goods which are transported into the City on a cruise ship, which do not leave the cruise ship, and where the entire transaction, both payment and delivery, takes place on board a cruise ship, for purposes of this exemption a "cruise ship" means a commercial passenger vessel that carries passengers for hire except that "cruise ship" does not include a vessel:

- (1) authorized to carry fewer than 20 passengers;
- (2) that does not provide overnight transportation for at least 20 passengers for hire; or
- (3) that is operated by the United States, State of Alaska or a foreign government.

An ordinance removing a parallel exemption from the Ketchikan Gateway Borough Code is being submitted to the Assembly.

The exemption was adopted by the Borough in Ordinance 1268 Version B on November 17, 2003 which simultaneously provided revision of subsection (v) which further clarified the exemption on the commission or "shore ex" fee portion of sales of travel and adventure services.

At the time of adoption of the Borough ordinance, the tourism industry in Ketchikan was growing and passenger counts in Ketchikan were approximately 800,000 passengers per season, slightly over one-half of the passengers count of 1.5 million experienced in the 2024 Southeast Alaska cruise season. The Ketchikan Municipal Code was amended to mirror the Borough exemption effective April 1, 2007. According to the Borough, sales of services aboard cruise ships have been treated as exempt and the major cruise lines have not registered for, or remitted sales taxes since the adoption of the Borough's ordinance in 2003.

On January 17, 2025, the Cooperative Relations Committee received a report from staff on a proposed repeal of the current sales tax exemption applicable to sales of goods aboard cruise ships. The Committee approved a motion directing staff to bring forward ordinances removing the exemption from the City and Borough Code. The proposed effective date would remove the exemption in time for the start of the 2025 cruise ship season in Ketchikan. The first vessel is scheduled to arrive in Ketchikan on April 17, 2025.

In respect to other Southeast Alaska municipalities, while subject to some local variations concerning sales of travel and adventure services, Sitka, Haines, Hoonah, Juneau and Skagway do not exempt sales made onboard cruise ships. The proposed ordinance leaves the exemption for commissions on sales of travel and adventure services to sales made outside the city in place:

That part of the sales price paid by the buyer for travel and adventure services purchased outside the city which is not remitted, directly or indirectly, to the person providing or performing the service and which is a selling cost or commission or similar charge.
KMC 3.04.100(v).

Under subsection (v) sales within the city limits, including those made on cruise ships, are subject to sales taxes. The ordinance being submitted to the Borough Assembly also leaves the Borough's parallel exemption in place.

Local variations concerning sales of travel and adventure services include that, in December 2024 the Skagway Borough amended its ordinance to extend sales taxation to tours sold outside its boundaries for tours beginning and ending within the borough. This change includes taxation of a broker's fee or commission collected by a cruise ships excursion office and added to the price of the tour. The Cooperative Relations Committee was interested in pursuing a

change to the City and Borough sales tax code similar to Skagway's recent amendment. Staff advised the Committee that additional information and research is needed before considering such a change. In the interim, the proposed ordinance would become effective prior to the 2025 cruise ship season

THE CITY OF KETCHIKAN, ALASKA

ORDINANCE NO. 25-1999

AN ORDINANCE OF THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA; REPEALING SUBSECTION (X) OF SECTION 3.04.100 OF THE KETCHIKAN MUNICIPAL CODE ENTITLED “EXEMPTIONS” TO REMOVE THE SALES TAX EXEMPTION ON GOODS SOLD ON CRUISE SHIPS; AND RELETTERING THE REMAINING SUBSECTIONS OF THAT SECTION; AND ESTABLISHING AN EFFECTIVE DATE.

RECITALS

WHEREAS, the cruise ship exemption on goods sold aboard the cruise ships in Borough Code originated in Ordinance 1268 Version B, adopted on November 17, 2003; and the City enacted Ordinance 06-1562 effective April 1, 2007 which exempted goods sold aboard cruise ships from the city’s retail sales tax; and

WHEREAS, the cruise industry has grown substantially since the early 2000's from approximately 800,000 passengers per season to some 1.5 million passengers during the 2024 Southeast Alaska cruise season; and

WHEREAS, the sale of services aboard the cruise ship were not exempted, nevertheless, sales of services aboard the vessels have for years been treated as likewise exempt, and the major cruise lines visiting Ketchikan have not registered for nor submitted sales taxes to the Borough since adoption of Ordinance 1268 Version B in 2003; and

WHEREAS, the proposed amendment will leave in place the exemption set forth in Ketchikan Municipal Code 3.04.100(v) which exempts sales tax on “[t]hat part of the sales price paid by the buyer for travel and adventure services purchased outside the city which is not remitted, directly or indirectly, to the person providing or performing the service and which is a selling cost or commission or similar charge”; and

WHEREAS, the proposed amendment to the sales tax exemptions repeals the exemption on sales of goods aboard the vessels and will confirm that neither sales taxes on goods sold aboard the vessels nor services rendered on the vessel while located in the city are exempt from sales tax reporting and payment.

NOW THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF KETCHIKAN, ALASKA, AS FOLLOWS:

Section 1: Amendment. Subsection (x) of Section 3.04.100 of the Ketchikan Municipal Code, entitled “Exemptions,” is repealed:

~~“(x) Sales of goods which are transported into the City on a cruise ship, which do not leave the cruise ship, and where the entire transaction, both payment and delivery, takes place on board a cruise ship, for purposes of this exemption a “cruise ship” means a commercial passenger vessel that carries passengers for hire except that “cruise ship” does not include a vessel:~~

- ~~—— (1) authorized to carry fewer than 20 passengers;~~
- ~~—— (2) that does not provide overnight transportation for at least 20 passengers for hire; or~~
- ~~—— (3) that is operated by the United States, State of Alaska or a foreign government.]~~

Section 2: Relettering. Existing subsections (y),(z) and (aa) of Section 3.04.100 of the Ketchikan Municipal Code, entitled “Exemptions,” relettered as (x), (y) and (z) respectively.

Section 3: Effective Date. This ordinance is effective one (1) month after its final passage and publication, but in any event no sooner than April 1, 2025.

PASSED ON FIRST READING _____.

FINAL PASSAGE _____.

Robert Sivertsen, Mayor

ATTEST:

Kim L. Stanker
City Clerk

FYI: Bracketed language is intended to be removed from the existing ordinance, and underlined language in bold type is intended as an addition to the existing Ketchikan Municipal Code.

EFFECTIVE		DATE:	
ROLL CALL	YEA	NAY	ABSENT
COOSE			
FINNGEAN			
FLORA			
GASS			
KISTLER			
MAHTANI			
ZENGE			
MAYOR			