



TOURISM INDUSTRY WORKING GROUP

FINAL REPORT

MAY 2025

MEMBERS

Industry Representatives:

Carol Fraser, Duane Bannock, Tom Tougas,
Jonathan Faulkner, Alternate

Community Members:

Denis Hippert, Donna Hall, Larry Opperman,
Sargeant Truesdell, Donald St. John,
Alternate

Ex-Officio Members:

Borough Mayor Peter A. Micciche-Chair,
Assembly Vice President Kelly Cooper-Vice
Chair, Assembly Member Cindy Ecklund

Goals and Objectives

The Tourism Industry Working Group (TIWG) was formed to assess the economic and operational impacts of tourism in the Kenai Peninsula Borough (KPB) and explore revenue mechanisms that ensure a fair distribution of costs associated with visitor activity. Over the winter season, the TIWG analyzed data related to the overall benefits and perceived KPB-related impacts, including sales tax revenue, emergency services, solid waste management, direct economic and employment benefits, current trends related to tourism on the Kenai, and the cruise industry's role in our local economy. The following report outlines our findings and recommendations for your consideration.



KEY PRESENTATIONS

TIWG had the opportunity to explore a range of topics through insightful presentations. Below is a list of the key presentations delivered during our meetings.

- 1/29/2025: KPB Sales Tax and Tourism – Brandi Harbaugh, Finance Director
- 1/29/2025: KPB Solid Waste – Data provided by Tim Crumrine, Acting Director
- 1/29/2025: Tourism in the KPB – Cassidi Cameron, KPEDD Executive Director; Caitlin Coreson, KPEDD Program Manager; Andy Wink, Wink research and Consulting
- 2/26/2025: KPB Emergency Services – Brandi Harbaugh, Finance Director
- 2/26/2025: Seasonal Sales Tax, 2% and 4% Model – Brandi Harbaugh, Finance Director
- 2/26/2025: Cruise Lines International Association in Alaska – Renee Reeve, Government & Community Relations

Tourism Economic Contributions

- Not including indirect benefits associated with gig employment and property value investment increases due to tourism related infrastructure, tourism contributes nominally 11% of the borough's economy.
- An estimated 5,900 direct tourism jobs exist in the private sector, accounting for 21% of the total.
- Tourism earnings in KPB are valued at \$152.3 million annually, with major sectors including:
 - Restaurants & Bars: \$57.8M
 - Accommodations: \$42.8M
 - Water Transport & Sightseeing: \$26.4M
- Sales tax revenue generated from tourism-related businesses is estimated between \$5.6M-\$10.3M annually (12-22%).
- Historically, a significant proportion of KPB residents are former tourists to the region who chose to become residents and join our workforce.
- Cruise passengers significantly contribute to local economies; analysis of visitor spending in Juneau estimates visitors spend \$232 each and expectations are likely similar on the Kenai, although have not been directly studied.

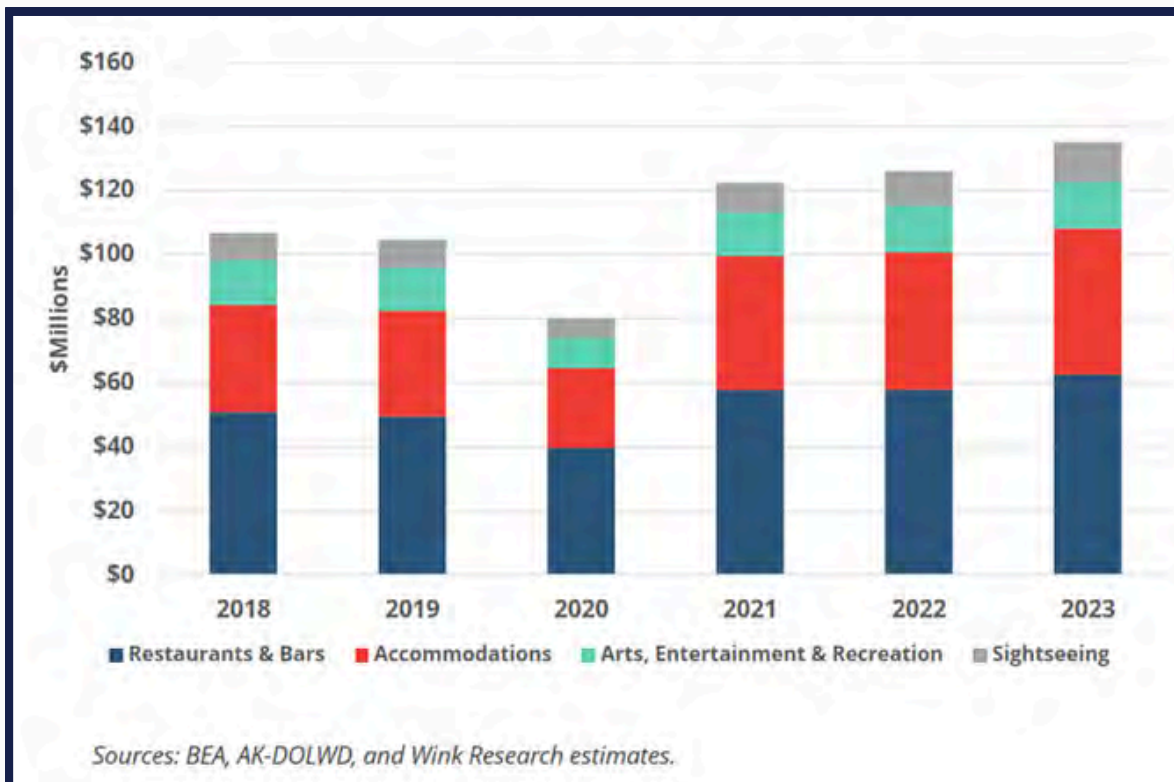
Tourism Direct Economic Contribution to KPB Economy - 2022

Tourism Sectors	Peak Employment	Avg. Monthly Employment	Earnings (\$M)
Specialty Retail Trade*	528	440	\$10.6
Water Transport & Sightseeing	710	335	\$26.4
Arts, Entertainment & Recreation	901	541	\$14.7
Accommodations	1,552	912	\$42.8
Restaurants & Bars	2,231	1,631	\$57.8
Tourism Sector Total	5,922	3,859	\$152.3
KPB Private Sector Total	28,472	-	\$1,423.0
KPB Tourism Pct.	21%		11%

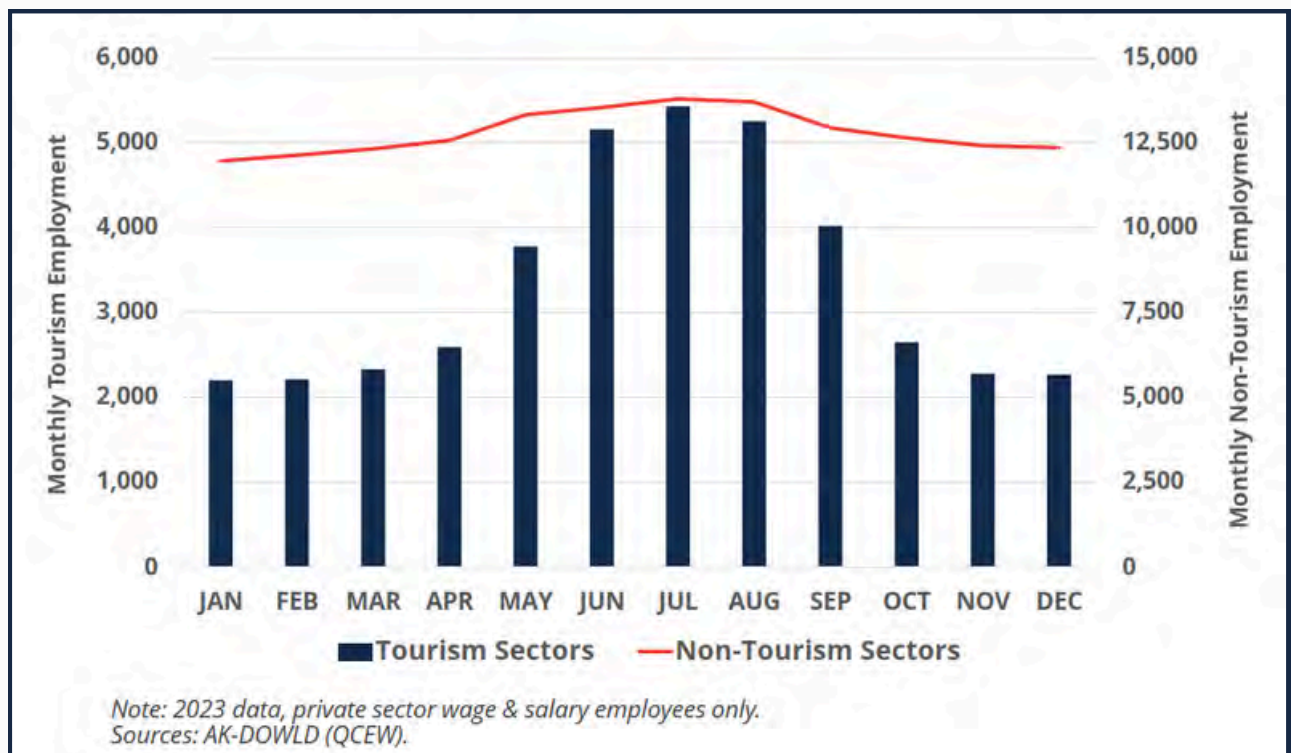
*Clothing, Accessories, Sporting, Hobby & Musical Instrument retailers.

Sources: BEA, AK-DOLWD & Wink Research estimates.

KPB TOURISM EARNINGS BY SECTOR



SEASONALITY OF TOURISM EMPLOYMENT



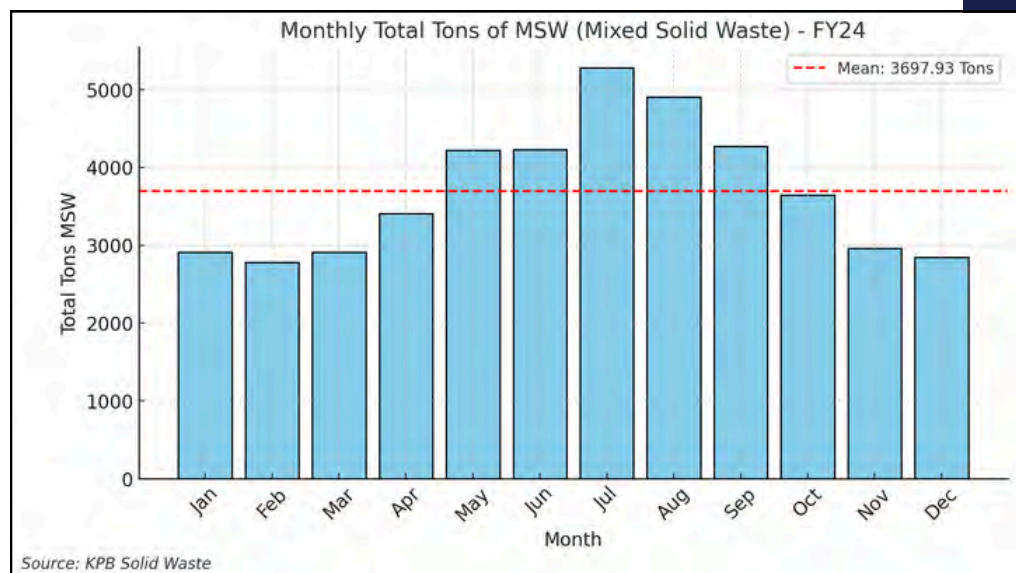
Public Services- High Seasonality

Seasonal fluctuations in service demand occur naturally, with the summer months also bringing increased resident activity across the region. These increases reflect a combination of factors, including seasonal employment, construction, outdoor recreation, and overall population movement. Emergency services experience a 5% seasonal increase, resulting in an estimated \$1.38 million in expenditures, while solid waste management sees a 10% seasonal rise, with expenditures estimated at \$1.29 million. At the same time, tourism-related businesses generate an estimated \$5.6 million to \$10.3 million annually in sales tax revenue—representing 12% to 22% of total collections—which significantly exceeds the combined seasonal costs of emergency services and solid waste.

Bottom line: The Kenai Peninsula Borough does not subsidize tourism. Rather, tourism supports the overall economic health of the region in direct cash infusion for KPB services through sales tax; into general private sector infrastructure investment, which results in additional property tax; and through a significant proportion of private sector employment.

SOLID WASTE

- Solid Waste FY25 Total Expenditures and Operating Transfers: \$12,931,000.
- KPB Solid Waste processes 44,375.17 tons of mixed solid waste annually.
- Waste generation peaks during the summer months of July (5,282.72 tons) and August (4,906.78 tons).
- While tourism is a contributing factor, it is not the sole driver of increased waste. The upward trend begins in April (3,408.86 tons), followed by a significant jump in May (4,219.51 tons)—well before the peak tourism months of June, July, and August.
- The average monthly tonnage is 3,697.93.
- **4,418.28 tons are above the mean, reflecting a 10% seasonal increase—\$1.29M estimated expenditure with all dollars above the mean being conservatively applied specifically to tourism.**



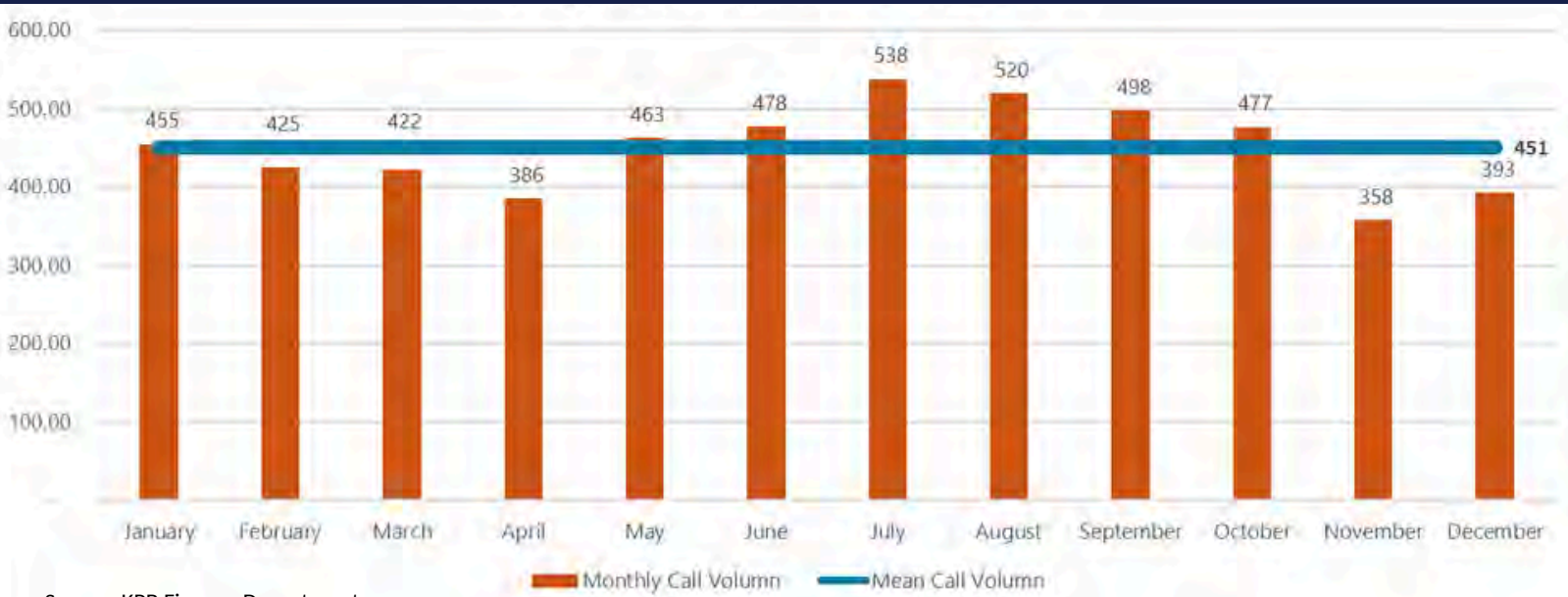
EMERGENCY SERVICES

- Total Annual Call Volume: The total number of EMS and Fire calls for the year is 5,400.
 - \$27.39M expenditure annually
- Bear Creek Emergency Services (BC): 142 calls annually
 - \$1.65M expenditure annually
- Western Emergency Services (WES): 652 calls annually
 - \$3.1M expenditure annually
- Central Emergency Services (CES): 3,164 calls annually
 - \$13.57M expenditure annually
- Kachemak Emergency Services (KESA): 265 calls annually
 - \$1.98M expenditure annually
- Eastern Peninsula Highway Emergency Services Area (EPHESA): 85 calls annually
 - \$366.9K expenditure annually
- Nikiski Fire Service Area (NFSA): 1,105 calls annually
 - \$6.72M expenditure annually



- Mean Call Volume: The average (mean) monthly call volume is 451.
- **Annual call volume includes 272 calls above the monthly average, reflecting a 5% seasonal increase—\$1.38M expenditure with all dollars above the mean being conservatively applied specifically to tourism.**

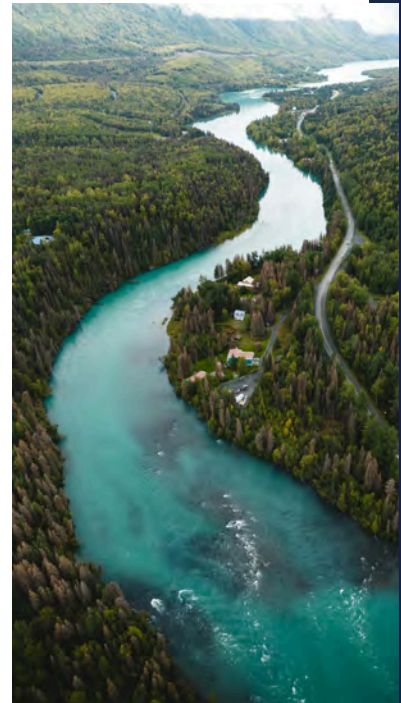
KPB Fire & EMS Call Monthly Volume- Actual vs. Seasonal



Source: KPB Finance Department

Lodging Tax Implications

- Lodging establishments and many tourism-related services already pay a premium of sales taxes to the KPB due to the per unit/per night tax cap, versus other services paying on a total bill \$500 cap basis. That value is not included in the previous numbers, according the KPB Finance amount up to approximately \$3.5 Million annually.
- Lodging taxes increase accommodation costs for guests, potentially discouraging visitors—especially in competitive or price-sensitive markets.
- Small lodging providers may struggle to absorb or pass on the cost of the tax, unlike larger hotel chains. Destinations with higher taxes risk losing tourists to nearby areas with lower rates. Although there are KPB cities that have chosen to tax lodging, the KPB has no responsibility to level a playing field laced with negative impacts.
- KPB cities that have chosen to adopt lodging taxes provide direct tourism-related services such as parks, boat launches, campgrounds, river walks, etc. The 2nd Class Kenai Peninsula Borough does not have the recreation powers to provide such services.
- The Kenai Peninsula Borough would incur significant costs for new software to track and manage this new tax stream as well as additional personnel to handle the increased workload in this very lean municipal operation.
- Hotels, lodges, and short-term rentals would face extra administrative burdens, including completing both traditional sales tax forms and separate forms for the lodging tax.
- Travelers staying in regions with multiple overlapping tax zones may be confused by their billing.
- Businesses located in multiple overlapping tax zones will experience a greater tax reporting burden.
- Taxing a single industry—particularly lodging—more heavily than others may create an imbalance, especially when tourism activity supports a wide range of businesses, with retail being among the largest during peak seasons.
- Becoming overly reliant on bed tax revenue, which can fluctuate significantly due to seasonal trends, economic downturns, or unexpected disruptions in the tourism industry, presents risks to reliable budging.
- Finally, and most importantly, the KPB cannot justify the need for more revenue. In fact, the reverse is true since the KPB currently holds over \$10 Million in excess unreserved general funds above the \$32 Million maximum reserves; tax dollars that should be gradually returned to taxpayers. However, there are other options to consider that will offset revenue, provide for economic development and allow significant tax reductions to our residents.



Seasonal Sales Tax Benefits

2% Winter, 4% Summer Model

The KPB Administration has been evaluating options available to protect residents from rapidly rising real property valuation and the resulting tax burden. One option that delivers value to locals while not penalizing visitors and the tourist industry includes implementing a seasonal sales tax structure. Under evaluation is revising a 3% sales tax all year to a 2% October to March and 4% April to September to sales tax, which provides several financial and economic advantages for Borough residents.



Current Model

SalesTax - TXBL Sales		
Reported Txbl	FY24	FY25
July-Sep 23	552,664,728.00	538,677,066.00
Oct-Dec 23	258,532,402.00	250,776,429.94
Jan-Mar 24	233,803,744.00	226,789,631.68
Apr-Jun 24	397,650,641.00	385,721,121.77
	<u>1,442,651,515.00</u>	<u>1,401,964,249.39</u>

down
(0.03)

SalesTax - TAX		
Reported Txbl	FY24	FY25
July-Sep 23	16,579,941.84	16,160,311.98
Oct-Dec 23	7,755,972.06	7,523,292.90
Jan-Mar 24	7,014,112.32	6,803,688.95
Apr-Jun 24	11,929,519.23	11,571,633.65
	<u>43,279,545.45</u>	<u>42,058,927.48</u>

Remote 4,000,000.00
46,058,927.48

2% Oct-Mar, 4% Apr-Sep

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Jan-Mar 24	7,014,112.32	4,535,792.63
Apr-Jun 24	11,929,519.23	15,428,844.87
	<u>43,279,545.45</u>	<u>46,527,248.74</u>

Source: KPB Finance Department

Remote 4,000,000.00
50,527,248.74

Additional Rev 4,468,321.26

Increase Revenue Generation

- The current year-round 3% model generates \$46.06 million in total sales tax revenue.
- The proposed seasonal 2-4% model increases revenue to \$50.53 million, resulting in an additional \$4.47 million annually.
- Higher tax collection in the summer months aligns with peak tourism, ensuring that visitors contribute proportionally higher and fairly to public services.

Fair Tax Distribution

- A higher summer rate (4%) ensures that the bulk of revenue is generated when tourism activity is at its highest.
- A lower winter rate (2%) reduces the tax burden on year-round residents, making the aggregate annual tax impact easier for locals.

Alignment with Seasonal Demand for Services

- Peak summer months (July-September) bring increased activity for emergency services and waste management, as well as heavier traffic.
- A higher sales tax during these months ensures that visitors are paying more than their share for the services they use.

Local Benefits for Residents

- Lower winter sale tax costs
- Lower property taxes
- No need for new KPB Tax Personnel
- No burdensome accounting for business owners
- KPB already has adequate revenue, but this proposal allows for tax reductions and an offset to local taxpayers.



Recommendations/Conclusion

After a winter of expert presentations, careful evaluation, analysis of factual data, and extensive discussion, the Tourism Industry Working Group unanimously supports this report and the following three recommendations for the Kenai Peninsula Borough (KPB) Assembly to consider:

- The first recommendation is that a bed/lodging tax is not supported by members of the TIWG. The two primary reasons given by Assembly sponsors of this tax were that more revenue was needed and that tourism is subsidized by KPB taxpayers. Neither of these assertions proved to be true. KPB taxpayers do not subsidize tourism (in fact the reverse is true), and the KPB does not need additional revenue at this time or for the foreseeable future (see page 7).
- The second recommendation is for the Assembly to evaluate and consider a seasonal sales tax (see page 8 of the report) for placing the question on the ballot for KPB voters. Tourism plays a crucial role in KPB's economy, generating substantial revenue and employment opportunities. Implementing the 2% winter and 4% summer seasonal sales tax would ensure that visitors contribute more than their fair share without placing undue strain on the tourism industry. A seasonal sales tax model would either maintain or lower the sales tax burden on residents, and capitalize on the economic contributions of tourism in providing for the financial needs of residents through the funding of public services. By leveraging higher visitor spending in the summer while relieving financial pressure on locals in the winter, this structure generates a sustainable and equitable revenue solution for residents and the KPB. Adjusting the tax rate during peak tourism months would provide at least \$4.5 million in revenue that should be shared with residents through property tax reductions. Aside from property tax relief, a portion of these funds could be employed to further promote KPB as a travel destination.
- The third recommendation is a "no action" alternative. The no-action alternative reflects the view that visitors to the Kenai Peninsula Borough are already contributing significantly more toward KPB services than they use. Under this option, the Assembly would not pursue a targeted new tax, recognizing that current contributions from the tourism sector are more than sufficient to support existing public services.

In conclusion, the Tourism Industry Working Group respectfully presents these options for the Assembly's consideration: No bed/lodging tax; implementation of a seasonal sales tax; or take no action at this time. These options are grounded in thorough analysis and diverse, informed perspectives within the tourism sector and the broader community. The group encourages the Assembly to weigh these findings carefully and, if appropriate, allow voters to decide on the seasonal sales tax proposal in a future election.