Alyeska RESORT
P.O. Box 249
1000 Arlberg Avenue
Girdwood, Alaska 99587

April 3, 2018

The Honorable John Lincoln
State Capitol
Juneau, Alaska 99801

Dear Representative Lincoln:

We are writing to express our strong opposition to HB 383 and SB 110. While we appreciate the efforts of the sponsors to support the tourism industry, as a member of the Alaska Tourism Industry Association (ATIA) and its pending Tourism Improvement District (TID) committee, we are writing to voice our opposition to this legislation. A review of the CS recently released in the House indicates the bill remains too deeply flawed to fix.

Given the state's budget situation, we believe the Legislature and Governor have **acted prudently in recent years making reductions in state general funding for tourism marketing**. State subsidies for tourism marketing were an amenity when the state had a budget surplus. As elected officials, you have all faced hard budget choices. In the current budget situation, state funding should be focused on essential services like public safety and education.

With regard to the HB 383 and SB 110, we are opposed to these tax increases for the following reasons:

1. These new taxes will overly burden the targeted, but undefined, estimated **2000 businesses large and small who will pay the new taxes**. The vast majority of these businesses are unaware that these taxes are even being considered, and despite statements made in last week's House hearing, these nebulous and as yet undefined taxes will hit the gross revenues of these businesses and largely cannot just be "passed on to the customers" due to the complexities of previously committed future contracts, commissions charged by 3rd party package providers, and integrated product offerings for tourism experiences

2. The DOR considers this to be a tax, pure and simple, on those 2000 businesses. Hence their **large fiscal note**, which includes the following explanation:

   "*If the bill becomes law, the tax division will need to build a substantial new module within the Tax Revenue Management System (TRMS). The $900,000 one-time capital appropriation is for this purpose. To implement and run the program, we envision three new staff: a senior auditor or audit supervisor, a tax technician to engage with registration of what could be up to 2,000 new taxpayers, and an economist to provide research support, pre-election levy estimates, and drafting assistance with the annual report.*"

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3. The tax assessment model in HB 383 and SB 110 is based on California's chaotic model, one that is a poor fit for Alaska. Alaska's economy as a whole, and our tourism industry, are vastly different. **Alaska is not California**. Unlike in Alaska, TID funds in California cannot be diverted by the government for other public purposes.

4. These bills would **outsource the state's powers of taxation and appropriation**. This is both poor policy, legally unsound, and unconstitutional.

5. **Funds designated for tourism marketing have been collected from the Vehicle Rental Tax (VRT), but in the current budget situation those funds were used for other purposes.** Alaska should use the money it has already collected from the VRT rather than create a new tax for the exact same purpose.

6. **Additional statewide tourism marketing funds are not needed.** Despite reductions in state subsidies for tourism marketing in recent years, tourism in Alaska has grown in the exact same time period. That growth is projected to continue for the next several years:

   See Visitor Traffic Trends 2007-2016, Total Spending 2016 and Total Visitor Spending by Category attached hereto.

   Alaska Visitors Statistics Program (AVSP) VII shows a 4% growth in visitation to Alaska in 2016. Additional data can be found here: http://www.alaskatia.org/marketing/alaska-visitors-statistics-program-avsp-vii.

   The number of cruise ship passengers visiting Alaska has increased from 810,000 passengers in 2010 to 1.1 million passengers in 2017. The Alaska Cruise Association projects a 12% growth in passengers from 2018 to 2019. Additional statistics regarding cruise passenger spend can be found on the Cruise Lines International Association Alaska's website at http://www.cliaalaska.org/economy/alaska-cruise-history and http://www.cliaalaska.org/economy/alaska-at-a-glance/.

   All this growth has occurred during an era of reduced state funding for tourism marketing. Additional statewide tourism marketing funds are unnecessary and will not likely have a positive impact. The need for 3 additional full-time positions to administer and collect this tax will negate the savings made by the state when the decision was made to eliminate tourism related positions for budget reasons. This effort also does not take into account the costs related to notifying via public ads/mailers, voting on, and administering results of the votes from the taxed entities related to changes in the tax levels by the board.

7. **The tax cannot be dedicated to statewide tourism marketing.** Despite ATIA's representations, the funds collected via this tax cannot be dedicated to the purpose for which they were collected and will go into the general fund. These funds can be, and very likely will be in this current budget crisis, reallocated for another purpose, just as has happened with the Vehicle Rental Tax (VRT).

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8. **The bill lacks performance metrics.** There is no mechanism to track the performance of the Travel Alaska Board or the effectiveness of its marketing plan (e.g., website, social media, room nights generated, occupancy rate, sales generated via referrals, etc.). There is no certainty about how the funds will be allocated to market Alaska, especially in the "off seasons" to support growth of tourism for year-round sustainability. Efforts to market Alaska as a winter destination to date have been almost nonexistent. Although the bill contains a provision that the marketing plan must promote all assessed tourism segments, "tourism segment" is undefined and there is no clarity on how funds will be allocated to the various segments. One of the many flaws in ATIA's approach is to push for legislation that lacks a mechanism to track the effectiveness of the board's marketing plan and does not assure accountability.

   Furthermore, less than half of ATIA's current marketing budget is spent on advertising and a **majority of the budget is spent on the ATIA's overhead, including payroll, research and personnel travel**. If the Travel Alaska Board is not accountable for marketing performance, an increase in the amount of funds allocated to statewide tourism marketing will not guarantee additional, effective ad spend as their metrics for success are by their own admission, not statistically significant nor can be directly tied to economic impact of businesses that would be taxed.

9. **It is impossible to know which tourism businesses will be assessed.** There is no transparency about which tourism businesses will be targeted and assessed. "Tourism industry", "tourism business" and "tourism segment" are undefined terms in the bill. The bill proposes the Travel Alaska Board will propose definitions for these terms for adoption by the Department of Revenue and thus the Travel Alaska Board has the power to determine which businesses will (or will not) be taxed. However, the bill legislates that an initial election will be held to nominate board members and propose an assessment. It is not possible to hold an election without knowing which "tourism businesses" will vote, and which "tourism businesses" and "tourism segments" will be assessed. Also, votes cannot be weighted until an assessment is levied because votes are weighted in proportion to the assessment that each voting "tourism business" is estimated to pay for the calendar year immediately following the election (as determined under AS 44.25.260).

10. **SB 110 and HB 383 focused on assessing only a fraction of the tourism industry – vehicle rentals, tour activities and attractions, and accommodations.** Other sectors of the tourism industry would not be assessed. Transportation, airlines, cruise ships, restaurant and retail, to name a few, were excluded. **It is unfair that only some of the tourism sectors might be assessed**. There is no clarity in HB 383 and SB 110 about which businesses might be assessed, which leads to a circular problem in establishing the Travel Alaska Board to implement this legislation.

11. **The tax will hit certain Alaskan residents the hardest.** A large percentage of the tax will come from Alaskan residents who would utilize the services of the assessed

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businesses year-round. This burdens Alaskan residents with funding Alaska's campaign to market the state as a summer tourist destination.

Alaskans travelling to annual Alaska Federation of Natives (AFN) convention would, for example, likely be one of the largest payers of this new tax. A tax for which rural areas would receive little benefit. The same would hold for travel for organizations like school boards and sports teams. All would be taxed for antiquated advertising designed to market tourists to come visit already full cruise ships and urban hotels in the summer months

Despite months of deliberation and eleven weeks of this legislative session, ATIA still has many questions to answer about an effective statewide tourism marketing plan and how it should be implemented before members of the tourism industry are asked to give support to a new assessment to fund statewide tourism marketing. ATIA and its members should go back to the drawing board. As you consider this legislation, we ask you obtain input from the all parties impacted by any proposed assessment, and not just ATIA whose governance is too heavily weighted toward local visitor bureaus, which largely live off of hotel bed taxes already. With half of the current tourism marketing funds controlled by ATIA going toward its overhead, administration and staffing, it would be a step in the wrong direction to give ATIA more money to support itself while it continues to undertake antiquated, expensive and inefficient marketing efforts.

Sincerely,

Eric Fullerton
VP & Director of Marketing

Mark Weakland
VP & General Manager