

HOUSE FINANCE COMMITTEE
January 30, 2002
1:35 PM

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CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:35 PM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Representative Fred Dyson; Representative Gary Stevens;
Representative Vic Kohring; Cheryl Frasca, Municipality of Anchorage, Anchorage; Brad Pierce, Office of Management and Budget, Office of the Governor; Dale Fox, Chairman, Alaska Travel Industry Association; Dennis Brandon, Alaska Travel Industry Association; Paul Cauter, Alaska Travel Industry Association; Mike Windred, Alaska Travel Adventure, Juneau; Kirk Hoessle, Alaska Travel Industry Association, Girdwood; Bruce Bustamante, Anchorage Business Convention Business Bureau, Alaska Travel Industry Association, Anchorage, Sharon Crisp, City of Valdez; Sharon Crisp, City of Valdez; Sharon Crisp, City of Valdez.

PRESENT VIA TELECONFERENCE

There were no teleconference testifiers.

SUMMARY

HB 349 "An Act relating to agency programs and financial plans."

HB 349 was REPORTED out of Committee with a "do pass" recommendation and with a zero fiscal note by the Office of the Governor.

HB 359 An Act making a supplemental appropriation for tourism marketing efforts; and providing for an effective date.

HB 359 was REPORTED out of Committee with a "do pass" recommendation and with a House Finance Committee Letter of Intent.

#hb349

HOUSE BILL NO. 349

An Act relating to agency programs and financial plans.

REPRESENTATIVE FRED DYSON, SPONSOR, spoke in support of the legislation. He maintained that [results based budgeting] would provide the Administration with the best available information. He provided members with an example of the results based budgeting system used by the Municipality of Anchorage: "Facility Management" (copy on file). He noted that he used the budget system contained in the document when he was on the Anchorage Assembly. He explained that municipal departments present their activities and outputs in decreasing levels of priority.

CHERYL FRASCA, MUNICIPALITY OF ANCHORAGE, ANCHORAGE, provided information on the results based system used by the Municipality of Anchorage. She discussed page 8 of the handout. She explained that the funding line would be similar to the state caps. Everything above the line would be funded; everything below the line would not be funded. If the funding level changes the funding line would move upward, leaving more unfunded programs. If a service were integral to the priority it could be moved up the funding level. If there were a funding surplus the funding level could be moved down.

Ms. Frasca explained that some departments list debt service as their first priority; some departments prioritize their commissioner's office; others set their core functions as their first priority. She explained that the codes could identify mandated services. She emphasized the need to identify the level of funding mandated.

In response to a question by Representative Dyson, Ms. Frasca acknowledged that the administration of the funding process is complicated. Infrastructure must exist for the system to work. She pointed out that information could be presented in this format without acquiring the

infrastructure. The information can be used to provide clear guidelines to the departments in respect to what a service level should look like. She stressed the need to define activities and to give definition and division of service levels. The Anchorage Municipal Administration and Assembly negotiated the use of funding level budgeting.

Representative Dyson asked if the state of Alaska could buy software from the Municipality of Anchorage. Ms. Frasca did not think that the software would be suitable. She observed that they are looking at new systems.

Vice-Chair Bunde questioned if there is any reason the system could not be adapted and moved to a state level. Ms. Frasca responded that it is a good model to present to the legislature and citizens because it shows the level of service. She acknowledged that it would take time to implement fully, but noted that it could be used as a communication tool without actually producing the budget.

Vice-Chair Bunde asked what would keep departments from placing a core function as number 10 and a burecratic function as number one. Ms. Frasca responded that it is important that the ranking process have integrity. She noted that the legislature could rearrange the ranking to reflect legislative priorities. The legislature would have the units of information specific to the activities.

Representative Hudson noted that budgets are nothing more than estimates of what are needed and what will be available to meet the needs of the state on an annual basis. He asked if the mayor has flexibility to meet emergencies and in relationship to nonproductive items in the budget.

Ms. Frasca noted that there is flexibility to move money within the departments.

Representative Hudson noted that information is presented in a positive format and emphasized that lawmakers need to know the negatives. He asked if there is an opportunity for the departments to indicate the downside of not funding a function for the public record. Mr. Frasca observed that there are work sessions where department directors have an opportunity to answer questions. This is an opportunity to focus on what is below the funding line.

Representative Croft referred to municipal priorities on pages 3 - 4. He agreed that it made sense to place services into components but emphasized that it is the legislature's duty to set the priorities.

Representative Dyson acknowledged the concern. He stressed that it makes sense for those that are doing the work to take the first cut at setting the priorities. He pointed out

that the Assembly has the opportunity to change the position of items on the priority list. He pointed out that they have the information available to understand the effect of changes.

In response to a question by Representative Croft, Ms. Frasca noted that the most important items are ranked on the front page, but that those items near the cut line are the most vulnerable. The department submits the rankings in the mayor's budget. The funding line is drawn based on the Assembly's approval.

Representative Croft questioned how often the Assembly changes the rankings. Ms. Frasca noted that the Assembly might choose to fund something that is below the line. The department would rank the item the next year based on available funds.

Representative Croft suggested that reductions are unlikely to be done as cleanly as presented in the handout. He pointed out that [if park maintenance were below the cut line] it would be unlikely that all the maintenance for the 226 parks would be deleted. He suggested that items within the maintenance component might be identified for funding. Ms. Frasca agreed and pointed out that separate service areas can be created and funded. She observed that there is flexibility and emphasized that it is a way of presenting information.

Representative Croft maintained that the system is similar to the current state process.

Representative Lancaster questioned if the process saved time or money or if it provided better service. Representative Dyson responded that he did not know of any systems that worked better.

Representative John Davies asked the mayor's level of involvement in determining prioritization. Ms. Frasca explained that the mayor reviews the service levels. The mayor has not changed the ranking and priorities of the departments. The critical decision is where the funding line is drawn. If a service falls below the funding line the mayor would look at what is above the line to see if there is a service that can be reduced or eliminated.

Representative John Davies questioned how departments distribute the funding. Ms. Frasca noted that it is similar to the cap process set by the state legislature. Representative Dyson interjected that the city of Anchorage has a strong mayor system. He observed that the rankings could be changed.

Representative Harris spoke in support of the legislation. He observed that the legislature is only in session for 4 months, while the administration works 12 months. He suggested that the Administration would have a better chance of doing something with the budget, but acknowledged that the legislature would have to manipulate the final product.

BRAD PIERCE, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, spoke against the legislation. He observed that the Governor opposes the bill as an unnecessary burden on state agencies without producing meaningful results. He observed that the governor proposes and the legislature disposes. Prioritizing agency activities is a subjective process. He pointed out that state departments have a much broader function than municipal departments. He questioned what criteria would be used to rank governmental functions. The dilemma is that general government functions could be placed on the bottom, but that without general governmental functions like personnel and payroll nothing else would exist. He observed that the Legislative Research Agency, at various times, has been asked to make lists of state programs that are mandated vs. discretionary. They have produced a list of new programs added between 1981 and 1989 and lists of unique Alaska programs. Gordon Harrison wrote an essay for the Long Range Financial Planning Commission on the difficulty of defining basic services. The Long Range Financial Planning Commission itself produced a preliminary report that gave several different scenarios for cutting the budget by \$500 million dollars using different criteria for what should be eliminated. All of these exercises so far have proven to be pointless but they might provide some guidance along the lines of what is being proposed in HB 349.

Representative Hudson observed that the intent is to have a more direct dialog with the administration. He acknowledged that the administration functions under the direction of the legislature. He stressed the need for more information regarding the harmful affects of not funding items. Mr. Pierce responded that impact statements are created during the subcommittee process. Representative Hudson emphasized the need to work together with greater flexibility.

Representative Whitaker questioned the Administration's objection. Mr. Pierce clarified that the subcommittee process is already doing the directives of the bill. Co-Chair Williams disagreed. Representative Harris maintained that the subcommittees must dig [for information]. He pointed out that there is a billion dollar deficient and that priorities are needed. Vice-Chair Bunde recalled instances where the relationship has been adversarial.

Representative Foster MOVED to report HB349 out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 349 was REPORTED out of Committee with a "do pass" recommendation and with a zero fiscal note by the Office of the Governor.

#hb359

HOUSE BILL NO. 359

"An Act making a supplemental appropriation for tourism marketing efforts; and providing for an effective date."

Co-Chair Mulder stated that he was originally a skeptic regarding the request [to provide funding for tourism marketing]. After listening to comments about what is happening to the [tourism] industry and analyzing the numbers he concluded that the state of Alaska has a huge investment in the tourism industry. He pointed out that this is the first time that the state of Alaska has faced such a steep decline in tourism. A 10 percent decline in tourism means over 140,000 fewer visitors or over \$100 million less dollars to the Alaskan economy. These are funds that the state would not have to provide. He pointed out that tourism is receiving the impact of 9/11/01, which it did not cause. He acknowledged that the legislation is not 100 percent supported by the majority, but stressed that action needs to be prompt.

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DALE FOX, CHAIRMAN, ALASKA TRAVEL INDUSTRY ASSOCIATION (ATIA), testified in support of the legislation. He noted that small business is the backbone of the Alaska tourism industry. Tourism bookings in Alaska virtually stopped after 9/11/01. Bookings are currently down 30 - 46 percent. He stressed that hundreds of businesses and thousands of jobs will go away if the downward trend continues. He encouraged the state to help the industry and observed that it is a onetime problem. He stressed that although the state has faced recessions, oil spills, fires and earthquakes nothing has compared to the problems resulting from the 9/11/01 disaster.

DENNIS BRANDON, ALASKA TRAVEL INDUSTRY ASSOCIATION, gave a power point presentation in support of the legislation. He noted that, as a result of 9/11/01, consumers are: more reluctant to fly, plan trips closer to home, are uncertain about the future and less willing to commit to long-term travel plans. The National Forecast from the Travel Business Roundtable (10/31/01) found that 17% of all travelers say they are traveling less. One out of every 20 trips is being cancelled and 13% of leisure travelers have: cancelled, put

on hold, or remain undecided about taking an upcoming trip. According to a survey of more than 300 visitor industry businesses: bookings and inquiries are down by 23 percent and businesses directly involved in advanced booking of transportation, tours & lodging are down 30 - 46 percent. Research indicates that current marketing efforts may yield significantly fewer visitors. He pointed out that a decrease in visitors would mean less revenue for municipalities that are funded in part through bed taxes and emphasized that revenue decreases would trickle through the entire Alaska economy.

Mr. Brandon noted that the tourism industry is often depicted as transportation, flight seeing, and vessels. He pointed out that there are many indirect businesses that depend on the volume of the visitors to Alaska. He added that taxes, user fees, permits, and other state revenues might suffer from a reduction in visitors.

Representative Croft observed that bookings after 9/11/01 dropped to zero and asked if the current average of 30 - 46 percent is the accumulative amount. Mr. Brandon affirmed and clarified that volume is increasing, but that 60 - 90 booking days were lost after 9/11/01. February volumes are back up but they need 120 - 130 percent to make up for lost business. He noted that by December 31st, under normal circumstances, businesses have 35 - 40 percent of their following season booked.

Mr. Brandon reviewed the results of a survey of respondents to the State Marketing Program (11/28/01). He observed that 1 in 3 people who indicated they were definitely planning to visit Alaska prior to 9/11 now indicate they are less committed to visiting. Only 1 in 10 of those planning to visit have made reservations. He noted that 10% of respondents say they are less likely to travel on vacation in general. He reviewed possible Outcomes of these Reductions in Alaska and observed that a 10% decrease in visitors equals a loss of 140,000 visitors, a loss of \$101.6 million dollars in visitor spending and a loss of 1,564 travel-related jobs. If there were a 20% decrease in visitors then there would be a loss of 280,000 visitors, \$203.3 million dollars in economic impact and a loss of 3,127 travel-related jobs.

Mr. Brandon noted that according to the Air Transport Association domestic revenue passenger miles are down 21.1 percent. International revenue miles are down 37.3% and current total air passengers are down by 23%. Summer air bookings to Alaska are down 30%. A majority of Alaska's non-resident visitors arrive or depart by plane.

Mr. Brandon observed that total cruise cancellations could reach \$2 billion dollars, according to industry analyst

Lazard Freres. He maintained that incentive discounts could translate to significant reductions in land-based expenditures in Alaska. He observed that increased capacity brings decreased pricing to stimulate activity. One company coming to Alaska has discounted their cruises by 50 percent.

Representative Croft asked if someone with a discount would be more likely to purchase items off of the ship. Mr. Brandon stated that they have not found that to be true; those that are bargain hunters are bargain hunters.

Mr. Brandon reviewed impacts on travel and concluded that more Americans will travel closer to home, if at all. Inbound international travel is expected to decline. He noted that European charters that were building have cancelled flights and discontinued services.

Mr. Brandon concluded that travel and tourism businesses would suffer business declines and/or profit erosion in 2002. He noted that long-term predictions depend on: a return of consumer spending, the public's willingness to travel, and Alaska's ability to compete with other destinations for market share by spending more marketing dollars. There has been a return to some consumer spending. The public's anxiety has started to ease, but other markets have acted to grab the shrinking market. The problem has been compounded by the loss of confidence to travel and increased competition.

Vice-Chair Bunde observed that the national economy is in trouble and that the people are afraid to fly and questioned what advertising can do to change these.

Mr. Brandon noted that confidence is returning. He recalled that he felt more confident traveling on the west coast after 9/11/01 than to the east. He felt that the public's reluctance to fly would lessen.

In response to a question by Vice-Chair Bunde, Mr. Brandon noted that the statistics were compiled prior to Dec. 31, 2001.

Mr. Brandon discussed competition prior to 9/11/01 and observed that Alaska's current marketing budget of \$7.8 million dollars is far below the national average per state of \$13.7 million dollars for 2000-2001. Alaska ranked 36th out of 50 in state funding for tourism.

Representative Hudson questioned how the state rates in relation to all industry. Mr. Brandon did not have the answer. He observed that cruise lines market multiple destinations. The total amount spent by the cruise lines industry on marketing efforts is approximately \$70 million dollars. Since 9/11/01 competition for willing travelers has

increased. Many states, countries and even cities have appropriated emergency funds to bolster tourism. The Travel Association of America has bolstered their funds by \$20 million dollars. Canada increased their funding by \$15 million dollars two months ago. Puerto Rico by increased their tourism-marketing budget by \$15 million dollars and Mexico by \$6 - 8 million dollars.

Mr. Brandon observed that New York City had bolstered their marketing program by \$40 million dollars. Las Vegas increased their tourism marketing by \$13 million dollars and was successful in turning their 40 percent decrease into a 10 percent decrease in tourism.

Vice-Chair Bunde observed that Las Vegas is giving away a lot of free hotel rooms and questioned what was the percentage of their increase to their total budget. Mr. Brandon noted that their total budget is \$22 million dollars.

Representative Harris asked how tourism serves to increase the state's income. Mr. Brandon observed that funding reaches the state through user fees, permits and corporate taxes. He pointed out that fishing licenses are not counted as part of the tourism user stream. He maintained that revenue from permits, taxes, and user fees result in an excess of \$100 million dollars.

Mr. Brandon noted that American consumers with previous overseas travel plans might choose Alaska instead. He emphasized that Alaska has a great story to tell and is one of the finest destinations in the United States, but because Alaska is being outspent in the market place those that would come to Alaska may be influenced to go somewhere else. He noted that West-Coast Americans and Canadians might be more hesitant to travel to the East Coast. Targeted marketing efforts in the Lower 48 could encourage people thinking of postponing their Alaska trip to visit this year.

Mr. Brandon stressed that marketing efforts need to be increased immediately. Everyday the state loses an opportunity to pick up on the market. There is an opportunity in the next 45 to 60 days to pick up a lot of the predictable loss. The longer the state waits the more difficult it will be to fill in the void. Alaska must compete for a limited pool of visitors willing to travel. Alaska destination marketing must focus on domestic markets. They have isolated the markets they feel can be turned quickly.

Visitors spend an estimated \$726 per person, per trip. The total direct full-year spending for all visitors is \$949 million dollars. Visitor industry accounts for approximately 30,700 Alaska jobs, or 1-in-8 private sector jobs. The ATIA

is requesting \$12.5 million dollars for an emergency destination marketing campaign. This was put together in a plan in November. The marketing campaign will generate an additional 182,850 visitors to the state this season, which would spend an average of \$726 dollars each. This equates to an overall economic impact of \$332 million dollars in direct and indirect spending. This is a return rate of more than 26:1.

Vice-Chair Bunde pointed out that the estimates were based on a \$12 million dollar plan. The plan and estimates would have to be cut to reflect the proposed \$6 million dollar appropriation. Mr. Brandon noted that television would be the primary focus. Television offers the quickest stimulus to travel.

Mr. Brandon observed that the plan would encourage previous inquirers to proceed with their travel plans and increase efforts to convince those "willing to travel" to come to Alaska. The plan would target various sectors of trade that are in key positions to affect destination choices by reminding consumers that Alaska is part of the United States. He stressed that Alaska is perceived to be [a] safer [destination].

Mr. Brandon observed that ATIA Images 2000 research indicates that about half (49%) of all visitors decided to visit Alaska within 6 months of actual travel and that if aggressive efforts are not taken immediately, the impact could be devastating to many of Alaska's small tourism businesses. The time to act is now.

Mr. Brandon discussed the Recovery Plan, which would launch an aggressive television campaign to elevate interest in visiting Alaska this year and enhance performance of other marketing. The plan would place dominant Alaska newspaper advertisements in 25 national markets and sub-markets. He observed that 2.5 million direct mail packages would be delivered to targeted independent travel prospects. They would schedule briefings with 60 key travel editors from influential West Coast travel and trade publications.

Mr. Brandon observed that additional multi-media features would be added to the official Alaska travel site at www.travelalaska.com. He observed that planning on the Internet is becoming more of the norm. Internet advertising and opt-in e-mail would be used to complement traditional programs and increase reach. They would implement an interactive Travel Alaska TV series and Internet promotion.

Representative John Davies clarified that the target would be the independent traveler, not the cruise industry. He emphasized that the cruise industry can assist itself. Mr. Brandon agreed. He stressed that research would be used to

assure that the money would be spent right in order to motivate the targeted audience. Research would allow ATIA to modify its message based on changes in the marketplace. Trends and attitudes in the travel marketplace will be monitored by contact with travel agents.

Mr. Brandon explained that ATIA would do a number of things to enhance the decisions of people coming to Alaska. He emphasized the importance of visits by friends and relatives of residents. Television spots will encourage residents to invite their friends and relatives to visit the state. Television ads will augment current marketing efforts with a "stay home - discover your own backyard" message. A Resident Travel Newspaper Campaign would elevate interest among residents in Alaska.

Mr. Brandon discussed the Recovery Budget as originally proposed at \$12.5 million dollars:

Television campaign	\$8,080,000
Newspaper campaign	\$425,000
Direct mail campaign	\$975,000
Online campaign	\$650,000
State Vacation Planner/800#	\$464,000
Public relations campaign	\$722,000
Website development/promo	\$300,000
TV advertising	\$250,000
Research	\$54,000
Travel Trade Training	\$280,000
Instate Travel Campaign	\$300,000

Mr. Brandon summarized that Alaska is one of the greatest destinations. Those that are willing to travel need to look at Alaska and Alaska must make certain that Alaska is before them as a destination.

Representative Croft asked for a breakdown of the estimated \$100 million dollars [in tourism related state revenues].

Co-Chair Mulder observed that there was a focus toward media markets to present Alaska's case. He thought that the best investment Alaska could make would be to have their chief executive and his lieutenant governor fly around the west coast and represent Alaska as advocates. Mr. Brandon acknowledged the suggestion and observed that there is a willingness by the Governor to try to stimulate people to come to Alaska and look to Alaska.

Representative Hudson asked what could occur on national television for \$4 million dollars. He observed that there needs to be multiple spots for the public to absorb the message. He questioned if more money should be placed into direct mailings. Mr. Brandon thought that television would be the best expenditure but acknowledged the use of direct

mailings. He emphasized the need to go to the highest producing markets.

Representative Lancaster asked how soon they could be in the market place. Mr. Brandon noted that everything is in place. They could be in the market place within hours. He felt that there could be a significant impact in a two to three week period.

Representative Lancaster asked what would happen in the case of another event. Mr. Brandon acknowledged that there would be another problem and they would have to start from scratch. The industry is faced with a different agenda because of what happened. He stressed that it is not a bailout; it is not because they ran their business badly. He emphasized that other business have rebounded though increases in advertising.

Representative Whitaker clarified that the plan would target independent travelers. The major portal for independent travelers to Alaska is Anchorage or Southcentral Alaska. Representative Whitaker observed that the legislation would benefit the entire state. He questioned the affects on winter tourism. Mr. Brandon noted that the Japanese market and business travel has been dramatically reduced. It is too soon to tell if event travel such as the Iditarod will be affected.

In response to a question by Representative Whitaker, Mr. Brandon noted that there was a 30 - 46 percent decrease in actual bookings. He guessed that 50 - 60 percent of the winter tourism was lost.

Vice-Chair Bunde referred to the return to the state through taxes. He observed that municipalities receive bed taxes. He questioned how much municipalities are contributing. Mr. Brandon could not respond.

Representative John Davies stressed that the proposed legislation is not a bailout. Bailout implies an industry that has failed under its terms of doing business. The term is not used when speaking of communities impacted by earthquakes of hurricanes.

TAPE HFC 02 - 18, Side A

Co-Chair Williams asked if funding provided in the legislation would be used to assist the ferry system. Mr. Brandon responded that the plan would have to be reworked to incorporate the reduction. He stressed that the highest use of the money would be sought. He noted that a plan has not been formulated. Co-Chair Williams observed that the ferry system carries a lot of passengers to the interior.

Mr. Brandon presented a short video as an example of how the money would be spent.

PAUL CAUTER, ALASKA TRAVEL INDUSTRY ASSOCIATION, testified in support of the legislation. He noted that he has 6 businesses in Alaska with over 250 employees and over 300 vendors. His business makes up to 2 percent of the jobs in question. He stressed the issue of timing. He emphasized the need for active support.

MIKE WINDRED, ALASKA TRAVEL ADVENTURE, JUNEAU, testified in support of the legislation. They have over 200 employees and have seen a 46 percent decrease in motor home rentals. He expressed concern with the long-term health of his business if bookings are not increased.

Mr. Windred commented that they would be hiring fewer employees this year. He added that they are looking at decreasing some of their seasonal employees. Without extra funding from the state, they expect their motor home bookings to be at 50 percent. They will not be able to make up for the ground already lost without help. Support through the proposed legislation would allow them to make it through the next winter as well.

Mr. Windred pointed out that they are a big business and noted that many smaller businesses are dependent on their business. He emphasized that the marketing plan was worked on by some of the best people in the nation. All that is lacking is the funding. He stressed that the marketing plan is well thought out and urged funding.

Representative Hudson asked the percentage of his business that goes into market promotion.

Mr. Windred replied that about 10% of their gross goes toward marketing. Their company is putting as much money as they can into additional advertising. He pointed out that they need to conserve cash to make it through next winter in the event that there are not more bookings.

Representative Hudson emphasized that there needs to be a combined effort with the industry and the state.

Mr. Windred noted that the industry has contributed an additional \$1.2 million dollars. He pointed out that they cannot make it on their own.

Representative Whitaker understood that cost reductions cannot get the industry where they need to go. Mr. Windred agreed.

KIRK HOESSLE, PRESIDENT, ALASKA WILDLIFE ADVENTURES, GIRDWOOD, testified in support of the legislation. Their business has grown to \$4 million dollars a year and employs 20 year-around and 100 seasonal employees. He noted that sales are down about 40% from the last three years. Sales look like they will be 10-20 percent below the previous high. The industry is doing everything they can. Marketing expenses have been increased by \$40 thousand dollars and they plan to add another \$20 - \$30 thousand dollars. Full time employees have been reduced and trip options have been consolidated. Seasonal staff will be reduced by approximately 20%. He anticipated that revenue would be down 20 - 25 percent, which is the equivalent loss of \$100 - \$200 thousand dollars. He observed that the reduction in revenues would mean that they would spend \$500 - \$600 thousand dollars less within the state.

Mr. Hoessle stated that there is hope and that the industry is "not giving up". The industry could rebound if additional funding is placed into the marketplace at this time.

BRUCE BUSTAMANTE, ANCHORAGE BUSINESS CONVENTION BUSINESS BUREAU, ALASKA TRAVEL INDUSTRY ASSOCIATION, ANCHORAGE, commented that he was testifying in support of the legislation. There are 1,319 business members that rely on the tourism industry. He stressed that there are far reaching impacts and emphasized that the threat is real. Emergency marketing funds could assist in the next season. Tourism marketing works. The infrastructure is in place. He estimated that this year would be the most competitive season the state has seen. Additional funding would make a difference.

Vice-Chair Bunde asked how much the Municipality of Anchorage contributes. Mr. Bustamante explained that the Municipality contributes half of the bed tax to the marketing fund. He stressed that it is more efficient to market the entire state of Alaska, not individual cities.

Representative Hudson questioned if the municipality of Anchorage had considered making a greater contribution. Mr. Bustamante stated that they had not yet considered and additional contribution but added that they already make a large effort toward statewide marketing.

SHARON CRISP, DIRECTOR, VALDEZ CONVENTION AND VISITOR'S CENTER, testified in support of the legislation. She observed that there are 200 members, each employing between 2 - 5 employees. She observed that the city of Valdez went into the season knowing that their cruise ship dockings would be reduced; 9/11/01 has further reduced dockings. Their most popular shore excursion has been the Valdez pipeline terminal, which was cancelled after 9/11/01. They do not know when or if the suspension will be lifted. There

is tightened port security in the Port of Valdez, which will affect sport fishing and charters. Independent bookings are down 20 percent. She expressed concern that this could be further reduced.

Representative Hudson questioned what element of the proposed marketing plan would have the greatest affect on Valdez. Ms. Crisp noted that the city of Valdez focuses on the independent traveler, as does the marketing plan. She felt that once the traveler is brought to the state that the city would capture their travel. The city spends 5 percent of their budget on generic marketing.

Mr. Bustamante stated that the Alaska Travel Industry Association contributed approximately \$250 thousand dollars on generic marketing. They also spend funding on conventions. Anchorage lost 8 conventions directly after 9/11/01.

STEVE BOWHAY, GLACIER GARDENS, JUNEAU, testified in support of the legislation. He noted that they are on the cruise ships' itinerary. He maintained that the cruise lines would discount their trips in order to fill their spots. He emphasized that the cruise industry is already spending \$70 million dollars to put Alaska out as a destination. The legislation would supplement this spending and target the independent traveler. He stressed the pristine environment of Alaska. Alaska has less pollution and people, and more beauty than other destinations. He pointed out that the industry would promote themselves if they had the money. He quoted his grandfather: "Hearts like doors will open with ease to those that hold the little keys and don't forget that two of these are thank you sir and if you please."

SALLY SADLER, LEGISLATIVE LIAISON, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, testified in support of the legislation. The Administration believes that the Alaska Travel Industry Association has a good marketing plan that would attract visitors to the state in a short amount of time. She noted the suggestions of the Committee to improve the role of the Administration in the marketing process. The legislation is consistent with the Governor's Task Force on Jobs and the Economy's recommendation to invest in tourism and to attract more people to the state. She encouraged the Committee to increase the level of funding and emphasized the critical issue of timing.

Vice-Chair Bunde stressed that it would be helpful if the Administration would identify \$6 million dollars that could be used to fund the legislation.

Representative Croft MOVED to ADOPT Amendment 1. He noted that the amendment would add \$6 million dollars for the Alaska Seafood Marketing Institute. He spoke in support of

the amendment. He pointed out that the fishing crisis is not the fault of the individual fisherman. He emphasized the opportunity to market Alaska's fish in light of the Mad Cow Disease.

Co-Chair Williams stated that he supports the fishing industry, but questioned the effect of the amendment. He pointed out that there is a plan to support the tourism industry and asked what could be done to help the fishing industry. The fishing industry is huge and the legislature needs to make sure that funding to help it is in the right place at the right amount. He noted that he had received mixed signals from the fishing industry. He suggested that more thought needs to be given to the amendment.

Co-Chair Mulder stressed that the emergency nature of the fishing industry is different and more systemic than the affect of 9/11/01 on the tourism industry. He observed that there has been discussion of a task force to look at the long-term problems of the fishing industry. A resolution is being considered to direct the Board of Fish to present a long-term solution and map out a course of action. He stated that he was reluctant to make a great investment until he can see light at the end of the tunnel.

Representative Harris acknowledged problems in the fishing industry. He observed that 50 percent of the fleet in Cordova and Valdez no longer fish. He thought that Representative Stevens had introduced legislation to address the issue.

Representative Croft noted that Representative Stevens' legislation is not identical to the proposed amendment.

Representative Harris stressed the need for a fiscal plan before additional funding is sought.

REPRESENTATIVE GARY STEVENS spoke to his legislation, which addresses problems in the fishing industry. He noted that fisherman and processors fund the Alaska Seafood Marketing Institute (ASMI) through taxes. His legislation would add state support. He noted that revenues to ASMI are reduced as fewer fish are caught. He added that ASMI is also facing the completion of a grant.

Representative Harris pointed out that there is another vehicle to address the problems regarding reductions in the fishing industry.

TAPE HFC 02 - 18, Side B

Representative Hudson stressed that the appropriation for tourism marketing is time sensitive. He observed that 9/11/01 affected a major industry in the state of Alaska

that by themselves are not prepared to restore a lot of their business. He pointed out that there is a potential job loss that would have an adverse economic affect throughout Alaska. He acknowledged there are real systemic problems within the seafood industry. He felt that it would take more than \$6 million dollars to address health of the fishing industry. He thought that a major effort was needed, which would include financial participation by the industry. He expressed his hesitation to support any increases to the budget before the fiscal needs of the state have been dealt with. He stated that he would support the legislation because failure to do so would result in the failure of economic development, which would otherwise occur.

Vice-Chair Bunde noted that he has worked in the tourism industry and stated that can understand the legitimate concerns of both the tourism and fishing industries, but noted that he would not support the amendment.

A roll call vote was taken on the motion.

IN FAVOR: Croft, Davies, Moses
OPPOSED: Bunde, Foster, Harris, Hudson, Lancaster,
Whitaker, Williams, Mulder

The MOTION FAILED (3-8).

Representative Foster MOVED to report HB 359 out of Committee with the accompanying fiscal note.

Vice-Chair Bunde OBJECTED. He stated that he is not willing to support additional funding because it sends a message that the public doesn't need to take the state's fiscal problems seriously.

In response to a question by Representative Harris, Co-Chair Mulder explained that effective dates in the legislation would allow funds to be spent into the next fiscal year.

Representative Harris stated that he supports the legislation but is concerned with how the state's budget would be balanced.

Representative Whitaker acknowledged the need to balance the budget but emphasized the need to support the economy of the state. He noted that he has a letter from an Alaskan bank observing that, if the tourism industry fails, the bank would also fail. He spoke in support of the legislation.

Representative Lancaster stated that he would support the legislation with mixed emotions and emphasized his support for a fiscal plan.

Representative John Davies spoke in support of the legislation and maintained that it is not a bailout. He stressed that action needs to be prompt and that it cannot wait for the development of a fiscal plan.

Representative Carl Moses pointed out that there are serious problems with the state's budget gap, which are not being addressed. He stated that he could not support the legislation without a fiscal plan. He acknowledged the problem but emphasized the importance of addressing the state's overall fiscal problems. He stressed that the fishing industry is as important as the [tourism industry].

Representative Lancaster stated that results should be evident before the legislative session ends and stated that he would like to see a shorter timeline for the report.

Vice-Chair Bunde stated that it is not his hope or intent to inflict pain, but that the budget cannot be balanced if state "continues to spend, spend, spend".

Co-Chair Mulder MOVED to ADOPT a Letter of Intent:

Letter of Intent

The Legislature acknowledges that tourism bookings in Alaska are well below the forecasts prior to the terrorist attack on America September 11, 2001. Surveys show that actual bookings are 30 % to 40% below normal. It is the intent of the Legislature that the appropriation made by House Bill 359 is focused at increasing tourism in Alaska in 2002.

The Legislature expects that the Alaska Tourism Industry Association will report back to the Legislature during the FY 2004 budget deliberations. That report should include measures that indicate the results of the advertising supported by this legislation.

Co-Chair Mulder explained that the Letter of Intent is in the spirit of performance budgeting and would provide a better sense of the return for the investments made by the state of Alaska. He agreed with Representative Lancaster and requested a summary report about the results before the end of session.

Representative John Davies MOVED to AMEND the Letter of Intent by inserting "FY 2003 and" before "FY2004". There being NO OBJECTION, it was so ordered.

There being NO OBJECTION, the House Finance Committee Letter of Intent was adopted.

HB 359 was REPORTED out of Committee with a "do pass" recommendation and with a House Finance Committee Letter of Intent.

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ADJOURNMENT

The meeting was adjourned at 4:15 PM