

MINUTES
SENATE FINANCE COMMITTEE
February 19, 2002
7:07 PM

TAPES

SFC-02 # 11, Side A
SFC 02 # 11, Side B

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 7:07 PM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Lyda Green
Senator Gary Wilken
Senator Alan Austerman
Senator Loren Leman

Also Attending: REPRESENTATIVE KEN LANCASTER; JEFF BUSH, Deputy Commissioner, Department of Community and Economic Development; TINA LINDGREN, President, Alaska Travel Industry Association; STEVE BOWHAY, President, Glacier Gardens; SENATOR STEVE FRANK, Former Co-Chair of the Senate Finance Committee; ROD ARNO, Representing, Alaska Professional Hunters Association;

Attending via Teleconference: From Mat-Su: KATRINA KING; DAVE KING, Owner and Operator of three Alaska companies; JULIE SAUPE, Executive Director, Mat-Su Convention and Visitors Bureau; BONNIE QUILL, Mat-Su Convention and Visitors Bureau; STU GRAHAM, Manager, Budget Rental Car, and Member, Board of Directors, Palmer Chamber of Commerce; RANDI PEARLMAN, Employee, Big Lake Chamber of Commerce; From Cordova: SANDY KING, Cordova Chamber of Commerce and Visitor's Center; KRISTIN SMITH, representing, Copper River Watershed Project, and Council Member, City of Cordova; From Anchorage: ALAN LAMASTER, Owner, Gakona Junction Village and Member, Greater Copper Valley Chamber of Commerce; SUZANNE RUST, Rust Flying Services, and Patriot Aviation [unverified company name]; ERIC DOWNEY, Marketing Director, Alaska Wildland Adventures; From Kenai: RICKY GEASE, Executive Director, Kenai Visitor's and Cultural Center

SUMMARY INFORMATION

HB 359-SUPPLEMENTAL APPROP TOURISM MARKETING

The Committee heard from the Department of Community and Economic Development and industry representatives. A committee substitute was adopted and an amendment was considered but not adopted. The bill moved from Committee.

SB 272-SUPPLEMENTAL APPROP TOURISM MARKETING

No action was taken on this bill, which is a companion to HB 359.

#HB359

#SB272

HOUSE BILL NO. 359

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

And

SENATE BILL NO. 272

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

This was the first hearing for these bills in the Senate Finance Committee. Co-Chair Donley announced these are companion bills and the Committee would take action on HB 359.

Co-Chair Donley stated this legislation appropriates \$6 million for tourism marketing as an FY 02 supplemental and has an immediate effective date.

KATRINA KING testified via teleconference from Mat-Su to defer to the next speaker.

DAVE KING, Owner and Operator of three Alaska companies, testified via teleconference from Mat-Su about the businesses: a guest ranch, an air traffic company and a video and music production company. He stated he recently returned from attending trade shows and learned that, "definitely the fear factor, especially coming to Alaska, is alive and well at this time." Therefore, he surmised this is an important time that funds should be spent "properly marketing towards tourism in Alaska". He stressed the need to inform that traveling in Alaska is safe.

JULIE SAUPE, Executive Director, Mat-Su Convention and Visitors Bureau, testified via teleconference from Mat-Su that similar to other convention and visitor bureaus (CVB) in the state, the Mat-Su organization is "very concerned for the fate of our member businesses as well as non-member businesses that depend on tourism." She informed the board of directors of this CVB voted unanimously to support a request for a legislative appropriation, and more specifically, to support the emergency marketing plan developed by the Alaska Travel Industry Association (ATIA). She commented that unanimous votes are generally uncommon in this region of the state.

Ms. Saupe shared that results of a Mat-Su CVB poll of area businesses parallel that of an ATIA statewide poll showing that the number of bookings are reduced significantly. She pointed out this is of particular concern in the Mat-Su region because tourism businesses tend to be smaller, younger, and have a lower equity base to draw upon to "survive a 20 or even 40 percent drop in revenues." She added that a loss would be "felt way beyond the visitor industry."

Ms. Saupe stressed that although she does not believe in "government handouts", the government "does have the responsibility to level the playing field to help its business community." She characterized this one-time appropriation as an investment, which would enable the visitor industry to remain healthy and to contribute to the state's economy "rather than become a drain in the form of unemployment." She warned that without this investment, the tourism industry would be harmed, with the impacts most prevalent to smaller businesses.

BONNIE QUILL, Mat-Su Convention and Visitors Bureau, testified via teleconference from Mat-Su to reiterate Ms. Saupe's comments. She added that the Mat-Su CVB, along with other destination marketing organizations in Alaska, is unable to reach the national market within its budget. As a result, she stated there has been reliance on the ATIA to nationally market Alaska. She noted most members of the Mat-Su CVB are small businesses.

STU GRAHAM, Manager, Budget Rental Car, and Member, Board of Directors, Palmer Chamber of Commerce, testified via teleconference from Mat-Su to relay the impacts of the lessened travel on the rental car industry. On behalf of the rental car industry and the Palmer Chamber of Commerce, he requested funding to assist ATIA in marketing Alaska as a destination. He applauded the efforts of ATIA in the local media.

RANDI PEARLMAN, Employee, Big Lake Chamber of Commerce, testified

via teleconference from Mat-Su on behalf of herself to inform the Committee that Big Lake is considered "Alaska's year-round playground." She said because of this, tourism is a significant part of the local economy. She expressed this appropriation would ensure the continued success of the tourism industry in the state.

SANDY KING, Cordova Chamber of Commerce and Visitor's Center, testified via teleconference from Cordova that the number of requests for visitor information are 80 percent of what they were one year prior. However, she stated there is an increase in the number of visitors who plan to drive to Alaska during the upcoming summer. She pointed out that these travelers would not visit communities that are not along the road system. She told of a six percent tax on rental vehicles and accommodations imposed by the City of Cordova two years prior in an attempt to distribute the tax burden. She informed that the organization has been a recipient of some of those revenues in the form of grants, which have been expended to promote Cordova as a visitor destination. As a result of reduced revenue from this tax, she stated "vital advertising" has been reduced. She noted other revenue sources of the organization, pull-tab sales and membership dues, have declined as well. She remarked that a \$6 to \$9 million appropriation would not improve the organization's ability to market Cordova.

Ms. King requested \$6 to \$9 million be allocated to communities dependant upon tourism. She stated that each community in Alaska has its own "personality" and stressed that 45 Cordova businesses are directly associated with tourism.

KRISTIN SMITH, representing, Copper River Watershed Project, and Council Member, City of Cordova, testified via teleconference from Cordova to thank the Committee for considering this one-time appropriation. She informed the mission of the Copper River Watershed Project is to diversify the region's economy while maintaining the quality of life. Tourism is a significant part of this effort she said, and in the past three years, the group has learned methods to attract more visitors to Cordova. She spoke of the need to develop and package tourist attractions and the need to offer a quality experience. She stated the group has also learned "the hard way" that the most expensive element of expanding tourism industry is marketing. She stressed it is impossible for small communities to reach the national market.

Ms. Smith asserted the community has taken steps to fund these efforts, but noted the funding sources are depleting. Therefore, she urged support for this legislation. She also requested the Department of Community and Economic Development to allocate some of the funds directly to local communities.

ALAN LAMASTER, Owner, Gakona Junction Village, Northern Brochure Distributors, and Member, Greater Copper Valley Chamber of Commerce testified via teleconference from Anchorage to tell about Gakona Junction Village, which he described as "a conglomerate of little tiny businesses out in the Copper Valley". He listed charter fishing, a Texaco gasoline station, a grocery store and rental cabins. He referenced written testimony he had submitted to Co-Chair Donley [copy not provided]. He spoke of a "concept" that businesses in Alaska do not participate "their fair share". However, he stressed he has doubled his marketing expenditure this year would probably double that amount again to obtain results. This he said diverts funds from other efforts within his business. He stated that through his involvement with brochure distribution, he interacts with large and small tourism businesses across the state and has learned that the situation is "not a good picture". He emphasized "we're in big trouble" and warned that this would impact state revenues as well in the form of fishing and hunting licenses, docking and airport fees, sales taxes, permits, etc.

SUZANNE RUST, Rust Flying Services, and Patriot Aviation [unverified company name], testified via teleconference from Anchorage that these businesses employ 70 people in Anchorage and Talkeetna. She stressed that one year ago, her plans were to purchase one or two new aircraft and increase staff by ten percent. However, as a result of the events of September 11, 2001, these plans have changed. She noted that although the cruise industry is booking many passengers, the packages they are purchasing are the most inexpensive on record and these travelers are less likely to purchase additional land excursions. She stressed her primary concern is for small businesses and that larger companies are outspending for marketing efforts by millions of dollars. She cautioned, "every day people are making decisions to go to North Dakota or to some other state and we won't see those people coming to Talkeetna or to Anchorage."

ERIC DOWNEY, Marketing Director, Alaska Wildland Adventures, testified via teleconference from Anchorage that he has seen, first-hand, the impacts to the travel industry since September 11, 2001. He stated that prior to that date, the company had record sales; but after September 11, 2001, sales dropped within weeks and have been down 36 percent of a three-year average. He stated that the company's marketing spending has increased "significantly" and two managerial positions and two hourly positions have been eliminated from a year-round workforce of 20 staff. He qualified he is less concerned about the number of seasonal employees the company hires then he was for the 20 year round employees "living in Girdwood, paying taxes, trying to earn a decent living and make

a life for themselves." He listed two single mothers and six homeowners and warned of the impact these job losses have on the state.

Mr. Downey continued that although revenues are projected to be 25 percent less than average in the upcoming season, but emphasized, the company is "not giving up hope". He told of reduced tourism in the first half of the summer following the Exxon Valdez oil spill and the subsequent recovery in the second half of the season.

RICKY GEASE, Executive Director, Kenai Visitor's and Cultural Center, testified via teleconference from Kenai about the 200 tourism-related businesses in the area. He pointed out the western portion of the Kenai Peninsula is dependent upon the independent travel market, which this appropriation would target. He stressed there would be no need for these funds if not for the events of September 11, 2002. He spoke of the abrupt reduction in the number of travelers after that date.

Mr. Gease asserted the need "to get this money into the pipeline as quick as possible" to allow tourism businesses to survive. He assured this is a healthy industry although it needs assistance. He pointed out that the tourism industry has "absorbed" workers laid off from other industries, such as commercial fisheries and the oil industry.

Mr. Gease added that revenues generated from fishing licenses fund many of the activities of the Department of Fish and Game on the Kenai Peninsula.

JEFF BUSH, Deputy Commissioner, Department of Community and Economic Development testified in support of the legislation. He noted the governor requested \$10 million and that the ATIA has an effective marketing plan for utilizing either amount.

TINA LINDGREN, President, Alaska Travel Industry Association, testified that although this legislation has been referred to as the ATIA plan, the ATIA is under contract with the state and therefore it is Alaska's plan. She referenced a travel industry survey [copy on file] conducted in December 2001 and again in February 2002, showing there has been no recovery in the industry. She relayed businesses are reporting, "their business is down an average of 24 percent", which she translated to a loss of approximately 3,000 jobs in the state. She warned that many of these companies would not be in business in one year without some assistance. She noted the options are few for small businesses and referenced earlier testimony about reduced spending in other areas to allow for accelerated marketing efforts.

Ms. Lindgren cautioned that delaying this assistance harms the industry because many travelers are beginning to make their travel plans at this time. She asserted she has never seen such an impact on the industry. She also stated that many businesses are wary of publicly stating their troubles for fear it would only exacerbate them.

Senator Austerman asked how the marketing plan would be amended to account for the difference in the \$12.5 million originally requested and the \$6 million proposed in this legislation.

Ms. Lindgren replied the plan has not been revised for each level of funding as it has been discussed, although she acknowledged adjustments would be necessary. She predicted television advertising would remain in the plan as well as "direct contact with the travel trade". She noted other media becomes less available as time passes, such as magazine advertisements that must be purchased well in advance.

STEVE BOWHAY, President, Glacier Gardens, testified in Juneau that this appropriation is a good investment. He asserted a statewide sales tax, along with increased tourism, would be good revenue generators. However, he stressed that in order to achieve the benefits, there must be visitors "bringing money to the state" and that this appropriation would help attract visitors. He remarked the state already has a major investment in tourism through the Marine Highway System. He spoke about small businesses purchasing advertising space in the visitor guide distributed on the ferries, but again emphasized the need to have passengers on the ferries to read the publication. He referenced recent media reports of a survey showing that the majority of ferry passengers are traveling to Anchorage. He also pointed out the significant investment in maintaining the Alaska Highway. Therefore, he surmised the state would benefit from this tourism investment as well. He also emphasized travelers need to know that travel in Alaska is safe.

SENATOR STEVE FRANK, Former Co-Chair of the Senate Finance Committee spoke of the five years since he last served in the Legislature and his investment in private industry. He stressed the current situation was caused by the events of September 11, 2001, and nothing else. He listed 70 percent of his customers are travelers and those numbers are down 35 percent. He asserted the proposed plan is viable and would be effective. He cautioned of the jobs lost without this effort, stressing many workers have already been laid off. He emphasized this effort targets independent travelers.

Senator Frank spoke to his concern about whether this appropriation should be made. He identified with the situation with the fiscal gap, having faced it himself while serving on the Committee. He pointed out the legislature would appropriate approximately \$2.5 billion for FY 03 and therefore this \$6 million investment in Alaska's second largest private employer, is reasonable. He predicted most Alaskans would support this expenditure as well.

ROD ARNO, Representing, Alaska Professional Hunters Association, testified in Juneau about the impacts of the air travel ban in September 2002, on the guided hunting industry. He told of the numbers of travelers unable to fly to or from their hunting destinations. He stated the Association supports this appropriation in that it would help promote Alaska as a safe destination.

Co-Chair Kelly moved for adoption of SCS HB 359, 22-LS1360\W, as a working draft.

The committee substitute was ADOPTED without objection.

Co-Chair Donley outlined the committee substitute, noting Section 1 (a) appropriates \$5,171,500 from the international trade and business endowment. He continued that subsection (b) provides the remainder of the \$6 million appropriation from the general fund on a "dollar for dollar match basis" from industry or other non-state governmental sources. Subsection (c), he said, relays the intent that these funds represent "partial forward funding" of the state's portion of the qualified trade association contract for FY 03.

Co-Chair Donley next pointed out subsection (d) stipulates the ATIA provide a plan to the legislature within 60 days, for generating industry funds to replace state funding of the existing marketing system. He stressed the language clarifies this plan could not include broad-based taxes such as an income or sales tax.

Co-Chair Donley concluded with subsection (e), which requires the ATIA report to the legislature the results of this appropriation.

AT EASE 7:53 PM / 7:58 PM

AMENDMENT #1: This amendment inserts language into the title to read as follows.

An Act making a supplemental appropriation for tourism marketing efforts and generic salmon marketing; making a special appropriation for the Joint Legislative Salmon Industry Task Force and providing for an effective date.

This amendment also insert a new bill section on page 2, following line 9 to read as follows.

Sec. 2. GENERIC SALMON MARKETING. The sum of \$2,000,000 is appropriated from the general fund to the Department of Community and Economic Development Alaska Seafood Marketing Institute, for generic salmon marketing for the fiscal years ending June 30, 2002, and June 30, 2003.

Senator Austerman moved for adoption and clarified this amount would be included as a portion of the \$6 million total appropriation. Therefore, he explained, \$4 million would be appropriated to the tourism effort and \$2 million for the salmon marketing effort.

Senator Wilken asked if the Alaska Seafood Marketing Institute (ASMI) has devised a plan for utilizing these funds that is available for the Committee to review.

Senator Austerman replied such a plan has been discussed and he could provide details.

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Senator Wilken noted a title change would be necessary if this amendment were adopted. He asked how the salmon industry has been affected by the terrorism attacks of September 11, 2001.

Senator Austerman stated, "To me it's more of an equity issue of, it we're going to treat one industry one way, then we should continue to treat all industries basically the same."

Senator Wilken appreciated "the salmon plight" and noted there is "general agreement" that this matter would be addressed. However, he was concerned about diverting funds from a planned effort to alleviate the impacts of "the September tragedy" into "a place that is... softer in how they're going to use it." He cautioned this amendment would delay the passage of the bill by one to two weeks because the changes require approval from the House of Representatives. "Frankly Senator, we don't have another week or two" he remarked. He pledged to assist Senator Austerman in his efforts to assist the salmon industry at another time.

Co-Chair Kelly echoed Senator Wilken's remarks. He noted that others may not be as interested in promoting generic salmon marketing, but assured he is. He warned this amendment could hamper

passage of this bill and threaten funding for either cause. He supported the formation of a task force to address the hardships incurred in the fishing industry. He agreed the fishing industry "has taken a pretty heavy hit" although from a different cause than the events of September 11, 2001. Therefore, he stressed he supported Senator Austerman's efforts, but would vote against this amendment.

Senator Austerman emphasized the "issue of equity is very strong" otherwise he would not be offering this amendment. He spoke of state general funds used to market the tourism industry but denied to the seafood industry. Therefore, he has no other recourse but to bring this issue to the forefront at times like this. He talked about the fishing industry taxing itself for marketing purposes, in addition to being taxed for other purposes. However, he remarked, the tourism industry is not taxed.

Senator Austerman WITHDREW his motion to adopt the amendment.

Co-Chair Kelly cited Section 1(d), which requires the ATIA to provide a plan, other than instituting broad-based taxes, to generate industry funds to replace all state funding. He shared that he initially did not support this language, but after discussions on the issue, he now supports it.

Senator Austerman commented that while the provision of subsection (d) is "a great idea", it is "useless" in this legislation. He predicted that once the ATIA receives the funds, the funds would be spent and the legislature has no recourse if a plan is not submitted within the 60-day deadline.

Co-Chair Donley agreed with Senator Austerman that there are no direct taxes on the tourism industry, although there are local taxes, which the state does not receive.

Senator Austerman asserted he would vote against this legislation as he did with an earlier appropriation to Arctic Power for efforts to gain congressional approval to conduct oil exploration in the Alaska National Wildlife Refuge (ANWR). He gave his reason as the seeming reluctance of the Senate to address a long-range fiscal plan for the state of Alaska.

AT EASE 8:09 PM / 8:10 PM

Co-Chair Donley appreciated Senator Austerman's remarks and noted his consistency on the issue. Co-Chair Donley told of efforts made in the last ten days to secure non-general funds for this purpose. He stressed the September 11 tragedy is a "very unique

circumstance". He stressed intentions are that the tourism industry would be self-supporting and that provisions in this bill relay this intent. He pointed out that many people share Senator Austerman's concerns.

Senator Austerman expressed that taking funds from an endowment allocated for other uses "highlights" his point for the need of a long-range plan.

Co-Chair Donley informed new legislation as well as other ideas are under consideration at this time.

Co-Chair Kelly offered a motion to move SCS HB 359 (FIN), from Committee with the House Finance Committee Letter of Intent.

Senator Austerman objected.

A roll call was taken on the motion.

IN FAVOR: Senator Wilken, Senator Green, Senator Leman, Co-Chair Kelly and Co-Chair Donley

OPPOSED: Senator Austerman

ABSENT: Senator Hoffman, Senator Olson and Senator Ward

The motion PASSED (5-1-3)

The bill MOVED from Committee.

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ADJOURNMENT

Co-Chair Dave Donley adjourned the meeting at 08:15 PM