

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT,
INTERNATIONAL TRADE AND TOURISM

February 12, 2004
10:05 a.m.

MEMBERS PRESENT

Representative Cheryll Heinze, Chair
Representative Pete Kott
Representative Nancy Dahlstrom
Representative Vic Kohring
Representative Sharon Cissna

MEMBERS ABSENT

Representative Lesil McGuire, Vice Chair
Representative Harry Crawford

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 28
Relating to the socioeconomic impacts of salmon harvesting
cooperatives.

- MOVED HCR 28 OUT OF COMMITTEE

HOUSE BILL NO. 426

"An Act relating to the levy and collection of an assessment on
certain tourism-related and recreation-related goods and
services, to tourism marketing contracts, and to vehicle rental
taxes; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HCR 28

SHORT TITLE: STUDIES OF SALMON HARVESTING COOPERATIVES

SPONSOR(S): REPRESENTATIVE(S) SEATON BY REQUEST OF SALMON
INDUSTRY TASK FORCE

01/28/04	(H)	READ THE FIRST TIME - REFERRALS
01/28/04	(H)	EDT, RES
02/12/04	(H)	EDT AT 10:00 AM CAPITOL 120

BILL: HB 426

SHORT TITLE: TOURISM & RECREATION ASSESSMENT/CAR TAX
SPONSOR(S): REPRESENTATIVE(S) KOTT

02/04/04 (H) READ THE FIRST TIME - REFERRALS
02/04/04 (H) EDT, L&C, FIN
02/12/04 (H) EDT AT 10:00 AM CAPITOL 120

WITNESS REGISTER

REPRESENTATIVE PAUL SEATON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HCR 28 by request of the Joint Legislative Salmon Industry Task Force.

SUE STANCLIFF
House Majority Office
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 426 on behalf of Representative Kott, sponsor by request, calling it a work in progress.

CHIP THOMA
Juneau, Alaska

POSITION STATEMENT: Voiced concerns about HB 426 and urged members to reexamine the purpose of the assessment and the bill.

SCOTT REISLAND, Recreational Vehicle (RV) Park/Campground Owner;
Vice President, Alaska Campground Owners Association
Fairbanks, Alaska

POSITION STATEMENT: Testified on HB 426 as someone who runs a business near Denali National Park, saying marketing is needed and the assessment will be helpful.

STEPHEN MAHAY, Owner/Operator
Mahay's Riverboat Service
Talkeetna, Alaska

POSITION STATEMENT: Testified in support of HB 426.

RON PECK, President
Alaska Travel Industry Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 426.

BUCKWHEAT DONAHUE, Tourism Director
City of Skagway;

Executive Director
Skagway Convention and Visitors Bureau
Skagway, Alaska

POSITION STATEMENT: Testified on HB 426, agreeing with the testimony of Mr. Peck and Mr. Mahay in support of the bill; answered questions.

DAVE KARP, Vice President and Chief Operating Officer
Hawaiian Vacations/Alaskan Vacations
Anchorage, Alaska

POSITION STATEMENT: Requested support for HB 426, calling it a work in progress; responded to questions.

DON HABEGER, Director of Industry Relations
Royal Caribbean International;
Celebrity Cruises
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 426.

GARY CUSCIA, Administrative Manager
Southeast Region
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Asked that the reference to Alaska Marine Highway System (AMHS) passenger fares be removed from HB 426.

NONA WILSON, Legislative Liaison/Special Assistant
Office of the Commissioner
Department of Transportation & Public Facilities
Juneau, Alaska

POSITION STATEMENT: Assisted in explaining DOT&PF's request to remove AMHS passenger fares from HB 426, and proposed the alternative of having it applied seasonally.

BETTYE ADAMS, Owner
Alaskan Hotel & Bar
Juneau, Alaska

POSITION STATEMENT: Expressed numerous concerns about HB 426 and asked, if it passes, that hotels be exempt or a head tax be imposed on cruise ship passengers as a matter of fairness.

ACTION NARRATIVE

TAPE 04-8, SIDE A

Number 0001

CHAIR CHERYLL HEINZE called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 10:05 a.m. Representatives Heinze, Kohring, Dahlstrom, and Cissna were present at the call to order. Representative Kott arrived as the meeting was in progress. Chair Heinze noted that Representative McGuire was excused.

HCR 28-STUDIES OF SALMON HARVESTING COOPERATIVES

Number 0051

CHAIR HEINZE announced that the first order of business would be HOUSE CONCURRENT RESOLUTION NO. 28, Relating to the socioeconomic impacts of salmon harvesting cooperatives.

Number 0073

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, sponsor of HCR 28 by request of the Joint Legislative Salmon Industry Task Force ("Task Force"), explained that the Chignik cooperative is a restructuring of how fishing is done in Alaska. A percentage of the catch is allocated to each fisherman; the fishermen can join a cooperative and distribute their catch over time. It's a unique situation in Chignik, with a single gear type and only 100 fishermen, out of which 77 have joined the co-op; in addition, an open-access fishery has occurred alongside. Noting that this has been going on for two years, Representative Seaton said information has been insufficient to address all the public policy issues and how they affect the communities as well as the industry. Thus HCR 28 asks the university to conduct a socioeconomic study of the effects of the Chignik fishery.

REPRESENTATIVE SEATON noted that committee packets contain a study that ISER [Institute of Social and Economic Research] conducted after the first year; however, it mainly deals with the economics of the fishery, the fishermen, and their feelings about how the fishery went. It doesn't address the Task Force's questions relating to social impacts to local communities from the consolidation and only using part of the fleet to catch the fish. For example, although there is an increased economic gain for fishermen, how does that weigh against the changes within the communities? Hence the resolution asks the university to have ISER - which has done some of this in the past and therefore seems the appropriate entity - to conduct a study to provide the data and answers for those questions.

Number 0316

CHAIR HEINZE mentioned the Commercial Fisheries Entry Commission (CFEC) and the Board of Fisheries. With regard to the holders of limited entry permit holders in Chignik, she asked whether they must fish the permits or are just allowed a portion of the total catch.

REPRESENTATIVE SEATON answered that the way the limited entry system works in the state, except for a rare exception, a person in a commercial fishery has a harvest privilege and must be there "at the operation of the gear." However, people in Chignik have been allowed to pool as a cooperative; they have distributed their money through a contract provision. He added, "Not everybody had to show up. Their permits actually were not fished." He continued:

Now, you can have a co-op anywhere in the state anyway, where you voluntarily go together and one person may go fish and they may pay you for something else, but your permit was not fishing. The difference between the Chignik co-op and other co-ops which have been going on for a long time is that this ... resulted from [an] allocation of fish by the Board of Fisheries to ... those people that wanted to go into the co-op. ...

The co-op actually had a percentage, 69 percent of the catch, and so they were able to distribute that catch over a long period of time, take fish slowly; actually, they were taking them live. ... [It] improved the quality, did a number of different marketing things, reduced costs, because instead of 77 boats fishing, I think they had 23 total permit holders involved in the harvest of their fish.

Number 0480

REPRESENTATIVE SEATON said it was for economic efficiency, trying to reduce costs. However, fuel isn't being bought for 77 boats, and groceries aren't being bought for 77 boats that have five crewmembers each. Only 10 or 12 boats are fishing, and so there are downsides. Thus this study is to look at the effects on local communities in order to make the public policy call of whether this is something to go forward with or allow the board to look at elsewhere in the state. Representative Seaton explained that the Board of Fisheries has required strong majority support from fishermen in the area before it will

consider doing one of these co-ops. This is the only co-op that has come forward with majority support from an area.

Number 0546

CHAIR HEINZE asked whether the structure had been understood and approved in advance.

REPRESENTATIVE SEATON answered in the affirmative and added:

Through a number of meetings, they designed the structure, designed the percentage of allocation. And if they were over 80 percent of the participants, then it went to a 1 percent allocation for each participant; they were at 77, so it was nine-tenths of a percent of the fishery went to each permit holder, and then that was harvested by the co-op. That was to allow a little more of the catch to go to the people that decided not to participate in the co-op.

Number 0602

REPRESENTATIVE CISSNA pointed out that while there is no fiscal note, the university is being asked to do much-needed research. She said public policy is better made if there is that kind of research. Highlighting the need to ensure the university is solvent and can actually do this kind of study, she recommended that legislators commit to supporting the university.

CHAIR HEINZE offered her belief that Gunnar Knapp from the university [one of the authors of the ISER research summary provided in committee packets] was on teleconference.

Number 0655

REPRESENTATIVE SEATON informed members that the Task Force acknowledges it takes money to do a study. There are some remaining funds and several different projects that need to go forward from the Task Force. If this resolution goes forward, he said, the Task Force will meet one more time, and one thing it will consider is directing some funds for the study. "That determination hasn't been made ... as to how much is allocated to what project, but it's our concern as well," he concluded.

CHAIR HEINZE informed members that the teleconference connection to Mr. Knapp had been inadvertently disconnected.

Number 0708

CHAIR HEINZE asked Representative Seaton to elaborate on page 2 of [the sponsor statement], which says opponents argue that "harvesting cooperatives unfairly disadvantage processors".

REPRESENTATIVE SEATON responded that there has been a question as to whether, when fish are allocated through a cooperative, that cooperative then has more negotiating power because it controls a significant quantity of the fish. He said there were two processors in Chignik and two sides to every story: "One side is that they were offered fish, but didn't want to competitively pay the price that the other processor was willing to process [for], and the ... other side is that they couldn't buy enough fish to stay open, and so they were blaming the cooperative." He continued:

Now, I don't know. ... If you're in business and you're wanting to buy fish, you're going to have to pay a competitive price or you don't get product. I don't know what the absolute (indisc.--coughing) for this was, but that's the concern as to whether, if a cooperative has an allocation ... of a specific percentage of the resource, if they then have marketing stature - negotiating stature - high enough that it could disadvantage the processing sector.

The processor that was working with them did not have that problem; ... they reached an agreement. The other processor didn't feel that the price that was being paid was something that they ... could do, and so that processor ... has decided not to process in Chignik this next year. That, I'm sure, will be one of the things that will be looked at in the ISER report.

Number 0828

REPRESENTATIVE DAHLSTROM moved to report HCR 28 out of committee with individual recommendations. There being no objection, HCR 28 was reported from the House Special Committee on Economic Development, International Trade and Tourism.

[Members signed the committee report and prepared for the next bill hearing for a few minutes.]

HB 426-TOURISM & RECREATION ASSESSMENT/CAR TAX

Number 1019

CHAIR HEINZE announced that the final order of business would be HOUSE BILL NO. 426, "An Act relating to the levy and collection of an assessment on certain tourism-related and recreation-related goods and services, to tourism marketing contracts, and to vehicle rental taxes; and providing for an effective date."

Number 1023

SUE STANCLIFF, House Majority Office, Alaska State Legislature, explained that HB 426 was sponsored by Representative Kott at the request of the Alaska Travel Industry Association (ATIA); the legislature and the administration had asked ATIA to bring forward a self-funding model to finance tourism marketing, and this is their plan. It levies an assessment on the tourism industry to raise funds for tourism marketing; this self-assessment would be broad-based, similar to those in other industries, and would levy a 2 percent tax on sales generated at hotels and gift shops and on car rentals, shore excursions, day tours, and land-based package [tours].

MS. STANCLIFF reported that recent surveys of 2003 summer [visitor arrivals] conducted by the Department of Community & Economic Development (DCED) found a 2 percent decline in those who came to Alaska by domestic air, highway, and ferry when compared with 2002. Other studies by ATIA show small adventure-based businesses and those in Interior Alaska have been hit the hardest by the worldwide downturn since [the terrorist attacks of September 11, 2001]. Thus she said the ATIA board adopted the self-assessment strategy because it recognizes the distress suffered primarily by the small-business community and the independent tourism businesses around the state.

MS. STANCLIFF indicated the sponsor would work with ATIA and the committee to rectify problems and bring back changes the following week. Referring to page 3, [paragraphs] (8) and (9), she brought attention to the phrase "other foods produced". Noting that this will hit "everything" in the Matanuska-Susitna area and in Delta, including potatoes and other items grown locally, Ms. Stancliff said that isn't what is intended. She noted that Representative Kott had asked about Indian Valley Meats, for example. She closed by reiterating that the bill is a work in progress in conjunction with ATIA.

Number 1238

CHIP THOMA testified as an individual from Juneau, saying tourism taxation has been very successful for the last five years, especially in Southeast Alaska, which has seen dramatic increases in the numbers of passengers traveling on the largest of cruise ships. "What was recently projected as a 9 percent increase in passenger numbers for 2004 was actually a 15 to 20 percent increase just a few years ago," he said. "So, as we reach a million passengers in the next few years, a 5 percent increase will be huge - and this occurs on a yearly basis."

MR. THOMA noted that Juneau's city docks have been widened and strengthened for the large ships, that downtown streets and sidewalks have improved for both the tour buses and the extra summer foot traffic, and that new public restrooms and parks were just constructed. He explained:

Juneau was able to do this expeditiously because, after years of local debate, residents collected signatures, put the issue on the municipal ballot, and voters approved a \$5 individual passenger fee by a wide margin. The use of the passenger fee for capital improvements near the waterfront has been a success for residents, businesses, and the 800,000 cruise ship tourists who visit here today. I think everyone will agree it's a real plus-plus situation.

Number 1325

MR. THOMA set forth his concerns about the bill:

I fear that HB 426 veers dramatically from this successful model. My reading of the bill is that a 2 percent sales tax or assessment from tourist-related businesses would be collected and a portion of all of that may be allocated to a single qualified tourism trade association for unspecified marketing.

I respectfully disagree that there is a need to further market tourism to Southeast Alaska. Summer tourism here is not wild Alaska salmon. The state does not need to help sell the product. The big tour companies, cruise lines, airlines, and local visitor bureaus already promote travel here on a daily basis in newspapers, magazines, and commercials nationwide.

As the only realistic way to come to Alaska as a summer tourist is either by cruise ship or airline, the use of tax-assessment monies for more generic travel advertising would be superfluous, plus the cruise ships, Alaska Airlines, and Southeast destination towns are full all summer long. Why add to the congestion or, worse yet, throw local tax monies in a generic advertising pool without addressing local capital-construction needs to service the increasing numbers of summer tourists.

The individual passenger fee - also known as the head tax - is passed on directly to the passenger, just like the surtax for an airport rental car. No one complains; it's easy to collect and easy to explain. It goes for improving downtown waterfronts and for new cruise ship docks. Passengers are happy to pay for those purposes. The cruise companies list it as "port fees," which are added to the bottom line of tickets worldwide.

However, HB 426, a statewide sales tax on local Alaska businesses to pay for generic "come to visit Alaska" advertising, does not address the need to provide clean, safe, and beautiful waterfronts for all those folks to visit. I urge you to reexamine the purpose of this assessment and this bill, as well as the target tax group of local mom-and-pop tourist businesses.

Number 1456

SCOTT REISLAND, Recreational Vehicle (RV) Park/Campground Owner; Vice President, Alaska Campground Owners Association, said the previous testimony worried him and that Alaska's campground industry is in dire straits because of three consecutive years of decline in independent travelers, which are important to his business; he mentioned a figure of 17 percent and remarked, "I see other campground folks closing their doors, leaving, unable to make a business."

MR. REISLAND expressed concern that Alaska's marketing-related budget is noncompetitive with other destinations. He predicted that this proposed assessment will be very helpful to his industry. He asked that members consider small businesses that depend on marketing where they can't market themselves, such as the Lower 48. Indicating four generations of his family have

been in the campground business at Denali National Park, he said this bill is important to his business and many campground operators throughout Alaska.

Number 1548

MR. REISLAND, in response to questions from Chair Heinze, explained that he operates on the boundary of Denali National Park at mile 231.1 and mile 240 of the George Parks Highway; he'd just purchased another campground. As vice president of the Alaska Campground [Owners] Association, he reported that the membership was polled and there was a 15-17 percent decline in people staying in the campgrounds for the past three years. He said ATIA ensures, as part of its program and mission, that marketing dollars go towards independent travelers; he emphasized the importance of this marketing money.

MR. REISLAND, in further response, opined that there isn't enough "rubber-tire traffic" to Alaska. He said ATIA doesn't have funding to set up booths at big RV shows in the Lower 48, and he emphasized the importance of this presence. Noting that his business charges \$26 a night, Mr. Reisland said he holds a national board seat and that RV associations and campgrounds are doing well in the Lower 48, where the industry is booming. He expressed frustration that these people aren't coming to Alaska, since he considers them an important economic resource.

CHAIR HEINZE remarked that it's a huge business Outside and requires calling ahead and sometimes having to pay \$100 a night.

Number 1726

REPRESENTATIVE CISSNA mentioned ATIA's "web site program" and asked whether Mr. Reisland is a member or participant in that.

MR. REISLAND answered in the affirmative, saying it's one avenue that will satisfy some reaching out. He emphasized the desire for a larger presence, however, a physical presence to be able to show people pictures and get them excited about Alaska as an exotic destination.

Number 1785

STEPHEN MAHAY, Owner/Operator, Mahay's Riverboat Service, Talkeetna, testified in support of HB 426. He explained that he started his family-run business in 1975 and that it employs 5 full-time staff and 40-50 summer staff, many of them students or

local residents; they handle a lot of clients in the summer, running seven vessels. Business has been down the past two years, however, which he attributed to the events surrounding September 11, 2001, including the increase in marketing elsewhere, primarily through government programs; he mentioned Florida and Hawaii in particular.

MR. MAHAY noted that the industry has been asked by the legislature to come up with something that can satisfy the need for marketing dollars. Citing a figure of perhaps \$20 million just to have a good, strong presence in the country and the world, he said tourism is flat at best and, in most cases, down substantially; he opined that without marketing dollars, this industry cannot be rejuvenated. Now the industry has come up with HB 426 as a self-imposed industry-assessment tax to generate the money.

MR. MAHAY went on to say he'd have no problem with collecting and paying this 2 percent tax because he knows the industry needs this marketing money, which he predicted will generate \$13 million to \$17 million "real dollars." He expressed hope that in the future the industry won't have to ask [the legislature] for money, because it will be paying its own way. He offered his belief that members of the industry in his region like this concept, and pointed out that if the industry doesn't like it, it has a "switch" that can be used to terminate it.

Number 1948

CHAIR HEINZE asked Mr. Mahay whether he foresees that 2 percent will be enough in 10 years.

MR. MAHAY gave his view that this 2 percent assessment will grow in volume as the industry grows, and will be sufficient. He said the industry itself has been quite creative in generating about \$6 million from itself already to supplement the \$4 million provided by the state. Saying \$4 million doesn't go far in the world of marketing, and even \$10 million doesn't go that far, he expressed hope that this assessment will generate \$18 million or maybe even \$20 million. From the figures, he predicted that it would provide enough money to have an ongoing, long-term, effective impact in the marketing world.

CHAIR HEINZE asked whether the Chamber of Commerce in Talkeetna is [supportive of] this.

MR. MAHAY replied that he didn't know. He said he'd been working with ATIA to get it to this point, and in due time it will go before the chamber. He added that he'd talked with independent businesses there that support the concept. In response to a further question, he agreed that tourism is growing significantly there.

Number 2050

REPRESENTATIVE CISSNA stated her understanding that the money under this legislation goes into the state's general fund.

MR. MAHAY responded that it goes into a separate "compartment"; it's modeled after the Alaska Seafood Marketing Institute (ASMI) program, and the funds would be available in a like manner. "It's not designated but it is ... designated," he added.

REPRESENTATIVE CISSNA asked whether there is earned income.

MR. MAHAY answered that he didn't know the particulars, but under the legislation as written, a contracted "qualified marketing agency" would oversee the marketing program. He added that ATIA, the guiding force behind this, is trying to build something that will give this marketing agency, which he indicated already has a state contract, the vehicle to be able to implement the marketing program. He suggested it could be another agency at a future date, but said it would be somebody qualified to "market the state of Alaska."

Number 2135

REPRESENTATIVE CISSNA expressed hope that there would be discussion of that fund's ability to actually earn interest, especially if the money is to be spread out over several years. She said she doesn't know whether the ASMI program does that and would like to hear from the sponsor at some point.

REPRESENTATIVE KOTT, sponsor, said he'd be happy to answer at some future point.

CHAIR HEINZE asked Mr. Reisland whether he believes he's fully represented by ATIA.

MR. REISLAND said yes. Although sometimes ATIA gets a "bad rap as being the pawn of the cruise industry," he suggested the makeup of the membership and the board shows that the cruise industry isn't the dominant, driving force of that organization.

Number 2194

REPRESENTATIVE KOTT asked Mr. Reisland what his position would be if the state seriously considered a statewide sales tax under which it would award the industry the same level of funding it would receive under this bill.

MR. REISLAND acknowledged the idea is new to him, and said he didn't know if he'd support it, speaking on behalf of his company and from his understanding of economics in the state. He emphasized the need for the industry to have a secure fund that isn't [available for appropriation elsewhere] from the general fund; he expressed concern about having to come back to the state every year looking for money. With an assessment program like ASMI's, he opined that it's more or less secure funding for the organization and for marketing. Noting that RV shows are booked 18 months in advance, he stressed the need to look two to five years down the road [for marketing purposes] and hence the need for a stable funding program.

Number 2272

CHAIR HEINZE asked whether Mr. Reisland worked with the Division of Tourism when it existed.

MR. REISLAND answered yes, he worked with AVA [Alaska Visitors Association] and was on the board and helped work through the "millennium program." He said he'd visited Representative Kohring's office in the past looking for money, for example, and was told the industry needed to work this out. Mr. Reisland remarked, "The industry has been quite diligent with this bill to try to get something together to make it work."

CHAIR HEINZE asked, looking back with 20/20 hindsight, whether the Division of Tourism should have been removed or retained.

MR. REISLAND answered:

I think that it was a good move because you took not only that, but the ATMC [Alaska Tourism Marketing Council] also, and you took three organizations and built one, and ... two of those were more or less government-funded and government-driven, and you put it in the private sector. And the private sector, historically, has shown itself to be more responsible

with the dollars ... than a government organization; I say that cautiously, knowing where I'm sitting.

Number 2331

RON PECK, President, Alaska Travel Industry Association, began by addressing previous questions and comments. With regard to the ASMI model, he said the appropriation would be utilized in full; there wouldn't necessarily be any money left in reserve. With respect to ATIA's membership, he said [Mr. Mahay's] portrayal was accurate: of the almost 900 members, 60 percent of the businesses are tourism-related and have five or fewer employees; another 30 percent have fifty or fewer employees. "We truly represent a wide, diverse spectrum of the tourism industry in Alaska," he said, noting that the membership includes lodges, fishing charter operations, hotels, tourism operations, and so forth. Disagreeing with the assertion that there would be an unspecified marketing program, he indicated ATIA presents its plan every year to [DCED].

TAPE 04-8, SIDE B

Number 2370

MR. PECK mentioned working with DCED collectively to represent and market throughout the state to all levels and sectors of the industry. He also suggested hotel owners and others in Southeast Alaska haven't experienced the same level of growth [seen in the cruise ship industry].

MR. PECK turned to his own testimony, saying he has been involved in Alaska's tourism industry for 26; before becoming president of ATIA, he was involved in a variety of tourism businesses in Alaska and in "marketing the state." He said ATIA and the tourism industry need HB 426, and Alaska as a destination needs a stronger presence and a more competitive marketing budget, double the \$10 million to \$20 million it has. He said tourism is "down or flat" in most of Alaska; specifically, independent travel has decreased for two years, and border crossings have dropped 8.5 percent since summer 2001 - from 120,000 to 109,000. Clarifying that these statistics represent May to September, he said airport arrivals and departures have decreased by 115,000, which is 3.5 percent.

MR. PECK told members that the legislature has requested that his industry produce a plan, which it has done; this plan identifies funding sources, is broad-based, and impacts a variety of tourism industry sectors. Referring to the ASMI

model on which it is based, he concluded, "We believe that adopting this assessment is a good business decision and a good investment for our state because tourism is critical and a ... vital economic engine for Alaska." He requested support for HB 426.

Number 2275

REPRESENTATIVE KOHRING expressed appreciation for the efforts to secure additional dollars, but inquired why a mechanism is needed in state law, rather than having a privately established, self-assessed fee.

MR. PECK answered that about \$6 million of "our match" has been raised on a private-sector basis. Contributions are received from two main sources: the cruise industry and the convention and visitors bureau. A variety of programs also generate approximately \$2.6 million in "cooperative marketing programs." He said it would be a real challenge to identify additional means or programs to generate that money on a voluntary basis.

Number 2205

CHAIR HEINZE asked Mr. Peck to provide some history with regard to the AVA, the ATMC, and the Division of Tourism through "the contract" and up to date.

MR. PECK replied that three separate entities had trade association and/or marketing responsibility: the Division of Tourism; ATMC, which was funded in part through general fund monies; and AVA, which was essentially a trade association. The Division of Tourism did some small-business and rural promotion for tourism, with an emphasis on international trade. The focus of ATMC was domestic marketing. Mr. Peck remarked, "It was, again, felt that for an efficient, overall better marketing emphasis that the three entities combine and that there would be private-sector and general fund ... monies contributed." He noted that at the beginning of that program, the funding was 30 percent from private funding and 70 percent from the general fund; now it's a "60 percent/40 percent match." He added, "We have been in existence now for four years, since 1999."

Number 2150

CHAIR HEINZE mentioned a contract made between private industry and the state.

MR. PECK responded, "There was an agreement created with what's commonly known as the millennium plan, which is in place as we speak." In further reply, he explained that in terms of state expenditures, in the mid-1980s, when there was "a different environment," Alaska was in the top 10 [in the nation] in expenditures for statewide marketing of this destination, and at one point ranked 7th or 8th; by 1992 it had fallen to 27th; and now it is 37th or 38th.

CHAIR HEINZE mentioned Chicago, Jacksonville, and Phoenix.

MR. PECK said he believes some cities have more expenditures [than Alaska] in terms of promoting themselves as a destination.

Number 2104

CHAIR HEINZE asked how much money tourism puts into Alaska's general fund from gasoline tax, road tax, and so forth.

MR. PECK replied that he'd heard estimates of \$125 million for general fund money, but said he didn't have a specific number and would provide that. With regard to money to the state's gross product or economy, he said [ATIA] in concert with DCED and various research firms has identified more than \$1.8 billion spent on tourism-related and ancillary activities, which doesn't include money spent flying to Alaska or taking a cruise.

CHAIR HEINZE asked what percentage goes into the general fund in other states from tourism.

MR. PECK said he didn't know, but believes most states have a tourism assessment or sales tax of some variety that goes either to a general fund or to tourism marketing and which, to a substantial degree, goes toward either local or state government.

Number 2011

BUCKWHEAT DONAHUE, Tourism Director, City of Skagway; Executive Director, Skagway Convention and Visitors Bureau, informed members that he has lived in Skagway year-round for 22 years. Prior to working in the public sector, he started the first adventure-tour company there and the first gear and mountain shop. Agreeing with the testimony of Mr. Peck and Mr. Mahay, he talked about Skagway, its commitment to ATIA, and the trust that has been created. Noting that he'd been in contact with all but three year-round businesses in Skagway, as well as those who

operate in the summer only but live there, he said only one didn't like the idea of this 2 percent assessment.

MR. DONAHUE surmised it's rare for people to be so willing to have a self-assessment to help with marketing. He said ATIA understands marketing, and the plans to bring back independent travelers to Skagway are working. He mentioned working with the government of the Yukon Territory and predicted it can be done on a grander scale if this money is provided. "We're pretty broke," he concluded. "We could really use your help."

Number 1876

REPRESENTATIVE KOHRING remarked that he understands the premise behind setting this up in statute and the mechanism for the state to assess the tax, collect it, and distribute the money. However, a state law isn't needed, since it could be done [voluntarily]. He asked why it hasn't been looked at harder from that perspective.

MR. DONAHUE agreed he hadn't [looked at it from that perspective]; said he'd contributed when his businesses were members of the former AVA; noted that his convention and visitors bureau contributes a significant portion of its marketing money to ATIA, and mentioned being a member of ATIA as well; and reported that the two small businesses he'd operated in Skagway did make voluntary contributions.

MR. DONAHUE said reaching the maximum number of people requires more money; he could go to only one or two conventions or trade shows a year, whereas with more marketing dollars "assessed on a more equal basis, on a broader spectrum," he'd could reach "all those folks" because of his association with ATIA. Predicting that seasonal [business owners in Skagway] would agree, since they'd be collecting it but it wouldn't come out of their own pockets, he remarked, "They're still going to make their individual contributions as well, and this is just going to be an added benefit for us."

Number 1753

REPRESENTATIVE KOTT posed a situation in which this measure is in effect for five years, with 2 percent paid but no appreciable difference seen. He inquired how Mr. Donahue would view the assessment in that instance.

MR. DONAHUE forecast that at least it would help sustain business at current levels. Noting Skagway's good track record for growth in the tourism industry, except perhaps the last couple of years, he said a lot of help is needed in the independent sector especially. He expressed confidence in the marketing efforts that ATIA employs, mentioned joint marketing efforts between the city and [ATIA], and said he has already seen direct results from those kinds of cooperative programs. He cited some examples.

Number 1544

REPRESENTATIVE KOTT asked whether Mr. Donahue believes a 2 percent increase will be a deterrent to visitors who want to come to Alaska and participate in tourism-related activities.

MR. DONAHUE responded in the negative.

Number 1390

DAVE KARP, Vice President and Chief Operating Officer, Hawaiian Vacations/Alaskan Vacations, noted that his Anchorage-based business is best known for taking Alaskans to Hawaii, about 35,000 to 40,000 people a year, but also brings about 6,000 visitors from Australia and Hawaii to Alaska, primarily in the summer months. Furthermore, the company is in the second year of a venture flying nonstop charter flights between Anchorage and Tokyo; he reported good success in working closely with ATIA in developing direct ties to the Japanese market.

MR. KARP responded to Representative Kohring's question as to why people don't just assess themselves. Noting that it's a logical question and that he has been in the business for 15 years, Mr. Karp pointed out that having this assessment in state law will help to identify it as an assessment, which allows adding it to the purchase price and passing the cost on to the visitor. He mentioned truth-in-advertising laws, for instance, and indicated having it in statute will provide the ability to maintain a given price in a brochure and then add the assessment on top of it. From a practical standpoint, as well, he noted that some [businesses] won't want to pay without some assurance that all will pay.

MR. KARP recalled growing up in Nome, where he got into the tourism industry because he noticed that people on television paid others to transport their baggage. He mentioned the need to create a compelling message and entice people to come to this

great destination. Noting that he'd been executive director of the ATMC for several years, he recounted coming to legislators over the years and hearing, "Get rid of the bureaucracy, get rid of the inefficiency, and find a way to generate a funding mechanism." He added:

We created the new millennium plan, we eliminated bureaucracy, we've made it more efficient, and now we're at the next ... stage of the process, which is ... we have come together, and it has not been an easy process. It has been a time-consuming and hard-fought process amongst ourselves to come to some consensus on a piece of legislation that we believe we can move forward. We truly would appreciate your support of this legislation.

MR. KARP spoke of making this bill fair to all, acknowledged it's a work in progress, and called it a good start.

Number 1124

REPRESENTATIVE KOTT asked: If a statewide sales tax established the same pool within the general fund, would the industry support it?

MR. KARP answered that the industry hasn't deliberated on that, but he mentioned past discussions with legislators about a constitutional amendment and other ways to get assurance beyond the "trust me" method. He noted that the bill provides "an assurance that there's a level of consciousness on the part of the state that these funds are being generated by a certain group of people for a certain purpose." Furthermore, it has a "kill switch" so that if these funds are going into the general fund [without being appropriated back], the industry and those paying money in can say, "Well, wait a second. That's not the deal we cut." Thus he offered his personal opinion that this is a better vehicle. Mentioning timing, he said this is critical.

Number 0978

REPRESENTATIVE KOTT said private discussions with Governor Murkowski have indicated he has a problem because the legislature isn't generating money that goes to the general fund to close the fiscal gap. He asked about the effects if this bill is implemented and then a sales tax is passed.

MR. KARP answered that he thinks it depends on where one is in the state. He pointed out that there are local municipal taxes in many areas. Suggesting this is something the industry could work through, he said his message to the governor would be that this is a catalyst for growth, a simple equation: "If you add more resources to go out and generate more visitors, there will be more visitation to the state; there will be more in-state spending; there will be more local taxes and revenue paid." He offered to provide numbers, but said nonresident fishing and hunting licenses and the fees and services for which people pay are substantial, a number that he predicted will grow. He suggested, therefore, that increasing visitors will increase money to the state general fund by other means.

Number 0884

MR. KARP, in response to Representative Dahlstrom, described his business as a small mom-and-pop company that's been in Alaska for 22 years and is 100 percent owned [by Alaskans]. He noted that Mr. Peck had just provided an ATIA handout ["Fact Sheet - Benefits of Tourism to Alaska], which Mr. Karp labeled "Exhibit A" and from which he cited the following: \$17.3 million into the general fund from corporate income, gasoline, aviation fuel, excise, and tour bus taxes; \$32.9 million from state park permits, fish and game licenses/tags, business license fees [et cetera]; and \$53.9 million to local governments from sales tax, bed tax, property [tax], moorage, and lightering fees.

Number 0805

DON HABEGER, Director of Industry Relations, Royal Caribbean International; Celebrity Cruises, noted that he'd lived in Juneau more than 20 years. He stated support for the bill in its current form and offered to answer questions.

CHAIR HEINZE related her understanding that the cruise ship industry gives \$2 million to the marketing effort.

MR. HABEGER affirmed that, saying part of the millennium plan is a "cruise portion or cruise donation": semiannually, ATIA sends invoices to companies, which pay off those invoices as part of their donation to the marketing effort. In response to further questions, he said it's part of the private share of the 60/40 split. His company doesn't have a representative on the marketing committee, which is where the money goes; that committee takes the whole and decides how best to "market Alaska." As to whether that money should go specifically

towards recruiting cruise passengers, he said the answer is no; this is part of the program to help the general marketing effort for Alaska, and reaches all segments of the market. He affirmed that [the \$2 million represents one-third of the \$6 million that the 60 percent represents in the 60/40 split].

Number 0648

CHAIR HEINZE asked Mr. Peck whether tourism is the second-largest industry in Alaska.

MR. PECK replied, "Depending on what economic aspects you look at, some would say we are number two or number three. In terms of employment, ... we believe we are number two. In terms of economic contribution, in terms of hard dollars, I think we are probably, private sector-wise, three."

CHAIR HEINZE suggested perhaps the state is at the point of "eating our seed corn" and needs to help with tourism marketing. She cited the film office as an example where adequate funding wasn't provided.

MR. PECK replied that \$20 million will allow a substantial amount of additional marketing, including expansion of television spots and specific marketing tactics. In further response, he said presently there are offices in German-speaking Europe, the United Kingdom, Japan, Korea, and Australia. He cited Japan as one of the small success stories and mentioned some examples.

Number 0299

GARY CUSCIA, Administrative Manager, Southeast Region, Department of Transportation & Public Facilities (DOT&PF), requested that the reference to the Alaska Marine Highway System (AMHS) passenger fares be removed from the bill.

Number 0285

NONA WILSON, Legislative Liaison/Special Assistant, Office of the Commissioner, Department of Transportation & Public Facilities, specified that the reference is on page 2, line 31, paragraph (3).

MR. CUSCIA explained that the exemption section of the bill clearly appears to exempt AMHS in two areas: page 4, line 15, paragraph (2), says "federal, state, or local government

entities"; and [paragraph] (4), lines 19-22, talks about sales made by an entity described in the Internal Revenue Code as exempt from federal income taxation. In response to Representative Kott, Mr. Cuscia noted that for tens of thousands of Alaskans, AMHS is basic transportation to the dentist, for example. Furthermore, AMHS is experiencing reductions in ridership, and there have been complaints about tariff increases; he expressed concern that additional fees would further affect the goal of increasing ridership.

REPRESENTATIVE KOTT asked Mr. Cuscia whether he believes a 2 percent increase will negatively affect ridership.

MR. CUSCIA answered that it's when combined with other increases. He also pointed out that the state would be imposing a tax on the revenue it captures.

TAPE 04-9, SIDE A

Number 0006

REPRESENTATIVE KOTT asked whether the state could impose this assessment on riders who board the Alaska ferry in Bellingham, Washington.

MR. CUSCIA answered that the state could attempt to do so, though it's outside its jurisdiction. He pointed out that the Port of Bellingham has tried fairly aggressively to impose a head tax on passengers, and it would seem a bit awkward, having said no to Bellingham for the past couple of years, to now go back and say this tax must be collected for Alaska.

CHAIR HEINZE asked how much AMHS benefits from tourism.

MR. CUSCIA cited the expectation of approximately \$42.5 million in total revenue from all categories in fiscal year 2004.

CHAIR HEINZE asked whether Mr. Cuscia knows what portion results directly from tourism marketing.

MR. CUSCIA said he didn't know, but could look into it.

CHAIR HEINZE requested that Mr. Cuscia provide that information to each committee member. She announced that because the committee had just received fiscal notes and because there would be a new proposed committee substitute, the bill would be heard again the following week.

Number 0298

MR. PECK, in response to Representative Kott, voiced the desire to have \$20 million from this proposal and indicated the goal has been \$18 million to \$20 million. He offered the belief that other suggested [exemptions besides that for AMHS] would result in perhaps a figure of \$16 million to \$18 million. He expressed confidence that it would be more than \$15.5 million.

MR. CUSCIA, in response to Representative Kott, said although total AMHS revenues for fiscal year 2004 will be approximately \$42.5 million, only about \$16 million will be from passenger fares, which is what the bill [would tax at 2 percent].

Number 0402

BETTYE ADAMS, Owner, Alaskan Hotel & Bar, Juneau, informed the committee that she moved to Alaska in 1968 and in 1977 began remodeling the hotel, now on the National Register [of Historic Places]. Presenting a point of view opposite [to those just heard from the industry], she characterized herself as an "independent" and said her revenue has gone way down. Pointing out that the figures being cited are just state advertising, she surmised that if that amount were combined with what cruise ships put in, advertising for Alaska would be substantial in comparison with other states. She questioned the concept that people today aren't aware of Alaska and its tourism possibilities, and said she doesn't think that is the problem.

MS. ADAMS countered the assertion that this is a good plan because all will pay for it. She said cruise ships won't pay because, by federal law, they cannot be taxed for marketing. Furthermore, all excursions sold on board the ships are exempt, and sales tax for the city cannot be levied on the people who sell those [on board] the ships.

MS. ADAMS said her hotel is in direct competition with the cruise ships, which provide housing. She explained that there is a 12 percent tax on the hotel, including room and sales tax, which cruise ships are exempt from. Adding 2 percent will raise to 14 percent the amount that people who stay in her hotel must pay, which they wouldn't pay if staying on a cruise ship. Thus Ms. Adams suggested this would rob small businesses to pay for generic advertising that will benefit the cruise ships. She remarked, "I just don't think people really understand this bill. It's like a Trojan horse. It's really a bad, immoral bill."

MS. ADAMS noted that she is a member of ATIA but wasn't asked to vote on this; this vote and idea came from the convention, which many members didn't attend. In addition, she said, many Alaskan mom-and-pop businesses would be affected but aren't ATIA members. Referring to a newspaper's mention that cruise ship passengers are up 9 percent, Ms. Adams asked, "If advertising is the problem for Alaska, why would that be?" Pointing out that [numbers for independent travelers] are down, which ATIA admits, she concluded that it's a better deal to go on the cruise ships, where everything is included. Ms. Adams remarked, "We're competing against mega-advertising and a cheaper deal." She suggested people up north [aren't getting the business they'd like from independent travelers] because visitors are going on cruise ships instead.

MS. ADAMS requested an exemption for hotels if the bill passes. In the alternative, she referred to page 2, paragraph (2), and suggested, as a matter of fairness and in order to provide a level playing field, that a head tax be placed on cruise ship [passengers] so it balances out.

Number 0671

MS. ADAMS turned to another point, saying she doesn't believe this is constitutional under the state constitution. She referred to a memorandum dated November 18, 2003, from legislative counsel George Utermohle to Senator Ben Stevens [as co-chair of the Joint Legislative Salmon Industry Task Force], which raises a question relating to ASMI, the model this current bill is based on. Ms. Adams pointed out that the memo questions whether the basis for ASMI is constitutional to begin with. She expressed confidence that this [proposed tax for tourism marketing] will land in court quickly when seasonal operators come up and have to pay for it. She paraphrased various portions of that memo, with comments, as follows:

The power of taxation shall never be surrendered. That goes from the Alaska constitution. The ability of the members of an organization to vote to approve or repeal taxes and assessments - ... they're just using that word; it's still taxes - imposed by the state may constitute an invalid delegation of the legislature's taxing power. Under ... Alaska's constitution, only the legislature may impose a tax, and that power may only be delegated to a borough or city - not to a private organization.

The Alaska Supreme Court struck down a royalty assessment on salmon to pay for salmon hatcheries and salmon enhancement because the assessment was a tax and the legislature did not have the authority to authorize regional associations to approve or [disapprove] the imposition of assessment. That is a case called ... [State v. Alex, 646 P.2d 203 (Alaska 1982)]. Under the ... Alex decision, the legislature can impose a tax or an assessment, but it cannot delegate to a regional association to determine - and this is really important because they keep saying, "This is OK because if it doesn't go for us, we're canceling it" - to determine if the assessment takes effect or not.

Arguably, the current salmon enhancement tax, seafood processor assessment, [et cetera], are valid because any approval of the relevant tax or assessments by the taxpayer was only a condition precedent to the enforcement of the [lawfully] enacted tax and not a delegation of the legislative power to the taxpayer to impose a tax. However, the Alaska courts may not recognize a meaningful distinction between conditioning the implementation of a tax on the happening of a specific event (such as approval by the taxpayers) and the outright delegation of the authority to impose a tax to the taxpayer; thus many of the current commercial fishing taxes and assessments are potentially unconstitutional [under] the Alex decision.

Number 0898

MS. ADAMS predicted [this bill] would open a can of worms because after it's contested it will "flip back" and throw out all the ASMI funding. She paraphrased a portion of the memo that read [original punctuation provided]:

The second issue raised by state imposed and enforced taxes and assessments arises from the expectation that the money collected by the state will be appropriated back to the organization or region where the money was collected. Except as provided by the Alaska Constitution, the state cannot be required to dedicate state revenue for a particular purpose. The Alaska Constitution disfavors dedicated funds.

MS. ADAMS suggested [the proposal under the bill] would result in dedicated funds. She remarked:

You could say, "OK, it's not dedicated," and that's how they get by with it with ASMI: they just say "may be sent back." ... But down here it says the downside of this "may be" approach is that it potentially misleads constituents to believe that the money from the taxes and assessments that they pay will be used only for a certain purposes, and creates a moral obligation on the part of the legislators to appropriate the money for a specific purpose, which may, in effect, violate the prohibition against dedicated funds.

And there's a whole bunch more in here. But the long and the short of it is, you're walking down a very slippery slope that, I would say, most of the industry does not support.

CHAIR HEINZE requested that Ms. Adams provide a copy of the memorandum to the committee. She then asked whether anyone else wished to testify.

Number 1025

MR. PECK returned to the witness table to say that of the estimated \$18 million to \$20 million [from the proposed assessment], it is expected that 40-45 percent will be from cruise passengers who participate in land activities, including shore excursions, staying at hotels, and using land transportation. He agreed there are federal statutes that affect who may be assessed.

CHAIR HEINZE asked how many people the cruise ships bring to Alaska.

MR. PECK answered that the estimate for 2003 was 775,000, and this year is expected to be more than 800,000. He said except for this portion of the market, all other sectors of the industry are down.

Number 1108

MS. WILSON reported that she'd put a call in to Tom Briggs, general manager for AMHS, to look up some figures to address an

earlier question. She said the percentage of revenue that goes to AMHS from tourism specifically cannot be determined, but she could say how the ridership changes from the summer months into the fall months. She noted that in Southeast Alaska there are 181,000 passengers and a little more than 50,000 cars. In Southwest Alaska, there are 42,000 passengers and more than 14,000 vehicles; that's May through September. In October through March, the ridership decreases to 82,000 passengers and 24,000 cars. She remarked:

We interpret that information to say, basically, in the summer, tourists are coming; we're generating more revenues. But in the off-season, if we were to impose this 2 percent assessment, we would be taxing locals. And the department's concern is that people use the marine highway system as a basic mode of transportation, particularly in Southeast and Southwest Alaska. And our concern is that we would, essentially, be taxing people who need to get from, let's just say, Craig to Juneau for a doctor's appointment, basically using the marine highway system as an actual highway, using the ferries basically [as a] car. And so that's where our concern is.

And it has brought up that maybe there could be a reasonable application of this, and so, in our busy months from May through September, then we could have that tax, 'cause we would affect a lot of tourists. And then in the off months, when people are using this ... because they live on Prince of Wales or they're in Ketchikan - these people rely heavily on the ferry system - then maybe during those months they could be exempt from the tax, just so we're not really penalizing them for the fact they don't have a bridge or a highway to get where they need to go. So that's also another option that we just wanted to throw out for you. ...

From June, we get about \$5 million in revenue. The drop-off ... into December, you see a decline to \$2.2 million. So ... our big months are the tourist season, and we would ask the committee to take that into consideration.

Number 1281

CHAIR HEINZE, noting that there were no other testifiers, indicated HB 426 would be held over.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 12:01 p.m.