

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 12, 2004

1:35 p.m.

TAPE(S) 04-9, 10

MEMBERS PRESENT

Senator Con Bunde, Chair
Senator Gary Stevens
Senator Hollis French

MEMBERS ABSENT

Senator Ralph Seekins, Vice Chair
Senator Bettye Davis

COMMITTEE CALENDAR

SENATE BILL NO. 286

"An Act relating to direct marketing fisheries businesses, to the fisheries business tax, and to liability for payment of taxes and assessments on the sale or transfer of fishery resources; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 278

"An Act relating to fees for the inspection of recreational devices, for certificates of fitness for electrical wiring and plumbing, for filing voluntary flexible work hour plans, and for licenses for boiler operators; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 254

"An Act relating to the levy and collection of an assessment on certain tourism-related and recreation-related goods and services, and repealing the levy of excise taxes of certain passenger and recreation vehicles; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 286

SHORT TITLE: DIRECT MARKETING FISHERIES BUSINESS

SPONSOR(s): SENATOR(s) STEDMAN BY REQUEST OF SALMON INDUSTRY
TASK FORCE

01/30/04 (S) READ THE FIRST TIME - REFERRALS
01/30/04 (S) L&C FIN
02/12/04 (S) L&C AT 1:30 PM BELTZ 211

BILL: SB 278

SHORT TITLE: LABOR & WORKFORCE DEVELOPMENT FEES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/23/04 (S) READ THE FIRST TIME - REFERRALS
01/23/04 (S) L&C, FIN
02/12/04 (S) L&C AT 1:30 PM BELTZ 211

BILL: SB 254

SHORT TITLE: TOURISM & RECREATION ASSESSMENT

SPONSOR(s): SENATOR(s) THERRIAULT

01/12/04 (S) PREFILE RELEASED 1/9/04
01/12/04 (S) READ THE FIRST TIME - REFERRALS
01/12/04 (S) L&C, FIN
02/12/04 (S) L&C AT 1:30 PM BELTZ 211

WITNESS REGISTER

Senator Bert Stedman
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of SB 286.

Ms. Sue Aspelund
Federal Management Research Coordinator
Department of Fish & Game
PO Box 25526
Juneau, AK 99802-5226

POSITION STATEMENT: Supports SB 286.

Ms. Kathy Hansen, Executive Director
Southeast Alaska Fishermen's Alliance (SEAK Fishermen's
Alliance)
9369 North Douglas Hwy.
Juneau AK 99801

POSITION STATEMENT: Supports SB 286.

Mr. Bruce Schactler, President
United Salmon Association Kodiak (USA)
Kodiak AK

POSITION STATEMENT: Supports SB 286.

Mr. Ken Duckett, Executive Director
United Southeast Alaska Gillnetters Association (USAG)
Kodiak AK

POSITION STATEMENT: Supports SB 286.

Ms. Page Herring
Cordova District Fishermen United (CDFU)
P.O. Box 939
Cordova AK

POSITION STATEMENT: Supports SB 286.

Mr. Alan Reeves, Fisherman
Wrangell AK

POSITION STATEMENT: Supports SB 286.

Mr. Jim Smith, Fisherman
Wrangell AK

POSITION STATEMENT: Supports SB 286.

Mr. Brennon Eagle
Wrangell AK

POSITION STATEMENT: Supports SB 286.

Commissioner Greg O'Claray
Department of Labor & Workforce
Development
PO Box 21149

Juneau, AK 99802-1149

POSITION STATEMENT: Supports SB 278.

Mr. Joe Balash
Staff to Senator Gene Therriault
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Commented on SB 254.

Mr. Ron Peck, President and CEO
Alaska Travel Industry Association (ATIA)
2600 Cordova St., Ste 201
Anchorage AK 99503-2745

POSITION STATEMENT: Supports SB 254.

Ms. Bettye Adams, owner
Alaskan Hotel and Bar
Juneau AK 99801
POSITION STATEMENT: Opposes SB 254.

Mr. Chip Thoma
Box 21884
Juneau AK 99801
POSITION STATEMENT: Opposes SB 254.

Mr. Scott Reisland
Denali National Park
Alaska
POSITION STATEMENT: Supports SB 254.

Mr. Dale Fox
Alaska Best Birdy
Anchorage AK
POSITION STATEMENT: Supports SB 254.

Mr. Alan LeMaster
Gakona AK
POSITION STATEMENT: Supports SB 254.

Mr. John Kreilkamp, Vice President
Operations
Cruise West
3434 Wentworth
Anchorage AK
POSITION STATEMENT: Supports SB 254.

ACTION NARRATIVE

TAPE 04-9, SIDE A
^#SB286

SB 286-DIRECT MARKETING FISHERIES BUSINESS

CHAIR CON BUNDE called the Senate Labor and Commerce Standing Committee meeting to order at 1:35 p.m. Present were Senators Gary Stevens, Hollis French and Chair Con Bunde. Senators Bettye Davis and Ralph Seekins were excused. The first order of business to come before the committee was SB 286.

SENATOR GARY STEVENS moved to adopt CSSB 286(L&C), version \B, Utermohle. There were no objections and it was so ordered.

SENATOR BERT STEDMAN, sponsor, said the Salmon Task Force inspired SB 286. He said that the salmon tax was instituted in 1913 and is the oldest tax in the state. As the fisheries have developed, the tax situation has changed to keep up with it. Currently, value-added fish products have a 5 percent tax and this bill lowers it to 3 percent. Off-shore processors are still charged the 5 percent rate; on shore processors are taxed at the 3 percent. The proposed lower tax applies to vessels of 65 ft. or less and is equal to what onshore processors are paying now.

Currently, the valued-added tax is calculated at the point of sale. The proposed lower tax would be calculated on the value of the fish as it comes over the rail (instead of when it is sold as product).

CHAIR BUNDE asked him how that compared to fees for onshore processing.

SENATOR STEDMAN replied that onshore processing fees are calculated at the same point, when the raw fish is delivered.

CHAIR BUNDE asked what fish price would be used to determine the 3 percent tax.

SENATOR STEDMAN replied, "The average within the industry for that particular fishery."

CHAIR BUNDE asked if a fisherman retails his catch himself, would there be a paper trail of his transactions. He noted a head in the audience shaking yes.

CHAIR BUNDE asked how fishermen report to the state that their taxes are paid.

SENATOR STEDMAN replied that numerous fishermen sell [fish] product from their boats in the harbor. Typically, the purchaser would be responsible for paying the tax, but most local people don't even know about it. This bill would close that loophole by making the fishermen responsible for recording and collecting the tax.

CHAIR BUNDE asked if that would mean when he drives out to Auke Bay and buys a crab off a boat, he would pay the tax.

SENATOR STEDMAN responded if the crab had been processed and Senator Bunde bought that product, he would be responsible for paying the tax. Under this bill, the fishermen would be responsible.

SENATOR HOLLIS FRENCH said he was encouraged to know that SB 286 is unanimously supported by the Joint Legislative Salmon Industry Task Force. He understood it to be a tax break from paying 5 percent of retail value of fish product to paying 3 percent of wholesale value.

SENATOR STEDMAN replied that is correct adding that it could also be viewed as a stimulus to encourage the industry to do value added processing. "Hopefully, it's going to increase the revenue into the state by more compliance and more involvement in the value-added processing."

SENATOR FRENCH asked if he could estimate what percent of the market would be affected.

SENATOR STEDMAN estimated that there would be 300 to 400 additional returns.

SENATOR GARY STEVENS commented that he served on the Task Force with Senator Stedman and continually heard about how the salmon industry is in crisis. He related:

Not only are the prices low, the catches are low and all of those together are having an enormous impact on our industry. So, any time we can find a new and innovative way to help fishermen become direct marketers is probably for the good. I realize this is a substantial change as you've indicated, Senator French, but we're in a position where anything we can do to raise the quality of our product, which this would do, is very important.

He asked if fishermen who chose to do valued added processing would come under the same rules as a processor, as far as facility standards.

SENATOR STEDMAN replied that is his understanding.

CHAIR BUNDE asked if state officials would have to inspect the fishermen's facilities, which would lead to a fiscal note.

SENATOR STEDMAN replied that is a non issue. He also added that making the tax more user-friendly encourages more people to comply with the regulations.

MS. SUE ASPELUND, Federal Management Research Coordinator, Alaska Department of Fish and Game (ADF&G), said they are extremely excited about the positive steps of the Salmon Task Force to try to work on the direct marketing issues, but all existing fish and game regulations and statutes that are in place will continue to apply to direct marketers. She emphasized that this legislation simply addresses the tax equity issues.

She did not want to comment on the committee substitute until she better understood its intention.

CHAIR BUNDE responded that rather than have her speculate, this bill would have another hearing next week, which would give her an opportunity to talk to the sponsor.

MS. ASPELUND replied that is fine.

CHAIR BUNDE said that this legislation would create 300 to 400 new processors and asked how they would be required to be in compliance with the law. He used the example of a deckhand who removed the carapace for him after he bought a crab off a boat in the harbor. Currently, removing the carapace for a customer is technically illegal.

MS. ASPELUND replied that issue concerned Department of Environmental Conservation (DEC) regulations. The new processors would not be new catcher sellers within ADF&G's system since the department currently issues their licenses, but their tax reporting standards would be new to the Department of Revenue (DOR).

CHAIR BUNDE wondered if that meant DEC would have more work to do.

MS. KATHY HANSEN, Executive Director, Southeast Alaska Fishermen's Alliance (SEAK), said she had been trying to improve direct marketing regulations for over eight years and SB 286 is really a major step. She said that 300 to 400 catcher sellers are currently licensed under ADF&G and they will continue to be able to do everything they do now. She explained that a catcher seller can only handle an unprocessed product; they cannot process. The only difference in the proposed legislation is that they will be liable for paying the taxes on their product that has been the buyers' responsibility in the past.

CHAIR BUNDE questioned how a troll caught King salmon is gutted and gilled and yet, that isn't processing.

MS. HANSEN replied that one of the complications in dealing with direct marketing is that the term "processing" has three definitions in statute. ADF&G, DOR and DEC all have a different definition of processing that meets their unique needs. A troll-dressed King salmon is not considered processing by DEC in this particular instance.

She explained that under state law, a crab fisherman will never be able to legally remove a carapace for a buyer. DEC statute flat out says he can't. Catcher processors, who head and freeze King salmon on board their vessels, currently get inspected by the DEC. The skipper writes the fish ticket and submits it to ADF&G. The value of the fish would be indicated when his year-end revenue returns are done.

MS. HANSEN explained that two existing taxes have not been getting paid - the hatchery enhancement tax (for areas with hatcheries) and the Alaska Seafood Marketing Institute (ASMI) 1 percent marketing tax. The buyer was responsible for those taxes in the past, but anyone who walked down the dock and bought an unprocessed fish didn't know about it and, therefore, those taxes were just not collected by the state. This bill makes the catcher sellers responsible for paying the tax. They will now have to fill out a year-end DOR form that they have not had to do in the past.

MS. HANSON explained that an exporter is a person who sells unprocessed product out of the state and needs the DOR Fishery Business Tax License (for shipping out of state) and the DEC license because of food safety issues during the process of boxing and shipping. The exporter already pays 5 percent on the higher value product.

A catcher processor is a vessel that is allowed to do limited on-board processing - headed and frozen product, and, in some cases, dressed. These businesses currently have to pay tax on the price the salmon is sold for at the point of sale (possibly out of state), but SB 286 changes their tax to the lower rate. Under this legislation, they will pay a tax on the value of the salmon when it is sold to the processor, not at the point of sale of the processed product.

MS. HANSEN pointed out that SB 286 tightens up enforcement so that product which has been significantly undervalued will be taxed at fair value. For instance, trollers might have used a seine vessel King salmon price to value their catch, an

approximate difference of \$1.50 versus 20 cents. That difference would make up the estimated expenditures for the changes and that is why the fiscal note is zero.

CHAIR BUNDE wanted to make sure this measure did not legitimize people who come to Alaska in their campers to fish and send their catch down south.

MS. HANSEN replied that it wouldn't do that.

SENATOR STEVENS said the Salmon Task Force heard from a Dillingham fisherman who had developed markets in Anchorage, but found that the heads of his fish, accounting for about a third of their weight, couldn't legally be removed before shipping. Shipping that extra weight made his plan impractical, but SB 286 fixes that. He applauded Ms. Hansen for the work her organization is doing.

CHAIR BUNDE said a number of people had signed up to testify and asked Bruce Schactler to present his remarks.

MR. BRUCE SCHACTLER, President, United Salmon Association (USA), thanked everyone for the work they had done and supported SB 286. As the market expands for value added product, using a shore-based plant is the only possible way fishermen could deal with the processing volume.

MR. KEN DUCKETT, Executive Director, United Southeast Alaska Gillnetters Association (USAG), supported SB 286. He contended that:

The individual fisherman needs the opportunity to be able to market a portion of his product in order to have a successful business and the legislation you have before you will go a long ways in helping that to happen.

MS. PAGE HERRING, Executive Director, Cordova District Fishermen United (CDFU), supported SB 286. She echoed Ms. Hansen's comments and added: "Direct marketers are a growing part of the seafood industry and exemplifies the can-do attitudes of Alaska's small businesses."

MR. ALAN REEVES, Wrangell fisherman, thanked everyone for their work on this issue. He supported SB 286 fully.

MR. JIM SMITH, Wrangell fisherman supported SB 286 saying it clarified a lot of gray areas and simplified things for the fisherman.

MR. BRENNON EAGLE, Wrangell fisherman, supported SB 286 saying that he had been a successful direct marketer of shrimp for about 14 years and felt that this bill would give the salmon industry incentive to start direct marketing, too.

CHAIR BUNDE thanked everyone for their testimony and said he would bring CSSB 286 before the committee again next week.

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^#SB278

SB 278-LABOR & WORKFORCE DEVELOPMENT FEES

CHAIR CON BUNDE announced SB 278 to be up for consideration.

SENATOR GARY STEVENS moved to adopt CSSB 278(L&C), version \D. There were no objections and it was so ordered.

COMMISSIONER GREG O'CLARAY, Department of Labor and Workforce Development (DOLWD), explained that in general terms SB 278 is a user fee bill that offsets some of the operating costs of the Division of Labor Standards and Safety. He deferred questions on the fees to Mr. Grey Mitchell, Director, Division of Labor Standards and Safety, but had a question about what was meant by "instructional devices".

CHAIR BUNDE responded that this bill would be heard again and those questions would be answered then.

MR. GREY MITCHELL, Director, Division of Labor Standards and Safety, DOLWD, said the fees will help fund enforcement enhancements in the Mechanical Inspection Section, including filling a vacant position, and replace revenue reductions in the Wage and Hour Section.

2:20 p.m.

TAPE 04-09, SIDE B

SENATOR HOLLIS FRENCH asked who inspects ski tows and ferris wheels now.

MR. MITCHELL replied that amusement rides are inspected by the Mechanical Inspection Section of the Division of Labor Standards

and Safety. Currently all inspections are performed by one person. He related that certifying inspectors for amusement rides is very expensive and has to be done every two years. Typically, they are sent to either California or Florida where there are a lot of amusement rides - and this fee will help defray the cost of those trips.

SENATOR FRENCH asked how much the state currently charges to do the inspections.

MR. MITCHELL replied that right now there is no fee.

SENATOR FRENCH asked him to explain what a boiler operator does.

MR. MITCHELL answered that they are licensed to do particular types of work on particular types of boilers. The State of Alaska has four different classes of boiler operator licenses. In SB 278, AS 18.60.395 requires them to be licensed by the DOLWD. Currently, there is no fee nor is there a statutory requirement for anyone to have the license.

SENATOR FRENCH asked if inspectors are now going to be required to have a license and that they would have to pay \$200 to get it.

MR. MITCHELL defended his position saying the statute requires the DOLWD to provide a license. Historically, the department has not required licensing, but some employers and different insurance companies want to have the people who are working on boilers in their facilities to be licensed.

That is what we're dealing with. It's not a statutory requirement and we don't propose to have one, but if a person does want to come out and get licensed, we want to charge them a fee for it.

CHAIR BUNDE commented that the policy for getting a beautician's license was revenue neutral and maybe this is a reflection of that.

SENATOR FRENCH asked whom exactly this would cover.

MR. MITCHELL replied that it would apply to the group of people who currently have licenses, but not everyone who works on boilers in general. Probably individuals working on the larger boilers would fit the bill the best. Alaska has approximately 978 individuals who have boiler operator's licenses, but he

didn't know how many are currently working. There were 300 renewals last year, which is the figure the department based its estimate on.

CHAIR BUNDE asked if, in the past, the department has licensed boiler operators as a courtesy for some employers, but now they will charge a fee for the licensing.

MR. MITCHELL said that is correct.

CHAIR BUNDE asked if the voluntary flex work hour plan (section 4) meant that an employee would work four-tens instead of five-eights or something like that.

MR. MITCHELL replied that is correct.

CHAIR BUNDE asked if the state requires a flex schedule to be filed with the DOLWD.

MR. MITCHELL replied yes, because by statute flex schedules must be exempted from overtime.

CHAIR BUNDE asked him to expand on the building safety account in section 6.

MR. MITCHELL explained that the building safety account was put into place last year and is basically a way to provide the Mechanical Inspection Section some accountability. Section 6 directs the fees that are charged by that section into that account and inspection services are paid out of it.

SENATOR FRENCH asked how many people he thought would be affected by section 3 that deals with applications and examination fees for journeymen and trainees.

MR. MITCHELL replied that section would affect 3,300 plumbers and electricians - about 60 percent in the electrical category and about 40 percent in the plumber category.

SENATOR FRENCH asked how the revenue neutral concept applies to this category and what is the reason behind increasing the fees.

MR. MITCHELL replied that the department has come up short in a few areas in the Mechanical Inspection Section due to cost increases. As a result, an electrical inspector position has been left vacant. The fees would first be used to fill that

position and then another position would be added. Currently, he declared, only one inspector covers the entire State of Alaska.

SENATOR STEVENS asked why the state needs to know if an employer has a flexible work schedule plan (regarding section 4).

COMMISSIONER O'CLARAY replied that Alaska's basic overtime law requires the department to approve any change in the eight-hour day work schedule. Over 240 exemptions were filed last year. History has shown that many employers try to take advantage of employees and that's why laws like this are on the books.

SENATOR STEVENS asked if all employers who want a flexible work plan must file through this system.

COMMISSIONER O'CLARAY answered that is correct.

CHAIR BUNDE said they would set SB 278 aside and hear it in the near future.

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^#SB254

SB 254-TOURISM & RECREATION ASSESSMENT

CHAIR CON BUNDE announced SB 254 to be up for consideration.

MR. JOE BALASH, Staff to Senator Therriault, sponsor, said:

SB 254 is an effort to generate and identify a source of funding for cooperative marketing for the State of Alaska. For years, the tourism industry has been asking for an increase in state marketing money. However, due to the lack of general fund dollars, the Legislature, as a general rule, has been reluctant to provide those dollars unless the industry identifies some means to pay for that effort.

This legislation was developed at the request of the Alaska Travel Industry Association (ATIA) and is intended to be a fairly broad based tax within the tourism industry, intended to affect tourists and only affecting residents when they behave like a tourist. Surveys conducted by the state and industry show that non-cruise visitors to the state have been declining over the past couple of years and the businesses that depend on those numbers are suffering as a result.

MR. BALASH noted a proposed committee substitute, but he hoped to have a better one available by next week. He offered to answer questions.

CHAIR BUNDE asked committee members to not deal with specifics since a committee substitute was being prepared. He asked Mr. Balash to address the dedicated funds issue.

MR. BALASH responded that generated funds would be deposited into a sub-account in the general fund, although the Legislature is not bound to appropriate the funds for the purpose stated in the bill.

SENATOR GARY STEVENS asked how the money would be spent. Would it go to an association or a board?

MR. BALASH replied:

Under current statute, the state enters into a marketing contract with a qualified trade association. In this instance, that is the Alaska Travel Industry Association. That contractual relationship will continue. Whatever funds the Legislature appropriates for marketing would be appropriated to the Department of Community and Economic Development for the purpose of entering into a contract under the existing statutes for that purpose.

SENATOR STEVENS asked if industry had any oversight as to how the money is spent.

MR. BALASH replied that statutes governing the qualified trade association say that expenditures must be broadly based and representative of the industry within the state. The current board of directors for the association does that quite well.

SENATOR HOLLIS FRENCH said this is essentially a 2 percent tax that will be added on to the bill a tourist will pay.

MR. BALASH replied that is essentially correct and the committee substitute will identify which activities the assessment will be collected from. The legislation calls this the Sustainable Tourism and Recreation Assessment Act and it is recognized that some of the activities are going to be conducted by residents of the state. The ATIA is charged with developing instate marketing - to get people from the Interior to come to Anchorage and to get people from Anchorage to go to the Kenai, etc.

SENATOR FRENCH asked if this leaves the cruise ship industry alone.

MR. BALASH replied that is correct and added that it is very difficult to assess intrastate transportation activities. Airline passengers, for instance, can't be charged for flying over a state.

MR. RON PECK, President and Chief Operating Officer, Alaska Travel Industry Association (ATIA), supported SB 254. He said that Alaska needs to double its marketing budget to \$20 million and have a strong presence in the marketplace.

He said that tourism is down to flat in most of Alaska and that independent travel has decreased for the past two years. Border crossings have decreased by 8 percent from 120,000 passengers to 109,000 and airport arrivals and departures at the four major airports have decreased by 3.5 percent (115,000 passengers) in the summer. The Legislature has asked ATIA to come up with a plan for more funding and SB 254 identifies the funding sources. The sources are broad based and impact a variety of tourism industry sectors including tourism-related activities and attractions. It does not ask for increased general funds.

MR. PECK explained that the assessments in SB 254 are based on the Alaska Seafood Marketing Institute (ASMI) model, which has previously been adopted by the Legislature. Adopting this assessment is a good business decision and a good investment for state tourism. Federal statutes do not allow assessments to apply to transportation via air or cruise ship, but ATIA has estimated that over 40 percent of the activities being assessed are attributable to the cruise ship passengers.

MS. BETTYE ADAMS, owner, Alaskan Hotel and Bar, opposed SB 254. She declared:

It would be harmful to my business, because the cruise ships are just floating hotels. They are not going to have a tax placed on them; I already have 12 percent on me. This is going to be 14 [percent] and who knows, some more might be put. If you do pass it, please exempt hotels so that it makes the playing field level.

MS. ADAMS said there is no guarantee that any of the assessment would be used to advertise for small independent businesses like

hers and cruise ships are already spending \$70 million on advertising. Further, she asserted:

I do not believe that it is a lack of advertising that is causing our decline. I think it is because the cruise ships are up 9 percent and we're down.... I think cruise ships are our competition and are sucking our business over because they are a better deal. We can't compete with them fairly.

My second point is I don't believe it is constitutional. I got this memorandum from Legislative Services. It was asked for by [Senator] Ben Stevens on November 18, 2003 on the model they are forming, which is the ASMI model.

MS. ADAMS explained that the memo makes two points about why this type of assessment is unconstitutional and that, "The power of taxation shall never be surrendered."

Assessment is just another word for taxes imposed by the state, she said, and the memo indicated it might constitute an invalid delegation of the Legislature's taxing powers. Under the Constitution, you can only delegate taxing authority to a borough or city. The Alaska Supreme Court in *State v. Alex* (1982) says that the Legislature did not have the authority to authorize regional associations to approve or disapprove the imposition of assessments.

MS. ADAMS said the dedicated funds issue applies in this case. The memo from Legal and Research Services Division said that the use of the phrase "may be appropriated back", which is in the bill:

Potentially misleads constituents to believe that the money from the taxes and assessments that they pay will be used only for certain purposes. Therefore, it creates a moral obligation on the part of the legislators to appropriate the money for the specific purpose, which may, in effect, violate the prohibition against dedicated funds.

MS. ADAMS also remarked that she is an ATIA member and was not ever asked if she approved of the assessment, which was approved at a convention, which she and a lot of other members did not attend.

MR. CHIP THOMA, Juneau resident, said that tourism taxation has been very successful for the last five years, especially in Southeast Alaska. He remarked:

There has been a dramatic increase in the number 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 - 20 percent increase just a few years ago. Soon, as we reach 1 million passengers coming into this town, a 5 percent increase will be huge and this occurs on a yearly basis.

MR. THOMA related how Juneau voters authorized a \$5 individual passenger fee that helped upgrade downtown Juneau. The use of the fee for these capital improvements on the waterfront has been a huge success for residents, businesses and the 800,000 cruise ship tourists who visit here. However, he said:

I respectfully disagreed with SB 254 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 - and newspapers, magazines and commercials nationwide. The individual passenger fee on the other hand, also known as the cruise ship 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...

However, SB 254, a statewide sales tax on local Alaska businesses to pay for generic come-visit-Alaska advertising, does not address the local needs to provide clean, safe and beautiful waterfronts for all these folks to visit. I urge you to reexamine the purposes of this assessment in the bill, as well as the target tax group of local mom and pop tourist businesses....

MR. SCOTT REISLAND, campground owner at Denali National Park, said four generations of his family have worked at his campground and he supported SB 254. He felt that it was very important to have marketing dollars to help bring people into the state. The Alaska Campground Association polled all the small campgrounds over the state and found that numbers were

down 17 percent for the last three years. He felt this bill would help many small businesses throughout Alaska, especially in the Interior.

MR. DALE FOX, Alaska's Best Birdy, said that tourism is on the decline in Alaska except for the cruise ship market. He said his business failed as a direct result of not getting enough independent visitors. He said that Alaska is 39th in the nation in terms of dollars spent for marketing. "We've got a long-haul destination, an expensive destination and we need to be out there in the marketplace."

MR. FOX said he found another job, but he had five employees who are now out of work because his business didn't make it. He proclaimed:

This bill is the right vehicle; there is some work to be done in terms of some of the wording and definitions, but it is the answer for independent businesses all over the Interior....

MR. ALAN LEMASTER, Gakona resident, said in the mid-80s, Alaska had a good marketing technique and had the money to do it with.

We became leaders in the world. We were gaining visitors at the rate of 10, 11, and 12 percent a year. Then the dollars started to go away.... The marketing went down and so did the customers.... Until the last three or four years, instead of gains, we've seen losses in the number of visitors. My business is in rural Alaska and I am very much affected by what comes across the Canadian border....

TAPE 04-10, SIDE A

MR. LEMASTER concluded that there was no doubt in his mind that ATIA would raise to the challenge with additional funding. His concern was that \$20 million might not be enough.

MR. JOHN KREILKAMP, Vice President, Operations, Cruise West, said his company has been doing things a bit differently in Alaska in terms of cruising with seven small ships plying the inside passage visiting small communities, as well as larger ones. He said they have experienced a 15 percent decline in business in the last two years and he has had to lay people off. He lamented:

Much of this is because we are not in the marketplace in terms of being competitive with other destinations whether they are communities, states or international destinations. Cruise West benefits from the fact that there [are] marketing dollars out there....

MR. KREILKAMP concluded by saying that he supports SB 254.

MS. PAM LABOLLE, President, Alaska State Chamber of Commerce, said that everyone is aware that visitation to Alaska has been diminishing because it is not competitive in the world tourism marketplace. She applauded the industry for taking this bold step to assess itself and supported SB 254.

CHAIR BUNDE thanked everyone for their testimony and said SB 254 would be held for further work. There being no further business to come before the committee, he adjourned the meeting at 3:15 p.m.
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