

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

March 13, 2007

11:02 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Carl Gatto
Representative Kyle Johansen
Representative Vic Kohring
Representative Bob Lynn
Representative Andrea Doll
Representative Mike Doogan

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Bill Stoltze
Representative Bill Thomas

COMMITTEE CALENDAR

PRESENTATION BY THE ALASKA TRAVEL INDUSTRY ASSOCIATION

- HEARD

HOUSE BILL NO. 147

"An Act relating to matching funds in state tourism marketing contracts with trade associations."

- HEARD AND HELD

HOUSE BILL NO. 167

"An Act making special appropriations for a contract with a qualified trade association and for a marketing program; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 147

SHORT TITLE: TOURISM CONTRACT MATCHING FUNDS
SPONSOR(s): REPRESENTATIVE(s) HARRIS BY REQUEST

02/21/07 (H) READ THE FIRST TIME - REFERRALS
02/21/07 (H) EDT, FIN
03/13/07 (H) EDT AT 11:00 AM CAPITOL 106

BILL: HB 167

SHORT TITLE: APPROP: TOURISM MARKETING
SPONSOR(s): REPRESENTATIVE(s) JOHNSON

02/28/07 (H) READ THE FIRST TIME - REFERRALS
02/28/07 (H) EDT, FIN
03/13/07 (H) EDT AT 11:00 AM CAPITOL 106

WITNESS REGISTER

RON PECK, President, and Chief Operating Officer
Alaska Travel Industry Association (ATIA)
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 147 and HB 167.

PATTI MACKEY, Chair
Alaska Travel Industry Association (ATIA);
Executive Director
Ketchikan Visitors Bureau
Ketchikan, Alaska
POSITION STATEMENT: Testified in support of HB 147 and HB 167.

JOHN KREILKAMP, Vice-President
Alaska Land Operations
Cruise West
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 147 and HB 167.

STAN STEPHENS, President
Stan Stephens Glacier & Wildlife Cruises
Valdez, Alaska
POSITION STATEMENT: Testified in support of increased state
funding for visitor industry marketing.

REPRESENTATIVE JOHN HARRIS
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Testified as sponsor of HB 147.

REPRESENTATIVE JAY RAMRAS

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 147 and HB 167.

REPRESENTATIVE MIKE KELLY

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 147.

REPRESENTATIVE CRAIG JOHNSON

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HB 167.

ACTION NARRATIVE

CHAIR MARK NEUMAN called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 11:02 a.m. Representatives Doogan, Lynn, Johansen, and Neuman were present at the call to order. Representatives Doll, Kohring, and Gatto arrived as the meeting was in progress. Representatives Stoltze and Thomas were also in attendance.

PRESENTATION - ALASKA TOURISM INDUSTRY ASSOCIATION

[11:02:57 AM](#)

[Contains discussion of HB 147 and HB 167.]

CHAIR NEUMAN announced that the first order of business would be a presentation by the Alaska Tourism Industry Association.

[Although not formally stated, the presentation will include public testimony on HB 147 and HB 167]

[11:03:01 AM](#)

RON PECK, President and Chief Operating Officer, Alaska Travel Industry Association (ATIA), informed the committee that the visitor industry annually supports 40,000 private sector jobs and that it is a vital and growing part of Alaska's economy. The mission of ATIA is: "To provide a broad-based association of individuals and companies with an interest in the tourism industry and to act as advocates on their behalf." Mr. Peck relayed that ATIA serves to promote and facilitate travel to and throughout the state, in addition to raising awareness of the value of the tourism industry. Alaska Travel Industry

Association also plans and executes a national and international marketing campaign that promotes travel to Alaska. Today, he said, he would like to describe how ATIA will continue its programs in the coming years.

MR. PECK noted that current ATIA membership includes 1,040 businesses; however, less than one percent is large companies of more than 500 employees. Most members represent a diverse range of small Alaska businesses. In 1999, ATIA was created from a consolidation of the Alaska Visitors Association, the Alaska Tourism Marketing Council, and a sector of the Alaska Office of Tourism, Office of Economic Development, Department of Commerce, Community, & Economic Development (DCCED). He noted that a large portion of ATIA's work is done through the support of the private sector and in collaboration with DCCED. Mr. Peck said that ATIA's core marketing budget for fiscal year 2007 (FY 07) totals \$10 million. Fifty-six percent of this total is directed to consumer advertising and direct mail; the remaining is directed to trade, web site development, international marketing, and public relations.

[11:11:50 AM](#)

MR. PECK displayed a video that illustrated activities of the tourism industry.

[11:13:11 AM](#)

CHAIR NEUMAN asked how many calls for further information are received at the toll free phone number advertised by ATIA.

MR. PECK responded that 50,000 to 70,000 calls each year are received at the televised toll free number.

REPRESENTATIVE GATTO noted that ATIA claimed a return of \$168 for every \$1 invested in marketing.

MR. PECK replied that this figure is based on a projected revenue of \$1.6 billion from tourism.

REPRESENTATIVE GATTO asked how [ATIA] knows that the revenue from tourism was the result of the funds that were spent on marketing. Perhaps, he said, if [ATIA] spent zero, [Alaska] would still get visitors.

MR. PECK agreed that the funds his agency spends can not be distinguished from those of other industries that also support tourism.

REPRESENTATIVE GATTO remarked:

The last question is: if we added a dollar on the tail-end of all this millions of dollars; the last dollar, kind of like your tax rate, the last dollar of your rate, would be higher than the first dollar. If we added one dollar, would that, do we know what that would result in?

MR. PECK affirmed that it is more expensive to convince the last visitor to come to Alaska than it is to convince the first. He continued to say that ATIA's marketing is research driven. However, to measure ATIA's return on its investment of \$5 million of government funds and \$5 million of private sector funds, ATIA utilizes a direct mail campaign. The direct mail campaign consumer response rate is 11 percent of approximately 4 million mailings. Over a four-year period ATIA records show that 31 percent of responses to the first direct mailing will result in a visit to Alaska. In addition, \$625,000 of ATIA's budget supports a public relations effort to promote specific destinations and businesses related to Alaska tourism. Mr. Peck noted that formulas from the media industry are used to assist ATIA in determining the value of advertising.

[11:18:08 AM](#)

REPRESENTATIVE DOLL asked if ATIA can document the statement that visitors are coming to Alaska in response to its direct mail campaign.

[11:19:49 AM](#)

MR. PECK stated that ATIA, after 20 years of experience, can measure how it has raised awareness of Alaska as a destination for the traveler. In answer to a question, he confirmed that all visits, via independent travel, cruise lines, air carriers, or Alaska Marine Highway System (AMHS), are included in ATIA records.

REPRESENTATIVE DOLL pointed out that the cruise industry generates a tremendous amount of advertising.

CHAIR NEUMAN asked how the present level of funding compares with the 1999 level of funding through the Alaska Visitors Association, the Alaska Visitors Marketing Council, and DCCED.

MR. PECK responded that in FY 99 the overall budget was less than \$8.5 million, adjusted for inflation. In FY 90, the marketing budget for the three agencies supporting tourism was \$23 million, adjusted for inflation. Since 1990, he said, marketing costs have doubled. In addition, Alaska receives substantial tourism marketing competition from other states and international destinations. Alaska ranks 38th out of the 50 U.S. states in the amount of public sector funding appropriated to tourism marketing. Mr. Peck also told the committee about marketing competition from exotic destinations, such as New Zealand and Australia. Alaska Travel Industry Association members support an increase in funding to compete against the marketing campaigns of other destinations, he said.

MR. PECK advised the committee of another challenge to Alaska's tourism industry: the decline in the numbers of independent travelers. Independent travelers support rural communities and businesses along the Alaska Highway. In 2006, the number of border crossings coming into Poker Flats, Alaska, from Canada decreased by 13 percent. Private campgrounds along the Richardson, Taylor, and Glenn Highways and in the Mat-Su Valley are also reporting a decrease in bookings. Mr. Peck informed the committee that taxes on rental vehicles were increased three years ago, and that has resulted in a decline in the rental of recreational vehicles (RV) by international travelers. However, 95 percent of the international visitors renting RVs in Whitehorse, Canada, still travel to Alaska.

[11:27:23 AM](#)

REPRESENTATIVE JOHANSEN asked Mr. Peck to describe the differences between the independent road traveler, sometimes referred to as the rubber tire traveler, and a typical airline and/or cruise traveler.

[11:28:03 AM](#)

MR. PECK stated that RV travelers stay in Alaska 20 to 30 days and they spend money on gas, food and campgrounds. We need, he said, to focus marketing toward road travelers and to inspire travelers to drive up the Alaska Highway, or fly to Alaska and then tour in a rented RV. He noted that the Alaska Office of Tourism "2006 Profile of Visitor" survey will compare

expenditures of visitors traveling by different methods. Statistics from this survey will be provided to the committee prior to March 23, 2007.

[11:29:17 AM](#)

REPRESENTATIVE JOHANSEN reminded the committee of the importance of tourism marketing to the small businesses along the Alaska road system.

REPRESENTATIVE DOOGAN asked whether higher gas prices have contributed to the decrease in independent travelers.

[11:30:20 AM](#)

MR. PECK said he felt that a bigger influence is a change in the demographics of RV travelers.

REPRESENTATIVE DOOGAN questioned whether the impact of gas prices would require a different conversion rate for the advertising expenditures that are directed toward independent travelers.

MR. PECK said he believes that ATIA needs to focus on both potential visitors; the traveler who will fly to Alaska and then rent a vehicle, and the traveler who will drive his or her personal RV up the Alaska Highway.

[11:32:43 AM](#)

REPRESENTATIVE LYNN asked if ATIA is encouraging the movie and television industry to consider filming at locations in Alaska.

MR. PECK responded that ATIA is directed to focus on the visitor industry at this time. He further advised that DCCED is better staffed to address that issue.

[11:34:13 AM](#)

REPRESENTATIVE GATTO observed that there is a possibility that the reduction in airport arrivals is a shift to business travel rather than a decline in tourism.

MR. PECK acknowledged that ATIA statistics indicate arrivals and departures for the four major airports were up slightly in 2006. However, cruise and motor coach travelers to Alaska do not

travel independently on the road system and, therefore, do not support small businesses throughout the state.

REPRESENTATIVE GATTO questioned whether all arrivals, including air, sea, pedestrian, highway, and rail, are increasing.

MR. PECK confirmed that arrivals in 2006 increased from prior years.

PATTI MACKEY, Chair, Alaska Travel Industry Association (ATIA); Executive Director, Ketchikan Visitors Bureau, informed the committee that she believes that the legislature and the governor's office are an integral part of the success of the tourism industry in Alaska. The travel industry is an economic engine which needs government support to compete successfully in the world market. She expressed her concern that there is a complacency about tourism and that the state is quickly being overtaken by the extensive marketing campaigns of other destinations.

MS. MACKEY further said that ATIA's core program is funded far below the amount needed to compete in the visitor industry. In addition, the marketing program needed to attract the independent traveler back to Alaska has just been implemented. In conclusion, Ms. Mackey requested that the committee give due consideration to HB 147 and HB 167 and that both bills be moved out of committee.

[11:40:48 AM](#)

REPRESENTATIVE DOLL questioned whether tourists are spending less money during their visits.

MS. MACKEY indicated that statistics from Ketchikan show that cruise and independent travelers are spending more each year.

[11:41:40 AM](#)

JOHN KREILKAMP, Vice-President, Alaska Land Operations, Cruise West, informed the committee that Cruise West is America's largest small ship cruise line and that it maintains a staff of 80 employees at six land divisions in Southeast and Southcentral Alaska. Cruise West operates eight small ships in Alaska, seven of which spend most of the season in Alaskan waters. Cruise West's passengers board vessels at Juneau, Ketchikan, and Whittier. After boarding, passengers then cruise to the main ports in Southeast and may also visit the small communities of

Metlakatla, Petersburg, Cordova, Dutch Harbor, St. George, Kodiak, St. Lawrence Island, Nunivak Island, Little Diomedea, or Nome. Cruise West vessels make stops at 20 communities in Southeast Alaska and six communities in the Interior.

MR. KREILKAMP pointed out that his company supports many locally owned businesses and that it has established partnerships with the Native Corporations of Cape Fox Corporation; Goldbelt, Inc.; Doyon, Limited; and Huna Totem Corporation. Due to the small size of its ships, Cruise West is able to visit villages and support rural and subsistence economies. Its visitors bring new money into small and isolated communities. He stressed that major television marketing is needed to support the visitor industry in rural communities that have no advertising options. Legislative support of HB 147 and HB 167, he said, is not a handout, but is an investment in a renewable, non-extractive industry. Everyone in Alaska benefits by tourism, Mr. Kreilkamp concluded, and he urged the committee to appreciate, and to make an investment in, the asset of tourism.

[11:48:15 AM](#)

REPRESENTATIVE GATTO asked Mr. Kreilkamp to explain how tourism returns money to the state.

MR. KREILKAMP replied that, in addition to corporate income taxes, tourists bring new money into the local economies. Moreover, he said, the \$50 per passenger Cruise Ship Taxation, Regulation and Disclosure Initiative (cruise ship head tax) is expected to provide \$50 million to \$70 million in revenue to the state this year.

STAN STEPHENS, President, Stan Stephens Glacier & Wildlife Cruises, informed the committee that he represents thousands of Alaskans who are affiliated with the tourism industry primarily because they are inspired by their way of life. Mr. Stephens explained that when he established his Prince William Sound business in 1971, the state was very supportive of marketing programs for the visitor industry. During the 1970s and 1980s, he said, his business grew from 1,500 to 22,000 annual visitors. However, during the 1990s the state's support of the visitor industry declined dramatically, and so did his business. Mr. Stephens said that at this time his cruise company in Valdez is again beginning to grow. However, he warned, his company, and other small businesses, will not grow without the legislature's support of tourism marketing.

[11:53:08 AM](#)

MR. PECK advised the committee that the number of cruise visitors increased during 2006; however, the number of independent travelers arriving by airline, ferry, and the Alaska Highway decreased in 2006. This decline is a concern because independent travelers are an important source of revenue for Alaska. In fact, DCCED statistics show that vehicle rental taxes, corporate taxes, fishing and hunting licenses, and AMHS passenger fees totaled \$20 million in 2006.

[11:54:37 AM](#)

REPRESENTATIVE GATTO asked if revenue from the cruise ship head tax can be allocated to support ATIA.

MR. PECK replied that he believes funds from the cruise ship head tax can not be designated to ATIA.

[HB 147 and HB 167 were discussed again later in the hearing.]

[11:54:55 AM](#)

HB 147-TOURISM CONTRACT MATCHING FUNDS

[11:55:15 AM](#)

CHAIR NEUMAN announced that the next order of business would be HOUSE BILL NO. 147, "An Act relating to matching funds in state tourism marketing contracts with trade associations."

REPRESENTATIVE JOHN HARRIS, Alaska State Legislature, sponsor, introduced HB 147. Representative Harris stated that this bill is an indication of the level of visitor industry marketing that the legislature will support. House Bill 147 is a change from present state statute that requires 50 percent of state general funds to be matched by 50 percent of funding from private industry. One of the reasons this change is necessary, he explained, is due to the fact that a significant portion of Alaska Travel Industry Association's (ATIA) support comes from the cruise ship industry. However, the Cruise Ship Taxation, Regulation and Disclosure Initiative (cruise ship head tax), may divert cruise ship funds from ATIA.

REPRESENTATIVE HARRIS reminded the committee that tourism is a great industry for the state as it is a renewable resource that does not cause many environmental problems. The tourism

industry also provides jobs, but does not add to the problems of the Public Employees Retirement System and the Teachers Retirement System. Representative Harris concluded by saying that the intent of HB 147 is to show that the legislature and the Palin Administration strongly support the tourism industry in Alaska.

[11:59:08 AM](#)

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, informed the committee that during the summer tourist season, his company employs 300 staff members and that 250 of those staff members are involved directly with the tourism industry. In addition, his hotel and restaurant businesses pay \$220,000 in property taxes, \$50,000 in alcohol taxes, and approximately \$400,000 in bed taxes annually. Representative Ramras continued to say that 80 to 90 percent of his guests are departing or arriving through Fairbanks International Airport. In addition, his businesses complete capital improvements each year that support the local construction industry. He advised the committee that the hospitality industry is an economic driver for the state and pays a tremendous amount of tax revenue to local municipalities and to the state. Representative Ramras urged the committee to support HB 147, Version C, and HB 167.

[12:01:44 PM](#)

CHAIR NEUMAN noted that HB 147 reduces the minimum percentage of funds needed for a trade association to qualify for matching grants from 50 percent to 10 percent. House Bill 167, he said, will provide an additional \$15 million from the state to support the tourism industry. He then asked Representative Ramras what effect HB 147, and HB 167 will have on the tourism industry.

REPRESENTATIVE RAMRAS praised the quality of the marketing that ATIA is producing for printed material, for the media, and for the Internet. The additional support, he said, will amplify the tourism marketing message and will particularly help the advertising campaigns of smaller tourism businesses.

[12:04:04 PM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, voiced his support of HB 147. He pointed out that HB 147 will not result in a decrease of funds from the private sector; in fact, the tourism industry must continue to provide a significant match to qualify for funds. Representative Kelly noted that the visitor

industry provides local jobs and pays taxes to local communities. He concluded by saying that he felt the support of the visitor industry is an investment in the state and a legitimate function of the legislature.

[12:05:52 PM](#)

CHAIR NEUMAN asked Representative Ramras how many small tourism businesses can be strengthened by customer referrals from a larger business in the same industry.

REPRESENTATIVE RAMRAS expressed his belief that his large business sends customer referrals to 50 smaller businesses. Many of these referrals, he said, are to businesses that provide flightseeing and side trips to small or remote communities in Alaska.

[HB 147 was held over with public testimony open.]

HB 167-APPROP: TOURISM MARKETING

[12:08:43 PM](#)

CHAIR NEUMAN announced that the next order of business would be HOUSE BILL NO. 167, 25-LS0656\C, "An Act making special appropriations for a contract with a qualified trade association and for a marketing program; and providing for an effective date."

[12:09:24 PM](#)

REPRESENTATIVE CRAIG JOHNSON, Alaska State Legislature, sponsor, introduced HB 167. He noted that this bill establishes the actual amount of funding that will be sent on to the finance committee, and, therefore, is more than just talking about commitments to the tourism industry. He pointed out that the funding authorized by this bill is an investment in the future. Furthermore, support of tourism impacts every one of the districts in the state. Representative Johnson stressed that additional support for the visitor industry is especially critical at this time. In fact, the Alaska tourism industry should begin an advertising campaign to coincide with the 2010 Winter Olympics to be held in Vancouver, British Columbia. He concluded by saying that this funding is needed to reach the independent traveler, and to balance the effects of the changes in cost sharing by the cruise ship industry.

12:10:57 PM

CHAIR NEUMAN announced that HB 167 would be held over with public testimony open.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting adjourned at 12:11 p.m.