

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

March 9, 2010

5:15 p.m.

MEMBERS PRESENT

Representative Jay Ramras, Chair
Representative Mike Chenault
Representative Mark Neuman

MEMBERS ABSENT

Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Reggie Joule
Representative Harry Crawford
Representative Lindsey Holmes
Representative Chris Tuck

OTHER LEGISLATORS PRESENT

Representative Alan Austerman

COMMITTEE CALENDAR

PRESENTATION: THE ALASKA ALLIANCE FOR CRUISE TRAVEL
(ALASKAACT).

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRED REEDER, Member
Alaska Alliance for Cruise Travel (AlaskaACT); Port Manager
Cruise Line Agencies of Alaska
Sitka, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

CHRIS MEIER, Member

Alaska Alliance for Cruise Travel (AlaskaACT); Vice President
Alaska Travel Adventures
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the Alaska Alliance
for Cruise Travel (AlaskaACT) and Alaska Travel Adventures.

BOB JANES, President
Gastineau Guiding Company
Juneau, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

CHIP THOMA, President
Responsible Cruising in Alaska (RCA)
Juneau, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

ALAN LEMASTER, Outfitter
Copper River Salmon Charters
Gakona, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

JOE GELDHOF, Legal Counsel
Responsible Cruising in Alaska (RCA)
Juneau, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT) as the primary
author of the 2006 Cruise Ship Initiative 2.

CAROL FRASER, Regional Director for Sales and Marketing
ARAMARK Parks and Destinations
Anchorage, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

TYLER HICKMAN, Vice President-Operations
Icy Strait Point
Hoonah, Alaska

POSITION STATEMENT: Testified during the presentation by the
Alaska Alliance for Cruise Travel (AlaskaACT).

ACTION NARRATIVE

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CHAIR JAY RAMRAS called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 5:15 p.m. Representative Ramras was present at the call to order. Representatives Neuman and Chenault arrived as the meeting was in progress. Representative Austerman was also in attendance.

PRESENTATION: THE ALASKA ALLIANCE FOR CRUISE TRAVEL
(ALASKAACT).

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CHAIR RAMRAS announced that the only order of business would be a presentation by the Alaska Alliance for Cruise Travel (AlaskaACT). Chair Ramras disclosed that he works in the hospitality industry, and indicated that committee members are cognizant of that fact, and that [once more members arrive he would be handing over the gavel].

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FRED REEDER, Member, Alaska Alliance for Cruise Travel (AlaskaACT); Port Manager, Cruise Line Agencies of Alaska, informed the committee that AlaskaACT is an organization concerned with the decline in the cruise ship volume coming to the state of Alaska, and the economic impact thereof. He opined that in 2008, Alaska hit the "high watermark" for cruising and the volume would have stayed in the 1,100,000 range for the future, except for the intended and unintended consequences of the 2006 ballot initiative. As a result of that legislation, cruise executives were convinced to serve their stockholders with a higher yield and return by going to other destinations. Mr. Reeder emphasized that cruise line schedules are set two years in advance, thus the effects of the ballot initiative that became law 1/2007, were not felt until the fall of 2007. Like other industries, cruise lines attempt to maximize revenue wherever possible, and he pointed out that whereas other Alaska businesses are tied to the land and are unable to move their assets, cruise ships are moveable assets that can be moved to "where they can make the most money." Mr. Reeder opined providing an environment for businesses in the state to make a profit is "not a dirty word." Through profit is the way everyone can obtain a job. The decline in cruise passengers for 2010 and 2011 will result in a loss of 1,800 jobs in the visitor industry beginning this summer. He referred to a study by the McDowell Group that indicates there will be \$165 million less spent in the state, and a reduction to payrolls of \$72 million.

Mr. Reeder compared the losses against an estimated gain of \$70 million from the initiative, and noted that of the revenue to the state, much of it cannot be spent on schools, roads, or other community needs. He provided a chart that showed the City of Sitka received \$1,448,765 in sales tax revenue from cruise passengers in 2008, and sales tax revenue from cruise passengers in 2011 is estimated to be \$525,000.

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MR. REEDER continued to explain that the effects of this reduction are grave for the City and Borough of Sitka. For example, revenue from the initiative may be \$1 million; however, this revenue is tied to benefit only cruise passengers, and cannot be used for schools, gymnasiums, or recreation programs. He expressed his belief that the city is better off receiving the same amount of money in sales taxes. Furthermore, if Sitka needs cruise ship infrastructure, the cruise industry would pay for the improvements that are needed. Mr. Reeder said the recession is not the reason cruise ships have been redeployed to other destinations, but that the revenue generated is less in Alaska, and the ships are going to areas such as Europe, the Baltic, and the Mediterranean. He acknowledged that cruise companies should not be exempt from paying their share, but they should not be held to a higher standard than other business in the state. For example, communities in the state could not afford to meet the same waste water regulations that are required of the cruise industry. He said, "If it's good enough for our communities, it ought to be good enough for the cruise ship."

CHAIR RAMRAS noted that he was "very comfortable to take testimony, but not to pose questions from the chair."

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MR. REEDER said he was glad his testimony would be heard on Gavel to Gavel. He indicated his concern that he is unable to provide jobs to the youth in his community this coming summer. He concluded that Alaskans need to work together for jobs in their communities.

CHAIR RAMRAS offered brief comments about various industries and items of interest in Sitka.

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CHRIS MEIER, Member, Alaska Alliance for Cruise Travel (AlaskaACT), and Vice President, Alaska Travel Adventures, relayed that he has been involved in the visitor industry in Alaska for 17 years, and tourism has given his family the opportunity to live and work in the safe and pristine environment of Alaska. He said he has serious concerns about the future of the visitor industry, and the impact that the ballot initiative is having on his business and others like it. Alaska Travel Adventures operates tours and attractions throughout the state, and his experience is that the cruise industry is important to communities in Alaska for the jobs it provides. He opined 2006 Ballot Measure 2 threatens the stability of the industry and the families it supports. In truth, the head tax is a \$50 million cost increase imposed on the cruise ship industry that is already in a high operational cost location. Alaska is now at a competitive disadvantage with other global cruise destinations, and cruise lines are redeploying ships to less costly destinations. Mr. Meier expressed his belief that the initiative is driving business out of Alaska; in fact, targeted taxes are not the way to improve Alaska's economic situation. Furthermore, the tax is not just on outsiders, but is affecting small businesses across the state during an already challenging economic environment. He restated the revenue statistics, and said that economic and job loss will be far greater than any benefit derived from the tax itself. Also, current estimates are that there will be between 1,800 and 2,100 fewer industry jobs this year, with the resulting negative impact to each community. Alaska Travel Adventures in Juneau has reduced its full-time staff from six to four employees. In addition, his office will hire approximately 15 percent fewer seasonal staff, for a total loss of sixty seasonal jobs statewide. His personal experience in the industry began as a seasonal employee, and he wondered if the same opportunity will be available if the decline in the industry continues. Mr. Meier pointed out that many local communities have become dependent on the industry for sales tax revenue, and warned that without the repeal or modification of the initiative, businesses and local governments will suffer from fewer jobs, reduced economic activity, and reduced revenue. Because of the lapse of time in cruise line scheduling, he expressed his hope that action will be taken this legislative session to repeal or significantly modify Ballot Measure 2.

CHAIR RAMRAS turned the gavel over to Representative Neuman.

CHAIR RAMRAS asked for the projected decline or increase in employment for Alaska Travel Adventures.

MR. MEIER said the staffing plan presently calls for an approximate 15 percent reduction of staff statewide.

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BOB JANES, President, Gastineau Guiding Company, explained that Gastineau Guiding Company is a local eco-tour operation that has been in business in Juneau for about 15 years. His business was based on the tourism opportunity presented by the visitors brought to Juneau by the cruise ships; this opportunity is also appreciated by many other towns in Southeast, and throughout Alaska. He assured the committee his employees work hard to provide an incredible experience for people, but his company needs the cruise ships that provide "business coming to our doors." Mr. Janes said his main concern is to look at the intent of the voters when Ballot Measure 2 passed. He opined the intent of the Alaska voters was not to cut back on the number of visitors, or to see businesses like his reduce their donations to non-profits because the market is shrinking. Another result the voters did not intend is to see the infrastructure shrinking rather than growing, and he listed some of the improvements in Juneau that were based on the involvement of the cruise industry. He said he also does not believe that the intent of the voters was to see the job market and opportunities for young people, diminished. Mr. Janes urged voters to contact their legislators and make clear the intent behind passing Ballot Measure 2.

REPRESENTATIVE NEUMAN asked Mr. Janes what the intent of the voters was.

MR. JANES responded that he feels the voters want the industry to pay for itself. Unfortunately, he added, the \$50 head tax is excessive; in fact, it is difficult to spend that much money on infrastructure directly related to the cruise ship industry. Although eliminating the tax would be a mistake, leveling the tax, and making it fair, would continue to encourage cruise line visitation, provide for a more affordable experience for visitors, and continue to bring resources into the state.

REPRESENTATIVE NEUMAN asked whether the voters understood the ballot initiative.

MR. JANES said he did not think so, adding that he probably did not either. Acknowledging that "it is easy to vote for a tax,"

he re-stated that most people did not realize "who would be paying for it, or what the loss might be."

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CHIP THOMA, President, Responsible Cruising in Alaska (RCA), stated that the recession is over; in fact, Carnival Cruise Lines announced on 2/24/10, that it is raising ticket prices worldwide by 5 percent, and in Alaska ticket prices were raised by 21 percent. This difference was revealed when the state purchased tickets for the Division of Water, Department of Environmental Conservation (DEC), Ocean Ranger program. He opined this increase is good because that means that the economy is improving dramatically, nationally and worldwide. Mr. Thoma concluded that prices will increase, along with the increased interest in travel to Alaska. Also, he related that through a Freedom of Information Act request to DEC, Ocean Ranger ticket purchases further reveal that there are three categories of prices: basic price; taxes and fees; gratuity. The average taxes and fees paid by a customer coming to Alaska is \$140, although the state and local taxes are \$66. This discrepancy is explained because the additional taxes and fees are going to private vendors and private dock owners. He offered the following examples: in Skagway, taxes and fees are paid to the White Pass & Yukon Route Railway; in Whittier, they are paid to the dock; in Seward, they are paid to the Alaska Railroad Corporation; in Hoonah, they are paid to the dock. Mr. Thoma continued to explain that the average gratuity charged to each ticket to come to Alaska for one week is \$80, and he expressed doubt about the disbursement of gratuities to staff. He opined \$80 million per year was being collected in gratuities, and he encouraged further investigation into this matter.

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CHAIR RAMRAS asked Mr. Thoma to address the testimony from small business people across the state about their businesses, families, and livelihoods.

MR. THOMA said he believes the economy is turning around, and that the economy will improve. In further response to Chair Ramras, he said the loss of employees and "personal situations, family situations, employment situations, all of those are on the mend, they will improve in the next year or two."

CHAIR RAMRAS clarified that he was not asking about situations, but about people and families.

MR. THOMA expressed his empathy for those who testified, and his confidence that personal things will improve in the years to come.

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REPRESENTATIVE NEUMAN referred to the statistics offered regarding Sitka's loss of revenue. He offered his understanding that the recovery will be slower than the decline. He asked whether the economy will return to the level of 2008 within four years.

MR. THOMA stated his belief that the economy will return to the level of 2008 within three years. He added that the last 25 years of the cruise ship industry in Alaska has shown a 15 percent increase almost every year. The last few years have shown a 5 percent increase; in fact, 2008 was the highest year, and in 2009, volume was flat for the first year ever. He concluded that this is an industry that will bounce back.

REPRESENTATIVE NEUMAN observed that ticket prices could be raised due to the increase in operating expenses, such as fuel, and a decline in ridership. He opined that the increase in prices was imposed to cover base costs after ridership was down 64 percent.

MR. THOMA stated that ridership is not down; in fact, all of the ships to Alaska are full.

There followed brief comments on the interpretation of numbers.

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ALAN LEMASTER, Operator, Copper River Salmon Charters, recalled that three years ago he employed three and one-half guides full-time and four or five others, and those numbers have declined each year. There has also been a marked decline in his business as a vendor for the Copper River Princess Wilderness Lodge of about two-thirds. He said his overall business has declined in the last three years to about one-third. Mr. LeMaster stated he will try to stay in business this summer with no employees and one commissioned guide. Furthermore, Princess Tours has cut 30 days from its schedule at the hotel, and reduced its fleet by one ship per week. This reduction is equal to 130,000-150,000 guests who will not come to Alaska.

MR. LEMASTER continued to explain that this critical problem is based on two things: (1) there is insufficient money to market the state appropriately; (2) the burden must be taken off of the cruise ship industry so that they can bring the ships back to Alaska. He agreed that this is the first decline in visitors to Alaska since 1953. Now, however, there is a 20-25 percent decline, and he asked legislators to bolster the industry by providing funds to market Alaska tourism to the world, and by easing the pressure on the cruise ships. Mr. LeMaster warned that without these measures, the visitor industry will shrink to a size smaller than it was 25 years ago.

REPRESENTATIVE NEUMAN offered his belief that the Copper Center area is one of the most highly advertised and popular areas of the state for tourism. He assumed Mr. LeMaster was in a good position and well established.

MR. LEMASTER emphasized that his business is "on the ropes, too." The Copper Center area is not in a borough thus does not have the advantages of a borough, but does have high costs, such as energy for transportation on the river and roads. Without high volume, his business will not be able to continue operating. In addition, the Copper Center area is faced with a very poor future because the Department of Transportation & Public Facilities (DOT&PF) does not have major plans for work in the area, nor does the Alyeska Pipeline Service Company. He disagreed about the visibility of the Copper Center area, and said that his area is fourth or fifth in marketing behind other areas of the state that have "thousands, if not millions, of dollars to market their area."

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JOE GELDHOF, Legal Counsel, Responsible Cruising in Alaska (RCA), informed the committee he was the primary author of the 2006 Cruise Ship Initiative. Furthermore, he has worked on cruise ship and associated tourism issues for at least 10 years. Mr. Geldhof opined that the industry markets its business extremely well, especially beginning in the 80's. Beginning in the late 90's, issues such as taxation, consumer disclosure, and pollution to marine waters coalesced. He disagreed with statements concerning unintended consequences, and pointed out that the initiative was based on polling and widespread citizen discussion. In addition, the initiative was in response to the legislature's failure to act on the \$50 tax passed by the Senate in 2000. He opined the Senate arrived at the \$50 price point after deliberation and considered analysis. Mr. Geldhof also

disagreed with the suggestion that voters did not understand the initiative; in fact, there was a very vigorous debate and dialog surrounding the initiative.

MR. GELDHOF recalled that the initiative has been amended four times by the legislature, with the cooperation of RCA and others who are represented today. Mr. Geldhof remarked:

... people stepped up and worked with you and your colleagues to get adjustments changed. My point is, this wasn't some unintended thing that lurched out of the back of the Red Dog Saloon and was popped on the industry and has been this grossly unfair piece of legislation. It basically is working; it's providing the Alaska Legislature with the resources financial to build the large Panamax docks that we need.

MR. GELDHOF continued to explain that two large Panamax docks are needed in Juneau, and Ketchikan and the other ports need them also. Furthermore, during negotiations on the four amendments, in 2009 there was discussion about reducing the amount of the tax; however, he said he was told by representatives that the industry preferred to pursue political avenues and litigation strategies. He pointed out that there has been a attempt to determine what the capital needs are in terms of wharves and infrastructure. He compared the situation of the local tourism industry with that of the oil and gas industry.

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MR. GELDHOF expressed his sympathy toward those whose businesses have a need for marketing; in fact, he has advocated for funding for marketing aimed at independent tourists. In response to a question from Chair Ramras, he agreed that taxes can change behavior. Mr. Geldhof emphasized that there have been adjustments, and a sense of empathy, sympathy, and cooperation from Alaskans who may approach this issue from different viewpoints. However, someone must determine a fair and equitable user fee that allows the state to capitalize the necessary cruise ship infrastructure for ports. He concluded that this is a question of policy and common sense.

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CAROL FRASER, Regional Director for Sales and Marketing, ARAMARK Parks and Destinations, informed the committee ARAMARK is the

concessionaire for Denali and Glacier Bay National Parks. Ms. Fraser noted that she previously owned a hotel chain with over 100 employees and is very familiar with the tourism industry. She agreed that the following statements are true: ships coming to Alaska are full; the 2006 Ballot Measure did not affect the 2007 or 2008 tourism season; the cruise industry is very successful at marketing. However, to fill the ships coming to Alaska, the industry is marketing seven-day cruises to Alaska for \$399. She opined the passengers "that were very conscious of the value of the dollar" are unlikely to take helicopter flights. Ms. Fraser said the cruise line industry is very healthy worldwide; in fact, 24 new ships are being built, but none of those are slated to come to Alaska. She observed that in cities that are competing for cruise ship visits, such as St. Kitts and Bermuda, taxes are being lowered or eliminated, and free services are offered. She noted that the cruise lines are making smart business decisions that would be supported by any business person.

MS. FRASER continued to explain that the decision process for cruise lines is a 3-5 year process, thus the itinerary for 2010 will be the first affected by the change, and she estimated that 142,000 passengers will not be coming to Alaska. Furthermore, because 27 percent of cruise line passengers return to the state within three years, the result will be "an even worse economy." Again referring to marketing, she stated that the industry spends \$75 million per year marketing Alaska. The Alaska Travel Industry Association (ATIA), the state marketing entity, has a very small budget, and out-of-state TV advertising is not sponsored by the state, but by the cruise ship industry. Therefore, her business relies on that advertising, as do other tourism businesses. She offered her understanding that along with the removal of ships and advertising, the cruise industry can influence travel agencies to discontinue marketing Alaska as a destination.

MS. FRASER advised that 1,800 Alaska tourism employees will lose jobs because of the loss of cruise ship passengers. She concluded that it is necessary to have a reduction in the head tax; in truth, without a change in regulations, Alaska will not recover, even if the economy goes through the roof.

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REPRESENTATIVE NEUMAN assumed that those who are going on cruises now do not have the same level of expendable income as before.

MS. FRASER concurred, adding that in Denali National Park the income from food, beverages, and retail shops was down.

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TYLER HICKMAN, Vice President-Operations, Icy Strait Point, explained that Icy Strait Point is owned by Huna Totem Corporation and is a completely private investment. Huna Totem Corporation made a substantial investment to get a private cruise ship port "off the ground and running." It began operation in 2004, however, since 2007 there has been a sharp decline in business. Employment in 2007 was over 130 people, but this year and last year employment is about 100 people. The reduction in cruise ship guests is about 50,000 per year, and the impact is huge because taxes from the ballot initiative bypass Icy Strait Point, and are paid to the city of Hoonah. Mr. Hickman questioned the comments made about the gratuities collected by the cruise lines, and equated the comments with "demonizing the cruise lines." Mr. Hickman said it is the responsibility of Alaska to incentivize the cruise lines so they will bring people to Alaska. In response to Chair Ramras, he said his company employs 100 seasonal workers that are 80 percent Native hire, and 90 percent local hire. Also, he noted that his business provides 25 percent of the payroll in Hoonah; in fact, there are very few jobs in Hoonah. Mr. Hickman said that the imposition of additional taxes stops business.

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MR. GELDHOF, in response to a question, provided information about the membership in Responsible Cruising in Alaska.

MR. THOMA, in response to a question, provided further information about Responsible Cruising in Alaska.

REPRESENTATIVE NEUMAN closed public testimony.

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CHAIR RAMRAS thanked those in attendance.

REPRESENTATIVE NEUMAN mentioned that he heard comments from those in his district regarding the economy and the effect of the ballot initiative; in fact, there is a possibility that the impact will be felt even in Whitehorse, British Columbia, Canada.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 6:35 p.m.