

HOUSE FINANCE COMMITTEE

April 5, 2010

2:10 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 2:10 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None.

ALSO PRESENT

Curtis Thayer, Deputy Commissioner, Department of Community, Commerce and Economic Development; Dan Sullivan, Attorney General, Department of Law; Chris Poag, Assistant Attorney General, Department of Law; Chip Thoma, President, Responsible Cruising in Alaska; Joe Gelhif, Juneau; John Binkley, President, Alaska Cruise Association; Mike Stedman, Owner, Wings Airways; John McConnachie, Owner, Cycle Alaska; Brett Carlson, Cook, Coldfoot and Deadhorse; Eleanor Davenport, Director, White Pass Railroad; Genevieve Wojtusik, Staff, Representative Millet; Representative Charisse Millet; Johanna Bales, Deputy Director, Department of Revenue; Sandra Loomas, Business Manager, Talkeetna Air Taxi; Roark Brown, Owner, Homer Ocean Charters.

PRESENT VIA TELECONFERENCE

Tom Hall, Klondike Gold Dredge, Skagway; Jill Cox, Temptations, Skagway; Governor Bill Sheffield; Richard Beneville, Nome Chamber of Commerce, Nome Visitor's Center and Nome Discovery Tours; Walter Porter, City and Borough of Yakutat; Paul Landis, Chief Operating Officer, CIRI Alaska Tourism; Frank Flavin, Flavin Photography, Anchorage; John White, Owner, Healy and Denali Businesses; Judy White, Bookkeeper, Denali Business; Lois Wirtz, Anchorage; Lee Kenaston, Tour Business Owner, Fairbanks; Alan LeMaster, ATIA, Copper Valley; Scott Reiland, Denali Grizzly Bear, Fairbanks; Mary Richards, All Season's Inn, Fairbanks; Tim Cerny, Alaska Act Committee, Fairbanks; Kory Eberhardt, A Taste of Alaska Lodge, Fairbanks; Erika Weld, Arctic Outfitters, Fairbanks; Matt Atkinson, Northern Alaska Tour Company, Fairbanks; Kathy Hedges, Northern Alaska Tour Company, Fairbanks; Deb Hickok, Fairbanks Convention & Visitors Bureau; Janet Buckingham, Alaska Travel Industry Association, Kodiak; Bob Stanford, Kodiak Island Convention & Visitors Bureau and Island Air; Blaine Ashcraft, Ketchikan Chamber of Commerce; Pattie Mackey, Ketchikan Visitor Bureau; Rick Erickson, Employee, Survey Point Holdings, Alaska Alliance for Cruise Travel (ACT), Ketchikan; Len Laurence, ACT, Ketchikan; Colleen Stephens, Stan Stephens Charters, Valdez; Fred Reeder, Alaska Premier Charters; Jamey Cagle, Vice-President, Allen Marine; Jillian Simpson, Alaska Travel Industry Association; Tom Hall, Klondike Gold Dredge Brewery; Tammy Griffin, Director of Operations, Alaska Hotel and Lodging Association; Shannon Hamrick, Executive Director, Kenai Peninsula Tourism Marketing Council.

SUMMARY

HB 167 TAX CREDIT FOR STATE TOURISM PROGRAM

CS HB 167 (L&G) was HEARD and HELD in Committee for further consideration.

HB 422 PASSENGER TAX; TOURISM TAX CREDIT

CS HB 422 (FIN) was HEARD and HELD in Committee for further consideration.

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#hb422

HOUSE BILL NO. 422

"An Act relating to a corporation income tax credit for contributions to a qualified trade association awarded a contract by the Department of Commerce, Community, and Economic Development for planning and executing a destination tourism marketing campaign made by a person that derives income from the sale of goods or services to visitors to the state; relating to the excise tax on passengers traveling on commercial passenger vessels providing overnight accommodations in the state's marine waters; and providing for an effective date."

Co-Chair Hawker MOVED to CSHB 422()26-GH2210\R, as a working document.

There being no OBJECTION it was so ordered.

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CURTIS THAYER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, testified that the administration was in support of the legislation. He underscored the urgency that the legislature should take action on the bill during the 2010 session. He stated that the governor proposed legislation that included the exact provisions included in the bill also included a marketing component. The administration believed that tourism numbers would increase in the state by reducing the commercial passenger vessel excise tax and increasing Alaska's visibility through an Alaska tourism marketing program. A study recently published by the department highlighted the economic impact tourism had on the state. Direct visitor spending was \$2.1 billion per year, generating 27 thousand jobs. When accounting for indirect impacts, Alaska's visitor industry represented \$3.4 billion in total spending in Alaska, and peak employment of over 40 thousand. The state was currently facing a decline in the industry. Travel in Alaska was down by 7 percent in 2009, and visitor spending decreased by \$270,000,000 compared to 2008. It was expected that 140,000 fewer cruise ship passengers would travel to the state in 2010. Alaska was expected to gain 2 ships in 2011, but was also losing 2 ships, further prolonging economic challenges. A recent McDowell Group report demonstrated the far reaching statewide effects of

dwindling visitor traffic. The estimated job loss for the next two years was approximately 5000. The lost jobs run the gamut; fishing guides on the Kenai Peninsula, tour companies in Ketchikan and Sitka, lodging and transportation services in Fairbanks, restaurants and lodging in Anchorage. Additionally, hundreds of businesses throughout Alaska that provided goods and services to the industry; commercial fishermen, seafood processors, mechanics, fuel providers, and numerous professional services, would see a decline in revenue. The industry as a whole contributed \$200,000,000 in direct payments to state and local governments through various user fees. He stated that two-thirds of the visitors in 2009, arrived by cruise ship. The administration and DEC met with industry representatives, community leaders, and small business owners across the state to develop a comprehensive strategy to make Alaska more attractive to industry and travelers alike. Lessing the head tax and growing the tourism marketing program would be beneficial to the industry. The cruise ship industry had signaled the willingness to drop the lawsuit against the state if the tax was reduced by 25 percent. However, the state was faced with a 2 year delay before cruise ship volumes were expected to increase. The cruise line industry had indicated that they would refrain from making final decisions on the 2012 schedule until action was taken by the legislature. He stressed that Alaska should be made a more affordable destination and a message should be sent that the state welcomed travelers.

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DAN SULLIVAN, ATTORNEY GENERAL, DEPARTMENT OF LAW, explained that the department had been defending the state against the lawsuit filed by the Alaska Cruise Association (ACA), and would continue to zealously do so. The department was also in the role of legal advisor to the governor. The department was working to ensure that if the legislation was enacted the lawsuit would be dropped. An agreement was being drafted between the state, the ACA, and individual cruise ship lines, to make certain the case would be dismissed. House Bill 422 served two main purposes; increasing tourism in the state, and to indirectly resolve the pending litigation. The litigation was filed in fall of 2009, regarding whether or not the tax could be imposed, and if so, at what rate. The legislature retained the authority to set tax rate and throughout the litigation the cruise ship industry had not been present in

tax rate discussions. He reiterated that if the legislation were enacted, the lawsuit would be dropped. He emphasized the importance of the periodic review process written into Section 6 of the bill. The process would allow state and local communities to collaborate in monitoring visitor trends, and identify projected service and infrastructure needs, to safely and efficiently accommodate passengers in Alaska. This would provide the legislature the background on which to base a future tax increase or reduction. The department believed that keeping the tax rate commensurate with the cost of hosting passengers would help the state avoid litigation in the future. Given the risks, cost, time, resources, and the uncertainty regarding the continued litigation, pursuing the settlement would be in the states best interest.

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Representative Austerman asked if the dismissal of the lawsuit was dependent on the tax number being \$34.50. Mr. Sullivan replied that the actual tax amount would depend on how large the material amendment would be.

Representative Austerman asked if the agreement between the department and the industry could be found in the committee file. Mr. Sullivan replied no. He explained that the agreement was still being worked on by the department to ensure that if the legislation were to pass, the lawsuit would be dismissed. The agreement would not be made public. The department had been provided a copy of the agreement and had been working to revise it in order to better serve the state.

Representative Austerman clarified that the agreement was with the ACA. Mr. Sullivan replied that one of the amendments stipulated that every member of the ACA would sign the agreement.

Representative Austerman understood that the agreement had not been in place when the \$34.50 figure had been written into the bill.

CHRIS POAG, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, interjected that ACA had provided a copy of a stipulation that set out the terms of the negotiation. The department had reviewed the stipulation to ensure the provisions were satisfactory to the state. Mr. Poag assured the committee

that the agreement would be finalized by the time the bill was passed and sent to the governor for signing.

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Representative Austerman assumed that it was a sufficient enough agreement to base a bill on. He expressed concern that legislation had been drafted based on an agreement that had yet to be signed and put into place. Mr. Sullivan responded that the purpose of the agreement was to protect the state, and to ensure the lawsuit would be dropped, if there was action taken by the legislature. He agreed the passing of the legislation without the signed agreement would not be in the states best interest.

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Representative Austerman asked what impact changing the dollar amount would have on both the agreement and the bill. Mr. Sullivan replied that the department would research the question.

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Representative Gara asked if the tax was lowered, and the lawsuit was dropped, what would stop the public or city from filing a lawsuit. Mr. Sullivan responded that the settlement would be binding between the state and the ACA. There would be nothing to stop other entities not subject to the agreement from filing a lawsuit.

Representative Gara understood that under the governor's proposal the state could reduce the tax and still be vulnerable to litigation. Mr. Sullivan explained that the state gets sued a lot. In all cases the department would vigorously defend the best interests of the state.

Representative Gara asserted that the settlement would not be binding if it bound only in favor of the cruise ship companies and not the state. He stated that over the last 4 years the amount that the state and private entities paid into Alaska Travel Industry Association (ATIA) had been adjusted. He believed that the state had been paying more and more while the cruise ship companies had paid less and less. He contended that the cruise ship companies had cancelled their ATIA contribution.

Co-Chair Stoltze interjected that funding and ATIA would be discussed at another time in an attempt to separate the head tax and marketing issues.

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Vice-Chair Thomas understood that the governor's bill was an effort to overturn an initiative voted on by the people. Mr. Thayer responded that it would modify the initiative.

Vice-Chair Thomas asserted the head tax amount had been established by a vote of the people. He stated that the port fees for communities that he represented would suffer an immediate impact from a lowering of the tax. He expressed concern for the overturning of the people's vote and for the effective date. He said that there was no evidence of a signed agreement that the lawsuit would be dropped. He noted that the immediate effective date was flawed, as ships had already been collecting the head tax for 2010 cruises. He suggested an effective date of November 1, 2010. He relayed that he was 1 of 1700 commercial fishermen in Southeast that lost halibut individual fishing quotas (IFQ) over charter fishing industry issues. That equated to a \$30 million loss to the Southeast economy. He requested answers as to what the department planned to do about the direct impact of the tourism industry on communities. He said that Section 5 should be written out of the bill because it was confusing. He also thought that the Juneau and Ketchikan ports were being treated better than other ports in Southeast.

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Representative Doogan requested further explanation of Sections 3 through 7 of the bill.

Mr. Poag explained that Section 1 contained a clarifying amendment that codified the regulation to clarify that the tax did not apply on vessels that were transiting state waters. It applied to vessels that stopped in ports with the intent to allow passengers to disembark. Section 2 discussed the rate reduction from \$46 to \$34.50. Section 3 contained clarifying amendments. It made a conforming amendment, by repeal of the regional impact fund, and a clarifying amendment that provided a guideline on how the legislature ought to appropriate proceeds in the account. Section 4 described the same clarification in regard to the

ports of call sharing funds. Section 5 explained that a passenger that purchased a voyage that stopped in Juneau would pay the \$8 local levy, which would reduce the \$34.50 statewide tax by \$8.

Representative Doogan asked why the statewide tax would be reduced by \$8 in Juneau ports. Mr. Poag explained that the communities of Juneau and Ketchikan had imposed local levies and were collecting them to defray local impacts. The provision gave the credit for collecting and defraying the local impacts. The cities of Juneau and Ketchikan take care of their own needs so the state had less needs to accommodate through the port of call sharing.

Representative Doogan was still confused. Mr. Poag continued. Section 6 added the periodic report. The report was important because the level of constitutional taxation would fluctuate with passenger impact. The state could be subject to other lawsuits and the provision would allow the tax rate to take into account the rising and lowering of impacts to reduce the risk of litigation. Section 7 clarified the definition for "voyage". Section 8 repealed the regional cruise ship impact fund, all proceed would go into the commercial passenger excise fund account. Section 9 was the immediate effective date.

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Representative Doogan quoted from Section 7; "voyage" means any trip or itinerary lasting more than 72 hours **in the state's marine waters.**" He wondered how the 72 hour number was derived. Mr. Poag replied that the department was suggesting an amendment to the amendment; that the language simply read 72 hours in the state. Currently, most voyages were within 72 hours on the water, but there were land-based tours as well. The tax was similar to a bed tax on a floating hotel.

Representative Doogan asked if it was a bed tax, why not 24 hours in state marine waters. Mr. Poag replied that if it were for 24 hours the tax would have to be collected every 24 hours. The initiative had been crafted taking into consideration administrative reasonable methods of imposing the tax.

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Representative Kerttula cited section Section 6, Sub-section 1:

- (1) addresses the projected needs of communities to safely and efficiently host passengers that pay taxes under AS 43.45.200-43.52.295

Representative Kerttula wondered if the needs included ports, docks, harbors, and roads. Mr. Poag replied that the language originated in the commerce clause; from old cases that discussed safely and efficiently hosting taxpayers. The tax was on passengers to defray the cost of safely and efficiently hosting them when they were in the state. He agreed that there may be better ways to draft the language.

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CHIP THOMA, PRESIDENT, RESPONSIBLE CRUISING IN ALASKA, testified that the cruise tax had helped toward building infrastructure that was a direct benefit to the cruise industry. Over \$50 million had been collected in Juneau, and had been used for infrastructure projects and government assistance. On the state level \$100 million had been collected for similar projects. He supported the legislation, but suggested that Section 2, Line 13, should be amended to bring the head tax down to \$39 instead of \$34.50. He thought that there was enough money in the fund that the \$7 discount could be passed into the passengers. He stated that Page 2, Section 5, was problematic in the discounting of the amounts collected in Ketchikan and Juneau. He relayed that the amendment would effectively lower the tax in those ports to \$19. He believed that Section 5 should be eliminated all together. He supported the effective date of November 2011.

Representative Austerman asked if the other municipalities that did not impose a local cruise tax would the state receive the full \$34.50. Mr. Thoma replied that if Section 5 were removed any ship entering the state would pay a \$34.50 head tax. If the section remained the head tax being paid in Juneau and Ketchikan would be \$19. He believed that Section 5 was essentially a "math trick".

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JOE GELHIF, JUNEAU, stated that he had drafted the original initiative for the head tax enacted in 2006. He asserted

that it was time to eliminate the sub-account within the large cruise passenger account. He thought that there was room to lower the excise tax from the current \$46, which was \$4 less than the senate passed in 2000. Now that the state had capitalized on some of the infrastructure needs the tax could be lowered by 15 percent. He warned against skimming the local head taxes because it would deeply affect ports without local levies such as; Homer, Anchorage, Prince William Sound, and little discretionary money would be available for places like Wrangell and Sitka. If the bill passed in its current form, the effective drop in state revenue would be significant. He believed the case against the state was weak, and should not force the state to discount its sovereign power.

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JOHN BINKLEY, PRESIDENT, ALASKA CRUISE ASSOCIATION, testified in supported of the governor's provision. He stated that the cruise industry was concerned about the cost of traveling to Alaska. This had lead directly to the reduction of the number of visitors, and consequently, the number of jobs. He understood the number the governor had chosen was not arbitrary. The governor, in consultation with the attorney general, had looked at the litigation and the various aspects of the tax. The law stated that there was 25 percent of the tax collected that could not be spent in the ports of call that the ships made. He stated that the federal law was clear and the current tax could be challenged legally. He hoped the agreement would be signed and executed before the bill was passed by the legislature and signed into law. The bill would allow every visitor that arrived on a cruise ship to be charge the same tax amount.

Representative Austerman returned to the \$34.50, and wondered if it would make a difference to charge \$1 more. Mr. Binkley replied that the principle was that the regional impact fund was eliminated, which equated to the \$34.50. He believed that this was the least stable aspect of the tax.

Representative Austerman cited the \$19 head tax created in Section 5. He wondered how this reconciled with Mr. Binkley's statement that all port would charge \$34.50. Mr. Binkley contended that the amount charged to each passenger was exactly the same through the proposed legislation.

Currently under law passengers were being charged \$61 if they stop in Ketchikan and Juneau.

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Representative Doogan asked if there was a definitive study linking the decline in passengers to the head tax. Mr. Binkley responded that the cruise industry had articulated 3 aspects that were affecting the deployment of ships to the state: (1) marketing - Alaska had been out of the game in competing with other destinations around the world in attraction visitors, (2) cost structure - Alaska was a very high cost destination to bring ships to; one component being the high head tax, (3) regulations - the regulations imposed on the industry by the state were unattainable. The governor had responded by introducing related legislation.

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Representative Kerttula understood that passengers not visiting Ketchikan or Juneau would pay the same \$34.50 tax. Mr. Binkley replied yes.

Representative Kerttula clarified that the state would receive \$19.50 of the \$34.50. Mr. Binkley explained that it would depend on which ports of call the passengers visited. If the passenger did not visit Ketchikan or Juneau, the state would receive the \$34.50. If they stop in Ketchikan and not Juneau, then it would be \$34.50 minus \$7. If they stop in Juneau and not Ketchikan it would be \$34.50 minus \$8. If they stop in Ketchikan, Juneau, and Skagway then it would be \$19.50.

Vice-Chair Thomas understood that cruise ship marketing money was already available for marketing Alaska, but was not being used effectively. Mr. Binkley said that he was simply restating what cruise lines had articulated to the governor what they saw from a global perspective.

Vice-Chair Thomas wondered if the tax was lowered for 2 years, and the number of cruise ship passengers did not rise, could the state reinstate the \$46 tax. He stressed the need to lock down a guarantee that the ships were coming back. He believed that all port fees should be equal across the state.

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Mr. Binkley responded that under the immediate effective date the tax money already collected would go back to the passengers. The governor believed that the passenger credit was mechanism to get the money back into the hands of Alaskans.

Mr. Binkley stated that a sunset provision could be written into the bill. If the tax was not enough to take care of infrastructure needs there would be a review process that could result in a written report before the legislature.

Mr. Binkley believed that varying amounts of the tax were given to different ports because all communities approached the industry in various ways. For example, in Ketchikan the city built and owned all of the docks and the \$7 head tax was reimbursement for construction. The docks in Skagway were built by private contractors and the cruise lines paid them directly, so \$5 went to the community to help with other infrastructure needs.

Vice-Chair Thomas pointed out to the committee that traveling from Alaska to Florida by air to take a cruise was extremely expensive. He disliked the idea of making travel to Alaska cheaper than any other destination.

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Mr. Binkley admitted that air travel was very expensive and was becoming more of a component of vacation costs, which was one of the reasons 30 percent less visitors were visiting South central Alaska. Trips to South central Alaska were called "open jaw", a one way cruise either up to South central, or from South central back down to Vancouver, which included air cost not typically required by other cruise destinations.

Representative Austerman wondered how many visitors were expected to return to the state as a result of taking \$11.50 off the tax. Mr. Binkley reiterated the 3 industry requests.

Representative Austerman asked if the all 3 components of the agreement were not passed in the legislative cycle, would the lawsuit stand. Mr. Binkley insisted that the lawsuit dealt with the head tax alone. If the head tax bill passed the litigation would be dropped.

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Representative Salmon speculated that the economic slump throughout the world may have had some effect on the cruise line industry, and not just the head tax. He suggested giving the industry the tax break now and reinstating the higher number when the economy picked up. Mr. Binkley replied that growth in the industry was up by 6.5 percent. The industry was strong in Europe, the Caribbean, the North Atlantic Provinces, and Asia, but not in Alaska. He added that the review process had been crafted to examine whether the tax was the right amount for the existing economy.

Representative Salmon argued that \$5,031 was not much more than \$5,000. He asserted that the tax amount was insignificant compared to the overall cost of the cruise, which made the theory used by the industry and the administration to draft the bill moot. Mr. Binkley replied that the bill was attempting to address the expected drop of 142,000 people visiting Alaska in 2010. He contended that the bill was not about protecting the industry, but protecting Alaskan jobs.

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Representative Joule mentioned that the cruise ship industry had announced the release of the final schedule for 2012 would be delayed to the action of the state. He wondered how many ships would be added to the schedule if the tax was lowered, and how the lowering of the tax would affect visitor's decisions to visit Alaska rather than another destination. Mr. Binkley responded that the model for the cruise industry was to always fill the ships. Costs were fixed and the pricing would be discounted until every bed was filled. If the demand was not there, or the cost was too high, revenue generated off of the ship. Marketing to drive up demand and lower the cost would help Alaska. In summer 2010 the industry would get a better return on their money by traveling to a more competitive destination. According to the model, if the ship returned, it would be full.

Representative Joule restated the question.

Mr. Binkley repeated the 3 aspects that were affecting the market in Alaska; marketing, cost structure (taxes), and regulations. The governor had sent the message to the

cruise lines that if state made changes, it was expected that the ships would return. The company had yet to create the 2012 schedule and there was still an opportunity for adjustment. A quid pro quo had not been offered in terms of specific ships, or specific numbers, for any specific changes.

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Representative Doogan understood that the agreement was if the state brought the tax down to \$34.50, the lawsuit would be dismissed. He asked if the \$34.50 was gross or net, and would the taxes levied by municipalities need to be netted out in order for the agreement to work. Mr. Binkley replied yes, and that it was explained in Section 5.

Representative Doogan surmised that the tax was not \$34.50, but \$34.50, net whatever bold taxing jurisdiction the boat might visit was. Mr. Binkley answered that to the extent that any community had a larger head tax it would be net of the tax, because it would be an off-set to the cruise passenger.

Representative Doogan asserted that he had heard 2 different ideas. One was a way to lower the tax based on the amount of money that was going to non-cruise ship jurisdictions, which would lower it to \$34.50. The second was the idea that the local Juneau tax of \$8, would be subtracted from the total tax, which would result in \$26.50 for the state. Mr. Binkley responded that the latter would be the case if the passenger stopped in Juneau.

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Representative Kerttula relayed concern for the impact on small local merchants and the loss of jobs. She wanted to see Juneau benefit from the agreement with the industry. She appreciated that with the immediate effective date the money would be credited to the passengers, but wanted assurances that the money would be sent in Juneau. She added that there should be a requirement in the agreement that the ships return to Alaska. Mr. Binkley replied that the industry open to finding a mechanism that would ensure the credit was put back into Juneau. He solicited suggestions and reminded the committee that at the end of the day the passenger could not be forced to spend the credited funds in Juneau. Mr. Binkley said that writing in

as a stipulation agreement on the lawsuit that ships come back to Alaska was contingent on the state meeting the 3 previously mentioned aspects of improvement.

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Representative Austerman queried how the savings of \$11.50 would make a significant impact in the effort to bring visitors back to Alaska. He asserted that the \$11.50 head tax had nothing to do with the industries profitability because they would not be keeping the \$11.50 anyway. He wondered if the real issue was the slump in the global economy. Mr. Binkley stated that although the passenger paid the tax, the cruise lines had to reduce the amount that could be charged for the Alaska product, which reduced the revenue that was brought in. Alaska was the only destination that was dropping while others were increasing. He stated that North American cruise customers were not traveling to Alaska in large numbers because there were not as many ships to travel on.

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Representative Kelly asked if the passing of HB 422 would be sufficient for the lawsuit to be dropped. Mr. Binkley responded that the lowering of the head tax would be enough to drop the lawsuit.

Representative Doogan asked if the lawsuit would be dropped if Section 5 were written out of the legislation. Mr. Binkley said no.

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MIKE STEDMAN, OWNER, WINGS AIRWAYS, testified in support of the legislation. He shared that his business was down 20 percent in the last year, which would cause the grounding of several aircraft in summer 2010, and equated to a loss of jobs.

LAURA MARTINSON, MANAGER, CARIBOU CROSSINGS, urged committee support for the bill. She highlighted the ways in which the cruise ship industry had supported her economically. She believed that the legislation would support the youth of Alaska by providing summer employment.

LAWRENCE GAFFANEY, PRESIDENT and CEO, HUNATOTEM CORPORATION, supported the legislation. The company had

invested \$25 million to build a cruise ship port. The corporation was the largest employer in Hoonah, providing 130 jobs. He stated that the loss of ships equated to less revenue which resulted in a loss of jobs for the community.

JOHN MCCONNACHIE, OWNER, CYCLE ALASKA, testified in favor of the legislation. He believed that the excise tax on passengers had hurt Alaskan businesses. He stated that his company would be hiring 3 less employees for the 2010 tourist season as a result of the tax. He also advocated for better tourism marketing.

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BRETT CARLSON, COOK, COLDFOOT AND DEADHORSE, testified that the tax had affected businesses in rural areas up in the Arctic regions, well away from tidewater. He shared that tourists traveled up to Coldfoot and Deadhorse on air tours. He stressed that it was not the size of the tax that kept visitors from coming to Alaska, it was the tax itself.

ELEANOR DAVENPORT, DIRECTOR, WHITE PASS RAILROAD, testified in support of the legislation. She spoke to the concerns in Skagway that fewer jobs available in the city would lead to families being forced to move out of town. As the families leave the schools in the city suffered due to the loss of funding. The White Pass Railroad supported the legislation.

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TOM HALL, KLONDIKE GOLD DREDGE, SKAGWAY (via teleconference), urged support for the legislation as a vehicle for job creation. He expressed concern for the survival of the community of Skagway without the cruise industry's support.

JILL COX, TEMPTATIONS, SKAGWAY (via teleconference), strongly supported that legislation.

GOVERNOR BILL SHEFFIELD (via teleconference), spoke in support of the bill and relayed personal experience with a rental business. He noted that the cruise ship industry supported many Alaskan businesses.

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Governor Sheffield emphasized that nothing could replace the tourism industry, and spoke to the importance of the cruise ship industry for the economic stability of the state.

RICHARD BENEVILLE, NOME CHAMBER OF COMMERCE, NOME VISITOR'S CENTER AND NOME DISCOVERY TOURS (via teleconference), stated that the tourism industry up north was just beginning and was thriving. He stressed that the industry was in the business of fulfilling the dream of people all over the world who had longed to visit Alaska. He was afraid that the regulations that had been set on the industry had been viewed as punitive and unfriendly. He believed that Alaska should be shared with the world.

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PAUL LANDIS, CHIEF OPERATING OFFICER, CIRI ALASKA TOURISM (via teleconference), offered support of the bill. He said that there was a direct correlation between the head tax and jobs in the state. He thought that avoiding costly litigation was the right move for Alaska. Resolving the issue would take the uncertainty out of the industry in Alaska.

FRANK FLAVIN, FLAVIN PHOTOGRAPHY, ANCHORAGE (via teleconference), urged support for the legislation. He pointed out to the committee that his company was not directly a tour company, but that half of his business generated from tour related companies. The cruise ship initiative has had negative consequences, and the economic turnaround was necessary to stop the companies from going where there were less taxes and restrictions.

JOHN WHITE, OWNER, HEALY AND DENALI BUSINESSES (via teleconference), represented the interests of Nenanna Raft Adventures, Denali Petal Sports, Chugach Outdoor Center, and Alaska Sea Kayakers. He thought that the legislation was a good start, but believed that the excise tax should be repealed completely. He stated that Proposition 2 sent a message that Alaskans viewed the cruise industry as an adversary. Through conversations with tourists he had learned that the tax came off as hostility toward visitors. He relayed that the industry was held to higher regulatory standard than the communities that were visited. He argued that the optimal tax rate for the industry was zero.

JUDY WHITE, BOOKKEEPER, DENALI BUSINESS (via teleconference), urged supported for the bill. She believed that the state needed to avoid litigation with the cruise lines. She cited Section 7, Article 9 of the Alaska State

Constitution, which states that the taxes should not be dedicated to any special purpose.

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LOIS WIRTZ, ANCHORAGE (via teleconference), spoke in favor of the bill.

LEE KENASTON, TOUR BUSINESS OWNER, FAIRBANKS (via teleconference), urged support of the bill. He believed that raising the price of goods lowered the demand for them. He testified that the guest numbers for his business were down by 35 percent from 2008.

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ALAN LEMASTER, ATIA, COPPER VALLEY, GLENNALLEN (via teleconference), supported the legislation. He stated the loss in cruise line visitors over the last few years had negatively affected his community. He shared that the ships docked in Whittier and then transported their passengers to Valdez, filling the hotel in Copper Center throughout the summer. He stated that the hotel had been full the previous summer, but only because cruise prices had been reduced. He explained the when the price of the cruise was drastically lowered, passengers experienced sticker shock when paying for in-state tours.

SCOTT REISLAND, DENALI GRIZZLY BEAR, FAIRBANKS (via teleconference), testified in support of the bill. He said that his business numbers for 2009 were down 44 percent. He stated that 25 percent of the cruise ship industry clients were dropped off on land and continued to travel independently in the state. He believed that small businesses were hurt the most by the tax.

MARY RICHARDS, ALL SEASON'S INN, FAIRBANKS (via teleconference), testified in support of the legislation. She echoed previous statements of declining business due to the head tax. She said that the bed and breakfast community of the state lost 23 members in 2010.

TIM CERNY, ALASKA ACT COMMITTEE, FAIRBANKS (via teleconference), urged support of HB 422. He stated that over the past 2 years tour traffic to Fairbanks had dropped significantly. He stressed that more should be done to advertise Alaska as a destination for travel.

KORY EBERHARDT, A TASTE OF ALASKA LODGE, FAIRBANKS (via teleconference), testified in support of the bill. He stated that tourism was down by 40 percent in 2009. Hiring of new employees and construction project were being put on hold due to loss of visitor industry revenue.

ERIKA WELD, ARCTIC OUTFITTERS, FAIRBANKS (via teleconference), offered support for the bill.

MATT ATKINSON, NORTHERN ALASKA TOUR COMPANY, FAIRBANKS (via teleconference), supported the bill. He shared that although Fairbanks was inland it was still affected by the cruise industry. He said that it was particularly damaging to the interior and Arctic regions to lose the ships that travel across the gulf.

KATHY HEDGES, NORTHERN ALASKA TOUR COMPANY, FAIRBANKS (via teleconference), supported that legislation. She encouraged a strong visitor industry and a welcoming environment for guests. She believed that showing gratitude to the cruise line industry would ensure strong economic results for all of Alaska.

DEB HICKOK, FAIRBANKS CONVENTION & VISITORS BUREAU (via teleconference), spoke in support the bill. She mentioned that about 50 percent of summer visitors to Fairbanks were on a cruise land tour.

[4:44:28 PM](#)

JANET BUCKINGHAM, ALASKA TRAVEL INDUSTRY ASSOCIATION, KODIAK (via teleconference), supported the bill. She believed that the tax credit model in the bill provided a long term funding solution. She spoke of the necessity to keep the tourism industry thriving in the state.

BOB STANFORD, KODIAK ISLAND CONVENTION & VISITORS BUREAU AND ISLAND AIR (via teleconference), testified in support of the legislation. He relayed that tourism was a vital driver to the Kodiak economy. He reiterated the ATIA statistic that 25 percent of all cruise ship passengers who visited the state returned as independent travelers.

[4:50:05 PM](#)

BLAINE ASHCRAFT, KETCHIKAN CHAMBER OF COMMERCE (via teleconference), spoke in support of the legislation. He stated that the city had made significant investments over the last 15 years in the tourism industry, transitioning from a resource extraction community to a tourism community. The economy was primarily based on tourism and would be devastated by the loss of ships.

PATTIE MACKEY, EXECUTIVE DIRECTOR, KETCHIKAN VISITOR BUREAU (via teleconference), stated that Proposition 2 had failed in the community and had narrowly passed in the state. Lowering head tax and eliminating fees would allow the city to move forward. The city anticipated a loss of \$17 million in visitor spending in 2010. She pointed out to the committee that coupled with the loss of passengers would be the loss of state receipts for items like commercial permitting into state parks, and sport fishing licenses purchased by out-of-state residents.

RICK ERICKSON, EMPLOYEE, SURVEY POINT HOLDINGS, ALASKA ALLIANCE FOR CRUISE TRAVEL (ACT), KETCHIKAN (via teleconference), supported the bill. He stated that the companies and families that he represented were economically dependent on the cruise ships, and would be negatively affected by the loss of ships. He believed that the reduction of 140,000 visitors in 2010, was a direct result of the head tax.

LEN LAURENCE, ACT, KETCHIKAN (via teleconference), supported the bill. He shared that this was the first time in 40 years that the state would suffer from a serious visitor decline. He lamented the effect of the passenger loss on shore excursions, which had been forced to cut employment. He urged the development of a healthier climate with cruise industry and the passage of the tourism marketing income tax credit.

[4:58:11 PM](#)

COLLEEN STEPHENS, STAN STEPHENS CHARTERS, PRESIDENT, VALDEZ CONVENTION AND VISITORS BUREAU, VALDEZ (via teleconference), testified in support of the legislation. She relayed that the operating schedule for Stan Stephens Charters had fallen by 22 percent since 2008. With the reduction of cruise call headed into South central ports the community expected to see a continued reduction in the amount of travelers.

[4:59:45 PM](#)

FRED REEDER, ALASKA PREMIER CHARTERS (via teleconference), spoke in favor of the bill. He believed that the cruise industry needed encouragement from the state. Sitka had experienced a net decrease of over \$1 million in sales tax revenue since 2008.

JAMEY CAGLE, VICE-PRESIDENT, ALLEN MARINE (via teleconference), urged support for the bill. He stated that a majority of Allen Marine's business comes from the cruise ships. Allen Marine employed year-round employees in their Sitka shipyard who build and maintain the fleet vessels. Without the support of the tourism dollars the shipyard would be shut down.

[5:03:25 PM](#)

Co-Chair Stoltze closed public testimony.

CS HB 422 (FIN) was HEARD and HELD in Committee for further consideration.

[5:04:33 PM](#) AT EASE

[5:15:13 PM](#) RECONVENED

#hb167

HOUSE BILL NO. 167

"An Act relating to a corporation income tax credit for contributions by a person owning or operating a commercial passenger vessel to a qualified trade association that was awarded a contract by the Department of Commerce, Community, and Economic Development, and used for planning and executing a destination tourism marketing campaign."

[5:15:31 PM](#) AT EASE

[5:16:40 PM](#) RECONVENED

Representative Fairclough introduced the bill and solicited public testimony.

GENEVIEVE WOJTUSIK, STAFF, REPRESENTATIVE MILLET, stated that the tourism industry had encouraged the development of

HB 167. Alaska's tourism industry had informed lawmakers that Alaska had failed to maintain, and grow, a market share in national and international markets. Competing destinations were outspending the state with increasing marketing budgets. All sectors of Alaska's travel industry were reporting an unprecedented drop in summer season bookings. The bill attempts to secure funding for the marketing of Alaska by taking money from the industry and giving a tax credit back, which would create a sustainable source of income. The bill would ensure that a person making a contribution would not receive a direct benefit from the contribution while also receiving the income tax credit. The bill deals only with commercial passenger vessel income, and a credible passenger vehicle tax.

REPRESENTATIVE CHARISSE MILLETT (via teleconference), she stressed state investment in marketing the Alaska product. She reiterated that the state was competing on the global market with international destinations. Alaska has unique wildlife attractions, but other areas often have the same attributes. She stated that the tourism industry created jobs and sustained the economy, and that infrastructure for tourism had been built that should not go to waste. The bill provided a mechanism for a steady stream of revenue for marketing, which would alleviate the need for future legislative allocations in the area of marketing.

[5:22:08 PM](#)

Representative Doogan asked how much revenue would be generated by the tax to spend on tourism marketing. Ms. Wojtusik replied that Title 44.33.125 defined how the marketing would be done with both private and state dollars.

JOHANNA BALES, DEPUTY DIRECTOR, DEPARTMENT OF REVENUE, explained that the bill would allow credit against the corporate income tax paid by operators of commercial passenger vessels, which would be the difference between the tax already paid without the excise tax, and the tax paid including the excise tax. The department had encountered 2 problems when trying to figure the actual numbers. First, there were only 3 tax payers, so confidentiality was an issue. Second, it the nature of the corporate income tax made it difficult to make an approximation.

Representative Doogan requested the amount that the cruise industry would pay the state under the legislation. Ms. Bales responded the ships were often subsidiaries of larger corporations which made estimating the funds the state would receive difficult.

[5:26:40 PM](#)

Representative Kelly noted that the version of the bill before the committee referred to the 3 major recipients of the credit. The governor's version was much broader in the amount of businesses that could take part. He queried the department's position on including larger groups. Ms. Bales responded that the governor's bill was crafted to include any corporation engaged in tourism activity in the state. House Bill 167 was crafted to include only 3 companies, and one small segment of the corporate base, that could take advantage of the credit. The department had suggested putting a cap on the credit, but opening the credit to all corporations that were engaged in tourism in the state.

[5:29:13 PM](#)

SANDRA LOOMIS, BUSINESS MANAGER, TALKEETNA AIR TAXI, spoke in favor of the legislation. She stated that the tourism industry was vital to the community of Talkeetna. She shared her experience with ATIA and the marketing help provided by the association. She contested that there was no end to the benefits for the state from the marketing work done by ATIA.

ROARK BROWN, OWNER, HOMER OCEAN CHARTERS, HOMER, supported the bill. He stated that ATIA's board of directors, on behalf of the 1,100 member businesses in Homer, unanimously endorsed the governor's plan to restore the health of Alaska's travel industry. If the bill were amended to add the governor's language the state's tourism marketing program would be adequately funded. He noted that the program had extensive state oversight, including veto power.

Representative Kelly pointed out to the committee that the element differences between HB 167 and HB 422, was the discussion of the 3 taxpayers versus the broader based plan, he wondered which method the testifier supported. Mr. Brown supported the broad based plan.

[5:36:34 PM](#)

BRETT CARLSON, COOK, COLDFOOT AND DEADHORSE, testified in support of the bill. He shared that in his region there were many small businesses that were not primarily cruise related businesses. The businesses focus on non-cruise visitors and were dependent on a tourism marketing program that reached out to non-cruise travelers. Declining marketing funding over the past 20 years had made it increasingly difficult for the non-cruise businesses. He stated that the tourism numbers in the northern areas of the state were dismal. He noted that the low tourism numbers were expounded by the weak economy. He felt that Alaska was comparable to other destinations like Hawaii, New Zealand, and Australia. He concluded that the bill offered a long term sustainable funding plan for marketing the state.

[5:42:19 PM](#)

ALAN LEMASTER, ATIA, GLENALLEN, urged supported of the governor's HB 422, but not HB 167. He argued that HB 167 was fragmented and contained no fiscal impact information. He divulged that in his business experience, a reduction of marketing equaled a reduction in visitation, which equated to a reduction in jobs. He believed marketing was the first step in reenergizing the tourism industry in Alaska.

COLLEEN STEPHENS, VALDEZ, voiced support for the legislation. She stated that the reduction of visitors to the state had negatively affected 10 full-time seasonal jobs, and 1 full-time year-round position in the community. She believed that seasonal employment help young people develop a work ethic which would continue with them through life. Scarce entry level jobs for young people across the state would affect the work force in to the future, as well as the economy and the viability of the state.

SCOTT REISLAND, DENALI GRIZZLY BEAR, DENALI NATIONAL PARK, testified in support of the bill. He said that ATIA marketing was critical for marketing his business. The funding received by the passage of the legislation would help with increasing the independent travel market.

MARY RICHARDS, ALL SEASON'S INN, FAIRBANKS urged support of the bill. She explained that the only way the inn could be effectively marketed was in cooperation with the ATIA marketing plan. She used her money to reach out to the

association, who in turn reached out to the rest of the world on her behalf.

MATT ATKINSON, FAIRBANKS spoke in support of the governor's bill. He offered accolades to ATIA for the association's ability to maximize available funds. He believed the tax credit would allow the state to direct more focus on marketing the state and less on requesting one-time appropriations.

[5:53:20 PM](#)

LOIS WIRTZ, SELF, spoke in support of the legislation. She stated that statewide marketing was crucial for tourism development in Nome, Kotzebue, and Gamble. Reducing the head tax was only one aspect of what was necessary to foster tourism in the state. She believed that an ongoing marketing effort was necessary to bring back non-cruise and independent visitors.

JILLIAN SIMPSON, ALASKA TRAVEL INDUSTRY ASSOCIATION (via teleconference), testified in support of the broad based bill for tourism marketing tax credits. She felt that Alaska needed sustainable marketing funding for to the domestic and international market in order for the state to continue to grow.

TOM HALL, KLONDIKE GOLD DREDGE BREWERY (via teleconference), offered support for the bill. He testified that ATIA offered unique opportunities for collaboration in marketing the Alaska product to visitors from far away. He felt that there would be significant return on the marketing investment.

[5:58:28 PM](#)

TAMMY GRIFFIN, DIRECTOR OF OPERATIONS, ALASKA HOTEL AND LODGING ASSOCIATION (via teleconference), supported the legislation. She stated that the association supported an amended HB 167 that included the participation of a broader selection of industry players in the tax credit. She concluded that an increase in tourism marketing funding was imperative for the future of the industry in Alaska.

FRANK FLAVIN, PHOTOGRAPHER supported the bill. He cited the marketing spending increases made by other destinations in the past 6 years. He revealed that Alaska had spent \$10

million in 2005, with an additional \$5 million match from the industry, but had only increased to 11.7 million in 2010.

[6:02:46 PM](#)

SHANNON HAMRICK, EXECUTIVE DIRECTOR, KENAI PENINSULA TOURISM MARKETING COUNCIL (via teleconference), testified in support of the legislation. She opined the downturn in the tourism economy of 2009, and the equally abysmal forecast for 2010. She explained that her family business relied on the building of lodges and bed and breakfast establishments, which were is less demand because of the industry slump. She said that the loss of visitors had a ripple effect of loss throughout the community.

Co-Chair Stoltze closed public testimony.

Co-Chair Stoltze discussed housekeeping.

HB 167 was HEARD and HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 6:07 PM