

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

February 7, 2013
11:18 a.m.

MEMBERS PRESENT

Representative Shelley Hughes, Chair
Representative Lynn Gattis
Representative Pete Higgins
Representative Lance Pruitt
Representative Harriet Drummond
Representative Geran Tarr

MEMBERS ABSENT

Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson

COMMITTEE CALENDAR

OVERVIEW (S): FILM AND TOURISM PROGRAMS BY DIVISION OF ECONOMIC
DEVELOPMENT~ DEPARTMENT OF COMMERCE~ COMMUNITY & ECONOMIC
DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LORENE PALMER, Director
Division of Economic Development (DED)
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation
entitled, "Economic Development - Tourism & Film," dated 2/7/13.

CARYL MCCONKIE, Development Specialist
Juneau Office
Development Section
Division of Economic Development (DED)
Department of Commerce, Community & Economic Development (DCCED)

Juneau, Alaska

POSITION STATEMENT: Answered questions during the PowerPoint presentation entitled, "Economic Development - Tourism & Film."

GLEN HAIGHT, Development Manager

Juneau Office

Development Section

Division of Economic Development (DED)

Department of Commerce, Community & Economic Development (DCCED)

Juneau, Alaska

POSITION STATEMENT: Answered questions during the PowerPoint presentation entitled, "Economic Development - Tourism & Film."

ACTION NARRATIVE

[11:18:59 AM](#)

CHAIR SHELLEY HUGHES called the House Special Committee on Economic Development, Trade and Tourism meeting to order at 11:18 a.m. Representatives Drummond, Gattis, Higgins, and Hughes were present at the call to order. Representatives Pruitt and Tarr arrived as the meeting was in progress.

OVERVIEW (S): FILM AND TOURISM PROGRAMS BY DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT

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CHAIR HUGHES announced that the only order of business would be an overview of the Film and Tourism Programs by the Division of Economic Development, Department of Commerce, Community & Economic Development. She directed the committee's attention to DCCED's fiscal year 2013 (FY 13) second quarter tourism marketing report and a response to questions from the meeting on 1/31/13 that were included in the committee packet.

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LORENE PALMER, Director, Division of Economic Development (DED), Department of Commerce, Community & Economic Development (DCCED), provided a PowerPoint presentation entitled, "Economic Development - Tourism & Film." Ms. Palmer informed the committee the focus of her presentation would be on the tourism and film sectors of DED, and what they mean to the state's economy. The tourism industry brings \$3.72 billion in direct and indirect spending into the state and \$179 million comes to

the state through taxes and fees. Tourism represents approximately 38,000 jobs, increasing to 45,000 jobs during the peak season. The tourism industry is recovering from the recession and 1,005,000 visitors are expected in 2013, which is an increase of 7 percent. Also, there is increased air capacity into Alaska with the addition of Icelandair and new flights by Jet Blue, United, and Alaska Airlines [slide 2].

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REPRESENTATIVE DRUMMOND asked for a forecast on the number of independent travelers expected this year, and for their numbers in past years.

MS. PALMER said the economic impact study and the Alaska Visitor Statistics Program include that information and both reports have recently been posted online. As far as a forecast, she opined independent travelers will have a similar increase.

REPRESENTATIVE DRUMMOND urged for the inclusion of all of the travelers in the total estimated amount.

MS. PALMER stated there were 1.586 million total visitors in 2012 and the numbers are back on the rise to the peak of 1.7 million in 2007 and 2008.

CHAIR HUGHES asked how many non-cruise visitors drive or travel by air.

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CARYL MCCONKIE, Development Specialist, Juneau Office, Development Section, DED, DCCED, stated that in summer 2012, there were 1.586 million visitors, of which 59 percent traveled by cruise ship, 37 percent entered and exited the state by air, and 4 percent entered and exited by highway and/or ferry.

REPRESENTATIVE HIGGINS asked how this information is known.

MS. MCCONKIE explained the legislature commissioned a study by DCCED called the Alaska Visitor Statistics Program. The study has been conducted six times since 1986 and visitors are interviewed as they enter and exit the state. The visitors are asked many questions about their homes, travels, and spending, and the information is used by DED's marketing program and provided to the tourism industry and communities. In response

to Chair Hughes, she said a baseline study is conducted every four years, and is updated annually.

MS. PALMER pointed out that compared to the previous study done in 2008-2009, in 2011-2012 there have been increases in employment to 37,800, labor income is up to \$1.24 billion, and total spending is up to \$3.72 billion [slide 3]. Turning to DED's tourism marketing effort, she said there are a variety of activities that create demand for Alaska visitation and that are directed to the private sector, the travel trade, and international markets. She advised that the travel trade has an established distribution channel which is used by the division to reach their customers. The highest item in the budget is for advertising which is the activity that creates the greatest volume of awareness about Alaska [slide 4]. In response to Chair Hughes, Ms. Palmer said no federal dollars are a part of the marketing program.

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CHAIR HUGHES then asked how the ratio of economic benefit from the tourism marketing budget compares with the value of other industries that use state funds, such as fishing and timber.

MS. PALMER said the minerals industry supports 3,800 jobs, the seafood industry supports 53,000 jobs, tourism supports about 40,000 jobs, timber supports 619 jobs, and agriculture supports 680 farms.

CHAIR HUGHES observed that DED indicated that the tourism industry contributes an economic benefit of \$3.72 billion with a state investment of \$17 million. She expressed her interest in knowing what level of investment is put in other industries and how the economic benefit compares.

MS. PALMER said the division will provide that information to the committee. She turned attention to the public relations program and activities in direct contact with consumers; in this fiscal year, nearly 447 stories about Alaska have been generated in a variety of publications. If purchased as advertising, this exposure would cost about \$31.5 million. Other activities include a media road show, a New York media luncheon, and the use of social media. In response to Representative Drummond, she said Facebook and Twitter are used as social media outlets. There are also special projects such as the *Top Chef* television show, which will reach 5.2 million viewers and has a public relations value of \$5.4 million to the state [slide 5]. The

show was an opportunity to combine attracting visitors to make Alaska their destination and also to promote the Alaska Seafood Marketing Institute (ASMI) message. As an aside, she read three of the 30,000 tweets sent during the show's first episode.

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CHAIR HUGHES asked how the state was the state involved in the Top Chef show, and what else may be coming up.

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MS. PALMER explained special projects are either targeted by the division or are opportunities that "come our way." The state's role was to make connections with the show and try to accommodate the interests of the show through DED's public relations contractor. Along with involvement from ASMI there was tremendous support from the private sector. In further response to Chair Hughes, she said the first contact was through the tourism association contract two or more years ago.

CHAIR HUGHES asked, "Would it have happened without the tourism association being involved or did you respond because they were pursuing it?"

MS. PALMER said at the time of the tourism association, it was the lead; after the association was replaced, the division followed through. She continued to the next element of the presentation: Alaska Tourism Marketing. The current budget for television advertising is \$5.7 million, and print advertisements in targeted magazines are to encourage readers to order the State Vacation Planner or visit the web site.

REPRESENTATIVE DRUMMOND asked whether the advertisements air on Alaska reality television shows.

MS. PALMER said she did not know; however, 30-second cable spots will be aired on The History Channel, Discovery Channel, Fox News, The Weather Channel, Travel Channel, Animal Plant, and National Geographic. Ten-second spots will air on game shows [slide 6].

CHAIR HUGHES inquired as to whether there is an effort to align commercials with audiences that may be the most interested in traveling to Alaska.

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MS. PALMER deferred to the advertising committee. In further response to Chair Hughes, she advised that the division has a media contractor who makes informed and skilled choices on the placement of advertising. She continued with the presentation, and said opportunities to connect with the private sector are very important, so the division publishes travel brochures with advertising purchased by businesses in the travel industry. These are used as planning tools by those considering a trip, and so far 300,000 requests have been received. The web site is another tool for visitors to use to begin planning a trip and to make connections with private businesses. German, [Korean], and Japanese language web sites support the international marketing effort [slide 8].

REPRESENTATIVE DRUMMOND asked whether other countries are targeted.

MS. PALMER was unsure. In response to Chair Hughes, she said Japan, Germany, and Korea are either feeder markets or a market being developed.

REPRESENTATIVE GATTIS surmised the marketing is based on existing air traffic.

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MS. PALMER said yes, although a lot is based on the division's assessment of the interest in Alaska. Airlift is a very important part of any economic development because of access; in fact, Icelandair is coming into the state as a result of a partnership among many agencies including the Ted Stevens Anchorage International Airport. This new air carrier will provide additional access twice a week to European markets [slide 9]. Ms. Palmer, in response to Representative Drummond, said there will be an inaugural celebration in May. She addressed the topic of research, and noted that this is another important part of economic development strategy along with financing and marketing. The division commissions an economic impact study to use as a measuring tool of what this sector contributes to Alaska's economy. Data from the Alaska Visitor Statistics Program and the economic impact study is designed to help the industry make good business decisions and to help state agencies make good policy decisions [slides 10 and 11].

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CHAIR HUGHES asked how often this data is used by business owners.

MS. PALMER referred to her experience as a former convention and visitor bureau president, and said that businesses need and use this information and it is a highly anticipated item of research. She restated a description of the Alaska Visitor Statistics Program.

CHAIR HUGHES recalled that the state spends about \$10 million on marketing and asked how much the cruise industry, the airlines, and the private sector spend on advertising travel to Alaska.

MS. MCCONKIE said she did not have hard figures at this time.

CHAIR HUGHES reflected it is important for constituents to know what the private sector is spending.

REPRESENTATIVE DRUMMOND asked for examples of how [DED] has reacted after learning something new from research.

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MS. PALMER said she did not have that historical information; however, from her experience with the Alaska Travel Industry Association she relayed that marketing data was always taken into consideration when the private sector made marketing choices and budget decisions; marketing data is also used to look at international economic trends. In further response to Representative Drummond, she said she worked for the Juneau Convention and Visitors Bureau for 10 years, and has worked in the tourism industry for 30 years.

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CHAIR HUGHES asked whether there are current trends visible in the data that are going to cause adjustments in budget and policy.

MS. PALMER advised the data is recent, and the division and the private sector are in the process of reviewing the information.

CHAIR HUGHES expressed her interest in hearing about any changes.

MS. PALMER continued to the division's economic strategy of workforce development and highlighted programs designed to build

skills within the workforce, and to help those who are interested in entering the tourism industry: AlaskaHost is customer service training; CulturalHost is geared toward a cultural market; and the AlaskaTour Guide Training "Train the Trainer" is a program to help businesses prepare employees to be tour guides [slide 12].

CHAIR HUGHES asked whether similar training is available through the University of Alaska (UA) campuses or local schools.

MS. PALMER said this training program has been adopted by local schools, for example, the AlaskaHost program is being offered in Anchorage and through UA. This is a service provided to businesses; in fact, the program "trains the trainer" so an attendee can return and train other staff. In further response to Representative Hughes, she said she would find out if the state charges for participation.

MS. MCCONKIE said if the state offers training in a rural area there is no charge, but to train a trainer, the fees are on a case-by-case basis. In further response to Chair Hughes, she confirmed that some cruise lines have incorporated the AlaskaHost program into their training, as have other businesses as well.

REPRESENTATIVE DRUMMOND stated that AlaskaHost training is available at the King Career Center and at all of the Anchorage high schools, and is utilized by the Alaska Railroad Corporation.

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REPRESENTATIVE HIGGINS asked whether there is a training component in the budget.

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MS. MCCONKIE explained the training budget is not part of the tourism presentation, which only covers the tourism marketing budget. The training function falls under DED's development programs.

MS. PALMER turned attention to the Alaska Film Office, Film Sector Development. To promote Alaska as a film destination, the division conducts outreach with speaking engagements, targeted contacts, and staff who field daily inquiries about filming in Alaska. The division also attends film industry

trade shows and events such as the Association of Film Commissioners International (AFCI) locations trade show. In response to Chair Hughes, she said this trade show is located in Southern California, and the division has attended for the past two years. She observed that the process to raise awareness and build a networking base takes repetition.

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REPRESENTATIVE PRUITT questioned why [the industry] is not aware of Alaska and the film credits that are available.

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GLEN HAIGHT, Development Manager, Juneau Office, Development Section, DED, DCCED, said the tax credit program needs to be explained and members of the film industry benefit from talking directly to state representatives about how to solve their production problems. In response to Chair Hughes, he said he had not attended a trade show and was unsure whether there are misperceptions about Alaska.

REPRESENTATIVE HIGGINS asked how much actual work has come from attending trade shows.

MS. PALMER expressed her belief that there is an effort to "tie the results to the effort." This is very hard to track although inquiries are made. Also, productions take a long period of time and may come into development two to four years after the first contact. She said she wished for a direct correlation between the investment and the outcome, although repeated contacts can be tracked back.

CHAIR HUGHES urged the division staff to always inquire as to how a business heard about Alaska.

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MS. PALMER said she was unsure how the staff manages and tracks "connections," and would ask.

REPRESENTATIVE HIGGINS acknowledged that the film tax credit is new and he appreciated the division's efforts to "educate the rest of the Lower 48."

REPRESENTATIVE DRUMMOND has observed that the public's attention span is short. She asked whether Alaska was featured in the film magazines shown on slide 14.

MS. PALMER said the division has placed advertisements in those magazines. She then noted that the division is expanding its marketing effort and has opened a request for proposal (RFP) to contract for advice from a location expert in the film industry [slide 14].

MS. PALMER referred to a chart of spending as a result of the film program, and advised that the annual film program report is due out in February. The chart represented productions that qualified for tax credits and the amount that was spent per fiscal year; for example, in fiscal year 2012 (FY 12), Alaska resident wages were \$5,713.981. Adding the spending categories of in-state transportation, interstate transportation, location and other fees, contract services, and food and lodging, reveals the economic impact that productions bring [slide 15].

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CHAIR HUGHES asked for information on the tax credits that have been paid.

MS. PALMER advised that tax credits approved/paid out are as follows: FY 10 - \$244,000; FY 11 - \$6.2 million; FY 12 - \$18.6 million; and FY 13 to date - \$9.9 million. Over the course of these years, the total is \$35.1 million.

REPRESENTATIVE PRUITT observed the highest spending category for tax credits is non-resident wages. He asked if the division has seen that a new industry to support film production has developed within the state, and whether the amount of Alaska resident wages will surpass non-resident wages.

MS. PALMER said there is historical data on the types and number of shows in production, and the number of shows has increased from six in FY 09 to forty-two in FY 12. There have been changes to the tax credit program and that effect is unknown at this point, but up to now the trend is positive and growing. She opined that developing a workforce base in Alaska contributes to Alaska's attraction as a location. In fact, the legislature appropriated funds so that the division and Department of Labor & Workforce Development (DLWD) could work together to provide resources for crew training programs and for individuals to participate. As a result, there are a variety of

crew training programs available such as the Ketchikan Public Utilities (KPU) Telecommunications class offered in the Ketchikan school system [slide 16].

CHAIR HUGHES asked whether the graduates of these programs stay in Alaska.

MS. PALMER said it is too early to know. In further response to Chair Hughes, she deferred to the Alaska Workforce Investment Board, DLWD, the question on whether there will be "tracking" of the graduates.

REPRESENTATIVE TARR asked what is expected for FY 13.

MR. HAIGHT said there are productions that have been pre-qualified.

REPRESENTATIVE HIGGINS recalled there was not a ready workforce in the state a couple of years ago.

REPRESENTATIVE DRUMMOND said Anchorage has a number of film production crews. She asked whether the value of wages is pulled out of the other categories; for example, whether in-state transportation represents only the cost of the use of vehicles.

MR. HAIGHT explained that the food and lodging category is the amount paid to the restaurant, caterer, or hotel, and would include wages. The wages category represents spending for the crew working on the film.

REPRESENTATIVE PRUITT asked whether production companies are encouraged to hire Alaska businesses for support services instead of bringing in outside entities.

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MS. PALMER advised the basis of the incentive program is to encourage companies to take advantage of the tax credits to increase profits. Additional assets such as local crews can make productions more profitable.

REPRESENTATIVE PRUITT expressed his concern that Alaska businesses are frustrated because the state pays tax credits to a film production company that brings competitors and their equipment into the state to provide a service that local companies can provide.

REPRESENTATIVE GATTIS asked if tax credits are given to support services such as caterers and others.

MS. PALMER understood that the incentive program is targeted at production companies so they can be more economical. In further response to Representative Gattis, she said a caterer is hired by the production company and would not come into the state independently, although it is possible a film production company could have a caterer who is a fixture in its productions.

REPRESENTATIVE GATTIS surmised it is possible for a film producer to have an all-inclusive production, including a caterer, and receive film [tax] credits for all of the expenses.

MR. HAIGHT explained that any company receiving credits through the production company must have an Alaska business license. Although production companies package their expenses through the application process, the expenses are carefully vetted by Certified Public Accountants who follow stringent procedures thus "the intent is to have the tax credit extended to Alaska businesses." In further response to Representative Gattis, he said there are several "checks" before an accountant can approve expenses.

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CHAIR HUGHES inquired as to whether the state is prohibited from requiring Alaska hire as part of the eligibility.

MR. HAIGHT advised he would give that question further review.

REPRESENTATIVE PRUITT recalled during interim there was discussion on this topic, and he restated his concern.

CHAIR HUGHES asked whether the legislature considered putting hiring restrictions on the program at the outset.

REPRESENTATIVE PRUITT suggested checking with the House Finance Committee subcommittee chair who worked on the bill.

MS. PALMER reviewed the statute, noting that to qualify a person also has to have maintained a place of business within Alaska for the six months immediately preceding.

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REPRESENTATIVE HIGGINS opined the film industry will bring support services into the state until it is proven that local production companies can provide the services.

CHAIR HUGHES asked for information on the budget for the Alaska Film Office.

MR. HAIGHT answered that the film office has one full-time development specialist and one half-time administrative assistant. Marketing expenses including publications, print costs, and trade shows, are in the range of \$15,000 to \$20,000.

CHAIR HUGHES then asked what kind of film production studios are in existence, and whether there has been investment in this type of facility.

MR. HAIGHT advised that he visited a large green screen studio in Anchorage. In further response to Chair Hughes, he said film production companies have indicated there remains a lack of basic infrastructure for the film industry.

REPRESENTATIVE PRUITT heard the mining community is concerned that images created by film productions have caused an increased scrutiny of mining practices in Alaska. He asked whether the subject of a film production is taken into account if the state is not shown in a positive light.

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MS. PALMER acknowledged that concern has been brought forward by the Alaska Miners Association; however, the division does not have a filter for the content of a production. Recent changes to the program created a commission tasked to address the best interests of Alaska. She opined it will be a challenge to "police" the content of what is essentially entertainment.

CHAIR HUGHES expressed her hope that the film office will integrate with other industries statewide.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting was adjourned at 12:43 p.m.