

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ARCTIC POLICY,
ECONOMIC DEVELOPMENT, AND TOURISM**

February 27, 2018

11:32 a.m.

MEMBERS PRESENT

Representative John Lincoln, Chair
Representative Andy Josephson
Representative Chris Tuck
Representative Gary Knopp
Representative Mark Neuman
Representative David Talerico

MEMBERS ABSENT

Representative Bryce Edgmon

OTHER LEGISLATORS PRESENT

Representative Jonathan Kreiss-Tomkins

COMMITTEE CALENDAR

HOUSE BILL NO. 383

"An Act establishing the Travel Alaska Board; relating to a tourism marketing assessment; and establishing a tourism marketing fund."

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 33

Urging the Alaska delegation in Congress to pursue the establishment of an Arctic naval station; supporting the increase in defensive capabilities in the Arctic region; and encouraging the development of critical Arctic infrastructure.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 383

SHORT TITLE: TOURISM MARKETING:BOARD;ASSESSMENT;FUND

SPONSOR(S): REPRESENTATIVE(S) GRENN

02/21/18 (H) READ THE FIRST TIME - REFERRALS
02/21/18 (H) AET, FIN
02/27/18 (H) AET AT 11:30 AM BARNES 124

BILL: HJR 33

SHORT TITLE: DEVELOP ARCTIC INFRASTRUCTURE & DEFENSE
SPONSOR(S): REPRESENTATIVE(S) TUCK

02/09/18 (H) READ THE FIRST TIME - REFERRALS
02/09/18 (H) AET
02/27/18 (H) AET AT 11:30 AM BARNES 124

WITNESS REGISTER

REPRESENTATIVE JASON GRENN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, presented HB 383.

BROOKE IVY, Staff
Representative Jason Grenn
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing of HB 383, answered questions and presented an overview of the legislation on behalf of Representative Grenn, prime sponsor.

JOHN LAMBETH, President
Civitas
Sacramento, California

POSITION STATEMENT: Testified during the hearing on HB 383.

SARAH LEONARD, President/CEO
Alaska Travel Industry Association (ATIA)
Anchorage, Alaska

POSITION STATEMENT: Provided information during the hearing on HB 383.

COLEEN STEPHENS, Chair
Alaska Tourism Marketing Board (ATMB);
Co-Chair, Government Relations
Alaska Travel Industry Association (ATIA)
Valdez, Alaska

POSITION STATEMENT: Testified during the hearing on HB 383.

MICHAL LOWE, Intern
Representative Chris Tuck

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HJR 33 on behalf of Representative Tuck, prime sponsor.

ACTION NARRATIVE

[11:32:43 AM](#)

CHAIR JOHN LINCOLN called the House Special Committee on Arctic Policy, Economic Development, and Tourism meeting to order at 11:32 a.m. Representatives Lincoln, Josephson, Tuck, Knopp, and Talerico were present at the call to order. Representative Neuman arrived as the meeting was in progress.

HB 383-TOURISM MARKETING:BOARD;ASSESSMENT;FUND

[11:33:58 AM](#)

CHAIR LINCOLN announced that the first order of business would be HOUSE BILL NO. 383, "An Act establishing the Travel Alaska Board; relating to a tourism marketing assessment; and establishing a tourism marketing fund."

[11:34:40 AM](#)

REPRESENTATIVE JASON GRENN, Alaska State Legislature, as prime sponsor, presented HB 383. He paraphrased from the sponsor statement, which read as follows [original punctuation provided]:

House Bill 383, the Travel Alaska Act, is a collaboration between the private tourism industry and State of Alaska in support of statewide destination marketing.

Based on a Tourism Improvement District (TID) model found in over 160 jurisdictions across the United States, House Bill 383 would establish a Travel Alaska Board with the authority to manage a new funding mechanism through which the industry may assess themselves to generate revenue. HB 383 would authorize the Department of Revenue to assist the Travel Alaska Board with the assessment process, create an Alaska tourism marketing fund, and manage the capitalization and expenditures of the fund.

A bright spot for Alaska's economy, the tourism industry is currently Alaska's second largest private sector employer, and research suggests that every dollar spent on tourism marketing results in \$58 in visitor spending, \$21 in income for local residents, and \$2.84 in state and local taxes. Adequate funding for effective tourism marketing is critical to the continued health of the industry and keeping Alaska competitive among other domestic or international destinations.

Due to Alaska's recent fiscal challenges, state funding in support of tourism marketing in Alaska has declined significantly, from \$16 million in FY14 to just \$1.5 million in FY17. The Alaska State Legislature included intent language in the FY17 budget calling on the tourism industry to create a self-sustaining program funded by tourism businesses, similar to the Alaska Seafood Marketing Institute structure. In anticipation of this shift, the Division of Legislative Audit has recommended the Alaska Tourism Marketing Board sunset on June 30, 2018.

Now more than ever, the State of Alaska needs an innovative solution to address the lack of funding for tourism marketing. HB 383 bridges the gap between tourism businesses and the State of Alaska, offering enabling legislation to strengthen the long-term sustainability of one of Alaska's most important industries.

I urge your support of House Bill 383.

[11:36:48 AM](#)

REPRESENTATIVE GRENN referred to a PowerPoint presentation in the committee packet as he continued. He relayed that HB 383 serves as the tourism industry's response to the call by the legislature in fiscal year 2017 (FY 17) to make the shift. He said the funding structure that would be established under HB 383 is based on a tourism improvement district (TID) model, which is currently found in 167 jurisdictions in the U.S. He opined that this model is "an innovative path forward to ensuring the long-term health of this vital industry." He stated that the tourism industry, as the second-largest employer in the state, is "a bright spot for Alaska's economy." The industry brings in \$2 billion in direct visitor spending

annually and represents a total economic impact of over \$4 billion a year. He emphasized the research by the McDowell Group, which suggests that every dollar spent on tourism marketing in Alaska yields \$58 in visitor spending, \$21 in income for residents, and \$2.84 in state and local taxes.

REPRESENTATIVE GRENN explained that adequate funding for effective tourism marketing is critical for two reasons: for the health of the state's economy and to keep Alaska competitive among other domestic and international travel destinations. He said the proposed legislation "offers enabling legislation to strengthen the long-term sustainability of one our most effective industries, while bridging the gap between tourism businesses and the state to address Alaska's marketing needs." He advised that taking steps to ensure a thriving tourism industry is key to helping Alaska end its recession. He described tourism as "a renewable resource that can only be developed through marketing." He concluded that "now is the time to build momentum."

[11:39:27 AM](#)

REPRESENTATIVE KNOPP requested information regarding the makeup of the existing tourism board and the rationale in sunseting that board to create another board.

[11:39:47 AM](#)

BROOKE IVY, Staff, Representative Jason Grenn, Alaska State Legislature, presented an overview of HB 383 on behalf of Representative Grenn, prime sponsor. She prefaced her remarks by saying she may defer to the current chair of the Alaska Tourism Marketing Board (ATMB), who was in the room. She related that ATMB was established under Senate Bill 194 [passed in the Twenty-Eighth Alaska State Legislature, 2013-2014], comprises 21 members, and is housed under the Department of Commerce, Community & Economic Development (DCCED). Eighteen of the 21 members are industry members, and three members are associated with the legislature and the administration. Essentially, the board was tasked to work directly with DCCED to enact the Alaska's tourism marketing program, and she recollected that for a period of time, it was a state-managed plan. On July 1, 2016, the plan was managed by the Alaska Travel Industry Association (ATIA), and ATMB has been advising that independent association and the management of that board. She opined that the recommendation for the sunset of the board was offered by the Division of Legislative Audit, based on the

intent language from FY 17, previously cited by Representative Grenn, that the tourism industry should take a more upfront role in the funding mechanism.

REPRESENTATIVE KNOPP questioned why the current board should not be maintained. He explained that he is not particularly fond of the idea of putting the board under the Department of Revenue (DOR) rather than leaving it under DCCED, and he asked whether that was a topic of conversation when crafting HB 383.

MS. IVY said she could speak to why the proposed legislation would house the board under DOR. She said discussion did take place about the board being under DCCED, but ultimately it came down to streamlining the process. She said the board largely participates in enacting an assessment that will involve DOR rather heavily in terms of helping to collect information on gross revenues of payers, determining the weighted votes of the payers for the election process, collecting the funds, and depositing those funds into a tourism marketing fund being created under HB 383. The thought was that there would also be determination of definitions of tourism segments and tourism businesses, and - considering all those different components - the choice was to have just one department involved, and it would be DOR.

[11:43:52 AM](#)

CHAIR LINCOLN imparted that members of ATIA would be presenting on HB 383, which would provide the opportunity for members to ask questions of them.

MS. IVY reviewed key terms relevant to HB 383: ATIA is the leading statewide non-profit membership trade association for the Alaska tourism industry with 664 members, and since July 1, 2016, it has been managing the statewide tourism marketing program through grants from the legislature. The ATMB was created in October 2014 and is set to sunset on June 30, 2018. The TID is a structure in which the industry pays an assessment that is collected by government. Funding is then allocated for tourism promotion. The tourism marketing efforts are governed by and benefit those who are assessed, can be managed by an existing industry association, such as ATIA, and payers can vote to adjust or terminate an assessment. She clarified that the key terms used in the bill language are not official definitions but are terms used within the structure of the bill, as follows: "tourism industry" represents the overall tourism industry; "tourism segment" is a segment of the industry that provides

similar goods and services to travelers, such as hotels, guided tours, and so forth; and "tourism business" means the individual businesses that participate in one or more tourism segments.

MS. IVY walked through the main concepts of the bill, underlining that it would establish the Travel Alaska Board under DOR, with a range of 21-25 members serving a staggered three-year term. The voting members would have to be representatives of assessed businesses or payers, which is the foundation of a TID, and be members of ATIA. The board, under HB 383, would be established by an election; and ATIA would serve to establish the board officially through an initial election and with a vote on a proposed assessment. She explained that for board members to be payers, the board must know what the assessment being proposed is and who the payers are in order to elect board members from the payers. She reiterated that there would be an initial election, and rates for the assessment for each segment could vary from zero to 2 percent in .25 percent increments; different segments of the tourism industry would be permitted to be assessed at different rates. She advised that industry payers would have weighted votes, and DOR would help determine their vote weight, which would be based on the amount they are projected to pay in the next calendar year under the assessment. For an assessment to pass, be changed, or be terminated, it would need approval of business representing a total of at least 50 percent of the weighted votes received.

[11:49:50 AM](#)

MS. IVY offered that subsequent to the initial election, if the assessment passes, board member names would be forwarded to the governor, at which point the governor may appoint from that list. If the governor chooses to reject all or a portion of the list, it would revert to the transition board, ATIA, which would forward additional names, thereby creating a loop process, which has precedent in statute. Assessments could be levied, changed, or terminated by the election process under the weighted vote system; assessments would automatically terminate in six years or sunset on the date on the initial voting ballot, whichever comes first. The proposed legislation would create an Alaska Tourism Marketing Fund for revenues to be collected. Ms. Ivy offered that the first four sections of HB 383 address a Vehicle Rental Tax Fund - an existing vehicle rental tax - which would allow for those entities subject to the vehicle rental tax the opportunity to notify the department that they would like their

vehicle rental tax revenues deposited into the Alaska Tourism Marketing Fund established under HB 383.

[11:51:44 AM](#)

REPRESENTATIVE TUCK surmised that the existing vehicle rental tax funding would not be increased for dues for this board, but companies could opt to have their rental tax be deferred to this board.

MS. IVY confirmed Representative Tuck was correct. She stated that the intent is not to include vehicle rental companies in an assessment of a proposal simply because they already pay a tax. She cited AS 43.52.080(c), which read as follows:

(c) The legislature may appropriate the actual balance of the vehicle rental tax account for tourism development and marketing. This section is not intended to create a dedicated fund.

MS. IVY explained that that was "the designated intent of those funds." In response to follow-up questions, she said that under HB 383, there would be no maximum on the vehicle rental tax; [rental agencies] would have to be a member of another tourism segment that was officially being assessed in order to qualify as a voting member on the Travel Alaska Board. She added, "But the bill does allow for non-voting members - an ex officio member - so, it's possible they could be involved in that capacity." She deferred to the travel industry representatives for further clarification.

[11:54:15 AM](#)

REPRESENTATIVE NEUMAN directed attention to language on page 6, beginning on line 20, which describes when an assessment "shall be levied on the gross revenue of a tourism business that is related to an assessed business segment". He noted that there were various rates, and he asked how that would work.

MS. IVY answered that the intent is that the Travel Alaska Board, in consultation with ATIA, would propose the assessment and communicate with DOR, which would collect the gross revenue information and help determine what the rates would be. Then the Travel Alaska Board would vote "to pursue an election of the payers."

[11:56:17 AM](#)

REPRESENTATIVE GRENN, in response to Representative Neuman, clarified that the board would choose the fees and vote on the rates.

[11:56:51 AM](#)

REPRESENTATIVE NEUMAN asked how the board would handle the assessments with respective industries.

MS. IVY directed attention to a provision within Section 5, on page 4, line 8, regarding AS 44.25.235. She said this language would direct the board to adopt definitions for both the tourism industry segment and tourism businesses. The board would forward those definitions to DOR, at which point DOR would adopt or reject those definitions. She said the board would then propose rates for those different segments.

REPRESENTATIVE NEUMAN asked Ms. Ivy to confirm that the board would set the rates and then the commissioner [of DOR] would either approve or not approve those rates. He asked, "Do they have the authority to do that?"

MS. IVY responded, "At this time, the commissioner of [DOR] would have the authority to help determine ... whether or not to adopt the definition in the tourism segments, ... but it would be industry that would vote on the rates. And so, the legislation here, if it passed, would dictate that the rates can fall between zero and 2 percent. And yes, it would be potentially different for the different segments of the fund."

REPRESENTATIVE NEUMAN asked if it was the intent of the chair to move the bill today.

CHAIR LINCOLN answered no. He said the bill is a complicated one with which he intended the committee take its time and "get it right."

[11:59:13 AM](#)

CHAIR LINCOLN announced that he would begin invited testimony.

[11:59:25 AM](#)

JOHN LAMBETH, President, Civitas, stated that his company has "worked on most of the tourism improvement districts across the country." He said some people ask why there is a need for

destination marketing activities; they inquire why the industry cannot "do this" on its own. He explained that there are two primary compelling reasons why industries must "get together and do this." He continued:

The first is that the primary motivator of a trip is the experience of the destination - it's not a single business - and so, it behooves all of the tourism industry across the state of Alaska to join forces to market Alaska. Second, the big issue is scale. Not one business alone can market Alaska; it takes folks all getting together.

MR. LAMBETH expressed his appreciation for the committee's consideration of the proposal that ATIA has brought forward. He said there has been a lot of debate and discussion within the industry in response to the request of the industry to bring back a solution for funding of the effort." He continued:

This is not a new concept. The evolution of dedicated promotion funding actually goes back to the 1930s. That's when the first agricultural marketing orders were established. You may be familiar with these in other contexts. Essentially it was industry getting together, levying an assessment on the commodities and using that money for marketing. In the 1960s, it was expanded to the idea of downtown organizations, and that led to the birth of the very first business improvement district. There are about 2,000 of these now across North America, and you have many of them in Alaska, and essentially, they are assessing property owners and providing clean and safe services.

... In the 1990s, that expanded into the tourism industry. It really was an idea that was first launched in California. In the first 10 years it got off to a very slow start, but after that it has really mushroomed. There are now 101 districts in California. As Representative Grenn mentioned ..., there are 167 of these districts across the U.S. in 14 states, and there are another 11 states that are currently working on legislation or looking to pursue these kinds of districts.

MR. LAMBETH emphasized that the embrace of the concept of districts has been bi-partisan; most people realize that one in nine jobs is dependent on this industry. He further emphasized

that the destinations that have adopted this concept have experienced consistent, stable funding for tourism promotion efforts; they don't have to go back to apply to the general fund or compete with other state priorities that the legislature must address. He concluded, "It really is a way for the industry to take this into their own hands, to vote on it, and then to manage that very important job of marketing tourism in Alaska."

[12:03:45 PM](#)

REPRESENTATIVE KNOPP offered his understanding that Mr. Lambeth had said that 101 of the [167] districts are in California; the rest are spread throughout the U.S.

MR. LAMBETH confirmed that is correct. He said the main reason for that is timing, since the initial growth was in California. He predicted that many more would be seen in other states in the next several years. In response to a follow-up question, he said some districts are statewide, but it is common to see multi-jurisdictional districts that combine cities or counties. He explained that where the districts are drawn really has to do with the destination that is being promoted.

[12:05:49 PM](#)

REPRESENTATIVE TALERICO noted that under HB 383, part of the funding is a tax credit or designation, and he questioned whether that is a fairly common funding mechanism.

MR. LAMBETH replied that he has not seen a specific tax credit or diversion of tax revenue like that before; however, he said it seems to make sense as a reasonable alternative to assessing that industry. He continued:

It is essentially the same effect as if you assessed that industry and used that assessment money for marketing and weren't taxing them. And so, we certainly have seen trade-offs like that in other places where certain industries have come in and been assessed, where they had different tax rates In fact, we saw that in California with vehicle rental cars.

[12:07:39 PM](#)

SARAH LEONARD, President/CEO, Alaska Travel Industry Association (ATIA), thanked the committee for hearing the bill and

Representative Grenn for his help in facilitating the conversation. She characterized ATIA as "a chamber of commerce for Alaska's tourism industry." She said ATIA is the contract manager for the Alaska tourism marketing program and is responsible for statewide marketing, planning, and program development. She said ATIA is a bright spot in Alaska's economy, largely because of past state investment in ATIA's marketing program. She said there has been a long history in supporting statewide tourism marketing. Unfortunately, between 2014 and 2017, that state funding has decreased, resulting in a decrease in Alaska's investment in destination marketing of approximately 90 percent. She said while most states' support of destination marketing nationally has increased over the last five years, Alaska is at the bottom in terms of state funding, just before Delaware. She related that State of California spent \$119 million on tourism marketing in 2017. She continued:

When you look at total dollars spent in tourism marketing nationally, Alaska accounted for only .3 percent of all national spending on state tourism promotion in 2017. That's down from 2.5 percent in 2014. Those seem like small percentages - small numbers - but what that means is our market share is declining while the industry is growing nationally.

And while Alaska visitor numbers have been growing - especially in the cruise sector ..., our independent travel [sector] is stagnant. We're losing what we could have been capturing with more competitive marketing funding. ... That's translating to Alaska's losing the competition to other states that are actively pursuing the traveling public.

MS. LEONARD stated that Alaska is "a long-haul destination" that requires advanced planning. She said, as Representative Grenn mentioned, today's marketing efforts pay in future dividends through economic impact and return on investment.

[12:10:20 PM](#)

MS. LEONARD said ATIA engaged with a research group called Tourism Economics to conduct an independent analysis of the state's competitiveness in terms of destination marketing investments and Alaska's tourism sector performance. Tourism Economics used existing data from national and local sources, such as the McDowell Group, and reported that Alaska lost \$189

million in visitor spending between 2012 and 2016, and \$57 million in visitor spending in 2016 alone.

MS. LEONARD said the legislature instructed the tourism industry to come up with a funding solution, and the industry "took that challenge to heart." She said that mandate from the legislature was a wake-up call for the industry. She continued:

We took that mandate from you and looked at it as an opportunity to have some certainty around tourism promotion dollars each year and have industry manage the program ... [in] collaborations with the state.

MS. LEONARD said ATIA and industry leaders with ATMB, as well as other stakeholders, considered several possible funding mechanisms ranging from flat fees, a statewide bed tax, to a state lottery. While considering the model, the parameters were, and continue to be, that "any new funding solution that industry would bring to the table should not be reliant on one industry segment or funding source"; revenue should "focus primarily on visitor activity, with the least impact on Alaskans"; "an assessment can be passed on to the customer"; and, perhaps most important, "any successful plan would be a package of this new revenue we were willing to bring to the table, potentially assessing tourism-related businesses, but that we also wanted a continued collaboration with the state through the vehicle rental car tax." She said the state already collects that tax, and ATIA thinks that is in part because of "healthy marketing promotion." She explained that ATIA is increasing visitation to Alaska, and those visitors are renting vehicles, which results in more revenue into that fund. She said as Ms. Ivy noted, intent language outlines that the legislature may appropriate the balance of the vehicle rental tax to tourism development and marketing.

[12:12:56 PM](#)

COLEEN STEPHENS, Chair, Alaska Tourism Marketing Board (ATMB); Co-Chair, Government Relations, Alaska Travel Industry Association (ATIA), related that she also runs a family-owned business - Stan Stephens Cruises - so her perspective is both as an industry member and as an individual passionate about the survival of marketing in the industry.

MS. STEPHENS said since the idea of TID was broached in 2017, she has worked with the industry and heard concerns about equity, costs to business and how that cost could be passed on

to customers, performance evaluations, and metrics. [Some] questions that have been addressed in phase two of TID are regarding how much a business would be paying, which businesses would be included, how a business could benefit from a TID, and how the Travel Alaska Board would be selected and would represent the payers. Ms. Stephens continued:

Moving forward, we're still continuing to meet with industry. We have monthly Q&A sessions to make sure they're up to date on where we are, and [we are] working with you all. We're also working in one-on-one meetings with many businesses, as well as we've created a TID work group that exists as multiples of our board members, as well as industry segment members, whether they're members of ATIA or not. If they are potential payers and want to participate in the conversation, we have opened the doors for them to do so.

MS. STEPHENS said that HB 383 is a complex piece of legislation that may not be perfect. She said it is important to know that a TID has two stages. Stage one is the enabling legislation, HB 383.

Stage two is the piece that falls on industry's shoulders, which is to decide the sector definitions to move towards the Department of Revenue to approve and then take that suggested assessment to the industry for both approval of the assessment level and who will be paying, as well as the approval of the board members, which would be representatives of the payers. ... What we're asking is for you to give us the tools to get to stage two, which is the enabling legislation

MS. STEPHENS stated that as a small business owner and likely payer of the TID, she is asking the legislature "to help us create that tool to really sustain businesses in Alaska and industry for Alaska into the future."

MS. STEPHENS, regarding the slide Representative Grenn had shown depicting what one dollar of investment in marketing can mean to Alaska, said she would like to convey what it would mean if there was no marketing in Alaska. She stated, "We're at a very crucial point in time to create that next generation of a sustainable and predictable tourism marketing program." She said large corporations and large businesses invest money

because they "have the resources to fill their assets." Not having a marketing program will affect smaller businesses, she said, and smaller communities that do not have sufficient resources but depend on the state to entice people into imagining Alaska as a travel destination. She concluded, "So, we're looking forward ... [to] continuing this process and working with you guys to help get that enabling legislation for all of us to promote Alaska."

[12:17:35 PM](#)

REPRESENTATIVE TUCK, after asking Ms. Leonard to restate the information she had given regarding the loss of \$57 million, said he knows that the tourism industry has been setting records in Alaska, and he asked if that means that tourism industries are also setting records elsewhere.

MS. LEONARD answered that it depends on the destination. She said ATIA tracks information on visitors inbound to the U.S., which fluctuates depending on what is happening with the federal administration. She said there have been record numbers, and they have been driven by the cruise partners. Alaska continues to be a popular cruise destination. She continued:

What we're focusing on ... is not only the volume of visitors our cruise partners are bringing to Alaska, ... [but also] the market share that Alaska is losing at a rate compared to our competitors domestically.

REPRESENTATIVE TUCK offered his understanding that Ms. Leonard was saying that the market share for cruises in Alaska is rising proportionally [higher than] other types of tourism in Alaska.

MS. LEONARD responded that cruise partners are bringing bigger ships and increasing volumes of visitors to Alaska; ATIA is beginning to see numbers stagnating in other segments of the industry.

REPRESENTATIVE TUCK summarized that Ms. Leonard was saying that "other than cruise lines, you've seen other sectors of the tourism industry suffer."

MS. LEONARD confirmed that is an accurate statement.

REPRESENTATIVE TUCK asked if there are studies that show the decrease of Alaska's market share over the last several years.

MS. LEONARD indicated that the numbers she had previously shared, regarding the Alaska's having lost out on \$189 million and \$57 million in visitor spending alone in one year [were from a study]. She reiterated that this loss has resulted because Alaska is not kept up with a market share competitive to what other destinations are spending in destination marketing.

REPRESENTATIVE TUCK asked if that data shows a state-by-state comparison.

MS. LEONARD said she could share the full report, which analyzes "like destinations," such as other wilderness destinations compared to Alaska, but it does not compare all 50 states in a state-by-state comparison.

[12:21:46 PM](#)

REPRESENTATIVE NEUMAN asked what the current vehicle rental car tax is and where it goes.

MS. LEONARD answered that the current vehicle rental car tax is approximately \$10 million and is expected to grow. She deferred to Ms. Ivy to answer where the funds go.

[12:22:14 PM](#)

MS. IVY directed attention to the first page of a two-page graph, which shows the vehicle rental tax that was first collected in FY 06. She said at first some of the funds went to the tourism marketing program, but they have also gone to Department of Natural Resources (DNR) and Department of Transportation and Public Facilities (DOT&PF), Alaska Marine Highway System (AMHS), and a small capital grant from FY 07 for the Chilkat Indian Village Cultural Center. She said the sponsor's office reached out to DOT&PF and DNR to inquire where those funds had gone in recent years. She offered her understanding that the funds to DOT&PF were allocated for maintenance and operation of highway and aviation runways, and DNR spent their resources on personnel services for maintenance and operations of parks in four different regions.

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REPRESENTATIVE NEUMAN expressed concern that there would be a hole in funding of DNR and DOT&PF when the money is instead given to ATIA. He offered his understanding that there were bonds due for a parking garage in Anchorage, and some of the

vehicle rental tax was being used to pay off those bonds. He asked if those bonds had been paid in full.

MS. IVY said she would have to do some research to find the answer. Regarding current spending of vehicle tax revenues for general government services, she said the sponsor does recognize that [switching allocation of vehicle fund tax to ATIA] would create "somewhat of a hole in the general fund." She deferred to the industry to speak to why it is important for the vehicle rental companies "to be included in this." She noted that on page 16 of the Legislative Finance overview of the FY 19 governor's request, the vehicle rental tax was a designated fund being used for non-designated purposes, therefore was flagged as a misuse of funds. She said the previously mentioned intent language of the FY 17 budget emphasized reduced reliance on unrestricted general funds. She further noted that in AS 43.52.080, the rental tax statute, it is stated that "those funds may be appropriated for tourism development and marketing."

[12:26:33 PM](#)

REPRESENTATIVE NEUMAN said Alaska is a state of 730,000 people, and that number can swell to 4-5 million in the summer. He said he thinks the original intent of the vehicle rental tax was to counteract the impact of that influx of people on the state's infrastructure. He added that the legislature would have to figure out whether "to swap those funds around."

[12:27:15 PM](#)

REPRESENTATIVE KNOPP asked whether taxicabs and Uber and Lyft vehicles would be part of the vehicle rental tax someday.

MS. IVY responded that she would have to investigate that and get back to Representative Knopp with an answer.

[12:28:22 PM](#)

CHAIR LINCOLN asked if the industry thinks [the tax] applies to Uber.

MS. STEPHENS answered that as far as the assessment, she does not know the specifics of the existing vehicle rental car tax; however, she said industry has not specifically identified what those segments would be. She said it is a continuing dialogue.

REPRESENTATIVE KNOPP said that for years he dealt with Kenai Peninsula Tourism Marketing Council (KPTMC) and has address many of the issues being discussed. He said he is glad to see this being brought forward at the state level because trying to do this at the municipal level can be difficult. He explained that one city enacted a bed tax for a short period of time, and the next city advertised that their prices were cheaper because they had no bed tax. He said his decision regarding the support of HB 383 would depend on the feedback he hears from industry members.

MS. IVY relayed that she had found the answer to Representative Knopp's previous question. She said AS 43.52.020 identifies the rate of the tax levied as 10 percent of the total fees and cost charged for the lease or rental of the passenger vehicle. Further into that statute, she noted, is the definition of passenger vehicle, which does not include a taxicab.

[12:30:11 PM](#)

REPRESENTATIVE TUCK asked if there has been any consideration of allowing the cruise ship tax "to be deferred, as well, into this board."

MS. LEONARD said that idea was explored but tabled due to perceived challenges in "the federal commerce laws and regulations that apply to those type of businesses that are subject to interstate travel and the use of any revenue assessed or taxed to those companies and the limitations around that use." She added, "And it was honestly too big of a challenge for our industry to take on those federal laws and regulations at the time when we were proposing a pretty new idea for our industry."

[12:31:40 PM](#)

REPRESENTATIVE TUCK asked if other tourism improvement districts do seasonal assessments.

MS. STEPHENS answered that there is a variety of equations based on the districts and their model for tourism. Some have "seasonality," while some have exemptions for a variety of reasons. She said Mr. Lambeth has counseled the bill sponsor to look at the individual district and work with the businesses in it to set up a successful stage two. She said HB 383 would be the enabling legislation needed to get to the stage two conversation to determine "who's in, who's out, and who's at

what level." She said, "That becomes that industry assessor pay vote."

REPRESENTATIVE TUCK asked for confirmation that phase two would "take the control away from us; you would be determining that."

MS. LEONARD stated that the identification of the business segment - the level of assessment based on the range in the bill that the legislature would approve - is proposed by industry but would still need to be approved by DOR, and the appointees to the board would have to go through the governor appointee process. She said it is a collaboration driven by the needs of industry.

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CHAIR LINCOLN asked how the distinction is made between "in-state visitors to hotels and vehicle ... rentals and things like that, versus tourists." He said, "A lot of this is a balancing act of governance between the state government and industry and keeping an eye out for everyday Alaskans." He said he does not have a sense of what the volume is in terms of how many Alaskans use hotels in Anchorage and rent vehicles for business. He surmised that urban centers that enjoy business from rural areas may have "a disproportionate amount of power or influence with this."

MS. STEPHENS stated, "Our goal ... was to look at things that least impact Alaska travelers." She said interstate travelers currently pay local assessments or vehicle rental car tax. She said, "This would be a very small percentage added on to that." She stated, "Our guidance ... is to write an exemption for Alaskans, create some equity challenges in legal interpretation, but that would be something we'd have to look more into."

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REPRESENTATIVE NEUMAN asked how much money ATIA received from the state last year and the year before.

MS. LEONARD answered that in FY 17, ATIA received \$1.5 million from the state, and this year it will implement a \$3 million state grant, in addition to what the industry pays to participate in the program.

REPRESENTATIVE NEUMAN remarked that the legislature was [using for comparison] what the state was giving the tourism industry

out of its limited amount of revenue. He said he thinks the intent was that the tourism industry fund itself to the extent possible. He observed that HB 383 would take \$10 million from vehicle rental tax currently being collected to help cover the impact of millions of extra tourists coming to the state. He continued:

ATIA, well it's a nice plan to just say, "Well, give me \$10 million of that and now we'll get \$10 million from the start when we were getting like one and a half or two" I wish we could afford to try to get you \$10 million, but ... I don't think that the state can, because ... [there] are a lot of needs in the state right now, and I don't think that was the original intent that we were asking the industry about.

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MS. LEONARD responded that she thinks the industry would argue that the vehicle rental car tax is part of the visitor industry and the industry is contributing to that fund, and there is an economic return from a healthy visitor industry. She said the industry brings visitors to the state that utilize the resources and infrastructure also utilized by Alaska residents, and the economic return from a healthy visitor industry is shown in healthy businesses, the ability to hire Alaskans, and the ability to support locally that infrastructure need. She said it is a priority of the industry to maintain a collaboration with the state. She said, "We think that state should have some skin in the game. ... It is an important and, we think, reasonable investment, just like in other industries, to market your industry and your businesses, so that you can continue to provide those economic returns at the local and ... state level."

REPRESENTATIVE NEUMAN said he does appreciate the tourism industry but thinks about the state parks that cannot even afford to take care of garbage. He continued:

I think that that was the intent to support the industry through infrastructure, ... the infrastructure that is the state's responsibility through highways and roads and ferries and parks and those types of programs.

REPRESENTATIVE NEUMAN said it is obvious that the tourism industry does a lot for Alaska, but he knows there has been a reduction of state money to other industries, for example, the seafood industry. The state can afford only so much, he said.

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REPRESENTATIVE TUCK asked Ms. Leonard if she could not envision the industry "doing this on their own" without government assistance.

MS. LEONARD answered that the priority of the industry is that it needs a partnership with the state at some level through the vehicle rental car tax.

REPRESENTATIVE TUCK stated, "It's really difficult to see the return on investment on this, and I think that's the reason why we've put intent languages in; that's the reason why you see ... some of the declines." He asked if the reason the industry is coming to the legislature with HB 383 is because the industry has tried but "can't get it together."

MS. LEONARD answered that part of the reason for the framework and this proposed legislation is that "through government collection there implies some fairness and equity among whatever business sectors are potentially being assessed." She said the state is already set up to have those fees collected. She continued:

Through a private industry association, it would be based on voluntary contributions and agreements. With the state framework, and then collaboration, ... we are asking government to help us, so that there is some fairness and equity and transparency with the state system.

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MS. STEPHENS added that the other piece that the assessment model offers is predictability. She said it can be challenging not knowing [the funding source], which is what happened this past year when the budget cycle was implemented later.

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CHAIR LINCOLN summarized that the industry is asking the state to delegate its taxing authority to the industry, such that the

industry can levy an assessment and "compel broad participation in the assessment and the marketing." It is also asking for the vehicle rental tax to be an automatic part of that funding. He surmised that the need for state participation in HB 383 is "multi-faceted."

MS. LEONARD opined that Chair Lincoln's summary captures the partnership being asked of the legislature by the industry.

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REPRESENTATIVE KNOPP said the industry is asking the legislature to allow the industry to "define the participants in this," which he said he thinks is "a slippery slope." He offered examples:

So, the cruise line industry, because of the federal legislation, may not allow you to go that path, but what about the hotels and lodges? ... If, in fact ... they are exempt, as well, as part of the organization, then it puts an undue burden on all those other ones. ... And then I think about all the stores that are selling retail gift items - part of the tourist industry - we have a separate sales tax. ... I say that, because that goes to my point of being undefined. I'm pretty skeptical of that. If it was brought to us with specifics, I'm much better at that
....

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MS. STEPHENS said she understands, and she thinks businesses in Alaska "have some of that same hesitation." She continued:

What we're asking for is to be able to get to that second stage of conversation. Preliminarily, we have had conversations with hoteliers. We've had some regions of Alaska discuss retail. We've ... looked at tourism attractions. We've looked at all of those options, and what we've learned is that in every region in Alaska there's a complexity to that. ... So, that's why you don't see those specifics in the legislation; it's up to us as an industry, at stage two, to find that correct equation to put forward a successful vote. And the onus is on us to do that, otherwise we ... don't have the additional funding for

the program. ... So, I think you will find the passion from the industry to get to that level.

REPRESENTATIVE KNOPP said the problem is that the legislative process has been taken out of "step two."

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REPRESENTATIVE TUCK said an often-heard remark is that government is not the solution but is the problem. He said he thinks in this situation, government is the solution. He explained that although he knows that the industry has a problem with the government imposing regulations and getting involved in taxation, "this is a perfect example where government can be the solution."

MS. LEONARD expressed appreciation for the comment made by Representative Tuck, because she said the industry is sincere in its effort to collaborate with the state.

MS. STEPHENS said currently there is just over \$11 million coming from the vehicle rental car tax, and the goal is to grow that number, as well as other contributions to the state, which are currently at approximately \$110 million. She concluded, "And as we continue to grow our industry with successful marketing, we hope to be a positive influence on that growth, as well."

[HB 383 was held over.]

HJR 33-DEVELOP ARCTIC INFRASTRUCTURE & DEFENSE

[12:47:54 PM](#)

CHAIR LINCOLN announced that the final order of business would be HJR 33, Urging the Alaska delegation in Congress to pursue the establishment of a U.S. Coast Guard port in the Arctic region; supporting the increase in defensive capabilities in the Arctic region; and encouraging the development of critical Arctic infrastructure.

CHAIR LINCOLN stated his intent to bring before the committee a committee substitute.

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REPRESENTATIVE TUCK moved to adopt the proposed committee substitute (CS) for HJR 33, Version 30-LS1350\D, Radford, 2/14/18, as a working document.

CHAIR LINCOLN objected for purposes of discussion.

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The committee took an at-ease from 12:49 p.m. to 12:51 p.m.

[12:51:04 PM](#)

MICHAL LOWE, Intern, Representative Chris Tuck, Alaska State Legislature, presented HJR 33 on behalf of Representative Tuck, prime sponsor. He outlined the changes made in Version D: [On page 1, line 1, "Arctic naval station"] was changed to ["U.S. Coast Guard port in the Arctic region"]; and [on page 2, line 30, "naval station"] was changed to ["Coast Guard port capable of supporting naval contingency operations"].

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CHAIR LINCOLN removed his objection to the motion to adopt Version D. There being no further objection, Version D was before the committee.

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REPRESENTATIVE TUCK expressed appreciation for the work Mr. Lowe had done as his intern.

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MR. LOWE spoke to the importance of resolutions as talking points to highlight what a state wants. He said bi-partisanship and unanimity are important in showing "the intent of Alaska." He began a PowerPoint presentation, and drew attention to slide 2, which covered the purpose and scope of the presentation and offered the following bullet points:

- Introduce HJR 33 to AET Committee
- Cover evolving situation in the Arctic
- Provide primary sources and relevant information to support claims
- Discuss benefits of port to the state
- Major challenges impeding implementation

MR. LOWE said the next few slides are overlays he acquired from the Internet. He said receding polar sea ice has opened new sea lanes for vessels, which reduces intercontinental routes by as much as 5,000 miles. He said, "The basis for the U.S. Coast Guard port stems from the opening of sea lanes in the Arctic." He said one route that is important is shown in lime green on a map on slide 3, and it is right above Russia.

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MR. LOWE directed attention to slide 4, which shows mineral and economic potential of the Arctic. He said the U.S. conducted a survey in 2008 which showed that 13 percent of the world's undiscoverable oil and 30 percent of the world's natural gas lies in the circumpolar Arctic. This potential is attracting interest from other nations; Russia has the most land north of the Arctic circle, and much of its economy lies in the Arctic. He said Russia already gets approximately 20 percent of its gross domestic product (GDP) from the Arctic. China is involved, as well, and he said he would talk about that later.

MR. LOWE turned to slide 5, which shows an overlay of military facilities in the Arctic, and he pointed out that the U.S. has none. In contrast, Russia has about 20 [military] facilities lining the northern sea route. He said it is clear that Russia regards this sea route as "a very important route in the future" and wants to ensure its presence there. Mr. Lowe opined that [the U.S.] should have a presence there as well.

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MR. LOWE showed slide 6, which depicts China's involvement in the Arctic. He said China has written its Arctic policy, declares itself a "near-Arctic state," and seeks to build a "polar silk road." He said China has built an ice breaker and desires to "regulate and manage affairs of the Arctic." China has joined forces with Russia, he said. Further, China recently filed for permanent observer status in the Arctic Council, which it was granted. Mr. Lowe stated that China sees the potential of the Arctic.

MR. LOWE directed attention to slide 7, which addresses the National Defense Strategy [of the U.S.], which replaces terrorism with nation-state strategic competition as a primary concern. He said reading this document is important in understanding the shift happening in the nation's military

strategy and the need for facilities and investment in infrastructure to shift, as well.

MR. LOWE, showing slide 8, stated that federal investment is good for Alaska's economy, and a U.S. Coast Guard base would add to that and provide not only initial stimulus but would boost the economy over time. He mentioned Joint Base Elmendorf-Richardson (JBER) is one of the reasons Anchorage is the population hub of Alaska; the military requires a diverse work force; and the base is an economy within itself. Directing attention to slide 9, Mr. Lowe talked about the mission of the Department of Military & Veterans' Affairs (DMVA). He talked about The Adjutant General's (TAG) vision for DMVA. He indicated a [Venn diagram] on the slide, which shows "Viable Arctic Strategy," "Engagement with Alaska Communities," and "Emergency Management Capacity," with "Rural Engagement" connecting them all. He said the U.S. Coast Guard does search and rescue, and the station closest [to the Arctic] is in Kodiak, Alaska. He said with an increase of oil tankers and cruise ships through the Arctic sea lane, if one were to get stranded, it may be Canada that would have to help, because a U.S. Coast Guard vessel would not be able to get there in time. In other words, he said, U.S. capabilities in the Arctic are lacking.

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MR. LOWE turned to slide 10, and he stated that the primary challenge is get the U.S., as a whole, to embrace its role as an Arctic nation. Alaska is the reason the U.S. is an Arctic nation, but the rest of the country does not have that fact in its consciousness or realize the importance of protecting the nation's interest in the region and providing emergency response capabilities to the region. He said there are extended time horizons for construction in the region because of the extreme weather. He said the U.S. is behind in its investment in the Arctic, and he opined that the nation should invest soon. He said there are so many threats that face the nation that it can be difficult to bring attention to the Arctic, but Mr. Lowe stated, "I still think we should try."

MR. LOWE showed slide 11, which recapped the PowerPoint and the following ideas that had been covered: the evolving tensions and rising opportunities in the Arctic; primary documents from federal agencies; and benefits to the state economy as well as to the state military missions.

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REPRESENTATIVE KNOPP offered his understanding that the U.S. Coast Guard had, for the last few years, maintained a seasonal station in Nome, Alaska.

MR. LOWE confirmed that that station has been seasonal. He explained that HJR 33 proposes a permanent deep-water port in Nome, with infrastructure development.

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CHAIR LINCOLN asked Mr. Lowe if he has an opinion regarding an ideal location for an [Arctic] port in Alaska.

MR. LOWE answered he does not. He said Nome has graphite development; he mentioned the Chinese and a natural gas pipeline and streaming the natural gas there instead of to Nikiski, Alaska; and development of a U.S. Coast Guard base there. He added that he was not advocating the idea, but it was one he had heard that would give a deep-water port in Nome multiple functions.

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REPRESENTATIVE TUCK, as prime sponsor of HJR 33, commented that the United States would not be an Arctic nation without Alaska. He said that even though the federal government owns approximately 60 percent of Alaska and gives Alaska a lot of federal money, he thinks the federal government overlooks the economic potential of the Arctic, as well as overlooking national security needs. He noted that there had been a presentation to the House Special Committee on Military and Veterans' Affairs by a retired U.S. Coast Guard member regarding the history of the Coast Guard. He opined that it makes sense to have a base "up here." He said the guard had revenue cutters that were small, two-sail ships that collected revenue from merchant ships. Eventually that became the U.S. Coast Guard that exists today in Alaska. He said the guard has brought reindeer to people starving on islands; it has brought building supplies and built infrastructure. He said it makes sense to have a U.S. Coast Guard base [in Nome] so that "we can police our waters."

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REPRESENTATIVE NEUMAN talked about the tremendous amount of work that was put into the Alaska Arctic Policy Commission and his work on this issue, and he emphasized that there is a strategic plan laid out within the commission regarding development of infrastructure, including telecommunications, what resources are available, and how they can be marketed and developed. He encouraged the committee to look at the findings of the commission. He concluded, "There is a plan for this set out."

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CHAIR LINCOLN announced that HJR 33 was held over.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee On Arctic Policy, Economic Development, and Tourism meeting was adjourned at 1:13 p.m.