

HOUSE FINANCE COMMITTEE  
January 24, 2017  
1:32 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Valerie Davidson, Commissioner, Department of Health and Social Services; Shawnda O'Brien, Acting Assistant Commissioner, Department of Health and Social Services; Vickie Wilson, Director, Alaska Pioneer Homes, Department of Health and Social Services; Andy Mack, Commissioner, Department of Natural Resources; Fabienne Peter-Contesse, Support Services Director, Department of Natural Resources; Ed Fogels, Deputy Commissioner, Department of Natural Resources; Mark Wiggin, Deputy Commissioner, Department of Natural Resources; Sarah Leonard, President and Chief Executive Officer, Alaska Travel Industry Association (ATIA); John Lambeth, President and Chief Executive Officer, CIVITAS; Colleen Stephens, Stan Stephens Glacier & Wildlife Cruises and Member of the ATIA Board of Directors.

SUMMARY

FY 18 BUDGET OVERVIEWS:

DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
DEPARTMENT OF NATURAL RESOURCES

PRESENTATION: A SUSTAINABLE SOLUTION FOR ALASKA DESTINATION  
MARKETING FUNDING: A TOURISM IMPROVEMENT DISTRICT MODEL

Co-Chair Seaton discussed the meeting agenda.

^FY 18 BUDGET OVERVIEWS: DEPARTMENT OF HEALTH AND SOCIAL SERVICES

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Co-Chair Seaton asked members to hold questions until the end of the presentation.

VALERIE DAVIDSON, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES (DHSS), introduced staff in the room. She provided a PowerPoint presentation titled "Results for Alaskans: Department of Health & Social Services House Finance, FY2018 Department Overview" dated January 24, 2017 (copy on file). She addressed slide 2 and addressed the department's history. She shared that the Alaska Territorial Health Department had been established in 1919. At the proclamation of statehood in 1959 the department's responsibilities had been expanded to provide for the promotion and protection of public health and welfare (outlined in Article 7, Sections 4 and 5 of the Alaska Constitution). The slide included links for the department's website and other resources including the department's constitutional authority, statutory authority (Title 47), and the FY 18 proposed budget.

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Commissioner Davidson introduced slides prepared by the Legislative Finance Division (LFD). She asked a colleague to outline the slides.

SHAWNDA O'BRIEN, ACTING ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, addressed slide 3 that

provided a representation of the department's total General Funds (GF), including its designated general fund (DGF) authority. She detailed that the department's GF growth over the past 10 years had been \$300 million. Beginning in FY 15 the DHSS GF had begun to decline; the total undesignated general fund (UGF) savings realized since FY 15 was \$190 million. Slide 4 included all funds for the department's operation broken out by lines of authority. She shared that 15 percent of the cuts taken over the years had been to direct programs. The department's budget had grown over the past 10 years, primarily in the grants and benefits line. Of the reductions taken by the department in recent years, 15 percent had been to direct benefits or programs. The grants line reflected that 77 to 78 percent of the department's total funding was in its benefits and program areas.

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Ms. O'Brien addressed slide 5, which showed how GF was broken out across the department's divisions. She noted in 2010 there had been a large dip in the Medicaid Services program, which represented [federal] American Recovery and Reinvestment Act (ARRA) funding. Subsequently, the growth had steadily climbed due to program area growth and the loss of ARRA funding. The largest increase to the Medicaid program occurred in FY 12 due to program growth. Slide 6 included all funds spread across all divisions. The Medicaid Services accounted for most of the department's funding (64 percent). The Medicaid program had decreased overall in UGF funding by \$112 million since 2015. However, the department had been able to maintain services in the area despite reductions in UGF funding.

Ms. O'Brien turned to slide 7, which showed a comparison of all funding sources over the past 10 years. While the department's UGF funding had continued to decrease, federal funds had maintained its service levels. She elaborated that many of the programs were critical safety net programs; programs the department had reduced funding for totaled 15 percent of its overall benefits.

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Commissioner Davidson moved to slides 8 through 19 that included a complicated matrix with 99 rows and 12 columns of detail as requested by the House Finance Committee. She

provided detail about the format. She explained the gray horizontal rows showed summary information. Column 8 pertaining to the rating of effectiveness used a scale of 1 to 3 (number 1 reflected getting the job done, number 2 indicated getting the job done but with substantial opportunity for improvement, and number 3 reflected not getting the job done with little opportunity for improvement). The information in the first column showed the department total including the budget breakdown by all funds (UGF, DGF, Federal, and Other). The total number of employees were also included. The constitutional requirements as outlined in Article 7, Sections 4 and 5 was included and statutory authority was shown on the far right.

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Ms. O'Brien explained slide 8 showing department totals and the Division of Alaska Pioneer Homes, which was made up primarily of staff serving residents of the homes. Most of the staffing appeared in row 4, which also accounted for the majority of the component's funding.

Ms. O'Brien addressed slide 9 that pertained to the Division of Behavioral Health. She highlighted that most of the staffing and positions for the division were located at the Alaska Psychiatric Institute (API) and were tasked with providing direct services to patients. Row 6 showed the Treatment and Recovery Grant Program, which accounted for the largest percentage of UGF in the division. Funding in the component was primarily for grants and services for substance abuse, disorder, prevention, and treatment). The component also included mental health treatment services. The UGF funds went to 16 residential treatment facilities and 19 outpatient treatment facilities. The department anticipated that Medicaid expansion would allow for increased usage for providers to bill Medicaid for services for residential and outpatient treatment services. The administrative component was undergoing some reorganizational changes. She turned to slide 10 related to Children's Services. She noted that the administrative component for the division was undergoing reorganizational efforts.

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Ms. O'Brien moved to the Office of Children's Services (OCS) on slide 10. The largest body of the division's employees were in the frontline social worker component. Rows 20 through 23 pertained to foster care and adoption guardianship payments (the division's formula program). Slide 11 showed Health Care Services. The medical assistance administration component included most of the division's employees (shown in row 28). She detailed the individuals were responsible for paying Medicaid claims and for SB 74 [Medicaid reform legislation passed in 2016] Medicaid redesign work. Row 25 pertained to catastrophic coverage. She pointed out that the numbers had been reduced significantly over the years - over 400 Alaskans had been served by the component in the past, the majority of which were now served by Medicaid.

Ms. O'Brien addressed the department's Division of Juvenile Justice on slide 12. Rows 31 through 39 indicated that most of the division's employees were spread across the facilities and were providing direct services to juveniles served by the division. She relayed the division had closed its Ketchikan facility in an effort to reduce costs and create efficiencies due to low utilization. She shared that the department had lost its one-time funding for the Nome Youth Facility in the proposed FY 18 budget and was expecting its closure in FY 18.

Ms. O'Brien moved to slides 13 and 14 pertaining to the Division of Public Assistance. Most of the division's staff resided in field services - staff responsible for determining eligibility and providing direct services. The majority of the UGF funding for the division went to adult public assistance programs; the funding was used to satisfy the state's maintenance of effort for Medicaid.

Co-Chair Seaton asked for the rows.

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Ms. O'Brien replied she was addressing row 45 [slide 13]. She turned to slides 15 and 16 related to the Public Health Division. She pointed to row 60, which showed that public health nursing accounted for most of the division's staff who worked in public health centers. Row 70 pertained to community health aide programs (CHAP) grants; the department had successfully refinanced the funding for the CHAPs grants through Medicaid Services in the current year

- the remaining funding in the component made up for what was left of the program area. She noted that the funding the department had secured through Medicaid financing was 100 percent federal.

Ms. O'Brien addressed slide 17 pertaining to Senior and Disabilities Services. Row 73 reflected that most of the division's employees were housed in the administrative services component, which also included staff who were not classified as administrative in nature. Most of the employees resided in the component for efficiency of managing the division. Row 75 pertained to community-based grants for seniors in their homes; the programs provided meals, transportation, and low-cost services to help maximize independence.

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Ms. O'Brien turned to slide 18 related to the department's Support Services Division (essentially the department's administrative services division). Row 88 reflected the division's information technology (IT) services organization and accounted for most of the division's employees. She detailed that IT staffing would move under the new Shared Services initiative, with a centralized information office in FY 18. There would be a dotted line from DHSS agency to the Department of Administration (DOA) for the services.

Ms. O'Brien advanced to slide 19 pertaining to Medicaid Services. Row 95 was behavioral services and row 96 was children's Medicaid services, which had been combined into row 95. The services had traditionally been covered under children's Medicaid services, but were largely behavioral health related; therefore, they had been combined into one component in FY 18. Row 97 was adult preventative dental - the funding did not represent all the dental services covered. Row 98 was the largest of the Medicaid Services components and included all services that did not fall into other specified categories. Row 99 was senior and disabilities services.

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Representative Ortiz referred to slide 8 related to the Pioneer Homes. He wondered what level of cutbacks the homes had seen over the past couple of years. He asked if the

division was still able to meet its mission based on cutbacks.

Commissioner Davidson answered that the UGF cuts to the Alaska Pioneer Homes had been 9.8 percent or \$3.678 million since FY 15. There had been a total reduction of 23 full-time positions (4 percent) since 2015. The division had reduced the number of beds available for Alaskans to enter the homes; it was in the public interest to provide quality and safe care in the homes. As the state's population was aging it was common to see higher level of care needs in the home (including level 3 - the highest level of care). It was challenging to find assisted living or skilled nursing facilities that were able or willing to take on individuals experiencing dementia; therefore, the Pioneer Homes had become responsible for providing most of the dementia care in Alaska.

Representative Ortiz asked about the ever-increasing demand for the Pioneer Home services.

Commissioner Davidson replied that primarily there were longer wait times. She stated it was important to get on the Pioneer Home wait list as soon as eligible. She elaborated that individuals had been on the waitlist for some time. She detailed a husband may put himself on the waitlist, but the wife may not and because they were at different spots it became difficult later. The demand for the waitlist continued to increase.

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Representative Grenn pointed to slide 9, rows 6 and 8. He asked about the increase in Alaskans served in the categories over the past few years. He asked if the increase had been gradual or steep.

Commissioner Davidson answered that with regard to behavioral health treatment and recovery grants, there had been a rise in the number of Alaskans needing treatment services. Over the past year there had been a significant rise in the number of individuals struggling with opioid addiction. She referred to Governor Bill Walker's State of the State address that highlighted five things the administration would do to target the crisis. She relayed that the preceding year the legislature had appropriated \$11 million, which had ended up at \$6 million for grants.

She detailed that the recipients had been selected and notifications would go out in the current week.

Commissioner Davidson continued to answer the question. She spoke to behavioral health in general. The department had been brutally honest with itself that there were gaps in its continuum of care. She highlighted that the department had focused on behavioral health improvement the previous year as part of its SB 74 efforts. The department had worked over the past year with stakeholders throughout Alaska looking at submitting a [federal] 1115 waiver that would redesign the state's behavioral health system. Generally, when states had gaps in the continuum of care, they saw impacts in other areas. She elaborated that states saw increases in emergency room (ER) overutilization because it was the one place a person could legally go where they could not be turned away. Individuals went to the ER if there were no detox or treatment services available. There were also corresponding increases in rates of child maltreatment and neglect. States also experienced corresponding encounters with police or public safety officers in addition to an increase in the number of inmates. Unfortunately, Alaska had record numbers in all the categories. She recognized that a redesign of the behavioral health system was in order.

Commissioner Davidson continued that DHSS was negotiating with the federal Centers for Medicare and Medicaid Services (CMS) to submit an 1115 waiver that would do five things: 1) expand the state's treatment capacity and improve access to services; 2) integrate care among primary care and behavioral health to prevent individuals from having to go multiple places for treatment and offering services in different settings that would allow the department to use better social supports; 3) cost and outcomes reform to get value for what the state purchased; 4) provider payment and accountability; and 5) delivery system reform. The requests for 1115 waivers were for five-year periods that could be renewed. The largest benefit was that once approved by CMS, the state could amend it to waive the IMD (Institutions for Mental Disease) that did not allow providers of 16-bed facilities or more to bill Medicaid for services, which had been challenging for Alaska.

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Representative Guttenberg addressed slide 8 related to the Division of Pioneer Homes. He spoke about a request for proposal (RFP) for a privatization study that no one had applied for. He asked for detail on the process.

Commissioner Davidson answered that the department had twice issued an RFP for pharmaceutical services in the Pioneer Homes. One applicant had responded both times, but it did not meet the terms of the RFP. Unfortunately, thus far there had not been any successful takers for providing pharmaceutical services in the Pioneer Homes.

Representative Guttenberg asked what would happen. He stated there was a statutory request to provide the services, but no one fulfilled the requirements. He wondered if the division had a prescription drug manager. He asked how prescriptions were currently delivered.

Commissioner Davidson answered that there was a pharmacist position that oversaw the entire Medicaid program. Additionally, within the Division of Alaska Pioneer Homes there was a pharmacist and pharmacy services that could provide the benefit directly to the residents.

Representative Guttenberg wondered why the state had missed out on a pharmaceutical services contract. He wondered what was missing or if there was a deficiency in the state's request.

Commissioner Davidson answered that providing the service was probably not as lucrative as the state had thought. The cost of purchasing and securing pharmaceuticals was one of the largest increasing costs in healthcare. The state could do bulk purchasing and to participate in rebate programs that may not be accessible to a private company.

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Representative Tilton understood that in one of the Pioneer Homes the janitorial and other services were put out to contract to save money. She asked if the other homes were considering the idea.

VICKIE WILSON, DIRECTOR, ALASKA PIONEER HOMES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, asked for a repeat of the question.

Representative Tilton complied.

Ms. Wilson replied that when the home had been built in the 1980s - it had been the last Pioneer Home built - it had been decided to contract out the services to determine if there was a savings. The employees had belonged to the contractor and over the years there had been discussions about how much savings there really were. The division had considered contracting services in other Pioneer Homes and had started to review the issue.

Commissioner Davidson elaborated that prior to privatizing any functions currently provided by state employees required a feasibility study by the department. She detailed that SB 74 had included a provision to do a privatization study of the Alaska Pioneer Homes. She elaborated that an amendment had passed that had limited the privatization study to pharmaceuticals. She concluded that any change to contract services that would otherwise be provided by a state employee required a feasibility study first.

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Co-Chair Seaton believed the RFP had not been to provide services but to assess the possibility of providing services. He believed the RFP had been for a consultant to assess the feasibility of providing services. Whereas there had been pharmaceutical companies offering to provide the service under the Medicaid and Medicare reimbursement rate with no cost to the state, but it was not what the RFP had asked for. He asked for the accuracy of his statements. He asked for verification that no one had come forward to do the assessment and feasibility study.

Commissioner Davidson replied in the affirmative.

Co-Chair Seaton relayed there were communications about the cost savings and benefits and from DHSS and the pharmaceutical company Geneva Woods. The information would be provided to the DHSS budget subcommittee. He reminded members that the committee was currently having a high-level discussion. The goal was to identify important issues for the finance subcommittee to work on.

Representative Thompson asked what kind of shape the Pioneer Homes were in and how much deferred maintenance existed.

Ms. Wilson answered that the buildings were aging, and the division had been lucky to receive money it had been given. The Pioneer Homes had dedicated maintenance crews, but the buildings were showing their age (i.e. roof replacements, major components, energy efficiencies, and other). The items had all been prioritized in the division's capital funds.

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Representative Thompson remarked that Alaska was taking on numerous optional Medicaid programs. He asked if they were saving the state money.

Commissioner Davidson answered that the optional services selected did save the state money in the long-run. For example, prescriptions were an optional service under Medicaid. Based on the experience of other states, when a provider prescribed medication to a patient and the patient did not have the resources to purchase the medicine, they were noncompliant. It took just a few Medicaid beneficiaries (living in areas outside Anchorage, Fairbanks, or Juneau) not taking their high blood pressure prescriptions who then had a stroke and required Medivac service. She detailed that emergency [medical] transportation and corresponding in-patient stays were mandatory services. She provided an additional example related to home and community-based services, which was an optional service. She specified that to be eligible for the services (activities to help individuals with daily living including bathing, medicine compliance, chores, and other) and qualify for a waiver, a location had to meet the nursing home level of care, which was a mandatory service. It could be offered as an optional service at much less cost or as a mandatory service at a much higher cost in a residential facility.

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Representative Thompson asked how much state money was spent on optional Medicaid programs. Commissioner Davidson replied that she would follow up with the information. She

specified that the information was broken down by optional service.

Co-Chair Seaton asked the department to provide the information to his office for dissemination to the committee.

Representative Kawasaki asked about the closure of the Ketchikan and Nome Youth facilities. He asked whether anticipated savings from the closure of the Ketchikan facility had been met. He asked where the youths would be moved who had been in the Nome facility.

Commissioner Davidson answered that in the Division of Juvenile Justice the reductions had been slightly over \$4 million or 7 percent since 2015. The number of full-time position reductions since that time was 38 or 7.9 percent. The Ketchikan Youth Facility residents had been moved to Juneau. The department anticipated the youths in the Nome facility would be transferred most likely to Anchorage.

Co-Chair Foster noted the subcommittee had been working on the issue. He noted that the issue had come up the previous year and the subcommittee wanted to revisit the potential savings. He believed there would be studies and some questions asked by the committee. He stated there was the possibility the savings originally projected may not warrant the facility's closure.

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Representative Wilson asked how the department measured the success of grants. She asked what the providers were required to submit and whether the department had information on the number of people who successfully completed the programs.

Commissioner Davidson asked if Representative Wilson was referring to behavioral health grants.

Representative Wilson replied she was asking about all grants. She noted that Commissioner Davidson had testified that most of the grants went to programs (e.g. substance and alcohol abuse). She asked what was required from grantees. She stated it was not just about the number of people the programs touched, but about people who had successfully completed a program. She explained that as

decrements were made, she wanted to ensure the best programs continued to run.

Commissioner Davidson answered that grantees were required to submit data to the department on their expenditures, the number of clients served, the number of clients who had completed programs, and other. One of the reasons the department was interested in the 1115 behavioral health redesign was to change the dynamic to make sure the department could improve the level of services allowed to be provided to Alaskans.

Co-Chair Seaton asked the department to provide the charts showing the compliance and completion rate for distribution to committee members.

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Representative Wilson referenced the Office of Children's Services and Medicaid expansion. She wondered about the coverage provided under expansion for counseling, therapy, and drug and alcohol abuse treatment programs. She stated that before Medicaid expansion when someone lost their children they had lost all their medical benefits because the benefits had been tied to the children. She continued that Medicaid expansion was basically based on income. She asked what portion of the services were provided under expansion that previously would have been covered by GF at some point.

Commissioner Davidson restated her understanding of the question. She believed the question was whether having a child removed from a home increased the transition from a parent needing services to Medicaid expansion.

Representative Wilson clarified that prior to Medicaid expansion if a child was removed from a home, the cost for medical services for the parent would be paid with GF through OCS because Medicaid would no longer cover the expense. She believed the parents would qualify for coverage under Medicaid expansion. She wondered if any savings had occurred in OCS because the counseling was now paid through Medicaid.

Commissioner Davidson replied the department could provide the information to the committee.

Vice-Chair Gara referred to slide 9. He wondered which programs had such long waiting lists for treatment services that people fell off the list and did not receive treatment. He gave an example of an alcoholic waiting months for treatment who later decided they did not want treatment. He recalled a past children's conference in Alaska where a woman had spoken about losing her child because she could not care for the child. The woman had waited over six months to get into a treatment program. During that time the state paid \$30 per day for the child to be in foster care. He relayed that the woman had ultimately made it through treatment after about one year and had gotten her child back. He wondered if the circumstances still existed.

Commissioner Davidson answered that there were a number of Alaskans on waitlists. There was not a comprehensive list. She addressed areas with the greatest need including opioid abuse. Generally, the state could do detox, but some communities had no detox facilities. Once in detox it kept individuals from immediate danger of overdosing on opioids or alcohol, but the question was where people went after detoxing. There was necessarily a treatment bed accessible, which was a problem.

Co-Chair Seaton interjected the question would have to be addressed during the subcommittee. He mentioned other issues to be addressed during the subcommittee process. He stated that earlier in the week he had provided DHSS with a 2016 study on Canada showing a potential savings of \$21.5 billion via preventative medicine. He acknowledged there were 35 million people in Canada and about 750,000 in Alaska, which equated to a potential savings in Alaska of about \$458 million. He had asked the department to develop a plan to address the issue. He had also asked for a plan to address the high rates of autism and preventable cases. He wondered about the costs identified in other studies that could be saved by changing the methodology of how things were done. He appreciated the format of the presentation.

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Commissioner Davidson added there had been a couple of other feasibility studies that DHSS had been tasked with over the interim. The first, mentioned earlier by Co-Chair Foster, was the Department of Juvenile Justice facility

privatization study. The second was the API privatization study. She relayed that both reports would be released on the coming Friday. The department looked forward to working with the subcommittee on its budget in more detail.

Co-Chair Seaton believed subcommittees would be looking to determine if there were local matches for grants and at any other ways of generating fees from private industry or matching locals to offset costs. He relayed that the subcommittee process was being done with the committee of jurisdiction; any statutory changes the department believed would bring efficiencies and reduce costs would go to the subcommittee and then to the standing committee for potential introduction of legislation.

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^FY 18 BUDGET OVERVIEWS: DEPARTMENT OF NATURAL RESOURCES

Co-Chair Seaton invited the Department of Natural Resources (DNR) to the table.

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ANDY MACK, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, introduced his staff. He addressed a PowerPoint presentation titled "State of Alaska Department of Natural Resources House Finance Overview" (copy on file). The department's mission statement was to develop, conserve and maximize the use of Alaska's natural resources consistent with the public interest. The department had four core services and division measures: 1) Foster responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment (42 percent of the DNR budget); 2) mitigate threat to the public from natural hazards by providing comprehensive fire protection services on state, private and municipal lands, and through identifying significant geologic hazards (27 percent of the DNR budget); 3) provide access to state lands for public and private use, settlement, and recreation (19 percent of the DNR budget); and 4) ensure sufficient data acquisition and assessment of land and resources to foster responsible

resource and community development and public safety (11 percent of the DNR budget). The slide included links to the department's constitutional authority (Article VIII). The full budget was located on the Office of Management and Budget (OMB) website.

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FABIENNE PETER-CONTESSA, SUPPORT SERVICES DIRECTOR, DEPARTMENT OF NATURAL RESOURCES, addressed slides generated by the Legislative Finance Division (LFD) beginning on slide 3 titled "Department of Natural Resources Share of Total Agency Operations: GF Only." She noted that GF included both unrestricted general funds (UGF) and designated general funds (DGF). The department had a significant amount of DGF resulting from fees brought in for material sales, public use cabins, Recorder's Office fees, coal and mining leases, and more. The department's GF budget had increased by \$5.5 million over the past 10 years, but it had also experienced a UGF decrease of approximately \$5.1 million over the same period. She noted that DHSS had mentioned its high budget in FY 15 - many agencies realized they had large budgets during that time when the state had money. There had been significant decreases in the past three years - since FY 15, DNR had decreased its UGF budget by \$18.17 million or 24 percent.

Ms. Peter-Contesse continued to address slide 3 and pointed to a \$10 million drop between FY 15 and FY 16. She detailed that AKLNG [Alaska Liquid Natural Gas project] had been categorized as UGF in FY 15 and "Other" or Instate Pipeline Fund in FY 16. The DNR budget accounted for about 1.94 percent of the state's overall GF budget. However, for every UGF dollar appropriated to DNR, the revenue generated by the department to the state's UGF was about \$32 (\$2.4 billion annually on average for the past 10 years from activities DNR helped facilitate).

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Ms. Peter-Contesse reviewed the chart on slide 4 showing DNR line items (all funds). She noted line items included personal services, travel, contractual, commodities, and more. She reported that the largest agency expense was personal services and accounted for 55 to 56 percent of the DNR budget. She detailed that if the cost of living contractual obligations over the last 10 years were

removed, the personal services budget had decreased by approximately \$12 million. In 2008 DNR had 1,114 employees with an average cost of \$67,000 per person. The proposed budget included 905 employees (209 fewer) with an average cost of \$96,000. Most of the increase was due to an increase in cost of living and benefits. She detailed that the issue was not that state employees had necessarily been working that long, but by attrition it would average out.

Ms. Peter-Contesse highlighted that the cost of employment - having employees do the work - was increasing. The other large driver was contractual services for things like aircraft charters for surveys, firefighting, leases and chargeback, litigation support with the Department of Law, contracts for appraisal services in the Division of Mining, Land and Water, and other. Travel expenses represented a small slice of the budget, but with a focus on decreasing travel, DNR had decreased actual travel dollars between FY 14 and FY 16 by about 32 percent.

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Ms. Peter-Contesse spoke to slide 5 titled "Appropriations within the Department of Natural Resources (GF Only)." The chart was broken out by RDU (results delivery unit). The first RDU was fire suppression, land and water resources, which included the Division of Forestry; Division of Mining, Land and Water; and the Division of Geological and Geophysical Surveys. There had been an increase in FY 12/FY 13 because of increased funding from the legislature to decrease the permitting backlog. She highlighted a large bump in the oil and gas line on the chart [shown in bright pink], which reflected funding DNR had received for the Alaska Gasline Inducement Act (AGIA). She pointed to an FY 15 increase in the administration and support line [shown in navy] for AKLNG. She detailed that in FY 15 AKLNG had been budgeted as UGF, but it had been moved to the "Other" funding category, which resulted in a large drop in the GF line shown on slide 5. The lower line [shown in aqua] representing agriculture showed a drop in FY 18 of about \$2 million for the Mount McKinley Meat and Sausage Plant.

Ms. Peter-Contesse moved to slide 6, which showed appropriations within DNR (all funds). The top line, the fire suppression, land and water resources RDU [shown in green] included an increase in federal dollars in the FY 17 and FY 18 budgets - most of the dollars were being received

by the Division of Forestry, Forest Management for Tongass young growth cost-share agreements, and forest inventory and analysis.

Co-Chair Seaton asked which line Ms. Peter-Contesse was referring to. Ms. Peter-Contesse pointed to the green line at the top of the chart on slide 6 and specified she was speaking to FY 17 and FY 18.

Ms. Peter-Contesse moved on to slide 7 titled "Department of Natural Resources Total Funding Comparison by Fund Group (All Funds)." The department had reduced its UGF by approximately \$5.1 million since FY 08 and about \$18.7 million since FY 15. There had been an increase in DGF of about \$10.6 million over the past 10 years. She explained that DNR had tried to increase reliance on the fees it generated and revenue it collected and to decrease its reliance on UGF. In some cases, it meant there had been a fund source change (a one-for-one between UGF and DGF) and in other cases it had been an increase in fees in various areas. There had been an increase in fees in various areas. There was about \$6 million in fund source changes since 2016; about \$1 million of the amount was from new fees and about \$5 million was from existing fees collected by the department beyond what DNR was authorized.

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Vice-Chair Gara asked about fees. He stated the constitution specified the state should receive the maximum benefit for its resources. He noted that there was debate on whether the state was doing that on oil and mining. He remarked that the state taxed those things. He thought the state may not be doing anything other than covering costs on many resources. He spoke to timber as an example, which was not a high profit margin area and represented a shrinking industry. He asked if the state charged permitting fees on timber that exceeded the state's costs.

Ms. Peter-Contesse deferred the question to a colleague.

ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, answered all the revenue generated off the timber sales went into a timber sale account, which was used by the division to staff people to continue the program. He elaborated that timber sale receipts maintained and kept the program going. The real economic benefit to

the timber sales was to the 30 or so businesses in Alaska that utilized timber for the private sector.

Vice-Chair Gara clarified he was not implying there should be a higher fee, he did not know. He noted that the state had oil, gas, and mining that it hopefully made excess over its costs. He asked if there were other resources managed by the state where the state received its costs back, but no additional revenue.

Mr. Fogels answered that even within the Division of Mining, Land and Water, substantial revenues were brought in from a large variety of sectors. He detailed that material sales brought in significant revenue, part of which went back to managing the program and a portion went into GF. He thought laying out the different revenue streams within DNR, where they went, and how much came back to the department, would be a good topic for the finance subcommittee.

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Representative Ortiz asked for detail about the term "material sales."

Mr. Fogels replied that material sales included sand and gravel, rock, and aggregate sales (anything mining the surface of the state, not the subsurface minerals).

Representative Grenn referenced the department's mention of increases to a number of fees. He asked if there were places the department anticipated increasing fees in the next year.

Commissioner Mack answered that the department had been developing a comprehensive regulation fee package; it was currently looking at all fees charged by DNR and had put substantial resources into the development of the package. The department believed it updated and brought into focus what constituted a reasonable fee. In many cases brackets were being established - there would be a regulation specifying the minimum and maximum fee for a service or product. He referenced an earlier question by Vice-Chair Gara and relayed that the department also managed fresh water. The comprehensive package was in draft form and would be out for public comment soon.

Co-Chair Seaton asked if any of the fees would require statutory change. Commissioner Mack answered that it was possible. He detailed it was currently a regulation fee package.

Co-Chair Seaton communicated that the department should take the issue up with the subcommittee if there were statutory fees needing adjustment.

[2:50:19 PM](#)

Representative Tilton referred to the permit backlog. She asked for a status update on the backlog and guessed it pertained to leased lands.

Commissioner Mack answered that several years earlier there had been a backlog of up to 2,500 permits in the Division of Mining, Land and Water. Money had been appropriated by the legislature to help update, modify, and modernize the system. Subsequently, the backlog had been reduced to the 850 to 900 range. The department wanted to continue to reduce the number.

Mr. Fogels added the backlog had been reduced by over 1,700 or 64 percent since it had started the backlog project. The department was slowing its work on the backlog a bit due to budget cuts, but it was also gaining efficiencies. They would address a unified permitting project in the division that he would speak to later in the presentation, which had helped dramatically.

Representative Kawasaki referred to the permitting backlog. He stated it was not only about the number of backlogged permits, but the length of time the permit existed within the queue. He asked the department to include the detail in its report to the subcommittee.

[2:52:36 PM](#)

Mr. Fogels reported that DNR had a total of 68 programs within all its divisions. He noted that the department had spent significant time on including data for the number of Alaskans served and the efficiencies; the information included in the tables [slides 8 through 16] was a starting point for discussion. He explained it was difficult to nail the numbers down - the department looked forward to working with the subcommittee to further hone the metrics. The

department was also preparing a program guide for the subcommittee that would list every program, its cost, the number of staff, and other.

Mr. Fogels addressed slide 8 related to the Division of Agriculture. The division had a total of eight programs with a total budget of \$4.8 million (\$2.67 million UGF) and 34 staff. He detailed that the division had a plant materials center [in Palmer] that produced foundational seed for the state. The division also had inspection, marketing, and land sales components. The governor's FY 18 budget included a proposal to cut one position for a total of \$132,000. He relayed the plant materials center had received a one-time increment of \$335,000 the previous fiscal year with instructions to see if DNR could raise fees to cover the costs of seed production. The department was asking for the restoration of the one-time increment because after consideration it did not believe a fee increase was feasible in the program. He offered to address the issue in further detail with the subcommittee.

Mr. Fogels moved to slide 9 and addressed the Division of Mining, Land and Water. The division had a total of 14 programs with a total budget of \$27.28 million (\$6.11 million UGF) and 207 staff; it was the department's foundational division, which was responsible for getting the statehood land entitlement for the federal government, managing the land, managing all waters, and reclamation of mines on all lands. Cuts in the governor's proposed FY 18 budget totaled \$535,000. The department planned to cut back on some active management of state lands in the Denali block area, consolidate some leases, consolidate mapping staff (DNR was looking at an initiative to increase the efficiency of its mapping functions), and to reduce the municipal entitlements program by one staff person.

Mr. Fogels discussed that additionally, DNR would request a change related to the [permit] backlog project. He detailed the department's unified permitting project with the goal of automating permitting had been very successful (a series of capital requests had been appropriated by the legislature over the years). The department wanted to transition the project to an operational base - it had automated some of the key authorizations done by DNR and there was much more to automate. The division performed dozens upon dozens of different authorizations that needed

to be addressed separately. Therefore, the department would be asking for a switch from capital funds to DGF.

[2:57:37 PM](#)

Mr. Fogels discussed the Division of Forestry on slide 10. The division had a total of nine programs with a total budget of \$45.68 million (\$24.23 million UGF) and 238 staff. The budget was the largest of any division, primarily due to wildland firefighting. The firefighting costs from the previous summer, which had been a low fire year at about half a million acres, cost approximately \$26 million (the department was still cross billing the federal government). The other division function was forest management, which accounted for a very small portion of the budget. There were no proposed cuts to the division in the governor's FY 18 budget.

Mr. Fogels addressed the Office of Project Management and Permitting on slide 11. The office had five programs with a total budget of \$7.07 million (\$840,000 UGF) and 14 staff. The primary function of the office was to coordinate the permitting of large resource development projects, which created its own funding stream and program receipts from project applicants that reimbursed all state agency permitting costs (i.e. Department of Fish and Game, Department of Environmental Conservation, Department of Health and Social Services, Department of Transportation and Public Facilities, and Department of Law). There were no proposed cuts to the office in the governor's FY 18 budget.

Mr. Fogels moved to slide 12 and spoke to the Division of Parks and Outdoor Recreation. The division had six programs with a total budget of \$15.79 million (\$2.41 million UGF) and 165 staff. The lion's share of the budget went to maintaining parks and keeping them safe for the public. The governor's proposed FY 18 budget would cut \$328,000, which would mean some parks would be placed in passive management including Delta Junction and Donnelly Dome. The division was actively seeking to reduce its dependence on UGF; with another fee increase it should be about half fee-based for the entire parks operations. He referred to legislation passed the previous year that allowed the department to sell retail items in parks - the profit would go back into parks. He believed it would be very successful, and the

department hoped to close the rest of the gap to get parks totally off GF at some point in the future.

3:00:46 PM

Co-Chair Seaton mentioned recovered fees. He asked DNR to provide the subcommittee with estimated percentages the department anticipated recovering in the regulation package.

Ms. Peter-Contesse addressed the Division of Support Services on slide 13. The division included information technology (IT), which was responsible for desktop support and infrastructure, in addition to managing state lands records and providing GIS mapping services for DNR and many other agencies. The division also housed the Recorder's Office uniform commercial code, provided recording services for the state and held the official public record of the state. The final component was the administrative services group responsible for budget, accounting, and revenue management for DNR. The governor's proposed FY 18 budget reduced the Recorder's Office by \$750,000, which would eliminate four positions, but would not result in office closures. She relayed that services to the public would be maintained and revenue would not be reduced. She noted the department was continuing a consolidation of the Recorder's Offices around the state. She concluded that the reduction would not negatively impact UGF.

Mr. Fogels briefly highlighted other department wide components on slide 14 including the Commissioner's Office, the Public Information Center, and the Mental Health Trust Land Office. There were no cuts proposed to any of the programs in the governor's FY 18 budget.

Representative Guttenberg noted the Mental Health Trust Land Office put out an RFP that would be explored during the subcommittee process.

3:03:47 PM

MARK WIGGIN, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, spoke to the Division of Oil and Gas on slide 15. The division had nine sections with a total budget of approximately \$20.9 million and 101 staff. He relayed the division was responsible for the day-to-day management of lease operations for oil and gas and geothermal assets

throughout the state. There was a proposed FY 18 reduction of six PCNs (position control number) for a total savings of \$870,000 reduction (10 percent).

Mr. Wiggin addressed the Division of Geological and Geophysical Surveys on slide 16. The division provided science, studies, and fieldwork to support oil, gas, and mineral exploration throughout Alaska; it provided the feedstock for industry to develop oil and gas and other resources. The division had a total UGF budget of \$8.3 million and approximately 47 positions. The budget proposed a reduction of two PCNs in FY 18 for a total of \$486,000 (11 percent). There were seven sections within the division. He referred to discussion about the fee structures. The division also managed the Geologic Materials Center in Anchorage that handled the core, oil, and mining samples. The division would also be part of the distribution of seismic data that would be released as part of the capital credit system. The division would put the infrastructure computer servers at the center for handling. The fees would be part of the regulation package and there may also be statutory changes required.

[3:06:39 PM](#)

Representative Ortiz referred to the Division of Oil and Gas on slide 15 and asked about the function of the nine audit positions.

Mr. Wiggin answered that audits were on royalty submittals paid by the industry through DNR.

Representative Kawasaki wondered how it differed from the tax audits performed by the Department of Revenue (DOR). Mr. Wiggin did not know how the process differed - one was tax, and another was royalties. He deferred to the commissioner for further detail.

Commissioner Mack answered that severance and production tax was collected by DOR, while royalty was calculated as a function of each of the individual leases. The revenue sources were handled separately, and royalty calculations were handled by DNR. Ultimately, if someone had a dispute it was appealed to the commissioner's office and could eventually end up in court if not solved.

Representative Kawasaki would follow up later. He pointed to slide 12 related to the Division of Parks and Outdoor Recreation. He spoke about the Office of History and Archaeology and believed many of the functions were supported by other agencies. He did not know a significant amount about the office.

Co-Chair Seaton noted there could be follow up during subcommittee later.

Vice-Chair Gara stated that DOR calculated taxes on oil on sometimes on the gross and sometimes on net. He remarked that DNR calculated royalty on gross. He wondered if there was efficiency in combining the functions. He speculated that the same people calculating the gross on the production tax could calculate it on the royalty.

[3:09:48 PM](#)

Commissioner Mack answered there may be. He would follow up with an answer. He detailed that the royalty was a function of the lease terms. He continued that sometimes other issues involved business expenses and other issues not necessarily taken up by DNR.

Vice-Chair Gara asked the department to provide the information to the subcommittee chair.

^PRESENTATION: A SUSTAINABLE SOLUTION FOR ALASKA  
DESTINATION MARKETING FUNDING: A TOURISM IMPROVEMENT  
DISTRICT MODEL

[3:11:11 PM](#)

SARAH LEONARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALASKA TRAVEL INDUSTRY ASSOCIATION (ATIA), introduced herself.

COLLEEN STEPHENS, STAN STEPHENS GLACIER & WILDLIFE CRUISES AND MEMBER OF THE ATIA BOARD OF DIRECTORS, introduced herself.

JOHN LAMBETH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CIVITAS, introduced himself and relayed Civitas specialized in working with destinations on stable tourism promotion funding.

Ms. Leonard provided a PowerPoint presentation titled "Alaska House Finance Committee: A Sustainable Solution for Alaska Destination Marketing Funding: A Tourism Improvement District Model" dated January 24, 2017 (copy on file). She read from a prepared statement:

I'm here to share with you a tourism improvement district model for statewide tourism promotion - a concept ATIA, along with the Alaska Tourism Marketing Board, the guiding board for Alaska's destination marketing program - is sharing with industry and legislative leaders.

We've come to Juneau many times seeking the state's investment in tourism marketing and today we recognize a new reality as we along with every Alaskan know you are facing very difficult decisions in this fiscal environment.

Ms. Leonard relayed her intent to briefly speak to the status of the marketing program. She would turn it over to Mr. Lambeth to speak in more detail about the tourism improvement district model.

Co-Chair Seaton noted Representative Pruitt had joined the meeting.

Ms. Leonard continued to read from a statement:

During the last legislative session and following the governor's vetoes, the tourism marketing funding from the state was reduced from \$4.5 million to \$1.5 million. As legislative leaders you also included language in the budget requiring the tourism industry to come back to you with a plan to reduce reliance on state general funds.

Ms. Leonard pointed to slide 2 that showed the intent language from the budget the previous year. She briefly highlighted slide 3 that included a graph showing the decrease in state investment in tourism marketing funding from 2013 to 2017. She turned to a bubble chart on slide 4 related to economic impacts. The chart showed a circle of benefits illustrating why the tourism marketing industry believed tourism marketing investment worked. She read from a prepared statement:

With smart investments industry is attracting millions of visitors to Alaska, they are spending almost \$2 billion with local businesses and in communities. This is creating opportunities for business growth and adding jobs and visitors are generating revenue through various taxes and fees, which support local and borough budgets to the tune of over \$80 million supporting community services and to the state General Fund in over \$100 million.

This positive circle has produced health results as we have seen your past support for tourism marketing dollars. The economic impacts in Alaska have been tremendous, producing jobs, over \$4 billion in overall economic activity, and millions of dollars to the state's General Fund, as well as revenue to city and borough budgets.

[3:14:41 PM](#)

Ms. Leonard turned to slide 5 and 6 and read from a statement:

When visitors come to Alaska they're also spending on various businesses and activities from transportation to gifts and souvenirs.

The \$1.5 million appropriation for this fiscal year - and there's \$3 million currently in the capital budget - are significant declines from years past when marketing funding levels reached into the \$10, \$16, \$18 million range. This graph shows that our funding today falls well below states like Arizona, Virginia, Arkansas, as well as destination in Canada. The light green graph also shows that as our competitor destinations are increasing their tourism promotion budgets, Alaska's budget is decreasing.

While we compete with many other U.S. states, Alaska also competes on an international scale as a long-haul exotic and safe destination. Alaska's marketing strategies have focused on these attributes. It takes a couple of years in the marketplace for these marketing strategies to bring returns and to realize the economic benefits I just talked about.

As we experienced reduced destination marketing dollars we fear we will start to see the impact of

fewer visitor numbers, less spending, less economic impact in 2018, 2019, and beyond.

3:16:03 PM

Ms. Leonard addressed slides 7 through 11 and continued to address prepared remarks:

This year we are implementing a \$1.5 million marketing program, a very basic program on page 7. I'm just going to mention briefly what we aren't able to do anymore with those limited resources. We've had to shut down five overseas offices and for the first time in 27 years we do not have representation in German speaking Europe, one of our top international visitor markets.

The national advertising program has essentially been eliminated. To put it in perspective, in years past we've had \$5 million worth of advertising in the marketplace. With only a fraction of that available to us now we can no longer afford any print advertising. There are zero ads in magazines and we have no more direct mail program. These were both highly effective ways of getting people to choose Alaska and request the state vacation planner (on page 9).

For the first time in 40 years Alaska will not have its own trip planning publication full of Alaska business ads. Last year we distributed over 400,000 planners. People won't just be seeing other destination guides - almost every other state in the United States has a printed vacation planner as a main printed tool to attract visitors to their destination.

We also don't have any television advertising. For me and many of you this is a great inspirational tool around the world to attract people to your destination. What we are doing is trying to be very efficient and effective with the \$1.5 million budget and implementing a program focused on digital media strategies, public relations, and a core travel trade program.

One of the many questions we have heard and have often asked ourselves: what is the value of a statewide tourism destination program? [page 11]. We started

looking around the country at case studies - what happens in other destinations when governments have reduced or eliminated their statewide tourism marketing funding. In 1993 Colorado repealed their tourism funding and within two years lost 30 percent of its U.S. visitor market share. Conversely, during a recession, Michigan doubled their state tourism marketing funding, and from 2006 to 2014 - those of us in the tourism industry recognize it was an award winning pure-Michigan campaign to attract visitors - generated \$6.6 billion in visitor spending.

[3:18:35 PM](#)

Ms. Leonard addressed slides 12 and 13 and continued to address prepared remarks:

In 2010, Connecticut eliminated their entire tourism marketing budget and their travel-related tax revenue growth slowed to half the pace during slow economic times of 2009 and 2010. In 2011, Washington shut down their tourism office. They saw competing states like Montana increase tourism promotion budgets and capture increased visitor spending. The state of Pennsylvania's tourism funding declined 77 percent from 2008 to 2015 (page 13). They projected a loss of \$600 million in state and local tax revenue that travelers would have generated. In 2013, the City of San Diego held off on tourism promotion funding. During that time, they held off on allocating their promotion funding, they projected a loss of \$560 million in lost visitor spending and \$24 million in reduced tax revenues.

Ms. Leonard spoke to slide 14 with prepared remarks:

The ATIA board of directors held several meetings since March (the last legislative session), researching and discussing different revenue options as we worked to meet the legislative mandate, so we could come back to you with a plan for sustainable tourism marketing funding as you asked. They kept these principles in mind - any new funding solution must be broad-based and not reliant on one industry or funding source. Revenue should focus primarily on visitor activity with less impact on Alaskans. Any successful plan would be a package of new revenue

assessing tourism related businesses, assessing our own industry, and packaged with the existing vehicle rental car tax collected, which can be allocated to tourism promotion dollars - there's language in that existing statute.

These conversations gravitated to the concept of tourism improvement districts. Tourism improvement districts (TIDs) have occurred around the country, at local or regional levels, and most recently in California at a statewide level.

[3:20:37 PM](#)

Ms. Leonard turned the presentation over to Mr. Lambeth to provide more detail on TIDs.

Vice-Chair Gara thanked Ms. Leonard for providing information whenever he had requested it. He noted that tourism funding from the state had decreased over the years. He asked if visitors to the state had decreased as well. Alternatively, he wondered if tourism had remained stable or increased.

Ms. Leonard answered the state was seeing past results of healthy tourism budgets. The state was seeing positive economic benefit and increased tourism in 2016 and 2015 had been a record year. However, the agency was worried about being the next case study. The association did not know when reductions would begin to impact the number of tourists visiting Alaska and money coming into the state.

Vice-Chair Gara discussed the state's corporate tax for C corporations (a publicly traded corporation) and a vehicle rental tax, but tourism companies that did not fit in either of the categories did not pay any state revenue. He asked if he was accurate.

Ms. Leonard replied that the visitor industry paid bed taxes in different communities, but the tax was not statewide. The agency attributed visitor activity impacting fees like Department of Fish and Game licenses, hunting fees, the Alaska Marine Highway System, state park fees, and other things that attracted visitors.

[3:22:46 PM](#)

Mr. Lambeth addressed a PowerPoint presentation titled "Alaska Travel and Tourism Marketing Act" dated January 24, 2017 (copy on file) [note: the presentation was incorporated with the ATIA presentation and began on slide 15]. He intended to speak about the importance of destination marketing to Alaska and the nation, the history of TIDs, and the specific industry proposal. He started on slide 16 and stated that from an economic perspective, travel and tourism was an incredibly important industry to the country. One in nine jobs in the country came from the travel and tourism industry; the industry generated \$158 billion in taxes, which was enough to pay for every firefighter and police officer in the nation. Travel and tourism was in the top 10 industries in 49 states and contributed over \$100 million annually to Alaska's General Fund.

Mr. Lambeth stressed that the industry needed promotion to sustain a healthy tourism environment. He turned to slide 17 and addressed the virtuous cycle of destination promotion. He explained that investing in travel marketing and promotion created demand, from that demand visitor spending was generated, which in turn created new tax revenues and jobs to allow investment back into tourism promotion efforts.

Mr. Lambeth highlighted that destination marketing addressed two issues the industry had. First, when a person decides where to travel, their primary choice was usually the experience of the destination. The destination is the trip motivator, not usually an attraction, lodging, or facility. Consequently, it was important to get together on a destination-wide basis to do marketing to promote the destination. The second issue was scale. No individual business had enough resources to market the State of Alaska, businesses did their own individual marketing, but marketing the destination required businesses to get together to do marketing overall.

Mr. Lambeth explained that many destinations had turned to the concept of a tourism improvement district [slides 19 through 21]. He detailed it was an evolution of special benefit assessment districts. The TID built on the theme of special assessment districts and business improvement districts in Alaska. The TID involved the tourism industry coming together to assess itself, collect the assessment, and spend the money to promote the industry. He detailed

that hotels and other tourism businesses paid an assessment, which could be collected by the state government (some places delegated it to private entities), and it was managed by the destination marketing organization (DMO). The concept was first created in 1989 in West Hollywood; it was slow in growth in the first few years and in the past decade there had been an explosion of the districts - there were currently 160 districts across 11 states. There were at least 10 states currently considering the model for their tourism promotion efforts. At present, TIDs were raising over \$300 million annually for destination marketing activities across the country.

[3:26:55 PM](#)

Mr. Lambeth addressed slide 22 related to national district statistics. The 160 districts ranged marketing efforts of \$30,000 per year to \$120 million per year. He moved to slide 23 and provided California as an example. He detailed California was a different state, with different issues and a different tourism industry, but the model was the important component. He stressed that the model had been incredibly successful for California. He specified that industry had approved the TID for continuation four times since 1997. Over the last three years California had moved from 28th to 2nd among state tourism marketing budgets due to increases in its TID. He relayed that California had achieved overwhelming success by using the model without seeking other taxes. He stated the concept was important in Alaska. The Alaskan tourism industry did not want to ask the legislature to tax other industries or things like car rentals, lodging, or attractions. The concept was an industry self-assessment.

Mr. Lambeth moved to slide 24 and addressed the industry's proposal for putting together new legislation. He detailed that the Alaska Seafood Marketing Institute (ASMI) statute was a good model already in state law to start with. The legislation could utilize some of the best concepts from other laws around the country as it related to the models and would craft it to be specific to the Alaska travel and tourism industry. He stated that the industry had done an incredible job. Civitas had been working with industry over the past year, and the industry had come together. He noted it was no easy feat for the industry to come forward and assess itself. He continued that the industry knew it wanted and needed a vibrant destination promotion program.

Mr. Lambeth turned to slide 25 and discussed that an important part of the program was a partnership with the state, which was common with other districts. The industry had asked for the vehicle rental tax (about \$9.7 million per year) be matched with the money from the TID to create a partnership between the industry and the state. The industry was not merely coming to the legislature with a request for more money as had been done in the past. The industry was committing to raise more money and to partner with the state.

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Mr. Lambeth relayed that the industry understood the legislature had difficult decisions to make and it appreciated that declining revenue was a significant problem. The industry wanted to be part of the solution.

Ms. Stephens, presented a TID model on slide 25. The proposal would bring new money to the table and existing funds. The proposal included a 1 percent assessment, which would be the new funds that would be assessed to accommodations, tours, and attractions, resulting in about \$7.5 million to a marketing program for the state. The proposal involved accessing some existing funds. She referred to vehicle rental tax of \$9.7 million - language stated that the funds may be used for tourism marketing. The package would result in a robust marketing program of \$17.2 million, level with the marketing budget four years earlier. A robust program was very important to smaller businesses compared to larger ones.

Ms. Stephens provided the cruise lines as an example and explained that the cruise industry would guarantee its assets were filled; they had deeper pockets to pull from to make sure ship seats and berths were filled. Whereas smaller businesses relied more on the state marketing program to help leverage their individual business funds to recruit guests and ensure the guest was aware of their business. She stressed the critical nature of the program that restore funding to a good level and would result in a strong tourism marketing program. The industry was asking the legislature to help write the enabling language to provide a self-assessment for the tourism industry to fund marketing; it was a tool the industry needed the legislature's help to be able to leverage its funds.

Co-Chair Seaton noted the tool was modeled after ASMI. He asked what percentage ASMI assessed on industry. Additionally, he asked for the match amount. Ms. Stephens replied she would follow up.

Mr. Lambeth added that the statute included a range of assessments. He did not know the current number.

Co-Chair Foster asked what kind of buy-in the organization had received from industry. He asked if they had started gathering letters from small to large operators.

[3:33:42 PM](#)

Ms. Leonard answered that they had begun outreach to industry the previous March. They were just starting to ask organizations and businesses for letters of support. The feedback she had received had been generally positive. She detailed that no one wanted to add more fees onto the business, but industry valued a statewide destination marketing program and wanted to partner with the legislature. She had the support of the ATIA board of directors to move forward with the concept because of industry feedback.

Mr. Lambeth added that the legislation would be enabling, which would specify what the industry had to go through if it wanted to establish a TID. The concept would still have to go through a vote by the industry before implementation.

Representative Guttenberg referred to slide 2 and noted he had seen the concept of an industry working on becoming self-sufficient many times. He remarked that it never seemed to work. He reasoned that the industry could vote to self-assess, but businesses may not pay the fee. He observed that people would not participate at a certain level. He moved to slide 25 that included the vehicle rental tax, and observed that the tax was already targeted to other programs. He was concerned the proposal may shortchange someone if the funds were diverted. He believed the proposed idea was to turn the marketing over to an outside marketing group. He thought once the money was collected it would become designated general funds (DGF). He asked if the money would be taken in and designated for a specific program, but subject to appropriation.

3:37:12 PM

Mr. Lambeth answered that the collection processes had been successful; it was not a voluntary assessment. He detailed it was voluntary from the standpoint of the industry taking advantage of the statute. He elaborated that if the legislature chose to put the statute in place establishing the rules under which the TID could be created, the industry could choose on a group basis whether to go forward - a majority vote would be required. Once the TID was in place, it would be compulsory. Generally, because the assessments were passed on to the customer the collection rates had been high. Additionally, if a business collected the fee from customers but failed to pay it, there could be criminal sanctions associated. The other 160 districts around the country had not experienced problems with collections.

Ms. Leonard replied that was on the industry if the legislature provided the tool and the industry chose not to vote. If the industry neglected to vote, it would not have a marketing program it valued. She believed the last thing the industry wanted to do was come forward with proposed legislation and not be successful around unifying itself to support statewide tourism marketing.

Representative Guttenberg commented on a bed tax in other locations. He did not have a problem with the tax because it went to the marketing and he did not understand why a tax had not been implemented in Alaska.

Representative Wilson assumed there would have to be definitions for tour activities and attractions because there were none currently. She wondered if it would be the entire state versus an Anchorage zone, Fairbanks zone, and others. She noted that unlike California where all residents paid taxes, some areas in Alaska did not. She wondered if there had been an analysis on the subject and how it would impact the effectiveness of a program.

Ms. Leonard answered that it would be statewide. She agreed and stated that the organization wanted to work with the legislature and industry to flush out the details around identifying or defining tour activities and attractions. They thought to look at business license codes as a resource - businesses could self-identify and be detailed. The terms would have to be defined.

Mr. Lambeth added it was common to have different tax rates for different kinds of businesses in different locations, especially related to bed tax. He elaborated that different jurisdictions in California had different bed taxes - those were on a local basis for local destination marketing efforts. The state effort is a blanket percentage across the entire state, which worked well.

[3:41:04 PM](#)

Co-Chair Seaton asked about the current funding the state provided to tourism marketing. Ms. Leonard replied the marketing program was currently \$1.5 million along with a capital grant of slightly over \$600,000 to implement a research program.

Co-Chair Seaton asked for clarification. Ms. Leonard answered that the funding received was in the form of state grants to ATIA to implement the marketing elements.

Co-Chair Seaton asked about the total tourism marketing budget. Ms. Leonard responded that the total tourism marketing budget with the \$1.5 million was slightly over \$2 million including industry's contribution.

Co-Chair Seaton surmised the request was for the legislature to divert \$9.7 million and increase tourism marketing by three times with state matching funds to match a contribution by the industry.

Ms. Leonard stated the industry realized it was the beginning of a conversation. Industry wanted to move forward with a partnership with the administration. The organization would like to use existing revenue generated by visitors along with new revenue assessed from the industry.

Co-Chair Seaton remarked that tripling the budget would be difficult during the current budget environment.

Representative Pruitt stated he had written the language on slide 2 of the presentation; he was aware of the conversation. Part of the problem was that the legislature had told industry the vehicle rental tax would all go to tourism. He stressed that none of the tax went to tourism. He stated that part of the problem with industry coming to

the table with a proposal had been that the legislature had broken their trust. He commended ATIA for coming forward with a proposal that included a tax on industry. He stated that it was different than a tax on fish, which was easy compared to a tax across the entire state. He commended the industry for coming to the legislature, but it was up to the legislature to follow through. He remarked that ATIA understood there was no state money involved, the organization merely needed the mechanism that ASMI currently had to formulate something that would enable the industry to conduct the marketing. He wanted to clarify that the model did not specify it needed state money; it was a model asking the legislature for assistance in formulating something, so it could use the industry to help pay for what it needed.

[3:44:31 PM](#)

Mr. Lambeth answered the industry was looking for a partnership. The partnership would include the industry creating a self-assessment and having their customers pay more, in addition to returning some of the vehicle rental tax that had been used to try to fill the current budget deficit.

Representative Pruitt recognized it would not happen immediately. He believed it was on the legislature to recognize it had made a promise initially and that it needed to think about how it fulfilled its promise. He remarked that the industry would not receive \$9.7 million the next day; however, it was on the legislature to consider it had told the industry the vehicle rental tax had been intended to go to tourism. He believed former Representative Pete Kott had referred to the tax as the Andrew Halcro tax [also a former Alaska representative]. He elaborated that the past year the entire tax had gone to something else. He believed it was on the legislature to correct its errors.

Mr. Lambeth answered in the affirmative.

Co-Chair Foster stated the intent language from the past year was that AITA would phase out reliance on UGF money and look for ways to be self-sustaining. He surmised the organization's proposal was to come up with a self-sustaining system using TIDs, so a 1 percent tax could be imposed on hotels and tour activity and attraction

operators. Additionally, the organization was requesting a match or partnership with the state - the industry's tax would raise about \$7.5 million and ATIA was asking for slightly over that amount as a match from the state. He understood it would increase the tourism marketing budget back to its 2013 level of about \$16 million. He noted the proposal would raise approximately \$17 million. He surmised the proposal included two components.

Ms. Leonard replied in the affirmative.

#

ADJOURNMENT

[3:47:26 PM](#)

The meeting was adjourned at 3:47 p.m.