

SB

341

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/19/94

FURTHER:

DATE TURNED INTO OFFICE: 4-26-94

The Finance Committee considered **SENATE BILL NO. 341**

"An Act extending the termination date of the Alaska Tourism Marketing Council; and providing for an effective date."

and recommends:

replace with CS SB 341 (FINANCE)
 or adopt previous CS _____
 attaches amendment(s)

same title
 new title
 technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DC & ED	2/8/94	<input checked="" type="checkbox"/>	

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

Tom Kelly - No Rec
After this No Recommendation
Scott Sharp No Rec

1. [Signature] Do Pass
 Co-Chair: Signature/Recommendation

2. [Signature] True Hearce - total
 Co-Chair: Signature/Recommendation

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SB 341

Revision Date: 3/9/94
 Title: Extending the termination date for
the Alaska Tourism Marketing Council
 Sponsor: Senate Labor and Commerce
 Requestor: Senate Labor and Commerce

Department Affected: Commerce and Economic Development
 BRU: Division of Tourism
 Component: Alaska Tourism Marketing Council

COMPONENT SERIAL NO. _____

Expenditures/Revenues:

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
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FUND SOURCE

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

Estimate of current year (FY 94) cost: \$ 0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)

* The funds for the Alaska Tourism Marketing Council are in the Governor's FY 95 operating budget.

Prepared by: Wendy Mulder
 Division: Dept. of Commerce and Economic Development

Phone: 465-2500
 Date: _____

Approved by Commissioner: Paul Fuhs
 Agency: Commerce and Economic Development

Date: 3/8/94

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
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CS FOR SENATE BILL NO. 341(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/19/94
Referred: Finance

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the Alaska Tourism Marketing Council; and providing for
2 an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 44.33.705(b) is amended to read:

5 (b) If the commissioner determines that it is in the best interests of the state
6 to promote the state as a destination through the cooperative marketing program, the
7 commissioner shall contract with a single qualified trade association to jointly manage
8 the council if the trade association agrees that, before the end of each fiscal year that
9 the contract covers, the association will contribute at least 25 [15] percent of the total
10 operating expenses of the council for that fiscal year. The term of a contract under
11 this section may not exceed two years.

12 * Sec. 2. AS 44.66.010(a)(15) is amended to read:

13 (15) Alaska Tourism Marketing Council (AS 44.33.700) --
14 December 30, 1996 [1994];

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STATE GOVERNMENT

§ 44.33.720

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(7) establish offices in the state and otherwise incur expenses incidental to the performance of its duties;

(8) appear on behalf of the council before boards, commissions, departments, or other agencies of municipal, state, or federal government except as provided under (b) of this section;

(9) acquire, hold, lease, sell, or otherwise dispose of property, but such property is limited to that which is necessary to the administrative functioning of the council;

(10) appoint committees comprised of board and nonboard members; the presiding officer of each committee shall be a board member;

(11) prepare and implement plans for the promotion of travel to and inside the state;

(12) sell, at fair market value, tourism advertising space in publications and promotional materials developed by the council;

(13) provide space to a qualified trade association in publications and promotional materials developed by the council if the trade association has contracted with the department under AS 44.33.705(b) and pays its pro rata share of the production costs for the publication or promotional material; payment under this paragraph is ~~not~~ part of the association's required contribution under AS 44.33.705(b); and

(14) grant exclusive rights to a qualified trade association to sell or lease tourism mailing lists developed by the council if the trade association has contracted with the department under AS 44.33.705(b).

(b) The board may not use funds appropriated by the legislature to employ a lobbyist. (§ 9 ch 78 SLA 1988; am § 2 ch 32 SLA 1990)

Revisor's notes. — Enacted as AS 44.33.730. Renumbered in 1988.

Effect of amendments. — The 1990 amendment, effective May 10, 1990, deleted "including the granting of distribution rights to tourism mailing lists" at the end of paragraph (a)(2); deleted "any" be-

fore "agreements" in paragraph (a)(4); and added paragraph (a)(14).

Editor's notes. — Section 5, ch. 32, SLA 1990 provides that the 1990 amendment to (a) of this section is retroactive to July 1, 1988.

Sec. 44.33.720. Duties of the council. (a) The council shall

(1) conduct a tourism marketing program designed to accomplish the purposes of AS 44.33.700 — 44.33.735; the marketing program must include promotion of the state as a destination and promotion of all forms of travel to the state, including travel by air, highway, and water;

(2) prepare and implement plans for the promotion of Alaska tourism, including necessary research;

(3) submit an annual report to the governor and the legislature describing the activities of the council;

(4) make available to all interested persons, including tourism businesses, a quarterly report of the council's actions and activities;

(5) annually submit a proposed operating budget to the director, to be used by the Department of Commerce and Economic Development

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14 December 30, 1996 [1994];

- 1 * Sec. 3. APPLICABILITY. AS 44.33.705(b), as amended by sec. 1 of this Act, applies
- 2 to contracts entered into or renewed on or after the effective date of this Act.
- 3 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

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Alaska Tourism Marketing Council

Organization

The Alaska Tourism Marketing Council was created by the Alaska Legislature in 1988 as a joint venture between the State of Alaska and the visitor industry. This truly unique melding of public and private expertise and funding is challenged with keeping Alaska a top contender in the highly competitive, worldwide tourism marketplace.

The ATMC is a public corporation mutually managed through a contract between the Alaska Department of Commerce and Economic Development and the Alaska Visitors Association.

The 21-member council is comprised of 10 directors appointed by the Governor, 10 directors appointed by AVA, and the Director of the Alaska Division of Tourism as an automatic appointment. The council works through a strong committee structure with each director serving on at least one of the following committees: fall/winter/spring promotion; collateral; public relations; research; advertising and planning.

The primary objective of the ATMC is to encourage expansion and growth of the state's visitor industry. It is also charged with ensuring the economic benefits derived from the industry remain in Alaska and that a maximum number of Alaska residents are employed in industry businesses. The council promotes cooperation between state and private sectors in developing visitor marketing campaigns and visitor industry facilities, both in the public and private domain, to ensure the visitor experience is, and continues to be, positive.

Funding

The council's operating budget is determined by a yearly appropriation from the State Legislature, plus funds from the private industry. The industry is responsible for no less than a 15% cash matching contribution, and must also share a portion of production costs for the Official State Vacation Planner. The sale of vacation planner advertisements, direct mailing labels and stock film footage to industry businesses is administered by the Alaska Visitors Association to generate the private sector's matching contribution.

Cooperative Marketing Program

The ATMC achieves its promotional objectives through an integrated marketing program directed at domestic and Canadian markets with the greatest potential for producing new and repeat visitors. Components of the program developed by the ATMC include:

- * The Official State Vacation Planner distributed to more than 500,000 potential visitors;
- * Domestic and Canadian magazine advertising, targeting adventure and outdoor travelers;
- * National television image advertising;
- * National public relations efforts;
- * Direct mail advertising campaigns;
- * Special Alaska newspaper sections in major U.S. markets;
- * Winter campaign promoting "off-season" travel to Alaska.

Through extensive market research, analysis of conversion rates and visitor spending habits, the cooperative marketing effort has resulted in award-winning marketing campaigns and unprecedented growth in Alaska's visitor industry.

Benefits of Cooperative Marketing

As a comprehensive travel guide created and designed specifically for people who have already indicated a strong interest in an Alaska vacation, the Vacation Planner represents an extraordinarily affordable and effective vehicle for all tourism-related businesses.

For the nominal cost of a narrative advertisement, businesses can reach hundreds of thousands of potential customers through distribution of the planner via direct mail, at trade shows and travel events, and to 50,000 travel

agents around the nation. Moreover, display advertising in the planner offers unparalleled exposure for Alaska tourism businesses.

In addition to offering advertisement, the Cooperative Marketing Program gives industry businesses the option to develop their own customized direct mail marketing campaign through the sale of labels. Using a list generated from requests for the Vacation Planner, this program is capable of sorting names and addresses of more than 450,000 potential visitors based on a variety of demographic data. The labels program offers virtually all industry businesses a highly cost effective promotional avenue to reach an extremely targeted market base.

Alaska Division of Tourism

The Alaska Division of Tourism is a division of the Department of Commerce and Economic Development. The DOT Director serves as an automatic appointment to the Alaska Tourism Marketing Council, and has a standing seat on the Alaska Visitors Association's Board of Advisors.

The DOT maintains a variety of promotional projects and programs that complement the efforts of ATMC and AVA to serve the visitor and encourage business development.

Tourism Marketing

On the international scene, the DOT promotes Alaska, focusing primarily in Japan and the German-speaking countries of Europe. With tourism offices in both Japan and Germany, this promotion includes consumer advertising, travel trade show exhibits, travel writers/tour wholesaler familiarization tours, and production of foreign language collateral.

On the domestic front, the DOT engages in activities, both independent of and in cooperation with the ATMC, to promote Alaska in the Lower 48. Among those activities is an extensive visitor research program used by the division, ATMC, community organizations and private business to guide marketing efforts. In addition, the division directly mails destination information to travel agencies nationwide, and responds to over 131,000 telephone and mail requests for information from potential visitors.

Visitor Services

The DOT participates with state and federal agencies in operating Alaska Public Land Information Centers in Anchorage and Fairbanks, and fully funds and operates the Tok Visitors Center as an APLIC. The DOT also prints and distributes informational brochures and maps for Alaska trip planning.

Business Development and Assistance

The DOT provides technical assistance to communities developing visitor attractions and private businesses initiating or expanding their product. As part of that effort, the division is spearheading development of the Alaska's most customer service training program offered to tourism businesses statewide. In addition, the division's Alaska Film Office promotes Alaska as a motion picture and television production location.

Product Analysis

DOT participates in feasibility analysis and design of new in-state visitor attractions, and works cooperatively to promote creation of new direct passenger air routes from overseas.

COOPERATIVE MARKETING

The Alaska Cooperative Marketing Program

The Cooperative Marketing Program is a unique joint venture between the state and private industry to bring visitors to Alaska. The Alaska Visitors Association, representing private industry, contracts with the State of Alaska to jointly manage the Alaska Tourism Marketing Council which executes the marketing program.

AVA

The Alaska Visitors Association is a statewide, non-profit trade association representing more than 700 Alaska businesses. With a charter of promoting travel to and within Alaska, the association provides a unified voice for the visitor industry, lobbies the legislature to encourage funding and support of tourism issues and provides a matching contribution to state tourism funds. This match is generated by ad and mailing label revenues from the Official Alaska State Vacation Planner. The association has four primary goals for the coming year:

- Increase the number of visitors to Alaska
- Increase the state funding for tourism promotion
- Educate the visitor industry on important tourism issues
- Encourage and support AVA member businesses

ATMC

The Alaska Tourism Marketing Council is a public corporation jointly managed by AVA and the Alaska State Department of Commerce and Economic Development. It is charged with development and execution of Alaska's domestic and Canadian marketing program. ATMC promotes Alaska as a world-class visitor destination through marketing, advertising and public relations. A yearly appropriation from the legislature and a 15 percent matching contribution from the AVA gives the council its operating capital. The 21-member council is comprised of 10 governor-appointed members, 10 AVA-appointed members and the Director of the Division of Tourism.

DOT

The goal of the state Division of Tourism is to foster the growth of tourism in Alaska. The division follows up on more than 50,000 separate requests for information and represents Alaska at consumer and trade shows throughout the nation. The DOT is responsible for developing international markets, developing research data, providing assistance to tourism businesses and overseeing grant programs. The division also promotes Alaska as a filming location to the movie industry.

ATMC



AVA

DOT

Cooperative Marketing Components

Alaska's Cooperative Marketing Program is a national program promoting Alaska as a visitor destination. The components of the program, which are developed by the ATMC, include:

- The Vacation Planner, sent to more than 700,000 potential visitors
- Domestic & Canadian magazine advertising, targeting adventure/outdoor travelers
- National television image advertising
- National public relations effort
- Direct mail advertising campaign
- Special "Alaska" newspaper sections in major U.S. markets
- Fall/Winter/Spring campaign promoting "off-season" Alaska

PUBLIC ATTITUDES

The Alaska Visitors Association (AVA) contracted with Cracium & Associates to conduct a statewide public opinion survey on tourism. The main purpose of the survey was to understand Alaskan residents' experiences and perceptions of the role the tourism industry plays in diversifying the State's economy.

The statewide public opinion survey on tourism was conducted with several objectives in mind:

- ☞ gather data on Alaskan views of the tourism industry;
- ☞ identify the current image and perception of tourism specifically, and in relationship to other industries (i.e. mining, fishing, timber, oil and government);
- ☞ explore attitudes regarding the future economic impact of tourism; and
- ☞ track public opinion so that policy makers and businesses can better monitor the growth and development of tourism in the State of Alaska.

Key Findings

If State revenue from oil declines, four out of five Alaska residents, 79.6% of Alaskans surveyed, believe tourism and fishing will be critical for a healthy state economy.

When attention is turned to their local area, seven out of ten Alaskans feel tourism is essential to the local economy. This was especially true for Anchorage, Kenai, Kodiak, Fairbanks, and southeast Alaska. Demographically, more women saw tourism as important to the economy of the area than did men (81% to 63%, respectively). By the same token, a respondent's age and length of residence in Alaska had no bearing on their opinions about the importance of tourism to the local economy.

Half of the respondents either worked or knew someone who worked in a tourism-related industry.

In a series of questions designed to assess underlying values and beliefs about tourism and its effect on the quality of life in Alaska, the public response to arguments for and against tourism revealed a resounding positive experience toward tourism, both economically and personally.

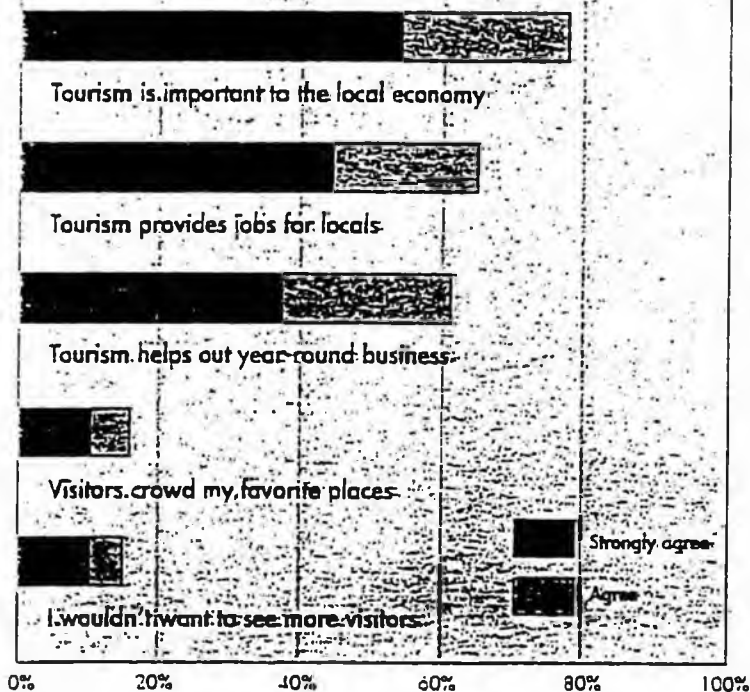
More than three quarters (78%) AGREE with the statement, "Tourism is important to my local economy." When residents were queried about the potential encroachment of tourists, 74% DISAGREE that "I wouldn't want to see any more visitors in my area than there are now." Clearly two-thirds (66%) held strong beliefs that tourists, in fact, provided jobs for locals and helped out year-round local businesses (62%).

A comparison of a similar lifestyle question from a 1989 study on tourism found 24% of Anchorage residents AGREEING with the statement "Tourists crowd all the good places in Anchorage in the summer." In the current study, only 15% of Anchorage residents AGREE that "visitors make it difficult for me to go to my favorite places."

Finally, the study looked at the public sentiment regarding State spending on advertising and promotion. Nearly one-third thought the State should SPEND MORE, (a rare statement of support at a time of increasing cuts in government spending) no doubt to fulfill their hopes of tourism dollars replacing declining oil revenues.

A Survey of Public Attitudes Toward Tourism in Alaska

Conducted by Cracium & Associates July 1991



VISITOR INDUSTRY IMPACT

The visitor business is Alaska's #1 growth industry.

Specifically, the visitor industry:

- ☛ Has the highest percentage of Alaska resident hire of all basic industry sectors, with an 84% local Alaska hire rate;
- ☛ Is the second largest private sector employer in Alaska, surpassed only by the seafood industry. The industry employs 13,300 during the peak season and 13,500 people year-round;
- ☛ Affects the employment of more than 52,000 other people in the transportation, retail or service sectors. And, it would most likely account for another 3,000 primary jobs if travel by Alaskans within Alaska had been calculated;
- ☛ Employs the most people in Southcentral (7,256 jobs with a peak season total of 9,573). Southeast accounts for the second highest employment (2,598 with a peak season total of 3,949) and the Interior/Far North employment ranks third (2,038 jobs with 2,973 during peak season);
- ☛ Generates \$244 million in annual payroll (based on 1990 employment data);
- ☛ Generates \$1.1 billion in revenues and spends an estimated \$590 million on inventory, advertising, marketing and labor. An additional \$260 million is paid out in taxes and other business-related expenses;
- ☛ Spends the most in Southcentral (\$168 million in 1990), second highest amount in Southeast (\$56 million), third highest in Interior/Far North (\$52 million) and 59 million in Southwest Alaska; and,
- ☛ Invests heavily in Alaska. Investments in Alaska are estimated to be \$448 million in property and operating equipment. The industry investment in Alaska is expected to top half a billion dollars within the next few years.

Tourism brings \$1.1 billion in revenues to Alaska.

Between 1989 and 1990, visitor businesses generated \$1.1 billion in revenues. Of this, approximately \$822 million represented business spending, with the remaining \$260 million going for taxes, payment to capital, and profits to business owners.

The total investment in Alaska's visitor industry is estimated at \$448 million, not including an estimated \$2 billion or more in cruiseship investments.

Tourism is a statewide industry.

In all of Alaska's regional economies, the tourism industry is a leading industry in the private sector. In the Southcentral and Interior/North regions, it ranks second, and in Southeast it ranks third. It is a growing factor in the Southwest and Arctic Alaska economies.

As the fastest growing industry in Alaska, tourism's future promise is a long range economic force offering year-round employment to thousands of residents.

Total Revenues to the State of Alaska from the Visitor Industry

As the following table illustrates, a total of over \$30 million attributable to the visitor industry flows into the state's general fund each year. The Alaska Marine Highway System, Department of Fish and Game, and corporate income taxes are the largest sources.

In addition, the Alaska Railroad and International Airport System also receive a significant amount of revenue attributable to the visitor industry. Although these are state operations, their finances are largely independent, and their revenues do not flow into the state general fund. Both of these revenue sources are included under "revenues to other state entities" in the adjoining table. Together, they received close to \$21 million in revenues attributable to the visitor industry.

The figures included in this table represent a *minimum* level of revenues to the state from the visitor industry. There are certainly additional sources of revenue to the state from the visitor industry that could not be quantified here (for example, rental car registration fees).

Despite these limitations, the data presented captures the most significant visitor industry sources of revenue to the state. The figures presented are based on hard data gathered from a variety of sources. Where necessary, conservative estimates were made. The result is a defensible, detailed estimate of the contribution of the visitor industry to state general fund revenues.

Revenues to the General Fund

Non-resident Visitor Spending

State Parks, FY91	
<i>Camping Permits, Historical Guided Tours, Other</i>	\$ 273,000
Department of Fish and Game, CY91	
<i>Non-resident and Alien Tags and Permits</i>	\$ 7,607,000
Alaska Marine Highway System, AVSP89-90	
<i>Non-resident Spending on Ferry Transportation</i>	\$ 14,900,000
Gasoline Taxes Paid by Visitors, AVSP89-90	\$ 517,000
State and University Museums, FY91	
<i>Non-resident Visitor Admission Fees</i>	\$ 240,000

Taxes and Fees from Visitor Industry Businesses

Department of Motor Vehicles Fees, Cy90	
<i>Tour Bus Vehicle Registration Fees</i>	\$ 43,000
Corporate Income Tax, FY91	\$ 4,169,000
Business License Fees, FY91	\$ 125,000
Aviation Fuel Taxes, FY90	\$ 2,000,000
Tour Bus Fuel Tax, CY91	\$ 41,000

Agencies Promoting the Visitor Industry

Alaska Division of Tourism, FY91	
<i>Program Receipts and ATMC</i>	\$ 1,269,000

Subtotal: Revenues to the General Fund **\$ 31,184,000**

Revenues to Other State Entities

Alaska Railroad, CY91	
<i>Pull Revenues, Specials, and</i>	
<i>Estimated Non-resident ticket Receipts</i>	\$ 7,400,000
Alaska International Airport System, FY91	\$ 13,385,000

Subtotal: Revenues to Other State Entities **\$ 20,785,000**

Grand Total **\$ 51,969,000**

**ALASKA NATIVE
TOURISM COUNCIL**
Sharing Alaska's Rich Native Cultures

MEMORANDUM

TO: Honorable Walter J. Hickel
Paul Fuhs, Commissioner of Commerce
and Economic Development
Mary Pignalberi, Director, Alaska Division of Tourism
Members, Alaska House of Representatives
Members, Alaska Senate

FROM: Ann Campbell, Executive Director *Ann*
Alaska Native Tourism Council

RE: Resolution in Support of the Alaska Tourism Marketing Council

DATE: March 9, 1994

Attached to this memorandum, you will find a resolution passed by the Alaska Native Tourism Council at its March meeting, which states unanimous support for the Alaska Tourism Marketing Council (ATMC). This resolution illustrates our support for full refunding of the ATMC's FY 95 budget as well as for its reauthorization.

As you head into final budget considerations for the FY 95 year, please understand that the ATMC program significantly benefits many small businesses throughout Alaska, including rural tourism entrepreneurs. The ATMC, through its domestic marketing efforts, helps stimulate the Alaska economy, creates jobs in rural Alaska and produces a good income for many in rural Alaska.

Through the cooperative marketing program managed by the ATMC, the Alaska Native Tourism Council membership can effectively market Native cultural attractions to millions of potential visitors every year. Our research shows that 50 percent of those people who received information from our members, and who visited Alaska, did visit rural/cultural tour products.

Our membership of 10 community-owned tourism businesses representing the width and breadth of Alaska, is asking each of you to support our industry through your support of the Alaska Tourism Marketing Council's \$7.2 million budget and its longevity.

**ALASKA NATIVE
TOURISM COUNCIL**
Sharing Alaska's Rich Native Cultures

RESOLUTION

- Whereas** the Alaska tourism industry is strong and growing with over a million visitors arriving each year;
- Whereas** the strength of Alaska tourism is based upon a successful cooperative marketing program;
- Whereas** the Alaska Native Tourism Council is a body representing a wide spectrum of Native-owned and operated tourism projects across the state;
- Whereas** Alaska Native Tourism Council depends on the efforts of the Alaska Tourism Marketing Council (ATMC), whose cooperative marketing program is regarded as one of the most effective in the nation;
- Whereas** mailing lists from the ATMC program produce outstanding conversions of visitors to Native tourism products;
- Whereas** many organizations like the Alaska Native Tourism Council couldn't afford to develop mailing lists as productive as the ATMC's leads;
- Whereas** the continued success of the Alaska Native Tourism Council is dependent upon the continuation of the ATMC;
- Whereas** the combined efforts of the ATMC and the Alaska Native Tourism Council have produced additional income and jobs for rural Alaskans;
- Now therefore be it resolved** that the Alaska Native Tourism Council supports a continuation of the authorization of ATMC;
- Be it further resolved** that the Alaska Native Tourism Council strongly supports full funding for the ATMC program which is so essential for rural tourism success.

This resolution was passed unanimously by the Alaska Native Tourism Council on March 1, 1994.

REPORT CONCLUSIONS

Currently AS 44.66.010 has ATMC scheduled for termination on June 30, 1993 and provides ATMC with a year in which to conclude its affairs. We recommend that the legislature consider legislation that extends ATMC's termination date to June 30, 1997 with the provision that current state general funds supporting their budget be gradually replaced by program receipts generated from revenues derived from the tourism industry (see Recommendation No. 1). Given the future prospect of declining state oil revenues and the continuing growth and maturity of the tourism industry, it is our opinion that state participation in funding the domestic tourism market should be gradually replaced with self-assessed taxes, fees, and/or contributions. This could take the form of enacting legislation to replace state general fund money with an assessment tax on the tourism industry, similar to that paid by commercial seafood processors, to fund the operations of the Alaska Seafood Market Institute. This recommendation is consistent with the Administration's desire to encourage privatization of ATMC. The Division of Tourism (DOT) should closely monitor the effect this action has, if any, on immature or undeveloped tourism markets and adjust the DOT program accordingly.

FINDINGS AND RECOMMENDATIONS

Of the following three recommendations, note that the third is directed solely at the Department of Commerce and Economic Development (DCED), Division of Tourism (DOT). Its inclusion in this report is due to our discovery of a material internal control weakness in DOT's disbursement procedures.

Recommendation No. 1

The legislature should consider legislation that extends the Alaska Tourism Marketing Council's (ATMC's) termination date to June 30, 1997 with the provision that current state general funds supporting its budget be gradually replaced with program receipts from tourism industry contributions or assessments within that four year period.

During Governor Hickel's Organizational Efficiency Task Force review, the operations of DCED as well as other state agencies were examined. In their summary report dated July 1992, the task force felt that state funds should be targeted to assisting the creation of new ventures rather than subsidizing the costs of maturing businesses. Consequently they felt that the efforts to privatize the activities of the ATMC should continue.

Currently the industry is required by statute to contribute at least 15% of the costs of ATMC. AVA has indicated a willingness to increase their contribution to the program. In a December 1991 letter to the commissioner of DCED they state:

We understand and are committed to the desire of the administration to reduce the contribution from the general fund for generic marketing in an effort to replace that source over a five (5) year period with resources of private and state support in collaboration with the Alaska Visitors Association (AVA). The AVA supports in principal the concept that generic marketing should be supported in part by private sector contribution and by new funding sources, rather than solely by the state general fund . . .

AVA has stated that they will increase their contribution to the marketing program. However, in an AVA project entitled *Destination: Alaska, Strategies for the Visitor Industry*, draft recommendations (among many others) were made that the visitor industry should be taxed and increased state general funds should be allocated to ATMC and DOT. It is our understanding that this report is currently being revised, thus these recommendations may be subject to change.

We recommend that current state general funds be gradually replaced by tourism industry generated funds. DCED should coordinate with the industry in determining the options available by which the industry can generate these funds. These funds may be increased industry contributions, industry assessments, tourism-related taxes or a combination of these.

As the goal of replacing state general funds with program receipts from the tourism industry is effectuated, the relationship between DCED and the industry as it is currently legislated may need re-evaluated.

Recommendation No. 2

The legislature should consider legislation to incorporate ATMC's staff within the Division of Tourism.

Currently, Alaska Statutes 44.33.710 provides that the ATMC board of directors may employ and determine the salary of the staff of ATMC. Staff is limited by the statutes to an executive director and no more than two employees. The statutes further provide that if there is no executive director, the staff of the council is to be supervised by the director of DOT.

Presently there is duplication of duties between DOT and ATMC staff. The director of DOT is statutorily responsible for ATMC's procurement activities. AS 44.33.120(b)(3) states, "*The Alaska division of tourism shall . . . review and approve the procurement documents and procedures of the tourism marketing council to ensure compliance with applicable laws and regulations . . .*" Additionally, AS 44.33.705 (11)(d) provides that "*a contract or grant entered into by the council is not effective until signed by the director [of the Division of Tourism].*" DOT staff are therefore responsible for monitoring ATMC's contracts, payments, and procurement. However, ATMC staff duties also include preparing budgets, administering contracts, and handling procurement.

Incorporating ATMC's staff within the Division of Tourism would eliminate these duplicate duties and provide for more efficient operations.

Recommendation No. 3

The Department of Commerce and Economic Development (DCED), Division of Tourism (DOT) should comply with the state budgetary process, state procurement code, and generally acceptable accounting principles and immediately cease the practice of diverting funds to non-state agencies. DCED should work with the Department of Administration in resolving this issue and make recovery to the State as may be considered necessary.

DOT directed a State of Alaska subcontractor to pay the Alaska Highway Rendezvous '92 Society \$6,500 that should have been credited to the State of Alaska. This check accompanied a letter dated November 5, 1992 from DOT that stated:

. . . the revised "Wings Over the North" production was never approved nor budgeted for by the Division of Tourism. Rather, you proceeded on a verbal commitment made in a telephone conversation with Lt. Governor Coghill, which he does not recall having made and which we have tried unsuccessfully to document.

The letter further stated that

. . . due to Alaska procurement laws which require some form of competitive solicitation in order to enter into contracts, we do not have a contractual arrangement. . . . Therefore, our only approach lies in redirecting funds. . . . A good example is the enclosed check from a printer who owed the division a credit and which we are now directing to you.

It is inconceivable to us that state employees would believe diverting monies due the State is an appropriate and legal action. The practice circumvents the state accounting system and certification process. At a minimum, circumvention of this process results in the state accounting records not accurately reflecting the financial transactions of the State. Processing transactions outside the state accounting system create an environment conducive to fraudulent transactions. Since the check/credit noted above related to FY 92 expenditures, it is possible that this diversion of funds also violates provisions regarding the expenditure of state funds as outlined in Section 13, Article IX of the Alaska Constitution.

In addition to the preceding check, according to DOT personnel, at least another \$700 in state funds have been diverted in a similar manner.

Internal controls should ensure that state resources are safeguarded against waste, loss, and misuse; that state resources are used consistent with laws, regulations, and policies; and reliable data is obtained, maintained, and fairly disclosed in reports. Management is responsible for implementing and maintaining adequate internal control systems and should institute timely action to correct identified internal control system weaknesses.

DCED should work with the Department of Administration to determine the appropriate corrective action to remedy the above matter.

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

P.O. BOX 110800
JUNEAU, ALASKA 99811-0800
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FAX: (907) 463-3841

February 26, 1993

Mr. Randy S. Welker
Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
FEB 26 1993
LEGISLATIVE AUDIT

Dear Mr. Welker:

Re: Preliminary Report
Department of Commerce and Economic Development
Sunset Review of the Alaska Tourism Marketing Council

This letter presents the response of the Department of Commerce and Economic Development (DCED) to the sunset review of the Alaska Tourism Marketing Council (ATMC). You will also find enclosed a separate response from the ATMC's Planning Committee.

Recommendation No. 1: The Legislature should consider legislation that extends the ATMC's termination date to June 30, 1997 with the provision that current State general funds supporting its budget be gradually replaced with program receipts from tourism industry contributions or assessments within that four year period.

We agree that the ATMC should be extended. Furthermore, the Hickel Administration has taken the position that the visitor industry's share of the cost of the ATMC should be increased. In the FY 94 operating budget, the Governor has proposed increasing the industry's share of the ATMC operating budget from 15 percent to 20 percent. Whether State general fund support obtained from existing sources can be phased out entirely depends on legislative enactment of a new revenue source in support of the state's tourism promotion efforts.

Recommendation No. 2: The Legislature should consider legislation to incorporate ATMC's staff within the Division of Tourism.

I disagree. There is currently no duplication of duties between the Division of Tourism (DOT) and the ATMC. The statutes creating the ATMC do not delineate areas of specific responsibility which, to those not intimately involved with the program, might lead to confusion about each agency's responsibilities. We have overcome this by ensuring that both organizations meet cooperatively to determine the most efficient and effective ways to share responsibilities.

The legislation which established the ATMC clearly shows that the ATMC is to operate independently of the DOT. As long as the ATMC is operating under the contractual

— DEPT.'S RESPONSE —

arrangements provided for in the statutes and agreed to by the Commissioner, then the ATMC should have its own staff and executive director.

Regarding the statutory requirement that the Director of Tourism sign all ATMC contracts, just because there exists this requirement does not mean that there is duplication of duties. Departments regularly require at least two signatures on contracts: director and commissioner.

Recommendation No. 3: The DCED, DOT should comply with the State budgetary process, State procurement code, and generally acceptable accounting principles and immediately cease the practice of diverting funds to nonstate agencies. DCED should work with the Department of Administration in resolving this issue and make recovery to the State as may be considered necessary.

I must first state that this recommendation has absolutely nothing to do with the ATMC and should not be part of this audit report. Nonetheless, I concur with this recommendation. The department's standard operating procedure is to require line divisions to discuss any and all financial or procurement practices out of the ordinary with the staff and director of the Division of Administrative Services. Had these procedures been followed, this incident would not have occurred.

This incident resulted from poor communication, a lack of understanding of appropriate State procedures, and the attempt by the DOT to honor what was felt to be a financial obligation of the State of Alaska to the International Joint Commission (IJC). The IJC has been in existence for three years and is a joint effort between the Canadian and Alaskan governments to promote tourism.

In FY 92, \$25,000 in expenses were incurred by the IJC on the State's behalf in relation to the Alaska promotional event, "Wings Over the North." The IJC believed it would be reimbursed for these expenses by the State while the DOT believed the project had been reduced and/or canceled. When the expenses were presented to the DOT it was determined by the director that in order to maintain the excellent working relationship that exists between the two governments, the IJC should be reimbursed, if at all possible.

Therefore, rather than receiving the unanticipated payments from United Graphics Inc. for lost slides and the Fairbanks Convention and Visitors' Bureau, the DOT requested that these monies owed the State be routed directly to the IJC. This was not a deliberate attempt to circumvent any State statute or procedure. It was an honest attempt to honor what was felt to be an obligation of the State. I have been in contact with the director of DOT and he is clearly aware of and apologetic for the circumvention of appropriate State procedures.

In an effort to resolve this issue, the department requested that the IJC return the funds to the State. The money was returned on February 5, 1993.

Analysis of Public Need.

My responses to the auditor's comments in this section are limited to specific quotes with which I disagree or which I feel need clarification.

Page 14: DCED does not document analysis performed before entering into an agreement with AVA for joint management of ATMC.

I think this statement has arisen from a misunderstanding of the intent of the statute on the part of the legislative auditor. It is not up to the Commissioner of the Department of Commerce and Economic Development to determine whether there should be a tourism marketing program: that decision resides with the Governor and the State Legislature. The statute cited by the auditor (AS 44.33.705), limits the Commissioner's authority to determining whether the tourism marketing program should be run "through a cooperative marketing program between the state and a qualified trade association having expertise in tourism" or through "a board of directors consisting of the director of tourism, the commissioner of commerce and economic development, and the commissioner of another principal executive department designated by the governor." Once again, the judgement and review of corroborating backup to determine whether there should be a tourism marketing program rests with the Governor and the State Legislature.

Page 15: The DCED/AVA joint management agreement not in compliance with Alaska Statutes.

As the auditor has indicated, the current joint management agreement between DCED and the AVA has been reviewed and approved by the Department of Law. The current agreement expires on June 30, 1994.

Page 15: DOT's potential conflicts of interest within ATMC.

With respect to conflicts of interest between the department and the ATMC, I can only speak from my own experience as Commissioner of DCED since July 1992. I have an excellent working relationship with the members of the ATMC. In my experience, the ATMC has proven a valuable organization which operates in the public interest.

Thank you for the opportunity to comment, and if you require additional information, please contact me at 465-2500.

Sincerely,


Paul Fuhs
Commissioner

GB/yd005.bel
022293a
Enclosure

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

No. 1
Bill Version: SB 341
(S) Publish Date: 3-14-94

Revision Date: 3/9/94
Title: Extending the termination date for
the Alaska Tourism Marketing Council
Sponsor: Senate Labor and Commerce
Requestor: Senate Labor and Commerce

Department Affected: Commerce and Economic Development
BRU: Division of Tourism
Component: Alaska Tourism Marketing Council

COMPONENT SERIAL NO. _____

Expenditures/Revenues:

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
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FUND SOURCE

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

Estimate of current year (FY 94) cost: \$ 0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)

* The funds for the Alaska Tourism Marketing Council are in the Governor's FY 95 operating budget.

Changes in CS SB 341 (RES) have no fiscal impact. This fiscal note is appropriate.

4.19.94 date SSS Comte Aide/(initial)

Prepared by: Wendy Mulder
Division: Dept. of Commerce and Economic Development

Phone: 465-2500
Date: _____

Approved by Commissioner: Paul Fuhs
Agency: Commerce and Economic Development

Date: 3/8/94

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SENATE COMMITTEE REPORT

DATE: 3/14/94

FURTHER: Finance

DATE TURNED INTO OFFICE: 4.19.94

Resources Committee considered SENATE BILL NO. 341

~~The Act~~ extending the termination date of the Alaska Tourism Marketing Council and providing for an effective date."

and recommends it be replaced with

and recommends:

replace with _____ CS SB 341 (RES)

or adopt previous _____ CS _____

attaches amendment(s) and report it back as follows

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations:

NEW FISCAL NOTES *prev. applies*

Department	Date	Zero	Fiscal
DC & ED	3.8.94	<input checked="" type="checkbox"/>	

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

① Steven D. Leman

② He [unclear] - NO Rec

③ [unclear] Pass original bill

④ [unclear] - NO Rec

⑤ [unclear] NO Rec

⑥ [unclear] Pass original bill

① Mike Miller Do Pass

Chair: Signature and Recommendation

SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

four DATE: 2/28/94

FURTHER: Resources
Finance

Date of 5-Day Notice: 3/3/94
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3/11/94

L&C Committee considered SB 341

~~Act~~ Act extending the termination date of the Alaska Tourism Marketing Council and providing for an effective date."

and report it back as follows

and recommends:

replace with _____ CS _____

attaches amendment(s)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

same title
 new title
 technical title change
(HB only)

first

FISCAL NOTE INFORMATION

Department	Date	Zero	Fiscal
DCED	3/8/94	✓	

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

Governor's Bill with Previous Fiscal Notes (enter information above)

DO PASS:

OTHER RECOMMENDATIONS:

~~_____~~

Judith E. Salo

2) Rep. M... Sharp No Rec
2) Alvin... Rec... Recommendation
2) ... N.R.

Jim Kelly - Do Pass
Chair: Signature and Recommendation