

HB

136

HFIN

FILE

DRAFT

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 136

Title: "An Act relating to tourism and tourism
marketing; eliminating the Alaska Tourism..."
Sponsor: REPRESENTATIVE Gene Therriault
Requestor: House FIN Committee

Dept. Affected: Commerce and Economic Dev
BRU: Tourism
Components: ATMC
Serial # _____

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services	216.8					
Travel	53.4					
Contractual	4361.1					
Supplies	4.0					
Equipment	0.0					
Land & Structures	0.0					
Grants, Claims	0.0					
Miscellaneous	0.0					
TOTAL OPERATING	4635.3	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
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FUNDING: (THOUSANDS OF DOLLARS)

General Fund	3335.4					
Federal Fund	0.0					
Other	1299.9					
TOTAL	4635.3	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	3	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)

Prepared by: House Finance Committee
Eldon Mulder
Gene Therriault

Date: 04/14/99
Phone: 465-2647
Phone: 465-4797

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Dept. Affected: Commerce and Economic Dev
BRU: Tourism
Components: Tourism Development
Serial # _____

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services	573.6	400.0	400.0	400.0	400.0	400.0
Travel	71.1	30.0	30.0	30.0	30.0	30.0
Contractual	1361.2	5200.0	4700.0	4200.0	4200.0	4200.0
Supplies	12.0	10.0	10.0	10.0	10.0	10.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	60.0	60.0	60.0	60.0	60.0	60.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	2077.9	5700.0	5200.0	4700.0	4700.0	4700.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	2011.1	5700.0	5200.0	4700.0	4700.0	4700.0
Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0
Other	94.9	0.0	0.0	0.0	0.0	0.0
TOTAL	2106.0	5700.0	5200.0	4700.0	4700.0	4700.0

POSITIONS:

Full-Time	11	6	6	6	6	6
Part-Time	3	3	3	3	3	3
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

See attached sheet for additional details.

Prepared by: House Finance Committee
Eldon Mulder
Gene Therriault

Date: 04/16/99
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CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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Grants, Claims	60.0	60.0	60.0	60.0	60.0	60.0
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See attached sheet for additional details.

Prepared by: House Finance Committee
Eldon Mulder
Gene Therriault

Date: 04/16/99
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Components: Tourism Development
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REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
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See attached sheet for additional details.

Prepared by: House Finance Committee
Eldon Mulder
Gene Therriault

Date: 04/16/99
Phone: 465-2647
Phone: 465-4797

FISCAL NOTE

Bill Version: CSHB 136 (L&C)

(H) Publish Date: 4/13/99

**STATE OF ALASKA
1999 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) _____ Dept. Affected DCED
 Title An Act relating to tourism and tourism marketing; eliminating the ATMC BRU Tourism
 Component Tourism Development
 Sponsor Therrisault ATMC
 Requester House Labor and Commerce Component Serial No. 1026 & 2278

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services	0.0	(219.0)	(219.0)	(219.0)	(219.0)	(219.0)
Travel	0.0	(53.4)	(53.4)	(53.4)	(53.4)	(53.4)
Contractual	20.0	(1,027.5)	(1,027.5)	(1,027.5)	(1,027.5)	(1,027.5)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	20.0	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)

CAPITAL EXPENDITURES	0.0					
-----------------------------	------------	--	--	--	--	--

CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	20.0					
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat. Designated PR	0.0	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)
TOTAL	20.0	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)	(1,299.9)

Estimate of any current year (FY99) cost: _____

POSITIONS

Full-time		(6)	(6)	(6)	(6)	(6)
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Eliminates the 3 ATMC positions and transfers ATMC personal services (219.0) and travel (53.4) to contractual. Eliminates AVA match to ATMC funding, because bill takes match off budget. Eliminates 3 positions in the Division of Tourism Inquiry Section and transfers personal services (114.4) to contractual.

One time contractual cost of 20.0 in FY00 to conduct a feasibility study on the contracting out of the inquiry section function, "determining the potential costs and benefits which would result from contracting out the work in question," per Article 13 of the GGU Agreement.

Prepared by Tom Lawson, Director
 Division Administrative Services
 Approved by Commissioner Deborah B. Sedwch
 Agency Commerce and Economic Development

Phone 465-2506
 Date/Time 4/12/99 11:07 AM
 Date 4.12.99

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Prepared by Tom Lawson, Director Phone 465-2506
 Division Administrative Services Date/Time 4/12/99 11:07 AM
 Approved by Commissioner Deborah B. Sedwick Date 4.12.99
 Agency Commerce and Economic Development

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Alaska State Legislature

REPRESENTATIVE
GENE THERRIALT

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Fairbanks, Alaska 99701
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Juneau, Alaska
99801-1182
(907) 465-4797
Fax: (907) 465-3854

House Of Representatives

House District 33

House Bill 136

"An Act relating to tourism and tourism marketing; eliminating the Alaska Tourism Marketing Council; and Providing for an effective date."

SPONSOR: Representative Gene Therriault

SPONSOR STATEMENT:

House Bill 136 is based on a plan brought forward by the tourism industry and is similar to legislation sponsored last session by the House and Senate Finance Committees. It consolidates the state's tourism marketing efforts, reduces the size and functions of the Division of Tourism, and allows the state to reduce its contribution to tourism marketing over time.

Currently, Alaska's statewide tourism marketing efforts are carried out by three organizations—the Alaska Tourism Marketing Council, the Alaska Visitors Association, and the Division of Tourism. These efforts will be consolidated into a single marketing function that is broadly representative of the various sectors of the visitor industry in the state. This organization will put together a marketing program to address media advertising, visitor inquiries, publishing and distributing information regarding vacation planning, and establishing and maintaining Internet sites that provide tourism information.

The Division of Tourism will provide inquiry assistance, administer visitor information centers, and plan and advocate for tourism and tourism development in coordination with the private sector, municipalities, and state and federal agencies. They will enter into a contract with a single, qualified trade organization for the purpose of planning and executing the state's destination tourism marketing campaign. The contract may include promotion of distinct segments of tourism, such as highway, seasonal, cultural, regional, rural, and ecotourism. This will take the state out of the business of marketing and reduce the number of employees required to carry out the functions of the division.

A central feature of the contract is that the organization awarded it will be required to match the state's effort with 30% of its own money. It is expected that the organization

will grow and its membership collections increase. Therefore, the match will rise to 60% in 2002. The benefits of this are twofold: first, the state will be able to reduce its contribution without doing extreme harm to the industry; second, the private sector will contribute more of its own funds towards the marketing efforts they benefit from.

The industry is coming forward with more of its own dollars. Coupled with efficiencies provided by consolidation, the marketing efforts to bring more visitors to the state will be more effective. This is a responsible approach to reduce the state's monetary contribution without harming the growth of the industry.

The New Millennium Plan

A Concept for the Future of Tourism in Alaska

**Alaska Travel Industry Association
Organizational Outline**

Revised December 1998

Alaska Travel Industry Association

A New Concept for the Future

A. OVERVIEW

Presented in this document is an industry-led initiative to regain Alaska's competitive position as a visitor destination and to consolidate Alaska's statewide tourism organizations – the Alaska Tourism Marketing Council, the Alaska Visitors Association, and the marketing functions of the Alaska Division of Tourism – into one new, non-profit organization.

This streamlined structure is the industry's solution to several issues facing Alaska tourism: greatly reduced government funding, continued threats of industry taxes, increased competition from other destinations, and a decline in the rate of visitor growth. Without a renewed effort to regain our position in the marketplace, the downward trends will continue.

Rather than continue to watch Alaska's marketing decline further, the tourism industry has taken a proactive approach to deal with the problem. Under this plan, the industry would greatly increase its marketing contribution and the State would continue to provide a core level of funding through a fee-for-services contract with the new non-profit organization. After a phase-in period, the goal is to raise a minimum of \$10 million, with \$6 million coming from the private sector and \$4 million coming from the State. This represents a 25 percent reduction in state general funds and a more than 300 percent increase in private sector funds.

B. A NEW ORGANIZATION

Dissolve the Alaska Tourism Marketing Council, the Alaska Visitors Association, and the marketing functions of the Alaska Division of Tourism. In their place, create a new statewide organization that would accomplish much of what is being done by all three, while realizing efficiencies from streamlining. While all the marketing functions would be consolidated, the Division of Tourism (DoT) would remain a separate entity within state government for planning, government coordination and advocacy.

Within the organization, there would be three major program areas. A board of directors would set overall policy and budget, overseeing the Tourism Industry Services, Administration and Marketing functions. The marketing program would be implemented by a professional staff at the direction of the Alaska Travel Industry Association board of directors or a committee thereof. It is intended that developmental programs aimed at expanding fall/winter/spring, highway travel, and international markets would continue.

Marketing Membership Dues

Based on peak-season employee counts, as follows:

<u># of Employees</u>	<u>Amount</u>
< 5	\$200
5-15	300
16-50	500
51-100	1,000
101-300	2,000
301-500	3,000
501-1,000	4,000
1000+	5,000

Cruise Lines

In addition to the membership fees, cruise lines would pay a voluntary assessment based on their percentages of the total Alaska cruise market. The formula-based assessment would be phased in over a three-year period, with a funding goal of \$2 million in the third year.

<u>Company's Alaska passenger cruise days*</u>	x \$1.0 million in FY01
<u>Total passenger cruise days** in Alaska market</u>	x \$1.5 million in FY02
	x \$2.0 million in FY03

See Appendix for contributions beyond FY03.

Destination Marketing Organizations and Communities

Local destinations would have the opportunity to dovetail with the state program as a community partner and leverage their marketing dollars with the Visit Alaska efforts. In addition to the membership benefits, participating destinations would receive additional marketing and promotion tools for their communities, such as advertising and label discounts.

Partnering communities and destination marketing organizations (DMOs) would receive benefits such as:

- Participation in press trips coming to Alaska
- 25 percent discount on mailing labels
- Editorial coverage in marketing materials
- Convention and meeting leads
- Vacation Planner advertising*
 - Buy-ins between \$500-\$4,000 receive a narrative ad
 - Buy-ins between \$4,000-\$7,000 receive a 2" color display ad
 - Buy-ins between \$7,000-\$30,000 receive a ¼ page display ad
 - Buy-ins above \$30,000 receive a ½ page display ad
 - Opportunity to access Pay-to-Play and all other cooperative marketing programs

*Based on community buy-in at FY01 level see Appendix for further details.

- State Vacation Planner ads
- Sector Guide ads, such as highway travel, winter guide, sportfishing guide
- Mailing label and film footage access
- Trade Show participation, both international and domestic
- Newspaper cooperative ads, Internet ads and link purchase
- Brochure distribution
- Trade promotion, media events, and fairs participation
- Research
- Meeting and workshop registrations

E. STATE PARTICIPATION

The State's responsibility to assist Alaskan businesses with economic development and growth dictates a need to help level the playing field for Alaska's tourism industry as we compete against other destinations receiving millions of dollars from their own states' general funds. In addition, the tourism industry's direct contributions to government (over \$123 million in taxes and fees to state and local governments in 1995) demonstrate that funds spent on tourism promotion are a long-term investment which would come back to the state in increasing amounts as the industry continues to grow.

The state fee-for-service contract of \$4 million represents a 25 percent decrease from current state general fund spending on tourism programs and a 40 percent decrease in total tourism program spending. This decrease would be phased in over a three-year period as the private sector's contributions increase.

The new, non-profit Alaska Travel Industry Association would contract with the State of Alaska to provide marketing services, which may include:

- Producing and distributing a state vacation planner or other materials
- Producing and maintaining a tourism web site
- Responding to visitor inquiries received by the state
- Including state information such as border crossings, hunting/fishing licenses, and road conditions in visitor publications and on the Internet
- Support to communities just beginning tourism development

Division of Tourism

A separate Division of Tourism within the Department of Commerce and Economic Development (DCED) would be maintained for governmental coordination, state policy development, business development, advocacy, planning, and any visitor information centers. The DoT would also serve as a liaison to the new organization and enter into the marketing contract with ATIA.

H. TIMELINE

Implementation of this proposal would require approximately one full transition year, beginning in 1999. A transition team comprising representatives from the ATMC, AVA, State of Alaska, Destination Marketing Organizations, and Alaska Wilderness Tourism & Recreation Association was formed in July 1998 to write bylaws, incorporate the new organization, and facilitate the election of the first board of directors. The directors of each of the existing organizations (AVA, ATMC, and DoT) also serve as advisors to this transition team.

To ensure a smooth transition, the three current organizations would continue to operate concurrently with the new organization for a period of 6 to 12 months. On or before July 1, 2000, the new organization would officially take over the marketing functions currently served by the existing organizations. Once seated, the Alaska Tourism Industry Association Board of Directors would hire the Chief Staff Executive. Staff of the current organizations would be given first priority for positions with the new organization.

1998

January	Revised plan distributed to travel and tourism businesses statewide for approval
March	Legislation introduced
May	Legislature adjourns before enacting plan
July	Transition team formed to begin work on bylaws and articles of incorporation

1999

Winter	New legislation introduced
Spring	Transition team coordinates election of first board of directors
July 1	New organization begins initial operations

2000

Spring	Full plan takes effect: marketing duties of ATMC and DoT are transferred to new organization and AVA and ATMC are dismantled.
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Background

BUILDING ON OUR SUCCESS

History of Cooperative Marketing in Alaska

Cooperative Marketing in Alaska really began with the creation of the Alaska Visitors Association (AVA) in 1950. The major emphasis of the association was promotion, including production of the *Alaska Yukon Travel Manuals*. In fact, between 1959 and 1970, AVA was known as the Alaska Travel Promotion Association and worked on marketing projects with the Division of Tourism after it was formed in the '60s.

In 1976 the first formal cooperative tourism marketing efforts between the State of Alaska and the tourism industry began, when AVA approached the state with an innovative proposal to co-mingle private and state funds to draw visitors to Alaska. The idea was simple: combine funding from the state with money, marketing talent, and knowledge contributed by the private industry to build a program to promote the entire state as a destination. Program recommendations were provided by the Alaska Visitors Association Marketing Council and implemented by the Division of Tourism.

A Model Program

This melding of industry and state tourism efforts went a step further with legislation passed in 1988 to form the Alaska Tourism Marketing Council (ATMC). Jointly managed by the state and AVA, the ATMC oversees promotion of Alaska to the domestic and Canadian markets, while the State Division of Tourism (DoT) manages the international marketing efforts for Alaska.

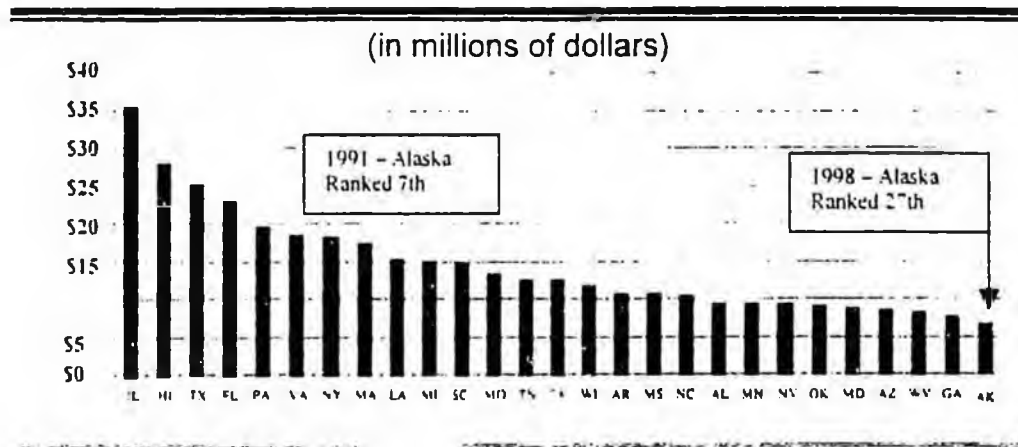
This unique program has created a consistent, high-quality marketing plan that has bolstered industry expansion efforts, as evidenced by the phenomenal growth in the number of visitors to the state. For many years, Alaska's sophisticated marketing techniques and public-private structure served as a model for other destinations. The marketing materials produced were award-winning.

TOURISM IN TRANSITION

Alaska is Losing Ground

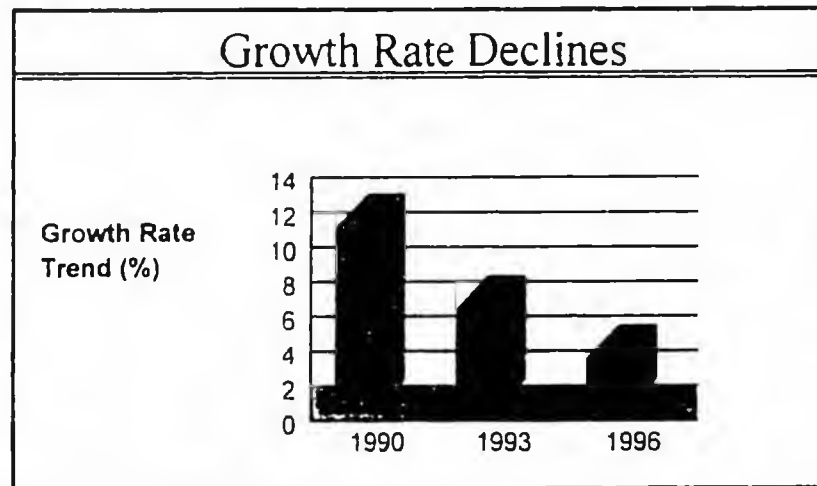
Since 1989, state funding for tourism programs has declined nearly 62 percent, from \$15 million in FY90 to under \$6.7 million in FY99. At the same time, other states have *increased* their tourism promotion by 26 percent in the last five years.

Top 27 State Tourism Budgets, 1998



Growth Rate is Declining

Alaska's relative decline in marketing competitiveness is being felt within the industry. While overall visitor numbers have continued to rise, the rate of growth has slowed. Some segments of the industry, most notably highway-dependent businesses, have felt the first effects of decline.



Visitor Industry Taxes and Fees Increase

Between 1992 and 1995, state taxes paid by visitors and visitor industry businesses increased by 99 percent, fees by 62 percent, and other revenue assessments by 6 percent. Despite these increases, general fund dollars going back to the industry *decreased* by over \$2 million - the equivalent of a 24 percent decrease during the same period of time.

Industry Attitudes Surveyed

The AVA surveyed its members in July 1997 to gauge the opinions and attitudes toward various funding and organization scenarios. As a result of this survey, four general points of agreement were clear:

- Members strongly believe a statewide tourism marketing program is needed.
- Members strongly believe the state has a role to play in providing funds for tourism promotion.
- Members oppose additional taxes focused on the visitor industry for the purpose of funding general government.
- Two out of three members believe some sort of assessment or fee should be used to support tourism marketing, although there is no consensus about what specific option should be implemented.

Developing A Concept

After researching funding alternatives and studying the survey results, the AVA board of directors contacted convention & visitors bureaus, government officials, and other industry leaders for input and ideas. When all of this information was taken into account, an outline of what was desired emerged. A plan was designed to accomplish the following:

- Shift marketing efforts to a private entity that combines the activities of the Division of Tourism and Alaska Tourism Marketing Council
- Return Alaska's marketing efforts to a competitive position
- Reach a goal of \$10 million for marketing
- Utilize pay-to-play programs
- Increase private sector funding while state general funds decrease under a phased-in approach
- Increase participation from businesses

New Millennium Plan Takes Shape

This concept was first presented to 650 industry members during the October 1997 AVA convention. There was general consensus for the proposal as outlined, both during the meeting and in follow-up questionnaires. Convention & visitors bureaus, tourism associations, chambers of commerce, and other organizations arranged meetings to distribute and debate the proposal. The administration and members of the Legislature were briefed and the details of the proposal were published in AVA's newsletter and other print media statewide. A number of changes were made to the draft based on feedback.

In January 1998 a revised plan was mailed to 3,000 tourism businesses statewide in order for them to determine if the plan should be further developed for presentation to the Legislature. Eighty-five percent of respondents recommended moving forward with the plan.

Legislation to implement much of the plan was introduced in 1998 and was passed by both the House and Senate, but failed to reach a final concurrence vote. The industry continued to actively support the legislation, communicating support to their legislators and AVA. A transition team formed in July 1998 to begin working on the details of implementing the plan. The team presented proposed changes to the 1998 AVA convention delegation and, based on their feedback, revised the plan to this present form for increased industry distribution and comment throughout the fall/early winter of 1998/1999.