

HB

300

House Committees

Labor & Commerce
Military & Veterans Affairs
State Affairs
Regulation Review

Alaska State Legislature
Representative
Joe Hayes

119 N. Cushman, Ste. 205
Fairbanks, AK 99701
(907) 456-7423 / Fax: 451-9293

While in Juneau
State Capitol
Juneau, AK 99801-1182
(907) 465-3466 / Fax: 465-2937

Memorandum

To: Senator Gene Therriault, Chair Senate State Affairs Committee
From: Representative Joe Hayes *JCH*
Date: April 22, 2002
RE: HB 300, Procurement of Travel Services

I respectfully request that you schedule HB 300, an Act relating to the procurement of certain travel services. This important bill helps give travel agencies throughout the state and in the Fairbanks area the chance to survive. HB 300 passed the House 36-1. I have attached all pertinent materials. Enclosed is a letter from Commissioner Jim Duncan that asserts the necessity of passing this bill before the end of session. If you have any questions or concerns, don't hesitate to call me.

District 30

representative_joe_hayes@legis.state.ak.us

HOUSE COMMITTEE REPORT

(7)
Date Referred to Committee: January 14, 2002

FURTHER REFERRALS: Finance

Date of Committee Action: 21 Feb 02

The STATE AFFAIRS Committee considered:

HB 300

HOUSE BILL NO. 300

PROCUREMENT OF TRAVEL SERVICES

"An Act relating to the procurement of certain travel services."

Recommends it be replaced with CS () [] Same Title [] New Title
For Senate Bills with new title: [] Technical Title [] New Title: HCR _____

- [] attach amendments
- [] add new referral to _____ Committee
- [] Letter of Intent _____ Committee

List of Abbrev. for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LAA
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

<u>NEW FISCAL NOTES</u>				
*For Chief Clerk's Office Use Only				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
<u>ALL</u>			✓	

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Wilson	✓			
	STEVE CRAWFORD	✓			
	Hayes	✓			
Chair:	John C. ...	✓			
Chair:	...	✓			

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

January 15, 2002

SUBJECT: Sectional Summary of HB 300 relating to the procurement of certain travel services (Work Order No. 22-LS1195\A)

TO: Representative Joe Hayes
Attn: Melinda

FROM: ^{JB}
Theresa L. Bannister
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, please note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1. Provides legislative findings and intent for the bill.

Section 2. Excludes from the state's procurement code (AS 36.30) contracts for travel services, except for motor vehicle rentals.

Section 3. States that sec. 2 of the bill does not apply to ongoing contracts entered into before the effective date of the Act.

If I may be of further assistance, please advise.

TLB:med
02-008.med

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 300
 () Publish Date: _____

Revision Date/Time (Note if correction): (Rev. 4/8/02) Dept. Affected: All
 Title An Act relating to the procurement of certain travel services. BRU All
 Component All
 Sponsor Representative Hayes
 Requester House Finance Component No. All

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

With the recent round commission cuts, most airlines are now paying no commissions to travel agents. This situation will effectively end the ability of travel agents to waive fees for state travel. To address this change under current procurement law requires competitive solicitation which will culminate in contract awards to a single travel agent in each location where we currently do not have contracts.

HB 300 would eliminate the requirement for competitive procurements and allow the State to set a reasonable threshold that could be paid to all travel agents in locations without current contracts. The difference between this threshold and a competitively procured fee is impossible to predict, but the \$8 estimate used on the original fiscal note is a conservative guess. The number of tickets purchased in 2001 on which fees were waived was 28,599. At \$8 per ticket, the estimated savings of competitively procuring travel agent services is \$228,792.

Prepared by: Vern Jones Phone 465-5684
 Division: Division of General Services Date/Time 04/08/02
 Approved by: Jim Duncan, Commissioner Date 4/8/2002
 Agency: Department of Administration

HB 300 Testimony
House State Affairs hearing
2/21/02 8:00 am

Room 102 Capital

Hello, my name is Kim Garner and I work as the director of finance in the Department of Administration.

I am not an expert on procurement issues, but I am familiar with the business relationship between the State of Alaska and travel agencies.

State government has a long history of relying on the private sector for professional travel services. Until a few years ago, these services were free to travelers because travel agencies relied on commissions from the travel providers such as airlines and hotels. Because no public funds were spent for these services, each state office was able to use the travel agent of their choice and strong loyalties developed.

In October 1999, airlines cut travel agent commissions from 8% to 5%. This 37.5% reduction was an early step in a trend that has continued to place severe economic pressure on travel agents. With ever declining commissions from airlines, more and more travel agencies have responded by initiating fees for their services.

When fees are introduced for travel services, the issue of competitive procurement arises. The State of Alaska spends over \$16 million a year on airline tickets; a fee as low as 1% results in \$160,000 spent statewide for services. Current procurement law requires formal competitive bids for purchases of this size. The result is that all state travel purchases are then made from the successful bidder.

Our policy has been to obtain travel agent services without paying fees whenever possible. To that end, the Department of Administration has maintained a web site listing travel agents willing to provide services free of charge to State agencies. State agencies may use any of the travel agencies listed or any other travel agency willing to waive fees for their business.

In communities where no travel agencies were willing to provide free services, we competitively established a travel agent contract in accordance with the Procurement Code. This has resulted in single award contracts for the communities of Juneau, Wrangell, Petersburg, Haines, Cordova, Seward, and Dillingham. Fees paid under these contracts range from \$5 to \$20 for an airline ticket.

Effects of the bill

If this legislation passes, travel related services would be exempted from the procurement code. In that case, the Department of Administration will meet with industry representatives to establish a reasonable fee schedule, which will become the "benchmark" for doing business with the State.



Northern Lights Travel

606 Old Steese Hwy., Suite 117 • Fairbanks, Alaska 99701
Phone (907) 451-7111 • 1-800-478-7048 • Fax (907) 451-8701

January 31, 2002

Representative Joe Hayes
(907) 465-2937 FAX

Dear Mr. Hayes,

I would like to lend my support to HB300. Travel agencies are facing greater financial challenges every year as the airlines continue to decrease our commissions. Service fees are a must for travel agencies to continue to survive.

The STATE should NOT be exempt from paying for services from any business. We provide a valuable service. I do not want to see our public servants wasting time and money trying to be travel agents, when a call to a professional and efficient travel agent can have a state employee off the phone and the internet in minutes. Currently the State does not pay for the service of ticket delivery or the additional time spent if a ticket has to be changed and reissued.

Thank you, Mr. Hayes for supporting HB300. Please let me know if I can assist, in any way, to help pass this bill.

Sincerely,

Northern Lights Travel
Yulanda Johansen, CTC
Owner

Alaska Native Owned

Email: yulanda@northernlightstravel.com

Letters of Support 2002



Vagabond Travel

January 29, 2002

Representative Joe Hayes
907/465 2927 Fax

Dear Mr. Hayes;

I would like to lend my support to HB300. Travel agencies are facing great financial challenges as we see our airline commissions shrinking with every passing year. Service fees have become a way of life in the travel agent industry and without them few of us could remain in business. The state should not be exempt from paying for services from any business. We provide a great service, as anyone who has sat on hold with the airlines or fumbled through an internet booking can attest to. Quite frankly, I do not want to see our public servants wasting time and money trying to be travel agents, when a call to a professional and efficient travel agent can have a state employee off the phone in minutes. The state does not even pay for the service of ticket delivery or the additional time spent if a ticket has to be changed and reissued.

My hat is off to you Mr. Hayes, please do not hesitate to contact me if there is anything further I can do in this endeavor.

Sincerely,

Ramona Oxendine
Manager/partner



SENATOR KIM ELTON

F

March 5, 2002

Mrs. Cassandra Ritter Days
PO Box 33716
Juneau, Alaska 99803

Dear Cassandra:

Thanks for your letter concerning the travel industry in Alaska. Small business is an important part of the Alaskan economy and it's discouraging to see that executive and legislative actions may have had a negative impact on small travel businesses in order to save approximately 2 percent on the cost of state travel.

It is not good for our economy to simply focus on the 2 percent and not reflect on what ripples through the private sector. I wanted to let you know that Representative Joe Hayes (D-Fairbanks) has introduced a bill that will eliminate this procurement process for the for travel agents. I've attached the copy of Rep. Hayes' bill, HB 300. Please call my office if you have any questions.

Sincerely,

Senator Kim Elton

cc: Representative Hayes



907-522-1299

F

March 1, 2002

Representative Joe Hayes
Alaska State Capitol, Room 422
Juneau, AK 99801-1182

Dear Representative Hayes:

Thank you for sponsoring House Bill (HB) 300. I also want to thank other members of the House State Affairs Committee for their approval of the legislation on February 21, 2002. Airlines Online & Travel Services Network, Inc (Airlines Online) supports passage of HB 300.

Airlines Online is a full-service travel agency certified by the Airlines Reporting Corporation (ARC). We have been headquartered in Anchorage since 1992. Airlines Online provides both traditional and internet based travel and travel management services on a global basis for corporate, government, and leisure clientele. First and foremost, our professional staff provide unparalleled customer service. Airlines Online is a member of the Alaska Business Travel Association, American Society of Travel Agents, and other travel organizations.

I learned about this legislation by viewing a video of the February 21 hearing. If enacted, HB 300 will amend AS 36.30 to allow travel agencies to charge service fees for travel services purchased by state employees. Director Kim Garner, Division of Finance, testified the legislation would not sever existing travel agency/state fee based contracts currently in force in a few communities.

At the hearing, Director Garner also clarified the fiscal note for an \$8 roundtrip ticket service fee was an estimate and indicated it was still subject to input from travel industry representatives. **Airlines Online requests to be among the industry representatives queried for input by the legislature and Director Garner regarding the fiscal note and bill language.** Airlines Online would also appreciate being informed of future hearings in the House and Senate related to this legislation.

Airlines Online suggests HB 300 should include a provision requiring the state to establish a minimum standard for mandatory data reporting by all travel agencies

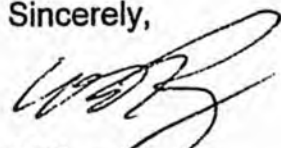
authorized to sell travel to state employees and assess fees. This reporting requirement would generate information needed by state managers to evaluate whether employees purchased fares in compliance with travel parameters established by the state. Such a standard would also enable the state to better monitor whether travel agencies are offering lowest logical fares meeting state travel regulations and policies. These types of record keeping and reporting requirements are currently used for our corporate clientele. The federal government mandates similar requirements.

Please keep in mind that reporting requirements are not intended to make a travel agency into an enforcer of state policies. Instead, they merely require travel agencies to supply reports to the state on a timely basis that identify the costs of the lowest logical fares offered to employees by a travel agency versus the costs of the tickets employees actually chose to purchase. Based on our experiences with other clientele, this reporting can lead to tremendous savings and better adherence to travel policies. There are similar advantages associated with ticket purchases from travel agencies versus direct purchases from air carriers.

Airlines Online also recommends the state reassess its general travel policies to insure they are current and more likely to result in lowest logical fare purchases.

I look forward to contributing to the fiscal note discussions and learning when the next hearing will be held. Please let me know if you require additional information.

Sincerely,



William Beck
President
Bbeck@airlinesonline.com

cc: House State Affairs Committee
House Finance Committee
Representative Brian Porter, House Speaker
Senator Rick Halford, Senate President
Governor Tony Knowles
Lt. Governor Fran Ulmer
Jim Duncan, Commissioner of Administration
Kim Garnero, Director of Finance

22February02

House State Affairs
To Representative John B. Coghill, Jr.

House Bill 300

Your statewide travel agency network must implement service fees against the State of Alaska's travel procurement. This implementation is primarily a result of the airline industries commission cuts and subsequent cuts made by related travel industry options.

We believe these fees ultimately save money. We are an unbiased travel source. The airline industry wants to remove itself from the "high rent" computer systems we have and become solely an internet commodity. At that point, price comparisons, itinerary options, and change options become extremely limited and expensive, with Dracula in control of the blood bank.

Sweetwater Travel has been a vital and successful travel agency for over fifteen years, supporting our community and state with revenues and payrolls. We would like to keep our revenue intact, and in the State of Alaska.

Thank you for your consideration of this house bill.

Sincerely,

Carol Callahan *Carol Callahan*
Marty Fisher *Marty Fisher*
Sweetwater Travel - Partners

CC: Representative Joe L. Hayes

Cyndi's**Cruise and Travel**

February 13, 2002

HB 258

I am writing this in response to a bill that is going to be proposed. We are totally against this bill because it is unfair to businesses that only earn a portion of the gross sales. As most of you know, the travel industry has changed drastically. The airlines have cut our commissions down to 5% of the gross base fare without taxes and on top of that, it's capped at \$20.00. That is the most money we can make on an airline ticket. If this bill is passed, it will cause our agency to close its doors as well as most other travel agencies in Alaska. Please reconsider passing such a financially devastating bill that will ruin the small businesses of Alaska.

Sincerely,

A handwritten signature in cursive script that reads "Cyndi Isaak". The signature is written in black ink and is positioned above the printed name.

Cyndi Isaak, Owner

415-5th Street • Douglas, Alaska 99824

Phone: 907-364-3435 • Fax: 907-364-3475

e-mail: cyndi-travel@gci.net

Becky's Travel Services
3035 Mountainwood Circle
Juneau, AK 99801
(907) 789-5576

Re: Bill 300

I am Becky with Becky's Travel Service and I have been in the Travel Industry for 18 years. With the commission cuts and losing my state travel, I don't know how long I will be able to stay in business. Most of my revenue comes from State Travel and my clients were forced to go through only one agency. That made things really hard on my business. I hope this bill gets passed so they can choose who they prefer to use and help all the agencies stay in business.

Sincerely,
Becky Thomas

January 14, 2002



To: Rep. Hayes
FAX: 907 465-2937

F

From: Carol Callahan, Owner/Partner
Sweetwater Travel
FAX: 907 452-2154

Subject: House Bill No. 300

House bill sounds great. Short and sweet and shows all of the agencies intent of using more than one provider and being able to charge fees, which are essential for the existence of smaller agencies. Hope it flies.

Carol Callahan

December 27, 2000

Kymm Bowthorpe
3262 Mendenhall Loop Rd. #2
Juneau, AK 99801
790-3282-h

Senator Kim Elton
State Capitol Room 504
Juneau, AK 99801-1182

Dear Mr. Elton,

I am writing to you today regarding an issue that I believe is a very serious one, the State of Alaska and its travel.

As a former travel consultant of 15 years, I have seen many arguments the state has made against putting its travel out to bid. Enclosed you will find a letter written by Fran Ulmer to our former governor, Walter Hickle, concerning the subject.

At this point I believe it is time for the state to make a major change. Several travel agencies in Juneau, as well as around the state, have gone out of business in the last couple of years. For some, it was due to the airlines cutting their commissions, for others it was a direct result of the states unwillingness to pay service fees in support of local businesses.

I have also enclosed a research paper that I have done on the subject. I do hope you will take the time to look it over. I believe this is a serious issue and one that needs your attention.

Thank you for your time.

Sincerely,



Kymm Bowthorpe

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

April 5, 2002

AAA Travel
9191 Old Seward Hwy. # 20
Anchorage, AK 99515-2040

Dear Travel Agent:

The most recent round of commission cuts by airlines is forcing the State of Alaska to change the way it purchases travel. As you may know, unless we conduct a competitive procurement, the State is statutorily able to transact business only with travel agents who have agreed to waive fees for their services. Now that most airlines have quit paying commissions, we believe it is highly unlikely travel agents can continue waiving fees for state travel.

One strategy suggested by travel agents is to set a fee threshold that could be paid to any travel agent for state travel. This is not permissible under present procurement law, which requires competitively awarded contracts when the State expends money.

However, the legislature is considering House Bill 300, which would exempt travel services from the normal competitive requirements of the procurement law. Should HB 300 become law, we would have the option of working with travel agents to establish a fee threshold that could be paid by state agencies to any travel agent in locations where we have no existing contracts.

We continue to monitor the progress of HB 300; its ultimate fate will dictate the State's course of action.

In the meantime, we are preparing to pursue a competitive procurement for the locations where we presently have no contracts, in the event HB 300 or similar legislation fails to pass this session. These locations include Anchorage, Fairbanks, and several smaller communities. Under current law, this procurement would result in single vendors in each location. On April 18th, we will mail each travel agent in these locations a copy of the competitive solicitation.

I wanted to let you know where things stand in this fast-changing area. I understand recent changes have made your economic situation difficult. The State of Alaska benefits greatly from the services of professional travel agents. We hope to continue these positive relationships to most efficiently accomplish the mission of government.

Sincerely,



Jim Duncan
Commissioner

DOA Letter



Printed on recycled paper
by Alaska Litho, Inc.

Travel Agency Services Briefing Paper

Amber -
If you have
any questions,
please call
me - Kim
465-3435

Statement of the Problem:

State agencies cannot purchase travel agency services in some communities without paying fees. Payment of fees requires competitive bidding.

Discussion:

In October, airlines cut travel agent commissions from 8% to 5%. This 37.5% reduction was another step in a continuing trend that is putting severe economic pressure on travel agents. Many responded by initiating fees for their services.

State government has a long history of relying on the private sector for professional travel services. Because no public funds were spent for these services, each state office was able to use the travel agent of their choice and strong loyalties developed.

When fees were introduced for these services, the issue of competitive procurement arose. The State of Alaska spends over \$16 million a year on airline tickets; a fee as low as 1% results in \$160,000 spent for services. Likewise a fee of 5% would result in \$800,000 being spent for travel agent services. State law requires formal competitive bids for purchases of this size. Such a process would result in all state travel purchases being made from the limited number of successful bidders.

Actions Taken to Date:

In November, after receiving the recommendation of Administrative Solutions Team, we sent letters to 170 travel agents across the state asking if they would waive service fees for state purchases. Many have responded that they are willing to do so. These travel agencies have been posted to a Department of Administration, Division of Finance web site for use by state agencies in making travel purchases. Most communities where the state purchases travel have at least one travel agency listed, and urban areas have several. This approach has allowed us to avoid competitively bidding travel agency services in these communities and the ensuing impact that bidding would have on travel agencies that were not successful bidders.

Unfortunately, there are a few key communities where there are no travel agencies willing to waive service fees for state purchases. At this time, we are contemplating conducting competitive bids in Bethel, Cordova, Haines, Kotzebue, Nome, Petersburg and Wrangell. This would provide state employees in these locations the ability to obtain professional travel services locally while paying the lowest service fee possible. It would not preclude purchases using a 1-800 number or over the internet, two options that are becoming increasingly common, especially for routine commercial travel within Alaska.

The Administrative Solutions Team is currently reviewing the proposed locations as well as a draft "Request for Quotes" document. The criteria outlined in the RFQ requires the

Final

in Div of Finance

DOA Briefing Paper

travel agency to be licensed and bonded by the Airline Reporting Committee (ARC) and to maintain an office in the community. Feedback from state agencies on the draft document is expected by January 14th, and procurements could proceed before the end of January. 2000

Recommended Action:

Proceed with competitive bids in the proposed communities. Solicit every travel agency in each community. Contract awards would be mandatory for state travel purchases in that location when the services of a travel agent are used.

House Committees

Labor & Commerce
Military & Veterans Affairs
State Affairs
Regulation Review

Alaska State Legislature
Representative
Joe Hayes

119 N. Cushman, Ste. 205
Fairbanks, AK 99701
(907) 456-7423 / Fax: 451-9293

While in Juneau
State Capitol
Juneau, AK 99801-1182
(907) 465-3466 / Fax: 465-2937



Sponsor Statement HB 300

HB 300 will allow for the exemption of contracts for certain types of travel services including airplane travel, hotel accommodations and travel agency services from the procurement procedures of AS 36.30.

In February 2002, Alaska Airlines adopted a policy similar to other major airlines capping travel agent commissions from 5% of the total ticket price to \$10 and \$20 for one-way and roundtrip airline tickets, respectively. March 2002 brought even worse news to the agencies when the airlines declared that all airline commissions would cease. Alaska Airlines has not yet cut their commissions to travel agents, but it is expected that they will by May 2002. Due to the abatement of commissions, it has become necessary for many travel agencies to rely on agency fees to stay in business.

Since HB 300 will exempt certain travel services from the procurement procedures codified in AS 36.30, administrative agencies will be able to choose travel providers on a case-by-case basis. This will foster competition by allowing for the consideration of all agencies. The existence of competition is important to ensure the State will get the best price available. If we allow several travel agencies to go out of business, we can be certain a monopoly will ensue and the state will be forced to pay whatever price is set by the few existing agencies.

Passing the bill will give all travel agencies an opportunity to provide state travel, thus protecting and fostering Alaskan jobs and businesses. I ask for your support in passing this legislation.

District 30

representative_joe_hayes@legis.state.ak.us

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 300
(H) Publish Date: 2/22/02

Revision Date/Time (Note if correction): _____ Dept. Affected: All
Title An Act relating to the procurement of certain BRU All
travel services Component All
Sponsor Representative Hayes
Requester House State Affairs Component No. All

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Estimated impact is based on the following assumptions and calendar year 2001 data, provided by the State's travel card provider. The assumption is that state agencies will absorb the cost in existing budgets.

Total number of tickets purchased	49,308
less purchased direct from Airlines	<u>11,195</u>
Tickets purchased from travel agents	38,113
less tickets from contract travel agents (fees charged)	<u>9,514</u>
Tickets purchased from travel agents who waived fees	28,599
 Cost of paying fees for services currently received at no cost	 \$228,792
(28,599 tickets X assumed fee of \$8)	

Prepared by: Vern Jones Phone 465-5684
Division: Division of General Services Date/Time 02/04/02
Approved by: Jim Duncan, Commissioner Date 2/7/2002
Agency: Department of Administration

The Future of State Travel

This past year has been a real test for the travel agents in our state. The airlines have cut their commissions in half. What once was a thriving enterprise is now a business struggling to hang on by its fingernails. Even when commissions were 10 percent of airline ticket sales, the agencies were only making it with about a 1 percent profit margin. When the airlines cut commissions, agencies were forced to charge their customers service fees, or risk going out of business altogether. In our little town of Juneau, two years ago there were eight travel agencies, now only three remain (those who started charging the fees). The agencies that tried to hold out on charging fees, just to keep some of their corporate and State of Alaska business, have failed.

The State of Alaska has refused to pay agencies fees from the very beginning. With some agents not charging state travelers a service fee, it was easy for the state to get away with not paying service fees. To me this very practice goes against the state's willingness to support local businesses. Because the state's travel is such a large amount of business, agencies were willing to forgo charging the state travelers a fee, just to get their business. However, the agency not charging a service fee to the state has paid the ultimate price. Southeast Executavel, one of the agencies not charging state travelers service fees, closed their doors this past Friday, December 8th.

Just the mere mention of The State of Alaska and travel in the same sentence is enough to start an argument in some political circles. For many years the state has been trying to cut expenses, but travel seems to be the one area where the government is reluctant to make a change in the way they are currently doing business. At the moment, the State of Alaska has a travel policy listed in The State of Alaska Administrative Manual for its travelers to follow. The state currently has its travelers make their own arrangements with whomever or however they wish. Employees are simply trusted to make their arrangements in the best interest of the state. Kim Garner, Director of Finance at The Department of Administration, says that the state wants its travelers to have a choice when it comes to making travel arrangements (pers commun). However,

with the state unwilling to pay travel agency service fees, the travelers ultimately will not have a choice.

Another point Garnero makes in regard to contracting out the state's travel business is that right now the procurement code requires the state to competitively bid where competition exists, and choose the lowest cost provider of the services needed. This is being interpreted to mean that if an agency is not charging a fee, then they must be the lowest cost provider. But what guarantee is there? How does the state know it is not being overcharged for an airline ticket? Maybe a lower fare was available, but the agent was instructed to sell the state traveler the higher fare. Maybe there was a lower rate at the hotel, but the agent gave them the higher one because they knew it was within the allowed per diem. At this time some travel agencies are charging fees and some are not. In Juneau, for instance, there is one that does not charge fees and two that do charge service fees. Since some are not charging a fee, there is no need for the state to competitively bid out its travel. Therefore, travelers are forced by the state to use the agencies that do not charge service fees regardless of the level of service the agency is providing. The state wants its travelers to book whatever is in the best interest of the state, but how do travelers know if they are getting the best deal for the state? Why does the state leave it up to the traveler to ensure it is getting the best deal? Why is it assumed by the state that if it is not paying a fee for a service, it is getting the best deal?

If the State of Alaska contracted out its travel, it would ensure that its travelers received the best possible service, as well as saving the state time and money in the long run. Travel agencies currently can help businesses negotiate with vendors (car rental companies, hotels, and airlines), track travel expenses, provide very detailed reporting for accounting purposes, and save the travelers time when arranging travel. Some agents will even reconcile billings and travel claims. All of these services can be negotiated in a contract. Travel companies will usually try to negotiate as much service into a contract as a customer calls for.

Sharon Lowe, Administrative Manager for Public Health, Department of Health and Social Services, says that when she needs to travel, all she wants to do is call someone up, tell them where she is going, that she needs a car and a hotel, and have them fax the confirmation to her (pers commun). She does not want to spend time searching

for everything she needs on-line, nor does she wish to make a multitude of phone calls to all the separate vendors. She does not want her staff to waste their time searching for everything as though they were amateur travel arrangers. She needs a professional to handle her travel for her. If Sharon and her staff are doing their own travel arranging, as many state workers are, by the time they are finished researching everything, it probably would have cost the state less to go ahead and pay a travel agent a service fee to do the work for them. After speaking in depth with Sharon on the subject, as well as other coworkers, this seems to be the consensus. State travelers do not want to spend their time researching travel, they want to be able to call a professional and have them handle it and spend their time doing the work the state hired them to do.

A travel professional that is skilled at booking government reservations, which by the way is a specialty in the travel business, is a highly revered individual. They usually have many years of experience and know which vendors will give government travelers the best deals. When I called American Express Travel and spoke to Sanci Raynor (pers commun), a Government Travel Counselor, she was able to tell me right off the top of her head how much a government rate is at the Hilton in Anchorage, and at the Warwick in Seattle. She knows exactly who has the lowest government rate for a car rental, and what the best deal on an airline ticket is. The software that is available to a travel professional is different than what is available to the public. A travel agent has all the airline rates on one screen, enabling her/him to see just who has the lowest fares. The same goes for car rentals and hotels. If state travelers are using unskilled agents or the Internet to book their travel, perhaps they are not using all of the travel discounts they could be.

Because the Internet has become a whole new world for travelers, there is a myth that John Q. Public now has as much knowledge in regard to travel as a professional travel consultant does. The reality is that when John Q. Public is booking his own complicated reservations to Sydney, Australia on-line he will spend as much as four hours researching, then only to find he booked himself on a misconnect (he didn't give himself enough time to catch his connection). When he arrives in Sydney, trying to get through customs turns into a nightmare. There was no one on the Internet to advise him that he needed a passport and a visa to enter the country. Finally he makes it out of the airport only to find that he booked his hotel for the wrong day (he forgot about the

international date line) and now he has no where to stay. All of these things could have been avoided by using a professional.

Another thing you may not realize about booking airline tickets on-line that involve more than one carrier is you and your luggage may have problems making it to your destination. When you have one ticket that is Juneau to Seattle on Alaska Airlines and another ticket Seattle to Minneapolis on Northwest Airlines, Alaska Airlines is only obligated to protect you to Seattle if you get weathered in. In other words since your ticket on Alaska is only to Seattle, they do not have to rebook you on any Northwest flights. So technically Northwest could make you purchase a new ticket once you arrive in Seattle. Any seasoned traveler knows this is not something they want to have to deal with, especially if they are on business travel.

Something else the state may want to take a hard look at is negotiating with vendors. Travel agencies will negotiate on behalf of the state for special rates. Some travel companies, such as American Express Travel, already have negotiated rates in place for their clients. Shannon Wiley, Manager of the Juneau American Express Travel office, told me that her company has negotiated rates with car rental companies, hotels, and airlines world wide that any of their customers can use (pers commun). Up to this time, the state has not had any luck negotiating a special rate with any airline; however, with the buying power of a large travel company, it may have a better chance. For example, Green's Creek Mining Company has a 5 percent discount on most domestic carriers and an even larger discount on international carriers. That may not sound big when you are talking about one airline ticket, but when you are talking about thousands of tickets, it adds up.

With travel companies willing to track travel expenses and reconcile billings and travel claims, what state traveler or state accountant wouldn't want to contract it out? The money the state spends on these activities alone would most likely pay for the contract within the first month. The state has a very outdated accounting system. Corporate travel companies spend millions on keeping their systems up to date to keep up with their customers' needs. They have programmers and state-of-the-art computer equipment. The state would just have to ask for what they want in backroom services, and the travel company would most likely be able to accommodate them.

Contracting out travel is the way corporate America and even the Federal Government does their travel business. They have come to realize that outsourcing is the best option for such a complicated task. Companies that don't want to be in the travel business are leaving it up to the professionals. The State of Alaska needs to move into the twenty-first century. If it were to contract out its travel, it would save time for its accountants as well as its travelers. Outsourcing allows state workers the opportunity to cut down travel problems by using a professional agent and the state would have more negotiating power with vendors. All of these things together make good business sense and would save a great deal of money for the state in the long run.

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Travel industry braces for new profit obstacles

The New York Times

NEW YORK—A little more than 20 years ago, Valerie Ann Wilson used family money to open a travel agency.

It was a gamble for Wilson, now 59, who had two young daughters and had not been working.

The bet more than paid off. The agency, Valerie Wilson Travel, has grown into a New York business with nearly 300 employees, including Wilson's two daughters, Jennifer Wilson-Buttigieg, 34, and Kimberly Wilson Wetty, 31. Last year, the agency had \$260 million in sales. And on Sept. 10, this was looking to be one of the agency's best years ever.

Then, on Sept. 11, two planes smashed into the World Trade Center, another hit the Pentagon and another crashed in a field in Pennsylvania. Matters were made worse by the looming recession and the November crash of Flight 587 in Belle Harbor, Queens.

Now some forecasters are warning that waves of failures, bankruptcies and layoffs are about to sweep through the industry.

"There were definitely signs even before the government said that it was a recession, but we thought we would be fairly insulated," said Wilson-Buttigieg, the executive vice president who has been managing the agency since her mother had a heart attack earlier this year. "I don't think anyone realized the ramifications of how Sept. 11 would affect corporate and leisure travel and how long it might be before we recover."

Wilson-Buttigieg said it would be hard to pick a business that has been hit harder by the events of the last few months. The American Society of Travel Agents estimates that its members lost \$1.36 billion just in the four weeks after the attack because of the drop in bookings for flights, hotel rooms, rental cars and cruises.

But even before Sept. 11, agencies had begun to feel the effect of large cuts made by corporations in their travel and entertainment budgets because of the slowing economy.

In addition, the airline industry cut commissions to travel agencies in August to \$20 per domestic flight, from \$50.

After the attack, Wilson decided against trying to recoup that lost revenue immediately at the cost of the consumer.

There may be more people flying again, but business at most Manhattan agencies, which may well be the hardest hit in the country, is down anywhere from 40 to 65 percent, according to the agencies. Hundreds of employees have been laid off at Manhattan agencies alone, agency officials said, and many smaller operations, with high fixed costs and little room for revenue growth, seem on the verge of going out of business.

"Other parts of the country are rebounding a lot faster than big cities, and I think other big cities are coming back quicker than New York," said Andy Pesky, the president of ProTravel-Zenith Group. The high-end company, is based on Madison Avenue and has offices in Milan, London, Beverly Hills, Calif., and elsewhere in the United States and Europe. "The phones are ringing," Pesky said, "but people are more likely to be calling to cancel a trip than make a reservation."

Sweeping changes in the airline business changed the lives of travel agents well before Sept. 11.

The most fundamental shift came in the mid-1990s, when the airline industry decided it was going to gradually reduce the commissions it paid travel agents for bringing in customers. Before the most recent reductions — to flat fees of \$50 per ticket, then \$20 per ticket — commissions on domestic flights had dropped to 8 percent from 10 percent in 1995.

Another major change in the industry has been a wave of mergers of small companies. The Internet also undercut agents by offering discounted tickets that could be bought in bulk.



✚ Sec. 39.20.140. Travel costs and travel outside the state.

(a) The Department of Administration may not pay an official or employee for per diem or transportation costs unless the travel is clearly necessary to benefit the state.

(b) The Department of Administration may not reimburse an official or employee or pay for more than the lowest tourist class fare for the most direct route unless

(1) tourist class accommodation is not available;

(2) waiting for tourist class accommodation would occasion a delay harmful to the state; or

(3) the Department of Administration finds that travel by tourist class accommodation is not in the best interest of the state, and authorizes other accommodation.

(c) When the Department of Administration authorizes more expensive travel under (b) (3) of this section, it shall file a justification for that authorization with the travel voucher. When fares other than tourist class are authorized under (b) of this section, the Department of Administration may not reimburse the official or employee or pay for more than the lowest first class fare available.

(d) Officials and employees are authorized to travel only the least number of days necessary to transact the business involved, to secure return passage, and to return.

(e) Every official and employee shall, unless otherwise authorized by law to travel outside the state, obtain prior approval for travel outside the state from the head of the official's or employee's department or from an immediate supervisor, or from the Department of Administration if the official or employee is not within a department or is not under the direct supervision of an official or supervisor. If an employee deviates materially from the travel authorized under this section, the employee must obtain approval for the deviation from the person who approved the travel before the Department of Administration may reimburse the employee for the travel.

