

Report on Alaska Tourism Business Relief

Lt. Governor Kevin Meyer & Bill Thomas

Summary:

On Friday April 9, 2021 Governor Mike Dunleavy proposed to rescue the 2021 Alaska tourism season. Alaska was anticipated to welcome 1.3 million tourists by cruise ship before the pandemic shut that down. The combined total economic loss from a canceled cruise ship season in 2020 and 2021 amounts to \$6 billion, with 2,180 businesses at direct risk – many of which are small family owned businesses. Governor Dunleavy pledged to take the necessary steps to help Alaskans by putting forth an aggressive aid package to keep these businesses viable through to the 2022 tourism season.

Governor Dunleavy directed Lt. Governor Kevin Meyer and Bill Thomas to travel through the State to listen to community and business groups to gauge their needs and report their findings to the legislature. This report completes this task.

Starting on April 19th and continuing through May 3rd, the Lt. Governor and Mr. Thomas began conducting meetings with affected groups and individual businesses. In person meetings were held in Juneau, Sitka, Ketchikan, Kodiak, Healy, Fairbanks, Anchorage, and Nome. Zoom meetings were held with groups from Hoonah, Juneau, Anchorage, Valdez, Skagway, Whittier, Homer, Wasilla, Haines, Unalaska, Cordova, Tok, Seward, and Petersburg.

Below are the Findings of need and the reoccurring topics heard from across the state from over 20 Alaska Communities and over 100 businesses. It was very clear that the need for assistance is real, it is immediate and substantial. Some businesses have lost 100% of their revenue due to a combination of no cruise ships and the continued closure of the Canadian border.

The top three immediate needs are:

- 1) A grant relief program for those small Alaska-owned businesses severely affected.
- 2) Marketing funds targeting the independent traveler to come to Alaska this year.
- 3) State action to waive certain fees on small businesses.

Additionally, there are outlined the Recommendations of what the State can do to help maintain and sustain those businesses through these devastating two tourism seasons.

Findings:

Grants not Loans

Timing of the grant relief is critical – some businesses have loan payments due July 1st. Flexibility on what expenses qualify - fixed expenses like insurance, debt service, utilities, licenses etc. cannot be excluded. Businesses need the application and the decision process to be easy. Past grant programs (PPP, AK CARES, SBA) were complicated for some smaller businesses. There was strong support for the State Department of Commerce to administer the program. Some of these past programs ran out of money before the small businesses had a chance to apply.

Some businesses 100% affected by lack of cruise ships, others were only 40-75% affected. There was strong support for helping those small businesses affected the most first, then move down the scale – make the grants based on need, some businesses will not survive without help.

Wide and immediate distribution of marketing money

Local groups expressed the immediate need to market Alaska now to lure the independent travelers this summer season. While AK Airlines and others (Delta, United) have added flights to and from Alaska, many seats are still unfilled.

While directing funds to the Alaska Travel Industry Association (ATIA) would be the simplest solution, some Direct Marketing Organizations (DMOs) stated they are better suited to market their region and locality. Additionally, feedback was received citing a need for culturally focused advertising through some of Alaska's cultural centers.

Marketing to international travelers are equally as critical. Destinations in Southcentral, the Interior and Nome were all affected by a significant decrease in international tourism. While we look at the volume of tourists brought in by the cruise ships, it is important to recognize that tourism as a whole, across the entire state has been hit hard by the pandemic.

State fees add to the burden of doing business

In addition to the many challenges of trying to maintain a viable business with revenue reductions of 40-100% it was stated that state fees add to that burden. In terms of direct and immediate relief, the state should investigate waiving many of its required fees to give businesses the peace of mind that the government won't be the reason they close shop.

Additional Concerns

The Canadian border closure has affected many areas of the state, not just bordering towns. The flow of travelers from the Lower 48 through Canada has been severely curtailed. Additionally, this has affected businesses' ability to acquire seasonal staff.

Many businesses brought up the concern of how difficult hiring staff has been. This issue has made both local and national headlines. Whether there is an issue with Unemployment being too lucrative, fears of COVID exposure, costs and availability of daycare, restrictions on the J-1 Visa program, or the availability of affordable housing the result is the same. Many operators have been hit by a loss of experienced and trained staff they will not be able to get to return in 2021 or 2022.

Fixing the Alaska Marine Highway System was mentioned more than just in the Southeast – Whittier, Valdez, Kodiak, Unalaska and Nome mentioned this concern as well. AMHS can assist getting tourists around the state, but only when the schedule is consistent and reliable.

Concerns about the availability of rental cars this year was mentioned across the state. Higher costs, lack of supply could affect the independent travelers and their ability to get across the vastness of Alaska.

The economic impacts differ by region. Alaska has suffered a triple whammy of no cruise ships, a closed Canadian border, and a limited supply of rental cars.

- Southeast:** Ketchikan, Sitka, Hoonah, Juneau, Skagway were all devastated in 2020. Some businesses saw a 100% reduction in revenue and won't survive, some not opening at all. No independent travelers and none from Canada.
- Southcentral:** Not as bad as Southeast. Will get some independent travelers just not the volume you get with cruise ships. Seward, and Whittier hit the hardest. Anchorage and the Mat-Su businesses will also feel the hit.
- Interior:** Fairbanks will get some independent travelers but not the volume as 2019. Valdez, Tok and Glenallen need the Canadian border opened. Denali Borough, Healy, and Talkeetna are hit hard, many businesses tied to cruise ships. There is concern that due to the limited supply of rental cars, a reduced train schedule and reduced bus availability, travelers that fly into Anchorage cannot get to Denali.

Nome and
Unalaska

Nome was expecting 20 small cruise ships this season plus AK Airlines cut back flights. Coupled with two years of no Iditarod this hit was hard for the local economy. Unalaska was also expecting smaller cruise ships.

Industry Survey

ATIA, partnering with McKinley Research Group are currently in the process of completing a survey of Alaskan tourism businesses. Preliminary data from the survey show the burden on Alaska tourism businesses due to COVID-19.

Among 373 Alaska tourism businesses surveyed, revenues declined an average of 66% between 2019 and 2020. (Note that some businesses surveyed such as restaurants also serve Alaska residents.)

These businesses reported high rates of various mitigation measures, including:

- Applied for government assistance: 76%
- Adopted new protocols: 69%
- Didn't hire staff: 65%
- Canceled/reduced planned marketing: 60%
- Canceled/reduced planned upgrades/investments: 57%
- Changed services/offerings: 52%
- Laid off staff/furloughed staff: 52%
- Purchased safety/social distancing equipment: 52%
- Closed operations partially: 50%
- Issued refunds: 43%
- Reduced staff travel: 34%
- Closed operations completely: 24%
- Lowered salaries/wages: 20%
- Sold assets: 15%

These preliminary numbers suggest that a grant program of up to \$150 million might not be enough relief.

Recommendations:

Grant Program:

Below is an outline of DCCED's proposed Tourism Grant Relief Program:

Key features

- 30-day application period – with a simple and easy application
- Once all the applications are received the true full need can be assessed and recipients' need evaluated and ranked before grants are dispersed.
- Priority should be given to those businesses who need relief quickly, but funds should be available in three phases – initial need, midterm need, and post season need. Not all businesses have the same requirement for timing.

Eligibility

- Small and medium sized businesses that self-certify that 50% or more of their annual revenues are typically obtained from tourism related activities.
- Active for-profit businesses or individual DBAs located in Alaska with an active State of Alaska Business License as of January 1, 2020 (No Exceptions).
- Has been in business before January 1, 2020 and filed a 2019 tax return.
- Experienced a decrease of at least 50% in revenue between 2019 and 2020 due to COVID-19 public health emergency. Previous assistance will count as revenue.
- If business is currently shuttered, business must pledge to reopen prior to May 22, 2022.

Ineligible for Grant

- Businesses not primarily engaged in tourism or tourism related activities.

Grant Amount

- Will be determined based on number of applications received and amount of support requested at the end of the application period.
- Initial Target will be 80% of documented loss up to \$100K-actual amount could be higher or lower based upon demonstrated losses and number of applicants.

Application Priority

- Applications will be processed in descending order of loss percentage
- Application demonstrating a 75%+ first then; 65%+, 55%+ and so on down to 50%.

Required Documentation

- Self-certifications of applicant
- Copy of filed 2019 tax return and copy of filed 2020 tax return if applicant has filed. If not a financial statement for 2020 is required.
 - IRS form 1040 and the following: Schedule C, Profit and Loss from Business
 - IRS form 1065 Partnership Return
 - IRS form 1120 Corporation Return
 - IRS form 1120S S Corporation Return
- Government ID
- State Business License and Number (date unimportant-but must be active)

Required Use of Funds

- Grant funds must be expended on past, current or future cost of the applicant business. Funds may not be retained or invested. Funds must be expended by May 1, 2022. (important date for tourism-based businesses).

Marketing Program:

Funds need to be spent immediately if we wish to attract the independent travelers this season. Funds should be dispersed to both Statewide and local marketing organizations Recommend \$10 million to ATIA for statewide marketing and \$5 million to local DMOs and cultural centers. Effectiveness of the program should be evaluated at the end of both the 2021 and 2022 seasons.

State Fees:

The State should waive or not charge fees this calendar year from as many departments as possible. DOT – i.e. road fees, DNR – i.e. tidewater fees, DEC – i.e. inspections, and AMCO – license renewal fees.

Commissioners should examine what fees could be waived and provide a list and cost. These funds could be backfilled with Federal relief dollars.

Other concerns:

- Find some solution to get the Canadian government to move off their current position on both the opening of the border and allowing cruise ships through port.
- Promotion of online solutions for rental cars – services like TURO.
- Return to Work Payments such as Montana and Idaho.
- Continued support of AMHS bill and funding change announced by the Governor.