

BRIEFING PAPER: ECONOMIC DEVELOPMENT IN STATE GOVERNMENT

A review of economic development configuration in Alaska's agencies, models from other states, and potential changes to Alaska's economic development system

Alaska's Department of Commerce, Community and Economic Development includes both **Economic Development** and **Community Development** functions. The department's mission is to "promote a healthy economy, strong communities, and protect consumers in Alaska."

The difference between economic development and community development is not always well-understood. To establish a shared understanding of these terms, the following definition is presented:

Community development is capacity building; economic development is wealth creation.
--Robert Shively, *Economic Development for Small Communities*

To go further, community development often refers to projects that create infrastructure and community capacity. Public works projects, schools, bridges, libraries, community centers and parks... these are community development projects. Economic development projects, on the other hand, would be the construction of a new clinic by a group of private physicians, or the expansion of a metal fabrication shop by a business owner. Community development and economic development are deeply intertwined, because economic development—and the private investors, owners, and entrepreneurs who lead the way—also requires community infrastructure, either to support their businesses or to enable a lifestyle that makes them want to live and stay in a community. At their cores, both community development and economic development are about resilience, the ability of a community or economy to respond to both opportunities and threats, to adapt to change. But the two functions are quite different, *and the appropriate activities and roles for government in economic development are much different than in community development.*

The purpose of this paper is to examine *economic development* activities in state government. While we recognize the interconnectedness of the two functions, the focus of this work is on resources within state government that support private sector investment in Alaska's economy.

Current Resources within State Government and the University System

Alaska's Office of Economic Development (OED), within DCCED

- The mission of OED, as described in the FY10 Governor's Operating budget, is to "Advance successful tourism, film, fisheries, forest products, minerals, and small business assistance programs in order to increase economic activity in Alaska and create new employment opportunities for Alaska."

- Alaska's OED currently has a division head, plus 11 employees in five sub-programs, many of which can be tied to one or more functions in Alaska Statute.
 - The Alaska Film Office (3 employees, one of whom is shared with Tourism) (AS 44.33.231, Film Office)
 - Business Development (2 employees, one of whom is a forest products specialist) (AS 44.33.900 Alaska Forest Products Research and Marketing Program)
 - Office of Fisheries (1) (AS 44.33.065, Regional Seafood Development Associations)
 - Office of Mineral Development (2) (AS 44.33.431, Alaska Minerals Commission)
 - Tourism Program (4, one of whom is shared with Film) (AS 44.33.119, Alaska Division of Tourism)

Alaska Industrial Development and Export Authority (AIDEA), within DCCED

- The mission of AIDEA, as described in the FY10 Governor's Operating budget, is "to provide means of financing to promote economic growth and diversification in Alaska."
- AIDEA's board of directors consists of five individuals
 - The Commissioner of Revenue
 - The Commissioner of Commerce, Community, and Economic Development
 - One other person appointed by the executive branch
 - Two public members appointed by the governor
- AIDEA's economic development programs have approximately 30 staff assigned to it, with 30 who are professional staff (estimate from AIDEA staff, October 2009)
 - AIDEA is a "public corporation of the state and a body corporate and politic constituting a political subdivision within the Department of Commerce, Community and Economic Development, but with separate and independent legal existence," under AS 44.88.010—44.88.159
 - AIDEA has a number of loan participation, revolving loan, and bond programs
 - AIDEA has ownership stakes in several major projects
- AIDEA also is home to another agency, Alaska Energy Authority (AEA) which currently has a community development mission
 - Though the agencies are separate, they share employees and resources

Alaska Division of Investments (DOI), within DCCED

- DOI's "primary responsibility is to administer and service twelve state loan programs under the Department of Commerce, Community, and Economic Development. These programs were primarily designed to promote economic development through direct state lending in industries that are not adequately serviced by the private sector."
- DOI typically interfaces with individual lenders and small businesses (in contrast to AIDEA, which handles significant industrial investments)
- DOI has 44 FTE employees (FY2010 budget)
- Loan programs authorized in statute are not comprehensive across range of Alaska industry

Non-Governmental Economic Development Organizations in Alaska

ARDORs

- Alaska Regional Development Organizations (ARDORs) are established under 44.33.895 (Alaska regional economic assistance program) and is subject to regulations at 3 AAC 57.010-900.
 - Under the statute the department can provide grants of up to \$100,000 annually to match funds from non-state sources.

- The state's contributions to the ARDOR under this program are \$50,000 annually. With the addition of an ARDOR in the last two years, the state's total contribution has increased, but organizations still receive the same amount. (Annual funding since 1992 is flat at \$620,000; except for increase of \$57,000 starting in FY09 with addition of twelfth ARDOR)
- According to the website of OED, ARDORs are intended to
 - *enable communities to pool their limited resources, and work together on economic development issues;*
 - *develop partnerships among public, private and other organizations,*
 - *offer a technical, nonpartisan capacity to develop and implement an economic development strategy,*
 - *often have extensive experience with federal/State programs, and*
 - *provide needed technical assistance via direct links with local citizens.*
- With large service regions and limited funding, some ARDORs have very difficult times attracting experienced staff to run economic development programs
 - Some conversations have been had to establish system-wide capacity-building fund for the ARDORs so that staff of the ARDORs can take advantage of professional development opportunities despite limited budgets

Additional Regional Economic Development Groups

- Regional/local groups also exist, such as Juneau Economic Development Council, Fairbanks Economic Development Corporation, Alaska Village Initiatives.
 - These have more local focus

University Economic Development Resources and Coordination with State Resources

The University of Alaska has several economic development programs doing technical assistance, training, etc.

- **Center for Economic Development, at the Institute of Social and Economic Research, UAA**
 - One of 52 university centers nationally designated by Economic Development Administration
 - Works at level of *municipalities, large non-profits, service-providing for profits (such as Alaska Native Corporations)*
 - 2008 Annual Report includes list of clients:
<http://ced.uaa.alaska.edu/publications/2008AnnualReport.pdf>
 - According to their website, CED "leverages the resources of the university system to support economic development in Alaska, providing technical assistance in the form of information, data, and know-how in evaluating, shaping and implementing specific projects and programs that promote economic development across the state."
(<http://ced.uaa.alaska.edu>)
 - Supported by fee for service in most cases, in order to support program delivery costs; some budget also from State
 - CED helps with local and regional planning, feasibility analysis, strategic planning (organizational and community) financial analysis, market and economic research
 - Recently, CED began coordinating accredited certification courses for the International Economic Development Council, to certify IECD economic development professionals
 - NB: Currently, there is not a single certified economic development professional working in Alaska

- **Small Business Development Centers**
 - Works at level of small, individual entrepreneurs
 - Provide free- and low-cost consulting to small business and micro-enterprise
 - Funded by US Small Business Administration with matching funds from state.
 - Provides consulting services and low-cost educational programs to entrepreneurs
 - Program’s “business advisors” are certified through the Alaska SBDC’s professional Certification program
 - Has a rural outreach program

How are Other State Governments Doing Economic Development?

Several states are recognized for their innovation in economic development within state government. Some of these are profiled below.

The states profiled below were selected because of their recognition as successful models, or commonalities with Alaska (rural Western). This report profiles North Dakota, Wyoming, Indiana, and Kentucky, which are all recognized for their economic development programs, as well as Oregon, which shares some similarities with Alaska as a Western state with large rural areas. All of these states have advisory and/or policy bodies that primarily comprise private sector leaders.

NB: Descriptions below reference “primary” or “basic” industries. These are industries that bring new dollars into a state’s economy. Oftentimes these are because the business outputs are produced for markets outside the state. In some cases federal government programs, which bring dollars into state economies, can also be seen as contributing to the primary/basic sectors. This differs from support sector businesses, which provide services within the state. Primary/basic businesses are the economic pumps for an economy.

North Dakota www.business.nd.gov

- Economic Development & Finance is a division within a department that also houses Tourism and Community Development
 - Tourism is separate because development approach differs significantly from standard “primary/basic” sector activities.
- North Dakota has an Economic Development Foundation, a private foundation established by the Legislature, to provide guidance and private-sector oversight of state economic development efforts. It maintains a strategic plan for economic development.
 - 23 “business leaders,” meet quarterly
 - has the ability to raise private funding to support state efforts
- Division heads are professional positions, not appointed
- Majority of staff at Economic Development and Finance Division are certified economic development professionals through the IEDC
- Primary function of division is to work with businesses to identify the state programs and resources that will help them establish, grow, or retain in North Dakota; deal structuring (not technical assistance, which is pointed to university, SBDCs, etc.)
- North Dakota has a development bank, the Bank of North Dakota, which manages nearly all of the state’s loan and investment programs, with very few exceptions
- Department **only works on inquiries/investments that are in the Basic sector of the economy** (Basic industries bring new money into the economy from out of state, while secondary industries provide services to support the basic industries)

- Web presence: North Dakota has <http://www.business.nd.gov/>, which is a user-friendly portal to information necessary to do business in North Dakota
- 17 staff for ED&F, including 2 finance people to run loan programs outside the Bank of North Dakota

Wyoming www.wyomingbusiness.org

- Wyoming Business Council is the economic development group in state government
 - It has a corporate structure, incorporates private business practices, regional offices
 - Has a Board of Directors and CEO, though it is within state government
 - Board members are successful business owners from Wyoming
 - Board members appointed by Governor; CEO hired by Board
 - Employees of agency are at-will
 - Board does “business plan” for department
 - Staff of 53 for WBC, plus 19 for Tourism
 - 7-8 administrative staff, all other work on economic development and management of community grant programs
 - History of the WBC: <http://www.wyomingbusiness.org/about/history.aspx>
 - Enabling Legislation: Wyoming Statutes 9-12-101 through 9-12-804 (<http://legisweb.state.wy.us/statutes/statutes.aspx?file=titles/Title9/T9CH12.htm>)
 - WBC focuses on basic industries, with few exceptions in rural areas where basic service infrastructure (grocery stores) do not exist
 - Industries have to produce something sold outside the region to get WBC attention.
 - WBC works closely with university programs, including SBDCs, Intellectual property, incubators, etc.

Kentucky www.thinkkentucky.com

- Primary state agency for economic development is the Cabinet for Economic Development, which is governed by the Kentucky Economic Development Partnership Board
- Kentucky Economic Development Partnership Board
 - Enabled in 1992 by HB 89.
 - Thirteen members representing each of eight congressional districts and different industries, plus secretaries from four cabinets (Econ. Development, Finance and Administration, Environmental and Public Protection, and Tourism), plus Governor
 - Cabinet includes
 - Office of Secretary
 - Department for Business Development
 - “Responsible for coordinating the recruitment and attraction of new companies that will enhance the overall viability of the state’s economy, as well as assisting and encouraging job retention and creation by working with existing Kentucky business. The Department partners with outside agencies and communities to conduct workshops, community assessments, and business surveys to support local development efforts”
 - Department of Financial Incentives
 - Department of Commercialization and Innovation

- “Responsible for developing and implementing a strategy to create, attract, and assist knowledge-based companies to Kentucky.”

Indiana www.in.gov/iedc

- Primary state group for economic development is the Indiana Economic Development Corporation
 - Created in February 2005 to replace the former Department of Commerce
 - Has a board of 12, including governor and 11 private industry participants
 - According to IEDC website, “The IEDC is focused exclusively on economic development and has incorporated all state entities with economic development responsibilities into its organizational structure.”

Oregon www.oregon4biz.com

- Economic development is a division within the Oregon Business Development Department, which also houses community development functions
 - About 25% of department budget goes to economic development
- Economic development overseen by the Oregon Business Development Commission, which is statutorily authorized, and consists of seven private sector individuals (not agency) appointed by the Governor
 - Entity sets policy direction for agency activity
- Department head is appointed, but division heads are professional staff
- 13 people working in field around Oregon, plus five people specializing in international development
- No certification/training requirements specific to department; some perhaps specific to positions, particularly for international development people
- Primary role of business development division is deal structuring, pulling state resources together to support creation or retention of jobs
- Staff only work on primary (basic) sector industries, refer others to university, SBDCs, other partners

Points to Consider about Alaska’s Current System

- State government’s oversight and/or policy direction from private sector is currently limited to two of five seats on the board of AIDEA.
 - There is no private sector input built into OED or DOI
 - Without private sector input it may be difficult to align state programs across divisions with real needs in Alaska economy
- Incentive programs in Alaska Statute are limited
 - New Business Incentive Program (DCCED), established under 45.81.010, is not funded
 - Film Incentive office supported by two staff at OED (DCCED)
 - Exploration Incentive Credits (DNR)
 - AGIA (DNR)
 - Various AIDEA Programs
- Economic Development functions are distributed between several divisions and/or offices, including:
 - Division on Investments (Greg Winegar, Division Director)
 - Office of Economic Development (Joe Austerman, Director)
 - Alaska Industrial Development and Export Authority (Ted Leonard, Executive Director)

- Economic development staffing in these offices are about 15% of total DCCED personnel
 - Viewed alone they are 8%, 2%, and 6% respectively
 - May have difficulty getting strategic focus within larger mission of department
- No certified economic developers currently working in state (compares to other states where professional certification is common among economic development staffers)
 - University's Center for Economic Development has started offering training modules several times per year (the standard for these courses is multi-day intensives) for certification through the International Economic Development Council
 - This is a relatively new service
 - Department estimates cost in training to reach certification goals, before travel and lost work time, is \$3,400 per person
 - Currently there are no practicing certified economic development professionals working in Alaska (in state government or out of state government)
- State government's interaction with University resources may be inefficient; economic development resources may be "siloes"
 - Do OED and AIDEA have regular practice of directing inquiries to existing University resources?
 - Do agencies and universities work closely to avoid duplicating tools and services?
 - What gaps should agencies fill that are not natural to the University?
- State government, through OED, is currently focused on a small set of industries
 - Focus may be broadened to allow room for additional industries/ideas
- Alaska state government does not maintain a web presence focused on attracting or retaining business
 - For contrast, see Oregon, <http://www.oregon4biz.com/>, found in two clicks from the State of OR homepage); North Dakota, <http://www.business.nd.gov>; Kentucky <http://www.thinkkentucky.com/>

Possible Areas of Discussion for Legislature

1. Restructuring economic development functions within state government under alternate models such as public/private partnerships, corporate structures, strengthened divisions, or others.
2. Consideration of creation of a non-governmental (private sector) policy group at head of state economic development. Depending on departmental structure the advisory entity could be modeled on corporate, foundation, policy, or other board structures
3. Establishment or reestablishment of incentive programs to support economic development programs
4. Budgeting for ARDOR programs
5. Budgeting for University programs that support small business development
6. Oversight hearings prior to and within the budget process to assess focus and resources of state offices with economic development missions
7. Establishment of additional loan programs to support small business economic development

Additional Resources

- Alaska Economic Development Programs, prepared by Office of Economic Development
 - Document attached to this transmission
 - Note: This matrix does not differentiate between Economic Development and Community Development programs (see definition on Page 1). True “economic development” programs are fewer than one dozen.
- Department and subunit missions: Office of Management and Budget
 - See <http://gov.state.ak.us/omb/results/agencies.php#10> for missions related to DCCED and its divisions
- Alaska SourceLink www.aksourcelink.com. A web portal hosted by the university that provides information on all economic development support resources in the state