

**ALASKA STATE LEGISLATURE  
JOINT MEETING  
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE  
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

February 1, 2007  
8:03 a.m.

**MEMBERS PRESENT**

HOUSE COMMUNITY AND REGIONAL AFFAIRS

Representative Anna Fairclough, Co-Chair  
Representative Gabrielle LeDoux, Co-Chair  
Representative Nancy Dahlstrom  
Representative Mark Neuman  
Representative Kurt Olson  
Representative Sharon Cissna  
Representative Woodie Salmon

SENATE COMMUNITY AND REGIONAL AFFAIRS

Senator Donny Olson, Chair  
Senator Joe Thomas  
Senator Albert Kookesh  
Senator Gary Stevens

**MEMBERS ABSENT**

HOUSE COMMUNITY AND REGIONAL AFFAIRS

All members present

SENATE COMMUNITY AND REGIONAL AFFAIRS

Senator Thomas Wagoner

**COMMITTEE CALENDAR**

OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY, & ECONOMIC  
DEVELOPMENT

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

## WITNESS REGISTER

EMIL NOTTI, Commissioner  
Department of Commerce, Community, & Economic Development  
Juneau, Alaska  
POSITION STATEMENT: Presented an overview of the department.

MIKE BLACK, Director  
Division of Community Advocacy  
Department of Commerce, Community, & Economic Development  
Anchorage, Alaska  
POSITION STATEMENT: Answered questions.

## ACTION NARRATIVE

**CHAIR DONNY OLSON** called the joint meeting of the House and Senate Community and Regional Affairs Standing Committees to order at [8:03:30 AM](#). Representatives LeDoux, Fairclough, Dahlstrom, Neuman, Olson, and Cissna and Senators Olson, Thomas, Kookesh, and Stevens were present at the call to order. Representative Salmon arrived as the meeting was in progress.

Department of Commerce, Community, & Economic Development

[8:04:25 AM](#)

CHAIR OLSON announced that the only order of business would be the presentation from the Department of Commerce, Community, & Economic Development.

[8:05:47 AM](#)

EMIL NOTTI, Commissioner, Department of Commerce, Community, & Economic Development (DCCED), related his background as an Alaskan Native who saw the buildup that occurred during World War II and saw the construction of most of Alaska's highways as well as the transformation due to statehood. He noted that he is a veteran of the U.S. Navy. He informed the committee that he is an electrical engineer, and even worked on the guidance system for the Minuteman Missile. He then reviewed his service to the state under various administrations, including the Egan and Sheffield Administrations. Commissioner Notti reminded the committee that DCCED is the result of the merger of two departments. The department has two major divisions, one of which addresses economic development while the other addresses

community development. There are six divisions within DCCED and six agencies outside of DCCED. Furthermore, the commissioner is assigned to 23 boards and commissions.

[8:09:28 AM](#)

REPRESENTATIVE NEUMAN recalled a meeting last year during which there was discussion of community leaders who were dissatisfied with the consolidation. He asked if there are any plans to separate the department back into two entities.

COMMISSIONER NOTTI recalled a meeting in which the Alaska Federation of Natives (AFN) and the Alaska Municipal League (AML) backed a proposal to separate the department back into two entities. However, he opined that it would be difficult because some portions of the former Department of Community & Regional Affairs (DCRA) were placed in the Department of Labor & Workforce Development. Furthermore, the portions of the former DCRA that remain in DCCED constitute a smaller entity than what it once was. Although separating DCCED back into two entities won't cost a great deal, it would create much disruption and probably wouldn't return everything to its former state. He stated that at this time, there are no plans to separate the department back into two entities. However, he acknowledged that [those in rural Alaska] don't believe they have a seat at the gubernatorial cabinet level. He related that DCCED is currently organized with two deputy commissioners and he said he is considering organizing them such that one deputy commissioner would address economic development and the other would address mostly rural issues. He opined that such an organization would address the [concerns of those in rural Alaska].

REPRESENTATIVE NEUMAN surmised then that the department is going to address the matter in-house.

COMMISSIONER NOTTI replied yes.

[8:12:04 AM](#)

REPRESENTATIVE CISSNA recalled the increasing number of communities in distress and the increasing numbers of rural residents moving to urban centers. She asked if the department would attempt to ameliorate the aforementioned and find ways in which to help communities survive.

COMMISSIONER NOTTI said the best tact is to offer people the ability to choose their own lifestyle and choose to live in

rural or urban areas. A large part of that choice is work because unemployment causes many problems, socially and economically. To have employable people, it will require state funding for education/training. Commissioner Notti then highlighted the high price of fuel in rural areas and the many sources of energy that could be developed, but at an expensive cost. Therefore, employed residents would help address the economic problem [in rural Alaska] as well as relieve the state from having to provide welfare.

8:17:04 AM

COMMISSIONER NOTTI continued his presentation by highlighting that the span of the department touches all Alaskans. He related excitement with regard to development projects that are poised for the future. The six agencies with independent boards under DCCED include the Alaska Seafood Marketing Institute (ASMI), the Alaska Aerospace Development Corporation, the Alaska Railroad Corporation - which is the only board to which the commissioner can't assign a representative to attend meetings - the Alaska Industrial Development & Export Authority (AIDEA) and the Alaska Energy Authority (AEA), the Regulatory Commission of Alaska (RCA), and the Alaska Community Services Commission. He further informed the committee that DCCED has 500 employees of which approximately 100 work on the local government side. The department has offices in Anchorage, Bethel, Dillingham, Fairbanks, Juneau, Kotzebue, and Nome as well as Seattle, Washington and Tok Junction. The department has a total budget of \$208 million of which \$60 million is general fund money. He related the various programs his department is charged with administering, including revenue sharing, community assistance, Local Boundary Commission staff, borough formation, energy assistance, alternative energy, the senior property tax exemption, power cost equalization (PCE), the fisheries business tax, grants to communities, and research information.

8:21:06 AM

SENATOR STEVENS pointed out that the constitution calls for the eventual organization of the entire state. He inquired as to the department's plans to move forward with organization.

COMMISSIONER NOTTI related that the department has staff who can provide training and skills necessary to run a government, but beyond that it's a community's choice. The legislature provides an incentive, he pointed out, through the differential between

the payments it makes to unincorporated versus incorporated communities. Still, there is resistance to organization.

SENATOR STEVENS clarified that he is referring to communities such as Skagway and Dutch Harbor, which are communities that aren't located in boroughs but are financially stable.

COMMISSIONER NOTTI recalled that the Local Boundary Commission (LBC) recently voted that Skagway should form a borough, which has caused some concern among legislators as well as other community leaders around the state. He related that there will be reconsideration of the aforementioned vote on February 12th.

[8:23:37 AM](#)

CHAIR OLSON inquired as to the incentives provided for those areas that do organize.

COMMISSIONER NOTTI specified that the largest incentive is economics: \$25,000 for unincorporated communities, \$75,000 for incorporated communities, and \$250,000 for boroughs. However, AML is requesting 6 percent of resource money to go to local governments and anything beyond "the numbers quoted" would be distributed on a per capita basis.

[8:25:00 AM](#)

MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community, & Economic Development, explained that the current financial incentives for communities that form a borough totals \$600,000 and is parsed out over a three-year period in which \$250,000 is provided in the first two years to cover startup and administrative costs. The remaining \$100,000 would be received in the third year. He highlighted that the aforementioned financial incentive hasn't changed since the mid 1980s and thus hasn't kept pace with inflation and costs. The division provides information, technical assistance regarding the formation of a borough, he said. The aforementioned is important because those in unorganized areas have little understanding as to what it really means to live in a borough. He noted that he was recently in Aniak discussing what it would mean to become a borough, which is under a great deal of consideration due to the Donlin Creek development. There has also been some discussion and a petition for the formation of a borough in the Delta area.

[8:27:23 AM](#)

CHAIR OLSON inquired as to other incentives besides financial incentives that would encourage borough formation because it takes a fair amount of intellectual expertise.

MR. BLACK clarified that the financial incentives only occur after organization. Those communities considering borough formation have to find the aforementioned expertise, beyond what the department provides, from their own resources. For example, in the Delta area the mining interests provided money prior to borough formation in order to help the community. Another incentive is land transfers from state unallocated or unreserved land within an area to be proposed as a borough. If a borough forms, the borough has the opportunity to select 10 percent of the unreserved state land. The aforementioned can be a large or small incentive depending upon how much land is in state ownership within the borough.

[8:29:12 AM](#)

REPRESENTATIVE NEUMAN related his understanding that the financial incentives are only for newly organized areas. He then recalled the university land grant legislation that passed last year, which provided the university a matching 250,000 acres from the federal government. Representative Neuman said that he viewed the aforementioned as a tremendous opportunity for Southeast communities, in particular, because there is a lot of federal land in Southeast Alaska. Perhaps, the university could transfer lands in order to help areas create boroughs.

MR. BLACK, addressing the university land selection, related his understanding that there is tension between university land selection and potential borough selection. He pointed out that in Southeast Alaska one of the questions is how much land is commercially viable and would represent an economic base for a future borough. The university and any future borough will have to cooperate, he opined, because if one entity selects all the best land, then the other entity is left with less to achieve economic independence. Communities in Southeast have discussed the aforementioned with the division because there is concern. Mr. Black said he wasn't sure that there would be cooperation in the selection and ultimate use of the land without something to make it happen.

MR. BLACK then turned to the \$250,000 mentioned by the commissioner as part of the revenue sharing program that AML would like to see implemented. The \$250,000 would be an annual

payment to all boroughs, not just to new boroughs. The aforementioned is separate from the earlier mentioned organizational grants that total \$600,000 over the course of three years.

REPRESENTATIVE NEUMAN offered to work with the university on the [land selection matter].

[8:33:12 AM](#)

CO-CHAIR LEDOUX inquired as to what benefits residents receive from their community organizing into a borough. She pointed out that in an unorganized area residents don't pay property tax but will in a borough. Therefore, she questioned why a resident would vote for his/her community to form a borough.

MR. BLACK pointed out that in an organized area, one would have an elected body from within the immediate area to address issues and control some major development projects rather than leaving it to the legislature. Furthermore, a borough would take responsibility and authority over, within limits, the educational system for the region. The organized area would also have the ability to raise revenue from whatever taxing authority available to local governments.

CO-CHAIR LEDOUX interjected that residents may view the aforementioned to mean that a borough resident would be taxed.

MR. BLACK acknowledged that such could be the case. However, there are usually some central development activities that would allow for an increased property tax base or, as is the case in the Northwest Arctic Borough, a Payment in Lieu of Taxes (PILT). Nonetheless, organization does allow for taxing on various projects. If the choice is to not organize, then the area would rely entirely on the state legislature and/or federal government for services. He acknowledged that some are quite happy with the aforementioned situation and don't want to change. However, the presence of large tax base developments in rural Alaska have presented an opportunity for some regions to benefit more from forming a borough than would have been the case as an unorganized borough. He cited the Northwest Arctic Borough, the North Slope Borough, the Lake and Peninsula Borough, and the Aleutians East Borough as examples of the aforementioned.

[8:37:34 AM](#)

CHAIR OLSON inquired as to what happens after a resource, or any economic base is gone but the borough remains.

MR. BLACK answered that if the economic base disappears, the borough must live within its means. He related that such a scenario hasn't manifested in any large scale and in fact often when one resource declines the taxing of other developments related to the original resource provide funds to maintain borough services.

8:39:19 AM

REPRESENTATIVE CISSNA recalled the commissioner touching on the problems of rural Alaska, including the lack of employment. However, she opined that what's also happening is that the benefits small government is able to give to its communities is disappearing as those governmental entities lose the capacity to keep government going due to the revenue sharing decreases and Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) costs. She expressed frustration with regard to suicide, alcoholism, and violence all of which are old problems. Therefore, she questioned what the legislature could do to change the situation. She indicated the need to have studies with regard to the aforementioned problems as well as the problems related to rural residents moving to urban areas. She also inquired as to what the department is doing in terms of measurements, promising practices, and building solutions into programs.

COMMISSIONER NOTTI said that at the bottom of much of this is alcohol. Furthermore, poverty and unemployment have been an issue for some time. Although there is no easy solution, he maintained that education is still the solution on many fronts. The state has the choice of appropriating funds to education for a long-term solution because he said he doesn't see any way the villages will change without economic development, which must result from a large resource to overcome costs of rural areas. He highlighted that much money is appropriated for alcoholism programs that aren't effective, and thus employment seems to be the best answer.

8:45:17 AM

REPRESENTATIVE CISSNA agreed that education is important, but questioned whether there have been studies to review these serious problems and options. She said that natural resource development goes well when there are other sources of

development as well. She opined that resource development isn't sustainable in many communities. However, there are options for alternative sustainable energy projects that create jobs, sustainable energy, and can sustain a community. Still, those haven't been long-term efforts with such projects. Representative Cissna characterized alcoholism as the largest thing that robs the state and individuals and yet funds toward alcohol treatment programs are declining.

COMMISSIONER NOTTI pointed out that usually these alternative energy programs require funds from the state and federal government. Although such programs are worthwhile, they are costly and long-term. He mentioned that there will probably be different solutions for different areas of Alaska. He said he didn't know of any recent studies.

MR. BLACK said he didn't know of any recent studies with regard approaches to address alcoholism, alternative energy, and sustainable economies. However, a survey illustrating that Western Alaska is suffering tremendously by recent spikes in fuel prices has just been completed. He explained that any time there is an increase in the cost of living of a small village where there is no income, many people are likely to choose to live elsewhere. He then related his anecdotal knowledge that in the Donlin Creek area the level of alcoholism, suicide, and violence has decreased with training and employment from the mine. Perhaps statistics should be obtained on that situation from the Department of Labor & Workforce Development, he remarked.

[8:51:25 AM](#)

SENATOR THOMAS noted his agreement that employment is important in improving the quality of life in an area. Further, he agreed that areas should be able to discuss taxes in the area and boroughs provide a structure. Senator Thomas inquired as to what should be done to encourage formation of boroughs and encourage existing boroughs to implement a structure after formation.

COMMISSIONER NOTTI answered that to encourage organization, the department must do something that it hasn't yet done. He reiterated his earlier comments regarding the need to train individuals to run a borough, which will require travel and the funds to do so. However, the department is down to bare bones, he pointed out.

MR. BLACK related that the Division of Community Advocacy has 54 staff, 3 LBC staff, and 12-15 in the Local Government Assistance Group. He noted that there have been some educational efforts, although there isn't a program for educating unorganized areas as to what formation of a borough would mean. He related that Aniak has requested that the Northwest Arctic Borough speak to it about what it means to organize, which he viewed as important. The aforementioned should be replicated.

[8:57:03 AM](#)

REPRESENTATIVE NEUMAN highlighted the governor's proposal to reduce the cost of state government by \$150 million while fully funding other programs such as PCE. He inquired as to how the aforementioned will be accomplished.

The committee took an at-ease from 8:58 a.m. to 9:03 a.m.

[9:03:37 AM](#)

REPRESENTATIVE SALMON commented that the department has a difficult job. He then related the perspective of the villages, which believe there is enough government. He pointed to Fort Yukon as an example as it has village corporations, regional corporations, Native village, city council, Council of Athabascan Tribal Governments (CATG), the state government, the federal government, and the school district. If the desire is to streamline government, he questioned why one would want to create another government.

[9:06:02 AM](#)

COMMISSIONER NOTTI, in response to Representative Neuman's earlier question, answered that the department only receives \$60 million in general funds and thus is mostly run on program receipts and licensing fees. He related that the department is reviewing positions that don't have a clear mission. In fact, in a number of cases people don't have supervisors or support staff. Therefore, those positions will either be offered up and may be taken up by other departments or eliminated. The department will also have to review the following programs: ASME, ATSI [Ahtna Technical Services, Inc.], and AEA as those are the receivers of a large amount of funds. The department will have to review the aforementioned because it doesn't receive much in the way of general funds.

REPRESENTATIVE NEUMAN surmised then that DCCED will review a reduction in staff in response to budget cuts. He then questioned whether an increase in receipt funds could counter the losses.

COMMISSIONER NOTTI said that the department hasn't discussed increasing incoming funds. He further said that obtaining funds for education is beyond the department's ability.

[9:09:20 AM](#)

CO-CHAIR LEDOUX returned to AML's revenue sharing proposal and related her belief that it's a disincentive to organize a borough. She explained that the current proposal provides a certain amount of funds to unorganized communities in the unorganized borough while it doesn't provide any funds to unorganized communities within an organized borough. Therefore, she opined that unorganized communities within an organized borough would receive more funds if they were in an unorganized borough.

MR. BLACK related his understanding that AML's proposal would provide \$25,000 for unincorporated communities, \$75,000 for cities, and \$250,000 for boroughs. He opined that AML would probably argue that the boroughs can pass on funds through services or through revenue sharing of its own. The AML proposal utilizes the old system of revenue sharing as a model, he noted.

[9:12:34 AM](#)

CO-CHAIR FAIRCLOUGH highlighted the partnerships and successes of DCCED, such as the Denali Commission. She asked if the commissioner has specifics with regard to employment opportunities that would generate jobs in rural and urban Alaska.

COMMISSIONER NOTTI reviewed the last 30 years of development in Alaska during which about 300,000 people have moved into the state, many of which are commuting out of state for jobs. Therefore, he opined that Alaska isn't benefiting from that development. He further opined that it's in the interest of the state for local people to get these development jobs. Therefore, it's necessary to educate Alaskans to do these jobs. As Alaska develops, the state must insist on local hire, which would require funds for training, he stated.

[9:15:19 AM](#)

CO-CHAIR FAIRCLOUGH asked if the existing language within the Alaska hire law is strong enough to pass constitutional muster to implement Alaska hire. If not, she asked if the commissioner had any suggestions for language that could be incorporated in statute.

COMMISSIONER NOTTI clarified that he isn't aware of the constitutional provisos. However, he did suggest that perhaps there could be tax incentives to hire locally.

CO-CHAIR FAIRCLOUGH commented that the aforementioned is an idea that deserves exploration.

[9:16:57 AM](#)

**ADJOURNMENT**

There being no further business before the committees, the joint meeting of the House and Senate Community and Regional Affairs Standing Committees was adjourned at [9:17:05 AM](#).