

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM**

October 26, 2007
2:06 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Carl Gatto
Representative Wes Keller
Representative Andrea Doll
Representative Mike Doogan

MEMBERS ABSENT

Representative Kyle Johansen
Representative Bob Lynn

OTHER LEGISLATORS PRESENT

Representative Bob Buch
Representative Anna Fairclough
Representative Peggy Wilson

COMMITTEE CALENDAR

ALASKA'S ECONOMY - PAST, PRESENT & FUTURE

- HEARD

PREVIOUS COMMITTEE ACTION

See HEDT minutes dated 10/25/07

WITNESS REGISTER

NEAL FRIED, Economist
Research and Analysis
Department of Labor & Workforce Development
Anchorage, Alaska

POSITION STATEMENT: Presented a report titled "Alaska's Economy 2007."

MICHAEL BLACK, Deputy Commissioner
Office of the Commissioner
Department of Commerce & Community Development

Juneau, Alaska

POSITION STATEMENT: Presented a report titled "Alaska Economic Performance Report 2006."

HARRY MCDONALD, President
Carlile Transportation Systems
Anchorage, Alaska

POSITION STATEMENT: Presented information on the transportation industry in Alaska.

BILL POPP, President; Chief Executive Officer
Anchorage Economic Development Corporation
Anchorage, Alaska

POSITION STATEMENT: Presented a report titled "Anchorage Economic Update."

JIM JACKSON, President
Alaska Home Builders Association
Anchorage, Alaska

POSITION STATEMENT: Presented information on the home building industry in Alaska.

WAYNE STEVENS, President; Chief Executive Officer
Alaska State Chamber of Commerce
Juneau, Alaska

POSITION STATEMENT: Presented information on economic development.

ACTION NARRATIVE

CHAIR MARK NEUMAN called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at [2:06:00 PM](#). Representatives Neuman, Gatto, Doll, Doogan, and Keller were present at the call to order. Also present were Representatives Buch, Fairclough, and Wilson.

ALASKA'S ECONOMY - PAST, PRESENT & FUTURE

CHAIR NEUMAN announced that Neal Fried would give his presentation to the committee.

[2:06:36 PM](#)

NEAL FRIED, Economist, Research and Analysis Section, Alaska Department of Labor & Workforce Development, introduced himself and told members he would move quickly through his presentation and would answer questions afterward. He began:

... I have I guess you'd say the history of Alaska since Statehood and that's what sort of this first slide - I could actually spend the whole 20 minutes on this slide very, very easily because it is sort of our economic history since Statehood but I won't. I just want to point out a few things on this one particular slide. One is employment has grown a lot over the long run, generally speaking, much faster than the rest of the nation and much faster than most other states. And that's over the long run. We'll talk a little bit about more recent years.

We are very often referred to as the boom-bust economy and we really only have had two booms since Statehood and one bust and, in fact, that bust up there, that's in the wrong spot. The bust should be where the 20 years of growth begins, right in that little spot there. And then, the other thing I just wanted to point out is the fact that we have been growing now for 20 years. We're finishing up our 20th year right now, which is a pretty amazing run. It's the longest run we've ever had. It's one of the longest runs any other state in this country has had in recent years. So, in that sense, it's been a very interesting time and also in some sense sort of a boring time in our economy but we'll look at some of the details that might make it a little more interesting.

[2:08:36 PM](#)

MR. FRIED continued:

This here - and you know the only reason I put this slide on here is because it's sort of the opposite of the other one. If you look back and forth on it, and you know if you had an economist run a model, you could almost probably correlate the decline in oil and economic growth because actually our economy started to grow again the year that oil...production started to decline. I think it was a pure coincidence and you really could run statistical models and prove that the two are related, although I don't think there's any relationship - well there is a relationship but that's not the relationship that exists.

What is amazing to me is that our economy has grown as much as it has in spite of the fact that we are producing that much less oil than we were during our last bust.

This here is the other sort of, I think, the other important slide that I'm going to share with you today because this is the slide that sort of ultimately determines the standard of living that our workforce, our population in this state, has or enjoys because most income, probably over 80 to 85 percent of our income, comes from jobs, the earnings from people's jobs. And this represents the kinds of jobs that exist in Alaska's economy today. Let me just point out a few that aren't obvious because some of these are sort of confusing. That trade up there, that 12 percent, represents mostly retail trade, not construction or the trades, and a little bit of wholesale is thrown in there. Oil, I know some people are wondering where the heck is oil and that is under natural resources. Most of that is oil - a little timber, a little mining in there. Let me just see if any of the other ones need any explanation. Leisure and hospitality is your bars, your restaurants, your hotels, sort of a tourism indicator. Government is federal, state, local and includes the University and the school districts. Education health is the other one that can be misleading. That is almost all healthcare and social services. A little bit of that is private education, private college and secondary and elementary education but most of it is health care and social services, probably 85 to 90 percent of that.

I think most of the other ones are fairly obvious except for the military. What I mean by that are the folks that are in uniform, the uniform military, which is becoming a - we'll look at that a little more as we move along.

[2:11:20 PM](#)

CHAIR NEUMAN asked, "Mr. Fried ... look at education and health because you said a lot of that is social services and government How much of those numbers could be added together?"

MR. FRIED explained that number pertains to private education. Public education is counted under government, both local and University education. School districts are typically the largest employer in most communities in Alaska. He stated, "This pie here, this distribution of jobs, changes a little bit each year but over the long run has seen some pretty significant changes and we'll look at that a little bit."

[2:12:27 PM](#)

MR. FRIED continued his presentation:

This here is sort of the, in some ways to me, it's almost - I guess it's kind of a miracle. Every year we've seen a net increase in the number of new jobs in Alaska's economy. All this is saying ... is that when 2007 is over, there will be 3,900 jobs in Alaska's labor force that did not exist the year before. These are all just the net increase of each year. If you added them all up, that's the cumulative number of jobs we would have experienced during that period of time. This has been happening since 1988. It comes obviously from a mixture. Some years it may be oil that's driving it. Some years it may be health care. Usually it's a mixture of a lot of different industries. The complexion changes each year, sometimes a little bit, sometimes quite dramatically. We'll talk about that as well.

[2:13:23 PM](#)

CHAIR NEUMAN noted he would like to provide members the opportunity to ask questions as Mr. Fried continues but asked members to keep their questions short.

[2:13:37 PM](#)

REPRESENTATIVE GATTO asked if the new jobs are low paying retail jobs versus engineering jobs.

MR. FRIED replied that job growth is from a mixture of sources but during the last four years, very few new jobs were in the retail industry. Retail was largely flat. In 1996, the slowest year on a percent growth basis, ARCO and BP laid a lot of people off, however a lot of large stores opened in that year, creating a net increase in jobs.

[2:14:51 PM](#)

MR. FRIED continued:

This here - the only point I'd like to make on this slide ... well you can make two points, one is historically we have grown much faster than we have during the last 15 years or basically since 1988. You can see the 1970s, and this is true of the 1960s as well, we were growing at 5, 6 percent per year. That was very impressive growth, about twice as fast as the rest of the country. Even in the 1980s when we had our biggest busts, our only bust since Statehood, we still managed to grow significantly faster than we are today and about twice as fast as the rest of the nation. In the '90s we grew about the same rate as the rest of the nation and in the last 7 years - that's kind of an unfair comparison because the U.S. had a recession in there. Right now the U.S. labor market and our labor market are probably growing at about the same rate, but they had a recession in there and we did not.

This here is just another one of those nice historical graphs that ... is one of those pictures that I think really is worth a million words. It just talks about our population. The red is natural increase, in other words births minus deaths, and we have lots of that up here. Then the blue is migration - the number of people moving in minus the number of people leaving. You can see during some of the very big economic events in this state we had some of the largest increases in our population in history. For example, during the 1980s, during that boom, where the largest number of, absolute number of people moving through the state and, of course, shortly after that, we had the largest decline in our population, although I have to say that after that bust, our economy was still significantly larger than it was previous to the bust so although we lost 30 or 40,000 jobs during that period of time, we still had a net increase in jobs at the end of that than we did prior to the boom.

... We look at our labor market today, we look at growth in our economy, we look at employment growth [which] has been very moderate. Well, you can see that by looking at this, changes in our population

have also been very moderate, sort of characterized our economy during the last 15 years or so.

[2:17:31 PM](#)

MR. FRIED continued:

This here just gets to ... that idea I was talking about yesterday about how that pie is constantly changing and over the long run changes significantly. If I had been a prodigy in talking to this body in 1970, and I definitely was not a prodigy, but ... more than half of our labor force in 1960, and that was true in 1970 as well in the public sector when half the public jobs - and this includes the uniformed military where you can see how that has slowly declined over time and it's not because our public sector has necessarily gotten smaller in absolute terms. It's just the rest of the economy has grown a lot faster. Parts of our public sector have actually gotten smaller in absolute terms. One of them is the federal government in the last 10 years but that doesn't mean the federal influence has gotten any smaller because we know that's grown but the federal workforce has gotten smaller.

[2:18:39 PM](#)

MR. FRIED continued:

Moving on here, I heard Mr. Bradner talking yesterday about how crowded the North Slope was. Our numbers certainly bear that out and actually we've shared these numbers with Tim. You can see in fact, with Prudhoe Bay, and I'm just going to find some slides of where some industries are going right now, Prudhoe Bay is the most crowded that we've seen it since we've been keeping numbers as far as number of jobs that exist right now in Prudhoe Bay, a very busy place. It started to climb in 2005 and just kept on climbing the last two years. We believe that that number will probably level off and stay there for at least the next year.

This year is sort of a relatively new development and I think it's sort of a nice lesson that there are certain industries in our economy that wax and wane

over time. This was an industry that by the mid 1990s we figured we had seen its biggest influence pass - that the military would permanently have a smaller influence on Alaska's economy. Little did we realize that two or three years later, the military would start growing and its influence in our economy would start growing. Those numbers have been growing quite dramatically over the last three or four years. A lot of people look at our military numbers and they see low wage jobs and I think that's the wrong way of looking at it nowadays. Some of you that may have served in the military 20 or 30 years ago, they probably were low wage jobs. That's changed and the pay in the military can be very, very significant. So those jobs can have a significant influence on our economy. These, again, are just those that are in the uniforms, not the civilians or contractors that are also working for the military.

This here is construction. The real story here is we saw steady growth for the last 15 years but that growth appears to have peaked in 2005, fell off slightly in 2006, appears to continue to slow off in 2007 and probably will continue to slow down next year as well. I know in many of our communities it's hard to believe. We see all of those cranes out there but there's a lot of residential construction and in some other parts of the state, construction has slowed down. We don't expect a dramatic change in the next year but this is no longer a source of growth, just like federal dollars are no longer a source of growth in our economy. So those are two important ingredients that have helped our economy grow in recent years that are not there today.

[2:21:41 PM](#)

MR. FRIED continued:

This is just that federal dollar. I know you were talking a lot about this yesterday when Scott presented so I don't want to spend much time with this. The weird thing is that the most recent data we have is really for 2005. They don't even have 2006 data available. We certainly don't know about 2007 but we do know earmarks fell off dramatically in 2007 and, because of that, we assume that federal dollars

probably began to at least flatten out or maybe even decline slightly in 2007 after this nice long run of almost doubling in eight years - well it did double in eight years and that's a lot faster than what was experienced in the rest of the country. I think the rest of the country saw an increase of 55 to 60 percent and ours doubled.

This here, the only point I'd like to make with this slide is yes, we've grown for 20 years, the state has, but not all parts of the state have grown for 20 years and not all parts of the state have grown at the same rate. There have been different experiences. Southeast, for example, if you took Juneau out would probably be negative. The Gulf Coast, which is your Valdez, Cordova, Kenai, Cordova region, including Kodiak, has grown very little. I mean 5 percent growth is not very much for a six-year period. Southwest is really - some rebound in the salmon industry and a little bit of other growth. Northern, which is the Nome region and the North Slope Borough and the Northwest Arctic Borough, almost all that growth there is Prudhoe Bay. If I took that growth out, if I took Prudhoe out of the northern part of the state, that growth would be significantly more moderate but, for example, for some of those communities like Kotzebue or Barrow, in fact in some of those places employment may have actually declined. So that's really being affected very much by Prudhoe Bay.

[2:23:41 PM](#)

MR. FRIED continued:

This here is just population and this may even be a better indicator of what parts of the state are growing and what aren't. We all know Mat-Su is a stand-out as far as growth. It's really the only place in the state you can describe that has been booming in recent years. Southeast has actually lost population, so has the northern part of the state. Other parts have grown very slowly. I mean 1 percent growth over a six-year period for population is very, very small and very moderate.

Now I'm just going to a different part of the story, the wage story in this state. The only point I want to make here is in 1994, average earnings in Alaska were 22 percent above the national average and now are basically average for the rest of the nation. This is probably the reason, this helps explain it, is that pie that we looked at earlier has changed a little bit, it hasn't just changed a little bit, it's changed significantly over time. We've probably had more growth in those industries where wages tend to be lower or below that red line and less growth in some of the other industries, probably more on the bottom and less in the others. That affects that overall statewide average. That average has been going up but it hasn't been going up as rapidly as it's been going up elsewhere in the country.

[2:25:07 PM](#)

CHAIR NEUMAN referred to the previous slide that said Alaska's wage advantage has disappeared and noted Alaska's cost of living is higher. He asked about that comparison.

[2:25:39 PM](#)

MR. FRIED replied:

That's a good question. If we just looked at this the story is even less pretty than this because I would, again, what's an average for Alaska, I mean the difference in the cost of living between Alaska and the rest of the country definitely has narrowed but it is still there. Urban Alaska is probably 10 or 15 percent; obviously in rural Alaska it's much more than that. So, yea, you can draw an inference from this that, from a wage standpoint, we've certainly become less attractive relative to the rest of the country.

[2:26:15 PM](#)

MR. FRIED said the biggest reason people move is for economic opportunities so Alaska is not as attractive as it used to be.

[2:26:33 PM](#)

REPRESENTATIVE GATTO asked if the university and public school system fall under the government category on that slide.

MR. FRIED replied yes.

REPRESENTATIVE GATTO opined that those entities should be distinguished in that category because school district employees always speak of the need for a raise.

[2:27:13 PM](#)

MR. FRIED pointed out those numbers reflect total payroll divided by the total number of jobs. He said it is a blunt instrument but it does tell a story.

[2:27:27 PM](#)

MR. FRIED continued his presentation:

This just sort of tells you that wages, and you can see this is why that pie changed significantly. Between 1990 and '97 we were losing some of those high wage jobs, we were gaining a lot of lower wage jobs. After you adjust that for inflation, wages actually declined during that period and then basically sort of flattened out and have increased a little bit over time over the last four or five years.

[2:27:56 PM](#)

REPRESENTATIVE DOLL asked, regarding the average annual earnings slide, how the State of Washington's numbers would look if they were superimposed over Alaska's numbers.

MR. FRIED said he would have to guess, but thought Washington's annual average would be higher than Alaska's, particularly in certain industries. For example, Alaska has had very little growth in the computer software industry while Washington has had a lot. The construction industry numbers would probably be fairly close but Washington might look more attractive in most cases if one just looked at the wages.

[2:29:07 PM](#)

REPRESENTATIVE DOLL asked if that has a lot to do with recruitment.

MR. FRIED said it certainly could.

2:29:16 PM

MR. FRIED continued:

This here is per capita income. This goes way, way back. Of course some people say those years in the 1970s were very unusual. We were building a pipeline where our income was so much higher that that wasn't sustainable. But basically the story there with per capita income is we're flat with the rest of the country - a little bit above the rest of the country.

But then when we go to household income, we look a lot better. There are a number of reasons why that is or we think that is. One is we don't have a large population of over 65 because income falls significantly over 55. So we have a smaller proportion of our population in that category. We also have more two-wage earner families in Alaska so those are probably the two big significant things that keep our household income relatively high to the rest of the nation. ... There was a 23 percent premium compared at when we looked at wages or we looked at per capita income. So there's a number of different ways you can slice and dice this but, when we look at households and their total income, Alaska comes out looking pretty good. The other part of the story this doesn't tell us is we have relatively high disposable income because our tax burden is relatively low so we have more money to spend on things. So it's sort of a mixed story there.

2:30:45 PM

MR. FRIED continued:

This is our unemployment rate. The nice story about the unemployment rate, it's been coming down significantly and we have a very tight labor market. I know many of you hear complaints from employers having a difficult time finding workers. This ... kind of describes that problem. This, of course, to some extent mirrors the rest of the nation.

But this is an additional reason, I think, why that's happened. When we look at the last 10 years, during more years than not, we've had actually negative out-

migration in Alaska than in-migration. Our overall population has grown each one of these years. That's because of natural increase but babies don't compete in the labor market so we have this steadily growing economy or labor market. The number of workers is growing more slowly and, so in essence, is creating a tighter and tighter labor market. The blue lines there, the reason why they're probably blue during those years is because those are the years of the national recession and typically during a national recession, fewer Alaskans leave the state and more people from outside move to the state. But those are very small numbers. I mean relative to our total population of over 600,000, these are very small. If we remember that old graph - those numbers were as high as 20, 30,000. With a smaller population, again, we're talking about small changes. That's my last slide.

[2:32:19 PM](#)

CHAIR NEUMAN announced that committee members present are Representatives Doll, Gatto, Neuman, Keller, and Doogan and Representative Fairclough was in attendance also. He related his observation that a trend in discussions lately is that Alaska's economy is flat. He said Mr. Fried's chart of population changes shows a migratory population but not a dramatic increase in numbers. He asked if the two situations are connected.

MR. FRIED said he thinks they are. Almost all indicators have been very moderate. He thought if Alaska's economy was growing at 4 percent per year rather than 1 percent, Alaska would be attracting more workers. The other side of the story is that the national economy is doing quite well so it is harder to attract workers than it was in the '70s and '80s. Tremendous in-migration happened during the boom times in Alaska because the rest of the country was experiencing a very deep recession at the same time. He pointed out that another factor may be that baby boomers are aging and are less likely to move. Migration around the country has declined in general.

[2:34:31 PM](#)

REPRESENTATIVE DOOGAN noted Mr. Fried has used net numbers but, in the real world, a significant amount of churn occurs.

MR. FRIED said that number is about 30 to 40,000 per year in and out.

REPRESENTATIVE DOOGAN asked whether job growth equates to population growth because a certain amount of Alaskan workers are not residents.

MR. FRIED said that is correct.

REPRESENTATIVE DOOGAN said the numbers look "tidy" but, in reality, a lot of changes are occurring within those numbers.

MR. FRIED agreed and said the number of individuals moving in and out is much larger. He pointed out the gross migration rate of the number of people moving in and out has declined over time so more churning occurred in the '60s, '70s, and '80s.

[2:36:03 PM](#)

REPRESENTATIVE DOOGAN asked if the population is becoming more stable and whether the job market is becoming less lucrative. He thought those occurrences are counter intuitive because he believes a person who loses a good paying job in Alaska is more likely to pursue a good paying job elsewhere than take a low paying job in Alaska.

MR. FRIED responded that he thought some of that is occurring.

[2:36:52 PM](#)

CHAIR NEUMAN stated that 85-90 percent of revenue coming into Alaska comes from oil and gas. He surmised that only 3 percent of the jobs in Alaska are in natural resources so only 3 percent of the jobs provide 80-95 percent of the state's revenue.

MR. FRIED said in some sense those numbers are misleading. Less than 3 percent of jobs are direct oil industry jobs. However, the oil industry also employs a lot of construction workers, security workers, food services workers, etcetera so obviously the oil industry employs more people than the 3 percent shows. He added the expenditure of oil revenues requires many government jobs, and jobs in other sectors as well from the multiplier effect. He pointed out the oil industry is incredibly efficient in the sense that the number of employees in Alaska is very low because the oil fields are very large.

[2:39:42 PM](#)

CHAIR NEUMAN said he sees that pictorially as spokes from a hub.

MR. FRIED agreed but said some spokes are less dominant than others and that the economy is much more diverse today than it was 20 years ago.

[2:40:13 PM](#)

CHAIR NEUMAN thanked Mr. Fried for his fascinating presentation.

The committee took an at-ease from [2:40:39 PM](#) to [2:41:25 PM](#).

CHAIR NEUMAN called the meeting back to order and asked Mr. Black to begin his presentation.

[2:41:30 PM](#)

MR. MICHAEL BLACK, Deputy Commissioner, Department of Commerce, Community & Economic Development (DCCED), called the committee's attention to a document entitled "Alaska Economic Performance Report 2006." He acknowledged that the Department of Labor & Workforce Development is the gatherer and developer of the statistics that are used in economic development reports issued by the DCCED. He related that his experience is 28 years working for the state, primarily in communities and rural communities. Mr. Black, the deputy commissioner in charge of community development, economic development, and the Division of Investments, offered to discuss how the economy is affecting communities.

CHAIR NEUMAN concurred.

[2:43:06 PM](#)

MR. BLACK pointed out that the report indicates a modest, but steady, increase in economic growth. In 2006, the state ranked 48th in growth among the 50 states. Payroll growth was strongest in the natural resource and mining areas; in fact, for first time Alaska exports exceeded 10 percent of its gross product. Personal income growth in Alaska was ranked at 16th among other states and climbed 4.8 percent. Furthermore, Alaska is ranked sixth among all states by Gross Domestic Product (GDP), and is the highest ranking of the resource development states. Additionally, there has been economic diversification as indicated by the increase in professional and technical services and information technology of 41 percent. He

opined that growth in the professional element of the economy is a change from earlier years.

[2:46:26 PM](#)

CHAIR NEUMAN asked whether there has been a change over the last five years in the 84 percent contributed by oil and gas. He further asked for Mr. Black's estimate of any change in the next five years.

[2:46:47 PM](#)

MR. BLACK stated his belief that there has been more growth in other sectors besides oil and gas. Further, in the next five years, he opined that the trend would continue, due to the fact that other industries are projected to grow at the same rate, or greater, than the oil and gas industry.

[2:47:40 PM](#)

CHAIR NEUMAN observed that the state is rated the 48th in growth; however, the GDP has risen significantly, but salary, wage, and population have not shown much growth.

[2:48:06 PM](#)

MR. BLACK remarked:

... it does seem that the economy is growing significantly, but maybe wage income is not keeping up with the growth that we see. And, of course, growth in the sense of the amount of revenue being derived from the various industries, itself, seem to be growing at greater than the wage, ... or personal ... household income levels are.

[2:48:35 PM](#)

CHAIR NEUMAN asked whether that was because of service industries or jobs at big box stores [that pay] \$24,000.

[2:48:52 PM](#)

MR. BLACK stated that he was not an expert in that area, but encouraged the committee to look further at the statistics. He then explained that the fortunes of resource development are improving, yet the improvement may not have been reflected in

household incomes or employment yet. He stressed that there is a very improved picture for mining due to the demand in Asia for minerals, coal, and other materials needed for manufacturing.

[2:49:50 PM](#)

CHAIR NEUMAN recalled testimony by former governor Sheffield that there are no large mines on state lands. Thus, the Pebble Mine would increase the contribution of mining in the future.

[2:50:23 PM](#)

MR. BLACK stated his agreement. He added that there are mines being developed around the state, some of which are on state land. In fact, the DLWD anticipates a demand for labor. He directed the committee's attention to page 23 of the report and pointed out that the most dominant mine in the state is the Red Dog Mine, which is also the richest zinc mine in the world. The Red Dog produces the largest amount of income and employment from mining. Furthermore, mining statewide production values between 2004 and 2006 have more than doubled, and Mr. Black said that he expects that growth to continue for the foreseeable future.

[2:52:30 PM](#)

REPRESENTATIVE DOOGAN referred to page 23 of the report and asked whether selling gravel is still the most profitable mining venture in the state.

[2:52:46 PM](#)

MR. BLACK said that is correct.

REPRESENTATIVE DOOGAN surmised that gravel production is supported by building roads and airports, and by the construction industry.

MR. BLACK said that is correct.

[2:53:01 PM](#)

CHAIR NEUMAN opined that less federal money for federal highway projects will result in a reduction of that industry.

[2:53:17 PM](#)

MR. BLACK stated that that could be true depending upon the demand by private industry for road construction. He agreed that a lot of demand for sand and gravel comes from public projects, especially in the areas of the state dealing with permafrost conditions. He continued the presentation and stressed the importance of the production of zinc ore from the Red Dog Mine that comprises 27 percent of the total value of Alaska metals. Mr. Black advised that the general theme is that by industry there is growth, and that future growth is almost certain in mining. Also, there are improvements in the fishing and seafood industry, as well as obvious growth in the oil industry. An industry that is doing less well is timber. However, tourism is still showing significant growth, statewide.

[2:54:57 PM](#)

REPRESENTATIVE GATTO referred to page 23, of the report and asked what are included in "Alaska Metals."

[2:55:10 PM](#)

MR. BLACK explained that Alaska metals include coal and gravel, as well as metals such as gold, silver, zinc, and lead. He encouraged the committee to review the economic performance report and cautioned that the averages are statewide and do not reflect regions of the state. For example, the Northwest Arctic region, along with Anchorage and the Mat-Su valley, are benefitting from the Red Dog project. His experience with remote and rural communities is that the problems they face are related to the high cost of energy. The dependency of certain portions of the state on diesel fuel for generating electricity and for heating has resulted in a severe impact on areas of the state. In fact, the price of energy may be the biggest challenge facing the state, despite the fact that Alaska produces hydrocarbons. Regional centers in Western Alaska are highly dependent on diesel fuel and the cost is a threat to rural economies. In addition, retailers and small businesses are having a difficult time competing with Internet and mail order sales because of energy costs as well. Mr. Black continued to explain that municipalities and tribal entities in the public sector are also suffering from the high cost of providing water, sewer, and electricity.

[2:59:12 PM](#)

CHAIR NEUMAN recalled previous testimony that rural Alaska is feeling a greater impact of energy costs than are urban areas, although there is an increased growth in lower wage jobs.

[2:59:54 PM](#)

MR. FRIED stated that he would like to provide statistics on the percentage of household income that is being used for lights, heat, and transportation, compared with the same expenses five years ago. He opined that more disposable income is going into those costs in rural and urban Alaska, to the point of imperiling some communities. He emphasized the importance of revenue sharing from the state to enable communities to provide public services.

[3:01:09 PM](#)

CHAIR NEUMAN expressed his belief that the rapid increase in the capital budget has somehow superheated the economy; there is more money flowing out in capital projects than there are Alaskans to do the jobs. He reported on the overinflated cost of housing in the Mat-Su valley.

[3:01:58 PM](#)

MR. BLACK said that that is an interesting point. In Fairbanks the construction trades and the mining industry are suffering from a shortage of available trained labor. In addition, the capital budget is a reflection of the building of buildings, but not the heat and light that keep the building functional.

[3:03:05 PM](#)

REPRESENTATIVE DOLL asked Mr. Black to explain the information provided [regarding International Trade] on page 39 of the report and to speak to the prospects for the future.

[3:03:25 PM](#)

MR. BLACK explained that in exports, such as natural resources, there is nothing but growth in demand, primarily from Asia and China, in terms of the resources they need to keep their manufacturing competitive. The latest example of that is the agreement with Chinese companies for coal resources in the Cook Inlet area. Further, the export of zinc from the Red Dog will end up in Asian manufacturing, as well.

CHAIR NEUMAN asked Mr. Black for his opinion on Alaska's status five years from now.

[3:04:50 PM](#)

MR. BLACK said that he sees a very bright future for Alaska barring a worldwide catastrophe or recession. Alaska will be looked to by other countries for resource development. There are concerns to be addressed by the legislative body, but the demand is there and growing.

[3:05:34 PM](#)

REPRESENTATIVE DOLL expressed her interest in increasing trade with the western states and asked whether Alaska is "taking a bigger piece of that pie."

[3:05:59 PM](#)

MR. BLACK responded that Alaska continues to import finished goods from the Lower 48. At the same time, it has increased its exports to the Lower 48, especially in the seafood industry. The challenge is how to derive more benefit from value added manufacturing instead of selling the raw products to other countries and other states where the manufacturing occurs, thereby improving Alaska's employment and wage picture.

[3:07:37 PM](#)

CHAIR NEUMAN invited testimony from Harry McDonald.

[3:08:11 PM](#)

HARRY MCDONALD, President, Carlile Transportation Systems, informed the committee that he was the President and majority stockholder of Carlile Transportation Systems which is an Alaskan-owned trucking company.

[3:08:23 PM](#)

CHAIR NEUMAN asked Mr. McDonald to discuss the recent past and future growth of the transportation industry.

[3:08:39 PM](#)

MR. MCDONALD advised that the transportation industry has grown in excess of 5 percent per year, which is more than the economy

in general. Part of that is not due to more work, but due to the increase in the fuel surcharge. He opined that the next five years has a bright outlook if the legislature makes some good decisions this session. There is a lot of growth potential on the North Slope and his personal opinion is that we should not make changes until 2011, or not for at least the next two years.

[3:10:00 PM](#)

CHAIR NEUMAN assumed that Carlile Trucking does a lot of business in Prudhoe Bay.

[3:10:07 PM](#)

MR. MCDONALD stated that his company has 500 employees in Alaska and 150 outside of Alaska, that serve Alaska. Further, 40 percent of its revenue is directly billed to oil companies and oil service companies. There are 150 employees based in Fairbanks and 40 trucks run exclusively to the North Slope. In addition, Carlile Trucking picks up freight all over the country for Alyeska Pipeline Service Company, ConocoPhillips Alaska, Inc., BP of Alaska, Consolidated Oil Corporation, and the general economy. Most of the freight comes by barge.

[3:11:18 PM](#)

CHAIR NEUMAN asked for a description of change, as far as trucking up the highway compared to the use of barge lines.

[3:11:31 PM](#)

MR. MCDONALD said that there is a bigger percentage of freight coming up the highway than 10 years ago, as now the roads and the trucks are better. The rates are competitive for higher priced commodities; however, anything that is heavy comes by water.

[3:12:12 PM](#)

REPRESENTATIVE DOLL asked whether a railroad line or more barges would facilitate transportation.

[3:12:25 PM](#)

MR. MCDONALD stated his preference for use of the highway. He said that he did not support a government owned railway. He

responded to a further question from Representative Doll and explained that his company uses "multi-mobile;" nevertheless, it is not feasible to put in a rail link overland, as compared with the efficiency of the existing rail link to water.

[3:13:17 PM](#)

CHAIR NEUMAN asked Mr. McDonald for his opinion on Alaska's economy.

MR. MCDONALD said that the housing construction industry is down somewhat although there are large commercial projects coming. His company hauls a lot of fresh fish southbound to Boston, the Midwest, and Seattle, but overall, 2007 has been "pretty flat." He remarked, "We're not taxed, by any means, as we were a couple of years ago."

[3:14:33 PM](#)

CHAIR NEUMAN asked for comments from truckers about government.

[3:14:38 PM](#)

MR. MCDONALD said that they want more and better maintained roads.

REPRESENTATIVE DOOGAN asked whether Mr. McDonald's company was a big trucking company by Alaska's standards.

MR. MCDONALD indicated that his company was "significant." Carlile and Lyndon Transport are the two largest Alaska-owned transportation companies in Alaska.

[3:16:17 PM](#)

CHAIR NEUMAN informed the committee that Mr. McDonald came here on his own dime because he is concerned about Alaska. He expressed appreciation for his testimony.

[3:17:02 PM](#)

MR. MCDONALD, speaking for himself and his employees, recommended that the legislature not make any rash decisions.

[3:17:32 PM](#)

REPRESENTATIVE WILSON asked, "What do you think will happen, I mean literally, if we went ahead and did a 25 percent tax?"

[3:17:52 PM](#)

MR. MCDONALD remarked:

I know there's projects being discussed now, not one, but a number of them, that, you know, are marginal ... they waver back and forth. And some of them have to get partners to sign off, and one partner thinks it won't work, and one does, so it doesn't happen. I know there's an ultra-low sulfur diesel plant that I happen to have about 50 or 60 loads of steel stored in my yard that was ... they thought they were going to build it and there were some partner issues

The committee took an at-ease from 3:24 p.m. to 3:26 p.m.

[3:26:16 PM](#).

CHAIR NEWMAN called the meeting back to order and asked Mr. Popp to begin his presentation.

[3:26:20 PM](#)

BILL POPP, President/CEO, Anchorage Economic Development Corporation [AEDC], thanked members for the opportunity to speak to committee members on the status of the economy in Anchorage and Southcentral Alaska. He told members AEDC, a not-for-profit corporation, was founded in 1987 with a mission to grow and diversify the Anchorage economy and economies of Alaska. The AEDC acts as a resource for local businesses and businesses interested in Alaska and seeks to be a catalyst for new companies to find opportunities in Alaska. The membership of AEDC is comprised of more than 180 investor companies, he related. He began his PowerPoint presentation, as follows:

[3:27:41 PM](#)

So Anchorage is currently in its 19th consecutive year of job growth. We've enjoyed modest, steady economic growth - 1 or 2 percent per year, partially due to the fact that our economy is becoming increasingly diversified, following many of the trends that you've heard discussed earlier today. Our primary economic sectors include construction, government, oil,

business and professional services, leisure and hospitality, trade, air transportation and health care. In 2006 Anchorage saw stronger employment growth than AEDC had forecasted. We do an annual forecast every January. We predicted 1,900 new jobs and actual growth in 2006 was 2,600 new jobs, an increase of 1.8 percent of 2005. Most of that growth was in the leisure and hospitality industry, air transportation and the trades, retail and wholesale.

In January 2007, using research services of the McDowell Group, AEDC forecasted that the Anchorage economy would add 2,500 new jobs this year, an increase of 1.7 percent over 2006. Based on the first five months of the year, employment is up by 1,940 jobs, an increase of 1.3 percent compared to the same time period in 2006.

[3:29:06 PM](#)

MR. POPP continued:

Sectors experiencing the largest increases in job growth in their first five months of 2007 included business and professional services, the architectural trades, accounting, legal practices with 460 new jobs. The leisure and hospitality trades, tourism in effect, restaurants, hotels, etcetera - 360 new jobs, and in health care - 340 new jobs.

It's important to note that uniform military personnel are not included in the jobs forecast; however troop levels at Ft. [Richardson] are expected to remain about the same in 2007. Self employed workers are also not included in the forecast. One of the contributors to this job growth in Anchorage is a more competitive cost of living than in previous years. The cost-of-living index for the first quarter of 2007 revealed that Anchorage's cost of living ranks near those of other West Coast cities. Anchorage is ranked 126.1 overall, with the national overall ranking of 100. Other cities scoring similarly include Portland, Oregon, with a 121.7, Fresno, California, with a 122.3. The most expensive city in the United States is New York, New York, at 213.7 and the least expensive city in the U.S. is Joplin, Missouri at 81.6.

Now let's dig into the details on the different sectors. AEDC predicted an increase of 400 jobs in the health care sector in 2007 and that prediction is on track with 340 new jobs in the first five months of 2007, an increase of 2.4 percent compared to the same period in 2006. This continued growth is the result of increased federal spending, increasing health care needs of the aging population, and an overall increase in the population in Anchorage and statewide. Anchorage Regional Hospital, Alaska Native Tribal Health Consortium, Southcentral Foundation and Providence Hospital make up the majority of health care employment in Anchorage. Additionally a new long term acute care hospital cancer center opened in Anchorage at the end of 2006 and Anchorage remains the primary center of health care services for most Alaskans. The health care statistics presented from 2003 to 2006 is the time period, because prior to 2003, health care was combined with social services.

[3:31:33 PM](#)

MR. POPP continued:

AEDC predicted that the business and professional services sector would add 400 new jobs in 2007 and, in the first five months of the year, the business and professional services sector added 460 new jobs, an increase of 2.8 percent. Now with the expectation of several future mining developments, as well as construction and oil development around the state, more businesses and professional services employment growth is taking place to meet a growing demand. This is especially true with the strong gains seen in engineering, architectural and related services created by this increased demand. Growth in other parts of the sector, such as consulting, accounting, computer and legal services, have been more modest in 2007. These and other professional services should continue to grow gradually.

AEDC predicted that the leisure and hospitality sector would add another 300 jobs in 2007, bringing Anchorage's total to approximately 15,700 workers. This prediction is on track, with 360 new jobs added to the sector so far in 2007, an increase of 2.4 percent. The leisure and hospitality sector, which

includes accommodations, food services, arts, entertainment and recreation, is once again seeing a boost from visitor activity.

[3:32:47 PM](#)

REPRESENTATIVE DOOGAN asked if the numbers reflect full-time jobs.

MR. POPP said they are.

[3:32:56 PM](#)

MR. POPP continued:

The total Alaska cruise visitation in 2007 is likely to be around 990,000 due to an increase in capacity of approximately 30,000 passengers from 2006. The construction of a new Embassy Suites hotel in midtown began in late 2006 and is expected to open in early 2008. At least one and possibly two other major hotels are planned to begin construction in the next two years but, because none of the new hotels will open before 2008, their employment impacts will not be seen until 2009. Hotel reservations in Anchorage for the summer months were higher in 2007 than in 2006, and we also had several new restaurants open in the area.

[3:33:37 PM](#)

MR. POPP continued:

AEDC predicted 150 new government jobs in 2007. This prediction is on track with 200 new government jobs through the first five months of the year, primarily the result of increasing state government employment. As a result of oil revenue surpluses, state government employment will continue to grow modestly in the second half of 2007.

Federal employment is falling in 2007, continuing a three-year trend of decreasing employment. The Municipality of Anchorage employment is expected to remain relatively stable in 2007. The Anchorage School District's enrollment fell slightly for the 2006, 2007 school year and enrollments could also fall

in 2008, based on recent media reports. However, the district's employment is unlikely to change and is expected to remain stable in 2007.

The dips that we see in 1994 are due to federal cutbacks. Federal government jobs in Anchorage have remained relatively stable since then. The growth you see is due mainly to increased jobs at the state and city levels over the last period of time represented in the graph.

Turning to the oil industry, employment in Anchorage was also expected to increase in 2007. Through May, employment was up by about 80 jobs, an increase of 4 percent in direct employment based in Anchorage. This is exclusive of employees who travel to and from the Slope or elsewhere in the state on oil and gas employment.

[3:34:58 PM](#)

CHAIR NEUMAN asked if those numbers pertain only to oil industry jobs in Anchorage.

[3:35:00 PM](#)

MR. POPP said that is correct. He continued:

While Anchorage has not yet achieved direct employment growth to the levels AEDC predicted in January, oil industry employment in Alaska overall has grown by 1,500 jobs over the past year and 2,600 jobs over the past two years. A large number of those employees reside in Anchorage and bring those paychecks back to our local economy.

As measured by land and cargo weight, Ted Stevens Anchorage International Airport (TSAIA) is the third busiest cargo airport in the world, just behind Hong Kong and Memphis. Ted Stevens Anchorage International Airport accounts for one in eight jobs in Anchorage, according to a recent study by the Institute of Social and Economic Research [ISER] commissioned by the airport. Employment at the airport is estimated at 10,222 annual, average full-time equivalent jobs. Adding the off-site jobs generated by airport businesses, the total economic significance of the

airport is 18,434, according to the ISER report. This is up from the last ISER study completed in 2004, which showed the TSAIA accounted for one in nine jobs, as opposed to the one in eight we now see, and a total of 9,792 and total economic significance of 15,766 jobs in 2004. That's a 16.8 percent growth rate in three years.

The key driver of growth at TSAIA is cargo, specifically in the Asia to North American market, where the rate of growth for international cargo operations is forecasted to increase 5.2 percent annually. In 2006, more than 5 million passengers passed through the Anchorage airport and, on a weekly basis, an average of 650 wide-bodied cargo jets land there, making Anchorage the number one airport in the United States for landed weight of cargo aircraft and number three in the world for cargo throughput. In the first five months of the year, transit cargo has increased by 1.7 percent compared to the same period in 2006.

Federal Express, UPS, Northwest Airlines and other air cargo carriers continue to add significant numbers of parking spaces for planes to accommodate their growing fleets and UPS plans to base 80 or more of its pilots in Anchorage, which could mean more of the company's high wage pilots will relocate to the city.

[3:37:19 PM](#)

MR. POPP continued:

As predicted, the construction sector is stable with about 40 new jobs, half a percent increase. An increase in commercial construction is apparently being offset by a slight decline in residential construction. Construction of a \$100 million mall in Anchorage's Mountain View area is expected to be completed by the end of 2007, while construction of a second \$100 million shopping center, including a Target store, has recently commenced and is expected to be completed by the end of 2008.

Pending projects include construction of a second Target and a super Wal-Mart. Both projects are in the planning processes and completion is not expected

until 2009. Residential construction has declined slightly in the first five months of 2007 and is expected to continue that decline. Residential construction has not been a factor in the expansion of Anchorage's construction industry since homebuilding activity peaked in 2003.

Increasing building material costs and the lack of available land for development will continue to constrain growth. AEDC expects to see a continuing trend towards more multi-family structure projects.

Employment increases are also occurring in a mix of sectors, including transportation other than air transportation. Manufacturing, education and other miscellaneous services, these sectors combined added approximately 440 jobs to the Anchorage economy in the first five months of 2007.

[3:38:44 PM](#)

MR. POPP continued:

Now the economic forces and issues that will be affecting the Anchorage economy in the next year and in the coming decade will include many of the typical resource based developments we have seen in the past. Those include several major capital construction projects in Anchorage and Alaska, increased investment in oil and gas exploration and development, major investments in several mining projects across Alaska, and significant expansion of the retail base.

I'd now like to turn to the Railbelt energy situation. With all this potential investment and economic growth looming in the next decade, energy will be a key issue to the successful development of these billions of dollars in projects.

In the last few years, the natural gas supply and deliverability situation in Cook Inlet has been receiving quite a bit of attention, and rightly so. But our future economic growth rests heavily on other key energy sources, specifically crude oil supplies for our refineries and the increasing demand for refined petroleum products.

I'd now like to examine in brief the current state of the Southcentral energy supplies and several challenges Alaska will face regarding these supplies in the coming decade. Cook Inlet natural gas continues to be a growing concern. Reserves replacement continues to lag behind demand and deliverability has reached a crisis point. Interruptible price natural gas basically no longer exists as a component of the supply picture in Cook Inlet. While prices appear to be leveling off at the home level and at the commercial level, demand destruction has begun to take place. The clearest example of that demand destruction is the closure of the Agrium nitrogen plant with a corresponding loss of nearly 300 direct high paying jobs over the last four years in the slow motion process of closing the plant. In addition, Aurora Gas unexpectedly cancelled its supply contracts last fall with several major business customers, as well as the Fairbanks natural gas utility, creating several ripple effects on price and supply in the local gas markets. Tesoro, faced with curtailment of their interruptible gas supply contracts for plant power generation last winter, was forced to fuel switch to propane. This created an unexpected shortage of propane in Alaska markets with a corresponding price spike.

[3:41:00 PM](#)

MR. POPP continued:

Based on recent conversations with industry, this winter is not looking any better and if we infer an extended peak demand period of extreme cold weather, there are serious concerns about the possible consequences.

Here's a graphic visualization of the natural gas supply demand outlook. This is an updated graph that was presented at the 2006 Energy Forum, hosted by the Alaska Oil and Gas Conservation Commission. Though slightly dated and subject to further refinement, the graph provides several points for consideration. Utilities will be facing severe supply challenges within the next eight years given the current supply situation. Utilities are actively seeking new supply contracts with producers, but the situation still

remains unclear. Exacerbating the current supply demand problems are future increases in demand. As an example, if the Pebble Mine project goes forward as planned, it could create a significant spike in electricity demand from the Railbelt power grid as represented by this graphic in 2015. Add in other projects, such as the Chulitna coal project, or other mining projects in the Railbelt region, and you begin to see the future problem. If we cannot provide the necessary energy sources to generate enough power to meet future large project demand, those projects may not go forward.

[3:42:17 PM](#)

CHAIR NEUMAN interjected to say the chart is quite powerful and shows a huge spike in 2014. He asked Mr. Popp if he said the gas reserves in Cook Inlet are inadequate to provide for industry expansion in Alaska.

[3:42:52 PM](#)

MR. POPP replied that he is saying that based on the current reserves replacement rate, over the last six years two years worth of reserves have been replaced based on industry effort, market demand and other factors. If that trend continues, it will be difficult for the utilities to deliver power at a price that projects along the Railbelt can use. He said he is trying to raise a big question mark because the situation can be addressed in a timely manner, but that time period grows shorter with each passing year. He noted he is speaking to several projects that could be affected. He pointed out:

... The utilities, at this point, are still trying to work with industry, based on the conversations that I've been having with several industry players, and industry is a little bit perplexed as to how they're going to approach the situation based on what happened to the marathon Enstar contract this last fall. The previous price signal from the State of Alaska given through the Regulatory Commission of Alaska with the Henry Hub connection was basically repudiated by the Regulatory Commission of Alaska [RCA] but no new signal was provided to replace it. So industry has kind of got their head up in the air trying to figure out which way the wind is blowing and what they should invest in and they don't have clear guidance on that

so that's an issue that needs to be resolved in a fairly timely manner. I know that industry is very hesitant to go before the RCA again anytime soon. At least that's the opinion I'm getting from several industry players.

[3:44:55 PM](#)

CHAIR NEUMAN thanked Mr. Popp for the response and noted the importance of that information.

[3:45:14 PM](#)

MR. POPP continued his presentation:

Equally important ... though mostly ignored in the face of the natural gas crisis is Cook Inlet crude oil. Cook Inlet used to produce a huge amount of oil in the 1970s but not anymore. Cook Inlet produced 246,000 barrels a day in 1972. This year Cook Inlet will be lucky to average 14,000 barrels per day. This decline has tremendous implications for the future energy security of Southcentral and Alaska that has been largely overlooked in the face of the natural gas supply crisis. Today the total Cook Inlet crude production is just a shadow of its past peak production, even though estimates exist that there are billions of barrels of oil in place yet to be discovered or developed through new exploration or developed in existing fields using new enhanced oil recovery technologies. This raises an important question: How are we meeting today's refined fuel demands in Alaska? The answer may surprise you.

As you can see by this graph, the bulk of Alaska's crude oil consumed by the in-state refineries that serve the commercial and military markets comes from the North Slope. What is not readily recognizable is the fact that three out of four of the in-state refineries are 100 percent dependent on North Slope crude oil with no other option for crude oil supplies from other sources. Today 18 percent of the crude oil supply to Alaska's refineries comes from foreign sources. Unless steps are taken soon to increase in-state production, particularly in Cook Inlet, the percentage will only grow and Alaska's energy security will continue to erode and become more susceptible to

the whims and calamities that affect world oil and refined fuels markets and prices.

Our energy security that we Alaskans are so proud of is eroding rapidly. Energy security, in the form of crude oil supplies that our refineries rely on to produce the fuels, we must have to keep Alaska's economy moving, and I mean that in the most literal sense. As a first example, the Tesoro Refinery, a key source of jet fuel, heating fuel, gasoline and fuels for power generation, is now reliant on sources outside the Cook Inlet for 78 percent of its crude supply. More importantly, 40 percent of Tesoro's crude oil now comes from foreign sources such as Indonesia, Australia, Norway and Africa. While this mix of crude source has saved our bacon in Southcentral Alaska when Prudhoe Bay was shut down last year, it has become glaringly apparent that Alaska's growing less and less energy independent with each passing year.

[3:47:40 PM](#)

MR. POPP continued:

Consider the fact that Alaska is a net importer annually of nearly 11 million barrels of jet fuel and 7.6 million barrels of distillate, or diesel fuels, for transportation, heat and power generation in 2005. Alaska is the fourth largest consumer of jet fuel out of the 50 states and the seventh largest consumer of aviation gasoline in the United States. Inversely, Alaska ranks 50th in the nation for gasoline consumption, though we did beat the District of Columbia and exported 2 million barrels of gasoline and related products in 2005. The three refineries in Fairbanks and Valdez, which are 100 percent dependent on ANS crude, consume 54 percent of the total crude used by refineries serving the commercial and military markets of Alaska and play an important role in our energy security. How will these refineries operate safely, profitably, and continue to produce the same volumes of the important fuels they produce for Alaska's economy if the TAPS system is forced to ship crude in batches, perhaps within the next five years?

I'm sure the refiners are looking at these questions very closely and will be making some very tough decisions if the decline in ANS crude volumes continues.

If our in-state production capacity is curtailed for any reason, our options for replacing these refined fuels are limited. In 2004, for example, the West Coast refinery system had an excess production capacity of approximately 9 million barrels of distillate fuels. When you look at jet fuels production, the West Coast region was a net importer, over 3.6 million barrels in 2004. This difference was made up through foreign refinery imports.

With the tight nature of refinery output capacities on the West Coast region for these fuels, what happens if our 100 percent North Slope dependent refineries lose their crude supply for whatever reason? Is there enough surplus capacity in the world of refined fuels markets to make up any lost production? What will the pricing impacts be if we have to import significantly increased volumes of these fuels for Alaska consumers and businesses? The answers aren't clear. We don't have a clear answer on that situation.

[3:49:52 PM](#)

CHAIR NEUMAN asked if the price of fuel is so high in Alaska because a lot of it is coming from "outside."

[3:50:20 PM](#)

MR. POPP said Alaska is a net exporter of gasoline. He said the problem in Alaska is caused by the economy of scale. Gas in the Kenai Peninsula tends to be 15 or 20 cents higher than in Anchorage. A large chunk of that cost is due to sales tax and the cost goes down in the summertime because of tourist traffic.

[3:51:24 PM](#)

CHAIR NEUMAN said his constituents want an answer.

MR. POPP said that is not an answer they like to hear.

[3:51:33 PM](#)

MR. POPP continued:

So, let's set aside the issue of refining capacities. There is still the question is there more crude oil to be found in Cook Inlet and I believe the answer is yes. In September 2006, the Alaska Oil and Gas Conservation Commission held the Southcentral Energy Forum in Anchorage. This two-day conference took a comprehensive look at the current state of energy supplies in Southcentral Alaska. In three different presentations, it was estimated there is combined potential for an additional 2.6 billion barrels of yet-to-be discovered or recovered Cook Inlet crude. Ten years ago these estimates were considered unlikely at best but, with new research, the potential of enhanced oil recovery technology and with the new world price realities, these reserve estimates appear to have merit. The real challenge though is cost. These oil reserves will not be cheap to find or develop. Billions of dollars will need to be invested in the next 20 to 30 years to make these potential oil reserves a reality.

Can we attract this kind of new industry investment to Cook Inlet? There are some positive signs that industry is interested. Several hundred million dollars in new investments over the next four to five years is under consideration by industry. We must watch this crude oil supply issue closely and be prepared to consider how to jump start this important investment if they are not forthcoming.

[3:52:51 PM](#)

MR. POPP continued:

Last topic - turning now to a related subject, I want to offer a perspective on workforce development in Alaska. I don't have time to go into all the aspects of this looming workforce crunch, so I'll focus on the roots of the looming challenge, the oil and gas mining industries.

For AEDC, workforce development is a key issue for the Alaska economy. All business sectors in Alaska are feeling the pinch of tighter labor markets in one form or another; professional services, health care,

logistics, tourism, oil and gas, and mining are just some of the industries facing workforce shortages of one form or other. In the coming decade, Alaska could see huge investments in resource development projects across the state, the likes of which we have not seen in decades. Oil and gas and mining projects large and small could combine to create a perfect storm of projects. These projects, if they reach the point of sanction and commence construction, will have a significant ripple effect through the Alaska economy and no business sector will likely be unaffected.

If you want a clear example of what I mean, just take a look at Alaska's history and the impacts of the TAPS project on the cost ... and availability of labor in the 1970s.

I would offer that there's a clear analysis of this history compiled in the Stranded Gas Development Act Municipal Impact Analysis that was authored in 2004. The study, put together with the help of all the municipalities that were indirectly or directly affected by the potential gas pipeline contract that was being developed under the Murkowski Administration, offers a concise, historical perspective of what we may face in the coming decade.

[3:54:32 PM](#)

MR. POPP continued:

So, in my previous life as oil and gas and mining liaison for the Kenai Peninsula Borough, I developed this representation of the possible future of projects on the horizon for Alaska.

Using accounts in the media and direct dialogs with the oil and gas and mining industries, as well as the training industry, I compiled a list of likely or reasonably possible projects and stacked them in this timeline to try and represent an understandable, though admittedly simplistic, picture of the challenges Alaska faces in meeting its future labor needs. This is not a complete list of projects with several additional projects under development that are not listed here. If, and I repeat if, all of these projects were to go forward as planned, they represent

just over 49,000 positions that will need to be filled. Now of course in a lot of cases, workers will move from project to project but look closely and you will see several projects slated to overlap chronologically.

3:55:30 PM

So, basically, looking at this graph, these are the timelines represented for the different issues or projects and the timeframe they represented at the time that this graph was developed, which was updated in February earlier this year and then, of course, the different column years. You can start to see the density get pretty thick out here in the middle part of the next decade. Keep that in mind as we go through this last part of the presentation and you'll see why it's going to become a real challenge for us.

AEDC is doing what it can to bring together and attention to this challenge and to seek and facilitate cooperation between industry, educators, and training providers to make assured we will need a large number of out-of-state workers if we are to see these projects develop successfully. That has ramifications for the general economy. We must begin to understand and prepare if we are to avoid the mistakes and growing pains of the past and reap the opportunities in the future.

3:56:22 PM

MR. POPP continued:

The point of this part of my presentation today is the challenge that Alaska faces if we are going to bring off any and all of these future mining and oil and gas projects. That challenge is finding or developing enough workers with the skill sets necessary to successfully construct and operate these projects. That is the real challenge given the growing shortages across North America and for practically every category of skilled workers needed for the mining and oil and gas industry combined with the dramatic growth and investment being seen in several energy producing regions in North America. There is no sign that that continent-wide shortage will ease any time soon. One

clear example of the competitive challenge we face in obtaining enough qualified workers for future Alaska projects is the energy and mining sector in Alberta.

I want to offer the following information using several parts of a PowerPoint provided to me by the Alberta Provincial Government as a snapshot of the massive development that is currently ongoing in Alberta, as well as a look forward on the potential impacts that development will have on Alaska in the coming decade. I recently toured the oil industry in Alberta in September for the second time in the last three years and I can tell you the level of investment and the scope of the current development plans for oil sands is stunning, even just in the growth that they've seen in the last three years.

First let me give you a little recap of what oil sands are and how they are currently being developed and then I'll discuss what the future holds for developing this massive resource.

Oil sands are just that - sand saturated with heavy oil or bitumen, 14 API to be exact for those of you familiar with weights of oil. Alberta currently has an estimated 1.7 trillion barrel equivalent in place in the oil sands regions of the province, with just over 175 billion barrels in proven reserves. Alberta is soon expected to surpass Saudi Arabia in proven reserves and is arguably one of the largest, if not the largest, foreign supplier of crude oil or equivalence to the United States.

This graphic demonstrates the oil sands on a number of levels. Currently most efforts are focused on the mining of bitumen to depths of approximately 200 feet. This represents about 20 percent of the resource. That's what their current focus is on.

The bigger prize is the remaining 80 percent lying at depths of up to 3,000 feet that must be developed using enhanced oil recovery drilling techniques, such as SAGD, or steam assisted gravity drainage. All of these methods are labor and capital intensive.

[3:58:51 PM](#)

Just to put the reserves in perspective, here's a graph demonstrating eight other of the largest proven reserves by country when compared to Alberta. Saudi Arabia is the largest. Iran is the third. We're down at number eight.

With over 60 billion invested in Alberta in each of the last two years, strong GDP and population growth and a very favorable taxing regime, Alberta is the economic powerhouse of Canada. I would note that the taxation figures were provided to me prior to yesterday's announced provincial tax increase of 1.45 billion by the Albertan government.

These are the oil sands regions of Alberta and these are the projected production levels Alberta expects over the next two decades based on current industry sanctioned project plans. With over \$100 billion in new oil sands, mining and extraction projects and another \$100 billion plus in upgraded and pipeline projects in various stages of development, Alberta is seeing massive investments to "capture the window of opportunity." This is the Albertan government's current catch phrase for encouraging this development in the next decade to become the United States key energy provider of liquid petroleum products.

[4:00:10 PM](#)

MR. POPP continued:

This graphic describes the broader picture of how that strategy will be implemented in the delivery of those liquids to market via existing or significantly expanded pipeline infrastructures to the U.S. East Coast, Gulf Coast, Midwest, Southwest and West Coast markets; again, billions of dollars worth of new infrastructure projects in the next decade with a corresponding demand for skilled workers, equipment and resources.

The final view of these investments is this graph that describes the recent massive increase in investment compared to the previous decade and the huge levels of investment planned for the future in just the extraction of bitumen in the ... oil sands. This does not include "upgrader" or pipeline projects. This

strictly represents the production of bitumen. The checkerboard pattern bars are the stated investment plans of industry through the next two decades. The green bar represents the more conservative view of the Alberta government on what is likely to happen. As you can see, either model represents hundreds of billions of dollars in new investment for the foreseeable future for Alberta.

With this investment come huge demands for skilled workers in mining, oil and gas, and petrochemical industries. Each of these three industries is often competing for the same workers with similar skill sets that are in short supply in North America. This is leading to a significant increase in labor costs and the cost of living in Alberta. During my recent visit, workforce recruitment was the top priority of nearly every sector of the Alberta economy. Every other radio ad was a recruitment ad of one kind or another for different businesses. Every fifth booth at the heavy oil conference I attended was an employee recruitment exhibit. McDonalds was paying \$12 an hour for their night shift workers. To really put the Alberta labor shortage into perspective, let me share with you the following graphic.

[4:02:03 PM](#)

MR. POPP continued:

This is the outlook just through the end of this decade for industrial construction workforce demands in Alberta. In early 2010, that demand peaks at over 36,000 workers for projects that have been sanctioned and are either already under construction or are mobilizing for construction. The Alberta government official who provided this projection made it very clear that anyone viewing this slide should not be fooled by the fact that worker demand trails off towards the end of the graph. The graph does not include future projects that have been sanctioned for start up beyond 2010. The officials stated the demand will continue to rise beyond these current levels of demand well into the next decade. I would also note that at a recent presentation in Anchorage at the Pacific Northwest Economic Region conference last August, another Alberta government official stated

that by the end of the next decade, Alberta projects a 109,000 overall worker shortage in their economy. That same official proceeded to hold up some paperwork in the air and said, "And I have immigration paperwork here with me today and if I can get one of you folks in this room to fill out this paperwork, I've done my job." This was a roomful of government officials from other provinces and other states.

[4:03:25 PM](#)

CHAIR NEUMAN asserted the cost of labor will increase in proportion to the inability to find qualified workers.

[4:03:35 PM](#)

MR. POPP said one of the newest oil sands development projects, Albee and Sands, is offering a hiring bonus of 15 percent of one's base wage within 30 days, a \$15,000 housing allowance, a \$380 per month transportation allowance, contributions to three different retirement accounts varying from a 2 to 6 percent employer match, an increased health care package, \$12,000 worth of continuing education credits for any family member in a career field that will benefit the conditions in Alberta. He stated inversely, a double-wide trailer on a city lot was selling for almost \$400,000.

[4:04:45 PM](#)

MR. POPP continued:

Why is the situation in Alberta so important to the future of Alaska's ability to develop its own projects? Several reasons. There's a shortage across North America for skilled workers important to the mining, oil, and gas and construction related industries. Alaska must compete with the rest of North America for these workers in regions such as the Gulf of Mexico, Nova Scotia, western states, such as Wyoming, Montana, Colorado and Utah, Alberta, and British Columbia are all seeing significant increases in demands for these increasingly scarce workers. Now with the Canadian dollar enjoying an equal or stronger value to the U.S. dollar, we are seeing a greater interest by U.S. and, yes, Alaskan companies in getting in on the action in Alberta. This could create an even greater challenge for Alaska's ability

to provide enough workers for future oil and gas and mining projects in our state. While Alaska has come a long way in providing worker training programs compared to where we started, AEDC believes it is important that we take our policies and strategies to an even higher level of coordination between industry, government, training and education providers to make sure we are offering the most efficient and effective training programs possible to maximize Alaskans' opportunities in the coming decade in all sections of our economy.

4:06:01 PM

While the Southcentral economy is healthy, as are other regions of Alaska, we cannot be complacent on the issues I presented today. Energy security with a corresponding need for an energy policy that addresses our future planning and investments in a more diversified, stable energy mix is key to Alaska's future economic growth. To successfully develop those new energy resources as well as supporting the newfound growth and expansion of our oil and gas and minerals extraction industries, Alaska must make every effort to elevate the level of coordination and focus in our future worker training and recruitment efforts. This effort will require an even closer relationship between industry and training providers to maximize the value of our training investments and focus on key job skills training Alaska will need in the future, otherwise we may see projects curtailed or cancelled due to spiraling labor costs or the simple lack of enough workers to do the job.

I want to thank you for the opportunity to share these views with you today and, as you can tell, I could go on probably quite a bit more but I won't. The time won't allow me so without any further ado, I'd be happy to answer any questions from members of the committee.

4:07:18 PM

CHAIR NEUMAN thanked Mr. Popp and noted the numbers he presented are stunning.

4:07:31 PM

MR. POPP noted when he first plotted the number of jobs for Alaska on the graph four years ago; people did not want to believe the numbers. However, he has been working with the Putting Alaska's Resources to Work Coalition, which has been working with the Alaska Process Industry Careers Consortium, and pushed the graph through a recent peer review of primarily human resources directors in different industries. He was told to add another 2,000 jobs. The demand for Alaska's resources is growing rapidly. If those resources can be developed, Alaska may see the next great immigration wave and a decade or more of significant investment.

[4:09:13 PM](#)

CHAIR NEUMAN thought all members agree that developing Alaska's resources is a priority. He asked Mr. Jackson of the Alaska Homebuilders Association, to begin his presentation via teleconference.

[4:09:36 PM](#)

JIM JACKSON, President, Alaska Home Builders Association, told the committee the building industry in Alaska represents 25 percent of its economy. The building industry employed 14,000 people across the state and 7,800 in the Anchorage area last year. He said construction is down by 35 percent or more this year.

[4:10:29 PM](#)

REPRESENTATIVE DOLL noted that 35 percent in one year is not a gradual decrease.

CHAIR NEUMAN asked Mr. Jackson what he sees happening in the next two or three years.

MR. JACKSON said that depends on what the economy does as far as oil and gas development. If nothing is developed in that industry, he does not know whether the military will bring in more personnel to buy homes, or whether FedEx is going to bring its pilots to Alaska. He said many factors are involved but it depends on whether people are going to be out there to buy homes. People seem to be very cautious right now even though interest rates are still at an all-time low. He said some builders in the Anchorage and Mat-Su areas have reduced their

profits down to zero just to move their inventory. He said the situation is very devastating.

4:11:55 PM

CHAIR NEUMAN asked how many jobs have been affected by the downturn.

MR. JACKSON said he didn't have any current numbers. He believed the Alaska Homebuilders Association is down 35 Mat-Su members and 17 Anchorage members. He said the number of workers affected depends on how many employees each builder had but construction employment is way down. He said builders and people in the industry are cutting back on everything because this is a very difficult time.

4:12:49 PM

CHAIR NEUMAN recalled that an earlier testifier showed the construction industry as paying the third or fourth highest wages in the state. He asked if those wages are likely to decline.

MR. JACKSON said new construction is down 35 percent and approaching 50 percent. He said the inventory of new houses is large; once bankers start foreclosing on the builders that have not sold the homes, the banks will sell those homes at a discount, which will make it even more difficult for builders to sell their existing inventory. If the average wage of a construction worker was \$54,000, his/her annual income would be way down this next year, he predicted.

4:14:49 PM

REPRESENTATIVE FAIRCLOUGH said Chair Neuman has wisely recognized that the sectors of Alaska's economy are interlinked so any oil and gas tax decisions the legislature makes will affect other industries. She asked Mr. Jackson if he can draw any conclusions or relationships between the oil and gas industry as it affects the housing market.

MR. JACKSON said he has been in Alaska 57 years and watched many price declines. In the mid-1980s, the price of oil was below \$10 a barrel. Right now the price is at a record high of \$92. He believes that buyers lack confidence in what Alaska's economy is going to do in the near future because the ads on television say the pipeline is only one-third full and oil sales represent

80 percent of Alaska's revenue. They are reluctant to upgrade and are waiting to see what will happen.

[4:18:01 PM](#)

REPRESENTATIVE FAIRCLOUGH said even though the price of oil is at an all-time high, because production is low people are holding back from making any major financial moves until they know what the economy is going to do.

MR. JACKSON said he believes that is correct.

REPRESENTATIVE FAIRCLOUGH repeated that she appreciates Chair Neuman's desire to look at the impacts of the oil and tax decision on other sectors of the economy.

[4:18:56 PM](#)

CHAIR NEUMAN asked Mr. Jackson what advice he would give to legislators regarding the housing situation.

MR. JACKSON said he didn't want to give advice and believes legislators know what they are doing. He just hoped legislators keep the interests of their constituents in mind and instill confidence about the economy moving forward.

[4:19:55 PM](#)

REPRESENTATIVE DOLL asked if the Anchorage and Mat-Su areas have been overbuilt at this time.

MR. JACKSON said yes, but more so in the Mat-Su area. In addition, the price of lots skyrocketed so the prices of homes jumped to \$350,000 to \$400,000. Anchorage has a 34-month inventory of \$1 million plus homes right now.

[4:21:08 PM](#)

REPRESENTATIVE DOLL asked if the builders who are trying to sell these homes are paying property taxes as well as interest on the home loans.

MR. JACKSON said they are paying property taxes on the homes for which they hold ownership. He noted the interest on a \$1 million home is about \$8,000 per month.

[4:21:33 PM](#)

REPRESENTATIVE DOLL asked what impact the property tax payments have on those businesses.

MR. JACKSON said he is paying property taxes on his home, valued at over \$2 million a year, which equals a lot of money. He said he has no children living at home so he and his wife do not impact the economy like other families do.

[4:22:22 PM](#)

CHAIR NEUMAN thanked Mr. Jackson for joining the committee. He then asked Mr. Stevens to begin his presentation.

[4:22:36 PM](#)

MR. WAYNE STEVENS, President and CEO, Alaska State Chamber of Commerce, gave the following testimony.

Good afternoon - Wayne Stevens, President and CEO of the Alaska State Chamber of Commerce. Thank you, Mr. Chairman and members of the committee, for the invitation. I have some thoughts on economic development I wanted to share. You've heard certainly from lots of resident experts and lots of charts and graphs and I will leave that to those experts.

The Alaska State Chamber of Commerce is a business advocacy organization whose mission is to drive positive change for Alaska's business environment and to improve our member organizations by providing leadership, advocacy, connectivity and support. As such, we do not gather or collate specific economic indicators. We use readily available data and offer our thoughts on those data points.

I'd like to take this opportunity to suggest that perhaps we need to stop for a moment, take a deep breath, and ask ourselves what it is we really are trying to accomplish when we speak of economic development. We all want a healthy economy, vibrant and thriving communities, industry that is successful and a government that supports those goals. But if we stop to take a careful look at what we have, it is disappointing at best.

[4:23:59 PM](#)

MR. STEVENS continued:

We have communities that are threatened with a loss of their local government services. We have industry that is under attack on many fronts, whether it be over local, state, federal tax structures, environmental issues, a regulatory environment that is not conducive to business, or the rising cost of doing business, including insurance, fuel, labor and taxes. We have a plethora of government programs all competing to help us but with what appears to be no clear vision of who is doing what to help whom. Additionally there is great debate in our state about what some call the urban-rural divide. How do we make sure that rural communities survive into the future? It is almost enough to make one hang their head in defeat and give up efforts to make Alaska the best place on earth to live, work and play.

[4:24:56 PM](#)

I personally believe that we have a tremendous opportunity ahead of us. We have high oil prices, the potential to finally build a gas line to bring our great gas resources to market. We have a growing mining industry and a demand for a construction labor force that is projected to outstrip our ability to fill those jobs with Alaskans.

The fishing industry has gone through much consolidation and our fish products are now of a higher quality and prices for that higher quality fish are increasing as well. Our position as a global competitor in the airfreight transportation business is creating great growth.

[4:25:28 PM](#)

MR. STEVENS continued:

So which is it, you say - bleak or rosy, rosy or bleak? I would say it's both and it will only be determined by our willingness to roll up our sleeves and work together. Opportunity is all in how each of you perceives the same situation. I submit that opportunity abounds in the state of Alaska but how do

you perceive that this is so? Are those rocks in the road or nuggets of opportunity? I believe it is how you view the big picture.

Here's a simple tale that I think illustrates how perception can affect your outlook. A shoe company sends two salesmen into the far reaches of the Amazon jungle. After a week in the jungle, the first salesman calls in to the home office and laments that what an uphill struggle this is going to be as no one wears shoes. Shortly thereafter the second salesperson reported in. He went on at great length about what a wonderful opportunity he had stumbled upon as no one owned any shoes. Your perspective on the situation clearly dictates your outlook.

[4:26:36 PM](#)

MR. STEVENS continued:

I believe that all regions of Alaska, urban and rural, need to have better communication, focus and collaboration. There appears to be duplication and sometimes confusion among government and non-profit organizations that deliver services to both areas. In the economic development arena, I would suggest that we inventory our existing programs and services before we start anything new. Each organization that delivers services needs to focus on their mission. As mission drift occurs, the organization loses focus and confusion sets in for everyone involved. We need to determine who brings what to the table, for whom, and where is the overlap. Sometimes overlap is necessary but I suspect that there could be consolidation of programs and services. I believe there's too much confusion over areas of coverage and responsibilities. We need to reassess who was doing what for whom, how, and when. None of this can happen without communication and no one is going to communicate unless they trust each other.

[4:27:41 PM](#)

So how do we accomplish that review? Many years ago I took over a newspaper route in my hometown as I was growing up as a kid. I delivered 27 newspapers to all four quadrants of that old New England town, north,

south, east and west along the route structure. It took me over 2.5 hours to deliver those 27 papers. My dad, a mail carrier, wondered why there were others delivering newspapers in our very neighborhood when I was off traipsing around somebody else's neighborhood. After a period of me arriving home late for dinner or whatever I was supposed to be doing, he called the newspaper circulation manager and volunteered to help the newspaper review who was delivering newspapers to whom and where. In a matter of a few evenings, they were able to sort out those customers, divide the customer base up equitably among all carriers and what once took me 2.5 hours to deliver could now be accomplished in a little under 30 minutes. Now I had the opportunity to grow my business by asking others in the neighborhood if they wanted home delivery. I was now able to grow those 27 newspapers to over 150 papers delivered and still able to deliver them in under an hour. By collaborating, communicating, and review, I gave up old customers, took on new customers and grew my business by over 500 percent.

[4:29:01 PM](#)

MR. STEVENS continued:

I encourage you to ask the Department of Commerce, Community and Economic Development to undertake such a review. Create a listing of all agencies involved in economic development in our state, including state, federal and local programs. List the many programs and expected outcomes. List the constituencies for each of those programs and see if, indeed, there are opportunities to shed programs, shift responsibilities, and make each program stronger and more responsive to the needs of those constituents. There might even be, in some instances if the evaluation so warrants, that we decide to eliminate duplicate and overlapping efforts and programs. We need to see and know what others are doing. We need to be willing to pass off projects or issues to the appropriate agency. We shouldn't worry about who gets credit for doing or accomplishing a project. We need to worry more about who will do it and are they the right agency or organization to accomplish it.

A presenter at a recent conference, in his prepared remarks, suggested that such a review might include asking the question: If it isn't accomplishing what we believe it should be, why do we keep spending money on it? With a clearer focus, fewer competing agencies and programs, we can begin the process of working to make sure the communities can be viable into the future. The evaluations can make programs better, more effective and perhaps even more responsive to the different needs of individual communities. I'm not here to suggest that this evaluation is a panacea to all that ails small communities, but perhaps it will bring a sharper focus to what is good and what is worth saving in our communities.

Conversely, it may mean that, like when the interstate commerce system went in across the Lower 48, not every community got access to the on-ramp to the highway. Over time, many of those communities were absorbed and consolidated into neighboring communities. Some communities may go away. The communities that remain may become stronger, more economically viable, and able to provide the infrastructure for business to be successful in their community. There are no guarantees in life or business but hard work, strong plans, and enthusiasm for the future will go a long way to make us successful.

To those of you from larger or more urban communities who think to themselves why should I care what happens to these small communities? I say rest assured. There's a bigger community upstream saying the same thing about your community. It's not about providing a hand out; it's about providing a hand up. We need to help each other to succeed. We need to collaborate. A recent Anchorage Economic Development Corporation study shows that roughly one in eight jobs in Alaska depends on rural Alaska. In 2004, the Southwest Alaska Municipal Conference contracted with Northern Economics to conduct an economic geography study. Their report shows that each year more than \$350 million flowed from Southwest Alaska to Southcentral Alaska. Should rural Alaska shrink in size or stature, or go away, will those Anchorage jobs still be as important or needed? Will the freight forwarder, the shipping clerk, the airline pilot and support personnel still have jobs or will they go by

the wayside as well? We are dependent on one another and need to look out for each other's best interests.

[4:32:41 PM](#)

MR. STEVENS continued:

Rural Alaska frequently sees development projects stymied by urban protagonists who, on one hand, say we need to create an economy in rural Alaska but, when a project is being development, they quickly point out that the economic development project as it is impacts their recreational use of rural lands. We can't have it both ways. An evaluation of our economic development programs is necessary and will serve to help make us a stronger, more focused place for business to do business. The challenge is to improve the productivity of Alaska's economy and the need for state government to work with municipalities, the private sector, labor groups, and Alaskans as a whole to ensure that our state remains prosperous in years to come.

This is about greater opportunity and a better quality of life for Alaskans and, as such, is a worthy topic of an open and vigorous public discussion. Certainly this committee is to be commended for undertaking such a beginning process. We talk of the importance of education but not much changes. We ask the school system to do more each year but give them no more time in which to accomplish it.

[4:33:56 PM](#)

We still have school days and a school year too short to accomplish all that is being asked of our education system. We add programs but add no more time to impart the additional knowledge. According to the National Center for Public Policy and Higher Education, for every 100 ninth grade students, 61 graduate four years later. Of the 61 high school graduates, 30 immediately enter college. Of those 30, 12 go on to graduate within 150 percent of the time with either an Associate's degree within three years or a Bachelor's degree within six years. What are we doing for the 88 who dropped out, graduated, and did not go to college or did not finish college? Our

vocational education programs must be improved to prepare students for work opportunities beyond high school.

[4:34:50 PM](#)

MR. STEVENS continued:

As we prepare to build a gas line project, we must ensure that we have Alaskans trained and ready to enter the workforce. We must establish, in collaboration with private sector employers, a clearly articulated career and technical education program that:

Is funded over the long term,
Utilizes existing education facilities more fully, including evenings, weekends and summers,
Uses a broad range of educational resources not limited to only the University of Alaska and
Includes a broad range of options including apprenticeship, internship, and private career and technical education programs,
Specifically targets rural Alaskans and out-of-school youth,
Uses distance learning capabilities where available.

The state chamber has advocated for decades for a state fiscal plan. We applaud the identification of the fiscal dilemma our state faces and the willingness of many to check spending. A clear plan, however, is not guiding spending or revenue collection or the question of how the state can invest new revenues in projects that will render a return on investment. We believe the development of a statewide business plan that incorporates the fundamentals of a fiscal plan would provide guidance and direction to the Legislature, the Administration, the business community and citizens alike. It would provide a roadmap for all to use as we work to diversify and move our economy forward.

As government looks at how to sustain and grow our economy, it becomes more important than ever to develop a business plan. We believe a well-written business plan is an invaluable tool for any organization, for both internal and external issues,

internal management, external funding. Business planning looks at both the mission and the revenue bottom line. A well-written business plan provides a strategic vision, initiatives, operating assumptions, and measurements. We can all use the document to measure future requests for support and funding.

[4:37:02 PM](#)

MR. STEVENS continued:

Our economy is changing. Our workforce is changing. Technology is changing the way we work and interact and we must change the way we plan for the future. Government should lay the foundation for the private sector to succeed. We can no longer just look at our small corner of the world. We are an important part of the global economy. What happens in the world impacts what happens to Alaska and its economic future. In this changing world, we must find ways to encourage investment in our state. We need to look at what makes a good climate for investment: stable tax rates, a trained workforce, good infrastructure - roads, ports, communication systems. We need to level the playing field and make rules to encourage investment in our state, not discourage it.

We must have a stable regulatory environment, a stable investment climate. Stability is critical to any company looking to relocate in our state and communities who are looking to invest in the future of our economy. We must work to ensure that our infrastructure is in good condition and ready to expand its carrying capacity, whether that be our roads, our ports, our sewer and water systems, our electrical systems. They must be ready to accept additional capacity.

We must work to ensure that our education system and our health care systems are top notch. We must work to improve our telecommunications system to encourage new technology businesses to locate in our state. We have the components to attract new investment into our state. We have an unequalled opportunity to sell our state as a great place to do business. We have an obligation to portray our communities and state in the best possible light. We need to acknowledge that we

have challenges but we must not let these challenges overwhelm us. Thank you.

[4:38:59 PM](#)

CHAIR NEUMAN thanked Mr. Stevens and opened the meeting for questions.

[4:39:03 PM](#)

REPRESENTATIVE DOLL observed that when talking about business incentives, particularly to start businesses, she can't think of a greater disincentive than bringing in box stores. She said she was not sure what has been done to encourage box stores to open in Alaska.

MR. STEVENS said he cannot comment other than to say that at some point there is this magical line between being a successful, locally owned business that has expanded and becoming a "box" store. He thought a person with a good, viable idea should be encouraged because those businesses create employment opportunities and investor returns.

[4:40:41 PM](#)

REPRESENTATIVE DOLL responded, "I guess, just a follow-up to that, would certainly be encouraging vocational training because where people have something where they're skilled in then can work in that skill and get a higher wage. That would be another way of doing that."

MR. STEVENS said he grew up in an educational system that determined he was college prep material although his inclination was to work with his hands and be involved in industrial arts. He said he doesn't think [the education system] does enough to recognize that not everyone needs to go to college. Some people are far better suited and more excited about working with their hands. He said the numbers [of college bound students] he quoted show that something is not working and that those students who do not fit into the narrow band of opportunity fall to the wayside.

[4:42:42 PM](#)

CHAIR NEUMAN asked Mr. Stevens to leave a copy of his presentation and then commented that the discussion among House Oil and Gas Committee members always reverts to industry

stability, and that the speakers during the past two days have all told the committee that everything is connected. He said:

I just hope legislators take out of this discussion what I have. Talking to all of these leaders of industry, all of these economists, what they've told us, and again, it goes back to the instability, trying to make sure that we show the world Alaska is a good place to work. Alaska is a good place to start a business. It's a good place to live. I don't know how we're going to go about doing that and the best way - I know that we all have our own objectives and we all have our own ideas of how we're going to get there. There's going to be a lot of changes in the future of Alaska. I can feel that...in my blood. You know I've been here for not that long but long enough. With that, any other comments from the committee? Thank you and that will close the hearing. Thank you.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at [4:45:23 PM](#).