

**ALASKA STATE LEGISLATURE**  
**HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**  
Anchorage, Alaska  
December 4, 2009  
10:12 a.m.

**MEMBERS PRESENT**

Representative Bob Herron, Co-Chair  
Representative Cathy Engstrom Munoz, Co-Chair  
Representative Charisse Millett  
Representative Sharon Cissna  
Representative Berta Gardner

**MEMBERS ABSENT**

Representative John Harris  
Representative Wes Keller

**OTHER LEGISLATORS PRESENT**

Representative Bryce Edgmon  
Representative Alan Austerman  
Representative Paul Seaton  
Representative Chris Tuck

**COMMITTEE CALENDAR**

OVERVIEW: ECONOMIC DEVELOPMENT

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

ERIN HARRINGTON, Staff  
Representative Alan Austerman  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Reviewed the report entitled "Economic Development in State Government."

MICHAEL CATSI, President  
Alaska Partnership for Economic Development (APED);

Executive Director, Southwest Alaska Municipal Conference  
(SWAMC)

Anchorage, Alaska

**POSITION STATEMENT:** Discussed the Alaska Forward Initiative.

JOHN TORGERSON, Executive Director

Kenai Peninsula Economic Development District, Inc.

Kenai, Alaska

**POSITION STATEMENT:** Discussed his experience and view of economic development in Alaska.

SUSAN BELL, Special Staff Assistant

Office of the Governor

Juneau, Alaska

**POSITION STATEMENT:** Discussed Governor Parnell's plans with regard to economic development.

TED LEONARD, Executive Director

Alaska Industrial Development and Export Authority (AIDEA)

Department of Commerce, Community, & Economic Development

Anchorage, Alaska

**POSITION STATEMENT:** Presented a slide presentation about the Alaska Industrial Development and Export Authority (AIEDA).

EMIL NOTTI, Commissioner

Department of Commerce, Community, & Economic Development

Juneau, Alaska

**POSITION STATEMENT:** Discussed essential elements for economic growth.

MICHAEL BLACK, Deputy Commissioner

Office of the Commissioner

Department of Commerce, Community, & Economic Development

Anchorage, Alaska

**POSITION STATEMENT:** Discussed the organization of DCCED.

#### **ACTION NARRATIVE**

[Due to technical difficulties the first few minutes of this meeting were not recorded.]

[10:12:02 AM](#)

**CO-CHAIR BOB HERRON** called the House Community and Regional Affairs Standing Committee meeting to order at 10:07 a.m., but the recording did not begin until 10:12 a.m. Representatives

Herron, Munoz, Millett, Cissna, and Gardner were present at the call to order. Also in attendance were Representatives Edgmon, Austerman, Seaton, and Tuck.

OVERVIEW(S): ECONOMIC DEVELOPMENT

10:12:12 AM

REPRESENTATIVE AUSTERMAN drew the committee's attention to a book entitled "Economic Development in State Government," which is a compilation of the work of staff in reviewing economic models in various states, particularly those states that are more successful with economic development, and potential changes to Alaska's economic development system. He then mentioned that there are a number of things that could be done to address economic development in Alaska, including returning to the Department of Commerce and the Department of Community & Economic Development and whether energy should be a division within one of those departments or the [Department of Commerce, Community, & Economic Development (DCCED)].

10:14:46 AM

REPRESENTATIVE CISSNA opined that the more comprehensive the [approach to economic development in Alaska] the better.

10:15:15 AM

REPRESENTATIVE AUSTERMAN noted his agreement that everything flowing through the state is inter-related, but highlighted the need to focus on separate matters in order to make them come together.

10:15:48 AM

REPRESENTATIVE CISSNA asked whether Representative Austerman has a specific proposal in mind or is this hearing an effort to work toward a specific proposal.

REPRESENTATIVE AUSTERMAN answered that this hearing is the effort to work toward a specific proposal. He related that when this discussion began his first reaction was to split DCCED into two departments. However, he did realize that the aforementioned is likely not the best solution. Furthermore, during last session there was discussion regarding creating a Department of Energy. He said he didn't want to create new bureaucracies, and with the possibility of three departments he

would lean instead toward strong divisions within the existing department. This is merely a starting point for this discussion, which he hoped the House Community and Regional Affairs Standing Committee will take up during the upcoming session, he related.

[10:17:44 AM](#)

ERIN HARRINGTON, Staff, Representative Alan Austerman, Alaska State Legislature, explained that Representative Austerman requested that his staff review the effort being expended on economic development in the state as well as review what is occurring in other states. She acknowledged that the Alaska Industrial Development and Export Authority (AIDEA) has worked on economic development long before she and other staff began reviewing it.

[10:19:37 AM](#)

REPRESENTATIVE AUSTERMAN interjected that one component of what started this conversation was began by former Governor Palin when, with her LEGACY Plan, staff reviewed economic development. The new administration is continuing to work on the LEGACY Plan, but Representative Austerman suggested that the legislature has to be part of the review as well.

[10:20:15 AM](#)

MS. HARRINGTON directed the committee's attention to the "Briefing Paper: Economic Development in State Government" the first page of which includes the following quote from Robert Shively, Economic Development for Small Communities: "Community development is capacity building; economic development is wealth creation." The differentiation between community development and economic development is not always well made in Alaska. At its base community development is development of infrastructure and public facilities. She suggested that the committee could think of community development as those services for which government provides fund, such as roads, cultural/intellectual facilities, and other things that aren't developed by private business. Economic development, on the other hand, is work that leads to investment by the private sector, such as the creation of wealth and jobs as well as the retention of wealth in communities, and an increase in the standard of living. Community development projects might be those in which water and sewer infrastructure is installed, she said. Such community development may be installed to support economic development

such as the construction of a clinic by a private medical practice.

[10:22:12 AM](#)

MS. HARRINGTON then explained that first staff reviewed the current resources within state government that are directed toward economic development. The state does have the Office of Economic Development (OED) within DCCED, the head of which is Joe Austerman. The mission of OED, per the fiscal year (FY) 2010 budget, is to advance successful tourism, film, fisheries, forest products, minerals, and small business assistance programs in order to increase economic activity in Alaska as well as create new employment opportunities for Alaska. That mission is very specific to a handful of industries and activities, which she attributed to the makeup of Alaska's OED. The OED, as currently organized, has a division head and 11 employees in five sub-programs. The five sub-programs are the Alaska Film Office, Business Development, Office of Fisheries, Office of Mineral Development, and Tourism Program. Ms. Harrington pointed out that in some cases statutory obligations are linked to the sub-programs, which partially explains the state's "silo" approach to economic development. She noted that OED does provide technical support, report writing, and answering questions on specific industries. The staff of OED has experts in the division in which they're employed. She characterized these employees as assets to the state.

[10:24:56 AM](#)

MS. HARRINGTON highlighted that also within DCCED is AIDEA. Per the FY 10 Governor's Operating budget, the mission of AIDEA, a financing organization, is "to promote economic growth and diversification in Alaska." Although AIDEA is restructuring its mission, AIDEA focuses on industrial development and putting together financing packages to enable large development such as the Red Dog Mine and port development. Additionally, AIDEA has some smaller loan programs, some of which are administered by the Division of Investments. As a finance organization, it has a somewhat limited role. The Board of Directors of AIDEA consists of five people, of which two members are commissioners and one member is appointed by the governor and two public members are appointed by the governor. As an aside, Ms. Harrington related that those two public board members of AIDEA are the only members of the private sector who currently have an official capacity in advising economic development activities within state government.

10:26:35 AM

CO-CHAIR MUNOZ inquired as to the amount of bonding authority AIDEA has.

MS. HARRINGTON responded that she didn't have that information, but deferred to AIDEA staff. She then returned to her presentation and informed the committee that between AIDEA and the Alaska Energy Authority (AEA) there are about 30 professional staff who work on economic development matters and the finance programs that support it. She further informed the committee that AIDEA is a public corporation.

10:27:21 AM

MS. HARRINGTON then told the committee that also within DCCED is the Division of Investments (DOI), the primary responsibility of which is to administer and service 12 state loan programs under DCCED. Those programs are primarily designed to promote economic development through direct state lending in industries not adequately serviced by the private sector. To date, the majority of programs that have been set up through state government and serviced by DOI focus on the commercial fishing industry. In general, those programs are well appreciated and utilized, although they're not comprehensive across small business economic development across the state. The authority DOI has to make loans is relatively narrow, she noted. The funding DOI has is through the revolving loan programs that have been established and capitalized in the past. Furthermore, those programs, per Ms. Harrington's understanding, are self-supporting and have been for some time. There are other activities that can be seen as supporting economic development, which are included on the matrix provided to the committee by OED. This chart reviews programs across other agencies that are viewed as supporting economic development, including the Department of Natural Resources (DNR) Alaska Grown program. However, these other programs are small and aren't a concerted effort, she remarked.

10:29:36 AM

MS. HARRINGTON acknowledged that outside of Alaska's state government there are other entities working on economic development, of which the primary entity is the Alaska Regional Development Organizations (ARDORs). The ARDORs, she explained, perform regional economic development activities and are

authorized to receive a certain amount of funding from the state annually through a grant process. However, since the programs' inception in 1992, it has received \$50,000 annually with the exception of the addition of a small amount of funding a couple of years ago when a new ARDOR was formed. The ARDORs are intended to:

- enable communities to pool their limited resources, and work together on economic development issues;
- develop partnerships among public, private and other organizations;
- offer a technical, nonpartisan capacity to develop and implement an economic development strategy;
- often have extensive experience with federal/state programs; and
- provide needed technical assistance via direct links with local citizens.

MS. HARRINGTON related her understanding that there are 13 ARDORs in the state that work/function at various levels due to how successful the organizations have been and in terms of how successful they have been in attracting outside funding. For example, the Southwest Alaska Municipal Conference ARDOR is a fairly successful ARDOR with several staff positions whereas there are other ARDORs that only have one half-time position. In Alaska, as the committee well knows, the regions which these ARDORs serve are fairly large geographically. Ms. Harrington noted that there are a number of small regional economic development organizations, such as the Juneau Economic Development Corporation, working toward a larger vision while working at the regional level. Other small regional economic development organizations are the Fairbanks Economic Development Corporation and the Alaska Village Initiatives.

[10:32:33 AM](#)

MS. HARRINGTON told the committee that in the university there are two specific programs that support economic development in the state. One of those programs is the Center for Economic Development at the Institute of Social and Economic Research (ISER) located in Anchorage. The center receives a large portion of its funding through the Economic Development Administration (EDA), which is a federal program. The Center

for Economic Development essentially provides assistance to larger organizations, such as municipalities and tribes. The center is generally supported by a fee for the service. Therefore, the center and its funds aren't freely available to any entity. Recently, the center began to offer professional training for those seeking professional development as economic development specialists.

[10:34:26 AM](#)

MS. HARRINGTON, in response to Representative Gardner, explained that certification is put together by the International Economic Development Council (IEDC) such that one would go through a series of courses after which one must sit through an exam. She likened the exam to that of a certified public accountant (CPA). This program allows professionals to attend these classes and eventually sit for the exam for the IEDC to receive certification. Since the aforementioned has been offered, quite a few people have attended the classes and thus there are folks who are ready to sit for the exam.

[10:35:49 AM](#)

CO-CHAIR HERRON asked if the occupation of economic development specialists is an exclusive occupation in the nation.

MS. HARRINGTON replied no, but added that it's a certification that's an asset for those working in this field. For instance, some of those running economic development agencies or corporations have related that many of those on staff have IEDC certification. One other organization provides similar certification, she noted. These [economic development agencies or organizations] view this certification as something that staff should have or be working toward. Ms. Harrington informed the committee that when the report was being compiled there wasn't a certified economic development specialist, but recently Ketchikan recruited such a professional.

[10:37:06 AM](#)

MS. HARRINGTON returned to her presentation and informed the committee that the other asset in state government is Small Business Development Centers (SBDC). The SBDC has centers throughout the state as well as roaming staff who serve rural Alaska. However, for some reason there are areas in rural Alaska that are excluded. Ms. Harrington pointed out that

although Alaska's resources are fairly slim; they are something from which to build.

[10:38:21 AM](#)

MS. HARRINGTON then turned to the topic of how other state governments are addressing economic development. The report reviewed North Dakota, Wyoming, and Oregon in the greatest depth as well as Kentucky, Indiana, and Washington all of which have been recognized for their economic development programs. She pointed out that the report provides more specifics for each of the states reviewed than she will discuss. Overall, each state addresses economic development differently. For instance, some states have chosen to establish corporate structures that have taken over some formerly state agency functions. The notion behind the aforementioned is to operate more leanly and to reflect the business environment that they support. Other states have taken an approach in which the areas of commerce, business, and economic development within larger departments is identified and separated into a separate department, which is similar to the initial thoughts of Representative Austerman. The efforts in this area have been lead by different areas. In some cases, administrations have taken the lead through executive order while in other cases the legislature has taken the lead.

[10:40:50 AM](#)

MS. HARRINGTON highlighted that another important commonality with the states that are recognized for their economic development programs is that they have setup a formal structure to have private sector oversight or advisory capacity into the economic development work done by the state. The aforementioned makes sense, she opined, because economic development is all about investment by the private sector. In North Dakota there is an advisory board that sits at the head of the North Dakota Economic Development Foundation. A foundation was established because it allows them to raise money outside of the state's normal budgeting process. The board that oversees the North Dakota Economic Development Foundation has a formal statutory role in providing input into agency activities, and therefore the board performs the strategic planning, advises the commissioner and governor, and serves as the contact entity regarding for what state resources should be used. The State of Wyoming established a corporate body, the Wyoming Business Council, such that all of the functions related to economic development were pulled out of the state agencies. The State of

Wyoming also pulled out some infrastructure and community development programs, which was a small addition. Any community development in Alaska will be much larger than elsewhere. She noted that the Wyoming Business Council has a board of directors and a chief executive officer (CEO). The board members, per Wyoming statute, are successful business owners in Wyoming.

[10:43:02 AM](#)

MS. HARRINGTON informed the committee that Kentucky has a Cabinet for Economic Development, which is governed by the Kentucky Economic Development Partnership Board. The board has a combination of government and industry, in which the governor has a strong role as he/she is the head of that cabinet. The State of Indiana took a corporate approach and established the Indiana Economic Development Corporation, which was created to replace the Indiana Department of Commerce. The corporate approach, she reminded the committee, provides the flexibility to work more like a private sector organization. She then turned to the State of Oregon, which completed the reorganization of the Oregon Business Development Department. The department has become leaner and rebranded itself as "Business Oregon" and tried to make it clear to entities entering the state how to do [business in the state]. Oregon has a strategic plan, in which four areas have been identified as having potential for growth, which is guiding its focus.

[10:44:26 AM](#)

MS. HARRINGTON then turned to points to consider about Alaska's current system. She highlighted that currently, the private sector's input into economic development activity within state government is limited to the two public seats on the AIDEA Board. Furthermore, incentive programs in Alaska are very limited, although there are incentive programs for oil and gas. She noted that the New Business Incentive Program [within DCCED] isn't funded. However, the Film Incentive Office that's staffed by OED staff is up and running.

[10:45:51 AM](#)

REPRESENTATIVE EDGMON asked where resource development ties in with economic development, particularly in terms of the fishing industry.

MS. HARRINGTON acknowledged that resource development is the foundation for Alaska's economy, particularly since it's the

largest portion of the state's base sector. The state's base sector includes industries that bring money in from out-of-state versus service industries that re-circulate money in the state for a while. Resource development, she said, is the foundation of any economic development in Alaska. Ms. Harrington noted that most of the states reviewed were Western states that have resource extraction based industries as well as agriculture and tourism. The efforts in those Western states have focused on business and economic development that is tied to the primary basic sector. Therefore, the economic development in Alaska will most likely look at resources and ways in which to develop the cluster of businesses that deal with those resources. She specified that it's economic development that creates more value and more wealth from the resource development, which makes up the majority of Alaska's basic economy.

[10:49:06 AM](#)

REPRESENTATIVE AUSTERMAN explained that OED is trying to model what is going on in Alaska right now, such that it's reviewing what is generated in economic development in Alaska in terms of wealth and what happens to that. The model illustrates that Alaska has a fairly balanced amount of wealth from the state's resources, but it all funnels down South. At some point, the aforementioned has to be viewed as loss of economic wealth to the state in terms of jobs and other items. Furthermore, there's the notion that if Alaska is a resource export state, that's all it will ever be unless there are incentive programs that can bring other wealth to the state in order to create new jobs. All of the aforementioned needs to be part of the discussion, he opined.

[10:50:49 AM](#)

REPRESENTATIVE EDGMON pointed out that what the state has to offer in terms of economic development is fairly limited. The state can offer low interest rate loans, a favorable regulatory climate, outreach, and technical assistance. He surmised that the discussion today surrounds trying to find out how the aforementioned assets are placed in Alaska, how well they are functioning, and whether they can be better defined in order to create more economic development in Alaska.

REPRESENTATIVE AUSTERMAN replied yes and no. He explained that with regard to technical assistance, one is only turning over

the same dollar. However, bringing in new wealth means that one is reviewing how to build and grow the economy.

[10:52:52 AM](#)

CO-CHAIR MUNOZ asked if Ms. Harrington considered state policies and laws that discourage business investment, such as taxation policies.

MS. HARRINGTON replied no, adding that the research focused on the tools the state already has or does not have. In regard to Representative Edgmon's question, Ms. Harrington opined that the state merely has "shadows" of low interest loans, incentive programs, and technical assistance but no comprehensive way that would allow there to be broad economic development. She acknowledged that the state has low interest loans for the fishing industry and incentives for the film industry as well as technical assistance through the university in a somewhat limited capacity. Still, there are no low interest loans for business that may creatively evolve in Alaska.

[10:54:42 AM](#)

REPRESENTATIVE CISSNA highlighted her experience growing up in Seattle, Washington, where a lot of Alaskan wealth was deposited. She then opined that economic development is more than merely creation of wealth; rather it's creation of survival and survival on one's own terms. The other part of [economic development] is community development. She pointed out that schools in rural Alaska do not address the astounding resources that surround them. If the communities developed those resources, these communities would survive. Without communities and their schools focusing on the resources in the town to grow the community's capacity, the conversation the committee is having dies. Representative Cissna expressed the need to review economic development in a uniquely Alaskan way.

[10:58:21 AM](#)

MS. HARRINGTON, concluding her presentation, offered the following points. Alaska has gone from having no certified economic developers working in Alaska to now having one. She pointed out that state government interactions with the university's resources may be inefficient, although the university is well prepared to perform technical assistance. She further pointed out, "State government, through the auspices of economic development, has really focused on a set of specific

industries without necessarily having the capacity to look more broadly at places where ... business may evolve more organically." As an aside, Ms. Harrington informed the committee that [economic development in the state] doesn't have a strong web presence. She offered up Oregon's website as a powerful website. With regard to statute, there's very little support to the economic developers in the state.

[11:00:02 AM](#)

MS. HARRINGTON then directed the committee's attention to the other contents of the committee packet. There is a two-page document entitled "Community Development or Economic Development?" that discusses the differences between community development and economic development. The packet also includes a document entitled "Legislation, Executive Orders and Policy from Other States" which includes information from the following states: North Dakota, Wyoming, Oregon, Indiana, and Washington. The information for North Dakota includes the legislation that established the foundation and its board that provides private oversight. The packet also includes legislation that restructured North Dakota's department. There is also legislation from Wyoming, the Wyoming Economic Development Act, which specifies the general powers and duties of the council. The committee packet also includes the executive order from Oregon that laid the ground work from its radical restructure of its [economic development] department. The backup for Oregon also includes a strategic plan that led up to the aforementioned change. There is also a report from a commission that reviewed Oregon's version of ARDORs from which long-term planning was done. The packet includes the executive order for Indiana that laid the groundwork for that state to switch to a corporation for economic activities. At the end of the Indiana section, there is documentation of the items that are in the toolbox of Indiana. She noted that these are offerings that Alaska doesn't necessarily have. The committee packet also includes information from the State of Washington, including an excerpt from legislation that helped restructure its department. There is also a summary of Washington's economic incentives, which is listed on Washington's web site. Ms. Harrington said this information is merely food for thought with regard to economic development.

[11:04:14 AM](#)

REPRESENTATIVE AUSTERMAN, upon the request of Co-Chair Herron, reiterated information he stated earlier in regard to the energy

issues in Alaska related to community development and economic development.

[11:05:39 AM](#)

CO-CHAIR HERRON inquired as to whether Representative Austerman believes the ratio between economic development and community development within DCCED is 50:50.

REPRESENTATIVE AUSTERMAN said that he hasn't specifically segregated that information in a percentage basis. With regard to how much economic development is occurring within DCCED, the information from the department relates that OED's 11 employees are concentrating on wealth building. He noted that the Alaska Film Office is the only entity bringing new dollars into the State of Alaska. The question, he remarked, is regarding what one determines to be economic development. Although the second largest industry in Alaska, for jobs, is the fishing industry, the regional seafood development associations (RSDAs) don't bring new money into the state but rather try to use their money to advertise their product and sell it for more. Furthermore, vessel upgrades don't bring more money into the state. Therefore, it's difficult to determine what type of economic development growth is occurring within DCCED. Representative Austerman said that the majority of the information regarding economic development in the state is really rural development, community development projects that aren't bringing new wealth into the state.

[11:09:54 AM](#)

MICHAEL CATSI, President, Alaska Partnership for Economic Development (APED); Executive Director, Southwest Alaska Municipal Conference (SWAMC), informed the committee that SWAMC is one of four federally designated economic development districts in the state. He told the committee that he is present to discuss the Alaska Forward Initiative. The aforementioned initiative is an attempt to establish a statewide economic development strategy for Alaska. Taking off his APED and SWAMC hats, Mr. Catsi opined that Alaska has been fortunate in that economic development has just happened in Alaska because of the state's rich natural resources. Much of the economic development of the state's resources has happened because businesses made the effort. He further opined that economic development happens in Alaska rather than the state taking a proactive stance to make it happen.

[11:11:41 AM](#)

MR. CATSI explained the 12 ARDORs in Alaska joined forces to leverage the ARDOR program to be more efficient and effective with the multi-regional and statewide initiatives and programs. Since the 12 ARDORs work in different regions and have different emphasis, their efforts are often siloed. There wasn't a lot of discussion and effort between the ARDORs, rather they were just charged with making the state's economic development program more effective. One notion to achieve the aforementioned was to form an umbrella organization, APED, outside of the ARDOR program itself. This organization would work closely on multi-regional statewide initiatives. One of the first things APED did was review economic development in the state of Alaska as a whole. He related that APED felt that it was best to first get an economic strategy going. Therefore, APED reviewed many different models of economic development strategies throughout the country. The model chosen to follow was the Prosperity Partnership model that was based in Puget Sound, Washington. That model was based on economic development organizations taking the lead on the strategy, but more so in the management of the initiative while having the private sector put together and implement the strategy. He related APED's belief that the private sector should take the lead. Past efforts of state- or government-run economic development efforts face obstacles because the state doesn't really have a good idea as to the private sector's needs for private sector economic development. Therefore, the state is in more of a support role while the private sector takes the lead.

[11:14:41 AM](#)

MR. CATSI said that Alaska should have an economic development strategy for the following three reasons: a strategy clearly outlines a set of goals and objectives that are being sought; a strategy develops a roadmap that helps one obtain the goals and objectives; a strategy also produces a set of performance measures that allow one to measure the success in reaching the goals and objectives. Currently, the aforementioned isn't in place at a statewide level, although they are in place at the community and regional levels. Mr. Catsi related that APED wanted to have a vision regarding why the organization was doing what it was and going where it was going. There was also the desire to have a clear vision and mission for APED, which is stated on slides 3 and 4 of the document entitled "The Alaska Forward Challenge."

[11:16:12 AM](#)

MR. CATSI related that when [the consulting team] reviewed various strategies from around the country there was also review of the opportunities to fund such a strategy. The Denali Commission, through its economic development advisory committee, had a grant opportunity that arose when this [initiative] was being developed. The APED applied for the grant and was awarded \$500,000 from the Denali Commission to get the strategy underway. To have any long-term meaningful change in the way that economic development would happen in the state, the experts within Alaska and throughout the country should be consulted. Therefore, the APED issued a national request for proposals (RFP) for which nine strong proposals were received. Mr. Catsi highlighted that the RFP recognized that the way things are done in Alaska is very different than elsewhere, which is why the RFP required a partner in Alaska. The contract was awarded to IHS Global Insight, the Economic Competitiveness Group, and the McDowell Group from Alaska. He related that IHS Global Insight has incredible scope around the world in terms of data collection and analysis capabilities. The Economic Competitiveness Group (ECG) from San Francisco focuses on strategy development while the McDowell Group will focus on "ground truthing" everything. He noted that IHS Global Insight and ECG have worked on other projects together, such as the Prosperity Partnership Project in Puget Sound.

[11:18:43 AM](#)

MR. CATSI opined that it was important for APED to think about what it was trying to accomplish. In the past, many statewide, regional, and local initiatives developed a plan full of recommendations without any emphasis on the recommendations. Therefore, APED focused on obtaining recommendations as well as the final product, the implementation strategy. The project was broken into two phases. Phase I was the information gathering process during which Alaska's current economic situation was reviewed. He highlighted the importance of quantifying and qualifying the state's economy and the capacity of the economic development organizations in the state. He then reviewed the chart on slide 8 entitled "The Key Alaska Forward Challenge: Alaska's comparative stagnation," which illustrates that essentially the state's gross product has been stagnated since 1990. The chart on slide 9 illustrates the state's volatility in Alaska's gross state product.

[11:21:24 AM](#)

MR. CATSI characterized slide 10 as disturbing since it relates that Alaska's real per capita gross domestic product has fallen below that of the U.S. The graph on slide 11 illustrates the huge decrease in oil capacity. He then turned to slide 12 entitled "Employment -- a source of stability" that has a graph illustrating consecutive job growth over the past 20 years, which many view as indicating that the state is doing fine. However, reviewing some of the information in prior graphs results in a bit different outlook because it relates that the state has been growing jobs but not output/income. In fact, the state has actually been losing income. The aforementioned means that the state is growing jobs, but they are lower paying jobs and lower skilled jobs. The state is losing the higher paid skilled jobs. If such a trend continues, it can be a real problem for Alaska's future standard of living and quality of life.

[11:23:25 AM](#)

MR. CATSI, referring to slides 12-13 in the packet, pointed out that although oil production has been declining, there has been an increase in the price of oil. The aforementioned has resulted in the state being buffered a bit from the true impacts of the decline in oil. The volatility of the oil price makes it difficult to determine what will happen with regard to the price of oil. Therefore, it becomes difficult to determine where the state should focus its efforts in this situation. Part of Phase I is to conduct a cluster analysis. A cluster analysis identifies those industries and the health of those industry sectors that have export potential, which is money that comes into the state. Therefore, there's a difference between businesses that bring money into the state versus those that circulate funds that are already in the state. If the clusters that bring money into the state are built, then businesses that circulate those funds will grow and the demand for those businesses will increase. Slides 15-16 specify the 10 clusters that were found. He reviewed the chart on slide 16 entitled "Segmenting the Clusters," which illustrates where the industries are on a statewide scene. The chart highlights the potential, issues, and possible opportunities with [the clusters]. He noted that a cluster analysis was also performed on a regional level. Eight regions have been identified.

[11:26:49 AM](#)

REPRESENTATIVE EDGMON inquired as to where the federal government fits in [slide 16].

MR. CATSI explained that there is a cluster with the federal government, which is an entity over which the state doesn't have much control.

REPRESENTATIVE EDGMON said that he mentioned the federal government because the military is one of the bigger clusters and the military is tied to federal spending.

[11:28:10 AM](#)

MR. CATSI, in response to Co-Chair Herron, explained that the chart on slide 16 is broken down on the relation to the U.S. economy. He related that lines on the right have output growth at a greater rate than the U.S. average. The clusters above the horizontal line have employment concentrations higher than the U.S. average.

[11:29:19 AM](#)

MR. CATSI returned to his presentation and directed attention to slide 17 entitled "Fairbanks Clusters." He pointed out the smaller clusters that were identified as future opportunities for Alaska. However, he also pointed out that the clusters cannot be developed unless Alaska has the economic foundation in place to support those clusters. In some respects, the infrastructure of a skilled work force, technology capacity, access to capital, affordable energy, education system that puts out qualified students, a quality of life, and etcetera is what's necessary for companies to form and grow. Although there is a link between community development and economic development, the two are very different processes. The Alaska Forward Initiative is focusing on the economic development aspect. Within economic development, it's important to understand where Alaska fits in relation to the rest of the U.S. and the world.

[11:31:42 AM](#)

REPRESENTATIVE GARDNER, referring to slide 18 entitled "Seed Clusters," asked if the specialty solvents cluster is a value-added from the petroleum industry.

MR. CATSI answered that he would imagine so, but offered to find out.

11:32:09 AM

MR. CATSI, continuing his presentation, informed the committee that APED is collecting data and talking to stakeholders in order to understand the various views and nuances of Alaska's economic development. He further informed the committee that the qualitative data is being included with the quantitative data. The [stakeholder interviews] highlighted the lack of statewide coordination and leadership with economic development. Therefore, APED has decided to focus on that part of the economic development strategy by laying out a framework regarding how to implement the recommendations while identifying leadership roles.

11:33:21 AM

MR. CATSI, referring to slide 29 entitled "What do you do in such a situation?" specified that the focus is on a private/public partnership. This initiative, he opined, needs to be led by the private sector in collaboration with the public sector. As the project moves into Phase II, the data and the analysis from Phase I will be used to create a foundational document from which an economic development plan is built and an implementation strategy is created. The aforementioned will require industry cluster groups led by the public sector with support from the state government and other local governments. Developing ways in which those two groups can work together to develop a strategy will also be necessary. He recalled earlier testimony that only two people advise state government on private sector needs in the state and those two people sit on the AIDEA board. With regard to a regional economic development level and a local economic development level, he pointed out that the ARDORs are good at having public/private partnerships. He mentioned that APED has 93 members of which approximately half are local governments, tribal governments, and nonprofits while the other half is from the private sector.

11:35:04 AM

REPRESENTATIVE GARDNER related that often when there is discussion of private/public partnerships it's really about asking for money from the public sector. Therefore, she asked if APED has proposed legislative changes, more specifically she inquired as to what APED wants from the public sector.

MR. CATSI responded that APED is seeking a working partnership that ensures that as the private sector begins to develop the strategy, there is support from the public sector. Although that support may be financial, he specified the [intent] for it to be regulatory support to make sure that there aren't hurdles. The public and private sector need to work together and move forward together. In further response to Representative Gardner, Mr. Catsi related that APED hasn't worked on identifying whether the hurdles are statutory or regulatory.

[11:36:35 AM](#)

MR. CATSI resumed his presentation. He opined that ultimately the result of the public sector and the private sector working together is collaboration and trust. If the state has a healthy private sector, it's likely that the state will have a very healthy public sector. "I think we need to make sure that there's skin in the game from both sides so that we build Alaska's economy for the benefit of everybody," he stated. Therefore, economic development really needs to be about people and providing opportunities for future generations. Economic development is also about building links that create more interaction between the local companies and the larger companies from outside. Wealth retention is very important, he said. He then directed attention to slides 35-36, which relate those participating in Collaborative Strategy Development in the nation as well as globally.

[11:39:03 AM](#)

MR. CATSI told the committee that the report will also review the best practices for implementing a strategy. Therefore, those regions and countries with similar backgrounds and issues will be reviewed. The Prosperity Partnership model uses a model in which the majority of the leadership is the private sector. The aforementioned model took five clusters at a time and created work groups and an implementation strategy. As the cluster groups meet the goals and objectives that were set out, they move on to the next cluster. The Prosperity Partnership model created a strategy for working through the 10 clusters such that the most important clusters were worked on first.

[11:40:20 AM](#)

MR. CATSI noted that APED's Phase I report is due out January 31, 2010. Although it's a complex report with an aggressive timeline, the consultants are up to the task. Thus far, the

team has been very positive. He mentioned that APED's planning team consisted of five ARDOR members and five non-ARDOR members so as to ensure the project remains a statewide economic development project that involves economic developers from around the state. In fact, every penny of the \$500,000 received from the Denali Commission is being put into this initiative and none is going to the ARDORs, which are putting in a lot of in-kind time on this project. In closing, he highlighted slide 43, which identifies the regions of the state, and slide 44, which specifies the work plan APED has developed to accomplish the Alaska Forward Initiative.

[11:41:51 AM](#)

REPRESENTATIVE EDGMON asked if Mr. Catsi would characterize this effort as a private sector effort.

MR. CATSI clarified that he would characterize it as a private sector led effort. Some of the ARDORs are public entities and some are private nonprofits. The entity, APED, that's leading this effort is a private nonprofit 501(c)(3).

[11:42:24 AM](#)

REPRESENTATIVE EDGMON asked if the thesis being developed in Phase I supports what Representative Austerman mentioned regarding having more capacity at the state government level in order to foster more economic development.

MR. CATSI reminded the committee that Phase I is the analysis stage whereas Phase II reviews the capacity of the economic development organizations throughout the state. The belief is that by the private and public sectors working together the needs of the private sector will be reviewed while the concerns on the public sector side will be developed in order that the capacity for economic development is built.

[11:43:33 AM](#)

REPRESENTATIVE AUSTERMAN opined that the [Alaska Forward Initiative] exists because there is no legislative, administrative, or governmental effort to do the same thing.

[11:44:03 AM](#)

CO-CHAIR HERRON characterized the [Alaska Forward Initiative] as a performance audit. "We're going to find out if the state, the

legislature, the administration, the people that run this department ... have the skill set to make sure their employers are doing a better job ... for their constituents in Alaska," he surmised.

MR. CATSI agreed that is part of it, but characterized it as a smaller part of the larger economic development puzzle. The consultants were asked to perform an analysis regarding the state's capacity for economic development at all levels. The effort, he emphasized, will be at the statewide, regional, and local levels. Without the buy-in from both the private and public sectors, the process won't work, he said. Mr. Catsi echoed earlier testimony that it's best for the private sector to lead this effort because it knows best what it needs to expand business.

[11:46:28 AM](#)

JOHN TORGERSON, Executive Director, Kenai Peninsula Economic Development District, Inc., thanked Representative Austerman for bringing this issue forward and opined that [developing a statewide economic development plan] is for the betterment of the state. Although APED took the initiative to apply for the grant from the Denali Commission to begin the strategic plan, it's only Phase I and there will be opportunities during Phase II for others to provide funding. He then mentioned that although [APED] will likely request a legislative appropriation for Phase II, it has begun a private sector funding initiative from which it hopes to raise a substantial amount of money to help fund Phase II.

[11:47:45 AM](#)

MR. TORGERSON then informed the committee that the Kenai Peninsula Economic Development District, Inc., is an ARDOR, the first that was formed in 1988. Furthermore, the Kenai Peninsula Economic Development District, Inc., is an EDA recognized economic development district that operates a business incubator and manages two revolving loan funds. Mr. Torgerson directed attention to page 7 of Representative Austerman's briefing paper entitled "Economic Development in State Government." The seven possible areas of discussion for the legislature are a good starting point. In fact, the first discussion area, restructuring economic development functions within state government, is much of what has been discussed today. He opined that the department shouldn't return to its existence as the Department of Community & Regional Affairs, but rather the

[economic development] functions of government should be housed in one entity, under AIDEA. The aforementioned would provide the people on the ground with the funding sources. He acknowledged that [the economic development function] within the state government could be located within the Division of Investments, the Department of Economic Development, or with tourism under one leadership.

[11:49:37 AM](#)

MR. TORGERSON moved on to the second possible area of discussion for the legislature, consideration of creation of a non-governmental policy group. He related his understanding that economic development from the perspective of the private sector is controlled more by the ARDORs and local government than at the state level where there are only two private sector individuals involved in the decision-making process. This [initiative] provides an opportunity to change the aforementioned. He acknowledged that in the past there has been fear that the governor would lose control if [an economic development organization] isn't dominated by commissioners. However, that doesn't seem to be of concern with the Permanent Fund Corporation. Therefore, he opined that the first two areas of discussion for the legislature could be combined. He moved on to the third possible area of discussion for the legislature: establish or reestablish incentive programs. Because Alaska has a limited tax structure, save for the [oil industry], it's difficult to provide incentive programs other than cash, grants, and corporate tax credits. On the local level, local governments have the ability to provide 50 percent tax relief for 5 years or further on a new project in the area that doesn't compete with [other companies]. However, one receives more time, 10 years, for tax relief for deteriorated property than if one rebuilds. He characterized the aforementioned as awkward.

[11:51:49 AM](#)

MR. TORGERSON acknowledged that the state's loan programs could be considered an incentive. However, in order to be considered for one of these loan programs one must be turned down by one to two banks, depending upon the loan program. In these situations the risk shifts from the private sector banks to government. He said he understood that the state doesn't want public money to compete with private sector money. Still, it remains problematic when the state tries to take a feasibility study or business plan that's been turned down by a few banks and massage it in order to make it look good enough to receive approval.

Mr. Torgerson then turned to the fourth possible area of discussion for the legislature, budgeting for ARDOR programs. From his own perspective, he said he didn't want any more money for strategic planning or things that the ARDORs do. However, there seems to be a lack of funding for the feasibility studies or business plans. He emphasized that Alaskans aren't short on ideas, but rather they are short on methods and funds to bring the ideas and proposals forward in a project.

[11:54:52 AM](#)

MR. TORGERSON, in closing, said that perhaps when the Department of Community & Regional Affairs was incorporated into the Department of Economic Development, the economic development aspect slipped away a bit, he noted. In general, legislators tend to reward the programs that are successful. He then related his hope that the committee would consider holding another hearing after the Phase I study is finished and there is a clearer view of where the state may be able to focus its efforts. Perhaps, some priority business clusters will surface and result in some real successes.

[11:56:21 AM](#)

CO-CHAIR HERRON mentioned that U.S. Senator Lisa Murkowski's staff is in attendance.

[11:56:44 AM](#)

CO-CHAIR HERRON, in response to Representative Austerman, announced that the committee intends on having this group make a presentation once its report is available.

[11:57:25 AM](#)

The committee took an at-ease from 11:57 a.m. to 12:02 p.m.

[12:02:50 PM](#)

CO-CHAIR HERRON called the meeting back to order.

[12:03:09 PM](#)

SUSAN BELL, Special Staff Assistant, Office of the Governor, began by noting that she works closely with DCCED and the Department of Revenue. Ms. Bell related that Governor Parnell is committed to economic development. Furthermore, Governor

Parnell believes it's appropriate for government to create an environment that's conducive to private sector investment and sustainability through enhancing transportation, workforce development, energy resource development, other natural resource development, and removing the barriers that inhibit private sector investment and opportunities. The comments today, although from various perspectives and initiatives, seem to relate the same idea. Ms. Bell then turned to the economic planning effort referred to as LEGACY. LEGACY had a steering committee, Alaska Diversified Economic Planning Team (ADEPT), which included a number of commissioners, AIDEA, the university, and the Office of the Governor. This LEGACY project started in February 2009 under the Palin Administration and by July 2009 there was a public launch in which 13 work groups were pulled together. The 13 work groups included industry sectors, economic sectors, state and federal government, and many other sectors. The groups were provided background and asked to respond to questions that have been developed by the steering committee and staff as well as identify barriers to economic development at the state and federal levels. The groups were also asked to suggest changes that would help facilitate economic development. Concurrently, there were a number of meetings with community and business leaders that made folks aware of the LEGACY effort. There was also review of the best practices of other states and how they could be adapted to be utilized in Alaska.

[12:06:37 PM](#)

MS. BELL noted that this initiative was developed by Governor Palin, but it wasn't funded. Although there was some administrative and staff support, there was no budget for this initiative. Therefore, Ms. Bell commended the staff who worked on the LEGACY Project. In late September, early October 2009 Governor Parnell began to articulate his goals with the LEGACY Project. Within the work groups and state government, there was some confusion regarding the longevity of the process and whether the focus would be on issues within state government or statewide. Many of the groups took the assignment seriously, met frequently, and produced an interim document. However, some groups didn't meet after the July launch. More importantly, there was no oil and gas work group. Governor Parnell has said he would like to create an oil and gas work group and review the makeup of the existing work groups and consider making them more robust.

[12:08:21 PM](#)

MS. BELL then highlighted the concern about the expectation of a mid-December delivery date for an economic development plan. In mid-October, Governor Parnell told ADEPT that he wanted to take the focus off the mid-December deadline, but preserve and elevate the input from the private sector. After hearing the governor's preferences, a couple of options for a new administrative order were drafted. Ms. Bell said she anticipated a new administrative order will be released to clarify the change in LEGACY under the new administration. Regarding the comments about focusing on implementation, Ms. Bell related that Governor Parnell would like to hear what barriers and ideas people have and streamline the process rather than waiting for a plan delivery.

[12:10:09 PM](#)

MS. BELL commended those who worked on LEGACY. Those who worked on LEGACY were asked to review their notes and interim work group reports and compile the recommendations, ideas, and barriers that were identified during the initial effort with LEGACY. The aforementioned would ensure that the work is not lost. She noted that both the APED and LEGACY programs were aware of each other and intended to work together. In fact, there were some similarities between the process of APED and LEGACY. However, as they move forward and information is shared, the discussion of economic development is well poised to continue.

[12:12:14 PM](#)

CO-CHAIR HERRON surmised that per Administrative Order 249 there is yet another subcabinet group made up mostly of commissioners or executive directors. He asked if [the members of the subcabinet group] are active in these planning groups.

MS. BELL related that ADEPT met frequently after the initial administrative order was established; it met in sort of a steering committee capacity. The concept was that there would be the ability to share information with those who were involved. At this point, it's likely that ADEPT will have an opportunity to review the work products that have been developed. The work group communication with the governor will likely move forward, she said. Governor Parnell is moving forward in a much more streamlined fashion than what the prior administration envisioned.

12:14:13 PM

CO-CHAIR HERRON inquired as to why Ms. Bell was interested in this job with the governor's office.

MS. BELL informed the committee that she previously worked with the McDowell Group when it worked on the proposal. Ms. Bell said, "It seems like a really great time when we've got a governor that is committed to economic development ...." Furthermore, she characterized it as a great opportunity, although it's a necessity. She said she couldn't pass up being involved with this economic development.

12:15:57 PM

CO-CHAIR MUNOZ asked if the governor intends for this effort to result in recommendations for legislation.

MS. BELL opined that there will be opportunities for legislative solutions. However, some of the actions will be ones which can be done internally. She noted that APED made the suggestion regarding review of the clusters it identified to create more alignment as the process moves forward. The aforementioned may result in the work group composition shifting slightly.

12:17:45 PM

CO-CHAIR MUNOZ suggested that perhaps the committee could request Ms. Bell report to the committee regarding the progress of the group in order to coordinate efforts.

MS. BELL agreed to do so.

12:18:09 PM

CO-CHAIR HERRON praised Representative Austerman and his staff for their efforts.

12:19:06 PM

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community, & Economic Development, reminded the committee that AIDEA has reviewed best practices in the state. Through that review, AIDEA has found that most states with successful economic development organizations also have a robust and proactive development finance authority [in the state]. Mr. Leonard then

informed the committee that AIDEA was organized by the legislature in the late 1960s with the following purpose: "To promote, develop and advance the general prosperity and economic welfare of the people of Alaska." Since its inception AIDEA has grown into a \$1 million development authority with over 60 percent of AIDEA's assets in the loan participation program and economic development infrastructure project. He then highlighted the major programs AIDEA uses to fulfill its purpose as follows: loan participation, conduit revenue bond, and development finance. There are three other small programs, of which the Small Business Economic Development Loan Fund and the Rural Development Initiative Fund are run through the Division of Investments.

[12:21:59 PM](#)

MR. LEONARD told the committee that AIDEA's programs are uniquely structured under the private/public partnership concept. For example, AIDEA's Loan Participation program allows AIDEA to participate in loans with banks for up to 90 percent [of the loan amount] for up to \$20 million. The partnership is one in which the banks will have a customer with a development project, both AIDEA and the bank will do the underwriting. Therefore, AIDEA shares the risk of the loan and the bank services the loan. He pointed out that AIDEA provides the ability of the banks' customers to obtain long-term financing. He then turned to the Conduit Revenue Bond program, which allows businesses and nonprofits access to the tax exempt bond market. Over the program's life AIDEA has issued over \$1.2 billion in conduit revenue bonds. In fact, through this program AIDEA recently issued \$91 million to the Fairbanks Hospital. The aforementioned funds allowed the Fairbanks Hospital to restructure its variable bond debt and also obtain funds to build a cardiac wing, which is estimated to bring in 40-50 new jobs into the Fairbanks area. The other major development program, Development Finance, provides the ability to raise capital, usually through the bond market, and then invest in and own infrastructure development projects. Currently, AIDEA owns six projects, which are listed in AIDEA's annual report. He highlighted the following two Development Finance projects that have been very successful. First, the Red Dog Mine Road Port facilities for which AIDEA owns the road and port facilities, although Tech-Cominco runs the aforementioned facilities and pays AIDEA for the use of those facilities. Last year, Tech-Cominco paid NANA Corporation \$212 million in royalties and paid NANA joint venture companies over \$110 million in service fees for jobs for the mining company. Furthermore, the Red Dog Mine

Road Port project employed over 550 people of which 60 percent were from the Northwest Arctic Borough. Second, the Ketchikan Shipyard is owned by AIDEA in partnership with Alaska Shipyard and Dry Dock Corporation, which recently launched the first ship from that facility.

[12:25:47 PM](#)

MR. LEONARD pointed out that AIDEA's dividend program is also important to AIDEA. He recalled that the dividend program was passed in 1997 and every year thereafter AIDEA declared a dividend in the amount of 20 percent up to 50 percent of the net asset increase in AIDEA's base. Over the period that this has been in place, AIDEA has paid the State of Alaska over \$251 million in dividends. He characterized the aforementioned as the state's return on its investment in economic development. He reminded the committee that AIDEA is performing these functions for its stakeholders, Alaskans, and therefore great care is taken to ensure that the state's resources are being used in the best manner possible.

[12:27:06 PM](#)

MR. LEONARD turned to the slide entitled "Other Activities." He highlighted that AIDEA provides financing for the ARDORs. This year AIDEA is looking at providing over \$700,000 to that group. He noted that AIDEA has spoken with the administration regarding how that funding could or should be increased. Furthermore, AIDEA is developing its relationship with the ARDORs because it believes it's important to do so in order to be proactive and understand what regional economic development is occurring and communicate regarding how AIDEA can help with those projects. Mr. Leonard then highlighted that AIDEA also partners with other agencies to provide technical assistance to Alaska businesses. He related that AIDEA agrees with Representative Austerman regarding the need to provide tools to businesses and economic development organizations as well as provide access to capital. The AIDEA recently completed a partnership with the university in which AIDEA sponsored one of the classes needed to obtain certification. Another activity in which AIDEA participates is its partnership with the Alaska Energy Authority (AEA). By statute, AIDEA provides employees for AEA and shares overhead expenses for them, which has brought down the overhead costs for AIDEA. He mentioned that AIDEA is determining how it can work through its financing programs to help finance the energy programs identified through AEA's energy plan.

12:29:07 PM

MR. LEONARD related that over the past year AIDEA has been in the process of determining how it can be a more proactive promoter of economic development while increasing the tools in AIDEA's tool box. As the process started, it became obvious that AIDEA needed to revise its mission statement. The new mission statement of AIDEA is as follows: "To promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment." If AIDEA desires to expand its role and be more proactive, the emphasis has to be on promoting economic development, not just concentrating on the existing tools.

12:30:44 PM

MR. LEONARD explained that AIDEA performed an environmental scan and spot analysis of Alaska's economy as well as an environmental analysis regarding how AIDEA is a part of that process. Several surveys of all the stakeholders were reviewed while following the best practices of development finance agencies. As an aside, he mentioned that AIDEA is very involved with the Council of Development Finance Authority. The major theme that arose from the stakeholder survey was that although AIDEA is a respected partner in economic development, it needs to be more proactive and expand its role in how it promotes economic development. Through the aforementioned process, AIDEA reviewed where it is and where it is going and developed a new strategic vision. The new strategic vision is "to become a more proactive partner in statewide economic development and a stronger resource for the state." The AIDEA determined that the best way to accomplish the aforementioned was to embark on the following four initiatives. The first initiative is to enhance the efficiency and effectiveness of AIDEA's programs. As AIDEA reviewed its best practices, it concluded that AIDEA should build its expertise regarding how economic development financing should be done in the state. Furthermore, AIDEA determined that it should also coordinate and improve the intake and handling of identified economic opportunities. Therefore, AIDEA will have to be much more effective and rapid in its in-take process and continuing process. Mr. Leonard related that the process takes one to three years. In fact, the large project of the Red Dog took about a decade to complete.

MR. LEONARD acknowledged that the theme throughout this hearing has been in regard to how AIDEA coordinates with other agencies, the private sector, or multi-source financing opportunities.

The prices of the larger infrastructure projects are in the billions of dollars. Therefore, AIDEA considers these to be multi-layered funding such that investment may come from a Native organization, federal agencies/sources, and AIDEA.

[12:34:49 PM](#)

MR. LEONARD, in regard to Co-Chair Munoz's earlier question regarding AIDEA's bonding capacity, informed the committee that AIDEA has the ability to bond about \$400 million in a rolling year. He noted that last year AIDEA requested an increase in bonding capacity up to \$600 million and the ability to take out refinancing bonds. The aforementioned legislation was passed by the House last year and is now in the Senate Finance Committee.

[12:35:42 PM](#)

MR. LEONARD then returned to the ways in which AIDEA can become more efficient and effective. He related the need for AIDEA to establish better metrics and performance measures to assure successful economic development financing. The aforementioned also helps ensure that AIDEA is being effective in the use of its limited resources. He noted that as a member of the Government Finance Officers Association Distinguished Budget Program, he has learned that if something is worth doing, it's worth measuring. Another initiative is to diversify and grow assets to support economic development. If the goal is to expand AIDEA's existing programs and development of financing, then AIDEA needs to better utilize its assets to ensure that AIDEA's asset allocation is meeting the needs of the state as well as Alaska's businesses. Again, one of the main themes is AIDEA's ability to help businesses and industries access affordable long-term capital, which AIDEA finds with its ability to go to the bond market for that capital. He related that AIDEA's strategy is to partition the more inherently risky programs, such as start-up capital, so that the bond market or rating agencies don't drop AIDEA's bond rating, which is currently an AA- rating.

[12:38:12 PM](#)

MR. LEONARD moved on to the third initiative, which is to improve existing programs and add new financial tools. The goal is to make AIDEA's existing programs more robust while fulfilling the needs of businesses in development projects and commercial development. He reminded the committee that AIDEA's expertise is in the commercial and project development side.

Furthermore, AIDEA is trying to increase the capacity in its analysis in order to be a better tool for the legislature and the governor in terms of reporting on the feasibility of projects. Having the ability to do quick analysis is very important to AIDEA, he stated. He then pointed out that the financial upheaval in the nation impacted AIDEA's ability to provide loans to businesses such that its rates increased from the 6.5 percent range up to the 10 percent range and then back down to the 6.5 percent range in less than a year. Currently, AIDEA is working with the administration regarding how AIDEA could have a more flexible statute in terms of setting the rates in order to ensure that AIDEA provides long-term affordable credit to businesses. He related that AIDEA is reviewing new programs that, hopefully, incentivize job growth and investment in rural areas. The AIDEA is working with the Division of Investments on the aforementioned because some programs are a better fit for AIDEA while those programs of a direct loan nature are a better fit for the Division of Investments.

12:41:00 PM

MR. LEONARD turned the committee's attention to the last initiative, which is expanding the deployment of economic development financing. The goal is to increase project financing to one to three projects a year totaling over \$200 million over the next three years. He characterized the aforementioned as an aggressive goal. At the same time, AIDEA is leveraging existing projects, such as the Ketchikan Shipyard expansion. The Ketchikan Shipyard expansion has amounted to over \$77 million over the last two years. A new ship lifter was completed and will allow the company working the Ketchikan Shipyard facility to bring in more ships, perform more repairs, and bring more economic development into the Ketchikan area. He told the committee that AIDEA has also increased the capacity of the Skagway Ore terminal by 40 percent over the last year and continues to work with the Skagway community to expand the port facilities. Mr. Leonard related his agreement with earlier statements that AIDEA needs to better work with each of the organizations in the state as well as the public and private sectors. Therefore, AIDEA is developing an aggressive outreach program and adding a new position, a business development officer, to deal with that. He noted that AIDEA will have another position, economic development officer, who will be in charge of taking projects through the in-take system and AIDEA's system. He likened the aforementioned to a "deal maker" and noted that the business development officer will coordinate with

the economic development officer in order to ensure that all the appropriate parties are brought together.

12:43:48 PM

MR. LEONARD noted that AIDEA agrees with the comments of Representative Austerman, Ms. Harrington, and Mr. Catsi regarding increasing private sector input. In fact, AIDEA is in the process of implementing two new committees, a business advisory committee, and a business technical advisory committee, to bring in private sector input to ensure that the private sector's needs are met and AIDEA's tools are effective for the private sector. In conclusion, Mr. Leonard reiterated that over the past year AIDEA has been going through this process of making AIDEA into a more proactive partner in promoting economic development and a more valuable tool for the governor, the legislature, and the private sector.

12:45:10 PM

CO-CHAIR HERRON inquired which of AIDEA's six programs is the most challenging.

MR. LEONARD responded that the loan participation program is very successful. On the economic development side, most of AIDEA's projects are very successful and being leveraged to provide jobs. The challenge, as Mr. Leonard observed, is to invest more into the aforementioned type of projects. The challenge, he stated, is bringing more of those projects into the funnel because AIDEA often looks at 8-10 projects to find 1 that will be economically feasible and provide the economic development for the state. Therefore, the investment side of AIDEA is challenging.

12:47:05 PM

REPRESENTATIVE EDGMON commented that the House Special Committee on Energy has heard a lot of support throughout the state to have an independent entity that addresses energy, whether it's a division or department.

MR. LEONARD remarked that such a structural change would have to be addressed by the legislature and the governor. However, he pointed out that [having an independent entity that addresses energy] is the direction [DCCED] is moving. Currently, there is an executive director for AEA and an executive director for AIDEA and there are resources that are specifically linked to

the goal of each entity. He noted his agreement with Representative Edgmon that AEA and AIDEA are complimentary, but not the same. He added that the two authorities share resources for overhead, such as for accounting and payroll.

[12:49:09 PM](#)

CO-CHAIR HERRON surmised that Representative Austerman's project will be easy to accomplish. He then requested that Mr. Leonard work with Representative Austerman and this committee regarding the possible areas of discussion for the legislature so that they can be discussed early in the session.

MR. LEONARD related that [AIDEA] is almost ready to present its strategic plan to the board. Once that presentation is available, it will be submitted to the committee. He related that AIDEA looks forward to working with the legislature and the governor to move improvements forward.

[12:51:04 PM](#)

EMIL NOTTI, Commissioner, Department of Commerce, Community, & Economic Development, acknowledged that there's a lot of concern and activity and effort in terms of where the state wants to go with economic development. In the way of background, Commissioner Notti informed the committee that in 1940 there were 72,000 people in Alaska, which has grown to 700,000 today. He then opined that for growth there are the following four essential elements: communication, trained workforce, reasonable energy, and transportation.

[12:53:05 PM](#)

COMMISSIONER NOTTI posed the question of how Alaska can retain its wealth. There is the need to close the holes through which money is leaving Alaska. The aforementioned can be accomplished through workforce development because if the state had a local workforce, more money would stay in and circulate in the state. Therefore, one of the goals in economic development, he opined, is to achieve full employment. Taking it one step forward, a trained workforce is necessary and much more desirable than welfare. The state is spending about \$500 million a year in welfare, mostly in rural Alaska. He characterized welfare as an anchor on the state.

[12:55:45 PM](#)

COMMISSIONER NOTTI identified another goal as having reasonable energy costs. Many are delving into how the cost of energy can be reduced. The aforementioned is important because for projects such as Donlin Creek one of the considerations regarding whether or not to develop is the cost of energy. The Donlin Creek project also has a problem with transportation. In order for Alaska to be competitive in the world market, Alaska must bring its transportation costs down. He related his understanding that the individual airlines in Anchorage are importing fuel to be able to handle the holiday rush, which causes Alaska's transportation industry to be less competitive. Therefore, Alaska must review other economic development models, such as that of California that had timber, minerals, agriculture, fish, industry, transportation, tourism, entertainment and yet it is bankrupt. "If we do have a destination for economic development, it ought to be improving our quality of life for everyone," he remarked.

[12:58:40 PM](#)

CO-CHAIR HERRON inquired as to the existing ratio of economic development to community development. He also inquired as to what ratio is desirable.

COMMISSIONER NOTTI informed the committee that DCCED's budget totals about \$195 million, most of which is self-sustaining through licensing and other fees that are charged. He further informed the committee that about \$35 million is from general funds, from which the largest part goes toward maintaining the Division of Banking & Securities, the Division of Insurance, and the various other divisions. Commissioner Notti stated that a very small part of DCCED's budget is devoted to economic development. In fact, the Office of Economic Development didn't really exist until "we were trying to find places for work for people."

[1:00:34 PM](#)

REPRESENTATIVE EDGMON asked if AIDEA is becoming the nexus for economic development.

COMMISSIONER NOTTI responded that AIDEA was never meant to be that, but as a practical matter AIDEA had the budget. By default, the legacy in DCCED is falling behind due to lack of staff.

[1:02:25 PM](#)

MICHAEL BLACK, Deputy Commissioner, Office of the Commissioner, Department of Commerce, Community, & Economic Development, reminded the committee that his emphasis is in community and rural issues. Prior to the loss of the department's other deputy commissioner and the removal of the funding, he noted that he observed what the department was doing in economic development. The approach that Representative Austerman brings is important because it's important in terms of how Alaska can address economic development. He pointed out that economic development represents a multitude of organizations in the state, many of which are fragmented and don't fall under any overarching strategy. Mr. Black noted his appreciation of Representative Edgmon's question regarding whether AIDEA is the nexus for economic development. Any entity with stable funding becomes a nexus, he remarked. He opined that DCCED "cobbled" together OED from remnants of what was left, such that the former Division of Tourism is now just an element of OED. Furthermore, the emphasis on minerals and other industries are now just a couple of staff. Mr. Black said that although he believes OED can be a very valuable part to any strategy that is developed, it doesn't have the resources to do so on its own. Therefore, he applauded the partnership programs through the ARDORs and AIDEA. The situation seems to be at a point at which there is an opportunity now to finally bring things together.

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CO-CHAIR HERRON recalled that a very similar discussion occurred earlier during session. Therefore, he questioned whether DCCED should be split into two departments as it was in the past or are the divisions within DCCED strong.

MR. BLACK said he believes that the current department has a multitude of functions and associated organizations, including AIDEA and the Alaska Aerospace Development Corporation. Although recreating the former Department of Community & Regional Affairs might provide more focus [for community and regional affairs] as well as the other remnants of economic development, he opined that focus should be able to be achieved without creating separate departments. Mr. Black stated his belief that the answer to Co-Chair Herron's question is to provide resources and a clear vision and mission of what the resources are to achieve.

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CO-CHAIR HERRON inquired as to whether Mr. Black considered the possible areas of discussion for the legislature to be surprising or predictable.

MR. BLACK responded that although none of the possible areas for discussion "jumped out at him," they were all excellent ideas.

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REPRESENTATIVE AUSTERMAN interjected that the steps the legislature may want to take will surface after more discussion. He expressed hope that this committee would pick up this issue and start holding hearings once the session starts. He acknowledged that DCCED has been working on a model of what Alaska looks like today and will have some suggestions regarding how to move forward. Hopefully, the department will return in early January to discuss the model. He reminded the committee that APED is already in the process of working on Phase I of its process and could provide some information in early February. Furthermore, the governor's office and the LEGACY discussion are occurring. Moreover, there are a lot of other interested people with ideas that could be invited to a public hearing to present testimony. Representative Austerman expressed the hope that by the halfway point of the session, some of the ideas could begin to gel.

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REPRESENTATIVE AUSTERMAN related his partial commitment to the private/public sector board similar to what other states have in order that it oversees everything. Although currently there are numerous organizations reviewing economic development, there is no coordination to bring everything together. He suggested having a private/public sector board with an exempt executive director that the state would fund, and therefore he/she wouldn't fall subject to political whims. The aforementioned could actually achieve better direction and a cohesive working group. He further suggested that such a group should meet at least monthly in the first year to address economic development in Alaska. Although he acknowledged that the governor has mentioned having an advisory group on economic development, Representative Austerman had the impression that it might only meet once a month. Representative Austerman opined that the state is actually past that point and rather is at the point of having a working group. In closing, he reiterated the desire to have this committee start the aforementioned process in January.

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CO-CHAIR HERRON committed to doing that. However, he reminded everyone of his request to Ms. Bell and the commissioner to work together with himself, Co-Chair Munoz, and Representative Austerman prior to the new proclamation.

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REPRESENTATIVE AUTERMAN invited those interested to contact his office regarding the large libraries of information online about economic development.

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CO-CHAIR MUNOZ expressed interest in having reports from the Forward Challenge, AIDEA strategic plan, and the LEGACY project at the end of January or early February. She also expressed interest in having input from private industry, from each of the state's industries regarding removing barriers to private investment.

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REPRESENTATIVE EDGMON, speaking to the energy side, highlighted that there will be debate regarding the usefulness of having a separate entity within state government for energy. He expressed the hope that the topic of energy does not get lost in these discussions of economic development. Furthermore, he related that he is struck by the fact that three core responsibilities of government are housed in one department. Therefore, the following question comes to mind regarding whether DCCED is being asked to do more than it is capable of doing. Representative Edgmon stated that he is leaning in the direction of returning DCCED to two departments.

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REPRESENTATIVE AUSTERMAN pointed out that the private sector has to invest in itself or it goes out of business. While the State of Alaska isn't a business, it has the same basic concepts as a business. Therefore, if the state doesn't invest in itself or departments aren't funded to perform their work, then it's the legislature's fault. Legislators need to take a strong look at what should be done to invest in Alaska to make it grow.

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CO-CHAIR HERRON opined that there could be a fear that this is an evaluation process of the department and that employees at the bottom will lose their jobs. However, he reminded everyone that this is a performance audit, and the review will be from the top not the bottom, as far as departmental employees.

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**ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 1:20 p.m.