

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 4, 2010
2:05 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Chair
Senator Joe Thomas, Vice Chair
Senator Bettye Davis
Senator Kevin Meyer
Senator Con Bunde

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

Overview of Economic Development in Alaska

- HEARD

PREVIOUS COMMITTEE ACTION

No Previous Action to Report

WITNESS REGISTER

ERIN HARRINGTON
Staff to Representative Austerman
State Capitol
Juneau, AK

POSITION STATEMENT: Commented on economic development in Alaska.

CURTIS THAYER, Deputy Commissioner
Department of Commerce, Community & Economic Development (DCCED)
POSITION STATEMENT: Commented on economic development in Alaska.

TED LEONARD, Executive Director
Alaska Industrial Development and Export Authority (AIDEA)
POSITION STATEMENT: Commented on economic development in Alaska.

MARK DAVIS, Economic Development Officer
Alaska Industrial Development and Export Authority (AIDEA)
POSITION STATEMENT: Commented on economic development in Alaska.

WAYNE STEVENS, President and CEO
Alaska State Chamber of Commerce

POSITION STATEMENT: Commented on economic development in Alaska.

DAVID LAWER, Sr. Vice President and General Council
First National Bank of Alaska (FNBA)

POSITION STATEMENT: Commented on economic development in Alaska.

ACTION NARRATIVE

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CHAIR JOE PASKVAN called the Senate Labor and Commerce Standing Committee meeting to order at 2:05 p.m. Present at the call to order were Senators Meyer, Davis, Bunde and Paskvan.

Overview of Economic Development in Alaska

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CHAIR PASKVAN said the purpose of today's meeting is the overview of economic development in Alaska. He applauded the First National Bank of Alaska's effort in educating the public on economic issues by distributing the displayed pamphlets. He said he thinks it is important for the state government to be responsive to and supportive of the private sector whenever possible while still being efficient.

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ERIN HARRINGTON, staff to Representative Austerman, said she was here today to give them a quick overview of a document that Representative Austerman and his staff prepared to engender some discussion around economic development in state government. She said this document was presented to the House Community and Regional Affairs Committee in early December.

SENATOR THOMAS joined the committee.

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MS. HARRINGTON said that prior to joining Representative Austerman's staff she worked for four years as a consultant to the McDowell Group with a focus on economic development issues in Alaska, particularly in fisheries, and on her own for a little while before coming to work for the legislature.

The document was entitled "Economic Development in State Government." She said it provides a bulleted overview of some of the things they learned when they began to investigate the way

the state engages in economic development activities. This issue came to Representative Austerman's attention through his chairmanship of the House Finance Subcommittee Department of Commerce, Community & Economic Development (DCCED) budget.

MR. HARRINGTON said a starting point for the conversation was the need to differentiate between the state's investments in economic development and its investments in community development. Those two are intrinsically linked, but they are also essentially different. Economic development is the effort the state goes through to support and allow investments to occur by the private sector that hopefully results in the creation and retention of wealth and the rising of living standards for Alaskans. Community development is putting down the kind of infrastructure to support that kind of investment and includes things like telephone wires, streets, and schools. Community development is closely linked to the quality of life that allows economic development to happen, but their focus was on the economic development portion.

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She emphasized that many entities in the state government work on economic development, and as a legislator, Representative Austerman felt his responsibility related to what the state does because that is where the legislature has some authority and influence. One of the entities in Alaska is the Office of Economic Development (OED) within the Department of Commerce, Community & Economic Development (DCCED). This division has a leader plus 11 employees that work in five subprograms that are largely statutorily defined: the film office, business development, Office of Fisheries, Office of Mineral Development and tourism.

The Alaska Industrial Development and Export Authority (AIDEA) is another entity and its primary role is financing economic development projects. The Alaska Division of Investments administers and services 12 state loan programs that are all in the DCCED. Because of statutory history, the bulk of its programs are focused on the commercial fishing industry. This division also assists AIDEA with the administration of a couple of other investment programs. The 12 non-governmental resources are the Alaska Regional Development Organizations (ARDORs) that were created through statute and work in regions around the state.

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She said the University of Alaska has the Center for Economic Development that works with organizations in municipalities and the small business development centers that work with individual entrepreneurs. Other departments within the University support the development of business and the economy.

She said on pages 4-6, the report's brief bullet points explain how other states are doing economic development. Many states generated successes in broad economic development as a result of creating mechanisms that allowed the private sector to have insight, guidance or even authority over the actions of state agencies. This has been accomplished in different ways. The State of Wyoming, for instance, put the functions of economic development into a public corporation with a board of directors, and this arrangement is a bit more responsive to the business community.

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Another approach in North Dakota and South Dakota created an economic development foundation that has the ability to collect funds to support commerce activities. The foundation has a board that provides strategic guidance to guide the state's activities on economic development. She said that state government can't set a strategic plan for economic development, because that is a private sector function by its very definition; but the state can deploy its resources strategically.

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MS. HARRINGTON said their research has identified several areas of discussion for the Legislature and many of those have already been initiated in one form or another. First was the possibility of restructuring economic development functions within state government under alternate models. She noted that Mark Davis, Economic Development Officer, AIDEA, comprehensively reviewed what other states had done and went far beyond their report.

A second possibility for discussion was whether or not creating a non-governmental private sector group to oversee or provide input for coordination of deployment of state resources with private sector actions.

A third discussion point the research revealed is the need to establish or reestablish incentive programs in state government and to fund them - to allow the private sector to have tools. For instance, Ms. Harrington said a bill creating a business development incentive fund was passed in the early 2000s, but it wasn't ever funded.

Other points of discussion might be to review the budgets of the University and ARDOR programs that support economic development for adequacy. Another is the establishment of additional loan programs to support small business economic development. Also, there is the possibility of having oversight hearings to get this conversation going.

MS. HARRINGTON said in November she attended an Institute for the North and Federal Reserve Bank of San Francisco conference that had "outstanding" private sector turn out (unlike most conferences); it also was really focused on small business and entrepreneurship. People met in a round table forum and identified means that would help them get their small businesses off the ground, and there she heard people ask for smaller loan programs to help support the micro-level investments for the start-up phase of some companies. Those kinds of conversations are generating even more ideas.

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SENATOR THOMAS said economic development is such a large issue and every department in government deals with it in some respect, but deals with it separately rather than coming together. So, he appreciated the restructuring aspect as an area of discussion for the Legislature. He remarked that Alaska is different from most other states in that it doesn't have infrastructure. Roads need to be built and permits are needed, and federal regulations have to be complied with. It all takes time, planning and money.

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SENATOR BUNDE said it is not only necessary for the state to promote economic development and provide subsidies, but it needs to be aware of what the net return is for those efforts. He said a report on that should be out relatively soon and he encouraged her to include that on her list of items for discussion.

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CHAIR PASKVAN asked her idea of strategy for deployment of state resources.

MS. HARRINGTON answered that neither she nor Representative Austerman had identified a single model at this time. They do see a need to integrate private sector advice into actions the government takes. The corporate approach is intriguing - ASMI and AIDEA are examples - but that is not the only way to do it.

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SENATOR MEYER said some people think Alaska is closed to business or anti-business, and he thought the best way to help small business is to first help big business like oil and tourism. Is that her attitude? He asked how Alaska can create a friendlier investment climate.

MS. HARRINGTON said she wasn't equipped to discuss the oil and gas industry, but Alaska is open for business - the work they are doing is a result of that. But other states are more aggressively showing it by having people ready to respond and coordinate state resources when an opportunity for success presents itself.

In Alaska the resources that have been put toward this goal have been somewhat limited and have been eroded over recent years until just fragments are left. Ms. Harrington said that Oregon identified "economic clusters" that presented opportunities for their state; and in addition to putting resources behind them in terms of people and development strategy, Oregon developed an "Oregon Open for Business" website. Alaska has to demonstrate that it has focus; we have to pull together what have into a concise picture.

SENATOR MEYER said he thought having a webpage would "go a long ways."

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SENATOR BUNDE said that ACES is working well for the small companies, but not the legacy fields, and asked her if the state has an outreach program that would indicate that Alaska is somewhat user-friendly for the petroleum industry.

MS. HARRINGTON said she didn't know that Department of Natural Resources (DNR) was doing anything, but DCCED is doing what it can with staff and statutory obligations in terms of coordinating outreach for doing business in Alaska.

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CURTIS THAYER, Deputy Commissioner, Department of Commerce, Community & Economic Development (DCCED), said Governor Parnell and his administration is "working hard to change the direction of state government and to position Alaska for economic growth." He believes the best thing government can do is "to know when to lend a hand and when to get out of the way." Developing Alaska's energy and other resources, enhancing transportation systems, improving workforce development and removing barriers that

inhibit opportunity and growth are all goals. The Governor knows that jobs are a fundamental part of the quality of life for Alaskan families, so he has made job creation a focus of his administration. To do this, he has reached out to leaders in every sector of the state's economy to better understand unique challenges and perspectives.

MR. THAYER said he has compiled 70 potential projects, both large and small, from across the state that have been on the shelf for years and were never advanced - for some reason. They include hydroponics, fuel storage, and mariculture to name a few. He has been charged with identifying these projects and finding what the department can do to advance them. He is in the process of hiring a specialist to engage the private sector and has several dynamic candidates who would like to lead the Office of Economic Development.

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MR. THAYER said he would review the Agricultural Revolving Loan Program, along with the Division of Investments, International Trade Office, the Alaska Grown Program. Additionally, he said he is proposing a small business loan program, something that Alaska has lacked and that has proven to be a huge boon for small businesses development in other states. He also shared the Governor's vision for supporting AIDEA and its renewed emphasis on economic development.

MR. THAYER said the Governor believes that citizens should be free to create economic wealth and experience a high quality of life, but the government should not be the primary economic planner; rather it should be a participant. To this end, he has committed senior staff and financial support to "Alaska Forward," a comprehensive economic development strategy. Funding was also provided by the Denali Commission as well as leadership by the Alaska Partnership.

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SENATOR THOMAS asked what he thinks is the number-one stumbling block in economic development.

MR. THAYER responded that he has been trying to figure out exactly what the state is doing now, and then seeing what can be done to bring different agencies together to coordinate their efforts. He said ironically, the Office of Economic Development has a budget of \$3.3 million out of the DCCED's budget of \$200 million - and only \$300,000 of that is from the general fund. One thing he has discovered is that the state is its own worst

enemy. One state agency or division can hold up economic development and a couple of phone calls later, something gets moved. It shouldn't be that way and he is trying to figure out where some of those barriers can be removed.

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SENATOR THOMAS said it seems every time he turns around, when he is talking to resource developers around the state, the issue that comes up first is energy, and it just seems that support for small to medium efforts doesn't exist, especially in the rural areas and Fairbanks. He has been told that it is hard to attract interest from outside the state of Alaska - not because it's an unfriendly place to do business, but simply doesn't it doesn't allow them to build the facilities they want to build while having reliance on a long-term energy or heating source.

MR. THAYER agreed; Southcentral has had long-term, stable and cheap energy for many years and now energy is going to market prices. Box stores want to come into Fairbanks, but until it has stable natural gas they don't want to invest there; the same thing for attracting manufacturing to Anchorage.

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In Kenai, he related that a third party wanted to put a gas storage facility in an empty well. It was in the process of buying 40 acres from the University and needed an adjoining 8 acres, which was owned by the city. The city was willing to sell it, but it had a conservation easement that the state agency was not willing to let go. A call from the Governor changed that and all of a sudden the project could move forward.

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CHAIR PASKVAN said people know Alaska has limited resources and the Legislature is trying to develop a strategy for their deployment for at least 50 years out. What would be the best structure to think about?

MR. THAYER said other states have done some good things that Alaska can look at, but the department has to keep Alaska's uniqueness in mind. For instance, some of the other states' economic development is stealing businesses from across the river, the border, or from across the highway; but Alaska is 1500 miles away from moving a business!

He said that right now he is taking "a hard look" at how the Office of Economic Development can better partner with the Division of Investments and AIDEA and to identify loan programs

that to see if existing programs can be incorporated into a model. He said he needs a little bit of time to do this. Someone who is connected to AIDEA needs to go out into the business community to look for what is needed - sort of like an ombudsman.

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CHAIR PASKVAN said the Labor and Commerce Committee is tasked with making sure the state's resources are used in the most efficient manner, and when he hears "uncoordinated resources" that says they need to think more about what to do and develop strategies that focus these uncoordinated resources. He urge the department to keep it in the loop.

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SENATOR BUNDE said he liked the idea of streamlining, but accountability is needed. He was interested in when the report on the net return to the state from subsidizing development efforts would come out.

MR. THAYER said an economist is working on those numbers, but without a sales or income tax, net return is hard to calculate. He wants each area to develop a business plan with goals, a strategy for getting there, and a way to measure the results.

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SENATOR THOMAS asked if he feels his job is to identify and prioritize the larger issues that create difficulty for development in the state.

MR. THAYER answered yes; he wants make sure that government agencies are coordinated so that his list of projects have adequate resources to move forward. The legislature can help prioritize the projects.

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TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), related that it has been engaged in developing a long-term comprehensive, strategic process and plan since the fall of 2008. An "environmental scan" was part of the part of this effort and it showed that the Authority has tools in place that can be used to enhance statewide economic development. However it also showed that stakeholders viewed AIDEA as being "reactive" and felt that it should take a more "proactive" role in promoting economic development. He said that AIDEA's programs from financing and project development to commercial lending provide the potential for such an expanded

role; and based on this planning effort, AIDEA's board modified its mission statement to be: "Promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment." Consistent with this new mission statement and as well as with the feedback from their stakeholders to be more proactive, he said: "AIDEA's strategic vision is to actively partner with Alaskans as a dynamic resource in statewide economic development."

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MR. LEONARD said, therefore, AIDEA has embarked on the following initiatives:

1. Diversify and grow AIDEA's assets to support economic development.
2. Improve AIDEA's existing programs and add targeted new economic development financing tools.
3. Expand the development and impact of AIDEA's economic development financing.

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MR. LEONARD said the results of meeting their initiative is that AIDEA will: increase its visibility, ensure its decision-making processes will be driven by database decisions instead of decisions based on individual "intuition," plan for success by turning the planning process into an effective accurate forecast of future events, and also create a culture that is performance-based on shared accountability and adaptability to changing economic conditions. In conformity with this vision, AIDEA is adding staff and reorienting itself to become a more proactive partner with the private sector, the DCCED, ARDORS, APED, local governments and other stakeholders. Their main goal is simply to become a strong resource for Alaska in promoting economic development.

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MR. LEONARD said that one of the key items they are working on this fiscal year is the development of systems for the rapid and efficient intake and assignment to pertinent staff of economic development financing opportunities. They believe the larger projects will take more than just AIDEA's capacity to finance them. Internally, AIDEA will create a business and technical advisory committee to guide the efficient use of its resources and capabilities and to provide more private sector input. Externally, they will create the capacity for increased financial and economic review of potential economic development projects. AIDEA is also examining the use of financing opportunities that arise under the American Recovery and

Reinvestment Act (ARRA) that include several new types of financing bonds: Build America Bonds and Recovery Zone Economic Development Bonds. They are working to get that information out to the private sector, other development agencies, and communities.

MR. LEONARD concluded that a constant theme for Alaskans today is the high cost of energy, both to the consumers and for commercial applications. So AIDEA in partnership with AEA is looking at the Department of Energy's (DOE) loan guarantee program for projects that employ new or significantly improved energy technologies.

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MARK DAVIS, Economic Development Officer, Alaska Industrial Development and Export Authority (AIDEA), elaborated that said they are working with DOE as a development finance organization on structured energy loans under which the DOE would guarantee a portion of a project. He said that \$50 billion is available for that program and they are 1 of 23 development finance organizations that generally have accepted applications before DOE.

Finally, he said that AIDEA is adopting best practices used by other state development agencies in developing a matrix for its performance and goals. The result is that AIDEA is poised to dovetail with and support economic development plans and processes put forward by the administration and the legislature for the benefit of all the regions in the state.

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CHAIR PASKVAN asked where AIDEA wants to diversify and how much it wants to grow.

MR. DAVIS responded that AIDEA has programs that allow for loans, bonds and direct financing. The state is facing a recession and typically looks at traditional industries along with targeted sectors that export out of the state to create jobs. Also, CPI figures indicate an inflation rate of .20 percent, largely in heating and electrical generation. So they are actively looking to arrange financing for projects within the sectors that should improve the situation. Diversification will take them from the shipyard they are involved with now and mining to other sectors of the economic.

MR. LEONARD added that they are also going to add one to three projects per year to AIDEA's portfolio and invest up to \$250

million in the next three years. They will look at 12 projects a year to find two or three that are going to be successful.

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WAYNE STEVENS, President and CEO, Alaska State Chamber of Commerce, said their top mission in recent years has been to promote business in Alaska. He said at some point Alaskans won't be able to continue receiving state services and that a plan needs to be developed to get us to the future and that plan has to include a transition period until the gas flows.

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MR. STEVENS said the Washington Business Plan, the Oregon Business Plan, Enterprise Seattle, the Prosperity Partnership of the Puget Sound Regional Council - all offer successful models that Alaska can look at. The plan must focus resources on deliberate and effective programs and projects that promote resource development, a healthy statewide business climate, and create a national and global competitive advantage for Alaska. A strategic economic development plan should provide the framework for Alaska's businesses and elected leaders to work together to build a stronger more competitive state economy.

He said the plan should encompass four strategic components: fiscal predictability and stability, workforce development - identifying deficits in essential services, and education for those skills and recruitment, leadership-ensuring policies, and investment in transportation, energy communications and other infrastructure that supports economic development. "We must be known as open for business."

MR. STEVENS said that a mechanism is needed to weave all the plans into a single shared vision and it needs the participation and support of all three sectors to develop that shared vision for the state's economic future.

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In 2008, he said, Governor Palin established the Legacy Plan; its intent was to establish and prepare a framework for the state's future economic growth by setting economic development goals and missions. In the summer of 2009, Alaska's ARDORS joined together under the banner of "Alaska Partners in Economic Development" (APED) and have used a \$50,000 grant from the Denali Commission to build the beginning steps of a statewide vision and plan. Four months ago APED partnered with a team of nationally recognized consultants and embarked on a comprehensive situational analysis of Alaska's economy and the

"Alaska Forward" initiative was borne. Their phase-one analysis is soon to be delivered with the hope that phase two will begin later this year. He said that Legacy and APED, while independent efforts, are collaborating and poised to move forward as one.

CHAIR PASKVAN remarked that everyone can realize the potential mixed message that can come out of uncoordinated activities, and having a structure will help that success plan or strategy "bubble to the surface."

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DAVID LAWER, Sr. Vice President and General Council, First National Bank of Alaska (FNBA), said they are the oldest and largest locally owned bank in Alaska. He said that FNBA has initiated an effort to inform Alaskans about the fundamentals of the Alaskan economy with their "Three-Legged Stool Campaign." In large part the campaign began in response to their customers' inquiries about their view of economic conditions in Alaska compared to other state and their predictions about their future.

He said FNBA knows that oil and gas exploration and development is one of the three major sectors of Alaska's economy and that at least one-third of all working Alaskans owe their livelihood to oil; they also know that the number of jobs in Alaska related to oil is dwindling. But these circumstances aren't commonly known or accepted by a large number of Alaskans. Mr. Lawer said that why FNBA began its informational campaign to educate as many Alaskans as possible and to get them to ask their elected representatives to focus on these issues now before the rate of job loss in Alaska accelerates further.

At this point, Mr. Lawer said, the response to their campaign had been "enormously successful." They have heard positively from their customer base, oil producers and their contractors, service providers, everyone. In fact, he said, of the more than 20,000 employers when they started their campaign only eight have asked them to discontinue furnishing them information and literature. A much greater number has asked them to increase the volume of literature they distribute so they could furnish it to their employees.

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MR. LAWER stated that economic development is the creation of private wealth and it is a product of private capital investment. "Quite simply, capital flows to competitive advantage." The state can determine what it can do to offer

competitive advantage instead of some scheme to create private wealth.

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CHAIR PASKVAN thanked everyone for their comments and adjourned the meeting at 3:23 p.m.