

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

January 31, 2013
11:17 a.m.

MEMBERS PRESENT

Representative Shelley Hughes, Chair
Representative Lynn Gattis
Representative Pete Higgins
Representative Craig Johnson
Representative Lance Pruitt
Representative Harriet Drummond
Representative Geran Tarr

MEMBERS ABSENT

Representative Bob Herron
Representative Kurt Olson

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 1
Relating to the establishment and operation of a state food
resource development working group.

- MOVED CSHCR 1(EDT) OUT OF COMMITTEE

OVERVIEW (S): DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC
DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HCR 1

SHORT TITLE: STATE FOOD RESOURCE DEVELOPMENT GROUP

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

01/24/13	(H)	READ THE FIRST TIME - REFERRALS
01/24/13	(H)	EDT, RES
01/29/13	(H)	EDT AT 11:15 AM BARNES 124
01/29/13	(H)	Heard & Held
01/29/13	(H)	MINUTE(EDT)
01/31/13	(H)	EDT AT 11:15 AM BARNES 124

WITNESS REGISTER

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Speaking as the sponsor of HCR 1, answered a question.

ROBERTA GRAHAM, Assistant Commissioner
Office of the Commissioner
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "Division of Economic Development," dated 1/31/13.

CATHY JEANS, Division Operations Manager
Juneau Office
Financing Section
Division of Economic Development (DED)
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Participated in the PowerPoint presentation entitled, "Division of Economic Development," dated 1/31/13.

GLENN HAIGHT, Development Manager
Juneau Office
Development Section
Division of Economic Development (DED)
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Participated in the PowerPoint presentation entitled, "Division of Economic Development," dated 1/31/13.

ACTION NARRATIVE

[11:17:47 AM](#)

CHAIR SHELLEY HUGHES called the House Special Committee on Economic Development, Trade and Tourism meeting to order at 11:17 a.m. Representatives Higgins, Johnson, Pruitt, Drummond, Tarr, and Hughes were present at the call to order. Representative Gattis arrived as the meeting was in progress.

HCR 1-STATE FOOD RESOURCE DEVELOPMENT GROUP

[11:19:05 AM](#)

CHAIR HUGHES announced that the first order of business would be HOUSE CONCURRENT RESOLUTION NO. 1, Relating to the establishment and operation of a state food resource development working group. Chair Hughes noted that the committee adopted a conceptual amendment to HCR 1 on 1/29/13, and no additional comments on the resolution have been received by the chair.

[11:20:58 AM](#)

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, sponsor of HCR 1, thanked the committee for its technical amendment to the resolution and offered to answer questions.

REPRESENTATIVE TARR, cosponsor of HCR 1, mentioned that the average age of a farmer in Alaska is approaching 60 years old, and underscored the importance of working to develop the next generation of farmers. She said she has worked for 15 years with the Alaska Organic Association and is a founding board member of the Anchorage Farmers Market.

[11:22:32 AM](#)

REPRESENTATIVE PRUITT moved to report HCR 1, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHCR 1(EDT) was reported from the House Special Committee on Economic Development, Trade and Tourism.

[11:23:05 AM](#)

The committee took a brief at-ease.

[11:23:25 AM](#)

OVERVIEW (S): Department of Commerce, Community & Economic Development

[11:26:55 AM](#)

CHAIR HUGHES announced that the final order of business would be a presentation by the Division of Economic Development (DED), Department of Commerce, Community & Economic Development (DCCED).

[11:27:26 AM](#)

ROBERTA GRAHAM, Assistant Commissioner, Office of the Commissioner, DCCED, provided a PowerPoint presentation entitled, "Division of Economic Development," dated 1/31/13. As an aside, she said that DCCED is involved in the promotion of fisheries and agriculture, and announced that two episodes of the *Top Chef* television series were filmed in Juneau. The episodes featured local businesses and geographic locations, and promoted local seafood and food products. This was a promotional project through the efforts of DCCED's tourism and seafood marketing work. Ms. Graham then began the presentation and informed the committee that the Division of Economic Development (DED) has a financing section and a development section, both of which work to create a solid foundation for Alaska's economic wellbeing through marketing, financing, and the technical assistance program. The presentation will describe DED's suite of financing programs and development work in timber, fisheries, and minerals, as well as the marketing of products. In addition, DED has programs in film and tourism, works with the Alaska Regional Development Organization (ARDOR) program, staffs the Alaska Minerals Commission, and facilitates the statewide broadband task force, along with many other functions. The division has 58 employees in offices in Anchorage, Fairbanks, Tok, and Juneau.

[11:31:08 AM](#)

CATHY JEANS, Division Operations Manager, Juneau Office, Financing Section, DED, DCCED, said the financing section oversees and services eleven loan funds with a current outstanding debt of \$187 million, representing loans receivable balances. There are five programs related to fisheries, a bulk fuel revolving loan fund which is overseen for the Division of Regional and Community Affairs, an alternative energy loan program, three small business loan programs, and a Capstone Avionics loan program. All of the loan programs are to create economic activity and jobs for Alaskans. The core services of the financing section are operations management consisting of establishing policies and procedures, budget and control, fiscal oversight of the revolving loan funds, and daily operations. The lending, servicing, and collections section underwrites loans, makes loan decisions by committee, collects delinquent debt, and works with the assistant attorney general's office on settlement and bankruptcy cases [slide 4]. As of 7/1/12, the largest loan fund by portfolio is the commercial fishing fund with 2,006 accounts, and the second largest is fisheries enhancement with 308 accounts. Rural development, small business economic development, and Capstone Avionics make up the

other accounts. A review of the loans and accounts by dollar amount indicates total outstanding debt as follows: commercial fishing fund - \$85.4 million; fisheries enhancement - \$85.5 million; rural development - [\$5.3] million; small business economic development - \$6.5 million; and Capstone avionics - just over \$500,000 [slide 5].

[11:33:56 AM](#)

CHAIR HUGHES asked for the average loan amount.

MS. JEANS was unsure, but indicated that fisheries enhancement loans can be over \$1.0 million, and the average commercial fishing loan is around \$50,000 to \$60,000. The division has a new Alternative Energy Conservation Fund, which is a revolving loan fund capitalized in Fiscal Year 2012 (FY 12) that provides commercial business owners access to loans for energy conservation, retrofitting projects, and installation of alternative energy systems. In FY 13, four funds were capitalized: the Commercial Charter Fisheries Revolving Loan Fund, which is a \$5 million fund that allows eligible Alaskans to finance charter halibut permits; the Mariculture Fund, which is a \$5 million fund, that provides long-term loans for the development of Alaskan-owned mariculture operations; the Alaska Microloan Fund, which is a \$2.5 million fund; and the Community Quota Entity Fund, which is a \$10 million fund that provides long-term, low interest loans to community quota entities for the purchase of halibut and sablefish fishing quota [slide 6]. Ms. Jeans returned attention to the Commercial Fishing Revolving Loan Fund that was enacted in 1972, and explained that this is one of the largest funds intended to promote the development of resident fisheries and continued maintenance of commercial fishing vessels and gear, thereby improving the quality of Alaska seafood products. In FY 12, the division made 215 new loans that totaled \$15.9 million, 35 of which totaled \$2.1 million and were for upgrading older engines to more fuel efficient models. She advised that this work created or saved 706 jobs. In addition, 219 extension requests and 25 refinance applications were processed, and she reported that the delinquency and foreclosure rate for this loan program remains at 1.4 percent [slide 7].

[11:37:22 AM](#)

CHAIR HUGHES asked how the delinquency and foreclosure rates compare.

MS. JEANS indicated the rates compare favorably overall with private lenders and banks.

REPRESENTATIVE GATTIS asked for the current interest rate.

MS. JEANS answered that the majority of rates for commercial fishing programs are 5.25 percent, and engine fuel and productivity loans are at 4.25 percent.

REPRESENTATIVE DRUMMOND returned attention to slide 6 and asked for the parameters of microloans.

MS. JEANS responded that the lower limit is \$35,000 and the maximum is \$50,000 at a 5 percent interest rate. A turn-down letter is required if the loan is for \$35,000 or over. Ms. Jeans stated that the Fisheries Enhancement Revolving Loan Fund is for planning, construction, and operation of fish hatchery facilities. Last year the division made eight loans for \$9.6 million, and received \$5.1 million in repayments. In 2011, hatchery-propagated salmon provided 18 percent of the ex-vessel value of the commercial common property harvest. She noted that the Douglas Island Pink and Chum Hatchery (DIPAC) in Juneau paid off all of its loans in FY 12 [slide 8].

[11:40:16 AM](#)

REPRESENTATIVE PRUITT asked for the term of the DIPAC loan.

MS. JEANS estimated 30 years. In further response to Representative Pruitt, she explained that DIPAC got a series of loans for operating and construction purposes.

MS. GRAHAM, in response to Chair Hughes, said the division would provide the committee further information on businesses that had paid loans in full.

MS. JEANS turned attention to the Small Business Economic Development Revolving Loan Fund which is owned by the Alaska Industrial Development and Export Authority (AIDEA), and is serviced by the division. The primary purpose of the fund is to provide financing for start-up and expansion of businesses to support long-term employment. Since the inception of the program 127 loans have been made, totaling \$15 million, and 1,054 jobs have been created or saved [slide 9].

REPRESENTATIVE HIGGINS asked for the definition of long-term employment.

11:43:42 AM

MS. JEANS was unsure. In response to Chair Hughes, she said she would identify for the committee the recipient of the one loan made in FY 12.

REPRESENTATIVE PRUITT asked whether the loan fund was capitalized.

MS. JEANS indicated yes, the fund has about \$2.0 million available, and seven or eight loans have been made so far this year. The Rural Development Initiative Fund is another fund serviced for AIDEA and was also created to provide financing for start-up and expansion of businesses. In FY 12, eleven loans were made totaling \$1.8 million, which created or saved 58 jobs [slide 10]. The Alaska Capstone Avionics Loan Program provides long-term low interest loans for purchase and installation of Next Generation Air, transportation system avionics equipment, and facilitates infrastructure. Since its inception, eleven loans totaling more than \$746,000 have been made [slide 11]. In FY 12 the Salmon Enhancement Tax Distribution Program provided \$4.8 million to six qualified regional aquaculture associations: Prince William Sound, Northern Southeast, Southern Southeast, Chignik, Cook Inlet, and Kodiak [slide 12].

CHAIR HUGHES asked how the funds are divided between the aquaculture associations.

11:47:06 AM

GLENN HAIGHT, Development Manager, Juneau Office, Development Section, DED, DCCED, said the tax distribution is based on the value of the catch in each region.

MS. JEANS stated that the Volunteer Tax and Loan Program is comprised of teams of college accounting students, professors, tax supervisors, and employees of the Alaska Business Development Center which provide free tax and financial counseling. In FY 12, the program visited 71 communities, assisted over 7,000 people, and provided \$5.2 million in tax returns [slide 13].

CHAIR HUGHES questioned whether the state pays travel costs for the volunteers.

MS. JEANS said there is a contract for \$30,000 which pays for travel.

REPRESENTATIVE PRUITT asked how the state and the volunteers are held harmless for incorrect tax advice.

MS. JEANS was unsure, but said she would provide that information.

REPRESENTATIVE HIGGINS expressed his concern about the state being in competition with small businesses that provide tax preparation in those communities.

MS. JEANS said there are no state representatives in the field.

MR. HAIGHT stated that tax reports are not being filed in these communities, and the genesis of the program was in response to fishermen who were in default with the Internal Revenue Service (IRS).

CHAIR HUGHES asked whether the program targets communities that do not have local businesses that provide this service.

MR. HAIGHT was unsure. He added that these are communities of between 100 and 300 people.

REPRESENTATIVE HIGGINS restated his concern.

REPRESENTATIVE GATTIS observed from her own experience that out-of-town businesses visit smaller communities to do residents' taxes, and "it does sound like we're competing with the private sector."

[11:52:14 AM](#)

MS. GRAHAM said she would look into these concerns. She then directed attention to the development section of the division, and pointed out that the finance and development sections work together on how to assist small business development.

MR. HAIGHT outlined his presentation of programs focused on minerals, fisheries, and timber, saying that a development specialist completes a lot of formal and informal analyses involving dialogue with industries in order to determine the challenges of each industry and create solutions. Core services provided by the division include marketing, research, and technical assistance. In FY 12, the development section

researched marine trade services such as ship repair, machine shops, hydraulics, painters, and welders. An expansion survey was conducted to determine whether there is an interest in growth or obstacles to growth. The section also fields phone inquiries for technical assistance. He recalled this year the section spent time assisting with the low Chinook salmon returns on the Yukon River and the Kuskokwim River, Cook Inlet, and in the Matanuska-Susitna valley. Mr. Haight relayed that by statute the development section works in collaboration with other state agencies; for example, on strategic minerals with the Department of Natural Resources (DNR) [slide 14].

[11:56:34 AM](#)

CHAIR HUGHES asked how many inquiries are related to regulatory or policy problems.

MR. HAIGHT recalled during his experience as a fisheries development specialist a lot of the questions were on that. Development specialists serve as a source to help businesses with regulators, and provide guidance on a confidential manner, but he did not have an exact number.

CHAIR HUGHES asked whether records are available.

MR. HAIGHT advised consistent problems are captured during the specialists' survey work and in conversations with businesses.

CHAIR HUGHES urged the division to keep records and make this information available to the committee.

MS. GRAHAM said her division will report back to the committee.

MR. HAIGHT returned to the section's work last year and noted it conducted an in-depth analysis to determine timber demand in Southeast, helped staff the Alaska Minerals Commission, and examined the economic impacts of the Endangered Species Act (ESA) in partnership with the Alaska Department of Fish & Game (ADFG) and the Department of Law (DOL) [slide 14].

CHAIR HUGHES asked whether the Alaska Minerals Commission is compiling recommendations on policy.

[12:00:19 PM](#)

MR. HAIGHT said yes. This year the commission has five recommendations dealing with education, federal involvement, staffing concerns, transportation, and taxation issues.

CHAIR HUGHES asked if the commission is required to report to the legislature on an annual basis.

MS. GRAHAM stated that the report is required and available to the committee.

MR. HAIGHT advised that the section approaches each sector looking for opportunities in development. Right now there are positive activities in the minerals industry; in fact, \$365 million has been spent in exploration activity, \$270 million has been spent in development expenditures, and the estimated production value for minerals in Alaska is over \$3.5 billion. The development section seeks to help continue this growth to the extent possible. Another sector of interest is rare-earth elements (REE) because China has threatened to restrict exports of these elements that are essential for high-tech products. Alaska has 70 potential sites for the production of REE according to DNR. Small mining also holds opportunities for Alaska, with almost 300 small mines producing over \$100 million in production value. Mr. Haight said development specialists are looking to help with constraints on mining [slide 15].

[12:03:32 PM](#)

REPRESENTATIVE PRUITT agreed that mining for REE is a great opportunity. He asked how DED is working with DNR, and whether there has been a response from outside the state regarding investments in this sector.

MR. HAIGHT said minerals development specialists work very closely with the Division of Geological & Geophysical Surveys (DGGS), DNR. He pointed out that minerals development entails three main focus areas: research efforts, marketing projects, and collaboration, although there is crossover between these areas. Regarding strategic minerals resource assessment, work is underway with DNR and the industry to develop a recommended long-term strategy to develop minerals in Alaska, including REE. One aspect of research regarding REE is understanding the permitting system. In addition, DED is overseeing a grant with the University of Alaska Fairbanks (UAF) to collect core samples from Bokan Mountain and to research the specialized processing methods necessary for REE. Other research efforts include devoting staff to work with DGGS to put together the Alaska

Minerals Industry Report, which is a survey of small mining activities, and an informal survey of small mine businesses to find out constraints on business retention and expansion.

[12:07:18 PM](#)

REPRESENTATIVE HIGGINS said the Mine Safety and Health Administration (MSHA), U.S. Department of Labor, is a problem for small miners because MSHA considers all mines to be big and under the same regulations and constraints. This causes a small miner to do unnecessary things such as maintain an office.

[12:07:52 PM](#)

MR. HAIGHT said a big part of minerals development is the marketing element and explained that the marketing programs, in a manner similar to seafood and tourism, seek to capture a very big base, down to the end consumer. Fortunately for the minerals industry, target companies can be reached at the two major trade shows annually held in Vancouver and Toronto, and DED and DNR work together to have a presence at both of the trade shows each year. He assured the committee that Alaska has a very favorable business environment for the minerals industry [slide 16].

MS. GRAHAM stated that the director of DED is attending an important trade show this week with representatives from DNR, DOTPF, and other agencies. In response to Representative Pruitt, she said the division is deeply involved in the work to be done to map the state for REE resources, understand processing, and invest in this industry to promote its growth.

[12:11:14 PM](#)

MR. HAIGHT turned to Fisheries Development, noting that the wholesale value earned by first-buyers was \$4.5 billion in 2011. In addition, the salmon industry has grown to a value of between \$500 million and \$600 million, and there are 1,300 new permits supporting jobs. In order to make improvements, the section looks for opportunities in commercial fisheries, seafood processing, marine trades businesses, and mariculture [slide 17]. He clarified the information on slide 17, stating that about 38 percent of the value of the state's total commercial fisheries is owned in rural Alaska communities. The section also has a role to increase the value of underutilized and undervalued fisheries. Returning to the processing sector, he

cautioned that the increase in pink and chum salmon exports to China may have an impact on the capacity of Alaska processors.

REPRESENTATIVE DRUMMOND asked for an example of an underutilized and undervalued fishery.

MR. HAIGHT responded that octopus has potential and the herring industry has not held its value from the '90s. An area of growth is in the dive fishery - with products such as geoduck - although the division did not have a direct role there.

MR. HAIGHT, in response to Representative Higgins, further clarified that 60 percent of the commercial fishing permits are owned in rural Alaska.

[12:15:58 PM](#)

CHAIR HUGHES asked whether DED targets opportunities for Alaskans in fisheries development, or supports all economic development benefits, even for those based out-of-state.

MR. HAIGHT opined it is very important to maintain open access to businesses, which may involve outside investment, because it is needed. The role of DED is to increase ownership by Alaskans and he said he is hoping there will be a shift from outside ownership as the next generation purchases permits from retirees. Expanding on the section's work on commercial fisheries, he said it supports the University of Alaska's Fisheries, Seafood, and Maritime Initiative for structured training and education for Alaskans; reviews undervalued and underutilized fisheries; supports the Regional Seafood Development Association program; provided research and analysis for the 2012 Chinook disaster declarations; and conducted a business retention and expansion survey for seafood processors [slide 18]. In the timber industry, the problem is access to resources. In the early 1990s the gross value of wood products manufacturing was bigger than that of oil; in 2010, it was 1 percent of oil. The role of his section is to identify new products for timber - such as woody biomass - by having development specialists survey the timber industry and trade missions to open new markets [slide 19]. Special activities in timber development were: supporting the governor's timber jobs task force; identifying demand for products; development of wood grading; development of a wood suppliers directory; and participation in trade shows such as the Anchorage home show with a booth constructed of Alaska-built and Alaska-manufactured materials called The Alaska Home. Technical assistance includes

support of value-added products, manufacturers, the Working Forest Group effort by the timber and other industries to work together with a focus on healthy communities, and advising DNR on issues with the Tongass National Forest Land & Resource Management reviews [slide 20].

[12:22:50 PM](#)

MR. HAIGHT said his final subject was on marketing products from Alaska's manufacturing sector. About 3 percent of Alaska's gross state product is manufacturing, thus there is room for growth. Eighty percent of the products are from food production - mostly seafood - and oil. Other products are arts and crafts, construction materials, and outdoor gear [slide 21].

REPRESENTATIVE TARR asked for more information on the Working Forest Group.

MR. HAIGHT explained the group is organized by Sealaska Corporation and is similar to a public relations campaign to "brand the message." In further response to Representative Tarr, he said he will provide more information.

CHAIR HUGHES heard that the timber industry seeks social license.

MR. HAIGHT agreed, and said the campaign is intended to show how industries can work together to create a sustainable economy for healthy communities.

[12:26:17 PM](#)

REPRESENTATIVE DRUMMOND learned that Yummy Chummies Dog Treats has moved its production facilities outside Alaska, although it continues to use Alaska salmon.

MR. HAIGHT opined businesses relocate to Puget Sound for several reasons. He restated the importance of building a positive business environment, and noted that other factors are cost, labor, and the market.

REPRESENTATIVE DRUMMOND said Yummy Chummies moved to Arizona because of shipping issues. She expressed her belief that 90 percent of Alaska's goods come into the Port of Anchorage, and now some vans are going south empty since that product is no longer being shipped outside.

MS. GRAHAM agreed this is a concern. She said the division will pursue the circumstances and report back to the committee.

REPRESENTATIVE HIGGINS urged DED to explore connecting with the rail system in Canada in order to help commerce with transportation in and out of Alaska.

CHAIR HUGHES relayed that in the Matanuska-Susitna Borough the tax on inventory was removed to provide tax relief for manufacturing.

12:30:05 PM

REPRESENTATIVE DRUMMOND recalled that Walmart ships containers to the Port of Anchorage and then trucks merchandise through Canada to its Midwest markets due to congestion at other West Coast ports. She suggested Yummy Chummies may not have been aware of all of its options.

CHAIR HUGHES asked whether the state was doing all it can to remove barriers to value-added production by industry.

MR. HAIGHT observed that is the focus of the marketing work done for the timber industry. The industry has advised that the regulatory issue is access to wood; in fact, a survey of Southeast businesses revealed that to grow the industry they need access to 350 million metric board feet. Mr. Haight then turned attention to a new "buy local" campaign being developed to support Alaska businesses statewide. Existing buy local campaigns are in Anchorage, Fairbanks, and Juneau, and besides encouraging residents to keep their dollars local, selling products to neighbors and home markets creates excellence in manufacturing [slide 22]. Other programs are: Made in Alaska mother and cub logo with sales estimated at \$134 million; product preference program for state procurements; a new buy Alaska campaign to market and promote sales of Alaska products [slide 23].

12:35:05 PM

MS. GRAHAM restated that the trade booth at the Anchorage Home, Garden, and Remodeling Show in March will be stocked with home construction products manufactured and available in Alaska. In addition, there will be a web site with product purchasing information [slide 24].

REPRESENTATIVE PRUITT asked how the price of local lumber compares with that of lumber that is shipped up.

MS. GRAHAM was unsure of the exact price comparison, but the quality of local lumber is high and DED's primary concern is to support local business.

REPRESENTATIVE PRUITT cautioned that buyers do not look for the logo, but the price needs to be competitive so the products are stocked at Home Depot and Lowes.

MS. GRAHAM opined that depends on the product and awareness of the product, similar to Alaska Grown produce that is available at local restaurants.

REPRESENTATIVE TARR returned attention to the Community Quota Entity Fund and asked for an update on these loans.

[12:39:35 PM](#)

MS. JEANS said there is one application. The program was modified last year to better fit the Community Quota Entity (CQE) economic model. Volatility in the Individual Fishing Quota (IFQ) market has created hesitancy for the CQEs. She offered to provide more information.

CHAIR HUGHES asked Ms. Graham if the legislature needs to be aware of any needed changes in policy. She also inquired as to regulatory or statutory problems for businesses, and businesses that are having problems due to a lack of affordable energy.

MS. GRAHAM advised that DED is involved in trying to reduce the cost of energy in rural and urban areas of Alaska. Within DCCED, the Alaska Energy Authority (AEA) and AIDEA are working on the governor's initiatives to bring LNG to Fairbanks and to tidewater. She assured the committee she will review all of the inquiries the division has received and report back.

[12:42:58 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting was adjourned at [12:42] p.m.