

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

February 11, 2014
11:16 a.m.

MEMBERS PRESENT

Representative Shelley Hughes, Chair
Representative Pete Higgins
Representative Harriet Drummond
Representative Geran Tarr

MEMBERS ABSENT

Representative Lynn Gattis
Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Lance Pruitt

COMMITTEE CALENDAR

OVERVIEW: DIVISION OF ECONOMIC DEVELOPMENT~ DEPARTMENT OF
COMMERCE~ COMMUNITY & ECONOMIC DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided an overview of the Division of
Economic Development, program updates, future plans, and
Alaska's general economic health.

ACTION NARRATIVE

[11:16:54 AM](#)

CHAIR SHELLEY HUGHES called the House Special Committee on Economic Development, Trade, and Tourism meeting to order at 11:16 a.m. Representatives Higgins and Hughes were present at the call to order. Representatives Drummond and Tarr arrived as the meeting was in progress.

Overview: Division of Economic Development, Department of Commerce, Community & Economic Development

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CHAIR HUGHES announced that the only order of business would be an overview of the Division of Economic Development, Department of Commerce, Community & Economic Development (DCCED) to provide program information regarding updates, future plans, and Alaska's general economic health.

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ROBERTA GRAHAM, Assistant Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development, informed the committee that she would address the following topics: what DCCED is doing to create a better economy in Alaska; DCCED's role in the Arctic and Arctic development specifically; how DCCED collaborates with others, other departments, and within the department itself; and how DCCED is looking toward the future to diversify the economy beyond oil and gas. Ms. Graham then emphasized that DCCED, and the Division of Economic Development in particular, are focused on a strong Alaska. The department's theme is "North to Opportunity," which focuses on opportunity including growing the state's economy and jobs, unlocking the state's resource potential, promoting that the state is open for business, and building strength and resilience for future generations.

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MS. GRAHAM clarified that economic growth needs sustainable energy and reducing the cost of energy through oil tax reform through the development of the new gasline project, resolution of the Point Thomson litigation, and establishment of benchmarks for the producers. Through DCCED, the Alaska Gasline Development Corporation (AGDC) is reviewing the smaller pipeline development as well. Ms. Graham emphasized that sustainable energy and a reduction in the cost of energy is a big focus for DCCED, as are strong communities, which are necessary for viable economic development. Strong communities include good

infrastructure, strong local government, utilities, and a general way of life that produces economic opportunity. Consumer protection, through regulation and enforcement, is also a major focus of DCCED as it ensures a stable business climate.

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MS. GRAHAM, regarding what DCCED is doing to create a better Alaska economy, highlighted the department's marketing efforts, focus on infrastructure, efforts to reduce the cost of energy, research, and assistance with businesses. In terms of creating new markets for the state's goods and services, she highlighted the department's key marketing programs for tourism, seafood, and minerals. She then pointed out that [department staff] attend trade shows to develop future contacts, meet with businesses to resolve problems, and review new [opportunities] such as new air carriers coming to Alaska. In fact, DCCED courted Iceland Air to open up a new air route. The department, she related, has also accelerated the development of rare and strategic minerals. She then directed attention to two brochures that highlight the overall mineral and mining activities that are occurring in Alaska. At the beginning of March, the department along with a number of other state partners, mining companies in Alaska, Native corporations, and others, will attend the Prospectors & Developers Association of Canada meeting in Toronto, Canada. This is one of the largest mining conferences in the world, she noted. During the meeting, DCCED will host an Alaska opportunity room to specifically address what Alaska offers, the future investment potential in Alaska mining, and how to diversify existing resources in the companies that are currently invested in the state. Although the aforementioned is a major effort, DCCED is also focused on increasing development and marketing of forest products, the film program, upgrading trade show booths and collateral, and enhancing the promotion of "Made in Alaska" (MIA). One of the ways in which the department is promoting MIA is through the MIA home incentive. The MIA home program, which DCCED did with the Department of Natural Resources (DNR), is evolving and this year work is occurring to make the MIA house with as many Alaska resourced products as possible. The ultimate goal, she emphasized, is to have the [Alaska resourced] products in retail establishments and conduct seminars in the home as it's constructed. The hope is for construction of the house, which is located in Anchorage, to begin in June and to be completed by August.

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MS. GRAHAM then turned to the matter of growing Alaska's businesses and attracting new industries. She informed the committee that DCCED is creating more emphasis on cultural tourism. In fact, DCCED is doing a pilot project in Northwest Alaska where interest is being sought from businesses, including Native artists, and local communities. The department, while on the road and attending trade shows, is also promoting agricultural industries. There is also more emphasis on creating a film community in terms of feature films. Ms. Graham said that one must discuss providing access to capital in growing Alaska's economy. Within DCCED and the Division of Economic Development (DED), access to capital is through financing loan programs, of which there are 11. The Rural Development Initiative Fund, the Small Business Economic Development Revolving Loan Fund, and the [Alaska Microloan] program cater to small business development. The aforementioned are robust in lending and creating - or retaining - jobs that might not otherwise be in place. "We're dedicated to finding ways to help small businesses obtain the capital that they need to grow and expand . . .," she related. Over the course of the life of the Rural Development Initiative Fund and the Small Business Economic Development Revolving Loan Fund, they have created or saved/retained 1,200 small business jobs. She then highlighted the Skagway ore terminal project, a larger project through the Alaska Industrial Development and Export Authority (AIDEA), which has created numerous jobs and will continue to do so as the project expands.

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REPRESENTATIVE DRUMMOND, as a former Anchorage Assembly member, informed the committee that the Municipality of Anchorage was granted about \$13 million in the 49th State Angel Fund monies. Those funds are loans, not grants, and thus will ultimately be repaid. This was the first time such funding had been awarded to a municipality as it has normally been awarded to states. She recalled that at the time the Anchorage Assembly had to approve the appropriation, it was told the state wasn't prepared to manage these funds and thus the municipality was selected instead. She inquired as to why the state was unable to provide management of the 49th State Angel Funds.

MS. GRAHAM recalled that the opportunity to house that fund did come to DCCED first, but there was a timing issue. In order to receive the 49th State Angel Funds there was a need to increase the authority to do so. However, there was only a set amount of

time, perhaps 60-90 days, to initiate the fund. The letter arrived in the late summer/early fall and with the legislature not meeting again until the winter, DCCED didn't have the flexibility to receive the funds. Therefore, the work the department had put into creating that opportunity went to the city and DCCED did what it could to make the municipality's application seamless.

REPRESENTATIVE DRUMMOND asked if the 49th State Angel Funds are for statewide use or only for businesses and startups within the Municipality of Anchorage.

MS. GRAHAM offered that the 49th State Angel Fund has addressed that by investing the preponderance of the initial funding in other funds. To that end, the 49th State Angel Fund has dedicated at least half of the funds, through the application and review processes, to other venture funds that then consider other investment opportunities.

REPRESENTATIVE DRUMMOND recalled reading that a couple of million of the 49th State Angel Funds have been given out in seed money and another couple of million have been given to another organization.

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MS. GRAHAM, [returning to the issue of growing Alaska's businesses and attracting new industries], told the committee that DCCED has worked to grow export markets through trade missions to Iceland, China, and German-speaking Europe. The trade missions engage industries in countries that have a relationship with Alaska and the work that is done in Alaska. Therefore, they could include the seafood, tourism, and energy industries. Although a lot of ongoing work is occurring in that arena, [DCCED] is looking toward new markets in seafood and energy in Asian countries. Ms. Graham then informed the committee of a recent agreement with the Government of Yukon, Canada, to develop mutual economic needs. The scope of work is being developed through the Alaska Energy Authority (AEA). Ms. Graham explained that DCCED works closely with private industry, regional and local economic development organizations as it goes about its work with the universities, local governments, trade associations, and other state agencies. The aforementioned partners are important as DCCED implements its business plan.

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MS. GRAHAM then addressed the role of DCCED in terms of Arctic development. Arctic development, she opined, is of critical importance for the state as well as the nation. The department is working with other state partners on issues such as the deep water Arctic port and providing input into the administration's position on Arctic-related issues. She said that DCCED is conducting a study regarding the potential of Arctic shipping, impact on safe and reliable shipping, new sources of energy, the creation of jobs in the future, and ways to encourage trade between nations. She explained that the scope of work is being handled through the University of Alaska Fairbanks (UAF) as it has the intellectual capital to work on this. In developing the work, there have been discussions with Arctic shippers and those that insure them. A transshipment hub, which is different than a deep water port, is where [goods] going to different locations are loaded and offloaded. Currently, transshipment hubs are being explored for Unalaska and Adak. The department is also reviewing how it courts and works with businesses in Arctic countries, such as Iceland and Finland, who are already interested in investing in Alaska. In fact, last week [the department] heard from Iceland regarding opportunities.

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CHAIR HUGHES inquired as to when the study began and will end. She also inquired as to how the study compares with the U.S. Army Corps of Engineers' study and dovetails with other efforts such as the DNR's request for proposals (RFPs) in January regarding the land needed for port development.

MS. GRAHAM characterized DCCED's work with issues related to the Arctic as collaborative, and noted that she served as DCCED's representative on the deep water port study. Although the study has been very collaborative in terms of input, it's the purview of the U.S. Corps of Engineers and the Department of Transportation & Public Facilities (DOT&PF) to bring that study to fruition. The administration also has an Arctic working group for those involved with Arctic issues, which might include the Department of Military & Veterans' Affairs (DMVA), DOT&PF, the Department of Environmental Conservation (DEC), and others. The study began in November with a work shop in collaboration with the Norwegian government regarding the new maritime Arctic, specifically considering the Northern Sea Route. There was a day-and-a-half symposium during which a number of sources provided information on economic development beyond the deep water port. The Counsel General of the Norwegian Consulate informed attendees about what Norway is doing in terms of

offshore development, telecommunications, and a number of other areas. A draft report is anticipated at the end of this fiscal year, June or July, with a final report anticipated in the fall.

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MS. GRAHAM, in response to Representative Drummond, explained that ships transiting the Northern Sea Route carrying some energy product would offload at a port such as Adak, and take on additional cargo to take to its home port, which could be Norway or Finland. The cargo would then be distributed via the ship to the destinations to which it was intended. A transshipment hub is where cargo is offloaded and loaded. In further response to Representative Drummond, Ms. Graham confirmed that Adak and Unalaska are under consideration as locations because they are strategic locations and have other capabilities/elements, such as a workforce and security. Although there could be other locations, Adak and Unalaska are the two that have been identified.

[11:44:34 AM](#)

REPRESENTATIVE HIGGINS surmised then that shippers don't want to navigate the full route but rather want to travel halfway and turn around where they can offload and load cargo.

MS. GRAHAM stated her agreement with Representative Higgins' understanding, and added her understanding that predominantly smaller ships would be used.

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MS. GRAHAM then turned to how DCCED collaborates with other departments. She underscored that DCCED is all about collaboration, which she opined DCCED does well and often. The department participates in at least three subcabinets, including the Rural Subcabinet, the Economic Development Working Group, and the Natural Resources Subcabinet. With the exception of the time during the legislative session, the aforementioned subcabinets meet at least quarterly and sometimes monthly. The department, she noted, is also part of the Food Policy Working Group, and works with other departments regarding how to better market and extend the state's agricultural resources through the state's existing infrastructure and departments, as well as outside of Alaska. The department is involved with disaster-related issues through departments that oversee those particular issues. The department is also involved with the Arctic Working

Group and is a marketing partner, although many departments have their own marketing entity within that department. When DCCED assumed responsibility for tourism marketing, it decided to identify and convene all marketing groups within the various departments. The department meets with the marketing groups regularly to discuss topics in which there is mutual interest. Every effort is made to include marketing partners in [DCCED's] collateral. For instance, the state's vacation planner includes pages devoted to "Alaska Grown", state parks, and other entities within the state. The aforementioned is an effort to help market what the state has to offer.

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CHAIR HUGHES recalled mention of cultural tourism, and asked if there is a separate marketing program for that. She also asked how DCCED came to invest in cultural tourism.

MS. GRAHAM explained that cultural tourism has been part of the tourism marketing program for a number years, but has ebbed and flowed as businesses or communities have wanted to be involved. She highlighted that cultural tourism ranks in the top 10 top attractions of visitors per the Alaska visitors' statistics program.

11:50:31 AM

CHAIR HUGHES related the following question submitted by Representative Reinbold:

Since fiscal year '11, the department's received \$16 million-plus a year in tourism marketing funds directly instead of contracting with the qualified trade association. What has the department done with the \$64 million during this time and what does the department plan to do with the \$16 million proposed in the governor's budget this year?

MS. GRAHAM answered that since fiscal year 2012 (FY 12), which was the year DCCED assumed the tourism marketing program, the immediate need was to assume the five domestic contracts that are partners and help implement the tourism marketing program. They include advertising research, fulfillment contracts, public relations, and the web contractor. She reported that since 2012, tourism has increased. In fact, a yet-to-be released report specifies that the amount of summer visitors to Alaska was 7 percent higher in 2013 than in 2012. There have also been

additional cruise ships coming to Alaska, which she largely attributed to Governor Parnell's work to decrease taxes and increase marketing several years ago. The marketing budget did increase to \$16 million and the industry contributes another \$2.7 [million]. She highlighted the entrance of Iceland Air and Virgin America as [the result] of hard work to increase tourism. Ms. Graham opined that DCCED's marketing is far and wide, global, and there is increased tourism from various parts of the world.

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CHAIR HUGHES inquired as to how the \$2.7 million is collected. Chair Hughes acknowledged the increase in tourists, but asked whether the state is getting more [tourism marketing] per dollar than if those functions were contracted out.

MS. GRAHAM explained that the tourism expenditure is established annually in consultation with the tourism industry, and is spread across the various efforts while fulfilling the travel planner. Certainly, more funds are being leveraged in terms of web advertising as more visitors come from web sites. Furthermore, there have been more requests for the travel planner. Ms. Graham explained that every year the tourism marketing program establishes a goal in terms of the number of inquiries it hopes to receive from advertising and other sources for the travel planner. Over the past few years, the goal of around 650,000 inquiries has been routinely surpassed by about 100,000 inquiries. Therefore, she surmised that more visitors are being reached regarding traveling to Alaska. The conversion study will be underway soon and will actually document how many visitors who made inquiries actually converted to visit the state. The study will also specify from which sources of advertising or expenditures the visitors converted. In further response to Chair Hughes, Ms. Graham informed the committee that the tourism industry is engaged almost daily. In fact, quarterly meetings are held in order that the tourism industry advise and consult with DCCED on the tourism marketing programs that DCCED directs and implements. She opined that the process is collaborative and is going quite well.

CHAIR HUGHES expressed the desire to hear from the tourism industry. She then opined that she prefers that the private sector take care of certain things. Therefore, when the government takes on a task, she said she hopes a good value is received for the dollar spent.

11:57:59 AM

CHAIR HUGHES asked how DCCED would define economic development as part of its mission. She then inquired as to the indicators DCCED is looking for in terms of measuring success and achieving economic development.

MS. GRAHAM specified that economic development is typically defined as strategies and efforts that create jobs and opportunities for businesses, entrepreneurs, and those striving for better. This type of economic development is different than community development, which focuses more on infrastructure and programs that help communities build a strong base for the future. Measuring economic development is difficult since it can be measured in many different ways, including in terms of the number of loans awarded, jobs [created and filled], businesses helped through technical programs, and businesses and private sector entities involved in DCCED's marketing effort. She related that when DCCED staff attends an event at which they might meet with key travel journalists, they take any number of tourism partners who might want to join; that group seems to grow every year.

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MS. GRAHAM, in response to Chair Hughes, confirmed that DCCED does track the number of calls received, the business assistance delivered, and the number of jobs resulting from the financing program. She said she would be happy to provide those numbers to the committee.

12:01:36 PM

CHAIR HUGHES inquired as to whether the Economic Development Working Group is the same organization as the Economic Development Advisory Council.

MS. GRAHAM replied no, adding that they are different bodies. The Economic Development Advisory Council is predominantly industry and business members who meet with the commissioner's office on an irregular basis during which concerns of the industry are heard. The Economic Development Subcabinet, which she referred to as a working group earlier, consists of cabinet members at the commissioner and deputy commissioner level who come together to discuss economic development issues. In further response to Chair Hughes, Ms. Graham confirmed that the Economic Development Subcabinet doesn't [include private

industry] but rather consists of commissioners, deputy commissioners, AEA, AIDEA, and the University of Alaska.

CHAIR HUGHES inquired as to whether the Economic Development Advisory Council listens to industry concerns in terms of barriers specific to increased economic development, or just general barriers. She further inquired as to whether the council makes recommendations for long-term planning and strategies for DCCED.

MS. GRAHAM confirmed that the Economic Development Advisory Council listens to industry in terms of general barriers and barriers specific to increased economic development. She added, however, that any topic of concern is also discussed. For instance, the last time the council met the topics of discussion surrounded permitting, roads to resources, the Alaska Workforce Investment Board, and other issues related to workforce development. Hearing the issues/concerns of the industry provides a good barometer of how to address them. The intent, she explained, is to have input without asking the legislature to develop a plan.

[12:05:17 PM](#)

CHAIR HUGHES, recalling testimony that DCCED has an annual work plan, asked if DCCED has a long-term plan. She opined that the Economic Development Advisory Council seems to be a good organization to develop a long-term plan for DCCED.

MS. GRAHAM related her understanding that the governor's plan for long-term economic planning has been one in which it's left to the private sector to engage with [the department].

CHAIR HUGHES interjected that the [Economic Development Advisory Council] is [the appropriate group] and provides the opportune time to provide input. The state will have a role as so much hinges on infrastructure, affordable energy, and communications. She expressed surprise that the Economic Development Advisory Council has not been used for that purpose.

MS. GRAHAM clarified that the department engages the Economic Development Advisory Council on a number of issues and takes its advice and input to develop any number of concepts and ideas, but to date the council hasn't been engaged in developing a long-term plan. The [Division of Economic Development] has an annual work plan, which is based on statutory responsibilities, research projects, collateral, innovative thinking around

marketing, business assistance programs, and aspects on an annual basis.

CHAIR HUGHES acknowledged that the work plan would address the obligatory and statutory matters. However, she opined that it seems inappropriate that it's a reactive situation in terms of present situations, but rather there should be some proactive planning for the future. Therefore, Chair Hughes encouraged the department to make use of the Economic Development Advisory Council and consider obtaining its input on a regular basis, particularly in terms of the Arctic.

MS. GRAHAM noted her agreement with Chair Hughes that the Economic Development Advisory Council is an incredibly important group of advisors to DCCED. The department tries not to tax the council, although its advice and perspective are always sound.

[12:09:54 PM](#)

REPRESENTATIVE DRUMMOND returned to the tourism marketing effort of DCCED and asked what prospective visitors seek [in terms of marketing materials].

MS. GRAHAM informed the committee that the visitor's guide is produced online, is downloadable, and is mobile. She then reviewed the process for requesting the visitor's guide. First, a visitor receives a smaller version of the vacation planner and then follow up occurs and those very interested in visiting Alaska then receive the full book, or are directed to the web site. The large, glossy visitor's guide only goes to serious inquiries that are potential conversions. In further response to Representative Drummond, Ms. Graham informed the committee that the visitor's guide without the fulfillment portion is not that expensive to print, at a cost of \$1.14 to produce. With the fulfillment portion, the cost is slightly more than \$1.14. The guide is bulk mailed in batches and the book and the mailing totals under \$2. There is a contractor based in Portland and the visitor's guide is designed by the advertising firm of Bradley Reid + Associates.

[12:14:51 PM](#)

REPRESENTATIVE HIGGINS, referring to a brochure on the timber industry, pointed out that it specifies 200 million board feet are put out for sale annually. He offered his understanding that 49.5 million board feet are from state land, 56.13 million board feet are from federal land, and approximately 110 million

board feet from private land. With the understanding that the private land is Alaska Native land, he inquired as to how many board feet are being sold now. He related his further understanding that the federal government owns 95 percent of the lands of which 80 percent is the Tongass National Forest and inquired as to how [DCCED] approaches that land in terms of selling timber.

MS. GRAHAM agreed that is an issue not easily answered. [The department] is considering [selling timber] through any number of sources, including future markets for secondary growth. She related her understanding that part of the outreach and availability of timber to market has to do with the supply rather than the demand. She related her further understanding that [timber] marketing is occurring through conferences and trade shows while being mindful of the supply on hand. Beyond that, Ms. Graham offered to obtain and provide answers to questions.

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CHAIR HUGHES then turned to the legislature's consideration of a liquefied natural gas (LNG) project and inquired as to what that would mean in terms of the cost of energy in the state. She inquired as to whether the department has engaged in any work or planning as to what the aforementioned would mean in terms of workforce needs, value-added processing possibilities, and necessary departmental changes.

MS. GRAHAM responded that DCCED is working closely with the Alaska Workforce Investment Board, Department of Labor & Workforce Development, in terms of workforce training and development.

CHAIR HUGHES commented that [to take advantage of] the opportunity for value-added processing with affordable energy will require more than workforce infrastructure and includes transportation infrastructure and other needs. Therefore, she opined that there should be [meeting] and planning [for the long term].

[12:20:15 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade, and Tourism meeting was adjourned at 12:20 p.m.