

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 9, 2016

1:29 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Cathy Giessel, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Johnny Ellis

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 69

"An Act relating to the Board of Chiropractic Examiners and the practice of chiropractic."

- MOVED CSSB 69(L&C) OUT OF COMMITTEE

SENATE BILL NO. 161

"An Act relating to an exemption from the regulation of construction contractors."

- HEARD & HELD

PRESENTATION: "CLUSTER-BASED ECONOMIC DEVELOPMENT: A STRATEGIC APPROACH TOWARDS ENHANCING ALASKA'S COMPETITIVENESS"

- HEARD

SENATE BILL NO. 108

"An Act repealing and reenacting the Alaska Securities Act, including provisions relating to exempt securities and transactions; relating to registration of securities, firms, and agents that offer or sell securities and investment advice; relating to administrative, civil, and criminal enforcement provisions, including restitution and civil penalties for violations; allowing certain civil penalties to be used for an investor training fund; establishing increased civil penalties for harming older Alaskans; retaining provisions concerning

corporations organized under the Alaska Native Claims Settlement Act; amending Rules 4, 5, 54, 65, and 90, Alaska Rules of Civil Procedure; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 69

SHORT TITLE: BD OF CHIROPRACTIC EXAMINERS; PRACTICE

SPONSOR(s): SENATOR(s) STOLTZE

03/06/15	(S)	READ THE FIRST TIME - REFERRALS
03/06/15	(S)	L&C, FIN
04/02/15	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
04/02/15	(S)	Heard & Held
04/02/15	(S)	MINUTE (L&C)
02/04/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/04/16	(S)	Moved CSSB 69(L&C) Out of Committee
02/04/16	(S)	MINUTE (L&C)
02/09/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 161

SHORT TITLE: EXEMPTION: LICENSING OF CONTRACTORS

SPONSOR(s): LABOR & COMMERCE

01/27/16	(S)	READ THE FIRST TIME - REFERRALS
01/27/16	(S)	L&C, FIN
02/09/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SARA CHAMBERS, Operations Manager
Division of Corporations, Business, and Professional Licensing
Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Explained the new fiscal note for SB 69.

WESTON EILER, Staff
Senator Mia Costello
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented an overview of SB 161 on behalf of the sponsor.

JANEY HOVENDEN, Director
Division of Corporations, Business, and Professional Licensing

Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Presented information on SB 161.

PAUL MICHELSON, General Contractor
Alaska State Home Builders Association (ASHBA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 161.

ANDRE SPINELLI, President
Alaska State Home Builders Association (ASHBA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 161.

JEFF TWAIT, Builder
Alaska State Home Builders Association (ASHBA)
Kenai, Alaska

POSITION STATEMENT: Testified in support of SB 161.

JESS HALL, Builder
Alaska State Home Builders Association (ASHBA)
Palmer, Alaska

POSITION STATEMENT: Testified in support of SB 161.

AARON WELTERLEN, Builder
Alaska State Home Builders Association (ASHBA)
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 161.

PATRICK DALTON, representing himself
Delta Junction, Alaska

POSITION STATEMENT: Testified in opposition to SB 161.

CHRISTIAN H.M. KETELS, Ph.D., Professor
Institute for Strategy and Competitiveness
Harvard Business School
Harvard, Massachusetts

POSITION STATEMENT: Presented information on "Cluster-Based Economic Development; A Strategic Approach towards enhancing Alaska's Competitiveness."

ACTION NARRATIVE

[1:29:44 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:29 p.m. Present at the call to

order were Senators Giessel, Stevens, Ellis and Chair Costello. She reviewed the agenda.

SB 69-BD OF CHIROPRACTIC EXAMINERS; PRACTICE

[1:31:40 PM](#)

CHAIR COSTELLO announced that the first order of business would be SB 69.

SENATOR GIESSEL moved to rescind the motion [made on 2/4/16] to report CSSB 69(L&C) from committee. There being no objection, CSSB 69(L&C) was back before the committee.

[1:32:27 PM](#)

SARA CHAMBERS, Operations Manager, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community, and Economic Development, explained the new fiscal note for SB 69. She said the fiscal note from the department has been updated with FY2016 personnel numbers. The CS [version H] did not make an impact to the fiscal note.

CHAIR COSTELLO requested information about changes in the employees.

MS. CHAMBERS explained that minimal personnel are being requested. The changes reflect updated salaries and cost-of-living increases, and the occupational licensing examiners were reclassified from a range 13 to a range 14. The fiscal note also reflects an increase of one part-time staff.

[1:34:00 PM](#)

SENATOR GIESSEL motioned to report CSSB 69(L&C), labeled 29-LS0704\E, from committee with individual recommendations and attached updated fiscal note.

CHAIR COSTELLO announced that without objection CSSB 69(L&C) is reported from the Senate Labor and Commerce Standing Committee.

[1:34:28 PM](#)

At ease

SB 161-EXEMPTION: LICENSING OF CONTRACTORS

[1:35:52 PM](#)

CHAIR COSTELLO reconvened the meeting and announced that the next order of business would be SB 161. [This is the first hearing of the bill.]

SENATOR MEYER joined the committee.

1:36:43 PM

WESTON EILER, Staff, Senate Labor and Commerce Committee and Senator Mia Costello, Alaska State Legislature, explained that SB 161 provides better protection for consumers who purchase a home from an unlicensed builder. AS 08.18.116 allows anyone to build one structure every two years without a license. This was intended to allow Alaskans to build their own home, but a growing number of individuals are using this exemption to operate a construction business. The bill seeks to prevent abuse of this exemption.

SB 161 requires anyone who builds and sells a home without a contractor license to disclose that fact to the state within two years of completing construction. It does not prohibit owner-builder construction, but calls for a disclosure to the Department of Commerce, Community and Economic Development (DCCED). It will not only allow the department to monitor unlicensed builders, but also allow the freedom for Alaskans to build their own homes.

He read the legislative intent language in Section 1 of the bill.

He reported that SB 161 is supported by the Alaska State Home Builders Associations (ASHBA).

CHAIR COSTELLO requested an explanation by the department and to know if the administration supports the bill.

1:39:40 PM

JANEY HOVENDEN, Director, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community, and Economic Development, related that SB 161 requires the owner-builder to file with the division within two years of completing and selling a home stating that they are not engaged in business that requires a contractor's license. She said the bill has no fiscal impact to the division.

1:40:29 PM

CHAIR COSTELLO asked for an explanation of the problem the bill would solve.

MR. EILER explained that there is a need for consumer protection when buying homes from individuals other than licensed contractors.

[1:41:41 PM](#)

SENATOR STEVENS asked what difference it makes to the consumer whether the contractor has a license or not and what protections are in the bill.

MR. EILER said there would be protections if there are problems. He recalled the 1980s when there was a housing market crash after which the legislature raised building standards. The bill prevents non-contractor builders, who do not have to follow standards, from acting like licensed builders.

SENATOR STEVENS provided an example of buying a house from someone who does not have a license and asked how there would be more consumer protection under this bill.

MR. EILER offered to provide a list of civil remedies after a sale. He commented on builders not held to construction standards.

[1:44:40 PM](#)

CHAIR COSTELLO clarified that it is a consumer protection bill. It makes the consumer aware if a house was not build by a licensed contractor.

[1:45:14 PM](#)

SENATOR GIESSEL referred to page 3, lines 4 and 5, that states "within two years after the period of construction." She inquired how that time period is defined.

MR. EILER asked for more information.

SENATOR GIESSEL restated her question.

MR. EILER said he did not know and wished to consult with Legislative Legal Services.

[1:46:35 PM](#)

CHAIR COSTELLO opened public testimony.

[1:46:44 PM](#)

PAUL MICHELSON, General Contractor, Alaska State Home Builders Association (ASHBA), testified in support of SB 161. He said ASHBA feels the bill is long overdue. He provided an example of

when he was hired by an investigation company to inspect a house, built by an unlicensed builder, with a failed septic system and other flaws. The buyer had no recourse for mitigation. He shared another example in Sterling, Alaska, where the home had 22 code infractions and the buyer was not able to finance it. He maintained that houses built by contractors are better because the contractor is held responsible through bonding for 7 years under a structural warranty and must have continuing education credits.

He pointed out that the bill would have more of an effect in rural communities where there are fewer licensed builders.

SENATOR STEVENS asked how the previously-mentioned house with the sewage issue would have looked if Mr. Michelsohn had built it.

[1:51:27 PM](#)

MR. MICHELSON said the septic system and the well would have been registered with the Department of Health and Human Services and he would have fixed it if it failed. It would not have failed in the first place.

[1:52:03 PM](#)

ANDRE SPINELLI, President, Alaska State Home Builders Association (ASHBA), testified in support of SB 161. He said ASHBA has been working on this bill for a long time. He said ASHBA wanted to see reform and the bill is less than hoped for, but is a start. He requested support from the committee for the bill.

CHAIR COSTELLO thanked the testifier.

[1:53:28 PM](#)

JEFF TWAIT, Builder, Alaska State Home Builders Association (ASHBA), testified in support of SB 161. He responded to Senator Stevens' question by describing how licensed contractors are mandated to have licensed plumbers and electricians do related work, whereas, unlicensed builders often try to do it themselves. He agreed that most problems are in outlying areas.

SENATOR GIESSEL asked Mr. Twait if he knew how one measures the two years listed in the bill.

MR. TWAIT thought it was when occupancy is taken.

[1:55:05 PM](#)

JESS HALL, Builder, Alaska State Home Builders Association (ASHBA), testified in support of SB 161. He requested that the bill include provisions that address owner-builders that construct spec houses. He said the bill does include language that would address that issue. He discussed the inspection schedules licensed contractors must adhere to. He said once the inspection is signed off, their two year date begins. Some owner-builders also have an inspection signed off, so that would also be when their two-year period begins. He added that homes financed by Alaska Housing must go through an inspection.

CHAIR COSTELLO asked about the scope of the problem.

MR. HALL opined that there are many builders that are not licensed in the Valley. He said if he were a home buyer, he would like to know a lot more about the builder than most do. There are few owner-builders in the Lower 48 because most banks won't finance them; they are unique to Alaska. He described several scenarios where there were issues when the owner-builder sells a house.

[2:00:59 PM](#)

AARON WELTERLEN, Builder, Alaska State Home Builders Association (ASHBA), testified in support of SB 161. He agreed that owner-builders should be allowed, but not allowed to build commercially. He stressed that licensed builders are held to much higher standards and are required to fix problems that should arise.

CHAIR COSTELLO stated that the bill requires that the owner-builder files with the department.

MR. WELTERLEN said it was a simple one-page form.

[2:02:22 PM](#)

PATRICK DALTON, representing himself, testified in opposition to SB 161. He addressed the economic crisis in Alaska and said it is not wise for the state to spend money on this licensing. He discussed privacy rights. He said that "local is better" and licensing should be done at the borough level. He questioned the ability to enforce the provisions in the bill in rural areas. He said private property is the cornerstone of a free society. He suggested that there are other ways to protect the consumer. It is the responsibility of the consumer to have the house inspected when they buy a house. He suggested certifying homes in a way that does not infringe on privacy.

CHAIR COSTELLO held SB 161 in committee with public testimony open.

[2:07:44 PM](#)

At ease

Presentation: Cluster-Based Economic Development - A Strategic Approach towards enhancing Alaska's Competitiveness

[2:10:35 PM](#)

CHAIR COSTELLO reconvened the meeting and announced that the final order of business would be a presentation titled "Cluster-Based Economic Development" by Dr. Ketels.

[2:11:39 PM](#)

CHRISTIAN H.M. KETELS, Ph.D., Professor, Institute for Strategy and Competitiveness, Harvard Business School, delivered a presentation titled "Cluster-Based Economic Development; A Strategic Approach towards enhancing Alaska's Competitiveness." Dr. Ketels stressed the importance of sharing information on economic development with legislators. He began with Alaska's immediate challenge related to its economy - the fiscal struggle due to the drop in oil price and the need to move forward.

He discussed conceptions applied in various locations when used in an attempt to be systematic in moving forward. He addressed the idea of drawing on data related to location in order to make the right choices. He discussed immediate priorities of economic plans when trying to make thoughtful decisions about priorities. He said it was important to not undermine Alaska's competitiveness when making economic choices.

He addressed the notion of competitive advantage. He maintained that locations do much better when they understand their unique values and competitive business advantages.

[2:15:01 PM](#)

DR. KETELS noted that there is not one plan that works for all locations; there are general concepts to consider, but they must be applied to the specific reality of Alaska. He said he comes with a way to look at the realities and make informed choices, not with a solution. He pointed out that economic development is not like math; it requires choices.

He clarified the definition of competitiveness in terms of productivity. It is the level of prosperity that a location can generate for its citizens, keeping in mind that the wealth is

created by companies. Companies can successfully compete on national and global markets and citizens can enjoy a high standard of living based on well-paying jobs. He stressed that the "size of the cake," or success, is based on productivity.

[2:17:58 PM](#)

DR. KETELS addressed theories about what drives competitiveness: what is inherited, what you do, and what you have created. He displayed a map of prosperity dynamics across the U.S. that depicts GDP per capita growth in states from 1998 to 2013. He concluded that natural resources provide opportunities and can be a trigger for industries to grow. He showed an example of how Norway has developed a globally competitive oil and gas supply industry which creates other related clusters. He noted that the oil and gas industry in Alaska has a lot of uncertainty and volatility, which is why natural resources alone are not going to sustain prosperity in an economy.

[2:21:31 PM](#)

DR. KETELS turned to the subject of the cluster perspective and addressed the composition of regional economics, comparing traded industries to local industries. He explained that traded industries are found in sectors, most of which are concentrated in strong clusters. He used Boeing and Aerospace production in the state of Washington as examples. Local industries are found everywhere and are where most of the jobs are, but they don't have the same productivity, wage levels, or innovative capacity as the traded industries. He noted that both traded and local industries are important and play different roles in a regional economy. It is important for policy makers to understand how both sectors are faring.

[2:23:16 PM](#)

DR. KETELS addressed the competitive dynamic within the traded industry clusters. Using biopharmaceuticals as an example, he showed how related businesses are closely connected and create groups of cluster categories. The interaction and collaboration within a certain location makes them more productive.

He again showed the map of prosperity dynamics across the U.S. and highlighted states by type of clusters, such as finance, IT, automotive, or tourism specialty jobs. Different regional economies have very different specialization profiles and there seems to be a relationship to performance. More prosperous states seem to have certain industries and broader portfolios. The clusters yield a higher level of productivity in their

sectors. He suggested states gradually migrate to more value-added activities.

[2:26:14 PM](#)

DR. KETELS related that industrial composition is affected by natural resources, location, and also by the business environment. He said policy makers intervene at the level of "what we do" there is a short-term impact; state government should consider the all the factors that fit together in order to help Alaska's businesses.

He summarized how to upgrade competitiveness with these principles: there is no silver bullet, many things matter, what matters most depends on what you already have, every location is different, but all adhere to the same economic principles and dynamics, you can't change everything at once, even if it has to change eventually, and change requires action by many. He added that it is also about creating consensus.

[2:29:35 PM](#)

He highlighted economic development's prevailing approaches. Some are focused on specific firms and sectors; others are focused on improving the business environment. He said the track record of either approach is limiting because it does not have the leverage needed for change. Each has limited potential and a mixed approach works best.

[2:32:06 PM](#)

DR. KETELS suggested that the focus should be on enhancing clusters and supporting collaboration within clusters. He used Iceland as an example of using clusters in a small economy. He described the cluster policy in context by contrasting the absence of market distortions and impact.

He related types of government intervention in clusters by comparing direct intervention at the firm level with investments in the cluster-specific business environment. He said government has many instruments at its disposal.

[2:34:53 PM](#)

DR. KETELS turned to cluster initiatives, which are collaborative activities by a group of companies, public sector entities, and other related institutions with the object to improve the competitiveness of a group of interlinked economic activities in a specific geographic region. He said it requires thinking about how to integrate networks into broader fields. He gave an example of Basque Country in Spain, where all economic

development was organized through cluster organizations over the last 25 years. It resulted in a communication channel between the private and public sectors.

He described the approaches a state can take when developing a cluster-based economic strategy. He began with the diagnostic phases and stressed that diagnostics are more than research. They create a common language and a shared understanding of reality and preconditions for becoming one regional team. Next, is the choice phase - looking at the advantages, business environment conditions, and which type of companies and skills to attract. Finally, the action implementation creates the right structure.

He stressed that diagnostics is a very important part of the dialogue and requires community understanding by all members and groups.

He spoke specifically of Alaska's key assets and characteristics and stated that Alaska is an economy largely dependent on its natural resources. There are few activities outside of these sectors for successfully competing in national or international markets. The question is how to diversify. He pointed out that there is a low percentage of employees in strong clusters. He highlighted Alaska's cluster portfolio and listed the key assets and characteristics. He explained that not many businesses are connected to each other, but said he is optimistic that there are pockets that could be connected, but it requires a broader plan.

[2:39:51 PM](#)

DR. KETELS talked about strategic choices and the value of positioning of Alaska's economy. He suggested that Alaska should consider what it wants to be known for as a place to do business. The state should choose clusters they can draw most benefits from and that symbolize the state's value proposition. He suggested that there are many areas Alaska can consider. He maintained that Alaska does not need to be a big leader in a large industry.

He discussed ways to make a value proposition happen in Alaska and the need for new partnerships. He said the old government model is not working anymore; government needs to use its credibility to help bring the different players together and to ensure a neutral platform for things to happen. He suggested to stop thinking about government as a source of funding and more about coordinating.

He stressed the importance of organizing for competitiveness. One task is agenda setting and connecting consultation structures with political decision making on legislative action and budget, such as creating a competitiveness council like Denmark did. Another task involves coordination across different levels of government, such as the Finnish Science and Technology Council. The third task is delivery, such as learning to speak the language of the private sector and creating economic development boards like Singapore and Malaysia have done.

[2:44:24 PM](#)

DR. KETELS noted that success depends on collaboration between firms, government, and academia.

[2:44:50 PM](#)

CHAIR COSTELLO thanked the presenter.

SENATOR MEYER asked how government can serve in more of a coordinating role with the private sector and academia and includes more outsourcing.

DR. KETELS thought it depended on how the state organizes the collaboration rather than outsourcing, such as inviting coalitions to approach government with a common plan. He agreed others can step forward to do what government currently is doing.

[2:47:00 PM](#)

SENATOR STEVENS pointed out that resources frequently conflict in Alaska. He gave examples such as mining and fishing and renewable and non-renewable energy.

DR. KETELS said he cannot offer a solution; the political process is the answer to those conflicts. He said to think broader, such as "What does the state stand for?" It might help when making political choices. He agreed there are tradeoffs and there are no easy solutions.

[2:49:03 PM](#)

SENATOR STEVENS suggested maybe both can be done.

CHAIR COSTELLO compared Alaska's economic situation to the "running of the bulls." She said she sees the state's economic challenges as a unique opportunity with motivation to reform. She asked if paradigm shifts can happen during an economic crisis.

[2:50:37 PM](#)

DR. KETELS said it is an opportunity for change. He suggested to start by changing the organizational structure of economic development and focus on how to bring in other players. He advised to gather the best ideas from across Alaska to trigger a good debate.

CHAIR COSTELLO noted the state is faced with several proposals and is asking how each affects the individual, the family, and the economy. She asked whether they are the questions to ask when making decisions.

DR. KETELS stated that a question to ask is what each proposal can do for productivity; whether the intervention is going to raise productivity. The ultimate goal of economic development is to level prosperity in society.

SENATOR MEYER listed choices such as reducing government size, enacting taxes, reducing the PFD, noting the legislature is looking for the sweet spot between the private and public sectors. He requested advice when making those decisions.

[2:54:38 PM](#)

DR. KETELS said the answer lies in the diagnosis of the situation. He assumed there was a need for a more diversified and robust economy and managing an interim period is probably not going to be enough. He suggested assessing the underlying economy and its competitiveness. He agreed Alaska has an opportunity to diagnose its assets.

[2:57:02 PM](#)

CHAIR COSTELLO described Alaska as having a mature bureaucracy but an emerging economy.

DR. KETELS said it is hard to assess government maturity, but agreed it is a good time to look at the state's economic development organization and competitiveness and at how to educate the private sector.

CHAIR COSTELLO thanked Dr. Ketels.

CHAIR COSTELLO said SB 108 would be taken up at the next hearing.

[2:58:47 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee at 2:58 p.m.