

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

January 24, 2018

3:18 p.m.

MEMBERS PRESENT

Representative Sam Kito, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Louise Stutes
Representative Chris Birch
Representative Gary Knopp
Representative Colleen Sullivan-Leonard

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Bryce Edgmon (alternate)

COMMITTEE CALENDAR

OVERVIEWS: DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT;
DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

GREG CASHEN, Acting Commissioner
Department of Labor & Workforce Development (DLWD)
Juneau, Alaska

POSITION STATEMENT: Presented an overview of DLWD with the use of a PowerPoint presentation.

PALOMA HARBOUR, Director
Division of Administrative Services (ASD)
Department of Labor & Workforce Development (DLWD)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the DLWD overview.

MIKE NAVARRE, Commissioner Designee

Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Presented an overview of DCCED with the use of a PowerPoint presentation.

ACTION NARRATIVE

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CHAIR SAM KITO called the House Labor and Commerce Standing Committee meeting to order at 3:18 p.m. Representatives Wool, Josephson, Stutes, Birch, Knopp, Sullivan-Leonard, and Kito were present at the call to order.

**OVERVIEWS: DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT;
DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT**

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CHAIR KITO announced that the only order of business would be overviews of the Department of Labor & Workforce Development (DLWD) and the Department of Commerce, Community & Economic Development (DCCED).

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GREG CASHEN, Acting Commissioner, Department of Labor & Workforce Development (DLWD), began the overview by referring to slide 2 of his PowerPoint presentation; the slide was entitled "Department Overview." He stated that the mission of DLWD is to protect workers and advance opportunities for employment. The three key program priorities are as follows: protect Alaska's workers through statutory and regulatory assistance and enforcement; workforce development to support Alaska hire and economic development; and income replacement for injured, unemployed, and permanently disabled workers.

ACTING COMMISSIONER CASHEN directed the committee's attention to slide 3, entitled "Department Organizational Chart," which illustrates the department's organizational chart by displaying the three key program areas and the respective agencies under each.

ACTING COMMISSIONER CASHEN referred to slide 4, entitled "FY2019 Governor's Budget: \$147,109.7," and offered the following statistics: the governor's budget for fiscal year 2019 (FY 19) totals \$147,109,000; 50 percent is from federal funds; \$20.6

million is from the unrestricted general fund (UGF) - down \$12.8 million, or 38 percent, from FY 15; and the department has 754 positions - down 123 positions from FY 15.

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ACTING COMMISSIONER CASHEN turned to slide 5, entitled "Protect Workers," and relayed the accomplishments for FY 19 under that priority area as follows: The DLWD's Wage and Hour Administration staff, who are responsible for conducting wage and hour investigations, collected \$1 million in wages, penalties, and interest owed to Alaska workers. The Mechanical Inspection Section (MIS) staff conducted over 6,500 inspections and over 2,000 job site visits to ensure worker and public safety. The Alaska Labor Relations Agency (ALRA) issued 100 percent of its decisions in an average of 69 days - well below the target of 90 days. The Alaska Occupational Safety and Health (AKOSH) staff's efforts contributed to Alaska's record low workplace lost time injuries and illnesses rate.

ACTING COMMISSIONER CASHEN referred to the graph on slide 6, entitled "Workplace Lost Time Injuries and Illnesses Rate per 100 Employees." He pointed out that that there has been a downward trend of the lost time injuries and illnesses rate; the FY 17 rate is half of that of FY 07. He said that DLWD staff impacted the rate by focusing consultation and enforcement efforts on the causes of lost workday injuries and illnesses in the construction, transportation, and seafood processing industries. He stated that in FY 17, the transportation incident rate saw a 14 percent reduction and the construction rate saw a 24 percent reduction, bringing lost time injuries and illnesses rates for those industries to the lowest levels in a decade and exceeding the target reduction of 3 percent.

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ACTING COMMISSIONER CASHEN referred to slide 7, which identifies the challenges under the "protect workers" priority. He relayed that MIS staff and AKOSH staff must travel to remote areas of the state; the cost of rural travel can create a significant burden to the program; and travel costs have increased in the past few fiscal years. He offered that AKOSH is especially vulnerable to high travel costs, as travel is frequently last minute due to fatalities, catastrophes, or imminent danger complaints requiring prompt responses. He added that turnover continues to be a challenge, particularly for highly skilled industrial hygienists. These workers do not make salaries

comparable to opportunities in the private sector. He said that providing timely dispute resolution is an ongoing challenge for ALRA, especially because many factors are outside of the agency's control.

ACTING COMMISSIONER CASHEN referred to slide 8 to highlight legislation related to DLWD. Proposed legislation, HB 121, addresses AKOSH penalties, and proposed legislation, HB 114, would establish a \$10 fee for paper filings of boiler and unfired pressure vessel inspection reports; both bills are in the Senate Labor and Commerce Standing Committee. He relayed that HB 255 was introduced January 2018 by Representative Chris Tuck and was referred to the House Labor and Commerce Standing Committee; this proposed legislation would change the penalty for individuals performing electrical or plumbing work without a valid certificate of fitness from a misdemeanor to a violation.

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ACTING COMMISSIONER CASHEN continued with slide 9, entitled "Workforce Development," to relay the accomplishments in that priority area. The accomplishments are as follows: The Division of Employment and Training Services (DETS) staff provided career and technical services to over 98,000 Alaskans through the Alaska Job Center Network (AJCN). Division staff also increased the number of healthcare registered apprenticeship programs from 7 to 22 and the number of apprentices from 32 to 220; the employers were from Metlakatla to Utqiagvik and Yakutat to Unalaska. Division staff served over 1,000 youth with disabilities through credential career pathway programs - internship programs, transition camps, and summer work experiences. These programs were funded with a federal disability employment initiative grant. In the Division of Vocational Rehabilitation (DVR), staff significantly expanded the preemployment transition services program to serve 846 students with disabilities in over 100 communities across Alaska as required by the federal Workforce Innovation and Opportunity Act (WIOA).

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ACTING COMMISSIONER CASHEN moved on to slide 10 and continued to cite the accomplishments under the "workforce development" priority. The DETS placed job center staff at the Goose Creek Correctional Center (GCCC) and the Hiland Mountain Correctional Center (HMCC) through the federal Linking to Employment Activities Pre-Release (Leap) grant to assist inmates prior to

reentry. The Leap grant is a two-year grant providing \$250,000 each year for the activities. The Alaska Vocational Technical Center (AVTEC) achieved record high graduation rates.

ACTING COMMISSIONER CASHEN turned to the graph on slide 11, entitled "Percent of AVTEC Long-Term Program Students Who Graduate (exceeded the target of 80 percent in FY2017)." He said that in FY 17, 97 percent of AVTEC students who enrolled in long-term training programs completed the training; 88 percent of FY 16 AVTEC students were employed in training-related jobs one year later; and AVTEC reduced its programs as a result of strategic cuts targeting under-enrolled programs and strengthened its efforts to ensure the success of students in the remaining programs.

ACTING COMMISSIONER CASHEN referred to slide 12, which identifies the challenges under the "workforce development" priority. He relayed that DETS is working to replace its aging information systems for employment training services and job training programs to improve services and meet reporting requirements of WIOA.

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REPRESENTATIVE STUTES asked for a clarification of "COE" on slide 11.

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PALOMA HARBOUR, Director, Division of Administrative Services (ASD), Department of Labor & Workforce Development (DLWD), responded that "COE" stands for the [American] Council on Education (ACE) and is the accrediting body for AVTEC.

ACTING COMMISSIONER CASHEN continued his discussion of the challenges listed on slide 12 by saying that the current foundational system for employment services, the Alaska Labor Exchange System (ALEXsys), is about 15 years old, and the technology is clunky and outdated; upgrading the system will enhance the user experience for both job seekers and employers. He stated that DETS will utilize federal funds, including a technology grant, for the cost associated with procurement and transition. He mentioned that due to a lack of federal funding, there are currently 15,000 unprocessed Work Opportunity Tax Credit (WOTC) applications, and some Alaska employers have waited for up to three years for a response. He said that the division is working diligently to address this issue and has

made some progress in reducing processing time through electronic handling of applications. He added that he anticipates significant progress through automation of processing with add-ons to the new data systems.

ACTING COMMISSIONER CASHEN stated that AVTEC suffered severe water damage in August 2017 - two weeks after school began - after a pipe burst in the dormitory resulting in a shutdown of 38 beds; the rooms have not yet been reopened. He relayed that as staff work on this high priority and critical maintenance need, they are unable to focus on regular maintenance and operation projects or deferred maintenance projects. He mentioned that aging underground fuel tanks are beginning to pose a problem for the school and need to be replaced.

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ACTING COMMISSIONER CASHEN referred to slide 13 to address legislation related to the "workforce development" priority. He stated that HB 141, reauthorizing the Technical Vocational Education Program (TVEP) for another three years, was signed into law by the governor October 2017. The chart on slide 13 shows how funds are distributed among the TVEP recipients. He pointed out that TVEP funding has decreased in the past two fiscal years, because as jobs and wages in Alaska decrease, so does revenue to the TVEP fund.

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ACTING COMMISSIONER CASHEN referred to slide 14, entitled "Income Replacement," to review the accomplishments in that priority area. He stated that last year the Division of Workers' Compensation (DWC) Special Investigations Unit (SIU) investigated 2,400 businesses and brought 600 employers into compliance with the [Alaska] Workers' Compensation Act (AWCA). He relayed that the Disability Determination Services (DDS) staff provided adjudication of claims for Social Security [Administration] (SSA) disability benefits; last year the staff received a SSA deputy commissioner's citation for thorough analysis and responsive cost estimates. He stated that Alaska's Unemployment Insurance (UI) program staff processed claims totaling over \$128 million in UI benefits to nearly 39,000 claimants. The DLWD also recovered over \$5 million in overpayments, fraudulent claims, and penalties, which protects the UI Trust Fund.

ACTING COMMISSIONER CASHEN referred to the graph on slide 15, entitled "Percent of Initial Unemployment Insurance Payments Processed within 21 Days (exceeded the target of 87 percent in 2016)." He relayed that UI program staff provided a high level of service by processing 93.3 percent of initial claims within 21 days, which is well above the federal timeliness benchmark of 87 percent.

ACTING COMMISSIONER CASHEN moved on to slide 16 to address the challenges under the "income replacement" priority area. He relayed that it will be difficult for the UI program to maintain current service levels because of the high rate of staff turnover and reduction in federal funding. He stated that DDS is challenged with meeting SSA's initial case clearance goal due to a significant attrition rate and hiring approval. He said that one challenge that DWC faces is making the workers' compensation process more efficient absent any statutory changes. He maintained that improvements could be realized with legislative changes.

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ACTING COMMISSIONER CASHEN referred to slide 17 to report on additional related proposed legislation: the "Omnibus Workers' Compensation" legislation, HB 79, would increase efficiency and flexibility of the workers' compensation system; HB 69 would repeal the Workers' Compensation Appeals Commission (WCAC); and HB 142 would increase the maximum weekly benefit for UI.

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REPRESENTATIVE SULLIVAN-LEONARD asked for information on the high turnover rate - what it has been in the past couple years and how quickly DLWD has been able to fill positions.

ACTING COMMISSIONER CASHEN replied that he would provide to the committee the information on the entire department.

REPRESENTATIVE BIRCH referred to the 754 DLWD positions noted on slide 4 and asked for the vacancy factor and how the department budgets for it.

MS. HARBOUR answered that the department does have that information, but she did not come prepared to offer it in the present committee meeting.

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REPRESENTATIVE BIRCH suggested that with a vacancy factor of 5 percent, the department would budget for 5 percent less positions. He asked to be provided with more information on the LEAP grant and assisting correctional facility inmates with reentry. He asked additionally how the state integrates with the contemporary online recruitment sites, such as monster.com and craigslist.

MS. HARBOUR responded that the State of Alaska recruits through its Workplace Alaska system; for difficult to fill positions, such as UI positions, the state advertises elsewhere, like craigslist. She explained that DLWD's job exchange system [ALEXsys] is opened to employers and job seekers across the state; the system is 15 years old and needs replacement. She maintained that the department will be exploring other solutions to best meet employer and job seeker needs.

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REPRESENTATIVE BIRCH expressed his understanding that TVEP is [funded by] UI [taxes] paid by working Alaskans, and he referred to slide 14, which states that \$128 million in UI benefits were paid to nearly 39,000 claimants. He asked whether the FY 19 governor's distribution of \$10.9 million represents UI separated from the total receipts and reallocated to different education institutions.

ACTING COMMISSIONER CASHEN explained that the TVEP funds come out of the employee contribution to the UI system before claims are paid; employees contribute about 27 percent to the system and employers about 73 percent. He offered to provide a diagram that illustrates the funding mechanism.

REPRESENTATIVE BIRCH opined that the UI should be used for the benefit of the employees. He referred to slide 4 and asked if \$73 million of the [\$147 million] FY 19 budget is from federal grants.

ACTING COMMISSIONER CASHEN replied, "That's correct."

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REPRESENTATIVE KNOPP referred to slide 13 and asked Acting Commissioner Cashen if he attributed the decline in revenue over the four fiscal years to the local economy.

MS. HARBOUR answered, "Yes, absolutely." She explained that a portion of the taxable wage base supplies the fund; as the number of jobs decline, the overall wage base declines; therefore, less revenue flows into the fund.

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CHAIR KITO expressed his belief that there is a significant economist group within DLWD; he asked whether that group resides in one of the organizational chart boxes or outside of the chart.

ACTING COMMISSIONER CASHEN identified the group as the Research and Analysis Section and stated that it was part of ASD.

MS. HARBOUR explained that not all the sections are on the chart; the commissioner's office and ASD supports all the programs within DLWD. She relayed that the Research and Analysis Section primarily provides labor market information in support of the workforce development programs; it also performs AKOSH statistical analysis in support of the protect workers program and the UI actuarial in support of the income replacement programs.

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CHAIR KITO mentioned that last year there was discussion about the interest of the governor for having additional agency coordination to identify areas of common services that could be combined for efficiency. He asked if there is anything to report from DLWD with respect to working with the Department of Education and Early Development (DEED) or other agencies to find efficiencies.

ACTING COMMISSIONER CASHEN replied that DLWD works closely with DEED, primarily with career and technical education; however, no programs have been merged. He added that internally, DLWD has merged two divisions - the Division of Business Partnerships and the Employment Security Division. He added that the "independent living" component of DLWD was moved to the Department of Health and Social Services (DHSS).

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CHAIR KITO referred to discussions regarding the possibility of overlap between DLWD, DEED, and the University of Alaska (UA)

around workforce development and regarding communication between those agencies for providing services.

ACTING COMMISSIONER CASHEN responded that DLWD does communicate regularly with UA primarily to ensure DLWD is not duplicating programs. He expressed his belief that DLWD does not have any duplicative programs with DEED. He maintained that the department is always looking for efficiencies and non-duplication of effort.

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CHAIR KITO referred to slide 14, which states that DLWD has paid over \$128 million in UI benefits to nearly 39,000 claimants. He asked whether DLWD has seen trends in the numbers of UI benefit claimants. He asked whether the number correlates directly to the unemployment rate or the two vary.

MS. HARBOUR answered that the UI actuarial staff of the Research and Analysis Section tracks UI rates, claims, period of payments, and a variety of other data year after year; it compares past years and gives forecasts for future years; and it provides a monthly report to UI programs. She maintained that currently Alaska has record low UI claims, yet, the unemployment rate is at the ten-year average. She said that the unemployment rate represents people who are actively seeking employment in the prior four weeks; they may no longer be eligible for benefits or never have worked. She summarized that currently the UI rates are somewhat high, and the UI claims are somewhat low.

CHAIR KITO asked if the reports can be found on the DLWD website.

MS. HARBOUR replied that these detailed reports are not on the department's website. She said that the December issue of DLWD's magazine, Alaska Economic Trends, contains an article that specifically addresses the differences between the number of claims and the UI rate and speculates on the reasons for the discrepancy.

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CHAIR KITO inquired as to DLWD's specific goals regarding worker safety, workforce development, and income replacement. He asked whether there have been efforts to identify annual goals for those priority areas.

MS. HARBOUR responded that like every state department, DLWD has performance measures that it reports on that are part of the budget development process. She offered that some goals were mentioned for the protect workers priority. She stated that DLWD has target reduction percentages for transportation and construction incidence rates; DLWD targeted a 3 percent reduction, but the actual reduction percentage was significantly higher. She continued by saying that for each program area, DLWD has key performance indicators; the graphs and charts in the PowerPoint illustrate some of these.

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REPRESENTATIVE KNOPP stated that in the budgetary process, legislators have been asked to not focus on personnel numbers for departments and programs that are serving the greater good. He referred to HB 255, which addresses the Certificate of Fitness, asked if the intent is to benefit the workers or to raise fees. He gave an example: A few years ago, DLWD required people driving pilot cars to have flagger certificates. After a two- to four-hour online course and a fee of \$200, the person can drive a pilot car, yet there is nothing in the course that is applicable to driving a pilot car. He asked if the department designs a curriculum applicable to a program.

ACTING COMMISSIONER CASHEN responded that for plumbing and electrical work, there is a Certificate of Fitness required. He relayed that since currently there is no way to enforce that requirement except through the Alaska Court System (ACS), HB 255 would allow a citation to be issued to gain compliance.

REPRESENTATIVE KNOPP reiterated his concern about the applicability and necessity of the course for certification of pilot car drivers versus flaggers. He asked if the department considers the applicability of the course.

MS. HARBOUR responded that she would investigate that issue.

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EPRESENTATIVE WOOL stated that he hears from many business owners with a concern for workforce availability - the lack of people wanting to work or trained to work. He mentioned the AVTEC culinary program. He relayed that hotels hire hundreds of workers, some seasonally, such as for Denali National Park and Preserve, and some in Fairbanks. He maintained that these

workers are almost exclusively hired from out of state. He mentioned that he toured a canary in Kodiak recently; many of the workers are not native to Alaska. He said that in certain industries, it is difficult to find good workers. He stated that many people come to Alaska with J-1 visas to work in the "box" stores. He asked if this is an issue that DLWD addresses.

ACTING COMMISSIONER CASHEN answered that it is an issue in seafood processing and tourism and reported that he is not as familiar with the retail industry. He said that for many of these jobs, the underlying issue is wages, and for some it is lack of skills and work ethic among potential employees. He maintained that the more programs DLWD has for career and technical education and high school vocational education, instilling work readiness and soft skills, the better off Alaska is. He relayed that many foreign workers come to Alaska for the seafood processing industry; DLWD is working on improving the Alaska hire efforts primarily in seafood and tourism. He offered that [finding workers] is a challenge even in some of the industries requiring significant training; employers are having a harder time finding skilled workers for some specific occupations.

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CHAIR KITO mentioned that HB 255, the Certificate of Fitness legislation, is scheduled to be heard in the 2/2/18 House Labor and Commerce Standing Committee meeting.

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The committee took an at-ease from 3:57 p.m. to 3:59 p.m.

[3:59:07 PM](#)

CHAIR KITO announced that the next order of business would be an overview of the Department of Commerce, Community & Economic Development (DCCED).

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MIKE NAVARRE, Commissioner Designee, Department of Commerce, Community & Economic Development (DCCED), began the overview by referring to slide 2 of the PowerPoint presentation, entitled "Department Mission." He stated that DCCED's mission is to promote strong communities, a healthy economy, and to protect consumers in Alaska; and through that mission, DCCED can

coordinate, develop, and promote a sustainable economy. To fulfill the mission, DCCED has six divisions, and there are seven corporate entities under its umbrella. The corporate entities are as follows: Alaska Energy Authority (AEA); Alaska Industrial Development and Export Authority (AIDEA); Alaska Seafood Marketing Institute (ASMI); Regulatory Commission of Alaska (RCA); Alaska Gasline Development Corporation (AGDC); Alcohol and Marijuana Control Office (AMCO); and Alaska Railroad Corporation (ARRC). He added that these entities are in the department's budget; he has some oversight over their management but very little control.

COMMISSIONER NAVARRE relayed that DCCED touches virtually every Alaskan through insurance banking, and it issues about 225 licenses - one-third corporate, one-third business, and one-third professional. The department has a strong, well-functioning regulatory framework, which is essential for economic development and for protecting Alaskans.

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COMMISSIONER NAVARRE referred to slide 3, entitled "Economic Growth," and reported that economic growth and opportunity is the future of Alaska's economy. He stated that DCCED has just completed phase one of its Community Economic Development Strategy (CEDS) for Alaska. He indicated it was the first time that a comprehensive strategy had been put together in this fashion; it's designed to transcend administrations and to be a workable tool and strategy for the long-term in Alaska. He added that the process began with many hearings in different areas of the state; there was representation from all regions and participation from all sectors within a steering committee as the plan was developed. He maintained that the plan is a high-level view. The second phase will involve narrowing the plan, focusing in on actionable items coming out of the broad economic development strategy, and looking at ways to employ the actionable items.

COMMISSIONER NAVARRE relayed that AIDEA's mission is to promote, develop, and advance economic growth and diversification in Alaska through various financing tools. In 2017, AIDEA's loans and investments were more than \$116 million, leveraging an additional \$36 million in private sector financing, and paying a \$12.8 million dividend to the state general fund (GF). He offered that the accumulative total of the dividend over the past 20 years is \$392 million; that is based on significant investment in AIDEA by the state.

COMMISSIONER NAVARRE stated that to promote a healthy economy, DCCED has 280 loans totaling \$37 million across 11 loan programs to Alaska owned businesses, including \$150 million in the Commercial Fishing Revolving Loan Fund (CFRLF); it has partnerships with the University of Alaska (UA) to support resource development efforts and to develop new industry and manufacturing through Made in Alaska and the Alaska Products Preference Program.

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COMMISSIONER NAVARRE relayed that although no GF dollars support ASMI in this year's budget, ASMI is responsible nationally for about 99,000 full-time equivalent jobs, \$5.2 billion in annual labor income, and about \$12.8 billion economic output. In Alaska, ASMI is a significant contributor to the economy; internationally, it is important as well.

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COMMISSIONER NAVARRE referred to slide 4, entitled "Affordable Energy," which highlights the Alaska Gasline Development Authority (AGDA), AEA, and Administrative Order No. 272. He stated that AEA's mission is to reduce costs of energy in Alaska; DCCED is working to accomplish that in a variety of ways, including some legislative initiatives to ensure that all areas of Alaska are benefitted. He related that AGDC is continuing its work advancing a gasline with the signing of high-level agreements in Asia, including China, Japan, and [the Republic of] Korea.

COMMISSIONER NAVARRE stated that [Governor Bill Walker's] Administrative Order 272 directed continuing focus on consumer energy generally and the Interior electric energy projects specifically. He mentioned that the work continues; last month, AIDEA moved forward the sale of Pentex Alaska Natural Gas Company ("Pentex") to the Interior Gas Utility (IGU); the intent is to deliver gas energy to Fairbanks. He added that the new executive director of AEA, Janet Reiser, is a former board member of Chugach Electric Association, Inc. (CEA) and is working to narrow AEA's focus as the state's lead agency on energy policy. He cited, as example, using the interties of the Bradley Lake Power Project (BLPP) to continue fostering better relationships and efficiencies among all the Railbelt utilities. He mentioned that there are projects in the governor's budget this year; Kake's [Gunnuk Creek] hydroelectric project is in the

governor's budget; and Power Cost Equalization (PCE) serves 88 utilities and over 83,000 people in 195 communities.

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COMMISSIONER NAVARRE moved on to slide 5, entitled "Strong Communities," and mentioned that Community and Regional Affairs used to be a department, but now is a division within DCCED. It is enshrined in the Alaska Constitution and established by law in the executive branch to advise and assist local government. He stated that DCCED is the local government entity for the unincorporated areas of Alaska. He relayed that there are seven Division of Community and Regional Affairs (DCRA) offices across the state - Kotzebue, Nome, Bethel, Dillingham, Anchorage, Juneau, and Fairbanks; there are 30 local government specialists that support local governments in the areas represented; the support includes utilities, elections, ordinances, and a wide variety of training and other services. He added that DCRA also has responsibility for the Municipal Land Trustee Program. He mentioned the community resources that DCRA makes available: community online database; interactive community maps; and community status reports measuring seven indicators over 500 communities in Alaska.

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COMMISSIONER NAVARRE referred to slide 6, entitled "Protecting Consumers," and relayed that \$13 million is generated annually by securities registration and filing fees. He stated that DCCED is the sole registry for Alaska Native Claims Settlement Act (ANCSA) corporation proxy filing. They are not regulated by the U.S. Securities and Exchange Commission (SEC); therefore, DCCED exercises oversight.

COMMISSIONER NAVARRE stated that the Corporations, Business and Professional Licensing Section performs the following functions: processes business licenses and tobacco endorsements; registers corporate compliance, reporting, and trademarks; licenses professionals; supports professional boards; and responds to public complaints regarding violations of licensing. He added that all are funded by designated general funds (DGF) rather than UGF. He maintained that DCCED is asked to regulate corporation, business, and professional licensing for a variety of reasons, including public protection and maintaining standards in the industry; therefore, these entities have agreed to pay for the cost of the board and oversight provided by the state.

COMMISSIONER NAVARRE mentioned that the DCCED Division of Insurance has been nationally recognized for its adaptive work in the individual market for health insurance; Alaska was one of only three states whose rate decreased this year, which was due to Alaska's Section 1332 Innovation waiver.

COMMISSIONER NAVARRE relayed that AMCO includes the Alcohol Beverage Control Board and the Marijuana Control Board; although the office is within DCCED, the director of the office is answerable to the two boards. He offered that he works with that office to have good communication and provide oversight.

COMMISSIONER NAVARRE stated that RCA regulates public utilities and the regulatory assistance project (RAP) to try to lower costs; an example is the effort to encourage improved and more efficient functioning of the utility cooperatives in the Railbelt.

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COMMISSIONER NAVARRE moved on to slide 7, entitled "Title 4 Rewrite," and relayed that Title 4 of the Alaska Statutes dates to the 1980s; it needs updating and streamlining; Senator Micciche has introduced SB 76 and a variety of other bills addressing it; it involves distilleries, breweries, and alcohol and marijuana oversight. He stated that DCCED's approach to these issues is that there are competing interests and historical issues; DCCED will identify the issues, listen to all sides, and try to build consensus; it will attempt to develop a framework in the alcohol laws that will allow for efficient and effective oversight and management, yet one that can adapt over time as things change in Alaska.

COMMISSIONER NAVARRE continued with slide 8, entitled "Statewide Economic Development Strategy," to describe "Northern Opportunity: Alaska's Economic Strategy." It is a strategy that builds on past, local, and regional efforts; U.S. Economic Development Administration (EDA) funds were used for the effort, and they were matched by the funding of personnel in the Division of Economic Development (DED).

COMMISSIONER NAVARRE referred to slide 9, entitled "Administrative Order 289 - Climate Change," and explained that the order is the governor's initiative. The focus areas are as follows: mitigation - actions to reduce, sequester, and offset greenhouse gas emissions; adaptation - actions to evaluate risks

and adopt measures to address or reduce the vulnerability of Alaska's citizens; and research - responses for identified and emerging problems. These three focus areas will be considered in the context of climate change and its effect on areas of Alaska including coastal areas.

[4:14:06 PM](#)

COMMISSIONER NAVARRE turned to slide 10, entitled "Reinsurance and the 1332 Waiver," and reported that the waiver represents a \$332 million federal funding "home run." The legislature appropriated \$110 million as a match; the first \$55 million came from GF and funded the program; the second \$55 million came from premium taxes in the insurance industry. He mentioned that Lori Wing-Heier, Director, Division of Insurance, and her staff deserve credit for securing the waiver; it is very innovative; it was nationally recognized; it resulted in stabilizing the private insurance market and contributed to the reduction in health insurance individual markets rates this year. He offered to provide more information on the waiver. He stated that with federal funding, Alaska has an opportunity to reduce the state contribution; DCCED is seeking to quantify the savings for finance committee review.

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COMMISSIONER NAVARRE referred to slide 11, entitled "Streamlining Professional Licensure," and relayed that a strategic plan was instituted by DCCED that focuses on streamlining the professional licensure process and ensuring that applications are processed as quickly as possible. The initial response from the department has been the reduction in [process] time from the receipt of the application and the initial response from more than 60 days to under 30 days. For medical licensure for physicians, physician assistants, and nurses, the time is down to within ten days for the initial review and status report. He mentioned that Senator Cathy Giessel introduced SB 108, which would allow for faster licensure for applications without an answer of "yes," which could be indicative of investigations, probations, or other problems with the application.

COMMISSIONER NAVARRE moved on to slide 12, entitled "Production Forecast," and offered that he accepted his position because he wished to formulate an economic message. He referred to the graph on slide 12, entitled "ANS [Alaska North Slope] History and Forecast by Pool," which illustrates the basis for Alaska's

economic challenge: even with new oil fields, Alaska is at best stemming the rate of decline. He offered that to attain an incline in the production rate, significant investment is needed; this calls for a comprehensive fiscal and economic plan allowing for stability in the oil tax structure and recognizing the cost of economic development in areas of Alaska's economy other than oil and gas.

[4:17:50 PM](#)

COMMISSIONER NAVARRE continued with slide 13, entitled "Economic Impact of Growth," to present a scenario of 5,000 new jobs in the Fairbanks North Star Borough (FNSB): Of the 5,000 jobs, 4,000 would require an influx of workers; 1,000 of them would be absorbed within the FNSB. This would represent a \$1 billion capital investment; it would include 4,000 new households, 2,500 new students in the school district, 4,000 new housing units with an average value per home of \$200,000. Commissioner Navarre said that he chose a limited liability company (LLC) for the scenario, because currently LLCs are not taxable under the state's tax structure. He pointed out that under the scenario, there would be an additional \$22 million in property tax revenues at the local level and \$10 million in new education expenses, which leaves \$12 million for roads, emergency services, social services, and other needs. He concluded that the cost of delivering the services that go with the economic development are covered by the local taxes. He pointed out that at the state level there would be 5,000 new jobs created and no new revenues, yet the state pays two-thirds of the cost of education, all of the ACS costs, and the bulk of the public safety costs; therefore, there would be an additional \$30 million in expenses associated with the economic development described in the scenario, and no new revenues to pay the costs associated with it.

COMMISSIONER NAVARRE relayed that he has modeled this scenario in other areas of the state, including the Kenai Peninsula, and discovered that local governments have a broader tax base, therefore, are able to pay the costs associated with the economic development, but the state does not. He concluded that there are tremendous economic opportunities available in Alaska and for its citizens; Alaska wants to take advantage of these opportunities; however, there are associated costs which must be built into the model so that the tax structure is predictable and stable for those making the investments. He said that without building those costs into the model, from an economic perspective, there is a disincentive to investment in Alaska.

He offered that his intent is to foster a long-term look at the economy as a basis for building the fiscal regime, rather than a short-term discussion about taxes.

[4:20:46 PM](#)

CHAIR KITO asked for clarification that on slide 13, Commissioner Navarre has indicated the consequences of adding 5,000 new jobs to FNSB through an economic development project or circumstance.

COMMISSIONER NAVARRE agreed. He added that if the jobs were oil and gas jobs, then the jobs would bring in more revenue than the costs associated with the jobs; however, the scenario is an investment like for a widget factory or a manufacturing plant. The intent of the scenario is to demonstrate the costs of economic development in the short-term and in the longer-term. Alaska's fields are mature fields; Prudhoe Bay Oil Field was discovered in 1969; the peak of oil production in Alaska was 1988; Alaska would like to have those production levels, but it would require significant investment in Alaska. He maintained that even with additional investment, Alaska will be faced with a transition to a different type of economy at some point and a broader tax burden.

COMMISSIONER NAVARRE commented that the picture of a blanket toss on slide 14 signifies the celebration of a whaling crew for a successful hunt and a leap of faith, which is what Alaska needs to do to take advantage of opportunities and structure its economic foundations to take advantage of them.

[4:22:39 PM](#)

REPRESENTATIVE BIRCH referred to slide 6, "Corporations, Business & Professional Licensing," and stated that the legislature has had issues allocating to flat rates; it struggled last year with "cost cause or cost payer." He suggested Alaska reasonably align the cost of licenses and renewals to the cost of providing the license.

REPRESENTATIVE BIRCH mentioned the Title 4 rewrite as it pertains to licensing. He said that he has constituents in Anchorage and friends in Fairbanks that operate microbreweries; he is concerned about the "hard line" on the industry and the squabbles about what is permissible. He maintained that microbreweries are good for the economy; these small businesses are employing people; Napa Valley is very successful; and Alaska

has an opportunity to be successful in the microbrewery industry.

REPRESENTATIVE BIRCH referred to slide 13 and maintained that if the 5,000 jobs in the scenario were in the mining industry or oil and gas industry, the workers would be contributing revenue to the state times ten; if the jobs are in the retail industry, not so much. He emphasized that Alaska's long suit is resource development, Alaska should focus on resource development and attract jobs in those industries.

[4:25:41 PM](#)

COMMISSIONER NAVARRE responded that in respect to Title 4 rewrite, he has been immersed in many aspects of it; he understands the issues and recognizes that there are many competing economic interests and an irrational adherence to the status quo. He maintained that DCCED will try to build consensus, apply pressure where its needed, ensure that it is structured so that it can be effectively managed, and recognize changing dynamics in the industry.

COMMISSIONER NAVARRE commented that in respect to economics, he wholly agrees that Alaska needs to encourage resource development in Alaska. He added that the oil and gas industry brings in more revenue than the costs it incurs; however, he expressed that he is not sure that is the case with the mining industry. He maintained that what is not built into slide 13 is the multiplier effect that goes along with any economic activity - service industry jobs and other lower level jobs that require but don't pay for state services. He recommended taking a broad look at Alaska's economy; finding areas of agreement; and building an economic plan that recognizes different aspects.

[4:27:23 PM](#)

REPRESENTATIVE KNOPP referred to ASMI on slide 3 and mentioned the decision last year to close the Seattle office and relocate. He asked if that occurred.

COMMISSIONER NAVARRE expressed his belief that the employees are still in transition, and almost all have moved to Juneau in renovated space on Franklin Street. He stated that he is an ex-officio member of the ASMI board; attended the last board meeting; and was impressed with the level of interest and the sincere approach of the ASMI board to the issues facing the seafood industry.

REPRESENTATIVE KNOPP mentioned that he has gotten calls regarding the relocation of the office to Juneau instead of Anchorage; the callers felt that Anchorage was the better location for marketing.

REPRESENTATIVE KNOPP referred to slide 5, which read in part, "An agency shall be established by law in the executive branch of the state government to advise and assist local government." He asked if that is in place or will happen in the future. He mentioned that he is not aware of that happening.

CHAIR KITO responded that the agency referenced is DCRA, formerly the Department of Community and Regional Affairs. He responded to the question regarding ASMI by saying that the staff transition schedule indicates that they are completely out of the Seattle office; the state's lease ends on June 30, 2018.

[4:29:47 PM](#)

CHAIR KITO referred to slide 9, regarding the Administrative Order 289 on climate change, and commented that he recently heard the following statistic: in 2016, national disasters in the U.S. cost the country \$80 billion; in 2017, with multiple natural disasters - hurricanes, fires, floods, and landslides - it is estimated the cost will be \$306 billion; this is a greater than 300 percent increase. He expressed that this is a concern, and it indicates to him that climate change will become an economic issue. He said that he worries about the additional economic burden this will have on Alaska either for insurance costs or for actual expenses dealing with natural disaster, as Alaska is the front line of climate change.

COMMISSIONER NAVARRE replied that the rationale behind the administrative order was to recognize and identify where the impacts may manifest and how best to deal with them. He maintained it will be an economic issue. He asserted that even if it is impossible to definitively name the cause for climate change, the fact that it is happening is known; ocean acidification will have far reaching impacts on the seafood industry in Alaska; and the coastal areas will be impacted as well.

[4:32:05 PM](#)

REPRESENTATIVE WOOL referred to the Statewide Economic Development Strategy and the Northern Opportunity on slide 8 and asked what division oversaw that effort.

COMMISSIONER NAVARRE explained that the Statewide Economic Development Strategy is a high-level view identifying areas needing attention; it is under the Division of Economic Development; it was funded by the federal EDA grant; and it is available on the DCCED website.

[4:33:00 PM](#)

REPRESENTATIVE WOOL referred the graph on Slide 12, showing oil production history and forecast, and asked whether the intent of the graph is to show the downward trend and to convey that absent a major oil find, Alaska will need to adjust to a "new mindset."

COMMISSIONER NAVARRE answered that the graph illustrates two simultaneous circumstances: the first circumstance relates to the aging oil fields and the attempt to stem the decline, which could be precipitous; the second relates to new fields that have been identified and will hopefully be developed over time to increase production. The projections are about merging those two conditions. He added there are some very promising finds on the North Slope, but development takes billions of dollars in investment. He said that to encourage the investment, Alaska must have some stability and be welcoming to development. He maintained that to gain that stability for the oil industry, either the burden must be shared, or the oil industry will disproportionately bear the burden. He asserted that a broader foundation for Alaska is in its best interest.

[4:34:59 PM](#)

REPRESENTATIVE KNOPP referred to a letter from the Alaska Conference of Mayors requesting a stable fiscal plan. He asserted that Alaska currently does not have the means to support all the requests in the letter. He offered that most of the organized cities have "stepped up to the plate," adopted city powers, and provided services; however, boroughs have not adopted the powers and provided the services. He suggested that if legislators and Alaska residents refuse to adopt a revenue plan, at some point it may be appropriate to ask the boroughs to organize, adopt the powers, and provide the services they are requesting from the state.

4:36:20 PM

COMMISSIONER NAVARRE responded that Alaska has economies of scale that are unique; therefore, Alaska has services at the state level that other states provide at the local level. He referred to police coverage and said that Alaska providing coverage to the boroughs through the Alaska State Troopers (AST) has worked for a long time. He maintained that by statute, adopting those powers must be by a public vote. He asserted that there is significant cost associated with assuming the powers; it is difficult to get people to pay for something even when they recognize the need. He said that it behooves the state to have the discussion with local governments regarding the balance between what the state should be doing and what local government should be doing.

COMMISSIONER NAVARRE continued by saying that the history of boroughs in Alaska is that many were forced to form through the Mandatory Borough Act of [1963]; Alaska has many service areas, some with a larger tax base than others. He maintained that some service areas worked well at the time they were designed, but as they have evolved, the statutes have not evolved with them. He offered that the state needs to take a more comprehensive view of how state and local governments work in Alaska; DCCED will attempt to do that in conjunction with the economic plan. He maintained that Alaska gravitates towards solutions on an individual basis; once they are in place, Alaska has little "fiefdoms" that become very parochial and make it difficult to deviate from the status quo, even if an overall solution is better. He said that the statutes are designed in some ways to limit that; as an example, service areas - fire service areas and recreation service areas - can't be combined, even if the local governing body supports it. Residents of each individual service area must vote separately to accomplish that, which is an impediment at times to efficiencies. He offered that for some of these issues, it takes a long time and a great deal of work to convince and educate the public about the best way to go forward. All these issues will be controversial and contentious.

4:39:15 PM

CHAIR KITO concurred with Commissioner Navarre's statement of the issue and expressed that he wishes to invite the Alaska Municipal League (AML) to the committee to address state versus municipal responsibilities for services. He suggested the

commissioner or DCRA staff would be willing to participate in that discussion.

[4:40:09 PM](#)

REPRESENTATIVE BIRCH expressed that he has been heavily immersed in this issue with six years of experience with local government in Fairbanks and nine years in Anchorage. He opined that when the constitution was drafted, the boroughs were not contiguous; therefore, there were wide open spaces in Alaska. He offered his understanding that the legislature serves as an assembly for the unorganized borough areas; the legislature is empowered under the constitution to do whatever is necessary to provide the governance and take necessary action. He suggested that there is a mechanism in place, but it has not been exercised very often.

COMMISSIONER NAVARRE agreed that there is a mechanism in place for the unincorporated areas; however, many of the incorporated areas also evolved over time - the areas were expanded or combined. This was accomplished at times by combining or overlaying existing structures: in Anchorage there is a police service area and areas outside the police service area, including the highway corridor, which is the main arterial between Kenai and Anchorage. He said that last year, the legislature passed a bill under which the state formed a highway corridor service area on the Kenai Peninsula, because there was a recognized need; the communities' emergency services wanted to serve their local communities but were spending most of their time with people passing through on the corridor. He mentioned that Cooper Landing was the area he was referencing. He stated that there are many challenges in Alaska.

[4:42:05 PM](#)

REPRESENTATIVE JOSEPHSON suggested that if the legislature wants to reform the power of boroughs to insist they provide certain services and move those services to the boroughs, it would consume the entire session and involve a slate of bills. He asked if his assessment is correct.

COMMISSIONER NAVARRE replied, "You're absolutely right." He maintained that it is a complex set of issues; it should be done through dialog, communication, and consensus with local governments, because otherwise there would be too many obstacles.

[4:43:17 PM](#)

CHAIR KITO referred to slide 12, the ANS history and forecast, and related the following experience: he was working near the Kaparic River Oil Field at the time it was under development; it was very exciting, even though it was significantly smaller than the Prudhoe Bay oil discovery; it was the last big find in Alaska. There is potential with the opening of the Arctic National Wildlife Refuge (ANWR); there is potential with exploration of the former National Petroleum Reserve-Alaska (NPR-A); however, no concrete large amounts of oil have been discovered. He opined that being hopeful is good but being practical is also good, that is, to make sure Alaska has a way to move forward. He suggested that if Alaska finds another large oil reserve, it should approach it like Norway has done - ensure services are provided, then bolster the permanent fund with the excess revenue the state receives.

[4:46:14 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:46 p.m.