

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

February 21, 2018

3:21 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**

PRESENTATION: ECONOMIC TRENDS & ENTREPRENEURSHIP IN ALASKA

- HEARD

HOUSE BILL NO. 306

"An Act relating to disbursement options under the Public Employees' Retirement System of Alaska and the Teachers' Retirement System of Alaska for participants in the defined contribution plan; and providing for an effective date."

- MOVED HB 306 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 306

SHORT TITLE: PERS/TERS DISTRIBUTIONS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/18	(H)	READ THE FIRST TIME - REFERRALS
01/24/18	(H)	L&C, FIN
02/12/18	(H)	L&C AT 3:15 PM BARNES 124
02/12/18	(H)	Heard & Held
02/12/18	(H)	MINUTE (L&C)
02/21/18	(H)	L&C AT 3:15 PM BARNES 124

## **WITNESS REGISTER**

DAN ROBINSON, Research Chief  
Research and Analysis Section  
Department of Labor & Workforce Development (DLWD)  
Juneau, Alaska

**POSITION STATEMENT:** Gave presentation on Trends in Alaska's Employment and Population.

DR. MOUHCINE GUETTABI  
Assistant Professor of Economics  
Institute of Social and Economic Research (ISER)  
University of Alaska, Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Presented on the Alaska recession and on "How Does Alaska's Spending Compare?"

JON BITTNER, Executive Director  
Alaska Small Business Development Center (SBDC)  
University of Alaska, Anchorage Business Enterprise Institute  
Anchorage, Alaska

**POSITION STATEMENT:** Presented on "Small Business Trends and the Alaska Economy".

SYLVAN ROBB, Deputy Commissioner  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in the hearing on HB 306.

KATHY LEA, Deputy Director  
Division of Retirement and Benefits  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions in the hearing on HB 306.

## **ACTION NARRATIVE**

[3:21:05 PM](#)

**CHAIR SAM KITO** called the House Labor and Commerce Standing Committee meeting to order at 3:21 p.m. Representatives Sullivan-Leonard, Stutes, Knopp, Birch, Wool, Josephson, and Kito were present at the call to order.

**Presentation: Economic Trends & Entrepreneurship in Alaska**

[3:21:55 PM](#)

CHAIR KITO announced that the first order of business would be a presentation on Economic Trends & Entrepreneurship in Alaska.

[3:22:10 PM](#)

DAN ROBINSON, Research Chief, Research and Analysis Section, Department of Labor & Workforce Development (DLWD), gave a presentation on Trends in Alaska's Employment and Population [in committee packets]. He explained his department produces, together with federal partners, most of the data on those trends. He said that the Institute of Social and Economic Research (ISER) is among the most sophisticated users of the data his department gathers. He added the information does not change with the change in administration.

[3:24:11 PM](#)

MR. ROBINSON addressed slide 2, "Job losses are smaller but continue." He said he often hears that the recession is over and also that the state is in a downward spiral. He stated neither are true. He explained the state loses jobs at a lower rate than in mid-2016 but continues to lose jobs.

[3:25:20 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked about the significant difference between June 2016 and June 2017 in the graph.

MR. ROBINSON answered his group had compared June 2016 to June 2017 and it had seemed there was almost a return to zero.

[3:26:47 PM](#)

REPRESENTATIVE WOOL asked whether the comparisons were always between the same months in subsequent years.

MR. ROBINSON answered in the affirmative. He explained comparing like months controlled for seasonality.

REPRESENTATIVE WOOL asked whether the spikes were seasonal or happenstance.

MR. ROBINSON answered the numbers were fairly small and one should not read too much into the month-to-month variation.

[3:28:02 PM](#)

REPRESENTATIVE BIRCH pointed to the chart on slide 2 and remarked there are about 27 bars below zero showing job losses. He asked whether those losses are cumulative.

MR. ROBINSON answered the numbers are not showing cumulative job losses. He added there are ways to calculate cumulative losses, currently at around 12,000, but the graph was not showing that.

REPRESENTATIVE BIRCH asked what the chart was showing.

MR. ROBINSON answered that it showed the duration and severity of job losses.

REPRESENTATIVE BIRCH asked what "minus 9,000" for September 2016 meant.

MR. ROBINSON answered there were 9,000 fewer jobs than in the prior year.

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MR. ROBINSON said the 27 months in the graph are significant. He added the group had looked at other states and found that 259 times states had gone through job losses and that 75 percent of the time, they had recovered in 2 years. The current downturn has extended into unusual territory. He explained business cycles versus structural change. He gave the examples of Oregon and Florida and explained that often there is a structural change. Florida had lost 330,000 construction jobs and that economic driver that had contributed to economic growth in Florida went away. He referred to the economic shock in the current recession.

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MR. ROBINSON addressed slide 3, "Recently released data: wage losses through Q3 2017". He stated, "We are still heading south."

- 2015 Q3 wages: \$4.76 billion
- 2016 Q3 wages: \$4.72 billion
- 2017 Q3 wages: \$4.55 billion

- Alaska employers paid about \$210 million less in wages in the third quarter of 2017 than in the same quarter two years earlier.

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REPRESENTATIVE KNOPP said it looked to him like the state is "going north" by \$210 million.

MR. ROBINSON answered the total wages for Q3 were \$4.45 billion so the graph shows \$210 million less. He added that hundreds of millions of dollars in the graphs are significant.

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REPRESENTATIVE BIRCH asked whether the gross for the year was \$18 billion.

MR. ROBINSON replied that roughly the state had an \$18 billion economy. He added that the third quarter was the biggest quarter of the year.

REPRESENTATIVE BIRCH remarked that the previous year the state had an income tax proposal and asked how that would be applied to the \$18 billion.

MR. ROBINSON said he could not speak to the tax.

REPRESENTATIVE BIRCH asked whether the calculation included out-of-state paychecks.

MR. ROBINSON answered in the affirmative and added that the data was very helpful as it contained unemployment insurance and captured almost all employers.

REPRESENTATIVE WOOL asked whether the total job loss would keep growing.

MR. ROBINSON answered there is a difference between resumed growth and recovery. He said resuming growth will matter. He spoke to what it took for other states to recover and said that for some states it took longer. He remarked that Alaska in the 1980s recovered fast but "that seems unlikely this time."

[3:38:16 PM](#)

MR. ROBINSON spoke to slide 4, "Long View: 1970-2018 jobs history." He said Alaska had a long period of stability and had "plowed right through" two national recessions.

REPRESENTATIVE BIRCH asked whether the graph includes the military positions.

MR. ROBINSON answered that it does not.

REPRESENTATIVE BIRCH remarked the military factor is huge, especially in Fairbanks, Alaska.

MR. ROBINSON said the data set included only civilian military. He added that fishermen aren't included because they are self-employed, but seafood processors are included.

REPRESENTATIVE BIRCH commented that those groups must include thousands of people.

MR. ROBINSON said those groups aren't covered by unemployment. He said military data is collected separately every year.

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CHAIR KITO commented that a military installation would not count as economic growth except in the case of the F-35s in Fairbanks, Alaska, for which people would be coming into the state.

MR. ROBINSON said that was correct. He said Fairbanks is one place where economic growth is forecast for 2018.

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REPRESENTATIVE WOOL surmised that the military base population would appear as growth, and any military dependents who work outside the base would appear.

MR. ROBINSON answered that any non-military income would appear, including on military bases.

[3:42:29 PM](#)

MR. ROBINSON pointed to the graph on slide 4 and explained that the current recession is not as deep as the recession in the 1980s and that if the forecast is correct, it could extend beyond the recession in the 1980s.

MR. ROBINSON spoke to slide 5, "Our Statewide 2018 job forecast." He remarked that forecasting for 2018 was difficult.

[3:43:52 PM](#)

MR. ROBINSON moved on to slide 6, "Zooming in on a key industry":

- Alaska had 15,000+ oil and gas jobs in late 2014.
- Alaska had about 9,600 oil and gas jobs by late 2017.
- Oil jobs fell by more than a third in about three years.

MR. ROBINSON moved to slide 7, "Other sectors with big losses (2015-17)":

- Construction -15.3 percent
- State Government -7.4 percent
- Prof. & Business Services -7.3 percent

[3:45:12 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked whether there was any forecast for job increases.

MR. ROBINSON said the data was available and showed that healthcare was the only sector that was up. He added that local and tribal governments were lower. He said healthcare job growth was forecast to be slower in 2018.

MR. ROBINSON spoke to slide 8 "The relationship between Alaska's employment and population". He stated that in the 1980s the state had quite a big jump in population.

[3:47:51 PM](#)

MR. ROBINSON spoke to slide 9, "Almost constant growth since WWII". He pointed out that there were four years in which the population did not grow. He pointed to one year of population loss when the pipeline was completed.

REPRESENTATIVE WOOL asked about the state population without birth and death data.

MR. ROBINSON answered there was a population overview. He added history has shown growth and it is unlikely the state will lose large numbers of population.

[3:51:21 PM](#)

MR. ROBINSON moved on to slide 10, "AK has largest migration flows in U.S." He pointed out that Alaska has the biggest migration flow due to the pull of economic opportunity and quality of life. He added people also leave the state at a higher rate due to climate and other factors. He remarked migration flows affect a lot of other things, and that there is an unusual amount of "coming and going" in Alaska.

[3:53:24 PM](#)

CHAIR KITO asked whether the numbers include military migration.

MR. ROBINSON answered in the affirmative.

[3:53:33 PM](#)

REPRESENTATIVE BIRCH commented that according to the graph, it looked like the population grew between 1990 and 2016.

MR. ROBINSON answered the migration number netted to a little bit less than zero. He explained that if there were exactly matching births and deaths, then the population would have shrunk a little.

REPRESENTATIVE BIRCH said he understood the coming but not the going part. He said he did not understand the 12 percent number.

MR. ROBINSON answered that the point is to show that there is an unusual amount of coming and going in the state.

[3:55:50 PM](#)

MR. ROBINSON addressed slide 11, "Takeaways".

- Economic downturn (recession) that began in late 2015 continues, though the losses are smaller.
- Population has been quite stable, although 2017 saw a small loss and net migration has been negative for

the last five years and migration is especially important in Alaska.

- We've forecasted another year of job loss in 2018, although there's more uncertainty than usual about economic direction.

[3:57:02 PM](#)

REPRESENTATIVE WOOL spoke to the job losses shown in slide 2.

MR. ROBINSON answered that as long as the state is losing jobs, the job market continues to get smaller.

REPRESENTATIVE WOOL spoke to migration. He surmised that job gain would be coupled with positive migration.

MR. ROBINSON answered that it is correct that when the economy is growing, net migration tends to be positive.

[3:59:45 PM](#)

DR. MOUHCINE GUETTABI, Assistant Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska, Anchorage, presented on the Alaska recession and on "How Does Alaska's Spending Compare?" He said he had been asked to provide a comparison and contrast with Mr. Robinson's presentation. He described his reports and stated he wouldn't be able to do any analysis without the Department of Labor & Workforce Development (DLWD) work. He added that broadly speaking he agreed with Mr. Robinson. He said he thought the decline in job losses is good but does not mean a recovery. He stated he thought the state was far from recovery.

DR. GUETTABI explained the oil and gas industry affects Alaska through two channels. He said the difficulty is that the industry affects the Alaska economy through the private sector through support sector and household dependent jobs. He indicated that the report shows the comparison between June 2014 to June 2017 for oil and gas and as of June 2017 oil and gas employment was 75 percent what it was in 2014. He added that means that economic engine is much smaller. He stated that professional services are at 90 percent of what they were in 2014, and state government employment is at 95 percent. He referred to the sectors hit in the first wave which are still considerably below what they were a few years ago.

DR. GUETTABI explained that he had expected more losses for 2017 and he said he was surprised Alaska didn't get hit harder. He said he thinks it's good that the losses are slowing and the fact that the state lost fewer jobs than expected is due to the fact that local government and support sectors have held up well. He suggested the question will be how much some of these businesses can sustain if economic activity is lower for the next two and a half years. He said he thinks in the next year the state will lose a little less than 1 percent of jobs. He said he wondered about the engine of recovery, as healthcare is not a basic sector that generates money from the outside and therefore is not the way out of the recession and cannot be the future economic engine.

[4:08:13 PM](#)

CHAIR KITO asked about sector changes or economic drivers that have pulled other states out of their recessions.

DR. GUETTABI answered that he doesn't believe that Alaska has a diversification problem, but Alaska has a leakage problem. He indicated a lot of value leaves the state. He added he thought the state had to think very critically about the existing supply chain and ensure that a lot of the money that is generated in the state stays in the state. He mentioned that private capital spending in the state is down \$2.5 billion (indisc.). He said it is much more important to examine the ways in which the state can plug some of the holes. He stated the Permanent Fund (PF) is larger than Alaska's gross domestic product (GDP) and asked whether the PF should play some role in private economic activity if the economic engine is lost. He reiterated that he thinks the supply chain is the "lower hanging fruit" as opposed to new industry, and that the question about the financial resource playing some role in the economy is worthy of investigation.

[4:11:50 PM](#)

REPRESENTATIVE JOSEPHSON spoke to policy uncertainty and said that there is a lost opportunity with not making economic decisions. He asked how history can gauge what the outcome might have been had the state marched forward with confidence instead of passivity.

DR. GUETTABI said the exercise that he did was to attempt to get closer an answer. He said he often gets the question of whether "doing nothing is costless." He added he often finds that policy

uncertainty around gubernatorial elections causes private investment declines of up to 15 percent. He said the losses from foregone investment are of the same magnitude as the potential losses stemming from taxes or government cuts. He concluded that waiting is not costless and does result in people sitting in the sidelines and in missed opportunities resulting in a lingering recession.

[4:17:06 PM](#)

REPRESENTATIVE WOOL asked whether the next big oil discovery is what Dr. Guettabi means by supply chain and whether an increase in oil flow will "right the ship."

DR. GUETTABI answered that supply chain refers to what businesses buy in order to produce what they are producing. He said he refers to the leakage as the amount of money that leaves the state after being produced in the state. He said he thinks the strategy is feasible and starts at the local level with communities that are resource-rich. He remarked that new oil discoveries were not going to happen overnight. He questioned whether the state envisions oil and gas as big as it was 10 years ago, and if not, what the state thinks the next step for Alaska should be.

[4:22:24 PM](#)

JON BITTNER, Executive Director, Alaska Small Business Development Center (SBDC), University of Alaska, Anchorage Business Enterprise Institute, presented on a PowerPoint on "Small Business Trends and the Alaska Economy". He said that over 99 percent of businesses in Alaska are small business. Small businesses employ about 142,761 people, up from 141,316 in 2016. He added that small businesses represent about 70 percent of all exporters.

[4:25:07 PM](#)

MR. BITTNER described the Alaska Small Business Development Center (SBDC) in slide 3:

Who is the Alaska SBDC?

Operating in Alaska over 30 years

- 17 employees + 4 student researchers
- Seven regional centers across the state:
  - Anchorage
  - Mat-Su

- Fairbanks
- Kenai Peninsula
- Homer
- Juneau
- Ketchikan
- Annually serve:
- 1,000 small businesses
- 3,000 workshop attendees
- 2,500 youth entrepreneurs

[4:26:05 PM](#)

MR. BITTNER continued to slide 4, "What Did We See in 2017?":

- Record breaking numbers:
- Over \$18 million in capital infusion
- 6,250 advising hours
- Nearly 1,000 clients served
- 460 new jobs
- 155 new businesses started
- Over 50 communities served
- Other facts:
- 74 percent of all exporters are small businesses
- 20 percent of small businesses are minority owned

[4:27:36 PM](#)

MR. BITTNER moved to slide 5, "2018 Is Starting Off Strong":

- Clients:
  - New: 333
  - Total: 654
- New jobs: 309
- New Business Starts: 47
- Capital infusion: \$5,793,533
- Stage of business - new clients
  - Pre-venture: 217
  - Startups: 38
  - In-business: 79

\*SBDC FY2018, Q1:Oct. - Dec. 2017

[4:28:20 PM](#)

MR. BITTNER continued to slide 6, "2018 Alaska SBDC Small Business Survey":

- What
  - Series of 40 questions sent to small businesses across the state
- Who
  - Past four years of Alaska SBDC clients
  - Over 350 respondents
  - Why
  - Designed to measure Alaska's small business climate and perspective

[4:28:32 PM](#)

REPRESENTATIVE KNOPP asked how many of those 2,500 clients are still in business.

MR. BITTNER answered that under 30 businesses had gone out of business. He added that some were due to personal life events. He disclosed that those who were no longer operating may also have been less incentivized to answer the survey.

[4:29:23 PM](#)

MR. BITTNER spoke to slide 7, "2018 Survey Highlights":

- Top challenges facing small business in Alaska
  - Finding Funding
  - High Cost of Operating in Alaska (Shipping and Health Care)
  - The Economy/Political Uncertainty
- Top challenges to hiring new employees
  - Lack of qualified applicants (hard and soft skills)
  - Culture fit

[4:31:37 PM](#)

REPRESENTATIVE WOOL asked about the generational culture fit in employees.

MR. BITTNER answered there is a generational disconnect. He said there is a shift in the younger generation and how they value things. He said the older generations look at a career as a stable thing, whereas the average for a millennial is three or four years.

[4:33:40 PM](#)

REPRESENTATIVE BIRCH said everyone remembers their first job. He asked whether there was any erosion in the ability of young adults in summer jobs.

MR. BITTNER answered that he thinks the upcoming generation will be more entrepreneurial generations. He spoke to the Lemonade Day put on by his organization. He said that Nome has the highest grossing lemonade stands. He added there are a lot of millennials and the younger generation who are very interested in creating their own jobs as well as baby boomers who want to continue working.

[4:36:13 PM](#)

MR. BITTNER continued to cover 2018 Survey Highlights on slides 8-10:

- State economy
  - Do you believe the state's economy will improve over the next 12 months?
    - o 79 percent of respondents were either pessimistic or unsure about the state's economy over the next 12 months
- Local economy
  - Do you believe your local economy will improve over the next 12 months? •
    - o 66 percent felt the same about their local economy.

[4:38:32 PM](#)

MR. BITTNER moved to slide 9:

- Most small business are optimistic about the coming year
- 64 percent predicted their financial situation would be good or very good in 12 months

- Only 10 percent predicted their financial situation would be poor or very poor

MR. BITTNER addressed slide 10:

- Revenues: 2016 vs. 2017
  - 58 percent of small business respondents report their 2017 revenues were the same or higher than 2016.
  - Only 20 percent reported lower revenues in 2017.

MR. BITTNER addressed the final slide, "What Does It Mean?":

- The Alaskan economy is changing
- Small businesses are projecting growth in 2018
- There are several barriers to business growth in Alaska that need to be addressed
- The SBDC is working to grow Alaska's businesses and support policymakers across the state

[4:39:56 PM](#)

REPRESENTATIVE WOOL asked for confirmation that the respondents to the survey were clients whom the SBDC had helped within the previous four years.

MR. BITTNER answered in the affirmative.

REPRESENTATIVE WOOL surmised that brand new business owners may have a different view of the economy from those who had been in business for ten years.

### **HB 306-PERS/TERS DISTRIBUTIONS**

[4:40:44 PM](#)

CHAIR KITO announced that the final order of business would be HOUSE BILL NO. 306, "An Act relating to disbursement options under the Public Employees' Retirement System of Alaska and the Teachers' Retirement System of Alaska for participants in the defined contribution plan; and providing for an effective date."

[4:40:58 PM](#)

SYLVAN ROBB, Deputy Commissioner, Department of Administration (DOA), testified in the hearing on HB 306. She reminded that HB 306 moves to take the disbursement options for retirees from statute to regulations, so the department can be more nimble as more options for disbursements come out. She added that this process will allow for public comment in the process.

[4:41:45 PM](#)

REPRESENTATIVE BIRCH asked about the net effect of the proposed bill.

MS. ROBB answered that HB 306 would allow the department to respond more quickly to retirees and to change things more quickly.

REPRESENTATIVE BIRCH asked for a concrete example.

[4:43:15 PM](#)

KATHY LEA, Deputy Director, Division of Retirement and Benefits, Department of Administration (DOA), answered questions in the hearing on HB 306. She answered that one of the options the Alaska Retirement Management Board (ARMB) is looking at is a guaranteed lifetime withdrawal option. She explained the employee can go into the plan about ten years before they retire and can pay an insurance premium to ensure their balance. In this way, the highest balance that they receive will be what the monthly benefit payment will be based on. She added that this allows retirees to enjoy the upside of the market but protects them from the downside. She explained that this is a very important consideration when preparing participants for retirement readiness. She added the option was not currently included in the options in statute so could not be added to the PERS/TERS defined contribution plans. She described the qualified lifetime annuity contract. She said it had a specific definition with the Internal Revenue Service (IRS) and defers the annuity until age 80.

[4:45:32 PM](#)

REPRESENTATIVE KNOPP asked who else in the private or governmental sector was offering similar benefits.

MS. LEA replied that she could not list the states but that many states were doing the same. She added many corporations in the

private sector are also offering similar retirement plans to their employees.

[4:46:28 PM](#)

CHAIR KITO said public testimony was still open from a previous hearing. Upon ascertaining the no one was available to testify, he closed public testimony on HB 306.

[4:46:49 PM](#)

REPRESENTATIVE WOOL moved to report HB 306 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

[4:48:01 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:48 p.m.