

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

January 16, 2018
2:10 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Berta Gardner
Senator Peter Micciche

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Click Bishop

COMMITTEE CALENDAR

PRESENTATION: ALASKA EMPLOYMENT FORECAST FOR 2018

- HEARD

PANEL DISCUSSION: HOW TO CREATE MORE JOBS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

PALOMA HARBOUR, Director
Division of Administrative Services
Department of Labor and Workforce Development (DOLWD)
Juneau, Alaska

POSITION STATEMENT: Delivered a PowerPoint presentation titled
"Alaska Employment Forecast for 2018."

GREG CASHEN, Acting Commissioner

Department of Labor and Workforce Development (DOLWD)
Juneau, Alaska,

POSITION STATEMENT: Participated in the PowerPoint presentation titled "Alaska Employment Forecast for 2018."

MOUCHCINE GUETTABI, PhD, Assistant Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
Anchorage, Alaska

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

ROBERT VENABLES, Executive Director
Southeast Conference
Juneau, Alaska,

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

MEILANI SCHIJVENS, Past Executive Director
Southeast Conference
Juneau, Alaska

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

NOLAN KLOUDA, Executive Director
Center for Economic Development
University of Alaska Anchorage
Anchorage, Alaska

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

BRIAN HOLST, Executive Director
Juneau Economic Development Council
Juneau, Alaska,

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

DOUG WARD, Director
Shipyard Development for Vigor Alaska
Ketchikan Shipyard
Ketchikan, Alaska,

POSITION STATEMENT: Participated in the panel discussion about how to create more jobs.

ACTION NARRATIVE

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CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 2:10 p.m. Present at the call to order were Senators Meyer, Stevens, Gardner, and Chair Costello. Senator Micciche arrived soon thereafter.

Presentation: Alaska Employment Forecast for 2018

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CHAIR COSTELLO stated that today the committee would focus on the question of how to create more jobs. Acting Commissioner Greg Cashen with the Department of Labor and Workforce Development (DOLWD) would present the Alaska Employment Forecast for 2018, with assistance from Administrative Services Director Paloma Harbour. Following the presentation, the committee would hear from a group of panelists.

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GREG CASHEN, Acting Commissioner, Department of Labor and Workforce Development (DOLWD), Juneau, introduced himself and Ms. Harbour. He thanked the committee for the invitation to present an overview of the employment forecast for 2018, which was produced by the department's Research and Analysis Section. He reported that the key takeaway for 2018 is that it will be a stronger year than 2017.

He displayed a bar graph that provides an historical context to the current state recession and highlighted that Alaska's job numbers have been quite stable since the early 1990s. The current job losses, while serious, have been smaller than during the 1980s recession. In the 1980s, 9 percent or 20,700 jobs were lost, whereas 3.5 percent or 11,700 jobs have been lost in the current recession. The current recession has lasted 26 months and is ongoing, while the 1980s recession lasted 25 months. Recovery following the earlier recession was strong, but it's unclear what the recovery will look like following the current recession. He posited that recovery is unlikely until a long-term fiscal plan resolves the current uncertainty which hinders growth.

CHAIR COSTELLO asked what metrics the department uses to define a recession.

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PALOMA HARBOUR, Director, Division of Administrative Services, Department of Labor and Workforce Development (DOLWD), Juneau, explained that the department defines a recession as more than two quarters of job loss.

SENATOR STEVENS asked how to identify the end of a recession.

MS. HARBOUR said DOLWD's "Trends" publication states that the first sign is continued wage growth.

CHAIR COSTELLO asked if regaining the jobs that were lost is part of the measure.

MS. HARBOUR said no; an official recovery is identified as once the numbers turn positive. She added that, "You're not fully recovered, obviously, until you reach the pre-recession levels."

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ACTING COMMISSIONER CASHEN reported that losses were deepest in 2016 when the economy lost 6,300 jobs, primarily in the oil and gas industry and state government. The losses continued in those sectors in 2017 and spread to the closely related industries of construction and professional & business services. Losses are expected to spread in 2018 to stores, bars, restaurants, and a variety of other areas.

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SENATOR MICCICHE joined the committee.

SENATOR GARDNER asked if slowing job loss numbers is an indication that the economy is headed toward recovery.

MS. HARBOUR said yes, and DOLWD economists foresee potential job gains toward the end of 2018.

ACTING COMMISSIONER CASHEN reported that job loss overall seems to be tapering. The industries that were affected initially have started to stabilize at lower levels. Strong health care growth and record tourism kept overall job losses from being even deeper. Oil price forecasts are uncertain, but they are predicted to remain in the \$55 to \$65 per barrel range. He noted that the unexpected Sam's Club store closures is evidence that forecasts cannot anticipate every loss or gain.

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ACTING COMMISSIONER CASHEN said state government first felt the pinch in late 2014 when falling tax revenue from the oil and gas industry decimated state revenues. State government jobs were cut in early 2015 as pressure mounted to reduce expenses. In 2018, state government is likely to lose an additional 2.1 percent or 500 jobs. He cautioned that continuing calls to

reduce state government costs and the state's large budget deficit will continue to put downward pressure on job numbers.

He reported that the oil and gas industry maintained record high employment levels through most of 2015 but lost 2,900 jobs in 2016. The industry is expected to lose an additional 5.1 percent or 500 jobs in 2018, which is one-third of the loss sustained in 2017. Multiple future projects have been announced, but they are longer term and the potential employment boost in 2018 is expected to be minor. A bright spot is that oil prices are above \$60 per barrel, additional exploration and maintenance is on the horizon, and oil production is forecast to increase for the third year in 2018.

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ACTING COMMISSIONER CASHEN said the capital budget is lower again in fiscal year 2018, and oil and gas construction projects not likely to increase this year. The construction industry lost 200 jobs in 2015 followed by job losses of 1,400 in 2016 and 1,200 in 2017. The forecast for 2018 is a loss of 500 more construction jobs. Employment in the professional and business services industry started to fall in late 2015, plunged in 2016 with a loss of 1,600 jobs, followed by another 600 jobs lost in 2017. This industry is forecasted to lose another 400 jobs in 2018 due to continuing low demand for services. The substantial upstream losses eventually reached the industries that depend on local demand and expendable income such as shopping centers, theaters, nonprofits that depend on donations, bars, and restaurants.

He reported that Anchorage lost 3 percent or 5,000 jobs in the past two years, which depressed total employment to 2011 levels. The job loss for 2018 is forecasted to be more modest, and the municipality could stop shedding jobs by the end of the year.

CHAIR COSTELLO asked how accurate the forecasts have been.

MS. HARBOUR said DOLWD's predictions have been fairly accurate. Projected job losses did start in 2016, although the numbers were more significant than anticipated. Slightly fewer losses were forecast for 2017 and that too was accurate.

CHAIR COSTELLO asked Ms. Harbour to follow up with the actual versus the projected numbers.

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SENATOR MICCICHE observed that the presentation had dated oil prices. He requested updated data.

COMMISSIONER CASHEN said the figures were taken from the January 2018 "Trends" publication. He acknowledged that oil prices are somewhat higher now. He related that he looked before coming to the capitol this afternoon and learned it is \$69 per barrel.

SENATOR MICCICHE countered that it is \$70 per barrel.

ACTING COMMISSIONER CASHEN said he'd be happy to check on the reference.

ACTING COMMISSIONER CASHEN continued to discuss the historical and predicted Anchorage job losses. He said Anchorage is the state headquarters for the oil and gas, construction, and professional & business services industries. This is where the largest share of resident oil industry workers on the North Slope come from. Thus, the Anchorage forecasts for these industries mirror the statewide forecast.

Anchorage's leisure and hospitality sector depends on both local consumption and tourism. Weaker local demand resulted in 100 jobs lost in 2017. The forecast for 2018 is similar with a projected loss of 200 jobs. Health care has usually generated the largest number of new jobs in Anchorage. There were 800 new jobs in this sector, some of which were related to Medicaid expansion. In 2018, 600 new jobs are forecasted.

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ACTING COMMISSIONER CASHEN said employment in the Southeast region is forecasted to decline slightly less in 2018 than it did in 2017. The loss in 2018 is forecasted to be 0.6 percent or 200 jobs, compared to 0.7 percent or 250 jobs that were lost in 2017. Tourism is the reason that job losses in 2017 and 2018 are not worse. Southeast saw more than a million cruise ship visitors in 2017, and 2018 is anticipated to be even better. This helps the trade, transportation, utility, and leisure & hospitality sectors.

ACTING COMMISSIONER CASHEN said that over one-third of the employment in Southeast is government. The region lost more than 700 state government jobs between 2014 and 2017, and the forecast for 2018 is a loss of another 100 jobs. Commercial fishing is a significant part of the Southeast economy, but harvesting jobs are not included in the forecast because they are identified as self-employment jobs. Most of the region's

salmon harvest is pink salmon and the 2017 run was lower than expected. The forecast for 2018 is about two-thirds of the 2017 catch.

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ACTING COMMISSIONER CASHEN said that employment in the Fairbanks North Star Borough peaked in 2012 and has fallen every year since then. The 2017 job count was the lowest it has been since 2005. The economic picture is expected to improve in 2018 due to an increase in military construction. Preparation for two squadrons of F-35s for Eielson Air Force Base is the most positive economic development for Fairbanks and Alaska overall in 2018. Unlike other regions, the professional and business services sector was not affected by the oil and construction declines. There have been job gains the past two years. This sector is forecasted to grow again in 2018, due in large part to preparations for the F-35 squadrons. Health care, which has been a dynamic industry in Fairbanks for the last decade, slowed in 2017 and is expected to be flat in 2018. Job cuts at the University of Alaska Fairbanks resulted in the borough's largest employment losses in 2017, and cuts will continue in 2018.

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SENATOR STEVENS asked if he had government job data for all regions. "For Anchorage and Fairbanks, is it substantially less than one-third?"

ACTING COMMISSIONER CASHEN offered to follow up with the information.

MS. HARBOUR calculated that federal, state, and local government employment makes up 18.6 percent of total employment in Anchorage. She offered to follow up with the numbers for Fairbanks.

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ACTING COMMISSIONER CASHEN advised that in August 2017 the department added a set of economic measures to its monthly "Trends" publication that offer insight into key aspects of the state's economic health. He said no single measure tells everything about an economy, but a handful of relevant indicators warrant constant attention, and many other indicators should be regularly monitored.

He explained that these measures are presented as "economic gauges" that quickly show whether the most recent data puts the state above or below its 10-year average. Some of the gauges

(like the ones shown on slide 10 for job growth, unemployment rate, and wage growth) provide additional context through historical benchmarks and comparisons to the U.S. economy.

CHAIR COSTELLO asked what metrics the department used prior to this addition and if there was a reason they weren't used before.

MS. HARBOUR clarified that the department has been tracking the information and it has been available on the Research and Analysis website. What is new is that the information is included in the "Trends" publication. Putting the information in one location makes it easier for everyone.

SENATOR MICCICHE asked her to comment on why the 1980s recession was far deeper and more widespread than the current recession.

MS. HARBOUR said part of the reason is that the economy today is much broader and more balanced than it was in the 1980s when it was based primarily on oil and gas followed by construction and government.

SENATOR MICCICHE noted that unemployment in Alaska is the highest in the country. He asked if that's not generally the case due to seasonal employment. "I'd like a better way to gauge that impact as well," he added.

MS. HARBOUR agreed that Alaska generally has a high unemployment rate due to the high seasonality of work. The ten-year average unemployment rate for Alaska is 7.1 percent. She noted that another economic gauge shown on the next slide is overall unemployment insurance claims. Surprisingly, those claims are at record low levels. The December issue of "Trends" talks about why there is such a discrepancy, she said.

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ACTING COMMISSIONER CASHEN said the unemployment rate has long been one of the most prominent measures of economic health. While Alaska's unemployment rate is the highest in the nation, it is only one-tenth of one percent above its 10-year average. As slide 11 shows, unemployment claims have reached record lows. The December 2017 "Trends" publication discussed some of the possible reasons for this disparity.

He said Alaskans have been paying attention to banking and housing in the current recession because these industries were devastated in the 1980s recession. Many expected another real

estate crash, but that hasn't happened. The housing market has slowed, but it hasn't declined. Sales prices and rents are relatively stable, and foreclosures are down. He opined that this is likely due to the relatively steady population now compared to the recession in the 1980s.

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ACTING COMMISSIONER CASHEN said total population dropped 15,000 during the 1980s recession. Net migration has been negative for the past five years, but the losses have been offset by natural increases.

In 2017, the population decreased one-third of one percent or 2,629 people. This was the first decrease in 29 years. What is most telling in the 2017 population estimates is that as Alaska's population ages, natural increases may not be able to cover the fluctuations. The working population (18-64) declined 1.2 percent (the fifth year of decline), while the 65 and older group grew by nearly 5 percent. The under-18 population dropped just 0.4 percent and has changed little over the last two decades.

CHAIR COSTELLO asked how many Alaskans are wage earners.

MS. HARBOUR estimated that for the last several months the labor force numbers have been around 359,000. She clarified that is people who are either working or want to work. She offered to follow up with the number of people who are actively working.

CHAIR COSTELLO said she was looking for that number.

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ACTING COMMISSIONER CASHEN displayed a table showing the 2017 population change by [economic region], borough, and census area. He noted that 20 of Alaska's 29 boroughs and census areas lost population between 2016 and 2017. Anchorage and Fairbanks lost the most. The Municipality of Anchorage lost 1,454 people followed by the Fairbanks North Star Borough that lost 1,216 people. The Matanuska-Susitna Borough grew the most, gaining 1,612 people. Of the state's six economic regions, only Anchorage/Mat-Su gained population over the period (+158), while the Interior lost the most (-1,291). Net migration was negative in all six regions. He advised that complete population estimates are available on the Research and Analysis Section website. The site also includes estimates for census tracts, school districts, and Native Regional Corporations. It also includes estimates by age and sex for each borough and census

area. He advised that new 2017 estimates by race and ethnicity will be available in July 2018.

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ACTING COMMISSIONER CASHEN concluded the presentation by highlighting that every two years the Research and Analysis Section produces a 10-year employment projection by industry and occupation. The 2016 to 2026 projection will be completed by July 2018.

CHAIR COSTELLO asked what top three jobs/industries in Alaska grow the economy and if they are expected to change in the foreseeable future.

MS. HARBOUR offered to follow up with the information. She said she also wanted to mention that this recovery might be slow. For the foreseeable future, employment opportunities will be through replacement openings as the workforce population ages out.

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CHAIR COSTELLO thanked the presenters and encouraged members to submit questions to her office, and she would forward them to the department.

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At ease

Panel Discussion

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CHAIR COSTELLO reconvened the meeting and stated that the next order of business would be a panel discussion on how to create more jobs.

She noted that Senator Bishop was in the room.

She welcomed the panelists: Brian Holst with the Juneau Economic Development Council, Dr. Mouchcine Guettabi with the Institute of Social and Economic Research, Nolan Klouda with the Center for Economic Development, Robert Venables and Meilani Schijvens with Southeast Conference, and Doug Ward with Vigor Alaska. She asked each panelist to give a brief response or comment based on the prior presentation, and then she would open the discussion for questions.

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BRIAN HOLST, Executive Director, Juneau Economic Development Council, introduced himself and gave a shout out to the Department of Labor and Workforce Development for the excellent data it provides. In particular, he said, the new gauge makes it easier to access information.

MR. HOLST said that different areas of the state have different problems related to employment and job creation. For example, Juneau has lost jobs while still enjoying one of the lowest unemployment rates in the state. But something to keep in mind, he said, is that there is often a mismatch between the kinds of jobs that are needed in the economy and the skillset of the available workers. For example, there are people in Juneau who can't find a job even though there are jobs available. Either they don't have the needed skillset, or they don't want to take any of the jobs that are available. He emphasized the need to build the capacity to create the economy that is desired in the future. The university has been focusing on this in anticipation of the economy that is coming and is preparing Alaskans for those jobs.

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MOUCHCINE GUETTABI, PhD, Assistant Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska Anchorage, seconded Mr. Holst's thoughts about the Department of Labor and Workforce Development. He noted that ISER also produces forecasts.

DR. GUETTABI said he agrees with the direction of DOLWD's findings but would urge caution in interpreting the data. While job losses have slowed, he said he didn't see a recovery anytime soon. Unless oil prices increase dramatically, Alaska lacks an economic engine that would result in significant job growth that would bring back the 11,000 to 12,000 jobs that have been lost. There is also potential downside risk. While local government employment has held up very well, it's unclear how long that will last.

He said health care has added a lot of jobs, but it's not an economic base. Except for federal transfers, it doesn't bring in outside dollars. He described it as problematic to think about a recovery stemming from health care. He agreed with Mr. Holst that there has been an uneven distribution of pain across the state, and that slowing job loss is not an indication that Alaska is headed to recovery.

DR. GUETTABI emphasized the importance of thinking critically about the intersection between fiscal and economic decisions. He recalled the back of the envelope analysis that was done last year that looked at the potential costs of uncertainty. According to that estimate, between \$200 million and \$600 million in private capital spending was lost because of fiscal uncertainty. He reiterated his call for caution in interpreting the data and urged careful thinking about the state economy in a way that allows creative use of the permanent fund. The greatest concern is to identify the next economic engine if the heydays of oil and gas are in the past. He concluded saying he's looking for the answer to the question of what sector will spur growth.

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NOLAN KLOUDA, Executive Director, Center for Economic Development, University of Alaska Anchorage, said he wanted to add to DOLWD's figures on employment by discussing the specific role of new and small businesses in job creation.

He said preliminary numbers show that in 2017 over 1,000 employer businesses were started, and they added about 4,600 jobs to the economy. He noted that overall statewide job losses that year were 3,600. He acknowledged that trends over time don't necessarily follow the cycle of job losses that affect the rest of the economy.

MR. KLOUDA reported that the Center for Economic Development is digging into the data on the role of very young businesses in the economy. When they looked at the 10-year period prior to 2014, they found that new businesses created, on average, 5,200 jobs per year. A review of mature businesses during that timeframe, it showed, on average, job losses each year. That shows the important role of new businesses when it comes to contributing jobs to the economy, he said.

He informed the committee that the Kauffman Foundation ranks states according to entrepreneurship. According to their data, Alaska ranks among the top two or three states for the share of the population that starts a business. However, it ranks near the bottom for scaling up businesses.

MR. KLOUDA concluded asking that the role of young and small businesses be considered in any discussion about the economy and job creation.

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CHAIR COSTELLO said, "You're speaking right up my alley." She related that she introduced equity crowd investing legislation, and one result was that a business in Sitka started. She said that Alaskans are natural entrepreneurs, and the Juneau Economic Development Council Innovation Summit provided great opportunities to talk to creative business men and women.

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SENATOR STEVENS asked for examples of the kinds of businesses that are included as new, small employer businesses. Are we talking about retail businesses and fishing businesses?

MR. KLOUDA said they are businesses in all sectors. He didn't have a list of the most common industries among young businesses, but they include health care, construction, retail, professional services, food, and accommodations.

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ROBERT VENABLES, Executive Director, Southeast Conference, Juneau, addressed previous questions saying that state government employment in Juneau is about 14 percent. He also clarified that Anchorage employment numbers do not include the military. He said Southeast is a mirror of what is happening in the rest of the state, and 2017 was difficult. Tourism in Skagway was a bright spot, but the brightest light is in Ketchikan where there is manufacturing.

He said the greatest barrier to the state getting out of this recession is the lack of certainty and a stable environment in which to invest. He posited that permitting, the tax structure, and the role of oil and gas is a statewide issue. He cautioned that tax changes the last seven of twelve years is not an environment that encourages investment from industry. There is opportunity for job growth in the timber industry, but there must be certainty.

MR. VENABLES said there is bright opportunity for small businesses to gain a foothold and create new products. Over 1,000 acres of mariculture permits are pending, but he wonders how fast permits are processed. He said there's a lot of opportunity in Southeast as a base for manufacturing and this will take legislative leadership to set the foundation.

He noted the Southeast Conference publications that were distributed to the committee.

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SENATOR GARDNER asked him to elaborate on the question of how long it will take for the 1,000 mariculture permits to be processed.

MR. VENABLES said timing is everything and the cuts in staff at the Department of Natural Resources and other agencies is cause for concern. "Sometimes these permits are not getting put through as quickly as we would hope for."

SENATOR MEYER said he didn't think there was any timber harvesting left in Southeast.

MR. VENABLES replied industry has been cut so much the last 20 years that many people don't think it still exists. However, a small viable industry does exist in the Ketchikan/Prince of Wales area. It's a very small percent of the overall state economy but it's 100 percent of their economy. He related that he's been working with people in the Trump administration to help provide more certainty for timber businesses in Southeast. He explained that it's about much more than just cutting down a tree. Logging roads connect communities, help provide transmission for energy distribution, and provide outdoor recreation. Timber has a multi-level impact on communities, and it's barely hanging on.

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SENATOR MEYER asked if the new administration is providing a glimmer of hope that more trees will be cut.

MR. VENABLES said yes. He expressed optimism that someone from the administration would talk to Southeast Conference next month and articulate the administration's position.

SENATOR MEYER said he understands that all the trees in Southeast are second growth. "If so, is timber a renewable resource?" he asked.

MR. VENABLES confirmed that timber is a renewable resource and emphasized that there are many uses for the residuals.

SENATOR MEYER asked how important mining is in the Southeast region.

MR. VENABLES said it is very important and as with timber, those are high-paying jobs. There are two producing mines in Southeast and a couple of more that are speculative.

SENATOR MICCICHE asked if one of the reasons for the surprisingly low unemployment claims is because younger families are leaving.

MR. VENABLES deferred the question to Ms. Schijvens.

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MEILANI SCHIJVENS, Southeast Conference, Juneau, reported that the population in Southeast declined by 1,500 people over the last two years. Juneau sustained about two-thirds of the loss, many of which were in the 20-something age bracket. She reiterated the shout-out to the Department of Labor and Workforce Development for being an important resource for accurate data. This helps Southeast Conference provide good economic information to its business and municipal partners every year. She said a report card of a healthy economy looks at the growth of jobs, earnings, and population. Southeast Alaska has seen declines in each of those areas.

She opined that the economic distress is clearly related to declining oil prices and production and has resulted in deep cuts to jobs and spending levels. Southeast has lost 700 state government jobs over the past three years, three-fourths of which were from Juneau. Lost wages totaled a little more than \$40 million a year. She emphasized that these are cornerstone jobs and when they leave there is a larger, rippling effect throughout other sectors of the economy. While there are still some construction projects going on, there aren't projects to replace them because of reduced capital appropriations. Architects and engineers are immediately impacted, and they are concerned.

In 2017, the seafood industry had its worst year in 10 years. It's early in 2018 but there is already talk of king salmon closures. The closure last year was the first of its kind since 1978. "That's obviously a concern," she said.

MS. SCHIJVENS said the bright spots have been in health care, mining, and particularly in the visitor industry. In 2017, the visitor industry became the number one private industry wage provider in Southeast. This was somewhat surprising because seafood and other resource extraction industries have been leaders in the past. There is also quite a wage differential. The average annual wage in the mining industry is \$100,000, whereas the visitor industry pays just less than \$30,000 a year. In 2017, cruise ship passenger capacity increased 6.2 percent and is expected to increase another 7 percent in 2018.

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MS. SCHIJVENS explained that each year Southeast Conference surveys its business owners and operators asking about their business confidence. This confidence index is included in Southeast Conference's projections. As expected, the most business confidence was in the visitor and mining industries. The least business confidence was in the timber industry, followed by construction, engineering, and arts.

Skagway and Ketchikan are the communities where there is the most business confidence. According to the most recent population figures, these are the only boroughs in Southeast that did not lose population. Confidence is strong in Ketchikan because of the shipyard work that Vigor Alaska is doing, and in Skagway it's the relationship between the visitor industry and the local economy. Business confidence is the weakest and declining in Sitka, Prince of Wales, and Juneau.

MS. SCHIJVENS noted that members had copies of the "Southeast Alaska by the Numbers 2017" publication in their packets. She summarized that seven of the 46 initiatives that Southeast Conference put forward are priority objectives. Continuing declines in population, jobs, and total earnings are expected in state and federal government, construction, architects & engineering, the retail sector, and timber. Improvement in 2018 is projected for the visitor industry, health care, and mining. The seafood industry will do better than 2016 but not as well as it did in 2017.

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DOUG WARD, Director, Shipyard Development for Vigor Alaska, Ketchikan Shipyard, Ketchikan, stated that he doesn't believe that Ketchikan is in a recession. He said he's basing that statement on information that Rain Coast Data provided at the Southeast Conference meeting last fall in Haines. Most of the subsectors in the maritime sector in Southeast Alaska show job losses or very modest job gains. He pointed to the "Marine-Related Construction" subsector, which was down 45 percent. By comparison, the subsector "Ship Building, Repair, Marinas" shows job growth of 39 percent in Ketchikan.

He related that Vigor Alaska started in 1995 with 35 workers and by the end of 2018 the workforce is expected to be between 245 and 250 workers. In 2016, the turnover rate in the workforce was 41 percent and in 2017 it was down to 33 percent. The average age of the workforce is 37 and 90 percent are Alaskans. Wages

are more than \$60,000 per year, which is \$20,000 higher than the average private sector wage in Ketchikan.

MR. WARD explained that Vigor Alaska became engaged in workforce development 20 years ago to learn and implement good practices for getting a competitive workforce. Over the years they have partnered with national workforce development nonprofits like Jobs for the Future, the National Fund for Workforce Solutions, and the National Skills Coalition. These entities work on ways to put people to work in the U.S. and Vigor is using those strategies in Ketchikan.

Last year Vigor implemented a registered welder/fitter apprenticeship that is self-paced so that participants who enter with a lot of knowledge, skills, and abilities can advance to journeyman status more quickly. Behavioral characteristics and competencies are evaluated and indexed to the related technical instruction to make sure the workplace learning opportunities are matched. The workers have a clear transparent career path to advancement at Vigor in Ketchikan. This helps reduce worker turnover.

MR. WARD said that while the primary focus at Vigor is shipbuilding and repair, the real goal has been to introduce advanced manufacturing into Alaska. The partnership with the Alaska Industrial Development and Export Authority (AIDEA) has been very successful, and both the City and Borough of Ketchikan participated in a formal public/private partnership. He described manufacturing in Alaska as a wide-open field that has a lot of overlap with other industry sectors. Legislation making its way through Congress is focused on this future. These are Senate Bill 1599, the BUILDS Act, and its partner, House Resolution 4115. The intent of both bills is to provide significant funding for creating good practices and work force development. Examples include registered apprenticeships and sector partnerships. He concluded that this is what Vigor Alaska has been focused on for the last 20 years. Should this legislation pass, there will be money to replicate the strategies that Vigor has employed in Ketchikan. "I'm looking forward to a future where Alaska becomes more self-sufficient through advanced manufacturing, providing the manufacture of metal products that the state needs in its resource sectors."

CHAIR COSTELLO asked committee members if they had questions.

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SENATOR MEYER pointed out that Ketchikan is a good example of the opportunities that already exist in Alaska. He stressed the importance of looking for additional opportunities including those that could be brought back to the state to employ Alaskans.

SENATOR GARDNER asked Ms. Schijvens if some of the job losses in fisheries could be due to increased mechanization. Noting that the "Southeast Alaska 2020 Economic Plan" indicates that the actual number of fish being caught is declining, she asked if she knew if that is related to pollution or climate change.

MS. SCHIJVENS said it's a struggle to understand why fewer fish are being harvested, but there is concern about warming water. In 2016, the prices were also lower.

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SENATOR STEVENS agreed with Dr. Guettabi's cautionary statement and his view that health care is not an economic base. He asked him to expand on the statement about using the permanent fund in creative ways.

DR. GUETTABI said most of the conversation over the last few years has been about how to use savings to fix the \$2.5 billion to \$3 billion budget gap. If oil and gas no longer play as large a role in supporting the economy, he wonders what the next economic engine will be. The permanent fund is larger than the state's GDP and has been invested in diversified instruments that have nothing to do with the Alaska economy, and it's grown. The question he poses to himself is that if the conversation is how to potentially fund government, should there also be a conversation about whether the permanent fund should play a role in creating jobs and potentially leveraging that wealth.

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SENATOR MICCICHE said we're not seeing the same impacts as in the 1980s. He added that he's trying to understand what is changing in the economy and how that change can be encouraged so it provides more support and value for the new Alaska while it continues to encourage the economic benefits of the old petrochemical Alaska.

DR. GUETTABI said this recession is very different. During the 1980s the average age was about seven years lower than it is now, there were no multigenerational families, and the outmigration was considerably more significant. People were not as attached to place, and the Alaska economy didn't have as many

sources of money that weren't contingent on the performance of oil and gas. For example, the over-65 population is much larger and is growing at the fastest rate in the country. He argued that this provides a floor for the Alaska economy. The \$2.5 billion to \$3 billion that retirees receive has nothing to do with the Alaska economy. It's not attached to the job losses.

To the second point, he said he tells his students that Alaska doesn't have a diversification problem; it has a leakage problem. An immense amount of value is generated in the state, but a lot of it leaks out through non-resident employment and the supply chain. Much of what businesses buy to produce goods and services in Alaska is purchased in the Lower-48. Going forward it's important to figure out how to localize the supply chain for manufacturing and construction. He agreed that petrochemicals will continue to play a role along with other resources, but there is evidence that a tremendous amount of value leaves the state. Perhaps it's time for a statewide mission to take the existing economic bases and focus on keeping more of that wealth.

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CHAIR COSTELLO asked Mr. Holst to address ways to localize the supply chain.

MR. HOLST said it's important to understand that 90 percent of the jobs in an economy are created from what already exists in the economy. For example, Alaska is a world leader in the seafood industry, but the structure of the industry is not based in the state. Also, the research dollars that the university spends aren't necessarily lined up where you see the opportunity. The message is to build on the strengths that already exist.

He pointed out that Alaska is as resilient as it is because of the permanent fund dividend. It decreases poverty and is great for the economy throughout the state. "When we talk about alternatives of using the permanent fund dividend, that would be my first choice is to make sure the dividend stays substantive."

CHAIR COSTELLO agreed that growing from within and adding to what you're already good at provides great opportunity.

She asked Mr. Klouda to address ways to localize the supply chain.

MR. KLOUDA agreed with Mr. Holst's point about using the assets we already have. He said an important component of Alaska's local assets is the knowledge base that exists in the state. Alaska is now about average in terms of the rates of the population that have a college education. Alaska also has certain skills embedded within the economy. He mentioned resource extraction that requires miners, large numbers of engineers, and professional service providers who are knowledgeable about renewable energy. Alaska also has deep knowledge about the ocean economy. It is a maritime state and its seafood industry and marine transport industry have new opportunities to innovate technologically. Mariculture is also expanding.

Assets that are based on human capital are becoming increasingly important as a potential source of entrepreneurship and innovation. Make the most of that role to add more value in-state, he said.

CHAIR COSTELLO said most students don't go on to college so it's important that they learn hands-on skills before they graduate. She agreed with Mr. Ward that it's important to drill down to the level of the person seeking the job.

She asked Mr. Venables to address ways to localize the supply chain.

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MR. VENABLES said he appreciates the committee's support of the ARDOR program over the years. It's the boots on the ground for skills-based training. Throughout the state ARDORS have helped to spur over \$200 million in private investment into the various regions. "We continue to try to be that bridge between industry and opportunity." Southeast has wood, wind, water, and fish so it has the building blocks to create an economy. He cited the wood chip industry on Prince of Wales that has created biomass heated greenhouses. It has displaced imported diesel to heat the schools and created learning opportunities in math, sciences, technology, and engineering. Students are paid to bring the wood as part of the curriculum and they sell the excess produce in the community. They learn and develop real world skills.

The state also has the asset of a growing senior population. These households have a strong sense of place and many do not rely on daily employment for their income. They are not competing for jobs, but they do require services. "It's a

resource we want to be careful with because it adds a lot of stability."

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CHAIR COSTELLO said the notion that Alaskans have roots did not exist in the 1980s recession. There was less commitment to the state and people didn't have families holding them here.

She asked Ms. Schijvens to address ways to localize the supply chain.

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MS. SCHIJVENS said she appreciates Dr. Guettabi's comments and the history because the state's economy was set up to benefit large corporations in the Lower-48, particularly in the Seattle area. She opined that the state hasn't broken from that as much as it could.

She said there is a lot of low-hanging fruit in Southeast that can be used to expand the economy using existing resources. She noted that work is underway to do away with the roadless rule in the Tongass National Forest. Getting some of those timber jobs back would be beneficial to the region. The average visitor who comes to Southeast spends \$487 and she believes they should be spending more. It's a matter of figuring out what products they might buy and the recreational opportunities they're looking for. In 2016, 223 million pounds of seafood was extracted, but most of it was exported with minimal processing. The question is how to increase the amount that is processed here.

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SENATOR STEVENS highlighted the issues standing in the way of expanding the seafood industry in the state including: seafood processing that's always been done out of state because the companies are owned by out-of-state interests, individual fishermen who have moved out of state for one reason or another and permits the state has issued that now are owned by nonresidents. He asked if it's too late.

MS. SCHIJVENS said she doesn't have an answer, but it is a concern that more and more of the fishing fleet is nonresident. Recent data shows that fishermen from Washington state are extracting seafood at a higher value than all Alaskan fishermen combined.

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SENATOR GARDNER shared that several years ago she and Senator Stevens talked to people from France who participated in an experimental program to do more seafood processing in Alaska. They finally gave up because they couldn't find workers who were prepared and trained to do the work. She asked Ms. Schijvens if she was familiar with that experiment.

MS. SCHIJVENS confirmed that there have been a number of those efforts through the years, and none have been very successful. The difference now is the interest in local food development. There's been a burgeoning small industry in Juneau over the past five years in locally prepared foods. The focus isn't entirely on seafood products, but there are more locally prepared seafood products available for purchase and consumption.

CHAIR COSTELLO asked Mr. Ward to address ways to localize the supply chain.

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MR. WARD said he attended a national conference for workforce solutions three years ago that had the theme "Learn, Share, and Partner." Those words are what Vigor Alaska has used to develop the physical and human infrastructure of the Ketchikan shipyard.

He said the comments he's heard today lead him to believe that a new economy is attainable if individual employers become engaged and adjust the economic and workforce development policies in this state to facilitate workplace learning and career opportunities for students, so they can see what's out there. He said he also likes the idea of using the state's incredible wealth to reset the way we approach our students, and even include entrepreneurship as part of the high school curriculum. He suggested looking at the northern European approach to career and technical education where you build jobs around existing economic opportunities. The state has that opportunity through advanced manufacturing. An example of this can be found at SWAMC (Southwest Alaska Municipal Conference) that has an existing manufacturing extension partnership. "Bring all these together in a statewide consortium and I think we can have a new economy in this state," he concluded.

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CHAIR COSTELLO described the conversation as a starting point and encouraged the panelists to pass additional information along to the committee.

SENATOR MICCICHE commented on Alaska's natural resources that leave the state largely unprocessed because of uncompetitive supply chain costs. He said the panelists brought up great ideas, but it's not possible to will or legislate that margin away. He said he'd like to learn more about the time when the margins were wider and evaluate how to compete in a free market to bring those margins down.

CHAIR COSTELLO said she's open to having that conversation. She mentioned the success of partnering and the pitfalls of siloing. "Our challenges are too great to not be working together and partnering." She said she shares Mr. Ward's view that Alaska has an optimistic future.

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There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:46 pm.