

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

January 18, 2018

1:32 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 Natasha von Imhof  
Senator Tom Begich  
Representative George Rauscher

**COMMITTEE CALENDAR**

PRESENTATION: NORTHERN OPPORTUNITY STRATEGY

- HEARD

PANEL DISCUSSION: HOW CAN WE BOOST ALASKA'S ECONOMY?

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MIKE NAVARRE, Commissioner Designee  
Department of Commerce, Community and Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Delivered a presentation titled, "Northern Opportunity Strategy."

BRITTENY CIONI-HAYWOOD, Director  
Division of Economic Development  
Department of Commerce, Community and Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Delivered a presentation titled, "Northern Opportunity Strategy."

CURTIS THAYER, President/CEO  
Alaska Chamber  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the discussion about how to boost Alaska's economy.

Jillian Simpson, Vice President  
Alaska Travel Industry Association  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the discussion about how to boost Alaska's economy.

John Springsteen, CEO/Executive Director  
Alaska Industrial Development and Export Authority (AIDEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the discussion about how to boost Alaska's economy.

Kara Moriarty, President/CEO  
Alaska Oil and Gas Association  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the discussion about how to boost Alaska's economy.

#### **ACTION NARRATIVE**

[1:32:38 PM](#)

**CHAIR MIA COSTELLO** called the Senate Labor and Commerce Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Gardner, Stevens, Meyer, Micciche, and Chair Costello.

#### **Presentation: Northern Opportunity Strategy**

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CHAIR COSTELLO stated that today the committee would hear from Commissioner Designee Navarre and Director Cioni-Haywood about the Department of Commerce, Community and Economic Development's (DCCED) economic strategy for the state. Following the

presentation, four panelists would comment on the presentation and offer their perspectives on how to boost Alaska's economy.

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MIKE NAVARRE, Commissioner Designee, Department of Commerce, Community and Economic Development (DCCED), introduced himself and Ms. Cioni-Haywood. He explained that this is the first time that a comprehensive economic development strategy has been produced for Alaska. The work was done in conjunction with communities statewide. A steering group representing a broad cross section of Alaskan businesses, communities, and Native leaders put together a very good outline. Since then the focus has been to narrow the priorities. He emphasized the need for the state to position itself to take advantage of economic opportunities moving forward.

He offered the caveat that there are government costs associated with economic development. Thus, it's important to build in an expectation that there will be a way to recover revenues to pay for the services that accrue to state government.

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At ease

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CHAIR COSTELLO reconvened the meeting and welcomed Ms. Cioni-Haywood to give the presentation on behalf of the department.

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BRITTENY CIONI-HAYWOOD, Director, Division of Economic Development, Department of Commerce, Community and Economic Development (DCCED), said she would give an overview of Alaska's first Comprehensive Economic Development Strategy (CEDS) called "Northern Opportunity - Alaska's Economic Strategy." This work started about two years ago, the document is final, and the division is moving toward implementation.

She explained that this was a collaborative effort and she wanted to thank the partners including: ARDORs, economic development organizations, the U.S. Economic Development Administration, and the University of Alaska Center for Economic Development.

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MS. CIONI-HAYWOOD explained that a comprehensive economic development strategy is a blueprint for doing economic development at local, regional, and statewide levels. The

process allows you to engage community leaders, leverage the involvement of the private sector, and provide that blueprint for regional collaboration among partners.

MS. CIONI-HAYWOOD advised that nearly every region of the state has some sort of economic strategy. This process was built using key components of those regional strategies. Past efforts and existing regional comprehensive economic development strategies (CEDs) were used as a foundation. The project was done according to federal Economic Development Administration guidelines.

She described the efforts involved in developing an action plan. There was a research piece to assess the conditions, numerous community and industry forums were held, and two surveys were conducted. The process was overseen by a strategy committee made up of private sector partners and leaders throughout the state. The purpose of the forums was to identify challenges and opportunities within each region, and get stakeholder buy-in on the project.

The intent of the business forums was to hear from both industry and individual businesses. The responses were identified according to region and had questions about backgrounds, strategies, business confidence, significant barriers, and opportunities for business and the state.

The individual survey had open-ended questions that asked people their reasons for living in Alaska, what would make living here better, what they saw as opportunities, what a prosperous Alaska looks like, and concerns they had about the economy. The division received about 800 responses between the two surveys.

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CHAIR COSTELLO asked if the survey was available on the department's website, and if the participants were listed.

MS. CIONI-HAYWOOD said the survey results and report are available at [northernopportunity.com](http://northernopportunity.com) but names are not attached.

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SENATOR MICCICHE asked how the surveys were distributed to ensure that a cross section of individual Alaskans and businesses had the opportunity to participate.

MS. CIONI-HAYWOOD explained that the division used the SurveyMonkey tool as well as posts to newsletters, radio shows, Facebook, and other social media platforms.

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SENATOR GARDNER asked when the surveys were done, if similar surveys have been done in the past, and if future surveys are anticipated so changes can be measured.

MS. CIONI-HAYWOOD said she isn't aware that any surveys were done in the past. The document requires annual updates and a complete revision in five years so future surveys are a possibility. The business survey was conducted from mid-January to mid-April 2017. The individual survey ran from October 2016 to mid-January 2017.

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SENATOR STEVENS noted that most of the survey participants were from Southcentral. He asked what areas are included in that region.

MS. CIONI-HAYWOOD said it includes the Matanuska Susitna Valley as well as Anchorage. Higher responses were expected in that region because it has a higher population than other areas in the state. She offered to follow up with specific information about how the areas were grouped.

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SENATOR STEVENS asked if Southcentral includes the Kenai Peninsula.

COMMISSIONER NAVARRE said it almost certainly does.

CHAIR COSTELLO said she would share the follow up information with the committee members.

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MS. CIONI-HAYWOOD said the six goal areas that were identified through the process were business development, finance & investment, economic development infrastructure, entrepreneurship & innovation, economic development capacity building, and quality of life.

Twenty-eight objectives were developed under the six goals areas and most of those have multiple action items. For manageability, 10 priorities were set for the first year.

- Create stronger alignment between workforce development and economic development programs and services.

- Grow the impact of Alaska's Visitor Industry in existing regions and market segments, and increase the impact of the industry to Alaska communities.
- Strengthen existing resource extraction industries, including the Oil and Gas and the Mining Sectors.
- Maximize employment and opportunity in Alaska's Seafood Industry.
- Maximize opportunities in all aspects of the Alaska Maritime Sector.
- Encourage import substitution with the promotion of Alaska made products.
- Connect rural Alaska to the entrepreneurial resources of the urban centers and increase tools and resources available to rural businesses.
- Expand use, availability, and knowledge of microfinance and crowdfunding.
- Strengthen and grow the existing Arts Industry in Alaska.
- Reduce the energy cost burden on Alaska businesses.

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CHAIR COSTELLO asked who served on the steering committee.

MS. CIONI-HAYWOOD said she would follow up with the names that are also listed in the online document.

CHAIR COSTELLO asked if the steering committee took part in creating the goals and priorities.

MS. CIONI-HAYWOOD replied the steering committee met about once a month during the time that the department developed the framework to present ideas and identify areas of concern. She noted that some of the panelists that are up next were on the steering committee.

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COMMISSIONER NAVARRE highlighted that the priorities may be narrowed going forward to better meet the objectives of the Comprehensive Economic Development Strategy (CEDS).

MS. CIONI-HAYWOOD added that working groups will be formed as the statewide CEDS is implemented to facilitate buy-in among the partners.

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SENATOR MICCICHE asked why the priority to "strengthen existing resource extraction industries" did not list timber or value-added.

MS. CIONI-HAYWOOD clarified that both value-added and timber are priority items. When she presented to the Juneau Chamber, timber was one of the objectives she highlighted.

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SENATOR GARDNER noted that after the Tuesday presentation she received an email from someone who pointed out that there was no mention of marijuana as an Alaskan industry. She asked if any of the marijuana advocates were part of the survey.

MS. CIONI-HAYWOOD agreed that marijuana is an emerging sector within the state and is starting to contribute to the tax revenue. She wasn't sure if any of those businesses participated in the survey, but it was not one of the industry groups. She acknowledged that this emerging sector may play a larger role moving forward. She shared that the department does not believe that there is opportunity for both growth and innovation within the existing sectors.

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MS. CIONI-HAYWOOD reviewed some of the implementation activities such as hosting the Alaska panel "North to Opportunity" at Cambridge House; cultivating a collaborative partnership between the Alaska Grown and Made in Alaska programs; and developing the energy implementation team to leverage nonstate funds. Encouraging new federal infrastructure investment for rural broadband opportunities is also an important factor in developing a strong, diverse, and resilient economy.

She noted that the final report can be downloaded at [northernopportunity.com](http://northernopportunity.com).

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SENATOR MEYER asked how to measure success in meeting the priorities.

MS. CIONI-HAYWOOD said the working group will be formed in the next month and one of the topics will be to develop metrics to identify success.

COMMISSIONER NAVARRE reiterated that to attract investment to Alaska and keep investment in Alaska we have to realize where the burden is going to fall. Another component is quality of

life issues, which requires a strong education system and a strong social structure.

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SENATOR STEVENS commented that Alaska's seafood industry has always been controlled by outside interests. Even now seafood leaves the state with just primary processing. Some of it is processed in China. He stressed that Alaska has got to find a way to benefit more from that resource.

COMMISSIONER NAVARRE agreed and added that investment capital is necessary to support those sorts of initiatives.

MS. CIONI-HAYWOOD shared that residency is a requirement to utilize funds from the commercial fishing revolving loan fund. She estimated that about Alaska residents hold 75 percent of the permits.

CHAIR COSTELLO highlighted that equity crowd investing is a program that allows Alaskan businesses to raise up to \$1 million through \$10,000 contributions from individual Alaskans. She opined that intellectual property and the innovation of Alaskans is key to growing the economy.

SENATOR GARDNER noted that the Commissioner listed a stable and predictable tax structure, educational strategy, social structure, and state investment as requirements to encourage investment in the state. She asked if any of that is possible without the umbrella of a durable and stable fiscal plan.

COMMISSIONER NAVARRE said that when he talks about an economic foundation he's talking about a fiscal plan that meets the needs to take advantage of opportunities now and into the future. He said he'd like to see more focus on a common plan for five or ten years in the future, but long-term planning often runs up against short-term election cycles. "One of the reasons I took this role when the Governor offered it is to try to help with some of that in order make sure that we don't lose sight of the long-term when we focus our attention on the short-term."

SENATOR GARDNER said she asked because she wanted that on the record.

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SENATOR MICCICHE said it's important for Alaska to get tougher and require more value-added processing. He opined that carrots

and sticks are necessary to break the persistent cycle of resources leaving the state in essential raw form.

COMMISSIONER NAVARRE expressed partial agreement and reiterated that encouraging investment and growing the economy has associated costs. Having a comprehensive plan in place leads to more investment predictability and opportunity to meet both challenges and opportunities.

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CHAIR COSTELLO thanked the presenters.

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CHAIR COSTELLO reconvened the meeting and welcomed the panelists. She asked each one to highlight their industry or area of expertise with a slight focus on the question of how to expand the Alaska economy. She also encouraged them to comment on anything they heard from the economists on Tuesday or during the department's presentation today.

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CURTIS THAYER, President/CEO, Alaska Chamber, Anchorage, stated that the Alaska Chamber is a nonprofit trade association that was established in 1953 as the voice of large and small chambers. It is the only statewide membership organization that represents all the business sectors from Ketchikan to Barrow. The common goal is to make Alaska a viable and competitive place to do business.

MR. THAYER reviewed the sectors of the economy that have experienced job loss. He said everyone agrees that Alaska is in recession, but there are also positive things happening in the economy. There is increased oil production on the North Slope and prices have stabilized; there are record-sized discoveries on the North Slope; there is movement on the LNG line; and offshore, ANWAR and NPRA are now open. There is new opportunity in resource development that wasn't on the horizon 18 months ago. Mining has the potential to double in size if current projects advance; military investment is expanding at JBBER; and tourism is up.

He echoed Commissioner Navarre and emphasized the need for fiscal and regulatory policies that attract investment. He opined that the state can help in some areas and it needs to

stay out of the way in others. He said that since the federal tax bill passed, there are companies that have billions of dollars to invest. "Let's make Alaska a place they want to invest those billions of dollars."

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JILLIAN SIMPSON, Vice President, Alaska Travel Industry Association, Anchorage, stated that ATIA is the industry trade association comprised of 700 members representing small and large tourism businesses in Alaska. ATIA is also the contract manager for Alaska's Tourism Marketing Plan and thus works closely with the Tourism Marketing Board and Britteny Cioni-Haywood, the director of the Division of Economic Development.

MS. SIMPSON reported that from 2011 to 2016 the volume of visitors increased 19 percent and the cruise industry led the way. Capacity increased 3 percent in 2017 and is expected to increase 7 percent in 2018. This sub-sector makes up just over half of Alaska's visitors and business is now year round. The independent market grew from 2011 to 2016 but stopped in 2017 and has become stagnant.

She said it may or may not be a coincidence, but independent travel dropped when the Alaska tourism marketing budget was dramatically decreased. Alaska now ranks 48th in the U.S. for destination marketing. A recent report also showed that the decrease in funding has resulted in a decrease in visitor spending. She pointed out that direct spending could have increased another \$57 million last year had the marketing levels remained at the historic levels. That would have resulted in an additional 600 jobs. She emphasized that destination marketing requires funding and thanked the committee for the bill it introduced last year.

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CHAIR COSTELLO asked if she had information about the average amount individual travelers spend on a visit to Alaska.

MS. SIMPSON replied average spending in 2016 was \$1,051 per person, excluding transportation. She offered to follow up with specific numbers for each subcategory such as highway and ferry travelers and people who arrive by plane.

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SENATOR GARDNER asked if she has data or opinions about how cuts to the ferry system budget combined with cancellations and rescheduling have affected independent traveler numbers.

MS. SIMPSON said ATIA has identified it as a factor and cause for concern. Visitation by ferry has dropped over 8 percent, whereas other independent travel is down just 1 percent. ATIA hears that it is extremely challenging to use the ferry because of those issues. An ATIA board member sits on the Marine Transportation Advisory Board (MTAB) and another is on the steering committee because a stable, functioning ferry system is such an important part of the visitor industry.

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SENATOR MICCICHE asked what percentage of visitors arrive on cruise ships and what percentage are independent travelers.

MS. SIMPSON said that in the summer 55 percent of visitors are cruise travelers, 45 percent arrive by air, and 5 percent drive the highway or take the ferry. Responding to another question, she said there were about 2 million visitors last year.

CHAIR COSTELLO asked what percentage of cruise visitors return the following year as independent travelers.

MS. SIMPSON said 40 percent of visitors have been to Alaska before, and 16 percent have taken a cruise to Alaska.

SENATOR GARDNER asked if somebody travels to Alaska by ferry and flies home is counted as an air traveler.

MS. SIMPSON said they would appear as a ferry/highway visitor. Someone who takes a cruise is a cruise visitor, someone who is on a plane one way is an air visitor, and someone who takes the ferry or drives the highway is a ferry/highway visitor. She clarified that someone who takes the ferry one way and flies the other way would fall in the air category. That's where most visitors fall. ATIA developed the definitions to correctly identify cruise visitors.

SENATOR STEVENS asked if there is a correlation between unrest in the world and numbers of travelers who come to Alaska.

MS. SIMPSON reported that 84 percent of Alaska visitors are domestic, 7 percent are from Canada, and 9 percent are international. She noted that a lot of the international growth is from China.

CHAIR COSTELLO invited Mr. Springsteen to comment and respond to the presentation from the department.

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JOHN SPRINGSTEEN, CEO/Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Anchorage, reported that in 2017 AIDEA investment supported 1,385 permanent jobs and 575 construction jobs. AIDEA increased its net position by \$5.8 million to \$1.317, declared a \$12.8 million dividend to the state, and funded \$108 million in loan participations with partner banks for business and industry statewide.

He stated that AIDEA provides financial support to stabilize, grow, and diversify Alaska's economy through lending and investment. However, it has capacity constraints and limited tools to stimulate the economy which leads AIDEA to believe that it is critical to have a performance requirement attached to any incentive that is offered. AIDEA funds are used to support business and industry by lending and investing throughout the state for growth in Alaska tourism, industrial access to natural resources, expansion of industrial infrastructure and keeping Alaska's existing and future businesses resilient through access to affordable long-term capital.

He listed recent AIDEA loan participations to demonstrate that it has been active throughout the state and in the major sectors of Alaska's economy.

- \$8.2 million to rebuild the Totem Inn in Valdez to support tourism and industry
- \$165 million conduit revenue bond issue to provide a new clinic and upgrade the hospital in Bethel
- \$5.4 million for a business center in Anchorage that supports existing business
- \$1.3 million for a multi-use building in Wasilla that supports new business
- \$1.2 million to support industry in Fairbanks
- \$20 million for Huna Totem Corporation's Icy Strait Point to support tourism.

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CHAIR COSTELLO noted that the committee heard on Tuesday about the importance of growing what we have. She asked him to comment on the 5.4 million investment in Anchorage.

MR. SPRINGSTEEN explained that this is a commercial loan that supports existing general business. Access to AIDEA's relatively low rate and long-term fixed capital allows this and other businesses to be more resilient.

CHAIR COSTELLO asked him to talk about the governance philosophy that AIDEA uses. "Has it changed, and what is your expectation of your future impact on Alaska's economy?"

MR. SPRINGSTEEN said each of the 735,000 Alaskans are shareholders and the legislature and governor are their representatives. The board is shared with the Energy Authority and is composed of the commissioners from revenue and commerce and five successful Alaskan business people. AIDEA has three funds and two special assignments. Most of the business is done through the Revolving Loan Fund. The Sustainable Energy and Transmission Supply Fund is capitalized with several million dollars, and the Arctic Infrastructure Fund is not funded. The special assignments under AIDEA's purview are the Interior Energy Project and the Ambler Mining District Industrial Access Project. He said AIDEA has also added steps to its review of project developers and partners and a more discrete six-factor model to evaluate potential partners that it uses in day-to-day business.

CHAIR COSTELLO asked if he had reviewed DCCED's Northern Opportunity strategy.

MR. SPRINGSTEEN said yes; he was a participant.

CHAIR COSTELLO asked how AIDEA gets its customers.

MR. SPRINGSTEEN explained that they work with the ARDORS throughout the state and will continue to work with the Department of Commerce and Economic Development. AIDEA is opportunistic and wants to be a pathway to capital for good projects. He thanked the committee for the invitation today, which he views as a good way to get their message out.

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SENATOR MEYER asked if there was a reason he didn't mention the two projects that AIDEA participated in through the Oil Tax Credit Program.

MR. SPRINGSTEEN said he was speaking to recent projects. He clarified that AIDEA is supportive of the oil and gas industry and reiterated that the incentives need to be tied to the performance requirement.

SENATOR MEYER asked if AIDEA has metrics to measure its successful and unsuccessful investments.

MR. SPRINGSTEEN quipped that they take the view that all their investments are successful. He acknowledged that wasn't always the case in the past and that's part of the reason they instituted more disciplined practices.

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CHAIR COSTELLO noted that during the Tuesday meeting Dr. Guettabi with ISER suggested localizing the supply chain in Alaska. She asked how AIDEA could help with that.

MR. SPRINGSTEEN said import substitution would make Alaska more self-sufficient and resilient. He cited the examples of hydroponics and the facility in Anchorage that collects and tests blood.

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SENATOR STEVENS asked the amount of AIDEA's startup funding and the cumulative dividends it has paid the state.

MR. SPRINGSTEEN said the initial capitalization was \$380 million. It's grown to \$1.317 billion and \$392.8 million has been paid in dividends. The return is about 5 percent a year.

CHAIR COSTELLO thanked Mr. Springsteen. She asked Ms. Moriarty to tell the committee where the industry is today and to respond to the presentation from the department.

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Kara Moriarty, President/CEO, Alaska Oil and Gas Association (AOGA), Anchorage, stated that AOGA is a private trade association that represents most companies that produce, explore, refine, and transport oil and gas in the state. She shared the good news that oil production is on track to increase for the third year in a row, and that the pipeline has the capacity for a lot more. Recent discoveries on state land onshore and alignment with the federal government is also good news. Historic changes have occurred in the past year for the National Petroleum Reserve-Alaska (NPRA) that could yield up to 9 billion barrels of recoverable oil. Last month an historic vote allowed for two lease sales in Section 1002 of the Arctic National Wildlife Refuge (ANWR). The 2016 data indicates that 110,000 jobs and about one-third of the wages in the state can be attributed to the oil and gas industry. This sector is the largest taxpayer to the state and will be 65-75 percent of the

unrestricted general fund this fiscal year. The challenge is that there is a shortfall because this is no longer 65 percent of the budget. Nevertheless, AOGA's perspective that the oil and gas industry can continue to be an economic driver for the next 40-50 years.

MS MORIARTY said AOGA was involved through most of the Northern Opportunity process and she sent the business survey to all AOGA member companies. She reviewed the Northern Opportunity report recently and agreed with the oil and gas industry action items listed on page 17. They are achievable and measurable. "We stand ready to continue to be a strong partner with the state."

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SENATOR MICCICHE asked how the "Save Our Salmon" initiative to increase the cost of permitting and the proposed oil tax revision will boost the economy. Both are ongoing efforts in the building this session.

MS. MORIARTY said AOGA's perspective is that both proposals will stifle industry's ability to grow and neither will add more oil into the pipeline.

SENATOR MICCICHE mentioned the relative dearth of adding value to natural resources before export. He then asked Mr. Springsteen what kind of debriefing AIDEA does now to ensure it doesn't repeat mistakes like the failed fish finishing facility in Anchorage and the problems that developed with the Cook Inlet program to incentivize investment with tax credits. "I never saw a debriefing on either of those projects and I'd really like that just in supporting your mission going forward."

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MR. SPRINGSTEEN explained that the AIDEA board is working to do a better job of acknowledging risk, establishing necessary safeguards, and ensuring that returns are appropriate. Regarding value-adding activities, he said it's worked fairly well to play an intermediary role between communities and industry. He cited the example of Graphite One outside Nome. He noted that some of the challenges are the costs of transport and energy.

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SENATOR MEYER asked Mr. Thayer how Alaska can diversify its economy, so it isn't as heavily dependent on the oil and gas industry as its main source of revenue.

MR. THAYER suggested the state get more aggressive in soliciting new businesses to invest and/or relocate here, restore the state's reputation by fulfilling its obligations such as paying oil tax credits that are due, and reinvest in the fishing fleet.

SENATOR MEYER suggested looking at how small businesses in Alaska could be part of the supply chain for oil and gas, tourism, fishing, and the military. "Grow our own so to speak."

MR. THAYER agreed. He noted that some national corporations reached out to the Chamber when the military announced that F-35s were going to Fairbanks. He understands those corporations have hired some local businesses.

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CHAIR COSTELLO shared that all members of the legislature would receive copies of the annual report that was released to the joint Armed Services Committee. It has information that is relevant to the questions that have been raised here today.

She thanked the panelists and expressed appreciation for the interest Senator Begich has shown in the committee.

[3:13:24 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:13 p.m.