

HOUSE FINANCE COMMITTEE  
March 20, 2020  
1:36 p.m.

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CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Jennifer Johnston, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon  
Representative Kelly Merrick (via teleconference)  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton  
Representative Adam Wool

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Jon Bitner, Executive Director, Alaska Small Business Development Center; Joe Schierhorn, President and CEO, Northrim Bank; Todd MacManus, President and CEO, First Bank of Ketchikan; Jim Dodson, Fairbanks Economic Development Corporation; Robert Venables, Executive Director, Southeast Conference; Julie Saupe, President and CEO, Visit Anchorage; Bill Popp, President and CEO, Anchorage Economic Development Corporation.

SUMMARY

INFORMATIONAL MEETING ON RESOURCES AVAILABLE FOR ECONOMIC RELIEF DURING THE COVID-19 PANDEMIC

Co-Chair Johnston reviewed the meeting agenda.

^INFORMATIONAL MEETING ON RESOURCES AVAILABLE FOR ECONOMIC RELIEF DURING THE COVID-19 PANDEMIC

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JON BITNER, EXECUTIVE DIRECTOR, ALASKA SMALL BUSINESS DEVELOPMENT CENTER (via teleconference), introduced himself and provided detail about the Small Business Development Center (SBDC). The center was funded partly through the Small Business Administration (SBA), the State of Alaska, local governments, and private sector investors, to provide free one-on-one confidential counseling and advising to businesses across the state. The center also provided a series of trainings and workshops. On an average year SBDC worked with about 1,700 entrepreneurs and businesses and provided training for another 1,600 to 1,700. The center had offices across the state with locations in Anchorage, Fairbanks, Juneau, Ketchikan, Soldotna, Seward, and the Mat-Su Valley.

Mr. Bitner reported a huge surge in outreach from existing and new clients asking for help, guidance, and information. He characterized the situation as extremely fluid. He would tell the committee what he could about what was happening, what resources were available, and what SBDC was doing to try to stay ahead of the situation. However, the reality was that everything could change over the next 48 hours.

Mr. Bitner shared that SBDC had been tracking all of the businesses that had reached out due to the COVID-19 virus and the impacts it was having across the economy. He stated that the stories were gruesome. The smallest businesses were getting hit hardest and fastest - many were reporting their funding would last a week or two at best before having to close their doors. Medium sized small businesses were a little better off but were still projecting two to three weeks out. Even some of the largest small businesses were concerned they would have to close their doors if the situation continued for several weeks to a month without any assistance provided.

Representative Sullivan-Leonard asked if the committee would take questions during the presentation.

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Mr. Bitner was happy to entertain questions during or after his testimony.

Representative Sullivan-Leonard remarked that the Mat-Su Valley and Wasilla were home to many small businesses. She asked what was considered a small, medium, and large business in terms of the number of employees. For example, she wondered if a small business had under 100 employees.

Mr. Bitner answered that 500 businesses [employees] or less was the general rule from the SBA. He elaborated that 99.3 or 99.4 percent of all businesses in the state were considered small businesses.

Mr. Bitner continued to provide his testimony. He reported that the current situation [with COVID-19] had already translated into job losses. He detailed that the Matanuska Brewing Company had been forced to release 147 employees. The owners of the Spenard Roadhouse, Crush, and Snow City had released 223 of their employees. The Sheraton Hotel released 80 employees, the Fifth Avenue Mall in Anchorage had closed down, and Chena Hot Springs had released 100 employees. He noted the businesses listed only represented large small businesses that had made the news. The smaller mom and pop businesses did not get the same media coverage because they were harder to notice, but they were faced with the same layoff decisions.

Mr. Bitner addressed the global scope of the problem and cited a video released by Marriott International where the CEO reported the impacts of the COVID-19 virus on their revenue were worse than 9/11 and the 2009 financial crises combined. He detailed that between 9/11 and the 2009 financial crisis the company had seen a 25 percent reduction in revenues globally. The company was currently seeing a 75 percent reduction in revenues for all of its hotels. He elaborated that the company was in the process of closing hundreds of its hotels and was furloughing as many employees as possible.

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Mr. Bitner addressed actions being taken to stem the losses in Alaska. The biggest need the SBDC was hearing about was funding. He explained when a business relied on daily and weekly infusions of customer cash, it was difficult to overcome in the short-term when the cash dried up. The

federal government was doing what it could. The SBA had a disaster loan program that the State of Alaska had applied for, but all 50 states had applied and only several had been approved thus far (Alaska was not included). The center was poised to help businesses with the applications and get them in as quickly as possible. He believed it was a phenomenal program that would do much good, but it was not a silver bullet. There would be many businesses the program would not help. Once Alaska was approved for the program, it would take the SBA two to three weeks on average to turn around the loan applications. He highlighted that many of the eligible businesses did not have that kind of time.

Mr. Bitner highlighted a \$1 trillion federal relief package currently working its way through Congress. The package had a wide variety of funding mechanisms that would be very helpful; however, on a statewide level there was need for some type of intermediary assistance to help businesses survive the next few weeks or however long it took for federal dollars to arrive.

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Representative Tilton had heard from a small business owner earlier in the day that fortunately had funds to keep employees on for another month or so. She detailed that the person indicated that to get some of the SBA loan funding at a zero percent interest rate, businesses had to keep employees employed. She did not know that all businesses were able to do so. She asked if the information was accurate.

Mr. Bitner answered that the SBA disaster assistance loan the state had applied for had an interest rate of 3.75 percent for small businesses and 2.75 percent for certain nonprofit organizations. He was not aware of any zero percent APR [annual percentage rate] loans currently available. He noted a zero percent loan may be included in the federal relief bill, but he was not certain.

Representative Tilton asked if the loans were only available to employers who were able to keep their employees working. The business owner who had contacted her was fortunate to have enough cash on hand to keep his employees working until they could access the federal

funds. She highlighted there were numerous small businesses that did not have enough cash on hand to do so.

Mr. Bitner replied that the loan program was meant for operational funding, meaning that once a business received the funding it would be presumed the business would continue operating and employing. He did not believe there were restrictions on how many employees a business had maintained. He suggested that the SBA may be a better information source for detailed questions on the program.

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Mr. Bitner continued with his testimony. He informed the committee that the SBDC was working as hard as possible to stay ahead of the situation. He detailed that the center had moved all of its offices online - all eight of its locations were working remotely. Additionally, as many of its trainings as possible were online and on demand. All of the trainings were being offered for free - previously trainings had a nominal fee to cover costs, which did not seem appropriate in the current economic climate. The center developed a series of tools and templates to help people with specific issues coming up, particularly the food industry transitioning from onsite dining to delivery. There were certain things restaurants needed to consider such as insurance implications.

Mr. Bitner shared that as late as the following morning, SBDC would launch a website dedicated to all things COVID-19 related for small businesses and small business assistance. The website would have links to as many local government pages, SBA resources, and SBDC tools and templates as SBDC could come up with. The center had been working closely with the state, local governments, regional EDOs, and anyone else it could in order to try to ensure needs were met and voice of small business was heard and that the SBDC resources were used as fully as possible.

Mr. Bitner relayed that the SBDC was looking at a variety of issues in addition to the COVID-19 virus and the implications that would have an impact on the state going forward. The drop in oil prices was problematic for the state's budget. He suspected the reduction in tourism would take longer to turn around than the quarantine protocols would be engaged, which would be a major blow, especially to Southeast communities. The center was anticipating an

increase in unemployment across the board, but the magnitude was hard to discern at present. He stated that it was not all gloom and doom, but it was an economic and social crisis at a level SBDCs had never witnessed. The SBDC was still working to determine how to address the problem and the best way to provide services, but he hoped the takeaway was that the SBDC was still working and meeting the capacity needs of the businesses in the state and it would continue to do so as long as it could.

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Representative Josephson appreciated Mr. Bitner's attitude that the situation was not all gloom and doom, which he thought was a generous statement. He asked about gaps and what the legislature could do to help small businesses.

Mr. Bitner replied that in the short-term it came down to a question of money. He stressed the importance of providing funding to businesses that were currently in desperate need to get them through the short-term until more robust programs were brought online. He stated that the decision on the mechanics of the short-term funding was above his pay grade. He suggested leveraging some type of existing infrastructure, program, division, or department to provide the loans in order to avoid having to create something from scratch. He did not believe the individual dollar amount had to be enormously high, depending on how long the situation persisted. He suggested that treating the funding as a regular loan program may not be the best option for the current scenario. He referenced Representative Tilton's mention of a zero percent APR. He did not know of any current zero percent loans, but he suspected it would go a long way toward helping businesses. The important thing was finding a way to get resources to businesses to allow them to continue to operate and pay their employees.

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Representative Wool asked if Mr. Bitner had talked to utility companies, particularly electric companies, that would give business customers any leeway on paying their bills.

Mr. Bitner responded that the SBDC had spoken to many, but not all of the utility companies. He reported that the companies were fairly universally stepping up their efforts

to ensure no one had their lights turned off or late fees charged. He noted that he did not know whether it was the case for all utility companies.

Co-Chair Johnston noted that Congress had passed legislation to provide paid leave to employees during the COVID-19 emergency for companies with up to 500 employees. She asked if Mr. Bitner knew any details.

Mr. Bitner answered that HR 6201 signed by the president two days earlier included sections related to emergency paid sick leave and emergency family and medical leave. Both of the provisions applied to businesses with less than 500 employees. He noted there were good cause exemptions for employers with fewer than 50 employees. Under the emergency paid sick leave provision, an employer was required to provide two weeks of paid sick leave for full-time covered employees (there was a special rule for part-time employees that he was not as familiar with). He detailed that sick leave was at an employee's regular rate of pay capped at \$511 per day and \$5,110 total.

Mr. Bitner explained that the emergency family medical leave was for individuals unable to work or telework due to a need to care for a son or daughter under 18 years of age under certain circumstances. He detailed that the medical leave ran for a longer period of time and was not less than two-thirds of the regular rate of pay based on the number of hours an employee had worked, capped at \$200 per day and \$10,000 total. He added that it looked like the money spent would be paid back through tax credits, but he was unsure on the details.

Co-Chair Johnston surmised that the federal government was frontloading funds to assist businesses.

Mr. Bitner replied that it looked like an attempt to stem the number of employees being lost. He explained that the employer would recoup the cost later on when they filed their taxes.

Co-Chair Johnston thanked Mr. Bitner for taking the time to present to the committee.

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JOE SCHIERHORN, PRESIDENT AND CEO, NORTHRIM BANK (via teleconference), thanked the committee for the opportunity to testify. He detailed that Northrim Bank had been in operation for almost 30 years with 16 branches spread across the state from the Interior to Ketchikan. The bank also had offices in the Seattle area. The bank had a mortgage company, Residential Mortgage, which was the largest mortgage originator in the state. Between the bank and the mortgage company, the business had a total of 440 employees (just under the 500 employee level discussed earlier in the meeting).

Mr. Schierhorn reported that every one of the bank's customers was being impacted by the COVID-19 crisis. The bank's customers had seen significant layoffs at a level close to 100 percent of the workforce encompassing tourism, restaurants, bars, and amusement centers. He noted that tourism was a broad category, particularly impacting Southeast Alaska and operations catering to Denali National Park. The situation was beginning to trickle down to impact customers reliant on the businesses for revenue. The bank was also seeing an impact in the medical field for customers providing nonessential medical services, including dental office closures. Some customers were seeing no revenue for at least 45 days and potentially up to six months. Businesses dependent on summer tourism expected to lose most of the season, immediately followed by the difficult winter season. Impacts for several customers were expected to last into May 2021.

Mr. Schierhorn reported there was uncertainty for businesses in regard to making future plans, which also had a trickle down effect due to the lack of capital investment and other projects. However, there were stronger customers currently looking to purchase businesses and/or make minority investments, which could help stabilize some of the businesses going forward.

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Mr. Schierhorn shared that Northrim had proactively reached out to customers in a variety of ways including personally, via phone, and electronically. The bank had a robust electronic banking system, as did all other financial institutions in Alaska. He detailed that the system provided electronic banking, online services, and remote deposit capture. The bank's 24-hour call center was seeing

significant volume. He reported that the mortgage origination company was currently seeing record volume due to the drop in interest rates and customers seeking to refinance their mortgages.

Mr. Schierhorn stressed the importance of keeping the state Recorder's Office open and operational during this time. He explained that the large volume of mortgage activity running through the banking institutions needed to be recorded in order for the mortgage refinances to take place. Another need was a streamlined approach to small business loans, particularly for tourism businesses, bars, restaurants, and amusement centers.

Mr. Schierhorn was aware the governor was working on a program to provide state guaranteed loans, which Northrim was supportive of. To the degree that the process required legislative action, it would be another way the legislature could assist with. He believed the program was envisioned to be similar to the SBA disaster relief program currently underway. He relayed that it would require underwriting by all financial institutions as well as a streamlined review from the state, assuming it would be guaranteed by the state. He noted it would also require a fund of money to back the guarantee, which may require separate legislative action. He believed the program would be very helpful for many businesses that would be undergoing severe shortages in working capital and their ability to pay their employees.

Mr. Shierhorn stated that Mr. Bitner had given an accurate description of the recent federal legislation put in place for sick leave and paid family leave. He agreed that it would be funded via a tax credit to the business employing less than 500 employees. There would be a lag time on the payment. Additionally, the program assumed a business was making money and had taxes it could get a credit against, which may not be the case. He thought the program needed to be viewed within that context regarding the impact.

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Mr. Schierhorn believed it was critical to get more liquidity and money into the economy through various means including the SBA disaster relief program and the state backed guarantee program. He underscored that the financial institutions in Alaska were sound and strong. He elaborated

that financial institutions had built up significant levels of capital since the financial crisis in 2009. Additionally, the financial system had substantial liquidity within the state and on a national basis that could be utilized to provide resources to the state's businesses in particular. He knew the financial institutions were all working hard to continue operations during the current time. He detailed that Northrim had a number of employees working remotely, but its branch system was open to customers with the intention of remaining open. Some financial institutions had closed or restricted lobby access and maintained service at their drive-throughs, which he believed would be a continuing trend.

Mr. Shierhorn emphasized that the banking system would continue to provide services for individuals and businesses, including deposit and loan services. He relayed that Northrim was reaching out aggressively to customers to provide access to credit and to provide needed services for customers to make it through the current situation. He stated that all financial institutions in the state were actively engaged. He was available for any questions.

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Representative LeBon thanked Mr. Shierhorn for calling in. He asked if Northrim had heard from regulators about loan modifications, possible forbearance agreements, or any direction on how much flexibility the bank could have around working with borrowers.

Mr. Schierhorn answered that Northrim had not received direct correspondence from the FDIC [Federal Deposit Insurance Corporation]; however, he had seen correspondence between the FDIC and the Financial Accounting Standards Board (FASB) the previous day. He explained that FASB regulated how financial institutions accounted for loan modifications. He was aware there was a request to provide more accounting flexibility for the modifications to enable financial institutions to provide greater flexibility to borrowers. He noted it would not constrain Northrim's activities with regards to regulatory accounting standards. The bank would make every effort to work with its customers on what made sense for customers' financial situations. The bank accounting would follow the requirements of the FDIC and FASB combined. Based on correspondence from both

entities, he believed they were trying to provide more regulatory flexibility with regard to the specific issue.

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Representative LeBon highlighted the importance of the issue. He asked about the type of mortgage refinancing. He asked if it was more about requests from borrowers for mortgage modifications.

Mr. Schierhorn answered that the large amount of refinancing was due to the very rapid drop in mortgage interest rates by around 1 percent or 100 basis points. There were many customers paying 4 percent or more on a loan, which historically was a low rate, but now customers could save close to 100 basis points or more on that rate. There was a large pipeline of requests to refinance mortgages, which would save a significant amount for individuals. Currently, the activity was more about saving on monthly loan payments versus requests to defer payments. He expected to see more requests for deferments of payments going forward, but it had not taken place yet.

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Representative LeBon expected there may be some borrowers who had started a refinancing process that would need significant flexibility from the bank in regard to their current employment status. He appreciated Northrim's participation.

Mr. Schierhorn recognized the point. He noted that virtually all residential mortgage loans were under the guidance of a variety of agency programs including Fannie Mae, Freddie Mac, and the Alaska Housing Finance Corporation (AHFC). Each financial institution was in constant contact with their associated agencies the mortgages were provided under; therefore, it was a matter of working with those entities for the flexibility as well. He clarified it was not an independent decision by a mortgage originator; the decision was made under the guidelines of each associated program.

Representative LeBon thought the committee should hear from those programs too.

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Representative Carpenter was trying to get a picture of what a 90-day exposure would be for the state's financial institutions in terms of people who were unable to pay their mortgages. He asked for a ballpark figure.

Mr. Schierhorn asked for clarity on the question. He asked if Representative Carpenter was referring to the number of loans that may become past due within the next 90 days.

Representative Carpenter replied affirmatively.

Mr. Schierhorn answered that at present the banking system was not experiencing a great number of delinquencies through the end of March. However, he believed the number of past due loans would increase significantly over the 90-day period from March 31 to June 30. He hesitated to put a number on it. The bank was dealing with each situation as it came. He referenced businesses experiencing layoffs including tourism, restaurants, bars, amusement centers, and medical office buildings with no patients such as dental offices. He elaborated that many of the businesses would have cash resources on hand for 30 to 60 days, but many would not. He relayed there could be a significant increase in delinquent payments through June 30. He assumed a semi or total lockdown situation for the next several months. He could not provide a more specific number, but he believed it would be significant.

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Representative Carpenter understood that it may be the wrong forum to talk about the numbers; however, he thought the conversation was necessary at some point if the legislature was going to be proactive. He did not believe anyone in the legislature disagreed that something significant was coming, but they did not currently have a way to measure what significant actually meant. He stated it would be helpful to get some numbers and he understood the numbers could not be guaranteed. He wondered how many zeros they were talking about.

Mr. Schierhorn responded that he would give the question some thought and would be happy to have an offline conversation with the committee chair.

Representative Wool referenced Mr. Schierhorn's comments that some customers would seek new residential loans, and some would have cash. He noted that individuals who refinanced would still have to make [mortgage] payments. He asked at what point they looked at foreclosure policies. He noted that Mr. Schierhorn had mentioned that any loan may be affiliated with more than one institution. He asked at what point the bank looked at making changes to its foreclosure policies.

Mr. Schierhorn replied that all of the mortgage programs were originated under guidelines and requirements of the sponsoring agencies including AHFC, Fannie Mae, Freddie Mac, the Veterans Administration, and more. He detailed that each organization providing a mortgage originated by local and national financial institutions had its own requirements. The policies on foreclosure and collection were set at that level with regards to residential financing. Whereas, consumer loans (e.g. a car loan or unsecured loan to an individual) and business loans were set by in large by individual financial institutions. He knew that all financial institutions were actively engaged in working on their approach to modifications with regard to borrowers that may be in financial difficulty. The home mortgage industry and the requirements for working with borrowers was largely set at the national level and implemented according to those guidelines.

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Representative Wool provided a scenario where a person had recently purchased a lodge or restaurant and had a sizeable monthly payment. He detailed that the individual was depending on the upcoming summer season to bring in money to augment the limited remaining funds from the previous year. He asked what kind of a relief a person could get if they missed their summer season. He understood they could get a new loan or line of credit. He wondered about a solution.

Mr. Schierhorn replied there was not a short answer. He stated it was a case by case situation, which would take considerable time for all financial institutions to be working with individuals. He elaborated it would be a matter of modifying terms of existing loans. For example, the modification could be to an interest only situation or skipping a series of payments and adding them on to the end

of a loan because there was no current revenue for the payments. He projected that many people would need additional short-term working capital without significant collateral to back a loan; therefore, a guaranteed loan program to provide the backing would be incredibly important. There would have to be a loan to a business with the prospect of getting paid back in the future - there may be a gap in the payback process but there needed to be a viable cashflow history and source of repayment for the loan.

Mr. Schierhorn did not believe there was a proposal by the governor for any grants. He detailed that the governor was proposing a loan guaranteed by the state as the federal government had proposed guaranteed loans. The loans all needed to eventually get paid back; therefore, some type of historical cashflow was needed in order for the loan to be put into place. There would be some kind of combination of a working capital loan with a guarantee and modification of existing loan structures (e.g. interest only, holiday skip payments for three to six sets of payments) would need to be implemented for many borrowers.

Co-Chair Johnston thanked Mr. Schierhorn for taking time to call in.

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TODD MACMANUS, PRESIDENT AND CEO, FIRST BANK OF KETCHIKAN (via teleconference), shared that the First Bank of Ketchikan was headquartered in Ketchikan and had branches located in Southeast Alaska only including Juneau, Ketchikan, Petersburg, Wrangell, Prince of Wales, and Sitka. The bank was taking a variety of measures to promote a message of safety and security for its employees and customers, particularly to deposit customers with regard to the safety of the bank. He shared that unfortunately there had been social media and irresponsible reports that there was a shortage of cash, which had created some concern from customers. The bank was reiterating to people that the safest place to keep money was in an FDIC insured institution, particularly in safe and sound institutions in Alaska.

Mr. MacManus shared that First Bank of Ketchikan was actively working with each customer. He detailed that the bank had loan extension modification agreements available

and was actively reaching out to customers in the tourism and hospitality industry with offers for emergency lines of credit. He explained that each situation and borrower's needs were unique. Some customers had resources to get them through and others were month-to-month and were trying to figure out how to make things work.

Mr. MacManus referenced a governor's press conference earlier in the day where the governor had mentioned a 100 percent state guarantee for bridge loans. He suggested that one possible way the state could help was to offer guarantee programs to the financial institutions in Alaska. He believed it was the fastest and easiest way to get funds to people who would need it in the short-term. He recommended cutting as much red tape as possible because decisions would be needed in the hours and days rather than in weeks. He reported that the bank had started closing its bank lobbies to protect its staff and the community.

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Mr. MacManus continued to review actions First Bank of Ketchikan was taking. The bank had drive-through facilities in each of its communities, full service online banking tools, and was taking appointments for in-person meetings. The bank had closed its Ketchikan lobbies and was working on a plan to close the rest of its lobbies beginning the following week. He stated that the economic impact to Southeast Alaska would be enormous. He elaborated that the impact of the cruise industry on the Southeast economy was unparalleled. He considered that it may bring in revenue somewhat similar to what the logging industry had generated in the past. He detailed that the impact was not limited to tour operators and retailers. Municipalities would not receive the typical tax revenue or head tax and they would have trouble making bond payments and meeting debt obligations. The impacts filtered down through tour companies and retailers to cab drivers trying to make rent who depended on the busy summer season.

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Mr. MacManus addressed what the state could do. He believed some of the items included in the governor's press conference earlier in the day would be helpful. He stated that some people would need cash in their hands soon. For small businesses and people in the communities who would

see the biggest cuts and the potential loss of a season, loan guarantee programs were a good way to start. He suggested some potential long-term financial options as well.

Mr. MacManus observed there was nothing to compare the current situation to. He noted there had been disaster declarations in the past for various things. He highlighted that the loss of a pink salmon run had been declared a disaster and some federal funding had been received. He reported that the time it had taken to get the money into the hands of the impacted fishermen was almost laughable as far as helping them out. The funds had come possibly the following season if the fishermen were lucky after they got on the list and went through the paperwork. He pointed out that it would not work for the current situation. Anything that could be done to expedite the funding would be helpful for the bank's customers.

Mr. MacManus echoed Mr. Schierhorn's comments about the Recorder's Office. First Bank of Ketchikan was also seeing record volume in its mortgage department and it was vital to keep the Recorder's Office open. He cautioned that without the Recorder's Office, commerce would decline significantly. He believed programs would materialize in the state's Division of Investments and possibly the Alaska Industrial Development and Export Authority (AIDEA). He thought the fastest way to get funds into the hands of impacted people was through the local financial institutions. He stated that guarantee programs or any way to expedite funds would be helpful. The bank could react in minutes or hours when a request was made, and he hoped a similar response would come from the state.

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Representative Wool asked if Mr. MacManus was concerned about the health of banks in general. He noted that the state had lost numerous banks in the 1980s. He remarked that to put it mildly, the news was not very uplifting. He asked if banks were concerned about their own financial health.

Mr. MacManus answered that he could not speak for all of the banks nationally or in the state. However, he reported that banks in general were in a much healthier position currently than they were during the financial crisis and

some of the previous banking crises in the past. He elaborated that capital requirements and levels were higher than they had ever been. He reported that First Bank was highly liquid and could withstand significant shock.

Representative Wool was happy to hear some good news.

Representative LeBon reported that the Alaskan banking community was in very good financial condition. He elaborated that all of the banks were highly rated. The existing banks were the survivors from the mid-1980s. The banks had ample opportunity to build up capital and leadership had learned valuable lessons from the 1980s. He reported that the management of Alaska's banks was sound, proven, and seasoned. He advised that they could take comfort in that aspect.

Vice-Chair Ortiz thanked Mr. MacManus for his testimony. He asked if there were already signs of business failures.

Mr. MacManus replied that he would not say there had been business failures. The bank was working proactively with customers. He highlighted the "double barrel attack" that included the closure of restaurants, dental offices, and bars (which he thought was probably the right course of action), in combination with not knowing when or if cruise ships would arrive during the coming season. Those individuals were anxious; however, they were all being proactive. He detailed that people were coming into the bank daily to make plans to weather the storm and get through the season if there was no season. Some of the businesses were making plans to start again the following year. He reiterated that he had not seen business failures.

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Vice-Chair Ortiz asked if banks had seen increased communication from individuals working in the fishing industry due to concerns over the upcoming season.

Mr. MacManus responded in the affirmative. He noted the high number of things tied in together and impacted by the problem. He explained that typically one industry was hit, but the current crisis was all encompassing worldwide. He reported that the Southeast dive fishery for geoducks did not take place because its primary buyer was China. The Southeast herring seine fishery in Sitka had experienced

its own issues; however, one of the main reasons it had not been successful in the current year was because of the market in Japan. The salmon season was coming up and much of the salmon industry had turned into export to China and Korea for processing prior to being returned to shelves. The big question was what the price would be, which could have a significant impact on fishermen. He had heard that the Trident Seafoods plant in Wrangell may not open in the current season, which would have an impact due to the absence of seasonal workers spending money in the community.

Vice-Chair Ortiz thanked Mr. MacManus for participating in the conversation.

Representative LeBon suggested that the banks speak with the SBA about resurrecting its low-doc [loan] program. He detailed that the program had ended 15 or 20 years back. He shared that it had been a single page application that allowed for a quick process and counted on the banks for proper underwriting. There had been minimal documentation and the turnaround time had been a couple of days.

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Co-Chair Johnston stated it was her understanding there was a significant amount of other capital as the state was starting to make its way out of recovery. She asked the banks to provide follow up information about the depth of existing capital in communities.

Mr. MacManus answered that he would follow up with the information.

Co-Chair Johnston thanked the testifiers for their time. She stated, "We're all in this together."

Mr. MacManus thanked the committee and noted he did not mean to paint a picture of doom. He believed the state would pull through, but it would be a joint effort.

Co-Chair Johnston stated that many had been through difficult times in Alaska in the past and the state would get through the current situation.

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JIM DODSON, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION (via teleconference), agreed with prior testimony that the current situation was unprecedented, and that Alaska had the ability to pull through. He thought there would be some economic impacts on Alaska, particularly as it was narrowly coming out of a recession. He believed the state would be quickly driven back into recession. He had listened to the governor's plan presented earlier in the day on the state's COVID-19 stabilization plan. He shared that the Fairbanks Economic Development Corporation was supportive of the plan. He reasoned it was not the time to stand their ground for perfect and he believed there was a lot of good in the governor's plan that could help Alaska and Alaskans. He highlighted the importance of getting the corporation's information out. He knew the committee had asked the corporation for a list of things the government could do to help the state get through the situation.

Mr. Dodson remarked that everything was in a state of transition. He discussed that the U.S. Senate had passed an economic stabilization plan that had yet to pass Congress. He understood there was criticism of the plan by the House as may be suspected. He believed it was necessary for Alaska's leaders to take the politics out of the situation. He pointed out that at the end of the day, the state would be looked at for how it dealt with the crisis. He believed the state would be driven into tough economic times. He reasoned that how they got Alaskans through the crisis would be defined not by their political parties but by the action taken. He remarked that the governor's appointment of a taskforce headed by former Governor Sean Parnell and former Senator Mark Begich was a great step. He knew Anchorage had put together a team. He wanted to see the legislature ask all municipalities to pull together a team. He envisioned a collective resource page to keep Alaskans informed about the economy and ensure that all existing resources were available to Alaskans.

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Mr. Dodson remarked that businesses were vitally important to the future economy; however, it was also important to remember that the businesses' employees were the consumers supporting those businesses. He highlighted the importance of sustaining the Alaskan workforce in addition to sustaining its businesses. What the state's future looked

like hinged upon the plans the state's leaders put together at present and in the near future.

Mr. Dodson reported that he would like to see the legislature consider fees and payments including mortgages through AHFC and student loans. He underscored that it was not a good time to take cash out of the economy. He asked the legislature to consider finding a way to give relief to Alaskans. He stated that the red tape that slowed down the system needed to be cut through in order to make things happen. He encouraged the legislature to do whatever it could to insist that state agencies get their jobs done as quickly as possible. He recognized it was not an easy time to do that.

Mr. Dodson asked the legislature to consider wage and hour regulations. He thought it may be a good time to suspend or ease the regulations to ensure employers could do whatever possible to retain employees. He stressed that payroll was largely what drove the state's economy.

Mr. Dodson agreed that the fisheries industry and the tourism industry in Southeast would take a tremendous hit. He encouraged putting specific teams in place to monitor the industries and how they were being impacted. A recent briefing from JBER [Joint Base Elmendorf-Richardson] estimated that the impact would be 12 to 18 months. He highlighted that the economic impact would be longer than the health impact. He addressed the need to determine how to sustain the economy in order to be on a path to recover once the situation was over. He hoped an economic triage team could be formed that would make sure all federal, state, and municipal information was available to consumers, allowing them to get to the resources as quickly as possible.

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Mr. Dodson stated that legislators were a large part of the state's leadership and he hoped the legislature would step up to the plate. He thanked the committee for the opportunity to provide comments.

Co-Chair Johnston thanked the presenter.

[2:47:57 PM](#)

ROBERT VENABLES, EXECUTIVE DIRECTOR, SOUTHEAST CONFERENCE (via teleconference), relayed that Southeast Conference was Alaska's regional development organization for Southeast Alaska and one of the many economic development corporations working in concert to understand and address concerns caused by the COVID-19 virus. One of the organization's primary responsibilities in the region was the development of a regional comprehensive economic development strategy, which included an annual business climate survey.

Mr. Venables highlighted the Southeast Conference annual report in members' packets ["Southeast Conference 2019 in Review"] (copy on file) that outlined the various economic sectors the organization was engaged with. The organization had over 200 members including businesses, municipalities, and tribes. The board was evenly split between private sector and public sector members. He emphasized that no matter how badly its business members had been impacted, the businesses had consistently stated they consider the personal health of the community, their families, and their customers to be the number one priority. He thanked the public sector for addressing the concerns. He noted everyone was making adjustments to how they lived and conducted business.

Mr. Venables relayed that the Southeast region had been struggling economically for many years. Tourism had been a lone bright spot and mining had been a stabilizing backbone in northern Southeast. He detailed that fisheries had experienced a tough time with low harvest levels, but the price had been high enough to give good support in otherwise bad years. However, in the current year, seafood markets had been closing and prices had dropped. He elaborated that if the season resulted in another dismal harvest, the sector would have an extremely difficult time.

Mr. Venables discussed that the tourism industry had anticipated nearly 1.5 million cruise ship passengers coming into the region, the loss of which would be a gamechanger for the region and state. He stressed that the impact to the 45,642 [tourism] jobs in the region could be catastrophic. Many of the businesses in Southeast were small and locally owned and many had already leveraged their assets and livelihood to get through the winter and gear up for a summer season that may not happen. He referenced an earlier question from a committee member

about the definition of a small business. He reported that the average number of workers was about 29, which close to doubled in the summer season.

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Mr. Venables addressed actions taken by Southeast Conference. First, the organization wanted to ensure it did not perpetuate the panic, which was often a primary impulse. He stressed that Alaskans were resilient people and the state would make it through, but its economic health was at risk and the damage could be years in the repair. He considered actions that could be taken by the state. Some of the early concerns Southeast Conference had heard about was the lack of working capital to keep businesses afloat until cashflow started back up.

Mr. Venables shared that Southeast Conference had also been hearing about impacts on infrastructure, particularly internet access, bandwidth, and even phone capacity in some cases, as businesses were struggling to find ways to reach their customers outside their shutdown businesses. He reported that businesses were finding that internet was not reliable enough to hold the meetings they were striving for, especially in rural communities. He stated that the problem was exacerbated by the influx of students trying to conduct studies online. He believed it was an area that needed addressing.

Mr. Venables shared that there had been discussion on whether or not there should be a waiver requested from the federal government for the Passenger Vessel Services Act that would allow cruise ships to salvage part of the season on the backend of the summer. He noted it was an area where the legislature's support would be greatly appreciated. Southeast Conference was still working to determine the impacts, which were in the early stages. The organization was reaching out to the business community to gather the data to define the needs and impacts more accurately. He elaborated that the organization was using a survey formatted by the Anchorage Economic Development Corporation and was working to ensure there was consistency in the collected data. The goal was to use the information to help guide efforts that policy makers and state and federal agencies undertake to meet the needs of the region.

Mr. Venables shared that in early February, Southeast Conference had its legislative fly-in and had met with the House Finance Committee co-chairs. The organization had surveyed a handful of legislators on issues they were thinking about and only 4 percent had been concerned by the Coronavirus. He observed how times had changed since that meeting. The early responses for the survey showed that 96 percent of businesses felt they were already impacted, and 26 percent were not operating. He reported that revenue was down 36 percent compared to the previous year and each company had already laid off five workers on average. He elaborated that 20 percent of businesses had specified they were at risk of closing for good and another 12 percent reported there was a significant risk of closing for good.

Mr. Venables relayed that the organization was concerned about what the long-term impacts would be. He noted that the group of testifiers during the current meeting reflected a wide group of local and regional grassroots organizations statewide that could provide an effective and efficient conduit for supporting Southeast Conference's mission of strong economies and healthy communities. The organization would continue to be a resource going forward. He thanked the committee for the opportunity to be a part of the conversation and solution set in the face of daunting times.

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Vice-Chair Ortiz mentioned a letter by the Ketchikan Visitors Bureau requesting a waiver related to passenger vessels. He asked for additional detail on what the impact of the waiver would be.

Mr. Venables explained that the Passenger Vessel Services Act (PVSA) of 1886 was part of the Jones Act and required foreign vessels call into another country. He detailed that vessels leaving Seattle, Washington were required to stop in Canada - typically Victoria or Vancouver - prior to coming to Alaska. He elaborated that the closure of Canadian ports to vessels exceeding 500 passengers effectively shut down the ability for cruise lines to come north to Alaska. The impact to Southeast, Southcentral, and Denali was huge. The discussion was about whether or not to request a waiver to allow ships go directly from Seattle to Alaska. He clarified that the scenario was not guaranteed to happen if the waiver was granted. There were numerous

concerns about the timing. He explained that if they waited until summer to request the waiver it would be too late to salvage the summer season. He elaborated that requesting the waiver at present would preserve the ability to exercise the option later on if it was the right thing to do.

Vice-Chair Ortiz asked if the waiver would be granted at the federal administration level.

Mr. Venables replied it was his understanding it had been done previously by presidential order. He believed Congress could grant the waiver as well.

Co-Chair Johnston thanked Mr. Venables for calling in.

[2:57:51 PM](#)

JULIE SAUPE, PRESIDENT AND CEO, VISIT ANCHORAGE (via teleconference), thanked the committee for taking the testimony. She relayed that Visit Anchorage was the convention and visitors bureau for Anchorage and Southcentral. She was also co-chair with Bill Popp of Anchorage's Economic Resiliency Task Force. She noted that Mr. Popp would speak about the taskforce work. She expressed appreciation for the testimony by previous callers, particularly from bankers and lenders recognizing what the industry was experiencing. She recognized that health needs and human costs came first, as did the industry. She stated that Visit Anchorage supported the procedures and restrictions that had been implemented to minimize the health impacts and maximize the ability of communities to protect citizens and services infrastructure. She was speaking about the long-game. She communicated that Visit Anchorage was playing its part to achieve the best result for the community and state.

Ms. Saupe shared how the situation was playing out for Anchorage businesses. The virus was impacting all sectors with substantial negative effects. Tourism was the first sector to feel the economic strain. She elaborated that the effects of COVID-19 were immediate for businesses relying on visitation from overseas markets, businesses reliant on winter visits, and businesses getting ready to open for peak summer season. She stated it was unlikely the damage would lift. She shared that in a span of several days the industry had shifted from what it would market and what it

was doing to market to how they could save their summer season and whether their businesses would survive. The bulk of the questions at a recent member webinar hosted by Visit Anchorage had been directed to toward the representative from the Small Business Administration. She explained that the businesses were already in need of loans and cash assistance to make it through.

Ms. Saupe believed committee members were all aware of the concerns of the industry internationally. She believed Mr. Schierhorn had painted a picture of Marriott [International] all the way down.

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Ms. Saupe relayed there were several factors in Alaska that exacerbated the issue for tourism businesses. She highlighted timing as the first issue. She detailed that it was a lean time of year for most businesses. She stated that summer was "king" for most of the leisure travel in Alaska. For example, 63 percent of hotel revenues were earned from May to September in Anchorage. The other seven months accounted for one-third of the revenues. Most tourism businesses were most financially stable in the fall and most were at their most financially vulnerable position at the current time of year.

Ms. Saupe continued that many businesses were operating on fumes at the current time of year and were just beginning to receive deposits and bookings. Bookings had dropped to zero and cancelations had been a real challenge for the industry in the past couple of weeks. The current time of year was typically a vital time for future bookings. She shared that a couple of weeks back she began hearing the first reports of businesses having a day where cancelations outnumbered bookings. She believed the situation was 100 percent true for all of the [tourism] businesses she knew.

Ms. Saupe identified the state's location as the second exacerbating factor. The state was a long-haul destination with a small population, which meant Alaska was unlikely to see travel related business rebound until travel restrictions were lifted (i.e. flights, cruises, Alcan Highway access). She pointed out that once travel resumed, the national economic effects would damage visitation if people were saving, had been laid off, were worried about their retirement accounts, and/or were still worried about

losing their own jobs. Alaska's distance meant the state could not rely solely on residents to fill in the gaps for short-term travel (weekend getaways) once it was safe to travel again. She explained there were other locations that were great drive locations and would have an advantage on how quickly they could rebound.

Ms. Saupe reported that a recent national survey suggested 58 percent of people planning to travel in the next six months would change their travel plans due to COVID-19. Trips would either be canceled, reduced, or delayed. Additionally, travel destinations may be changed, and people may take drive trips instead of a trip requiring air travel. All of which were alarm bells for Alaska travel. She highlighted the unique challenge for Alaska cruises. She mentioned previous testimony that the Canadian ports were closed until July 1. She elaborated that without a waiver to the PVSA, at best for Southcentral Alaska, the season would start with 48 percent of its cruise passengers not able to travel.

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Ms. Saupe addressed the meetings business in Anchorage. She detailed that the Anchorage convention centers had been closed. She reported that since March 10 there had been \$1.1 million in lost business. The Visit Anchorage organization was doing all it could to preserve late summer and fall conventions that would be coming into the state. There was no sense that the current closure and travel conditions would be resolved by that time. She noted that the impact trickled to all sectors. She expounded that history showed the meetings and corporate and business travel were slower to rebound after a crisis. She highlighted 9/11 and the 2008/2009 global financial crisis as examples.

Ms. Saupe communicated that Mr. Popp would provide detail at the tactical level regarding needs and programs that could help. She asked the legislature to support any Coronavirus emergency aid. She stressed that the PVSA waiver was critical to the industry, so that once it was safe and appropriate to travel again, the option was left open for businesses to save at least the first half of the summer. The situation would also impact local revenues in the form of tax collections for many communities throughout the state. She urged looking at ways to support local

communities as well. She appreciated the lenders' comments and hearing that banks were figuring out ways to work with the state's small businesses. She encouraged anything the legislature could do to support assistance, particularly bridge loans in the very near term. She relayed that people were well aware of the SBA grants, but they were worried their businesses may not last that long.

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Co-Chair Johnston highlighted the tourism industry had many seasonal employees. She detailed that the legislature had moved quickly on legislation to make unemployment insurance available as quickly as possible. She was interested in the employee pool for the tourism season. She wondered how much of the pool was comprised of returning students, people from outside Alaska, and long-term Alaskan residents who did other work during the winter.

Ms. Saupe replied that she was happy to pull together information. She relayed that one in nine year-round full-time jobs was supported by tourism in Anchorage. She would have to do some digging for seasonal numbers.

Co-Chair Johnston realized many jobs were affiliated with tourism including the food service industry. She was interested in the seasonal aspect of tourism.

[3:08:15 PM](#)

BILL POPP, PRESIDENT AND CEO, ANCHORAGE ECONOMIC DEVELOPMENT CORPORATION (via teleconference), thanked the committee for the invitation to speak. He relayed his intent to speak about the effort put together by [Anchorage] Mayor Ethan Burkowitz and his team to start the Economic Resiliency Task Force the past Monday. The effort had begun at about 6:30 a.m. and by 9:00 a.m. the first meeting had taken place. The second meeting had taken place on Thursday. The group of local business organizations and businesses was growing with new members almost daily. The job of the task force was to seek to develop advice and tactical advice strategies to the municipality in ways it could respond to mitigate the significant and devastating damage the pandemic was causing to Anchorage. The task force was also designed to help develop tactics the business community and community as a whole could use to

mitigate the significant damage being done to several sectors of the economy.

Mr. Popp relayed that the task force was focusing on the devastating cash flow and liquidity crunch in local businesses that had been either forced to shut down or seriously curtail business activities. The crunch rippled through the workforce and was creating a parallel front of ever exponentially growing damage to the economy. The task force was looking to find ways to advocate and support efforts at the federal, state, and local levels to improve cash flow by coming up with strategies to get cash available to businesses to help carry them over the next several months to one year to ensure there were as many businesses as possible still standing when 2021 began. The task force would look at where it could focus ideas and strategies that would help with deferral or waiver of expenses related to government services at the local, federal, and state levels.

Mr. Popp elaborated that the task force would work to develop ideas on collaborating between different government entities and the private sector in public-private partnerships on the initiatives. He emphasized that time was of the essence. The task force recognized clearly that the old ways of doing things where government relief could take years, would not work in the current circumstance.

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Mr. Popp discouraged against a strategy that would take months to deploy because it would likely not have a real effect. The task force was meeting twice a week and collaborating daily. They were forming policy working groups to advise at the local, state, and federal levels. Additionally, the task force would develop tactical working groups and a group of the whole to start to deploy initial efforts.

Mr. Popp shared that the task force recognized the tremendous damage done to the restaurant community and had been working with community players including Edible Alaska and AEDC, to develop a list of restaurants that were still open for takeout or home delivery. He noted the importance of the list because many of the restaurants had not previously been known for take out and delivery services. The task force was getting out lists and webpages to spread

the word to the consuming public. He characterized the alternative to restaurant dining as a band aid on a large wound; however, it was something. Members of the task force understood there were much bigger lifts left to do and they were working as rapidly as possible to develop strategy proposals for all three levels of government to consider.

Mr. Popp stated that many of the ideas discussed by the task force had already been addressed to varying degrees, from the recent announcement of the embargo on evictions and foreclosures to the federal announcement earlier in the day where Fannie Mae and Freddie Mac were looking to help forego mortgage payments by providing a year's grace time (essentially adding one year to the end of the mortgage). He reported that new solutions were happening almost hourly - strategies were developing, recommendations were occurring, and action was taking place. He explained that the task force was trying to keep up and ahead and was working to come up with strategies that would help benefit the entire economy.

Mr. Popp reported that impacts were occurring in the tourism industry, the professional business service sector, the oil and gas sector in Anchorage, and the airport was feeling the pinch in terms of the impact to passenger travel and cargo. He detailed that the airport accounted for one out of ten jobs in Anchorage. Impacts were also occurring in the government sector.

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Mr. Popp addressed the impacts to the school district and University. The school district was currently in a hold mode - the impacts to the school year and workforce were not yet known. The same was true for the University of Alaska, which was already dealing with significant cuts due to state fiscal issues and was likely facing additional significant challenges due to the epidemic.

Mr. Popp shared that the task force had put out a survey the past Tuesday that had been closed earlier in the current afternoon. There had been 530 responses, which was far more than they had expected to receive in a short timeframe. He noted that they had not yet dissected the survey responses in detail. He communicated that 90 percent of the responders had reported experiencing disruption in business due to COVID-19. Additionally, 70 percent reported

a decline in revenue in the past 30 days due to COVID-19. He elaborated that 1 percent of responders anticipated a significant increase in revenue in the first half of 2020 compared to 2019, 3 percent anticipated an increase, and 7 percent anticipated no change. He expounded that 33 percent anticipated a decrease in revenue and 55 percent expected a significant decrease in revenue. He shared that 60 percent of respondents reported making employee reductions due to COVID-19.

Mr. Popp relayed that responses represented a good cross section of the business community, although it was more heavily weighted towards the restaurant, tourism, and entertainment sector as they were at the front lines of the losses. He believed the numbers reflected a good representation of the community overall. When asked if businesses anticipated making employment cuts in the future due to COVID-19, 39 percent responded affirmatively, 20 percent responded in the negative, and 41 percent were uncertain. He shared that 18 percent of respondents reported their business was at risk of closing permanently because of impacts caused by COVID-19 (nearly 1 out of 5 businesses that responded). He underscored that it was a serious situation that surpassed anything the state had experienced in the past.

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Mr. Popp stressed the critical nature of a timely and rapid response in order to mitigate the damage created by the pandemic, to the extent possible.

Representative Sullivan-Leonard thanked the presenters. She discussed that the situation was stressful for many. She asked if there were businesses rising to the top to fill needs of homebound individuals. She listed the delivery of groceries, supplies, and medications as examples.

Mr. Popp replied that Carrs Safeway had announced it would be hiring 400 individuals statewide due to the increased demand. He had heard indirectly that other grocery retailers including warehouse retailers were stepping up with additional hire because of increased volumes. He highlighted that the restaurant industry was dealing with the incredibly devastating challenge of closing for in-house meals. He stated that the innovation and spirit from many restauranteurs in working with the SBDC to pivot

their business model to a home delivery model had been amazing to watch. The task force was doing its best to support them by getting marketing out through social media and other means to ensure the public was aware of the services being provided. He believed there were many businesses working to find a new way to maintain operations at least to a modest degree to serve the public in the social distancing world that was the current reality.

Mr. Popp stated the efforts were heartening, showed community spirit, and a can do attitude. He believed it was a silver lining that the business community was coming together to help each other out.

Representative Sullivan-Leonard thanked Mr. Popp for the bit of positive news amidst the very difficult news.

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Representative Wool shared that he had experience in the restaurant/bar/entertainment business, and he felt for the people in the business, especially the ones that were forced to close. He applauded the effort and ingenuity of restaurants able to do take out, but he believed part of the reason people went out to eat was to go out. He believed many people staying home would end up cooking more. He remarked that people staying home was just beginning. He asked if there had been discussion of putting the businesses on cold storage where they could shut down and alleviate their debt and try to reopen in six months. He asked if the restaurant owners were entitled to the same unemployment insurance that wage and hour employees were.

Mr. Popp answered that he was not certain about the ability to collect unemployment for a sole proprietor or business owner. He stated that putting the businesses into stasis was a complicated question, especially when trying to keep employees on payroll. He did not have a good answer yet. He spoke to the challenge of trying to figure out how all of the parts and pieces put together at the federal and state level would all fit together. He relayed it was one of the things the Economic Resiliency Task Force and the statewide rapid response team (an ad hoc group of economic development organizations) would look into. He spoke to the need to determine how the overall need was being filled and where the gaps were. He thought Representative Wool had likely identified two or three gaps via his question. He

stated that everything was happening very rapidly. He highlighted there were numerous moving parts that were not yet fully understood and that had not yet happened. He noted that the situation was changing daily.

Co-Chair Johnston understood and stated, "We're all in the same place." She thanked all of the presenters for their time and help. She recessed the meeting until the following morning at 9:00 a.m. She reviewed the schedule for the following morning.

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