

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

March 1, 2019

3:16 p.m.

MEMBERS PRESENT

Representative Gabrielle LeDoux, Co-Chair
Representative Sara Hannan
Representative Dave Talerico

MEMBERS ABSENT

Representative Adam Wool, Co-Chair
Representative Zack Fields
Representative Louise Stutes
Representative Josh Revak

COMMITTEE CALENDAR

OVERVIEW(S): DEPT. OF COMMERCE~ COMMUNITY~ ECONOMIC DEVELOPMENT
BY DEPUTY COMMISSIONER JON FAULKNER

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JON FAULKNER, Deputy Commissioner
Department of Commerce, Community, and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Department of Commerce, Community, and Economic Development.

SARA CHAMBERS, Director
Division of Corporations, Business and Professional Licensing
Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Offered clarifying information during Mr. Faulkner's testimony.

MATTHEW FAGNANI, Director
Division of Economic Development
Department of Commerce, Community, and Economic Development

Anchorage, Alaska

POSITION STATEMENT: Answered questions pertaining to the Division of Economic Development.

LORI WING-HEIER, Director

Division of Insurance

Department of Commerce, Community, and Economic Development

Juneau, Alaska

POSITION STATEMENT: Answered questions pertaining to the Division of Insurance.

ACTION NARRATIVE

[3:16:35 PM](#)

CO-CHAIR GABRIELLE LEDOUX called the House Labor and Commerce Standing Committee meeting to order at 3:16 p.m. Representatives Talerico, Hannan, and LeDoux were present at the call to order.

OVERVIEW(S): DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT BY DEPUTY COMMISSIONER JON FAULKNER

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CO-CHAIR LEDOUX announced that the only order of business would be an overview of the Department of Commerce, Community, and Economic Development (DCCED) presented by Deputy Commissioner Jon Faulkner.

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JON FAULKNER, Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED), introduced himself. He addressed slide 2 of his PowerPoint presentation [hard copy included in the committee packet] and explained DCCED structure consisting of six core divisions and six corporate partners. The divisions listed were Administrative Services, Banking & Securities, Community & Regional Affairs, Insurance, Economic Development, and Corporations, Business, & Professional Licensing. The corporate partners listed were Alaska Energy Authority, Alaska Industrial Development & Export Authority, Alaska Gasline Development Corporation, Alaska Seafood Marketing Institute, Alcohol and Marijuana Control Office, and Regulatory Commission of Alaska.

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MR. FAULKNER addressed slide 3, titled "Division Mission Statements." The slide displayed a mission statement for each of DCCED's divisions. Mr. Faulkner said these mission statements were recently created by DCCED's division directors. He emphasized DCCED Commissioner-Designee Julie Anderson's commitment to synergy between divisions.

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MR. FAULKNER addressed slide 4, titled "Economic Growth." He said he would focus on introducing "team members" consisting of long-term incumbents and new talent. He introduced Matthew Fagnani, Director of the Division of Economic Development (DED), and spoke to Mr. Fagnani's overseeing of sections dedicated to economic development and investments. He referenced an economic development plan called "North to Opportunity" and stated the department's intention to "retain and build upon that document." Mr. Faulkner summarized the "investment arm" of Mr. Fagnani's division as consisting mostly of loan origination and processing for various funds.

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MR. FAULKNER addressed slide 5, titled "Strong Communities." He introduced Sandra Moller, Director of the Division of Community and Regional Affairs (DCRA). He mentioned her vast experience serving rural Alaska. He listed some of DCRA's important functions, including municipal land trust obligations, community aid, local government assistance, native language programs, and Serve Alaska.

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MR. FAULKNER addressed slide 6, also titled "Strong Communities." He remarked that DCRA is very large and has a diverse mission. He mentioned that DCRA is the only division within DCCED that is constitutionally mandated. He said much of DCRA's funding comes through the Alaska Energy Authority (AEA) and its Power Cost Equalization (PCE) program.

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MR. FAULKNER addressed slide 7, titled "'Right Touch Regulation' & Consumer Protection." He introduced Sara Chambers, Director of the Division of Corporations, Business and Professional Licensing (CBPL). He claimed CBPL is "perhaps the fastest-

growing division that we have." He said enforcement is part of Ms. Chambers' purview.

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REPRESENTATIVE HANNAN referenced the revenue sharing and community assistance programs listed on slide 6. She said those programs would be "substantially altered" under Governor Michael J. Dunleavy's proposed fiscal year 2020 budget. She asked what preparations the department has made in anticipation of those alterations. She commented that she had heard from her constituents that the proposed budget "dramatically impacts their ability to receive those funds."

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MR. FAULKNER said his primary focus for this part of the presentation was to introduce the people overseeing the divisions. He said he would not go into detail when discussing budget questions. He suggested Representative Hannan was referring to the "merging of certain funds." He said the impacts under the proposed budget should be benign.

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CO-CHAIR LEDOUX asked how the elimination of the revenue sharing and community assistance programs could be benign.

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MR. FAULKNER said the programs she mentioned are not going away.

CO-CHAIR LEDOUX asked if the programs are being reduced.

MR. FAULKNER answered that it is his understanding the programs are not being reduced at this time.

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REPRESENTATIVE HANNAN posited that the department will remain obligated to maintain the revenue sharing programs unless legislation is passed to change that.

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MR. FAULKNER affirmed Representative Hannan's conclusion. He referenced the Power Cost Equalization program and said the

plan, pending legislative approval, is to collapse the program into the general fund and make it subject to appropriation. He said this does not mean "the programs are diminished in any way" or that they are going away.

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MR. FAULKNER addressed slide 8, titled "Balanced Regulation and Consumer Protection." He introduced Lori Wing-Heier, Director of the Division of Insurance. He said Ms. Wing-Heier is tasked with keeping insurance markets competitive and transparent for consumers. He called Ms. Wing-Heier an expert in her field and "a true resource to Alaskans as we navigate some important questions regarding healthcare markets." He pointed the committee to the Division of Insurance's responsibilities listed on the slide: licensing, financial oversight, filing approval, consumer services, enforcement, and premium tax.

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MR. FAULKNER addressed slide 9, titled "Consumer Protection." He introduced Erika McConnell, Director of the Alcohol and Marijuana Control Office. He said the office is working diligently to keep pace with consumer expectations. He said Ms. McConnell is also tasked with licensing and enforcement.

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CO-CHAIR LEDOUX said it was her understanding that Governor Dunleavy wants to eliminate the Alcoholic Beverage Control Board and the Marijuana Control Boards. She asked Mr. Faulkner to confirm this.

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MR. FAULKNER said there is a proposal to merge the two in order to more efficiently execute their business. He said that is all the knowledge he had "on that particular question."

MR. FAULKNER addressed slide 10, titled "Regulation and Consumer Protection." He introduced Patrice Walsh, Director of the Division of Banking and Securities. He said her core mission includes licensing, Alaska Native Claims Settlement Act (ANCSA) proxy filings, enforcement, and consumer education.

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MR. FAULKNER addressed slide 11, titled "Overall Department Goals." He said the department's primary objective is to reinforce Governor Dunleavy's message that "Alaska is open for business" and communicate that sentiment "to Alaskans and the world beyond our borders." He said the department is focusing efforts to "do everything possible" to improve Alaska's economy. He said the department is focusing on core services and constituent needs.

MR. FAULKNER mentioned cross-department efforts to eliminate redundancies regarding permitting and activities in order to help constituents work through easements and land use allocations, for example. He said the department is identifying permitting backlogs and trying to fix those problems. He also mentioned cutting red tape, reducing inappropriate reliance on government, and enabling the private sector "to invest more in Alaska" and "to solve problems the private sector might be more adept at solving." He said the department hopes "all these things" will result in jobs and opportunities for Alaska.

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MR. FAULKNER addressed slide 12, titled "Division of Corporations, Business, & Professional Licensing." He relayed that professional licensures are administered largely by boards with departmental or divisional support for roughly 21 programs. He said the remaining 22 programs are administered solely by the division. He said CBPL also manages registration for corporations, business licenses, and tobacco endorsements. He listed the major functions of the division: Business licensing, corporations, professional licensing, enforcement, and administrative support for professional boards and commissions. He mentioned the duty of registering trademarks and noted there is an emerging interest in better protection of business names.

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REPRESENTATIVE HANNAN asked about the 21 professions regulated by licensure boards, noting that they were not listed on slide 13 alongside the 22 professions regulated directly by the division.

MR. FAULKNER said he could provide that information at a later time or defer to Sara Chambers of CBPL.

SARA CHAMBERS, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community, and

Economic Development, referred Representative Hannan to the list of professions on slide 14.

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MR. FAULKNER addressed slide 13, also titled "Division of Corporations, Business, & Professional Licensing." He highlighted the workload overseen by Ms. Chambers including the 22 professions regulated by the division. He acknowledged the 73,952 business licenses, 1,351 tobacco endorsements, 75,053 corporations, 89,414 professional licenses, 1,256 investigative matters, and 221 license matters overseen by CPBL in 2018.

MR. FAULKNER addressed slide 14, which listed all 21 boards or commissions regulating professions overseen by the division.

MR. FAULKNER addressed slide 15, which displayed a line graph measuring the total number of professional licenses overseen by the state from 2007 to 2018. The graph demonstrated growth from 50,768 licenses in 2007 to 89,414 in 2018.

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CO-CHAIR LEDOUX asked whether the rise in licenses can be attributed to an increase in the number of regulated professions or an increase in the number of people within existing professions, or a combination of the two.

MR. FAULKNER said it's a combination of the two plus additional licensees from out of state doing business in Alaska. He said there is a growing awareness that the licensing of those out-of-state individuals "affects Alaskans."

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REPRESENTATIVE HANNAN asked if the amount measured in the graph reflects a combination of professions regulated by the division and those regulated by a board or commission.

MR. FAULKNER affirmed that is correct.

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MR. FAULKNER addressed slide 16, which displayed a bar graph measuring the total number of professional licensing programs from 1987 to the present. The graph reflected a growth in the number of programs from 25 in 1987 to 43 at present. He noted

that the division recently completed a comprehensive reform initiative to streamline initial professional licensures online through myAlaska. He said the new system allows professionals to submit and track applications, receive status updates, access documents, and pay fees online. He said the department is undertaking a study to improve digital processing for "every single element" under the division. He relayed that the division brings in about \$15 million annually with about \$3.6 covering operations.

MR. FAULKNER addressed slide 17, titled "Division of Banking and Securities." He said the division's core mission is to support stable financial systems which support economic growth. He said the division performs "a lot of examinations" both in state and out of state for compliance. He said the division investigates to ensure the safety and soundness of the banking industry. He stated that the division is committed to sharing information with the industry in order to streamline those processes. He highlighted the division's core services including the registration of financial entities, examination of licensees for compliance, provision of educational outreach, and acceptance of ANCSA proxy filings.

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MR. FAULKNER addressed slide 18, subtitled "What are Regulated Financial Services?" He highlighted a list of regulated financial services, both in state and out of state, with which the division concerns itself. He mentioned state banks, Business Industrial Development Corporations (BIDCOs), mortgage lenders, security brokers, security agents, mutual funds, and ANCSA proxy filings.

MR. FAULKNER addressed slide 19, subtitled "2018 by the Numbers." The slide listed figures such as the number of individuals, organizations, offices, and filings overseen by the Division of Banking and Securities. Mr. Faulkner acknowledged the substantial volume of work done by the division in 2018.

MR. FAULKNER addressed slide 20, titled "Major Accomplishments in 2018." The slide displayed a list of accomplishments for the Division of Banking & Security. Mr. Faulkner noted that these accomplishments occurred prior to his joining the department in December 2018. He said the division settled a multi-state enforcement case with LPL Financial LLC regarding the sales of unregistered, non-exempt securities. He said the State of Alaska brought in \$499,000 in civil penalties as a result of

that settlement. Mr. Faulkner claimed the settlement sent a strong message that states play a vital role in protecting investors by holding firms accountable. He described the settlement as a cross-state cooperation that "strengthens the system as a whole."

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MR. FAULKNER addressed slide 21, titled "Community and Regional Affairs." He asserted the department's intention to keep important CRA programs intact. He restated the department's intention to pursue operational efficiencies.

MR. FAULKNER summarized the daily work conducted by CRA. He highlighted the Planning and Land Management Section and praised their work with community profile maps and interactive mapping. He extolled the comprehensive Alaska Community Database Online and called it "a community resource that we're proud of." He mentioned other examples of local government assistance overseen by CRA, including the Office of the State Assessor and the Local Boundary Commission.

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MR. FAULKNER addressed slide 23, subtitled "Other Functions." He summarized additional responsibilities of CRA, including work with the Alaska Native Language Preservation & Advisory Council and Serve Alaska. He said one of the department's missions is to "really highlight" Serve Alaska, which he described as flexible in meeting the needs of underserved areas.

MR. FAULKNER addressed slide 24, subtitled "Other duties and those prescribed by law." He listed several grant programs administered by CRA including Community Assistance Program grants, National Forest Receipts, Payment in Lieu of Taxes, Shared Fisheries Business Tax, and Fishery Resource Landing Tax. He mentioned that "quite a bit of training" is conducted through CRA for energy-related projects.

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MR. FAULKNER mentioned the department's constitutional mandate to advise and assist local government.

MR. FAULKNER addressed slide 25, titled "Division of Economic Development." He called DED "small and nimble but very ambitious." He explained that its goal is to create more jobs

for Alaskans. He broke down the division's core services into two categories: investments and economic development. Regarding investments, he mentioned efforts to evaluate the state's revolving loan funds for efficiency. He noted that some of these funds require annual legislative appropriation.

MR. FAULKNER remarked upon Governor Dunleavy's new task force, whose mission is to create jobs and diversify the economy. He mentioned daily discussions within the department on how to remove barriers to industry and impediments to success. He said the department recently sent out a questionnaire on that topic to over 10,000 Alaskans. He said the department would share the results of that questionnaire upon final compilation.

MR. FAULKNER mentioned the creation of an "online business park." He described it as an emerging technology with "a lot of promise." He explained that an online business park is a platform that "takes every seed concept we're aware of" and publishes it publicly to target investors.

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MR. FAULKNER addressed slides 26 and 27, each subtitled "Activities and Accomplishments in FY18." He pointed the committee's attention to a list of DED's successes from the previous year. He stressed that his focus was not to look back but rather to focus on initiatives moving forward, including the governor's task force and the pursuit of new efficiencies.

MR. FAULKNER commented on the division's statewide Comprehensive Economic Development Strategy (CEDS), which he said he wants to build upon moving forward. He mentioned an intention to condense the CEDS document from 70 pages to half that size.

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REPRESENTATIVE HANNAN referenced a bullet point on slide 27 that read "DED supports Alaska's startups and entrepreneurs by supporting sprints and pitch competitions and providing technical assistance." She asked Mr. Faulkner to explain "sprints and pitch competitions."

MR. FAULKNER defined "pitches" as solicitations for interest in business ideas. He said the department is engaged with the University of Alaska regarding the University's startup and angel investment funds. He mentioned the 49th State Angel Fund (49SAF) located in Anchorage.

MR. FAULKNER said the department offers coordination for sprints and pitch competitions for startup and capital ideas through the online business park model. He described sprints and pitch competitions as "entrepreneurs forming little communities where they're trying to match the needs with technology and capital to see an idea move forward."

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REPRESENTATIVE HANNAN asked for elaboration regarding what DED does to "support" sprints and pitch competitions. She asked if DED hosts a startup conference.

MR. FAULKNER said DED has "no specific plans to host any specific forums." He explained DED is "largely supporting the efforts of the private sector." He emphasized DED's intention to stimulate "organic" growth rather than "aggressively hosting" events itself. He said DED does not have the resources to do that.

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CO-CHAIR LEDOUX asked how DED intends "to stimulate them."

MR. FAULKNER said DED is having ongoing conversations to determine how to best stimulate the private sector. He restated the goal of eliminating barriers to private sector success. He cited the DCCED staff members' vast experience within the private sector and expressed hope that their success and experience will come to bear.

MR. FAULKNER said the best answer to Co-Chair LeDoux's question would be to stimulate investment in existing enterprises that want to expand and to help startups overcome barriers. He mentioned coordinating the wealth of public sector information to private sector capital. He also mentioned communication efforts - though not via out-of-state travel - to spread the word globally "that Alaska is more than just a desirable place to do business, it's the best place to do business."

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REPRESENTATIVE HANNAN asked for additional specifics, citing the placement of "sprints and pitch competitions" on the slide subtitled "Activities and Accomplishments in 2018." She asked if DCCED had, for example, sent someone to a university forum or

produced fliers or if it employs a venture capital expert who coordinates events and participants. She referenced the Juneau Economic Development Council (JEDC) which had recently hosted an entrepreneurial startup forum. She asked if DED did or is doing something similar, or if it funds local economic councils.

MR. FAULKNER answered that DCCED Assistant Commissioner Shawn Williams attended the JEDC event. He said the department intends to send a representative to as many similar local events as possible in order to communicate the message that Alaska is open for business. He emphasized DCCED's focus is primarily on stimulating the private sector, "not necessarily expanding government's role in that process." He said DCCED is availing itself of every possible channel, including brochures, conferences, and collaboration with The University of Alaska Center for Economic Development (CED).

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CO-CHAIR LEDOUX asked what DED did in 2018 to supporting sprints and pitch competitions.

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MATTHEW FAGNANI, Division Director, Division of Economic Development, Department of Commerce, Community, and Economic Development, said DCCED participated in several types of pitch and startup opportunities in 2018. He cited as an example the 1 Million Cups program. He said the department utilized [the Alaska Small Business Development Center] (SBDC) at the University of Alaska Anchorage to help reach out to startups and help them work through complex issues. He mentioned the department's work in presenting a crowdfunding opportunity that was utilized by [Baranof Island Brewing Company].

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CO-CHAIR LEDOUX asked Mr. Fagnani to clarify the state's role in the crowdfunding initiative.

MR FAGNANI referenced Senate Bill 126 [passed in the 29th Alaska State Legislature] which enabled a type of crowdfunding [equity crowdfunding, or "crowdinvesting"] that enables friends, family, and neighbors - but not out-of-state investors - to invest in local businesses. He said DCCED "facilitated the rollout of that."

CO-CHAIR LEDOUX asked Mr. Fagnani to clarify what he meant by "facilitated the rollout." She asked if DCCED requested for Senate Bill 126 to be introduced.

MR FAGNANI clarified that he meant the department promoted the initiative by putting it on its website and fielding inquiries about it. He said the department did not put any resources into promoting it, but rather facilitated information.

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MR. FAULKNER addressed slide 28, subtitled "Challenges," and spoke to difficulties regarding [the Commercial Fisheries Revolving Loan Fund], specifically industry volatility, the uniqueness of collateral, and the lack of startup capital for new fishers. He also cited as a challenge the lack of large loan funding sources for "larger, midsize fishermen" looking to upsize their boats. He noted the Commercial Fisheries Revolving Loan Fund also supports mariculture and fisheries enhancements. He spoke to efforts to streamline the mariculture permitting process.

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REPRESENTATIVE HANNAN referenced slide 28, which listed "Depletion of Strategic Minerals funding" as a challenge pertaining to DED. She asked him to elaborate.

MR. FAULKNER deferred to Mr. Fagnani.

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MR. FAGNANI said the Strategic Minerals fund was a legislative appropriation that was not reallocated, so the funding no longer exists. He said DED still produces a report on mining. It presented one to the legislature earlier in the session.

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MR. FAULKNER addressed slide 29, titled "Division of Insurance." Mr. Faulkner drew the committee's attention to a list of revenue streams overseen by the division.

MR. FAULKNER addressed slide 31, subtitled "Federal Funding." He said federal funding includes the State Flexibility Grant.

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MR. FAULKNER addressed slide 32, subtitled "Alaska Reinsurance Program." He called the program a major accomplishment of the Division of Insurance. Essentially, he said, it is "designed to remove the highest cost claims from Alaska individual health insurance ... and bring more competitive rates to those higher risk markets." He explained the Alaska Reinsurance Program is a conditions-based program that covers 33 of the most expensive conditions which drive up healthcare costs.

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CO-CHAIR LEDOUX quoted text from slide 32 that read, "This program is invisible to the insured." She asked what that meant.

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LORI WING-HEIER, Director, the Division of Insurance, Department of Commerce, Community, and Economic Development, explained that Premera is the only insurance provider currently available through the individual market in Alaska. She said if patients filing a claim have certain expensive, chronic conditions, they would still deal with Premera and access its network of providers. But, she added, behind the scenes that claim is being picked up by the state reinsurance program.

CO-CHAIR LEDOUX asked how many people are covered by this program in a given year.

MS. WING-HEIER estimated between 550 and 600 people.

CO-CHAIR LEDOUX asked what the cost is to the State of Alaska.

MS. WING-HEIER said the figure is included in the next slide.

MR. FAULKNER addressed slide 33, subtitled "Table 1: State vs. Federal Funding for Alaska Reinsurance Program." The table on slide 33 featured figures and projections for the calendar years between 2018 and 2026.

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CO-CHAIR LEDOUX asked for confirmation that, in 2018, the cost for approximately 550-600 people was approximately \$60 million.

MS. WING-HEIER answered that is correct.

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MR. FAULKNER addressed slide 34, subtitled "Health Insurance in Alaska." The slide featured a list of advantages and a list of challenges. Mr. Faulkner mentioned growth in infrastructure and increased access to services as an advantage. He also mentioned the reduction of consumer costs as a result of the Alaska Reinsurance Program. He highlighted challenges including the continued rise of healthcare costs.

MR. FAULKNER addressed slide 35, subtitled "Major Accomplishments and Challenges in FY2018." The slide featured four bullet points: State Flexibility Grant Award, External Healthcare Review, Small Business Survey, and 5-year accreditation through the National Association of Insurance Commissioners.

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REPRESENTATIVE HANNAN remarked that, earlier in the session, she had participated in a presentation by Ms. Wing-Heier. She said she wanted to recognize Ms. Wing-Heier and praised her helpfulness.

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CO-CHAIR LEDOUX noted that additional DCCED representatives were in attendance or available via teleconference for committee questions.

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CO-CHAIR LEDOUX asked if the 550-600 people involved in the Alaska Reinsurance Program qualified for the Affordable Care Act (ACA).

MS. WING-HEIER clarified that the Alaska Reinsurance Program "is the Affordable Care Act."

CO-CHAIR LEDOUX asked, "Don't [the 550-600 people] get federal subsidies?"

MS. WING HEIER answered that lower-income and some moderate-income policy holders receive federal subsidies to help pay premiums, not the claims.

CO-CHAIR LEDOUX asked if the State of Alaska reinsures because Premera would leave the state if it didn't.

MS. WING-HEIER said there was discussion about this topic in 2016. She explained that Moda Health had withdrawn from the market; Premera expressed that they might do the same. Ms. Wing-Heier said health insurance premiums had risen significantly and were becoming "totally unaffordable ... for Alaskan consumers." She claimed this was the impetus for the reinsurance program. She detailed how the state funded the first year with \$55 million. She added that "we worked hard to get the waiver by the second year" and that the program "is now self-supporting with federal funds."

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CO-CHAIR LEDOUX listed additional DCCED representatives in attendance and available via teleconference.

[4:18:17 PM](#)

CO-CHAIR LEDOUX thanked Mr. Faulkner and his associates for the presentation.

[4:18:50 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:19 p.m.