

ALASKA LEGISLATURE COMMITTEE FILES 1999-2000 80/2

9893 HOUSE LABOR & COMMERCE

20

Department of Administration
Response to House Labor and Commerce Committee
Questions on the State Facilities Rental Rate Plan

The Governor's FY 2001 budget proposal includes a facilities rent program for eight state owned office buildings. Additionally, HB 112 would establish the Alaska public building fund as an internal service fund for facility rents and expenses for state owned facilities. HB 112 was passed by the House and is now in Senate Finance.

The purpose of the rental program as presented in the Governor's FY 2001 budget and HB 112 is to improve facility maintenance, avoid additional deferred maintenance, leverage federal and other non-general funds, and create an incentive for the efficient use of state owned facilities.

The main characteristics of the program are:

- **Charging Agencies:**
The money now spent by the Department of Transportation and Public Facilities and the Department of Administration (DOA) to operate and maintain the eight facilities in the proposed rental pool will be transferred to the agencies that currently occupy the buildings. The tenant agencies will use these funds to pay rent to a central facilities management office in DOA.
- **Improvement Sinking Fund:**
Depreciation will be a cost element of the rental payments made by tenant agencies. Like the private sector, rental payments would provide a source of funding for major renewal and replacement projects that are required to keep buildings functioning properly and to avoid deferred maintenance liability.
- **Anticipated Costs:**
Rental rates charged to tenant agencies will provide for facilities operations on a break-even basis and include all costs of providing the space including applicable direct and indirect costs and depreciation. Rent charges will be based on "usable" square footage occupied by the tenant agency. Common or public areas will be allocated pro rata to all tenants in a facility.
- **Anticipated Savings:**
The rental system will allow the state to collect about \$1.5 million in additional federal and other non-GF funds that can be used to operate and maintain these facilities. Additionally, by charging tenant agencies rent facility costs will now be incorporated into program funding decisions. This will not only improve the allocation of facility resources but also encourage tenant agencies to hold the facilities management organization accountable for the value of the services being provided.
- **Surcharge on Rent Payments:**
Rent payments made by tenant agencies will include overhead charges for administrative costs incurred by the central facilities management office in DOA.

FY01 Facilities BRU Summary by Building

This Chart represents "Billable Rates" paid by Facilities BRU*							
Total FY01 Billable Facility Rental Pool Costs in DOA Facilities BRU	Maintenance & Operations Costs	DOA Admin Costs	Risk Mgt Costs	Annual Depreciation	Total Annual Cost	Usable Sq Ft	Total Rent SF/Mo
Alaska Office	\$ 270,960	\$ 6,806	\$ 5,399	\$ 82,211	\$ 365,376	40,424	\$ 0.74
Atwood Building	\$ 2,129,672	\$ 100,866	\$ 9,963	\$ 1,007,208	\$ 3,247,709	251,451	\$ 1.08
Court Plaza	\$ 198,000	\$ 7,160	\$ 767	\$ 178,437	\$ 384,364	26,362	\$ 1.21
Douglas island	\$ 185,000	\$ 4,570	\$ 6,662	\$ 49,085	\$ 245,317	31,816	\$ 0.63
Fairbanks Reg Office	\$ 439,000	\$ 11,622	\$ 3,449	\$ 169,835	\$ 623,906	34,125	\$ 1.51
Juneau Community	\$ 57,000	\$ 1,561	\$ 1,313	\$ 23,933	\$ 83,807	17,078	\$ 0.40
Juneau Public Safety	\$ 97,000	\$ 2,669	\$ 6,632	\$ 37,002	\$ 143,303	16,103	\$ 0.71
Juneau State Office	\$ 1,066,840	\$ 31,207	\$ 13,169	\$ 564,072	\$ 1,675,289	157,518	\$ 0.88
Total FY01	\$ 4,443,472	\$ 166,462	\$ 47,354	\$ 2,111,783	\$ 6,769,071	574,877	\$ 0.98

FY01 Facilities BRU Summary by Building

Facility	DEPT	Annual Cost	Usable Sq Ft
Alaska Office Building	DHSS	\$365,376	40,424
Atwood Building	ADMIN	\$46,569	3,606
Atwood Building	DCED	\$174,169	13,485
Atwood Building	DNR	\$1,268,644	98,224
Atwood Building	GOV	\$125,351	9,705
Atwood Building	PRIVATE	\$903,336	69,940
Atwood Building	REV	\$729,641	56,492
Court Plaza Building	ADMIN	\$4,024	276
Court Plaza Building	DHSS	\$43,537	2,986
Court Plaza Building	DOC	\$17,307	1,187
Court Plaza Building	GOV	\$240,020	16,462
Court Plaza Building	LEG	\$27,688	1,899
Court Plaza Building	PRIVATE	\$51,789	3,552
Douglas Island Building	DF&G	\$174,373	22,615
Douglas Island Building	DOC	\$70,944	9,201
Fairbanks Reg Office Building	ADMIN	\$6,545	358
Fairbanks Reg Office Building	DCED	\$4,278	234
Fairbanks Reg Office Building	DCED	\$60,297	3,298
Fairbanks Reg Office Building	DHSS	\$222,778	12,185
Fairbanks Reg Office Building	DOT	\$11,409	624
Fairbanks Reg Office Building	GOV	\$64,923	3,551
Fairbanks Reg Office Building	LABOR	\$223,619	12,231
Fairbanks Reg Office Building	REV	\$30,057	1,644
Juneau Community Building	DCED	\$63,805	13,002
Juneau Community Building	LEG	\$20,002	4,076
Juneau Public Safety Building	ADMIN	\$46,391	5,213
Juneau Public Safety Building	DPS	\$96,912	10,890
Juneau State Office Building	ADMIN	\$793,007	74,562
Juneau State Office Building	DCED	\$301,709	28,368
Juneau State Office Building	EDUC	\$221,421	20,819
Juneau State Office Building	LABOR	\$3,988	375
Juneau State Office Building	LEG	\$52,327	4,920
Juneau State Office Building	REV	\$302,836	28,474
TOTALS		\$6,769,071	574,877
State Agency Totals		\$5,813,946	501,385

STATE FACILITY RENT PROGRAM

Summary

The Governor's FY 2001 budget proposal includes a facilities rent program for eight state office buildings: six in Juneau, and one each in Anchorage and Fairbanks. The purpose of the rent program is to improve facility maintenance, avoid additional deferred maintenance, leverage federal and other non-general funds, and create an incentive for the efficient use of state facility space.

This proposal was discussed with the Legislature last session during hearings on HB 112, which would establish the Alaska public building fund as an internal service fund for facility rents and expenses. HB 112 was passed by the House and is now in the Senate Finance Committee.

As part of the rent program, the money now spent by the Department of Transportation and Public Facilities (DOT/PF) and the Department of Administration (DOA) to operate and maintain the eight buildings in the rental pool will be transferred to the agencies that occupy the buildings. A total of \$2.3 million will be transferred from DOT/PF's budget to the tenant agencies in the seven buildings managed by DOT/PF. A total of \$2.0 million will be transferred from DOA's budget to the tenant agencies in the Atwood building in Anchorage (the former Bank of America building).

It is important to note that these transfers are not increments in the tenant agencies' budgets; they are merely transfers of existing funding from DOT/PF and DOA. The budget transactions for these transfers are labeled the same in every department. The transaction title is "State Facilities Rent". The transaction codes are "ATRIN" for the tenant agencies and "ATROUT" for DOT/PF and DOA. The table below shows the transfer amounts for each agency.

The tenant agencies will pay rent to a central facilities management office in DOA. This system will enable the state to collect about \$1.5 million in additional federal and other non-GF money for maintaining these buildings.

The table below shows the proposed transfer amounts for each agency.

Department	GF Transferred from DOA (\$000)	GF Transferred from DOT (\$000)
Administration	\$ 46.6	\$ 418.0
Community & Economic Development	\$ 174.2	\$ 322.1
Corrections	\$ -	\$ 86.3
Education & Early Development	\$ -	\$ 260.7
Fish & Game	\$ -	\$ 169.6
Governor	\$ 307.4	\$ 122.1
Health & Social Services	\$ -	\$ 449.3
Labor & Workforce Development	\$ -	\$ 259.7

Legislature	\$ -	\$ 99.2
Natural Resources	\$ 1,268.6	\$ -
Public Safety	\$ -	\$ 88.7
Revenue	\$ 206.6	\$ -
Transportation & Public Facilities	\$ -	\$ 11.4
Total State Agencies	\$ 2,003.4	\$ 2,287.1

General Rent Principles

Rent is used to improve the use of space and allocation of resources by incorporating the cost of the facility into program funding decisions. In addition, rent encourages users to hold the facilities management organization accountable for the quality and value of the services provided.

Rent will comply with generally accepted accounting principles (GAAP) as recognized by the Governmental Accounting Standards Board (GASB), and Federal cost principles as set forth in U.S. Office of Management and Budget Circular A-87.

Rates will:

- provide for operation on a break-even basis;
- include the cost of providing space, including applicable direct and indirect costs and depreciation; and
- bill all tenants at the same rate for similar services received.

The Cost Elements of Rent

Maintenance & Operations

The costs of utilities, janitorial, repairs, security, parking and other costs associated with keeping a facility ready for the use of its occupants.

Renewal & Replacement (Depreciation)

The scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.

Administrative Organization

Resources to pay bills, account for and budget maintenance costs, manage and report on the work.

STEPS TO IMPLEMENTATION

Designated facilities in the rental pool

For the FY 2001 budget, the following criteria were used to select the eight facilities for rent implementation:

- multi-agency office facilities;

- maximize potential for payment from non-General Fund sources;
- limit number of sites to minimize accounting and data collection;
- larger facilities, over 15,000 to 20,000 square feet.

Identified occupancy by agency

Rent is based on "usable" square feet occupied by the tenant agency. Common or public areas including corridors, stairways, toilet rooms, shared conference facilities, etc. are allocated pro rata to all tenants.

Identified Costs

Most direct facility costs for the pool are currently budgeted in DOT/PF. Costs for the Atwood Building are budgeted in the DOA.

DOT/PF direct costs include applicable personal services, contractual and other line costs for each particular facility. DOT/PF indirect costs of administrative support (accounts payable, human resource, etc.) are currently shared with both facility and non-facility functions. DOA direct costs are the personal services and related costs for a facility manager and an accountant specifically to manage these state-owned facilities.

Calculated Depreciation

Depreciation, as an element of rent, provides a source of funding for major renewal and replacement projects that are required to keep buildings functioning properly.

Reallocated General Fund dollars

Current general fund dollars expended on these facilities from DOT/PF, DOA and other agency budgets will continue to be expended on these facilities. As noted earlier, the budget transaction is a transfer from the DOT/PF and DOA budgets to the tenant agencies for payment of facility rent costs.

Alaska

State, second union agree on plan for pay raises

■ **Largest union, however, is preparing for a possible strike**

By CATHY BROWN
THE JUNEAU EMPIRE

The second of 12 state employees' unions has reached a tentative labor contract with the state.

Another union, meanwhile, is training workplace leaders for a possible strike.

The Miners Mates and Pilots union tentatively agreed to a three-year package that provides a \$1,200 lump sum payment to each member on July 31. The deal then provides a 2 percent raise in July 2001 and a 3 percent raise in July 2002.

The agreement, which still must be ratified by the union's members and funded by the Legislature, also

increases the state's contributions to each employee's health insurance.

"This agreement truly signifies a cooperative and productive approach to bargaining by both parties," Capt. Steve Demeroullis said in a news release. Demeroullis, vice president of the Pacific Maritime Region of the union could not be reached this morning for further comment.

The contract covers about 70 captains, bridge crew and deck officers who work on the state ferry system.

"These are the people who operate the marine highway vessels and these folks stepped up to the plate," Commissioner of Administration Bob Poe said. "They're the first marine unit that has reached agreement with the state."

Under the deal, the state's contribution to health care will increase by \$65 to \$515 per month this summer, then to \$575 the following year and \$630 in July 2002. The health insurance increase is contingent on the union forming its own health plan to be administered by the union or a coalition of unions.

"What we're trying to do is get the state out of the business of managing health care and get it into employee-managed health care," said Dave Kolvunemi, assistant commissioner in the Department of Administration.

The package tentatively agreed to would cost the state an additional \$142,500 in the first year and \$890,700 over the full three years, according to the Department of Administration.

This agreement truly signifies a cooperative and productive approach to bargaining.

— Capt. Steve Demeroullis

The Legislature has not taken a definite position yet on this and another new labor contract, but legislative leaders have said they are reluctant to approve contracts costing the state more money.

The state is offering a similar package to other unions it's negotiating with this year. Public Employees Local 71 accepted a similar deal last week, and Kolvunemi said he expects a couple other

unions will sign on this week.

The largest state employees' union is not among them.

Alaska State Employees Association leaders said earlier this month they are at an impasse in negotiations with the state and asked that a mediator be called in. Talks with a mediator are scheduled Monday.

The union membership has already authorized its leaders to call

a strike if talks reach impasse or the Legislature refuses to fund a new contract. The union sent out two news releases in the last couple of weeks indicating leaders are making strike preparations.

"We've identified 100 key leaders around the state to be what we call work site coordinators," ASEA Business Manager Chuck O'Connell said. "We're going to train them in the dos and don'ts if we go on strike."

That doesn't necessarily mean a strike will occur, he said. "Our objective is to get a good contract, not to strike."

Poe said the state has in the past faced strikes and has contingency plans, but "we are not presently meeting on how to deal with a strike," he said.



Lost on the trail: Fairbanks Daily News-Miner City Editor Rod Boyce, one of 18 mushers in the Tustumena 200 trail race, has been missing since Saturday.

GOP legislators pitch plan to 'protect' dividends

■ **Dividend program would be included in state's constitution**

By SVEND HOLST
THE JUNEAU EMPIRE

Flanked by the Legislature's most conservative members, Sen. Lyda Green introduced a measure Monday that would add the Alaska Permanent Fund dividend program to the state's constitution.

Senate Joint Resolution 35 would simply move the laws instituting the dividend program and inflation-proofing mechanism from the state's statutes to the

state's constitution.

"This is the only step that we can take to show Alaskans their dividends are safe and that the promise will be kept to protect the dividend," she said. "Until the permanent fund dividend and inflation-proofing are protected, we will continue to see a negative reaction from the public."

To go into effect, the measure would need the support of two-thirds of the House and Senate followed by approval by Alaska's voters. If that's accomplished, it would take the same series of votes to reverse the resolution. That, Green said, would add a high level

of protection to the dividend.

Green said those two elements of the \$27 billion oil-wealth account would be protected from lawmakers by putting the statutes into the constitution.

However, the measure would not restrict the Legislature from using the earnings of the permanent fund to help pay for government, and the program would continue to be subject to swings in the stock market.

In a Sept. 14 vote, Alaskans defeated an advisory plan that would have called for the use of some of the fund's earnings. Green said her measure is responsive to the 84 percent vote against the plan.

Standing with Green at a press conference were Republican Sens. Robin Taylor of Wrangell and Jerry Ward of Anchorage. Also showing support were three of the four members of the conservative republican minority - Reps. Vic Kohring of Wasilla, Jerry Sanders of Anchorage and Scott Ogan of Palmer.

Watching from the wings was Rep. John Davies, a Fairbanks Democrat, who said Green's measure was more about posturing than protection.

"So far, they're long on rhetoric and short on solutions," he said. "It's talking about making a protection that is practically already

there. These guys won't talk about realistic revenues."

Davies said the same lawmakers who surrounded Green always talk about cutting budgets, and always seem to be on the side opposing any constructive effort to deal with the state's close to \$800 million gap between general fund revenues and spending.

He said the Legislature has been loath to use permanent fund earnings over the past two decades. There's a generally accepted principal with lawmakers and the governor that the fund won't be touched without voter approval.

AROUND JUNEAU

Taplin retrial to start May 1 in Ketchikan

JUNEAU - Accused hit-and-run driver Joel Taplin has been

Kennecott won't sell Greens Creek

By BILL McALLISTER
THE JUNEAU EMPIRE

The Greens Creek mine on Ad-

December to test the market value of the mine.

Kennecott's purchase of Greens

in Juneau. The mine, located 20 miles west of downtown, has \$77.3 million in assessed property value

Search

Bill History/Action Display



BILL: SCR 11 SHORT TITLE: DISAPPROVE PUBLIC EMPLOYEE CONTRACTS
 BILL VERSION: SCR 11 AM
 SPONSOR(S) : RULES

CURRENT STATUS: LEGIS RESOLVE 24 STATUS DATE: 5/26/99

TITLE: Relating to legislative review and disapproval of agreements under the Public Employment Relations Act that exceed net zero cost to the state.

No Fiscal Information for Bill/Resolution.

Jrn-Date	Jrn-Page	Action
5/17/99	<u>1566</u>	(S) READ THE FIRST TIME - REFERRAL(S)
5/17/99	<u>1566</u>	(S) HELD ON THE SECRETARY'S DESK
5/17/99	<u>1579</u>	(S) READ THE SECOND TIME
5/17/99	<u>1579</u>	(S) AM NO 1 ADOPTED UNAN CONSENT
5/17/99	<u>1579</u>	(S) PASSED Y13 N7 SCR 11 AM
5/17/99	<u>1588</u>	(S) TRANSMITTED TO (H)
5/18/99	<u>1591</u>	(H) READ THE FIRST TIME - REFERRAL(S)
5/18/99	<u>1591</u>	(H) RULES FOR CALENDARING
5/18/99	<u>1632</u>	(H) RULES TO 1ST SUP CALENDAR 5/18/99
5/18/99	<u>1632</u>	(H) READ THE SECOND TIME
5/18/99	<u>1632</u>	(H) PASSED Y25 N15
5/19/99	<u>1694</u>	(H) RETURN TO (S), TRANSMIT TO GOVERNOR NEXT
5/20/99	<u>1720</u>	(S) 1:45 PM 5/20/99 TRANSMITTED TO GOVERNOR
7/28/99	<u>1783</u>	(S) PERMANENTLY FILED 5/26 LEGIS RESOLVE 24

Similar Subject Match or Exact Subject Match
APPROPRIATIONS
LABOR
LABOR RELATIONS
PUBLIC EMPLOYEES

Bill Root:

Return to BASIS Main Menu(21st Legislature)
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SENATE CONCURRENT RESOLUTION NO. 11 am
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE

Amended: 5/17/99
Introduced: 5/17/99

A RESOLUTION:

1 **Relating to legislative review and disapproval of agreements under the Public**
2 **Employment Relations Act that exceed net zero cost to the state.**

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **WHEREAS** it is the right and duty of the legislature to review and approve the
5 monetary terms of any agreement entered into under the authority of the Public Employment
6 Relations Act; and

7 **WHEREAS** the legislature informed the executive branch through Legislative Resolve
8 34 on May 21, 1997, that the legislature reserved the right to disapprove any agreement that
9 failed to achieve net zero cost to the state and resulted in increased costs in personal services
10 as long as general fund revenues remain below expenditures; and

11 **WHEREAS** the Department of Administration has entered into agreements during
12 1999 with various labor organizations under the authority of the Public Employment Relations
13 Act, including the following and, possibly, including others:

- 14 (1) Inlandboatmen's Union;
15 (2) AVTECTA;
16 (3) Alaska Public Employees Association;

1 (4) International Organization of Masters, Mates, and Pilots; and

2 **WHEREAS** the Department of Administration has failed to adequately report the terms
3 of these agreements to the legislature for review and approval;

4 **BE IT RESOLVED** that the Alaska State Legislature requires copies of all agreements
5 executed after June 30, 1998, that modify the terms of collective bargaining agreements,
6 copies of collective bargaining agreements tentatively agreed to in 1999, and copies of all
7 work papers and other analyses of the costs of the agreements; and be it

8 **FURTHER RESOLVED** that the Alaska State Legislature specifically disapproves
9 the monetary terms of all agreements, including but not limited to employer contributions to
10 health benefits, that the Department of Administration may have entered into during 1999
11 under the authority of the Public Employment Relations Act; and be it

12 **FURTHER RESOLVED** that the legislature by this action refuses to appropriate any
13 state funds to satisfy the terms of any agreement entered into during 1999 under the authority
14 of the Public Employment Relations Act if the agreement has not been approved by the
15 legislature under AS 23.40.215.

HCS FOR CS FOR SENATE CONCURRENT RESOLUTION NO. 16(RLS) am H
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE

Amended: 5/11/97
Offered: 5/10/97

Sponsor(s): SENATE FINANCE COMMITTEE

A RESOLUTION

1 Urging the state executive branch administration, University of Alaska
2 administration, and Alaska Court System administration to negotiate collective
3 bargaining agreements that result in a net zero cost increase.

4 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 **WHEREAS** the legislature has declared that it is the public policy of the state to
6 promote harmonious and cooperative relations between government and its employees; and

7 **WHEREAS** it is the responsibility of the state executive branch administration,
8 university administration, and court system administration to negotiate and enter into collective
9 bargaining agreements with the representatives of their employees; and

10 **WHEREAS** the legislature acknowledges that recurring revenues continue to fall short
11 of recurring expenditures in the long term; and

12 **WHEREAS** the legislature is completing the second year of a five-year financial plan
13 in an effort to close the fiscal gap between revenues and expenditures; and

14 **WHEREAS** the legislature finds it is not advisable to increase the cost of personal
15 services in a time of deficit spending; and

16 **WHEREAS** the United States Department of Labor in 1993 reported that Alaska

1 public sector wages are 144 percent of the national average; and

2 **WHEREAS** the United States Department of Commerce in 1993 reported that average
3 Alaska state and local government salaries are 30.7 percent above the private sector; and

4 **WHEREAS** the state Department of Administration reported in 1994 that state
5 employees are adequately compensated and may be ahead of the market for most job
6 classifications; and

7 **WHEREAS** the Long Range Financial Planning Commission recommended the
8 enactment of a tier III retirement system, the revision of geographic differentials, collective
9 bargaining agreements based on market conditions, and an examination of publicly funded
10 health plans to reduce personal services costs to the state; and

11 **WHEREAS** the legislature has appropriated funds to conduct an independent, objective
12 study comparing state employees' pay and benefits with comparable private industry
13 employees' pay and benefits; and

14 **WHEREAS** this salary and benefit study will further aid the state in responsible
15 negotiations by providing a comparison on which to base future costs of personal services;

16 **BE IT RESOLVED** that the Alaska State Legislature urges the current state executive
17 branch administration, university administration, and Alaska Court System administration to
18 negotiate collective bargaining agreements that result in a net zero cost increase through
19 reducing salaries, reducing benefits to pay increased salaries, implementing a two-tier salary
20 structure, restructuring publicly funded health plans, or other methods; and be it

21 **FURTHER RESOLVED** that, if general fund revenues remain below expenditures,
22 the Alaska State Legislature reserves the right to disapprove the monetary terms of any
23 collective bargaining agreement that results in an increased cost of personal services.

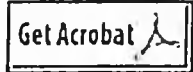
24 **COPIES** of this resolution shall be sent to the Honorable Tony Knowles, Governor,
25 State of Alaska; the Honorable Mark Boyer, Commissioner, Department of Administration;
26 Jerome Komisar, President, University of Alaska; and Stephanie J. Cole, Administrative
27 Director, Alaska Court System.

Labor Relations

Indexed below are links to the current collective bargaining agreements between the State of Alaska and the various bargaining units representing organized state employees.

Many of the documents listed in the index below are in the Portable Document Format (.pdf). To view these documents, you will need to download and use Adobe Acrobat or a similar reader.

Adobe Acrobat is distributed freely to users and can be downloaded by following



Many of these documents are large. The time required for reviewing or downloading can be lengthy. The electronic documents listed below are not intended to supplant the signed originals.

Once you have downloaded and installed the reader, configure your browser using the appropriate options or settings file so that your browser automatically opens documents with the ".pdf" suffix.

If you have questions, contact your local system administrator or study your browser instructions.

These documents are presented as a convenience. Every effort has been made to post and maintain current contract language, however these electronic documents are not intended to replace the "official" printed version. In the event of a dispute involving contract language, the reader is referred to an official copy of the appropriate collective bargaining agreement.

<u>Alaska Vocational Technical Center Teachers Unit</u>	<u>Inlandboatmen's Union representing the Unlicensed Marine Unit</u>	<u>Mt. Edgecumbe Teachers Unit</u>
<u>Alveska Central School</u>	<u>International Organization of Masters, Mates & Pilots</u>	<u>Correctional Officers Unit Public Safety Employee Association</u>
<u>Confidential Employees Association</u>	<u>Labor, Trades and Crafts Unit</u>	<u>State Troopers Unit Public Safety Employee Association</u>
<u>General Government Unit</u>	<u>Marine Engineer's Beneficial Association</u>	<u>Supervisory Unit</u>

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In the News

KNOWLES ADMINISTRATION AND LOCAL 71 REACH AGREEMENT Public Employees' Team Approves Wage & Benefit Package

January 26, 2000

Release 00-022

With negotiations either ongoing or scheduled this year with all twelve bargaining units representing state employees, the Knowles Administration has reached agreement with Public Employees Local 71, AFL-CIO on a three-year compensation package. The tentative agreement now goes to the labor, trades, and crafts union's membership for a ratification vote.

"We appreciate the dedicated public service delivered around the clock, 365 days a year, in every corner of this state by the members of Local 71," Gov. Tony Knowles said. "They have joined us in facing the task of reducing costs and being competitive. The economic package represented in this agreement is fair, reasonable, and entirely warranted. I'm urging the Legislature to fund this good-faith agreement."

Negotiators agreed on the state's top priorities with all bargaining units:

Three year agreement with no wage reopeners; Letter of agreement on modernization of work force; Work toward a union- or coalition-administered health insurance trust (Local 71 already has a health insurance trust); Incorporation of the state's "Workplace Alaska" hiring system.

State and Local 71 bargaining teams also agreed to an economic package, including a \$1,200 lump sum payment to be paid July 31, 2000. A 2 percent pay scale increase becomes effective July 1, 2001, with another 3 percent increase effective July 1, 2002. Also, beginning July 1, 2000, the state's contribution to each employee's health insurance will increase by \$20 to \$570 per month, then to \$590 the following year and \$630 the year after.

Finally, effective July 1, 2002, employees with 15 years of service who have been at step D for two years will receive an additional service bonus step E, 3 percent above the pay for step D. The agreement extends to June 30, 2003, with no provisions for wage reopeners.

Following a Tuesday meeting with Gov. Knowles and Lieutenant Gov. Fran Ulmer, Local 71 Business Manager Don Valesko said, "I want to thank the governor and his Administration for recognizing the hard work and fine service our members provide the citizens of the State of Alaska. The new agreement provides stability for our members and a chance for them to keep up with the increases in the cost of living."

Valesko also noted Local 71 members' positive response to continued state budget cuts. "Our members' productivity has gone up considerably over the years

as they face working with fewer resources and considerably less personnel."

Of Local 71's 2,000 members, about 1,500 work for the State of Alaska, including highway, airport, and building maintenance workers, snowplow operators, and food service and custodial workers in Alaska's pioneers' homes and the Alaska Psychiatric Institute. The plan will cost an estimated \$2.2 million in the first year, with a three-year cost of \$10.4 million.

-30-

Contact: Bob King, Press Secretary, (907) 465-3995
Claire Richardson, Deputy Press Secretary, (907) 465-3996

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NEWS RELEASE

State of Alaska
Department of
Administration



Bob Poe
Commissioner

907-465-2200
FAX 907-465-2135

FOR IMMEDIATE RELEASE: December 3, 1999 99-233

STATE LABOR LEADERS AGREE ON CONTRACT PRINCIPLES

Guidelines Set for Reaching Fair, Equitable Contracts with State Employees

With negotiations between the State of Alaska and all state employee bargaining units either currently underway or set to resume within the next few weeks, Administration Commissioner Bob Poe announced agreement with labor leaders on a set of guiding principles for reaching fair and equitable contracts for Alaska's state workforce in the new century.

"To have a well run, efficient state government, we need to hire and retain the best workers, and that means Alaska must be competitive on the national labor market," Poe said. "These principles, established by Gov. Knowles, set the tone for reaching terms with all state employees by recognizing the realities of the current workplace and the real wage losses experienced by state workers in recent years."

Agreement by state employee union leaders to these principles is intended to help reach a fair and equitable long-term contract that meets Alaska's needs as we move into the new century. Poe met with the leaders of employee bargaining units in Juneau today to discuss the governor's principles to guide state negotiators toward reaching an economic package with the unions this year:

- **Plan for the state workforce of the future** - While Alaska's population continues to grow, the number of 20 to 34-year olds declined 58,000 in the past seven years. Many of these young workers are leaving the state for the lower 48 where wages and salaries are rising. We must maintain and improve our ability to attract and retain younger workers as present employees plan for retirement.
- **Reality of health care costs** - Benefit packages are crucial to retaining employees but the state's contributions to health care costs lag behind those offered by the municipalities of Anchorage, Fairbanks, and Juneau, and the Mat-Su and Kenai Peninsula Boroughs. State employees pay an average of \$134 per month to match a state contribution of more than \$488. In contrast, employees in those five major municipalities and boroughs pay nothing or as little as \$17 per month to match employer contributions of up to \$600.
- **Fair compensation in light of past losses** - A study by Northern Economics found the real earnings (wages adjusted for inflation) of state employees dropped by 13.6 percent between 1995 and 1998, while the real earnings in the private sector in Alaska dropped only 0.3 percent and the real earnings of federal employees in Alaska increased 9.9 percent. This disparity makes it

increasingly difficult to recruit and retain skilled state workers.

- **Recognizes demands of a smaller, modernized government** - Through the use of new technology and other advances, government is finding ways to serve the public more efficiently. Additionally, Alaska's state budget situation is helping drive the services state agencies provide to become leaner and more efficient. According to the Cato Institute, a conservative think-tank, Alaska is the only state in the nation to have cut its budget in the 1990's.

"I applaud Gov. Knowles for recognizing these issues and his respect for all represented state employees by negotiating much needed pay and benefit improvements, while at the same time honoring the collective bargaining process and the mutually agreed to bargaining rules between the administration and the individual unions," said Mano Frey, executive president of the AFL/CIO.

Contract talks are presently underway with the General Government Unit of the Alaska State Employee Association and the bargaining unit representing Masters, Mates and Pilots on the Marine Highway System. Talks are set to resume over the next two weeks with all other bargaining units, including those who reached contract terms last year with provisions to allow reopening of negotiations on specific items.

"State employees are hard working individuals who serve Alaska very well," Poe said. "They are our friends and neighbors, and customers to most Alaska businesses. These employees deserve a fair and equitable contract. That's important not just for them, it's important for the residents and businesses that depend on state services or work with state agencies on a regular basis. The competition for quality employees is fierce today; the future of Alaska depends on attracting and retaining a strong and able workforce."

ALASKA STATE LEGISLATURE

HOUSE LABOR AND COMMERCE COMMITTEE

Representative Norman Rokeberg, Chairman
Representative Andrew Halcro, Vice-Chairman
Representative John Harris
Representative Lisa Murkowski
Representative Jerry Sanders
Representative Tom Brice
Representative Sharon Cissna



State Capitol
Juneau, AK 99801-1182
Telephone: (907) 465-4954
Fax: (907) 465-2040

January 24, 2000

Commissioner Bob Poe
Department of Administration
PO Box 110200 MS 0200
Juneau, AK 99811-0200

FAX: 465-2135

Dear Commissioner Poe:

This will confirm your appearance before the House Labor & Commerce Committee on Wednesday, February 2, 2000, 3:15 p.m., Capitol Building Room 17. I appreciate your taking the time to talk to the Committee about issues that concern us.

I would like a discussion of the following matters:

- a. Current status of state employee labor contracts and negotiations (as much as you can discuss).
- b. Overview of the insurance covering each bargaining unit.
- c. In depth discussion of the insurance covering a major portion of state employees (i.e., GGU, exempt employees, etc.). With regard to the state health insurance, I would like to know:
 - i. Number of covered lives (which includes the member and any dependents) broken down by retirees and active employees
 - ii. Amount of claims paid (latest fiscal year you have)
 - iii. Amount of premiums received (latest fiscal year you have)
 - iv. Historical data including the amount that the state used to pay into the CHIAA account
 - v. Impact of mandates on health insurance premiums
 - vi. Discussion of decision on acceptance of mandates and who decides whether or not a mandate is accepted. As I understand the State does not have to follow the mandates as it is now a self-insured plan under ERISA.
- d. Y2K comments.
- e. Leases
 - i. Number and cost of leases
 - ii. Status of square footage leases (up or down compared to previous years)
 - iii. Overview of budget rental plan (charging agencies rent, improvements sinking fund, surcharge on rent, anticipated cost, anticipated savings)
- f. Other items you may wish to bring before the committee.

Again, thank you for your consideration of my request. I look forward to your presentation. If you have any written material for the committee to review, please have a copy of it to my office (Room 24, Capitol) by noon on Monday, January 31st. If you bring handouts to the meeting itself, please provide 20 copies of each document to my committee assistant, Janet Seitz.

Sincerely,

A handwritten signature in black ink that reads "Norm Rokeberg".

Representative Norman Rokeberg
Chairman, House Labor & Commerce Committee

Governor, first union agree on pay raises

By CATHY BROWN
THE JUNEAU EMPIRE

The Knowles administration has reached a tentative agreement with the first of the dozen unions it is negotiating contracts with this year.

The tentative three-year contract with Public Employees Local 71 provides \$1,200 payments to all members this July, followed by a 2 percent raise in the pay scale in 2001 and a 3 percent raise in 2002.

Under the deal, the state also agrees to contribute more to employees' health insurance.

The contract, approved by union leadership, still has to be ratified by the members of the labor, trades and crafts union. The additional costs to the state also have to be approved by the state Legislature.

New costs of the deal will total about \$2.2 million in the first year and a total of \$10.4 million over the three years of the contract, according to state Commissioner of Administration Bob Poe.

"The economic package represented in this agreement is fair, reasonable and entirely warranted," Gov. Tony Knowles said in a news release.

Legislative leaders have expressed a reluctance to spend more on employee contracts because the state already faces a gap between revenues and

Please see Union, Page 8

Union...

Continued from Page 1
spending.

Sen. Sean Parnell, co-chairman of the Senate Finance Committee, didn't make a firm commitment today on whether the Legislature would or wouldn't fund the deal with Local 71.

"It sounds like an expensive increase, but we want to take a look at the new contract, and basically we'll see how it fits into the budget plans," he said. "At this point I hesitate to go further than that because we just haven't looked at anything other than the press release."

Union members received no pay increase last year and received raises at half the rate of inflation the three years before that, said Poe.

"If you want to have capable state employees who are able to do more with less . . . you have to hire very capable people, and you have to keep them, and that means you have to compensate them fairly," he said.

The union represents highway, airport and building maintenance workers, snowplow operators and food service and custodial workers in the state's pioneers' homes.

"The new agreement provides stability for our members and a chance for them to keep up with the increases in the cost of living," Local 71 Business Manager Don

Valesko said in a news release.

Of Local 71's 2,000 members, about 1,500 work for the state. About 250 work in Southeast Alaska and roughly 100 of those are in Juneau, Valesko said.

In addition to the increases in base pay, those workers with 15 years of service who have been at the top of the pay scale for two years will be able to move up to a new step on the scale, which will provide them with an additional 3 percent increase.

Under the tentative contract,

the state's contribution to union members' health insurance will go from \$551 per month to \$570 starting July 1. That will increase to \$590 the following year and \$630 the year after.

The state is offering similar packages to the other 11 unions it's negotiating with this year. Poe said agreements with some of those unions are imminent.

He wouldn't say what the cost to the state would be if all the unions agreed to similar contracts.

Juneau
Empire
27 JAN
2000
P1

OVERVIEW

DOC & ED

2/10/99

COMMITTEE TAPE LOG

PS 196

COMMITTEE: LABOR & COMMERCE

DATE: FEBRUARY 10, 1999

TIME: 3:18 pm

SUBJECT: OVERVIEW: DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

MEMBERS:

ROKEBERG
HALCRO
³¹²⁰⁷SANDERS
MURKOWSKI
HARRIS
³¹²⁰BRICE
CISSNA
 NR AH JS LM JR TB SC

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
NR	0001 (1-A) 99-6	MEETING CALLED TO ORDER @ 3:18 pm. called roll.
Comm. Deb. S	0161	Went over agenda, does have quorum. Begins meeting
		Introduces herself and begins overview.
-	-	Peop(s) Sanders, Brice arrive at meeting 3:20 pm.
DS	039	Introduces Pol Boggs. goes over her duties.
NR	452	thinks DS, states conflict of interest knows Comm very well. worked w/ her at Jack White.
DS	0513	Proud of association. Moves into goals.
DS	659	HB 350 touches on.
DS	1018	Lets her staff introduce themselves. I briefly go over duties.
NR	1156	Asked ms. Elder to come & go over Banking.
DS	1087	make money.
DS	1107	makes final remarks.
NR	-	Talks to Texas
TE	1155	Talks about Banking Security Act both regulation / Statute.
NR	1192	Asks question
TE	1194	Continue to speak clearly

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TE	1228	Continues going over regulations
NR	1246	going over which one talking about
TE	1251	11
NR	1255	11
TE	1289	Trust Co Act - begins to go over
2m	1381	old Trust Co Act 2
NR	1390	—
TE	1403	specific statute
NR	1443	Trust Co Repts.
TE	1450	
NR	1451	
TE	1461	
TB	1466	Statutory changes, Oct 199
TE	1489	Congress Oct 196 Import. Act
TB	1519	Asks for clarification New Rep
TE	1543	old bill
TB	1547	when
TE	1550	states when
TB	1578	Time limits.
TE	1590	Adopt emergency w/ noc.
TB	1601	Need for expediency
TE	1622	yes
NR	1626	Long
TE	1634	very long bill
NR	1641	A.L. Sec. Act.
TB	1670	enforce early 2
NR	1675	Calendar Wed —
TE	1687	finisher, will make appts ahead stock
NR	1701	goes over hearing sch.
TE	1723	Thank you

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
NR	1731	re-into Com So Deck
TB	1740	NO, just wants more info
JM	1755	Tourism question
DS	1794	Spent money to make money.
NR	1967	Tourism.
JS	1973	Asks about tourism
DS	1982	Tax(s) guaranteed. HB357)
NR	2056	HB350, task force.
DS	2081	Productive meetings
NR	2106	percentage
DS	2110	has one of her colleagues' help answers.
DS	2139	continues
NR	2157	Bill failed because
DS	2165	thought agreement
NR/AS	2173	—
DS	2193	Continues; Unified Group
AH	2206	Clarification Cent. Advert. Dollar
DS	2290	Goal - small business (look after)
AH	2340	Overstate Public \$15, 1920. 194 ann. Alan Hwy.
DS	2358	yes
AH	2359	more plans to do again
DS	2370	Make headway, budgetary issues.
NR	2421	income tax sus. by Com. Administration task force.
DS	6001	answers, brings up name better person to ask.
NR	6030	negative impact

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
NR	0170	brings up another pt of LC/occup fee,
DS	0113	rather, have Kattum answer
NR	0123	Sorry
DS	0126	will talk to her & get back to Chair.
NR	0125	clarifies his question
AH	0147	goals / structure. AK railroad
DS	0167	?
AH	0170	Supervision
DS	0172	AK Railroad independent
AH	0186	Thank you
NR	0190	Assessment?
TL	0198	goes into railroad & where it falls under: 42 K
TB	0246	Railroad ASHS
R	0254	one time selection
DS	0267	AK Railroad, help Korea office.
NR	0285	stop report.
DS	0289	yes will begin
TB	0320	Assume work 15, 20, 30 jobs. heavy
DS	0330	yes.
AH	0340	Investments.
DS	0378	3 players.
NR	0472	Gov. W. using freeze
Lawson	0482	Downgrade of F.
NR	0518	Occup fee. Budget
DS	0567	Apprec Support
NR	0569	Do you pt
Lawson	0593	Will move back into Occ. Fee
NR	0605	Budget
Lawson	0607	

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
NR	0634	problem
DS	0636	-6 F \$15
Lawson	0658	flexible guidelines
NR	0677	AIDA, AK tracing
AH	0736	Printing license who pays for
Lawson	0755	100%
AH	0786	prep for contract?
Lawson	0765	answer proper steps
NR	0792	clerk for Lawson
AH	0821	follow up, concerns. const. law on job
Lawson	0932	under review.
AH	1009	Agrees to certain extent.
DS	1068	protest period, wait until issues decided, then can talk about.
AH	1100	OK upl.
DS	1105	Desires answer
NR	1115	Power not equalization
DS	1117	Can answer, Hung Can
GF	1131	— move up to make
GF	1139	Answers question
NR	1186	APUC
GF	—	yes
NR	1196	APUC
GF	1200	inroads
NR	1201	entirely on
DS	1238	serious difficulties. letter from (A) working w/you.
NR	1251	was good, Public ^{RP} John Cowley. got into report.

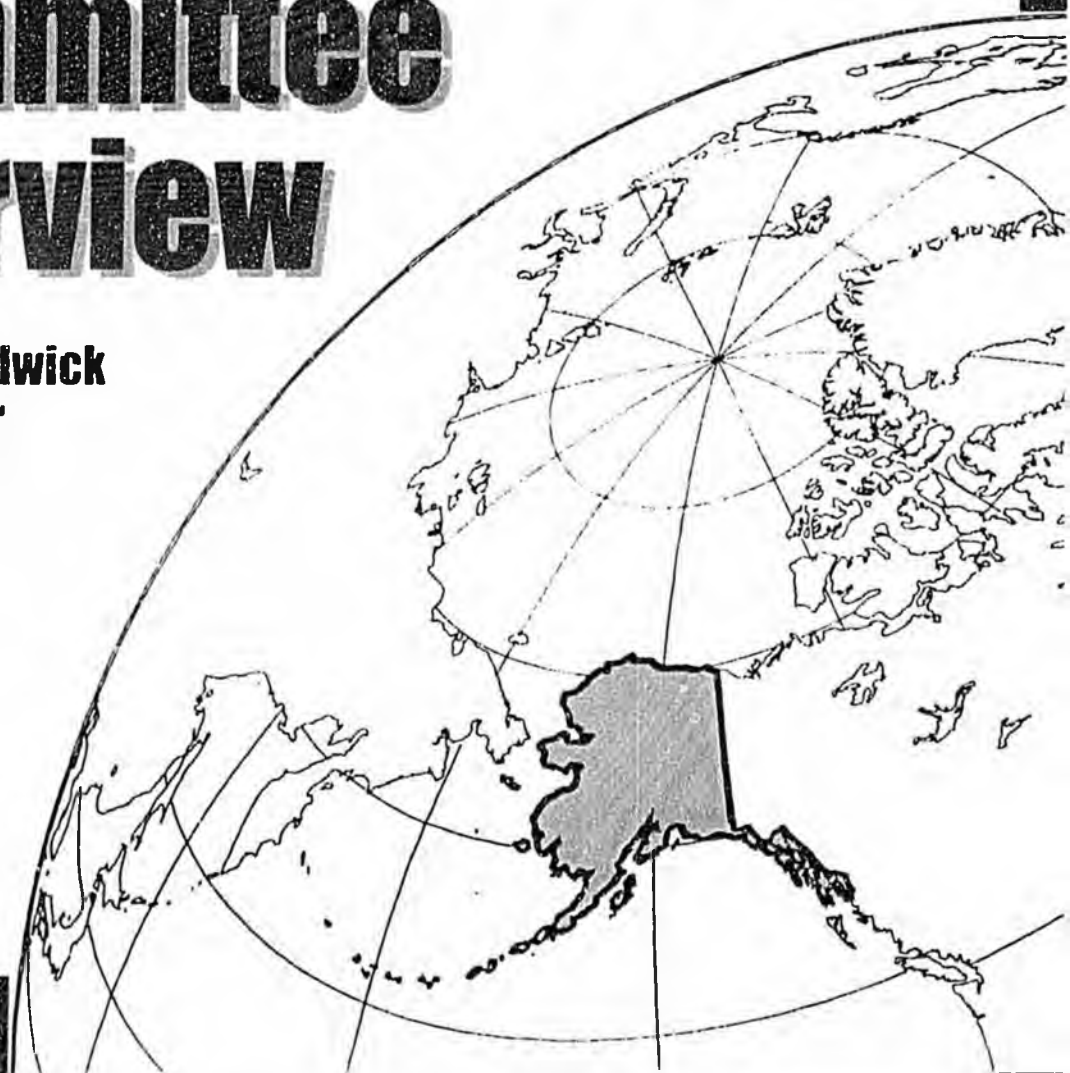
Alaska



**Commerce and
Economic Development**

House Labor and Commerce Committee Overview

**Deborah B. Sedwick
Commissioner
February 1999**



Commissioner: Deborah Sedwick

Tel: (907) 465-2500 Fax: (907) 465-5442 E-mail: debbie_sedwick@commerce.state.ak.us

Administrative Services Director: Tom Lawson

Tel: (907) 465-2506 Fax: (907) 465-2563 E-mail: tom_lawson@commerce.state.ak.us

Department Mission

To work with the private sector and our communities in creating new jobs for Alaskans, strengthening Alaska's competitiveness in the world marketplace, and maintaining a fair and consistent business regulatory environment in the state.

Department Goals and Strategies for FY2000

1. Work with the private sector and communities in creating new jobs for Alaskans.
 - Facilitate the exchange of information between Alaska exporters and potential customers through business intelligence services and trade practice assistance.
 - Partner with other state agencies, private businesses and local governments to identify and develop opportunities for regional and local economic development.
 - Work with the Governor's Jobs Cabinet in seeking solutions and strategies for improving the economic climate in rural Alaska.
 - Help restore the financial health of the Alaska salmon industry by implementing recommendations from the Governor's Salmon Forums and the Salmon Cabinet work plan.
 - Encourage new international and domestic air carriers to use Alaska as a passenger and freight delivery point.
 - Increase the use of Alaska's highways and roads by independent visitors.
 - Develop and implement targeted tourism marketing programs to expand Alaska's tourist season and increase visits to rural Alaska.
 - Assist with special team efforts in economically distressed regions of the state, including participating in the economic recovery phase of the State's response to the Western Alaska economic disaster.
2. Marketing Alaska-Sell Alaska's goods and services throughout the world.
 - Raise national and international awareness of Alaska as a tourist destination and increase the consumption of Alaska seafood products through generic and targeted marketing.
 - Continue the Governor's Business Opportunities Program under which the Governor, Commissioner and other Alaskans visit corporate boardrooms to solicit investment in Alaska.
 - Participate in special promotions and presentations, trade shows and seminars to raise the visibility of - Alaska as a good place to do business.
 - Organize and conduct business trade missions to expand product sales in current markets and develop new markets.
 - Make information on Alaska's economy, goods and services, investment opportunities, and departmental databases available on the Internet.
 - Expand public's ability to obtain department services through the Internet.
3. Maintain a fair and consistent business regulatory environment in the state.
 - Assist businesses and consumers by placing the database of licensed professionals, corporations, and insurance carriers on the Internet, including information about disciplinary actions.
 - Expedite the conversion of Alaska's telecommunications industry from a monopoly-based to a competitive, market-based industry structure, while guaranteeing universal access to service.
 - Create simple, self-explanatory securities, corporations, insurance, and occupational licensing applications and forms available on the Internet to reduce requests for staff assistance.

Key Department Issues for FY1999 – 2000

Investments

The lack of fish during the 1997 and 1998 seasons in many parts of the state, especially Bristol Bay and the Yukon/Kuskokwim region, has resulted in many Commercial Fishing Revolving Loan and Fisheries Enhancement Revolving Loan extension requests. The division will continue to provide outreach in communities offering a range of financial and technical assistance services.

Trade and Development

The division will focus on seafood and other natural resource markets in Japan, Korea and the People's Republic of China, with increased emphasis on Taiwan. The division will seek to identify and facilitate export opportunities in other markets within Asia, Europe and with Canada. Activities in Sakhalin, Russia will continue to emphasize oil and gas support services. The division will target new and emerging markets for Alaska goods and services, particularly from rural Alaska, while strengthening established domestic and overseas markets.

Tourism

The division will emphasize increased road and marine highway traffic and air access to Alaska, elimination of trade barriers, increased winter visitation and promotions, and greater access to Alaska's public lands to disperse the effects of tourism. The Alaska Tourism Marketing Council will again have a limited broadcast schedule (70% less than FY94) so that distribution of the State Vacation Planner can continue.

Alaska Seafood Marketing Institute

As worldwide farmed salmon production and marketing efforts increase, ASMI will use innovative and creative methods to generate international awareness of the intrinsic qualities, health benefits, and sustainable management of wild and natural Alaska salmon. ASMI will work with the Alaska seafood industry to form a long-term partnership of commitment to improve product quality, work towards new product forms, develop new markets (i.e., China/Hong Kong and Taiwan), and maintain strong relationships with existing markets.

Alaska Aerospace Development Corporation

The Kodiak Launch Complex will be completed for commercial launches in the Fall of 1999.

Alaska Public Utilities Commission

The APUC will work closely with designated legislative committees to study the feasibility of reducing electric costs by restructuring the market for electric utility service in Alaska. The Commission will hire and make available to the legislature a neutral outside consultant to assist the work.

Banking, Securities, and Corporations

In 1996, Congress passed the National Securities Markets Improvement Act (NSMIA). This Act results in significant changes in both the registration of securities (creating a new class of federally regulated securities) and those who market them. States are required to amend their securities laws to conform to these federal changes by October 1999, and the division will seek changes to the Alaska Securities Act required by federal law in the legislative session beginning in January 1999. These changes to State law are required to enable Alaska to continue to collect approximately \$5 million annually in notice fees.

Major Department Accomplishments for FY1998

- Conducted first launch from the Kodiak Launch Complex for the US Air Force's atmospheric interceptor technology program in November 1998.
- Began generating clean coal-fired electricity for Alaskans at the Healy Clean Coal Project while operating in the demonstration testing phase.
- Acquired the Snettisham Hydroelectric Project from the federal government, helping to ensure a stable energy source for long-term economic growth in the Juneau area. Snettisham provides 85% of Juneau's electrical energy.
- Increased number of requests for Alaska travel information by roughly 75% without increasing budget.
- Created the Bristol Bay/Kuskokwim Disaster Loan Program with federal money providing small loans to permit holders who needed help covering living expenses because of a disastrous salmon season.

- Began issuing and renewing business licenses via the internet. Applicants may obtain a business license instantly using a credit card at the Division of Occupational Licensing "Business Online" web site.
- Completed the Marketing Alaska project. Based on the project report recommendations, changes were made throughout state government to support the private sector and help strengthen the state's economy. A final status report was prepared.
- Organized and held the Second Annual Salmon Forum, to help the salmon industry develop strategies for coping with changing world markets and industry conditions.
- Worked with other agencies to organize and hold successful Procurement Conferences in Anchorage, Juneau, and Fairbanks to show the private sector how Alaska businesses can sell goods and services to the state government.
- Attracted "junior" mining companies to Alaska. The number increased from four the previous year to 13.
- Introduced potential customers to Alaskan goods and services through missions and trade shows in Alaska, Japan, Korea, and Taiwan.
- Produced first-ever national television commercial for the Alaska Marine Highway System.
- Adopted first-ever comprehensive Internet strategy for marketing tourism to Alaska.

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
HOUSE LABOR & COMMERCE COMMITTEE OVERVIEW
Feb. 10, 1999

Members: Norman Rokeberg, Chair, Andrew Halcro, vice-chair, John Harris, Lisa Murkowski, Jerry Sanders, Tom Brice, Sharon Cissna

Thank you for inviting me today. I look forward to working with you as we pass constructive legislation for improving commerce and economic development in Alaska. The primary goal of the Department of Commerce and Economic Development is to promote an active, healthy and expanding business community. This goal is accomplished through two main tasks: consumer protection through regulation of business; and economic development through advocacy programs which develop, strengthen, and diversify Alaska's economic base, increase employment opportunities, and stimulate private enterprise.

Overview of Divisions/Agencies

Since you have four new members on the committee, I'd like to take a moment to give you a little background on the department. We are extremely diverse.

The department directs Alaska's business regulatory, economic development and international trade programs, and is responsible for economic development advocacy and marketing in oil and gas, fishing, timber, minerals, tourism, international trade, and other services and industries. The department maintains international trade contractors in seven (7) nations, provides infrastructure financing, and regulates banking, securities, insurance, and professional occupations. The department is comprised of seven (7) line divisions and seven (7) independent organizations governed by boards and commissions. In addition, I sit on twelve (12) boards and councils.

Public Protection Functions

- **The Division of Insurance** is responsible for regulation of all aspects of the insurance industry in the state. The mission of the division is to protect and serve Alaska by developing, interpreting and enforcing the insurance statutes and regulations, protecting and educating the Alaskan consumer, and enhancing the insurance business environment.

- **The Division of Banking, Securities and Corporations** regulates state-chartered financial institutions; administers and enforces state security laws, including enforcement of proxy solicitation rules for Alaska native corporations and the licensing of broker/dealers and investment advisors; and administers laws relating to the formation and filing of corporations, limited partnerships, limited liability companies and partnerships, BIDCOs, and other associations.

- **The Division of Occupational Licensing** issues all business licenses and serves as the central professional licensing agency for the state. The division provides licensing, enforcement, administrative and budgetary services to 21 licensing boards and 16 occupational licensing programs without boards. At the start of Fiscal Year 1999, the division was responsible for over 37,000 professional licenses and over 73,000 business licenses.

- **The Alaska Public Utilities Commission** regulates public utilities by certifying qualified providers of public utility and pipeline services; and ensuring that they provide safe and adequate services and facilities at just and reasonable rates, terms, and conditions. The commission also determines the eligibility and the per kilowatt-hour support for electric utilities under the Power Cost Equalization program.

General Government Functions

- **The Division of Administrative Services** serves the internal administrative needs of the department through management guidance, accounting, budget development, purchasing, property control, data processing, and human resources services.

Economic Development Functions

- The role of my office is to provide leadership, set department priorities and policy, and is the Governor's direct liaison to the department. In addition to program responsibilities, I serve on the following boards and commissions:

Alaska Aerospace Development Corporation
 Alaska Coastal Policy Council
 Alaska Industrial Development and Export Authority
 Alaska Energy Authority
 Alaska Railroad Corporation
 Alaska Royalty Oil and Gas Development Advisory Board
 Alaska Student Loan Corporation
 Board of Marine Pilots
 Oil and Gas Policy Council
 Power Project Loan Committee
 Prince William Sound Oil Spill Recovery Institute Advisory Board
 State Bond Committee
 Telecommunications Information Council

My major goals are to diversify Alaska's economic base to benefit all Alaskans, market Alaska's commercial opportunities and geographic advantages to the rest of the nation and the global business community, strengthen Alaska's businesses, and protect Alaska's citizens and businesses.

- The mission of the **Division of Trade and Development (DTD)** is to encourage investment and sound economic development throughout Alaska. DTD's efforts are a key part of the State of Alaska's overall economic development strategy to increase employment and diversify our economic base.
- **The Division of Investments** promotes economic development through direct state lending within those industries that are not adequately serviced by the private sector. The division administers three (3) loan programs that are actively lending: Commercial Fishing, Fisheries Enhancement, and Small Business Economic Development; and services outstanding loans in eight (8) other loan programs for the department: Veterans, Small Business, Historical District, Child Care Facility, Residential Energy Conservation, Alternative Energy, Mining, and Water Resources.

- **The Division of Tourism** supports the growth of Alaska's private tourism industry by fostering a climate for doing business that is positive; developing new markets for potential visitors; conducting research; creating opportunities for Alaska businesses to make business contacts that would otherwise have been impossible to make; and providing information to potential visitors that will assist them in their trip planning.
- **The Alaska Tourism Marketing Council (ATMC)** is a public/private partnership whose mission is to stimulate economic growth, diversification, and employment by promoting Alaska as a visitor destination in domestic consumer markets. To achieve this mission, the ATMC conducts a targeted national marketing program aimed at U.S. and Canadian markets determined to have the greatest potential for producing new and repeat visitors.
- **The Alaska Industrial Development and Export Authority (AIDEA)** is a public corporation which provides capital to finance economic growth in Alaska. Through a variety of programs, generally described as the "Credit" and "Development" programs, AIDEA provides business financing assistance to industrial, manufacturing, and other business enterprises.
- **The Alaska Seafood Marketing Institute (ASMI)** generically promotes all species of Alaska seafood worldwide and works to improve seafood quality to enhance profitability and growth for the Alaska seafood industry.
- **The Alaska Aerospace Development Corporation (AADC)** is a public corporation created by the Alaska State Legislature to develop aerospace related economic and technical opportunities. AADC is working with private corporations, government agencies, and universities to develop a comprehensive low earth orbit launch complex and full service satellite ground station facilities. The Kodiak Launch Complex will be located on Kodiak Island and ground station activities will be concentrated in Fairbanks. The facility conducted its first launch in November 1998.
- **The Alaska Science and Technology Foundation (ASTF)** is a public corporation of the State of Alaska formed to promote the development and application of science and technology for the direct benefit of Alaskans.
- **The Alaska Railroad Corporation (AS 42.40)** operates and manages the Alaska Railroad, which the federal government sold to the state in 1985. It is a public corporation with a legal existence independent of and separate from the state.

Budget

The department's total FY 2000 operating budget request, representing all funding sources, is approximately \$57.4 million. The department's unrestricted general fund budget request is \$7.8 million, less than 1/2 of 1% of the total State unrestricted general fund budget. These general funds are almost entirely within the Divisions of Trade and Development, Tourism, and Alaska Tourism Marketing Council budgets.

Issues and Legislation

Sunsets:

Direct-Entry Midwives,
Board of Marine Pilots,
Board of Pharmacy,
Alaska Public Utilities Commission

We want to thank you for already hearing and passing out the Midwives and Marine Pilots bills. It is nice to move these important but rather routine housekeeping matters out of the way before everyone gets very busy with the budget. We will work closely with you on any issues that come up pertaining to the Public Utilities Commission or the Board of Pharmacy bill.

We also want to thank you for introducing the Securities Act and scheduling it next week for a hearing. That bill is a result of the National Securities Markets Improvement Act (NSMIA) passed in October 1996. Two major impacts from NSMIA on Alaska are preemption from registration of a new class of securities, Federal Covered Securities, and changes to registration requirements of Investment Advisers and their agents.

Federal Covered Securities, for the most part mutual funds, are no longer required to register in Alaska. However, in an attempt to have a revenue neutral impact on the states and to preserve local investor protection, **Congress allowed the states to require notice filings and fees.** NSMIA provides a three-year window for the states to amend their statutes to provide for Notice filings and Notice fees or lose the authority to require them. **Without this legislation by October 1999, Alaska would lose between \$4-5 million in annual revenue** funds for the purpose of investor protection. Over 40 states already have passed similar legislation.

We are also working on an Alaska trust bill and a corporate names filings bill. These have not been introduced yet but are likely to come to your committee. The trust bill addresses the problems of the current Trust Company Act that dates back to 1949 and has undergone virtually no changes since. In its current context, it has become increasingly evident over the past few years that it is not a functional act.

In the past 11 years the division has chartered only two trust companies, both of which were organized within the past two years. During the process it became apparent that the Act was lacking in many respects. In most instances the division had to improvise by using the processes of the Alaska Banking Code (AS 06.05) for guidance in the formation and organization of the entity. This proposed legislation would be a tool to enhance the process of formation, operation, supervision and regulation of the trust industry in Alaska.

The proposed names filing bill is drafted to change the current name availability standards under which business entities are allowed to file names with the State of Alaska, from three conflicting guidelines to one. As a result of the difference in the current guidelines, many conflicts arise each year between different business entities within Alaska. Some of these private name conflicts ultimately result in a conflict with the State of Alaska if an entity believes a name was filed inappropriately. We would like to be out of the business of name disputes.

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

OVERALL STATUS:..... **YELLOW**¹

- Department is making satisfactory progress and is ahead of the estimated failure dates for the automation systems supporting its MCBF's. No problems expected.
- Department-wide Y2K contingency plan in place.

STATUS OF MISSION-CRITICAL BUSINESS FUNCTION (MCBF):

1. **Investment Loans Servicing** **YELLOW**

- Mortgage Loans Extended system and Loans Online Information System both 100% completed for Assessment and Planning Stage, and 80% completed with Remediation Stage. Critical suppliers are identified (KeyBank LockBox Services and electrical utilities), and contingency plans for them are in place.

2. **Alaska Railroad** **YELLOW**

- Assessment and planning for main automation systems are 100% completed. Remediation is functionally 100% completed, with systems having been upgraded or replaced. Testing is 100% completed in four major systems and 90% completed for the fifth. Compliance work on embedded systems (signal systems, events recorders, phone/fax/radio controllers) is 100% completed.

3. **Bradley Lake Hydro** **YELLOW**

- Assessment and planning for all systems are 100% completed.
- Remediation is functionally 100% completed. Strategy (per normal operations) calls for replacement or manual override of relays, control

¹ **RED:** Given current status and constraints, it is unlikely this MCBF will be Year 2000 compliant prior to its estimated failure date.

YELLOW: Given current status and constraints, this MCBF should be Year 2000 compliant one month prior to its estimated failure date.

GREEN: This MCBF is Year 2000 compliant, and an approved contingency plan is in place.

systems and other parts if problems occur. Adequate procedures, on-site personnel, and inventory of replacement parts and equipment are all in place.

- Y2K-compliant verifications already received from most suppliers.
- Pilot-site testing of SCADA and maintenance management systems is scheduled for January 1999, with completion by 6/30/99 and results applied to other hydro sites and Alaska Intertie as needed.

4. Four-Dam Pool Hydro YELLOW

- (Same as above.)

5. Larsen Bay Hydro YELLOW

- (Same as above.)

6. Alaska Intertie YELLOW

- (Same as above.)

7. AIDEA Loan Servicing YELLOW

- Assessment and Planning for main automation systems (MLS system and Dynamics interface) are 100% completed, with remediation also 100% completed. Testing and implementation are both 80% completed.
- Remediation of desktop computers, LAN systems, and WAN links are 50% remediated, with testing and implementation also 50% completed.

8. Desktop/LANs/WAN YELLOW

- Assessment and planning for departmental systems supporting mission-critical business functions are 100% completed, with remediation 30% completed.

Y2K FUNDING REQUIREMENT: \$75,000

- \$ 75,000 - Alaska Public Utilities Commission Y2K Assessment

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Deborah Sedwick

Commissioner Debby Sedwick holding one of the first gold bars poured at the Fort Knox Mine near Fairbanks, December 20, 1996. This mine produces about 1,000 ounces of gold per day and employs about 250 local workers.

Commissioner Sedwick was born in Alaska in 1947. Her Grandparents arrived in Fairbanks and Kennecott in 1917 and 1919, respectively. Her father was born in Fairbanks, and her mother arrived back in Alaska five weeks after her birth in New York City. Why her Mother was born in New York City and not in Cordova, Alaska, is a fascinating story!

After graduation from high school, Commissioner Sedwick received her Bachelor of Science Degree from Boston University. She returned to Alaska to teach elementary school, and completed a Master's Degree at the University of Alaska, Anchorage.

In 1980, Commissioner Sedwick started a successful career in the real estate business. She quickly became a top producer in the marketplace and along the way represented major builders and worked closely with the top employers in Alaska. In 1993, she was named Vice President of Jack White Real Estate Company. In that capacity, Commissioner Sedwick managed two real estate offices and played a key role in every facet of the company, including budget, marketing, recruitment, strategic planning, and

business development.

In 1995, Governor Knowles asked Ms. Sedwick to join his administration and undertake a reorganization of key divisions in the Department of Commerce and Economic Development. Governor Knowles' vision was to create a marketing and advocacy arm within state government, out of the former divisions of Tourism, International Trade and Economic Development. As Assistant Commissioner, and with the support of the private sector, the reorganization was completed. She also reorganized the State's overseas offices to be more cost efficient and co-located with the private sector, wherever possible. Another major focus during her tenure as Assistant Commissioner was to oversee the Governor's Marketing Alaska Initiative, a public/private multi-year partnership, to create quality jobs for Alaskans and let the world know that "Alaska is open and ready for business."

Commissioner Sedwick's current responsibilities include directing Alaska's business, regulatory, economic development, and international trade programs. She also oversees economic development advocacy and marketing in oil and gas, seafood, forest products, technical services, mining and minerals, tourism, cultural resources, and other services and industries. The department has an international trade presence in eight nations, provides infrastructure financing and regulates banking, securities, insurance and professional occupations. The department is comprised of eight line divisions and seven independent organizations governed by boards and commissions. In addition, the Commissioner sits on twelve boards and councils.

A community activist, Commissioner Sedwick has served on various boards and commissions and believes that we all have a responsibility to our communities. *"Our quality of life in Alaska is so exquisite, I feel it important to give back to my community, a payback, for the wonderful place I call home."* Her service has included: Anchorage Equal Rights Commission, Vice Chair, Anchorage Parking Authority, Mayor's Task Force on Alcohol, Anchorage Beautification Task Force under two administrations, Citizen's Advisory Board of Enstar Natural Gas Company, and Chair of the Board of the Alaska Center for the Performing Arts.

Commissioner Sedwick is married to U.S. District Court Judge John W. Sedwick and they have two grown children.

You may email the Commissioner at: Debby_Sedwick@commerce.state.ak.us

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Revised 11/02/98



PERSPECTIVES ON ALASKA'S PUBLICLY FUNDED
INTERNATIONAL TRADE PROGRAMS

HOUSE SPECIAL COMMITTEE ON
INTERNATIONAL TRADE AND TOURISM

CHAIRMAN: REPRESENTATIVE JOHN J. COWDERY
20TH ALASKA STATE LEGISLATURE

HOUSE SPECIAL COMMITTEE ON INTERNATIONAL TRADE AND TOURISM
— 20TH ALASKA LEGISLATURE —

REPRESENTATIVE JOHN J. COWDERY, CHAIR, ANCHORAGE

REPRESENTATIVE GAIL PHILLIPS, HOMER

REPRESENTATIVE JOE RYAN, ANCHORAGE

REPRESENTATIVE PETE KOTT, EAGLE RIVER

REPRESENTATIVE ELDON MULDER, ANCHORAGE

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REPRESENTATIVE GENE KUBINA, VALDEZ



EDITED BY: MARCO PIGNALBERI
COMPILED BY: PETER TORKELSON
RESEARCH: CASEY SULLIVAN
PROOFER READER: ANNETTE DEAL



REPRESENTATIVE JOHN J. COWDERY

Dear Fellow Alaskan:

This report is about change. In 1983, I sponsored legislation to establish foreign trade offices in Seoul, Korea and Taipei, Taiwan. We were full of anticipation about burgeoning economies in the Pacific Rim nations. We wanted Alaska to reap some benefits in international commerce. To be sure, global trade increased; so did competition. The economies of Pacific Rim nations expanded as we thought they would. Recently, they crashed like we didn't think they would. I look at the results we get from the offices I sponsored a long time ago and I see that they didn't fulfill the hopes we had for them.



The economies of all nations change. It suggests to me that Alaska's approach to international trade should be adaptable to changing conditions in the world markets. We should follow the advice of the great and mysterious American patriot who said, "follow the money."* It is less than optimal to promote trade and tourism in countries that are undergoing a financial crisis. Yet, we can't afford to do everything, everywhere. So choices must be made.

We won't always make the best choices. We'll err sometimes and succeed at others. What we absolutely can not do is to shrink from self evaluation. We need to give ourselves honest feedback about the cost effectiveness of state funded activities that take place under the umbrella of international trade.

This report is offered in the spirit of self evaluation. To the extent it highlights problems, it does so without levying blame. Many governors, many legislators and many bureaucrats have tried sincerely to do the job of increasing Alaska's international business activity. Our programs are not working as well as they should. We must try something different. If there is blame to be levied, it will be for the lack of courage to set out in new directions when we see that change is needed. This report is about change. It's never easy.

Respectfully submitted,

A handwritten signature in cursive script that reads "John J. Cowdery".

Representative John J. Cowdery, Chairman

* Deep Throat

EXECUTIVE SUMMARY

This report reviews existing International Trade programs offered by the State of Alaska, the United States Department of Commerce and private sector programs. Research initiated by the 19th legislature is reviewed and the conclusions applied to current programs. Analysis unveiled several primary areas of concern.

- First, Alaska's international businesses assistance services are fraught with duplication. Multiple agencies publish information, offer market research, and conduct business assistance programs that are an exercise in redundancy. In no sector is there a State sponsored service or program that is not available in a more effective format from the private sector or the Federal government. As conditions stand now, Alaska's General Fund expenditures for International business promotion are grossly ineffectual.
- Second, there exists within Alaska's international business assistance programs an absence of meaningful performance measures. There are none. Monies are allocated and activities are initiated with little or no relation to actual private sector demand. On occasions where private enterprise is actually contacted or involved, there is no evident effort to objectively assess agency effectiveness. State programs and private sector needs are like bubbles in a breeze. They randomly collide and occasionally move in the same direction as the atmosphere shifts around them.

State programs and private sector needs are like bubbles in a breeze. They randomly collide and occasionally move in the same direction as the atmosphere shifts around them.

- Third, this report considers the fundamental question: what is an appropriate role for the State of Alaska in relation to international business assistance? Options for streamlining and privatization are set forth and their respective merits discussed.
- Finally, research and analysis leads to the conclusion that State sponsored international business assistance services be substantially reduced while the Seoul and Tokyo offices be reorganized and funded to match the Taiwan model. Services currently offered would be better performed by contracting with the World Trade Center of Alaska who may offer international assistance to qualifying Alaska companies on an as-needed basis. Contractual service with the World Trade Center could fulfill the "one stop" export model desired by the private sector. They offer unrivaled international contact potential, overseas market analysis and a credible demand-based structure of support that has proven responsive to the changing business environment. In an effort to move the discussion forward, the Department of Commerce's response to similar previous proposals is summarized and discussed

**INTERNATIONAL TRADE AND TOURISM COMMITTEE REPORT
20TH ALASKA LEGISLATURE, 1997-1998**

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BUILDING ON THE PAST

Thanks to Previous Legislature's Initiatives on Alaskan Foreign Trade

In an effort to determine the State's proper role in the emerging International business frontier, the previous legislature had the foresight to spearhead two unprecedented research projects. Their goal was to identify the most effective means of assisting Alaskan businesses in their international trade endeavors. Specifically, they studied the nature and trends of Alaska's exporters: what motivated them to enter the global marketplace, where they go to find information on foreign markets and how they establish business contacts. This report builds on the work of previous legislators and researchers. A special acknowledgment is due to this committee's previous chairperson, Representative Beverly Masek of Willow.



Representative Bev Masek
Immediate Past Chair

Private Sector International Business Needs Assessment

First, in July 1995, the 19th Legislature commissioned the World Trade Center of Alaska to conduct a "Private Sector International Business Needs Assessment" ¹.

This is the most comprehensive review of Alaska's international business community ever undertaken. It queried 2,000 Alaskan businesses about their overseas trade experiences, frustrations and aspirations. Potential exporters described the services they would most likely use. Businesses were asked about their motivation for and their perceived obstacles to international trade. Finally, they were asked to detail what services an ideal state business assistance program would offer.

Of the two thousand businesses contacted, 271 (13.5%) responded. Key findings of the survey included:

- *The State's current trend of providing broad, generic support and promotion for Alaska products benefits large natural resource firms in Pacific Rim markets while disenfranchising smaller firms who need a more global, customized approach to trade assistance.*
- *The array of agencies offering business support services leads to confusion among potential users. A one-stop contact point would add credibility and effectiveness to the state's position.*
- *While there is some measure of need for government services, many internationally active companies hire private expertise to deal with overseas challenges.*
- *One of the greatest challenges for exporters is the lack of export finance information or assistance in assessing what funding opportunities may exist for a specific business.*

Agency Evaluation Recommendations

Once the results of the *Private Sector International Business Needs Assessment* were compiled, the 19th Legislature contracted with International Trade Consultant, Timothy Lane. Mr. Lane composed a

review titled "Agency Evaluation Recommendations" in which he outlined structural weaknesses and service gaps in the State's existing business assistance framework. Mr. Lane's observations bring the following points to bear:

- Coordination between international assistance services within the state is "virtually nonexistent."
- Little distinction is made between efforts intended to promote foreign investment and those designed to assist Alaskan businesses interested in overseas trade. Consequently, establishing performance benchmarks is "nearly impossible."
- The state's current export assistance scheme favors large companies at the expense of small business. In essence, Alaska is helping those who do not need it while overlooking those who do.
- Alaskan companies would profit from the services of an export finance specialist.

Mr. Lane summarized his evaluation of Alaska's international trade assistance network:

*"Alaska's international service network is a hotbed of service duplication, obsolete market assumptions, intense inter-organizational competition, and governmental waste. Clearly, Alaska can do better."*²

Legislative Response, 1996

In response, the Senate/House Interim Task Force on International Trade adopted a resolution³ addressing the points brought forward by the legislature's research. In review, the resolution encourages:

- the consolidation of State export services,³
- the co-location of State services with those offered by the Federal government and the private sector,³
- the formation of an export finance assistance program, and³
- the gradual reduction of funding to fixed overseas offices in favor of a more global trade assistance program.³

*"Alaska's international service network is a hotbed of service duplication, obsolete market assumptions, intense inter-organizational competition, and governmental waste. Clearly, our state can do better."*²

TOURISM FINDINGS OF THE PREVIOUS COMMITTEE

Tourism is a major component of Alaska's economy and offers a perpetual source of economic stimulus. The previous Committee leadership diligently

sought to discover and respond to the needs of Alaska's tour operators, and particularly those midsize and smaller concerns that can not mount a significant marketing campaign of their own. They found that the Alaska Tourism and Marketing Council and its primary contractor, the Alaska Visitors Association, were structurally inclined to benefit large tour companies and were generally less able to meet the needs of small or site specific operators.

*"The ideas and energies of major companies doing business in Alaska are self serving and have left a huge gap in the dispersion of tourism dollars in our state. Smaller businesses and individuals are left to survive on the trickle down economics of large scale promotion and funding."*⁴

The underlying concern of the committee was that in contrast to most smaller companies, many of the large firms are not Alaskan owned.⁵ In some measure, small, localized tourism busi-



nesses feel the efforts of ATMC and AVA are not supportive of Alaska's principle economic interest: Alaska's businesses.

*"...the type of advertising being funded by the Legislature must be state-of-the-art and must reflect more site specific markets. Generic advertising has been designed to blend nicely with the advertising of major tour companies, but does little or nothing to fill the huge gap in the smaller communities and markets throughout the state."*⁶

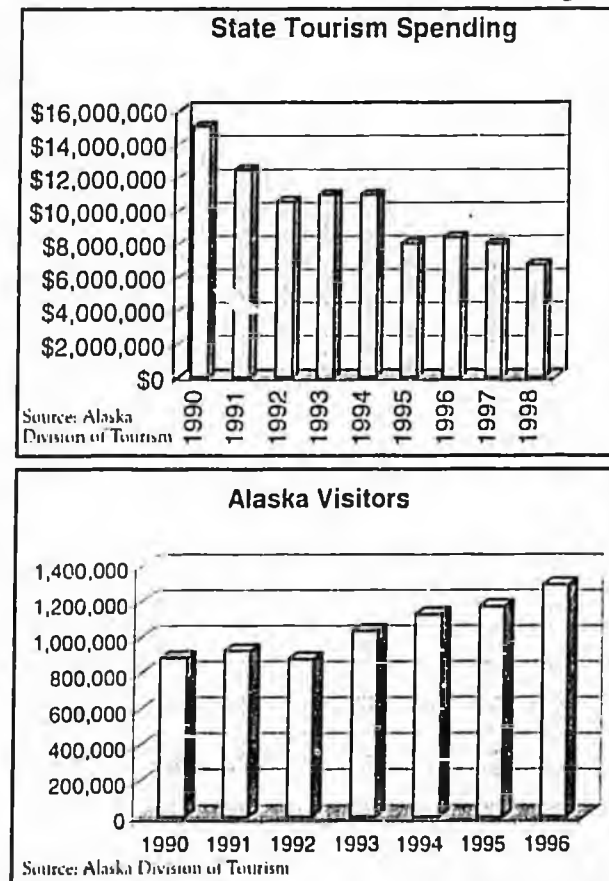
Part of the problem is that not everyone understands the goal of the state/ATMC advertising effort. According to Mary Pignalberi, former Director of the Division of Tourism and current Manager of the Alaska Film Office,

"The advertising program's primary thrust is to attract tourists to the state. That's the priority. We sell generic Alaska instead of specific business venues. If people don't understand that, then their expectations get inflated. We should probably educate our own industry about the limits of the advertising program. We can do more to promote small Alaskan businesses to tourists but it will cost more. Our top priority simply has to be to attract them here."

20TH LEGISLATURE'S CHALLENGE

Against this backdrop, the 20th Legislature's International Trade and Tourism Committee initiated an effort to assess the effectiveness of

Figure 1



Alaska's international trade and tourism programs.

Then and Now

In the past, it was possible to show a direct correlation between the state dollars we spent promoting tourism and the number of tourists who travel here. The more money spent, the more tourists came here. It was easy for the legislature to see the effect of their budgetary commitment. However, as our tourism industry grows and diversifies, the correlation is less clear.

Despite our dwindling tourism promotion bud-

gets, our tourist numbers have grown steadily. AVA and ATMC are quick to point out that the industry has greatly expanded its carrying capacity to Alaska. There are more cruise ships with more staterooms and more airline flights with more seats than ever before. Sophisticated internet marketing and reservation capability allow the carriers to increase sales with last minute, deep discount fares. The industry spends a staggering amount of money promoting their Alaskan packages. They criticize the state for being an inconstant partner in this regard (see Figure 1). Their expenditures, additional capacity and technology are responsible for our increase in tourists.

But, the volume of tourists is not the whole story. Not all tourists are created equal. Some spend more than others. Many small shop owners say the number of non-spending tourists is increasing. They spend all their money on their package tour and have negligible extra money to patronize local vendors. This situation begs the

question of whether the state's spending cut-backs disproportionately affect our small, independent vendors. Additional questions exist about redundancy, administrative cost and role confusion between the three voices of the tourism industry, i.e. Alaska Division of Tourism, Alaska Tourism Marketing Council and the Alaska Visitors Association.

Tourism Industry Rises to the Challenge

"The time has come for change. The visitor industry cannot afford to watch as the state's tourism contributions continue to erode the effectiveness of our marketing. This, combined with the increasing competitiveness of other destination, dictates the need for a proactive approach."

In response to legislative initiatives to decrease state spending, the tourism industry responded in a remarkably positive and constructive manner. AVA and ATMC put forward The Millennium Plan which restructures the long-standing private-public partnership between the industry and the State of Alaska. The Plan consolidates AVA, ATMC and elements of the Division of Tourism. It proposes a phase-down of state spending to a sustainable, annual level while increasing the industry's financial contribution for tourism promotion.

Senate Bill 350 was designed to implement the millennium plan. The measure would require that the state's contractor contribute 30% of the marketing campaign costs through June 30, 2001. On July 1, 2001, the contractor would be required to contribute 60% of the marketing costs. The Plan is undergoing evaluation and will be presented in final form to the next legislature.

*The Committee's materials will be turned over to House Records office at the end of the 20th Legislature.

INTERNATIONAL TRADE

In 1997, the House Special Committee on International Trade and Tourism held two oversight hearings on publicly funded programs that promote international trade. Testimony was taken from trade assistance experts, consultants and administrators from both the public and private sector. Virtually every state-produced publication that relates to international trade was gathered and reviewed*. This report is the result, in large part, of information presented to the Committee.

"We've got a lot of work to do"

- Representative John J. Cowdery

Internet Guide to Trade Services Offered by the State

- Alaska Division of Trade and Development
<http://www.commerce.state.ak.us/trade/>
- Alaska International Airport System
<http://www.dot.state.ak.us/external/aias/aia/aiawlcm.htm>
- Alaska Industrial Development Export Authority, <http://www.alaska.net/~aidea/>
- Alaska Seafood marketing Institute
<http://www.state.ak.us/local/akpages/COMMERCE/asmihp.htm>
- Alaska Center for International Business

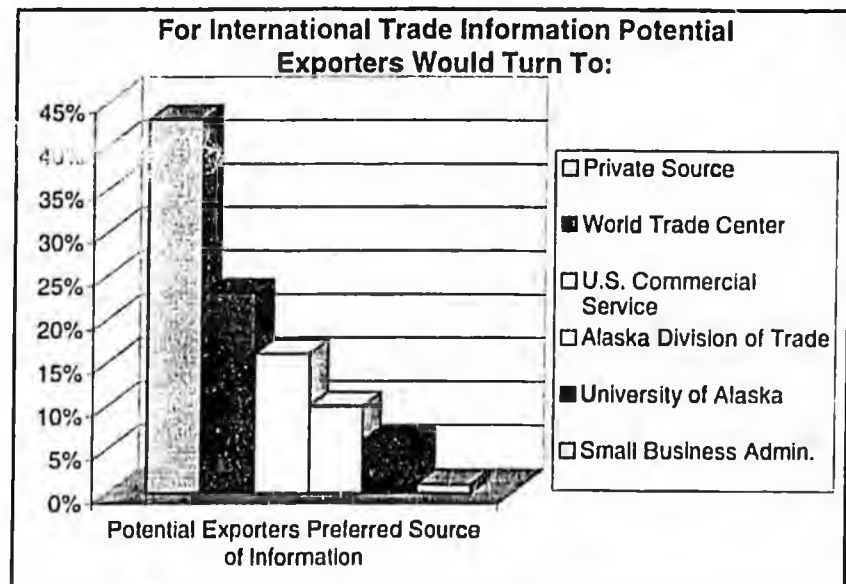


Figure 2

<http://genghis.scob.alaska.edu/CENTERS/acib.html>

- University of Alaska: American Russian Center
<http://www.arc.uaa.alaska.edu/arc/>
- World Trade Center, Alaska
<http://www.wtca.org/wtc/anchorage.html>
- Anchorage Economic Development Corporation, <http://www.aedcweb.com/>

Alaska Division of Trade

Alaska Division of Trade and Development (DTD), "serves as a commercial liaison for the state and for private sector businesses which trade in international markets."⁸ (see appendix E). The Division seeks to promote Alaska businesses and their products. They conduct research and analyze Alaskan business and international trade trends. Specialists assist the mining, logging and fishing industries in marketing their products and attracting outside investors. The Division offers overseas trade mission assistance, product marketing support and international market information.⁹

The Division delivers research through the distribution of printed materials and internet pages with downloadable publications. Business assistance services are rendered through locations in Juneau, Anchorage, Tokyo, Seoul and Taipei.

Publication Production

The Division of Trade and Development produces a number of publications including newsletters, market reports and brochures. These are available at the Division offices in Fairbanks, Juneau and Anchorage and are distributed to all State libraries.

The Division is currently working to make their



publications available through their web page. Currently there were nineteen (19) Division sponsored documents available on-line. As the internet becomes more accessible, costly print projects may be avoided in favor of the less expensive web-based publication.

Many of the Division's publications are produced with little regard to actual public need. For instance, the Division went to considerable time and expense to develop and print 2,500 copies of the 92 page guidebook "Establishing a

Business in Alaska." At a cost of \$3.68 each, the document "is expected to bring in revenue equal to the cost of printing and distributing."¹⁰ The Division sells the booklet for \$11.50 by mail and offers it for \$8.00 over the counter.

As of January 1998, one hundred and sixty seven had been sold. Assuming that this number does not include those distributed to State offices, the "expected revenue" amounts to \$1,385 dollars offsetting the \$9,200 production cost. (153 over the counter, 14 by mail) From a results-based perspective this amounts to a cost of \$55.08 per copy delivered.¹⁰

Overseas Offices

Through their contract offices in Seoul, Tokyo and Taipei, the Division offers overseas representation and on-the-ground contacts with potential Pacific Rim customers and investors. These offices are also responsible for promoting Alaskan tourism and seafood in their respective nations.

Expenditures in foreign offices have been reduced over the last several years. Additionally, the offices of Tourism and Trade in Korea and Japan have been co-located to increase efficiency. Including tourism promotion services, the overall cost of maintaining our foreign offices exceeded \$1.2 million dollars in FY 98.

A summary of foreign office activity from the Department of Commerce indicates that the Korea and Japan offices assisted in over 65 "trade missions" between Alaska and their respective nations.

However, DTD defines 'trade mission' very loosely as any group that is assisted by a trade office.¹¹

Additionally the offices produced numerous market reports, press releases and publications. Activities of our Taiwanese contractor are more limited, with only 5 trade missions conducted and a few publications produced. The Taiwan office apparently uses a more traditional definition of 'trade mission.'

Mr. Lane reviewed the operations of Alaska's foreign offices and observed,

"While export assistance is among DTD's strongest preoccupations, it is clearly the organization's weakest activity point."¹²

Additionally, Mr. Lane found that the Division's Pacific Rim focus is "obsolete" and a "potential barrier" to Alaskan businesses seeking to operate in an ever-evolving global marketplace. He asserts that in a time of global competition and global opportunities,

"... private sector international marketing plans consistently transcended the state's timing of protocol efforts."¹²



One half of the International Trade budget is allocated to three Pacific Rim cities. Yet the *Private Sector International Business Needs Assessment* showed that Alaskan businesses are competing in a global marketplace.¹ The Division's unbalanced financial commitments present an effectual obstacle to those Alaskan entrepreneurs looking to tap the markets of Southeast Asia, Europe, China or South America, to name a few.

Foreign Office Contracts

The Division of Trade deems the foreign office contracts to be exempt from state procurement statutes. Consequently, these contracts are not subject to competitive procurement. Although professional people in Korea and Taiwan have written to DTD requesting information about the timetable and procedure to be considered for future contracts, they report that they received no reply from the Department. The procurement exemption and DTD's practices for manning the foreign offices should be reviewed by the legislature in the near future.

A separate procurement issue in the foreign offices that needs to be reviewed is the practice of sole sourcing publication contracts to former state employees.

China Policy: Few would dispute that mainland China represents tremendous potential for Alaska's petroleum, fish and timber resources. Yet, it is an open question whether Alaska's relationship with Taiwan will be an obstacle if we pursue greater economic ties with China. The time has come to engage in a thorough discussion of the risks and benefits of a one or two China policy.

Alaska International Expenditures FY 98 Trade Offices

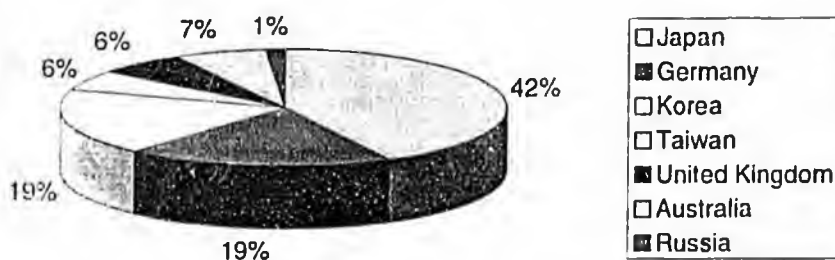
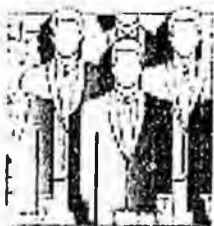


Figure 3

Furthermore, it would be prudent for the Administration to quantify China's market potential and set forth a policy and program to assist Alaska's private sector.

Personnel Problems

The personnel structure of the Division of Trade and Development is seriously flawed and will continue to give rise to many of the problems now plaguing the Division.



Specifically, many of DTD's Trade Specialists are political appointees who perform identical work as classified employees. Mr. Lane notes,

*"DTD is vulnerable to structural disintegration every time a new governor is elected."*¹³

During the past 18 months, turnover among Trade Specialists reached 100%. The Division lost significant talent in foreign language capability, in-country experience and educational credentials

As staff come and go, their individual experience and insights are lost. Lessons unique to Alaska's business environment are lost at the whim of new political leadership. This, in conjunction with exceptionally high Department-wide turnover, routinely forfeits institutional maturity, stability and consistency.

Until Division employees are granted a long-term commission and a more precisely focused role, the situation is unlikely to improve.

Virtually all of the Division's foreign business assistance programs stand as an ineffectual duplication of more efficient private sector and Federal services available to Alaskans at no cost to State government. The Division offers overseas contact points. So does the U.S. Commercial Service and World Trade Center.

The Division also publishes export statistics—information that is simply re-compiled from U.S. Customs reports available to any interested entity. In spite of this reality, the Division pursues its numerous programs with stubborn insistence that they remain invaluable to Alaska's business community. In view of the ambiguous demand¹⁴ for the Division's services, it appears that the Division is conducting activity in search of meaning—at significant expense to the State.



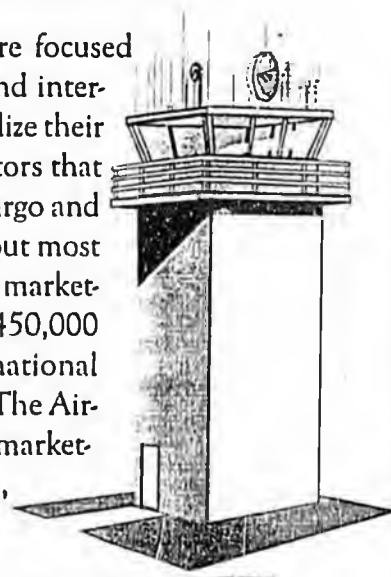
Anchorage and Fairbanks International Airports

are linked through a common, dedicated fund and an Assistant Commissioner that oversees the International Airport System (AIAS). All revenues for operation of these two airports come from airport operations. No general funds are in their budget. They are internally funded and self-supporting.

The Anchorage airport operates at a profit. The Fairbanks airport operates at a loss which is offset by the International Airport Revenue Fund.

Anchorage International Airport - For FY 97, the income for Anchorage International Airport is an estimated \$50.1 million dollars.

Their marketing goals are focused on attracting domestic and international air carriers to utilize their facilities. Private contractors that specialize in marketing cargo and passenger services carry out most of their program. Their marketing budget is a modest \$450,000 sourced from the International Airport Revenue Fund. The Airport engages in targeted marketing of carrier groups,



Does the competition between Anchorage and Fairbanks confuse or drive away potential operators? Are the efforts of Fairbanks and Anchorage redundant?

freight consolidators and freight forwarding operations in countries geographically located to take advantage of Anchorage's northern routes, namely the Pacific Rim. Additionally, ALAS contracts with the Anchorage Economic Development Corporation in a partnering effort to take advantage of AEDC's overseas contacts.

Fairbanks International Airport contracts with the Fairbanks Industrial Development Corporation to market the airport internationally. The contract is structured as not-to-exceed \$100,000 annually. In fiscal year 1997, the FIDC billed the Fairbanks International Airport \$88,378. In

contrast to Anchorage efforts, the Fairbanks airport, through FIDC, has been able to attract Allied Signal and Boeing to use Fairbanks Airport as their base for cold weather testing of jet technology.

The Fairbanks Industrial Development Corporation targets potential carriers and freight operators, promoting Fairbanks' geographic location and fueling advantages. It would appear that Anchorage and Fairbanks Airports engage in uncoordinated, separate and perhaps competing marketing programs. Are potential customers receiving a mixed message about the benefits of Anchorage versus Fairbanks or Fairbanks versus Anchorage? Does the competition between Anchorage and Fairbanks confuse or drive away potential operators? Are the efforts of Fairbanks and Anchorage redundant? Or, does the operation of two separately run, separately funded, pro-Alaska organizations increase the exposure of Alaska's air transport strengths internationally to the benefit of both organizations and the state as a whole? As both entities operate on carrier fees, these questions step beyond the scope of this review but certainly warrant more specific investigation.

Alaska Industrial Development & Export Authority

The Alaska Industrial Development and Export Authority's mission is,



"To promote, develop, and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment." ¹⁵

A brief review of AIDEA's annual report and project fact sheets reveals that the vast majority

During our Committee's oversight hearings it came to light that AIDEA's Export Assistance Program was never utilized during the entire ten years the statute was on the books. (AS 44.88.080)

of the Authority's resources and energy is directed at the development of large capital improvement projects. Hydroelectric plants, mining roads, fish processing plants and public docking facilities provide the necessary infrastructure for domestic business success. The following list of recent AIDEA projects details

the Authority's predisposition to larger enterprises.:

- Healy Clean Coal Project (\$69.6 million)
- DeLong Mountain Road (Red Dog Mine) (\$103 million)
- Alaska Seafood Center (up to \$50 million)
- Alyeska Alloys, L.L.C. (up to \$50 million)
- Snettisham Hydroelectric Project (up to \$100 million)
- Skagway Ore Terminal (\$25 million)
- Federal Express Aircraft Maintenance Facility (\$28 million)
- False Island Marine Center and Public Dock (\$5.9 million)
- Unalaska Ballyhoo Dock Expansion (\$7 million)

During our Committee's oversight hearings it came to light that AIDEA's Export Assistance



Program was never utilized during the entire ten years the statute was on the books. (AS 44.88.080)

AIDEA contracted with a consultant to perform a study on alternatives for Export Assistance. The consultant made three key findings:

1. To the extent that Alaskan businesses need export finance assistance, their need is in combination with conventional loan assistance.
2. There was no identifiable demand for Export Financing Assistance that wasn't already being met, and
3. AIDEA could provide no additional service that wasn't being provided already through the federal Export-Import Bank and local banks.

It is less than clear why both the Division of Trade and Development and ASMI have independent marketing programs for Alaska's fisheries.

AIDEA developed House Bill 386 which passed the House on March 20 and was signed into law on June 18, 1998.

HB 386 converted the Export Assistance Program into an integral component of AIDEA's Business Assistance Program.

Specifically, the new program allows borrowers to utilize the loan guarantees and forego political risk insurance in certain cases.

One legislative analyst summarized the AIDEA study and HB 386 as, "a new rationale to keep the status quo."

While HB 386 represents no new initiative to provide export assistance, it facilitates AIDEA's strategy of coupling local export services with federal programs such as the World Bank. This "piggy back" approach to other programs may be a model for the Division of Trade to emulate.

Alaska Seafood Marketing Institute

The Alaska Seafood Marketing Institute (ASMI) was founded in 1981 to market Alaska's number

one export: seafood. While it does not receive any general fund dollars, ASMI's contribution to Alaska's international presence is significant.

The Institute is mandated to generically market Alaskan seafood products in both the domestic and international markets. ASMI's funding comes from three major sources: federal grants, a seafood processor tax and an ex-vessel value fish tax.

Self Supporting: Roughly \$3 million dollars of Federal funding is used to target international markets in mainland China, Japan, Taiwan, Australia, and most European Union countries, including Spain, France, and Great Britain. ASMI re-

ceives a 3/10ths percent tax from fish processors and a 1% gross ex-vessel value tax from fisherman. This 1% tax is statutorily mandated to fund domestic marketing efforts. The wisdom of restricting their marketing in this way has been questioned and may be reconsidered. In 1998, their operating budget was near \$8 million dollars.

It is less than clear why both the Division of Trade and Development and ASMI have independent marketing programs for Alaska's fisheries. The legislature should consider consolidating them in the most cost effective manner.

Salmon & White Fish: ASMI's primary focus is salmon promotion. In recent years they made significant inroads in the national school lunch program and food service wholesale distributors.

ASMI also undertakes promotion of Alaska's many white fish species and realizes considerable success. While competition from farmed salmon is increasing, white and bottom fish species offer more stable and growing markets.

Alaska Seafood Marketing Institute's charter automatically sunset on June 30, 1998. Renewal legislation unnecessarily occupied ASMI and the Legislature until late in the session. (Its new ten-



ure expires 2003). Additionally, each year ASMI must come before the legislature for budget approval and program scrutiny.

Call For Legislative Restraint ASMI uses no state funds. The taxes paid by the fishermen and processors are voluntary taxes collected by the state, but not mandated by the state. They are used as matching funds for a federal grant. ASMI is an example of an industry paying for itself. As such, the legislature should unfetter ASMI. They have a Board of Directors competent to manage their affairs. Legislative oversight is largely unnecessary and distracting from their goals. The legislature should consider exempting ASMI from the Executive Budget Act. A marketing cooperative or non-profit corporation may be a more suitable form of organization for their mission.

The Alaska Center for International Business was defunded in Fiscal Year 1998 per the recommendation of the Interim Task Force.

trade." (<http://genghis.scob.alaska.edu/CENTERS/acib.html>)

The Center maintained a trade database which tracked Alaska export and import activity. Echoing a familiar trend, the ACIB tracked the flow of natural resources from Alaska, particularly with the pacific rim countries.

The Alaska Center for International Business was defunded in Fiscal Year 1998 per the recommendation of the Interim Task Force. The bulk of the savings were transferred back into the Alaska Technology and Science Foundation. (The termination of the ACIB's funding was not done as part of a comprehensive plan or effort to streamline or improve the state's overall international strategy.) In fact, it was the only Task Force recommendation actually implemented.

University of Alaska: Alaska Center for



University of Alaska: American Russian Center

Operated by the University of Alaska and primarily funded by grants from the United States Aid for International Development and the United States Information Agency, the mission of the American Russian Center,



"... is to train Russian entrepreneurs, promote the development of Russian small business activities in the Russian Far East, and promote linkages between US and Russian companies."¹⁶

International Business

The University Board of Regents created the Alaska Center of International Business (ACIB) in 1984. Their goal was to:

"... facilitate the development of sound business and economic relations with nations of the Asia-Pacific region and other nations of the world, and to help Alaska diversify its economy and expand its economic base through international

Through its offices in Anchorage, Khabarovsk, Sakhalin, Yakutsk, and Magadan the Center focuses on educating Russian citizens in the methods of successfully operating businesses in a free-market context. Business management practices, protocol and techniques are taught with the goal of establishing a prosperous small-business infrastructure in the Russian Far East. To date, 14,000 people have completed classes

offered through the American Russian Center.¹⁶

Alaska's geographic proximity to the Russian Far East makes the establishment of a stable business environment there of interest to all Alaskan companies with international trade capabilities. Indeed, one of the Center's stated goals is,

*"... the promotion of the business linkages between U.S. and Russian companies."*¹⁶

Additionally, the Center offers logistical support for U.S. businesses in the Russian Far East. Translators, transportation, and communication assistance are available on a "cost reimbursement basis."¹⁷

Every year the American Russian Center's programs and effectiveness are reviewed by the U.S. State Department prior to annual grant approval. This analysis ensures that the Center's programs are on-target and responsive to the actual needs of potential business people on both sides of the international date line. Federal funds being applied effectively through the University system serve to enhance Alaska's international trade stature and avail more business opportunities for Alaskans.

United States Commercial Service

The United States Commercial Service is a component of the U.S. Department of Commerce with offices in Anchorage, and 135 foreign cities. The mission of the Commercial Service is to:

- "Promote the export of goods and services from Alaska
- Maintain job security, and create jobs
- Protect and advocate for Alaskan business interests abroad
- Assist Alaskan firms in realizing their export potential

by providing expert counseling and advice, information on overseas markets, international contacts, and trade promotion vehicles

- Support the export promotion efforts of other public and private organizations creating, through partnership, a full-service export development infrastructure."¹⁸

In the *Private Sector International Business Needs Assessment* the U.S. Commercial Service was the most preferred choice for export assistance. Mr. Lane notes that,

*"[The] CSUSA provides Alaskan companies access to the most comprehensive range of trade support services in the United States (at no cost to the State of Alaska). CSUSA's services are so complete that every state supported export assistance organization in Alaska essentially duplicates CSUSA services in one way or another."*¹²

On December 12, 1997 the Alaska Department of Commerce and the U.S. Commercial Service announced that their Anchorage offices would be co-located in the Frontier Building. Co-location is an important step towards fulfilling the "one-stop" export assistance needs of Alaskan businesses. However, the conspicuous question remains:

Does the State of Alaska have any business duplicating

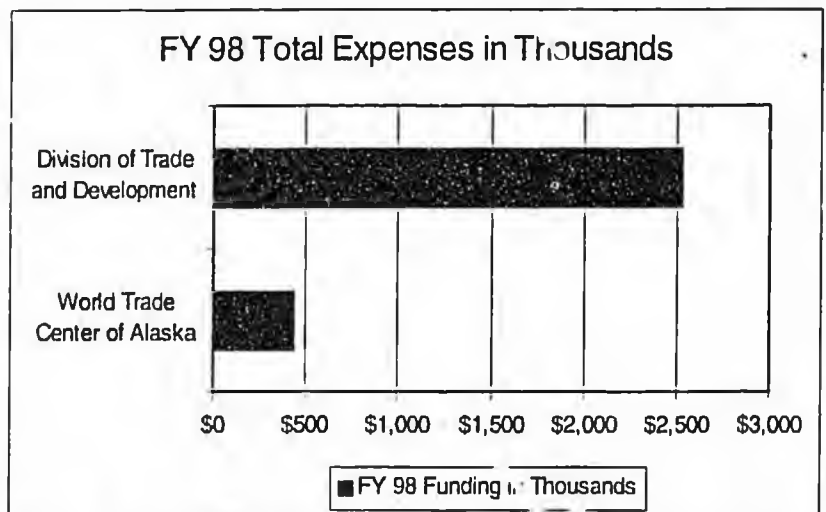


Figure 4



Federal services even if they are next door? What damage would be done by simply referring interested Alaskan exporters to the Commercial Service? "They're right down the hall."

World Trade Center

The mission of the World Trade Center of Alaska (WTCA) is:

... "to provide a quality service in an efficient manner to members so that trade is facilitated for Alaskan businesses in the international marketplace."¹⁹

The World Trade Center is supported by a variety of fees charged for membership, conferences, services and publications.

Through its association with over 300 World Trade Centers in over 100 countries, the WTCA provides networking opportunities second to none. Additionally, the WTCA offers educational courses on export, import, trade and business issues. As part of the World Trade Center system, the Alaska chapter offers worldwide communication services, global business profile databases, and on-line information systems designed to expedite international trade efforts.

In 1998, the World Trade Center for Alaska will receive no Federal or un-earned State funds. For less than half of the cost of the State's overseas offices alone, the World Trade Center effectively and efficiently provides its 200 members with services that surpass those offered by State administered programs.

The World Trade Center Alaska is a franchise license owned by the University of Alaska. It has been in competition with other international trade programs at the University. Too frequently it is treated as the political bastard-child of the governor's office and the University President's office. The State of Alaska's Division of Trade and Development is its primary competitor.

During the past year, the WTCA attempted to incorporate as an independent nonprofit corporation. However, they were stymied by the governor's office; and the University refused to transfer the license. Instead, for reason that is unclear, the University terminated all of WTCA's employees without consultation with the Director. New appointees to the Board of Directors were pre-approved by the Governor and new employees were hired. Non-profit corporation status was finally achieved as of July 1, 1998.

Yet, the State of Alaska, Division of Trade and Development remains the most significant competitor and worst detractor of the World Trade Center, Alaska.

Anchorage Economic Development Corporation



AEDC is the Municipality of Anchorage counterpart to the state's Division of Trade and Development. It has the same mission for Anchorage as the Division does for the state. AEDC is a private, nonprofit corporation. Its funding comes from private donations, state and municipal grants. In FY 98, their budget is \$1.24 million for both domestic and international operations.

AEDC's involvement in international trade is inherent in its charter and in its role as marketing contractor to the International Airport System. It publishes an Annual Work Plan, a Five Year Business Plan and periodic project status reports. Its goals are well defined and lend themselves to measured performance.

AEDC is developing an econometric model to demonstrate the advantages of Anchorage based logistical operations. It will be used in making presentations to attract companies to Anchorage from overseas and the lower 48.



ISSUES OF CONCERN

Redundancy Reduction

Duplication of services among agencies is one of the principle causes of inefficiency within the State's export assistance framework. A review of material published by the Division of Trade and Development reveals that the bulk of services offered by State agencies are available from other State funded efforts, the United States Commercial Service or long-standing organizations in the private sector.

According to the chart published by the Division of Trade,²⁰ there are no services offered by the State that are not also available in the private sector. In fact, a more detailed analysis indicates that according to the Department's own criteria (what they think is important to businesses) there is not a single service offered by the State of Alaska that is not also available through Federal or private organizations. When budgets are being cut on all sides, and lawmakers are forced to find the least severe method of reducing spending, such apparent redundancy raises the question: is it responsible for the State to continue duplicating services available elsewhere?

Non-Existent Performance Measures

The Division of Trade suffers from the lack of a tangible mission and measurable goals. In his response to the Governor's expanded FY 99 budget, Representative Mark Hanley, House Finance Committee Co-Chair summarizes the legislative majority's results-based budgeting guidelines:

When budgets are being cut on all sides, and lawmakers are forced to find the least severe method of reducing spending, such apparent redundancy raises the question: is it responsible for the State to continue duplicating services available elsewhere?

"Our goal is to develop budgets based on results. That requires cooperation between the legislature and the administration to develop goals, evaluate performance and require accountability. Good performance should be rewarded and emulated; poor performance should be altered and ultimately eliminated." - Representative Mark Hanley

Given the multi-million dollar budget of the Division of Trade and Development and the hundreds of thousands of dollars sent abroad, the inability to measure the Division's performance is a red flag.

Budget accountability is a problem that plagues all economic development programs. According to a study conducted by Conway and Nothdurft,²¹ too many foreign trade offices try to justify themselves with,

*"activity numbers, e.g., the number of meetings attended, phone calls answered, trade seminars attended or sponsored, leads listed, etc."*²¹

Alaska is not alone in finding it difficult to report "hard export sales." Other states have the same problem. They are doing innovative work to stay on mission and be focused.

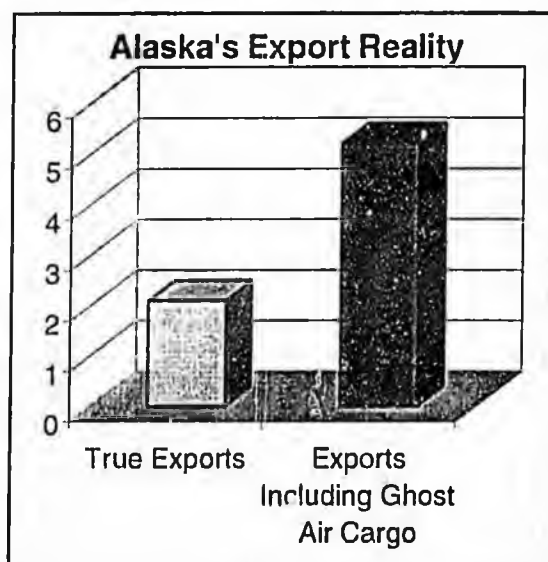


Figure 5

Of course, the Alaska Division of Trade is quick to cite the growth of Alaska's exports. They highlight "trade missions" and related activities.

Based on their study of similar programs throughout the lower 48, Conway and Nothdurft caution:

"Under current fiscal conditions, clinging to activity numbers while hoping for the best is no longer sufficient. More-

over, legislative audits of state trade program have found that even these "results" are weakly documented, inaccurate and sometimes significantly exaggerated."²¹

Results from Alaska's foreign trade program would be easier to measure if they were more tightly defined. Increased definition, however, makes shortcomings easier to criticize. Once we have a good program in place, we need to look at shortcomings in our results as guide marks for our future course.

Distilling Ghosts

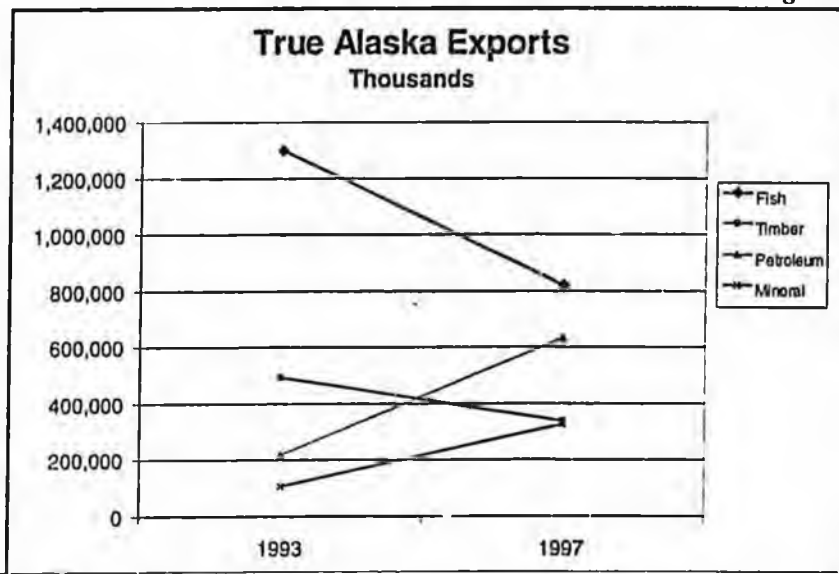
The federal government collects massive amounts of information on foreign trade and travel. The information is feedstock for user groups who distill it for their own purposes. Sometimes, state agencies take the feedstock, do not distill it, and simply repackage it with their own label.

Consequently there is a lot of questionable information available about the nature of Alaska's foreign trade.

For example, a state publication entitled, *Alaska's Top Ten Export Markets*, lists the People's Republic of China, Belgium, Italy and Thailand among our top ten trading partners. Most Alaskans would be surprised to read that Alaska exported \$87 million worth of chemical products to the PRC, \$29 million worth of transportation equipment to Italy (a lot of dogsleds?) and \$790K of rubber to Belgium. Surprising? Yes! Correct? No!

Ghost Exports

Each day international shipping giants



move millions of dollars worth of cargo through Anchorage International Airport. This activity

While the Division of Trade benefits by painting a rosy picture of Alaska's export growth, the reality is that two of our major economic sectors are not doing well.

generates billions in ghost export figures for the state; figures which are quickly cited by those asking the state to spend more to promote trade growth.

Upon inquiry by IT&T Committee staff we learned that the data is derived from export declaration forms required by the U.S. Customs Bureau, distilled by the U.S. Census Bureau, then repackaged and labeled by the Alaska Division of Trade and Development.

It seems that Anchorage is the official U.S. Customs exit-port for many U.S. cargo aircraft that transit Anchorage International Airport enroute to their overseas destinations. U.S. Customs, and in some cases U.S. Shippers, register the exports at the official exit-port instead of the state of origin. However, our State foreign trade officials refuse to recognize the disparity between U.S. Customs records and the records of exports actually produced in Alaska.

For lack of distilling the Customs data into a relevant information product, the State of Alaska has been publishing misleading reports about our export activity.



"Irrational Exuberance"

A hard look at the facts about Alaska foreign trade reveals a disturbing trend. Fishing and timber exports have fallen sharply in the last several years, offset only partly by increases in oil and mineral exports.

Underlying this shift is a more troubling observation. The fishing and timber industries are more job intensive than the petroleum and mining industries. The fishing industry, especially, spins off more jobs for small business and individuals than any other industry. They have the most direct impact on the economic welfare of the greatest number of Alaskans.

In contrast, oil and mineral reserves are extracted by large out-of-state, even foreign, corporations. Their greatest impact is directly on the state treasury. While the Division of Trade paints a rosy picture of Alaska's export growth, the reality is that two of our major economic sectors are not doing well.

A close look at the numbers presented in Alaska's Top Ten Export Guide (see appendix D) reveals that the vast proportion of trade with foreign entities is conducted by large corporations who use Alaska merely as a raw material source or transportation pit-stop on their way to Pacific Rim profits. According to International Trade Consultant Timothy Lane, most of Alaska's export deal-making occurs through long-established corporate and financial channels, few of which exist in Alaska. "Today, the export of natural resources is largely controlled by outside intermediaries. . ."²²

"Indeed, the Private Sector International Needs Assessment found that most international trade flow from and through Alaska is conducted by corporations who employ international trade specialists and maintain foreign networks independent of any State agency."²³

APPROPRIATE STATE INVOLVEMENT

Alaska needs to regroup and rethink the role of state government in fostering a healthy international business climate.

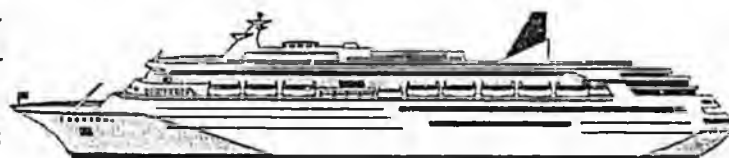
The State occupies a vital position in the eyes of potential foreign customers. Foreign corporations often seek assurances that the companies they deal with are reputable and in good standing with the State authorities.

Perhaps most important, the State of Alaska occupies a unique position in the eyes of foreign governments. While the role of the state in private enterprise is minimal in the United States, in foreign societies government involvement is often quite high. The state's chief role must be to support its resident businesses by providing a "government-to-government" presence where it is most expected and needed.

Mr. Lane noted that in the event that an Alaskan business finds itself the target of unfair foreign business practices, or governmental harassment, the State may consider "going to bat" for Alaskan companies.¹²

* * *

House Bill 472, *An Act relating to apportionment of business income*, is an excellent example of government's appropriate role in fostering overseas business. With the Alaska Supreme Court ruling in February 1998 that the Department of Revenue may tax foreign-flagged ships and planes, Alaska's position as a competitive trade stop was jeopardized. Indeed, such taxation could have cost businesses that operate in Alaska



HB 472 prohibited a tax policy that hurt the cruise ship industry.

millions of dollars yearly, thus driving consumer costs higher. By taxing foreign vessels, Alaska would expose its water carriers to retaliatory taxation by the affected countries.

As the ramifications of the Court's decision became known, Alaskan businesses sought relief from the legislature. The House Labor and Commerce committee, Chaired by Representative Norm Rokeberg, sponsored House Bill 472 to prohibit the anti-business taxation policies sought by the governor and to enhance Alaska's standing in the international arena. The measure overwhelmingly passed both bodies of the legislature. Good location, low taxes and minimal regulatory interference remain Alaska's best trade lure.

infrastructure development is high. The cost of transportation is high. There are no end markets near Alaska's potential production centers. As of yet, there are virtually no marketable consumer goods that Alaskans can produce in volume which are capable of competing on the world market against similar goods produced in China, Thailand, or Taiwan.

"From an international-trade perspective, perhaps the greatest difference [between Alaska and Lower 48 states] is that Alaska has virtually no manufacturing base." - Robert Poe²⁴

There is a significant responsibility placed on those who would encourage small, young Alaskan companies to engage in the volatile, unforgiving game of international trade.

There is a significant responsibility placed on those who would encourage small, young Alaskan companies to engage in the volatile, unforgiving game of international trade. Two Alaskan companies claimed as trade successes

by the Division of Trade and Development²⁵ have suffered from the realities of foreign market instability and the high cost of engaging in overseas competition. A small clothing design company cited by the Division ceased selling to Japan because of the burden it placed on their domestic sales capability. A seafood marketer in Southcentral Alaska is on the brink of collapse due to the Asian market downturns. The lesson is that success needs to be measured over the long-term, not in episodic events.



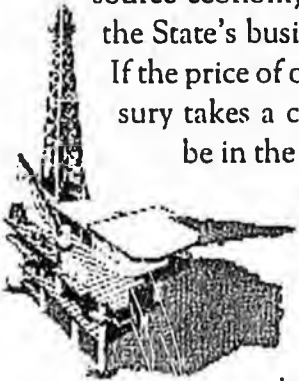
Alaska's current economic strength lies in its natural resource reserves and its proximity to Pacific Rim energy and seafood markets. As previously noted, the companies involved in these profitable foreign markets are the least in need of State assistance. With this reality in view, expending State monies to stimulate overseas exports of natural resources to Japan and Korea amounts to "gilding the lily." In contrast to the Division of Trade's focus, the future for homegrown Alaskan businesses lies in the worldwide delivery of trade and

OBSERVATIONS & RECOMMENDATIONS

Forming Obtainable Objectives

Alaska's financial well-being has always been vulnerable to the ups and downs of a natural resource economy. If salmon prices are high, the State's businesses enjoy a cash infusion. If the price of oil goes down, the State's treasury takes a corresponding dip. It would be in the interest of all State residents, therefore, to foster a more diversified economy. With this simple objective in mind, the Department of Commerce has pursued market research, hundreds of overseas trade missions and produced considerable amounts of literature. Yet, substantial results remain elusive.

With the exception of northern novelties the geography and location of Alaska inhibits the establishment of a sustainable manufacturing economy. The cost of labor is high. The cost of



services, including the lower 48. An Alaskan company that is internationally trade capable with a product or service in demand can find all the assistance and expertise necessary in the private sector. In fact, it has been said that an entrepreneur who can not, or will not, afford international business consulting, is not prepared for the international market.

Focusing Alaska's Export Assistance

The Alaskan businessperson interested in learning more about International trade issues and opportunities is confronted with a confusing array of choices.

- The Division of Trade and Development
- Alaska Industrial Development and Export Authority
- American Russian Center
- Alaska State Chamber of Commerce
- World Trade Center
- Small Business Development Center
- U.S. Commercial Service
- Export Council of Alaska
- Small Business Administration



Implementing this transition must be a united effort of the legislative and administrative branches of government.

In the face of such a daunting matrix of "services" it is no wonder research²⁶ indicates many Alaskans interested in overseas trade seek the assistance and expertise of friends, family members and the private sector. At least those sources offer one-stop potential.

It is out of this amalgam of state and federal programs that state policymakers must forge a unified, focused State program that dovetails the offerings from the private sector.

Creating a Client Responsive Program

As discussed earlier, the absence of salient performance measures leaves both the Division and policymakers in an information vacuum. Programs are initiated with little or no substantiated demand from the private sector. While the Division has made good faith efforts to establish ways to measure its effectiveness, the free market has already established the decisive test: are businesses willing to pay for the services or information offered?

Research requests, trade mission assistance and contacts that generate business activity will be gladly paid for by any business serious about international trade. Indeed, the U.S. Commercial Service and the World Trade Center have developed highly effective assistance organizations based on the fee-for-service principle. It is important to the growth of new business that

essential startup information and basic services be available at affordable rates. Once a fee schedule has been established that respects the needs of both small and large businesses, the validity of business assistance activities may be easily evaluated based on income from

each service. While complete cost recovery may not be practical in all instances, more valuable will be the information conveyed by business spending patterns.

Harnessing Existing Private Expertise

The Department of Commerce could expend tens of thousands of dollars and take years to research, propose and actually implement a program that was truly responsive to the real needs of Alaska's business community. Assuming that the Department could agree on a cohesive strategy, experience has shown that unless the program is structured to expand and contract with the actual need for service, soon the State will



be burdened with yet one more deficient bureaucracy.

Research indicates that of potential exporters 89.5% would turn to the private sector for overseas business expertise.²⁷ With such an overwhelming preference among those businesses the private sector, common sense argues that the State follow their lead instead of reinventing the wheel.

The Gap

Successful international trade results should be measured by the value of contracts between businesses. Though government is integrated with business in some countries, under our system, government must remain distinct from business in order to maintain evenhandedness and avoid the practice of favoritism toward a particular business. Information and contact referrals are the most valuable services our state offices are allowed to provide. A service made available to one business must be made available to all.

A gap exists between the services the state is allowed to provide and the ingredients necessary to consummate a business contract. Entrepreneurial aptitude is important in the business milieu. It is not a trait included in the job qualifications for a state trade representative. Without a "nose for a deal," a financial incentive, binding authority of any kind, nor accountability for risk taking, it is doubtful that public employees can play a meaningful role in achieving international business contracts.

International Trade Representatives

However, through our government-to-government role, it may be possible to encourage the establishment of a cadre of trade brokers from

Our principle Asian opportunities were created and are well-maintained by the private businesses that profit from them.



foreign countries who would live in Alaska. They would become expert about Alaskan business and conduct the entrepreneurial activities necessary to make business happen. They could be funded by whatever combination of private and government funds they can arrange from their own country. They would endure only as long as their patron deems their results worthwhile. Alaska's role could be to provide some limited subsidy for communications, office space, trans-

lation or other services that could be partially donated from the private sector. Mutual government involvement would be the verification of business credentials and to provide some de minimis certification that the trade representative is in good

standing with the government.

If Alaska is going to compete for international business with British Columbia, Washington, California, and other power houses in the lower 48, we must consider new approaches to cementing business relationships. Representative John Cowdery outlined this approach in meetings with executives in Taiwan, Korea and Alaska. Responses have been enthusiastically positive. A concerted effort from Alaska is in the waiting.

A One-Stop Export Assistance Model

In over a decade of expenditures, the State of Alaska has made numerous well-meaning attempts to act as a catalyst for Alaskan businesses in the international trade arena. For all of these efforts, expenses and programs, the results are disappointing at best. While the agencies desperate for funding can conjure up a few anecdotal "success" stories, the reality is that the State of Alaska has spent large sums of money with the barest of results. Misassumption and illusory visions of Alaska as a major export power in the world market are the primary causes of

failure. Additionally, the State's "obsolete" Pacific Rim focus and scattering of assistance resources has contributed to the diffusion of effectiveness in state programs.¹²

Throughout the review of materials, services and programs, one organization stood head and shoulders above the rest; the World Trade Center. They have a structure of client support which insures responsive, dynamic service in tune with the needs of their clients. They operate entirely on funds raised in the private sector, or earned from contracts with government. They offer a comprehensive range of services for membership fees that start at just three hundred dollars. They succeed despite reaction from the State's Division of Trade that ranges from indifference to hostility.

It has become apparent that the State of Alaska could save hundreds of thousands of dollars, consolidate all State international trade assistance activities into a one-stop location, and insure a higher level of service to potential Alaskan exporters by establishing the World Trade Center as the official State Export Assistance Center.

Presently there are too many turf wars among the players. The governor favors state control with directly funded state programs. Representative Cowdery and many other legislators favor contracting for private sector services, like the World Trade Center, and retaining only protocol and trade mission coordination in the governor's office.

A simple formula of funding should be developed which insures a long-term support framework for the World Trade Center based upon actual demand for services. Demand may take the form of services needed by the State executive and

legislative branches. It may also include certain, defined, services to Alaskan small businesses. It should be recognized that all state provided services are direct subsidies and must be evaluated against a measure of public benefit.

As a condition of support, the World Trade Center should be asked to establish a solid working exchange with the United States Commercial Service. An effective relationship with the USCS would prevent the duplication of market research and foreign office services that now drain Alaska's assistance resources.

Export Finance Expertise

The legislature's research highlighted one service the State has not provided that would be greatly appreciated by the Alaskan business community: an export finance counselor. The Senate/House Interim Task Force on International Trade Resolution states in part,

"FURTHER RESOLVED that the information services provided should include specialized export finance information, which probably will need to be provided through an experienced specialist; . . ."

To date, this call has been unheeded. AIDEA's report seems to indicate that additional expertise isn't necessary. Our foreign trade community needs to come together on this issue.

In keeping with the "one-stop" philosophy, the World Trade Center is an ideal seat for an export finance advisor. As the demand for this expertise will rise and fall unpredictably, this position would most efficiently be staffed on a contractual basis.

Establishing the World Trade Center as the State's sole source for international trade assistance would bring

An Alaskan company that is internationally trade capable with a product or service in demand can find all the assistance and expertise necessary in the private sector.



International Trade is not for the faint of heart.

Alaska's business community the greatest benefit, at the least State expense.

Reinforcement

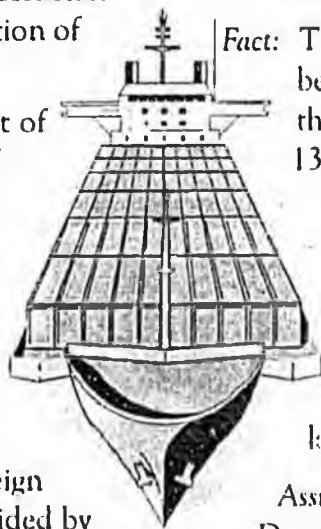
In order to review the findings of the *Private Sector International Business Needs Assessment*, the Senate President and House Speaker appointed an Interim Task Force on International Trade in 1996. The task force reviewed the survey findings and Mr. Lane's evaluations and made a series of recommendations. Their report, titled, "International Support Network Restructuring Recommendations" (see appendix F) outlines a number of program enhancements and reductions that parallel the needs described above.

Prescriptions deserving continued discussion include:

- Direct the Division of Trade to discontinue all export assistance services (including export counseling, exported related publications, etc.)
- Eliminate funding for DTD office in Seoul, Korea.
- Eliminate funding for DTD office in Tokyo, Japan.
- Direct DTD to reclassify all employees as classified.
- Direct DTD to strategically reassess staff qualifications based on elimination of export assistance services.

In February of 1996, the Department of Commerce responded to many of these points, in some cases with resistant language. Using the words "critical mistake", "undercut", "undermine" and "deeply troubled",²⁸ then Deputy Commissioner Sedwick countered the most substantive recommendations of the task force with essays on the "critical role" played by our foreign offices and the essential services provided by

All indicators point to the need for a change in direction.



the Division of Trade and Development.

Yet, research and critical review indicate that substantive change is imperative to the well being of Alaska's international trade network. All indicators point to the need for a change in direction. Implementing this transition must be a united effort of the legislative and administrative branches of government. Effective customer interface and responsive program development will not occur without positive support from the legislature and substantial initiative from the Department. In view of the sharp disparity between the Interim Task Force's recommendations and the convictions of the Department of Commerce, it is appropriate to move the discussion forward by addressing these core differences.

The assertions of program necessity made by the Department rest on three false assumptions.

Assumption: The Division of Trade and Development offers unique information.

Fact: Trade information and market analysis are available from the U.S. Commercial Service, U.S. Customs, and the World Trade Center.

Assumption: The three foreign offices supported by DTD are the only overseas contact points available to Alaskans.

Fact: The World Trade Center has five member service offices in Japan alone, while the U.S. Commercial Service offers over 135 foreign outlets. If that were not enough, Japan, Korea, Mexico, Canada, Norway, Finland, France, Sweden, Germany, Great Britain and the Russian Federation offer trade assistance and market information services through their respective Consular Corps, in Alaska. (see appendix I)

Assumption: The Division of Trade and Development's programs are vital to the

health of Alaska's international trade.

Fact: According to international trade consultant Timothy Lane, the vast majority of Alaska's export income flows through long-established trading channels in Seattle and elsewhere, negotiated by private sector expertise, paid for through out-of-state money connections and maintained by large and diverse corporations.

In fact, sixty percent of the export trade claimed by the Division to be a cornerstone of their success merely lands at Anchorage International Airport and takes off again. In one simple sweep the legislature could trim hundreds of thousands from the State budget while creating a unified, focused source of effective,

non-redundant business assistance services. In doing so the legislature would send a clear message of support and responsiveness to the Alaska business community and create a support framework in-line with the twenty-first century's global marketplace.

What has developed is reminiscent of the chicken and the egg. The Division of Trade and Development operates under the naïve presumption that Alaska's international employers need the Division's services to succeed. The reality is that private corporations have seen an opportunity, taken a risk, and reaped the rewards. Rewards which the Division then publishes as an export statistic establishing their worthiness for funding.

In summary, the Division of Trade and Development asserts that closing the foreign offices would result in the following dangers:

*"Jeopardize key Asian markets"*²⁹

- Our principle Asian opportunities were created and are well-maintained by the private businesses that profit from them.

In fact, sixty percent of the export trade claimed by the Division to be a cornerstone of their success merely lands at Anchorage International Airport and takes off again.



*"Ignore private sector demand"*²⁹

- There exists no meaningful, unique, private sector demand for Division of Trade services. The little private sector demand that exists may be well met by private and Federal programs already in place. Division of Trade's real strength lies in its ability to generate support from its political allies on behalf of their own programs.

*"Cut off vital trade and government contacts"*²⁹

- Some Alaskan presence and ties will be lost. The adjective "vital" is misplaced. Those that generate the vast majority of Pacific Rim receipts main-

tain their own array of trade and government connections. The DTD needs to realize that its position, its government status, and its very real funding limitations, will never allow the Division of Trade to be all things to all people in foreign trade. Only by applying the state's limited resources to the more focused goals of trade mission and protocol assistance, will the state become the channel for international success that it aspires to be.

*"Undercut efforts to refocus overseas trade program,"*²⁹

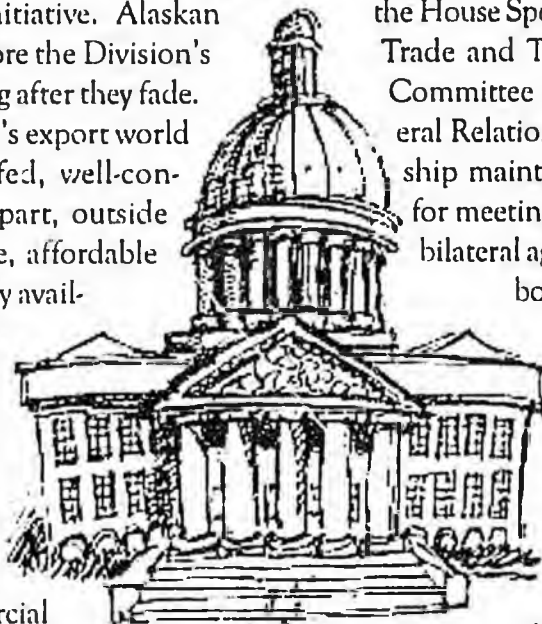
- Cutting these offices is the rational and overdue "refocusing" effort.

The Division of Trade and Development has worked hard to establish the programs and offices now in place. Unfortunately, their techniques and focus have been ill-guided. The time has come to trim the Division's dated programs and refocus the role of State involvement. Real needs and opportunities exist in the realm government-to-government relations, advocacy for Alaskan interests under attack and the promotion of the State as an attractive investment target.

Summary

International business success is rooted in private sector expertise and initiative. Alaskan success overseas existed before the Division's programs and will thrive long after they fade. The major players in Alaska's export world are well-funded, well-staffed, well-connected and, for the most part, outside owned. There are effective, affordable international services readily available through the World Trade Center and the U.S. Commercial Service. With a relatively minor contribution to the World Trade Center and the fostering of strong working relationships with the U.S. Commercial Service, Alaskans can be assured of streamlined, robust international business assistance service for years to come.

The Legislature is not immune from criticism about redundancy in international trade activities.



The House has two separate committees dealing with international trade issues. In addition to the House Special Committee on International Trade and Tourism, and the House Special Committee on World Trade, State and Federal Relations, the Senate and House leadership maintain separate staff and programs for meeting the obligations of protocol and bilateral agreements with foreign legislative bodies.

Due to cooperation among the leadership and the committee chairpersons, the appearance of redundancy has been greater than the reality. However, in order to eliminate confusion and invoke the same streamlining for the legislature that is herein preached for the executive branch, it will be recommended by Chairpersons, Representative John Cowdery and Representative Ramona Barnes, that the 21st Legislature should form a single house committee for international affairs.

* * * * *

EPILOGUE

"To make no mistake is not in the power of man; but from their errors and mistakes the wise and good learn wisdom for the future." - Plutarch

In Tom Morris's book, *If Aristotle Ran General Motors,*^a he adopts the Aristotelian view that four transcendent values have been present in all cultures throughout history. They are Truth, Goodness, Beauty and Unity. Mr. Morris says these values reinforce each other and cannot be achieved absent each other.

Further, Mr. Morris develops the rationale that certain organizational models foster these transcendent values while others inhibit them.

He describes the Competitive Organization, the Comparative Organization and the Collaborative Organization. Then he relates certain behavioral characteristics that are manifest in each model.

The Competitive Model is characterized by adversarial thinking. At the other end of the continuum, the Collaborative Model is characterized by synergism and partnering.

By the lights of many who are involved in Alaska's international trade activities, we have an abundance of resources chasing scattered notions of success. "Synergism and partnering" would go a long way toward improving the results we get from our public expenditures.

Change is needed. Organizations change for better or worse just like people do. They can change as a result of conscious decisions, or drift along like bubbles...

a - *If Aristotle Ran General Motors; The Soul of New Business*, Thomas V. Morris, Henry Holt & Company, New York, 1997

FOOTNOTES

- 1 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, pages A-1, A-2
- 2 - *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 2.
- 3 - Resolution of the Interim Task Force on International Trade, 1996, See Appendix "C".
- 4 - 1996 International Trade and Tourism Committee Report on Tourism, Recommendations 1(b).
- 5 - *Summary Report on Tourism*, Representative Beverly Masek, ITT Committee past Chair, pages 2-3.
- 6 - 1996 International Trade and Tourism Committee Chair recommendations, point #3.
- 7 - Alaska Visitors Association, *Millennium Plan*, as submitted to the 20th Legislature, 2nd session.
- 8 - *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 14
- 9 - *Establishing a Business in Alaska*, Division of Trade and Development, State of Alaska, back cover.
- 10 - Per personal communication with Ms. Pricilla Wohl, DTD Trade Specialist.
- 11 - Ibid.
- 12 - *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 4, 5.
- 13 - Ibid, page 10
- 14 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, (Of the 271 respondents to the *Private Sector International Business Needs Assessment* only 17 businesses (6.5%) indicated that they did or would use the Division of Trade and Development for assistance.)
- 15 - *AIDEA, 1997 Annual Report*, inside cover.
- 16 - <http://www.acib.uaa.alaska.edu/arc/missionstat.htm>
- 17 - *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 17
- 18 - (<http://www.alaska.net/~export/>)
- 19 - *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 34
- 20 - Ibid, pages 2-3
- 21 - *The International State, Crafting a Statewide Trade Development System*, Carol Conway and William Nothdurft, The Aspen Institute, 1996, pages 96-97
- 22 - *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 2
- 23 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, Table VII-E.
- 24 - Robert Poe & Associates, "Financing Alaskan Exports" prepared for AIDEA, page 32
- 25 - February 7, 1996 Division of Trade and Development Discussion Paper, Section B (see appendix G).
- 26 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, pages B-16, B-21
- 27 - Ibid, Table VII-B
- 28 - February 7, 1996 Division of Trade and Development Discussion Paper (see appendix G).
- 29 - Ibid.

APPENDICES

- A: *Private Sector International Business Needs Assessment (1995)*, an exhaustive study of the needs of Alaska Businesses conducted by the World Trade Center under contract to the Alaska Legislature.
- B: *Agency Evaluation Recommendations (1995)*, an analysis of the *Needs Assessment* by International Trade Consultant Timothy Lane under contract to the Alaska Legislature.
- C: Resolution of the Interim Task Force on International Trade (1996), spells out the conclusions and recommendations of the Task Force in light of the *Needs Assessment* and Mr. Lane's report.
- D: *Alaska Top Ten Export Guide*, Division of Trade and Development, State of Alaska.
- E: *Alaska Guide To Export Assistance*, Division of Trade and Development, a comprehensive Department publication which outlines all of the business assistance services available in Alaska
- F: Interim Task Force on International Trade, *International Support Network Restructuring Recommendation Recommendations*, specific funding allocation recommendations of the Task force in light of the *Needs Assessment* and Mr. Lane's report.
- G: February 7, 1996 Ms. Sedwick letter to International Trade & Tourism Chairs, the Department's response to the Task Force's recommendations.
- H: International Trade and Tourism Committee Meeting Excerpts which highlight the findings of the *Needs Assessment*.
- I: Alaska Consular Corps Table.

Note: Appendices are in the possession of the House Special Committee on International Trade and Tourism until the end of the 20th Legislature at which time they will be transferred to House Records, 130 Seward street, Suite 211, Juneau, AK 99801

OVERVIEW

DEPT. OF

LABOR

2/3/99

STATE OF ALASKA

DEPARTMENT OF LABOR

EMPLOYMENT SECURITY DIVISION
Director's Office

Tony Knowles, Governor

1111 W. 8th Street, Suite 208
P.O. Box 25509
Juneau, Alaska 99802-5509

Phone: (907) 465-2712
FAX: (907) 465-4537

February 12, 1999

The Honorable Norman Rokeberg, Chair
House Labor and Commerce Committee
Room #24, State Capitol
Juneau, AK 99801

RE: Interstate Benefit Plan

Dear Representative Rokeberg:

This is in response to your follow-up request for more detailed information about the Interstate Benefit Plan, specifically with regard to unemployed workers who live in Alaska and file for benefits elsewhere, and about unemployed workers who live elsewhere and file for benefits against Alaska.

As background information, it may be informative to note that when the Social Security Act of 1935 passed and state unemployment laws were enacted, agreement between states was necessary to protect covered workers. This protective agreement became the Interstate Benefit Plan to which all state unemployment programs subscribe. The plan provides a method to pay unemployed workers who earn wage credits, have valid unemployment claims on file, and who otherwise may be deprived of benefits because of their absence from a state in which their credits were accumulated. Statistics are maintained to track how many individuals file claims under the Interstate Benefit Payment Plan (see below and attached charts), however, there are no requisite data to track the amount of benefits paid to individuals.

The figures below reflect data for 1998:

Individuals in Alaska filing against another state:

4,326 New Claims Filed
22,080 Weeks of Unemployment Claimed

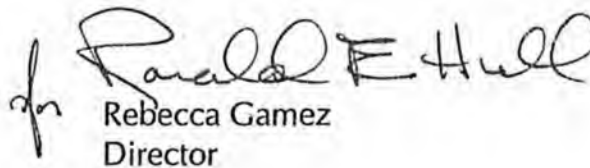
Individuals filing against Alaska while residing in another state:

13,822 New Claims Filed
132,746 Weeks of Unemployment Claimed

I have attached two charts reflecting the data requested. When reviewing charts, please note that the term, "Interstate Taken as an Agent State," reflects individuals who reside in Alaska and file for benefits against another state, and the term, "Interstate Received as Liable State," reflects individuals who file for unemployment benefits against Alaska while residing in another state.

I hope this information better answers your questions on this subject. Please do not hesitate to contact me should you need further assistance.

Sincerely,

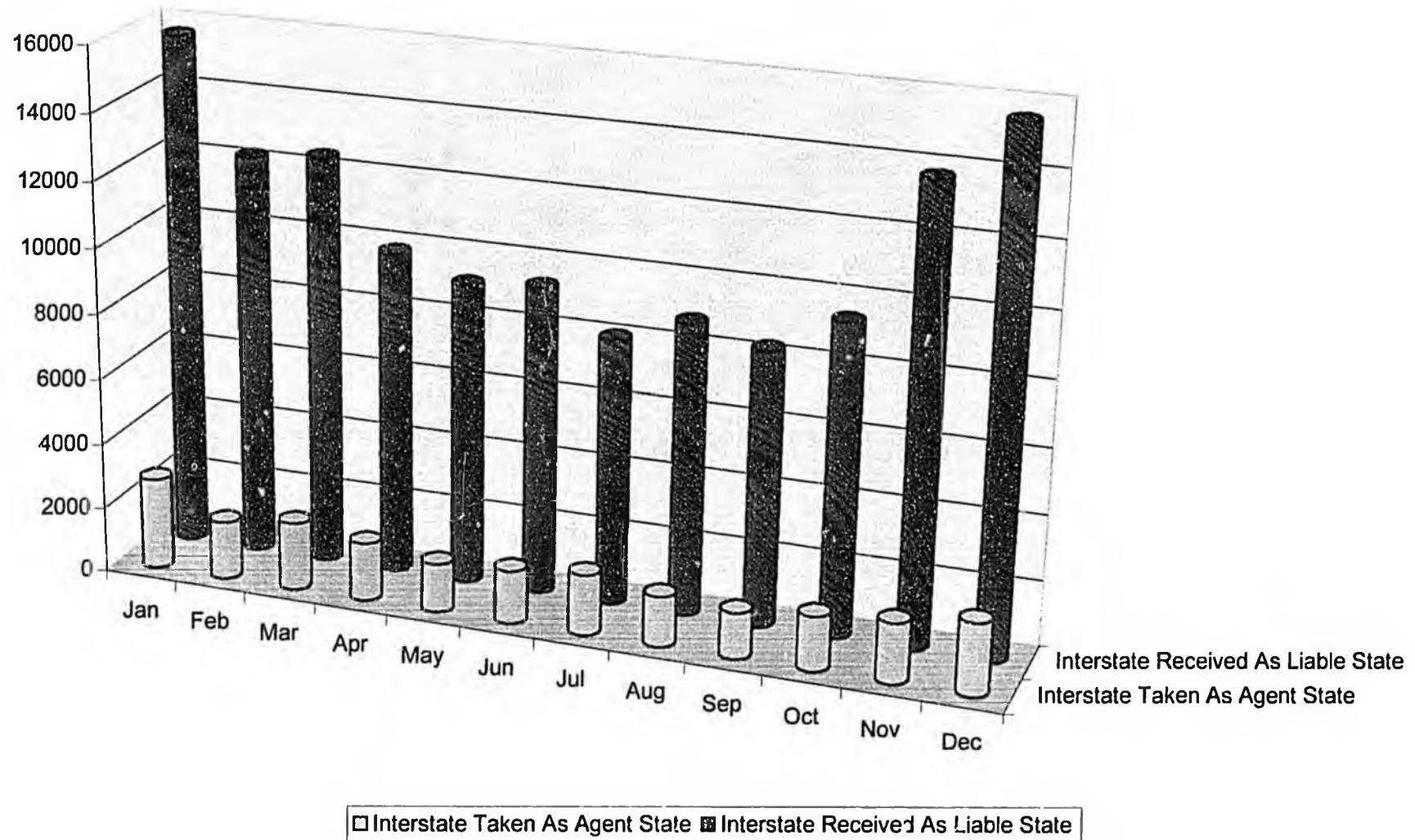

Rebecca Gamez
Director

RNG/CG:mj

Enclosures (2)

cc: Members of House Labor & Commerce Committee:
Andrew Halcro
John Harris
Lisa Murkowski
Jerry Sanders
Tom Brice
Sharon Cissna

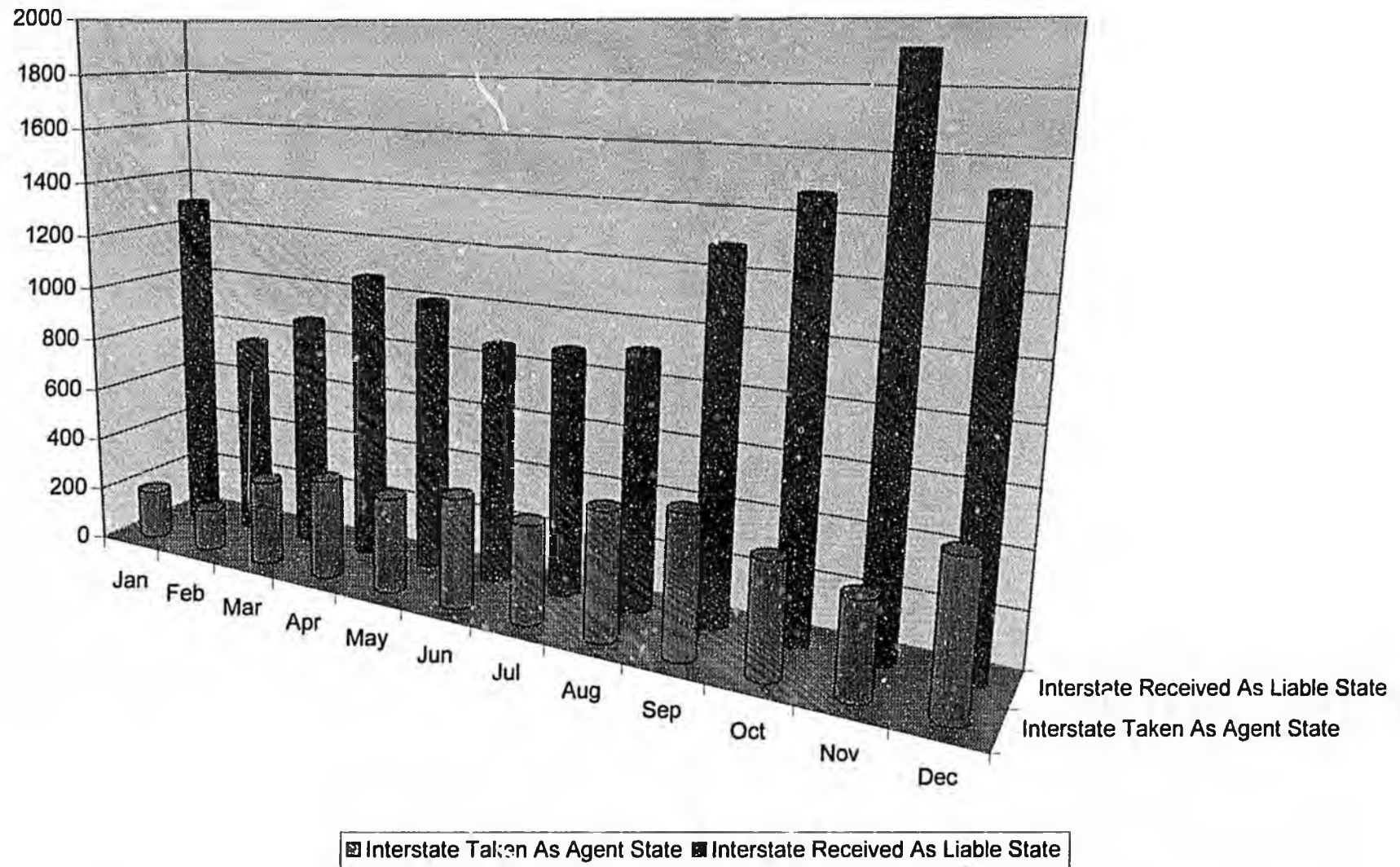
Interstate Weeks Claimed - 1998 Agent and Liable



Totals for 1998 - Interstate Taken As Agent State = 18035

Interstate Received As Liable State = 103336

Interstate Initial Claims - 1998 Agent and Liabile



Totals for 1998 - Interstate Taken As Agent State = 3472 Interstate Received As Liabile State = 10399

STATE OF ALASKA

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February 8, 1999

The Honorable Norman Rokeberg, Chair
House Labor and Commerce Committee
Room #24, State Capitol
Juneau Alaska 99801

FEB 10 1999

Dear Representative Rokeberg:

In response to questions raised during my testimony before the House Labor & Commerce Committee on Tuesday, February 2, 1999 I am providing information regarding the three areas of inquiry: Interstate Benefits and Nonresident Workers; Unemployment Insurance Funding; and, the State Training and Employment Program (STEP).

Interstate Benefits

Interstate claims comprise annually an average of 20% of the total unemployment insurance workload. The percentage varies throughout the year due to seasonal fluctuations in the total workload for unemployment insurance benefits. In 1998 the Alaska Unemployment Insurance Program issued in-state benefits totaling \$96,503,052. By industry, for the top three, this breaks down as:

In-State Benefits:

Services	\$20,469,052
Construction	\$19,288,194
Manufacturing	\$10,066,630

In 1998 a total of \$22,493,584 in unemployment insurance benefits were paid to interstate claimants. By industry, for the top three, this breaks down as:

Interstate Benefits:

Manufacturing	\$7,295,672
Services	\$4,269,413
Trade	\$2,634,055

To provide detailed information regarding benefits paid to interstate claimants, I have attached a data table from the 1998 Unemployment Insurance Actuarial Study & Finance Handbook. This

table details the number of weeks paid by year and industry, the number of first UI payments by year and industry and the total amount of payments by year and industry.

Nonresident Workers

Based on a report issued by the Alaska Department of Labor Research and Analysis Section for 1996, 70,907 nonresident workers in Alaska were employed in the private sector. A total of \$857,344,181 in wages was paid. The top three industries affected by nonresident workers and wages are:

By workers:

Manufacturing	21,130
Services	15,754
Retail Trade	14,830

By wages:

*Mining	\$192,742,350
Manufacturing	\$190,133,760
Services	\$146,892,608

* An item of interest, mining wage totals were paid to 4,105 workers.

The above data was determined by matching the Alaska Department of Revenue Permanent Fund Dividend file with the Alaska Department of Labor wage file. A new report for the year 1997 will be available in the next couple of weeks. I will be happy to forward a copy of this report as soon as it becomes available.

Unemployment Insurance Funding

The portion of the Social Security Act affecting unemployment tax is the Federal Unemployment Tax Act, commonly called FUTA, which is managed by the Social Security Board. Under FUTA, most employers must pay a federal tax on their payrolls, whether or not they are subject to the unemployment insurance laws of any state. Ninety percent of this money returns to the employers as a tax credit under two conditions:

- The state in which these employers do business must also collect payroll taxes and pay unemployment benefits in accordance with federal requirements.
- The individual employer must properly report and pay unemployment contributions to the state.

A portion of the remaining 10% of the FUTA taxes is returned to the state to pay its administrative expenses on the condition that its law and administration of it are in accordance with federal standards.

Administrative costs of the unemployment insurance program are paid, in Alaska as elsewhere, from the money collected by FUTA taxes from employers. This money also pays Alaska state

workers' salaries for providing unemployment services, earned by the number of various unemployment insurance activities performed, such as claims taken and eligibility decisions rendered. Because Alaska is small in population and vast in geographic area, its per-person costs are disproportionately high, and the Social Security Board considers this factor in the distribution of FUTA money in Alaska. The Alaska Department of Labor, Employment Security Division's cost of doing business is only 10 cents for every dollar of benefits paid, with seven cents of this cost paid for the administration of benefits and three cents for cost of collecting revenue.

Alaska's employers contribute to the Alaska account of the Federal Unemployment Trust Fund, which, by FUTA regulations, may be used only to pay unemployment benefits. Federal and state agencies do not contribute to the Trust Fund, but instead are charged directly for all benefits paid to their former employees. Non-profit employers may also use this option if they feel it is to their advantage. If unemployed workers were employed in other states, those states are charged in proportion to the worker's wages for the unemployment benefits paid on Alaska claims.

Alaska is one of only three states – New Jersey and Pennsylvania being the others – that charges both employers and employees to fund benefits. Currently, employers pay 80% of the cost of benefits, and employees pay 20%.

State Training and Employment Program (STEP)

The State Training and Employment Program (STEP) was established in 1989 to fund a wide range of state-specific worker training initiatives. Since 1989, STEP has provided training to more than 9,000 Alaska workers. The goals of the STEP program are to:

- Help prevent future claims against unemployment benefits
- Foster new jobs by encouraging businesses to locate in Alaska due to availability of a skilled labor force and minimized unemployment costs
- Increase training opportunities to those workers severely affected by fluctuations in the state economy or technological changes in the workplace.

The Alaska Department of Labor collects one tenth of one percent of the employee unemployment insurance tax contributions and passes the funding through the Alaska Human Resource Council (AHRIC) to the Alaska Department of Community and Regional Affairs (DCRA). DCRA in turn awards grants to private employers to train and hire unemployed workers.

Oversight of the STEP is centered at the AHRIC, while general management of the program is the responsibility of the Job Training Partnership Office within the DCRA. The Department of Labor is responsible for the financial administration of the Employment and Training account.