

State of Alaska FY2003 Governor's Operating Budget

Department of Community & Economic Development Commissioner's Office Component Budget Summary

Component: Commissioner's Office

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Component Mission

To effectively manage the department and to serve as a liaison between the department and private, governmental, and other institutions and agencies.

Component Services Provided

The Commissioner provides leadership, sets department priorities and policy, and is the Governor's direct liaison to the department. The Commissioner directs policy through coordination with directors of the line divisions and independent agencies which comprise the department. The Commissioner's Office staff support the Commissioner in the overall management and coordination of departmental activities, policy direction, management oversight, and legislative coordination. In addition to program responsibilities, the Commissioner serves on the following boards and commissions:

Alaska Aerospace Development Corporation
Alaska Coastal Policy Council
Alaska Commission on Aging
Alaska Human Resources Investment 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

Component Goals and Strategies

Strengthen Rural Communities

Increase the capacity of local government to effectively provide essential public services by providing communities

- with training and onsite technical assistance.
Enhance the availability and quality of basic local government services by providing financial assistance that
- supplements local revenue generation.
- Assist communities experiencing sudden economic dislocation.
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Diversify Alaska's economic base to benefit all Alaskans.

Partner with other state agencies, private businesses, ANCSA corporations, tribes, and local governments to identify and development 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.
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Market Alaska's commercial opportunities and geographic advantages to the rest of the nation and the global business community.

Visit corporate boardrooms to solicit investment in Alaska.

- Participate in business trade missions to key markets and potential markets.
- Work with the private sector to develop and implement tourism programs designed to increase independent travelers to Alaska and expand tourism benefits to rural areas of the state.
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Strengthen Alaska's businesses.

Provide technical and financial assistance.

- Advocate for the reduction of barriers to diversified economic development.
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Protect Alaska's citizens and businesses.

Maintain a fair and consistent regulatory environment.

- Support regulations that balance economic, public safety and environmental issues.

Key Component Issues for FY2002 – 2003

Impact of Terrorism - Alaska's economy may be negatively impacted by events surrounding the terrorist attacks of September 11, 2001. In October 2001, Governor Knowles appointed a task force, co-chaired by the commissioner of DCED, to examine the impact of terrorism on Alaska's economy and make a report in 60 days. Concerns have been expressed by businesses in several key industries, such as tourism, oil and gas, and air cargo, about what recent events mean to Alaska's economy. The group will also make recommendations on legislation or administrative actions that can be taken to mitigate the impacts on businesses and Alaska's workforce.

Workforce - The Department is increasingly encountering the recruitment/retention difficulties faced by all state agencies. Recruitment for positions requiring specialized technical expertise is becoming more and more difficult due to lack of qualified in-state candidates coupled with non-competitive salaries within those fields. State employee salaries and benefits generally are no longer as competitive as is necessary to attract quality candidates for many state positions. A contributing factor is the out-dated state classification system. Many job class specifications are 20 or more years old with restrictive minimum qualifications and do not produce sufficient applicant pools. A further contributing factor is the "graying" of the workforce, a nationwide phenomenon where the "baby boomer" generation of workers is reaching retirement age. Younger replacement workers are not only far fewer in numbers, they do not share the prior generations' notion of staying with the same employer for years. Even if quality replacement workers are found, the state currently does not have the tools/ability to provide retention incentives.

China Trade - Having established trade representation early on in markets like Japan, Korea, Taiwan and Sakhalin, Alaska exports to those markets have grown substantially. Alaska's worldwide exports were \$2.5 billion in 2000. In addition to maintaining a strong trade presence in these traditional markets, the state should now take steps to establish trade representation in China, an emerging market with significant potential for Alaska's goods and services.

Business Attraction - In order to expand and diversify the economy, Alaska must attract new industry and investment to the state. Doing so will help expand employment opportunities for Alaskans and diversify the tax base. Business and investment recruitment is a highly competitive endeavor. Cities, counties and states across America compete to attract business to their communities. In reality, the competition is global. American communities often find themselves competing with overseas locales for new business and investment. If Alaska is to succeed in attracting its fair share, sufficient resources will need to be deployed to enable an effective, pro-active recruitment program.

Tourism Marketing - Beginning in FY 03, state law requires the qualified trade association contractor to increase its contribution to the marketing program from 30 to 60 percent. Unless additional funds are generated from private sector companies, the state's match will be reduced. In addition, Alaska's public funding for tourism marketing has declined from over \$10 million in FY92 to \$4.6 million in FY02. While other states have increased their funding by 25 percent in the past five years, Alaska has slipped from 7th to 29th place in the total amount spent on tourism programs, and now ranks 36th in the amount of public sector funds allocated to tourism. This decline in state funding requires industry to find ways to more effectively utilize its marketing money.

Alaska Industrial Development and Export Authority Projects - Begin sustained production of Alaska's first seafood manufacturing facility, Alaska Seafood International in Anchorage and resolve issues surrounding future usage of the Healy Clean Coal Project.

Rural Energy - The need to reduce energy costs in rural Alaska has become more urgent due to the sharp increase in fuel prices that has occurred during the past year. Strategies to reduce these costs through energy production efficiencies, energy production alternatives, and energy conservation need to be clearly identified, developed, and aggressively implemented.

Power Cost Equalization - The FY02 amount available from the PCE endowment appropriation is based on 7% of the

market value of the fund on February 1, 2001 or \$7,062,156.58. This amount was inadvertently not appropriated to the PCE Rural Electric Capitalization fund for use in FY02. Corrective action will be requested in the FY02 supplemental. The endowment is expected to generate approximately \$12 million for PCE in future years beginning in FY03 after the proceeds from Four Dam Pool divestiture are deposited. Based on the \$15.7 million appropriation level for FY02, the program has been prorated to 92% for community participants. In addition to the PCE endowment earnings, \$2.14 million in other funds must be appropriated to the PCE fund to maintain the PCE program at the \$15.7 million funding level in FY03. Because of increased fuel costs, the PCE program is expected to cost \$16.96 million in FY03 to operate the program at the statutorily established level.

Alaska Science and Technology Foundation - The ASTF endowment (\$101 million principal) is co-invested with the Permanent Fund and generates earnings. The earnings have been used for legislative appropriations, large grants, ASTF operations (primarily staff), partner organizations (economic development infrastructure), and technology, knowledge, and teacher grants. Annual earnings have declined from \$14 million in FY1998 to \$5.2 million in FY2001. Earnings have declined primarily due to weaker stock market performance and a smaller earnings base. Over the last five years, ASTF's earnings base has eroded due to cumulative appropriations of \$13.1 million for the University of Alaska (UA) and \$2.7 million for Alaska Aerospace Development Corporation (AADC). For the past 2 years, ASTF has been limited in its ability to fund new grant proposals. At a time when Alaska's economy is growing more slowly than the national economy, and our faster growing technology sector is still relatively small compared to other states, this lessened ability of ASTF to provide seed capital and finance group projects with industry merits concern. The ASTF Board believes the long-term solution is to replace ASTF funding for the annual UA and AADC appropriations beginning in FY03. In addition, the UA and AADC appropriations of ASTF funding may be reduced through the FY02 supplemental.

Salmon Industry - The Alaska salmon industry faces many serious challenges in the years ahead due to the increasing worldwide production of low priced, high-quality farmed salmon and the imminent mass production of farmed halibut. The Alaska Seafood Marketing Institute must identify appropriate research and implementation strategies to encourage the improvement in quality and value of Alaska salmon and increase our marketing presence in the US and foreign markets.

Major Component Accomplishments in 2001

Participated in the Governor' Rural Construction Working Group which resulted in a precedent setting agreement between unions, contractors, the state, and non-profit natives corporations regarding capital project construction in rural Alaska. Related activities designed and implemented by DCED to assist rural residents to better position themselves for the multi-million dollar public construction projects scheduled for the next three years include: 1) development of Job Summits, to increase local/regional employment; 2) Community Resumes, which increased the utilization of community assets on construction jobs, and 3) development of a public construction database for all projected work scheduled for the next three years.

Formalized a process to respond to economic disasters in Alaska by utilizing a coordinated response partnership and making resources accessible to affected regions and communities.

Assisted in the development of the Alaska Photo Library Web site that provides high quality, royalty free images of Alaska for promotional and educational uses.

Conducted with DF&G the first ever multi-species allocation Community Development Quota (CDQ) process during the fall of 2000. All quota including groundfish, halibut and crab species were allocated during the two-year Community Development Plan (CDP) cycle of 2001-2002.

Participated in Governor's Mission to China with stops in Hong Kong, Shanghai and Beijing. Results: Alaska company entered into a joint venture with the Chinese pipeline and oil company, SINOPEC; and seafood sales nearly doubled in latter half of 2000. Mission afforded opportunity to thank existing customers and introduce Alaska's resource and service exports to potential buyers.

Participated in Governor's Mission to Japan with approximately two dozen high-level private sector participants. Raised profile while initiating and renewing business ties with Alaska's major trading partner.

Oversaw the qualified trade association contract for state tourism marketing. The contractor increased and expanded the selection of marketing services to businesses. New programs included: advertising on specialty websites featuring adventure/ecotourism; sportfishing and cultural tourism; online travel specials on website to allow businesses to promote

short-term special offers to consumers; electronic newsletter which allows follow-up marketing to consumers.

Helped the Alaska Seafood International manufacturing facility (ASI) owners negotiate an organizational restructuring to provide operating capital and a new owner-operator. ASI is restarting operations and is processing orders. In full production, ASI will provide 450 year-round manufacturing jobs, result in hundreds of indirect jobs, and stimulate the local economies of fishing communities by providing a reliable market for their product.

Oversight of the Healy Clean Coal Project (HCCP) was transferred to Golden Valley Electric Association (GVEA) under a settlement agreement during the prior year. The settlement agreement ended two years of litigation between AIDEA and GVEA. During this post-settlement period, AIDEA and GVEA are exploring financing alternatives to complete a retrofit of the Project, to allow the resumption of power generation.

Statutory and Regulatory Authority

AS 44.33.010-020

Commissioner's Office
Component Financial Summary

All dollars in thousands

Non-Formula Program:	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Component Expenditures:			
71000 Personal Services	418.5	447.0	473.8
72000 Travel	55.0	32.0	32.0
73000 Contractual	101.6	65.6	62.9
74000 Supplies	5.8	7.2	7.2
75000 Equipment	9.9	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	125.0	125.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	715.8	676.8	575.9
Funding Sources:			
1004 General Fund Receipts	253.4	262.5	144.8
1007 Inter-Agency Receipts	462.4	414.3	431.1
Funding Totals	715.8	676.8	575.9

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
None.		0.0	0.0	0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0	0.0	0.0
Restricted Revenues						
Interagency Receipts	51015	462.4	414.3	420.0	431.1	431.1
Restricted Total		462.4	414.3	420.0	431.1	431.1
Total Estimated Revenues		462.4	414.3	420.0	431.1	431.1

Commissioner's Office

Proposed Changes in Levels of Service for FY2003

When the Department of Community and Regional Affairs (DCRA) merged with the Department of Commerce and Economic Development, DCRA brought with it a grant to Alaska Legal Services for low-income client services. This was in the Commissioner's Office in DCRA and transferred to the new department in the same component. Since the grants section in the Division of Community and Business Development is administering this grant, the authorization is being transferred to the Community and Business Development Component.

Summary of Component Budget Changes

From FY2002 Authorized to FY2003 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	262.5	0.0	414.3	676.8
Adjustments which will continue current level of service:				
-Cost Allocation I/A correction ADN 0820059	0.0	0.0	5.7	5.7
-Alaska Legal Services Grant to Community and Business Development Component	-125.0	0.0	0.0	-125.0
-Year 3 Labor Costs - Net Change from FY2002	7.3	0.0	11.1	18.4
FY2003 Governor	144.8	0.0	431.1	575.9

Commissioner's Office

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2002</u> <u>Authorized</u>	<u>FY2003</u> <u>Governor</u>		
Full-time	6	6	Annual Salaries	359,462
Part-time	0	0	COLA	11,681
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	115,406
			<i>Less 2.62% Vacancy Factor</i>	(12,769)
			Lump Sum Premium Pay	0
Totals	6	6	Total Personal Services	473,780

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk II	0	0	1	0	1
Commissioner	1	0	0	0	1
Dep Commissioner	1	0	1	0	2
Exec Secretary II	1	0	0	0	1
Secretary	0	0	1	0	1
Totals	3	0	3	0	6