

Report Highlights

Why DLA Performed This Audit

An audit of the ARDOR program was requested in recognition of the significant changes to the State's economic landscape since the ARDOR program was created in 1988. The audit evaluated whether the program has stimulated economic development in the different regions of the state, including if ARDORs were successful in meeting their established goals, and if economic development projects conducted by the ARDORs served the regional needs. Additional audit objectives included identifying ARDOR program costs, amounts granted to ARDORS, and ARDOR director and staff salaries; identifying duplication of activities between ARDORS and other economic development organizations; and determining the extent DCCED is helping ARDORS find addition funding and advance projects.

What DLA Recommends

1. DCCED Division of Economic Development's (DED) director should evaluate procedures to improve administration of the ARDORS program.
2. DCCED DED's director should review ARDOR regulations to determine if updates are necessary to ensure program requirements are relevant and in line with current program needs.

A Performance Audit of the Department of Commerce, Community, and Economic Development (DCCED), Alaska Regional Development Organizations (ARDORs)

August 9, 2016

Audit Control Number 08-30073-16

REPORT CONCLUSIONS

The audit concluded that ARDORs encouraged economic development in their respective regions; however, the economic benefit was indeterminable due to nonspecific goals and a lack of performance measures. The audit found ARDORs implemented State grant projects based on the Comprehensive Economic Development Strategies (CEDs), which outlined the economic priorities and needs for each region. These activities are in line with the legislative intent of the program; however, barriers to regional economic development remain.

While there are numerous entities pursuing economic development in the state, ARDORs are the only entities within the State that collaborate with local communities and businesses to develop and maintain a regional CEDs. Furthermore, the audit determined that DCCED staff predominately managed the ARDOR program in accordance with legislative intent, statutes, and regulations. Recommended improvements to DCCED's program administration are discussed in Recommendation 1. The need to update ARDOR regulations is discussed in Recommendation 2.

State ARDOR program expenditures increased from \$649 thousand in FY 08 to \$956 thousand in FY 15. Throughout the audit period ARDORs successfully matched State ARDOR grants with private contributions, service revenues, and federal grant funds. ARDOR organization director and staff salaries typically reflect the size and complexity of the respective organizations.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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October 4, 2016

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24, we have reviewed the activities of the Alaska Regional Development Organizations and the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT,
ALASKA REGIONAL DEVELOPMENT
ORGANIZATIONS

August 9, 2016

Audit Control Number
08-30073-16

The audit examines the need and impact of the Alaska Regional Development Organizations, and the Department of Commerce, Community and Economic Development's program administration.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

ABBREVIATIONS

AAC	Alaska Administrative Code
ACN	Audit Control Number
AIDEA	Alaska Industrial Development and Export Authority
ARDORs	Alaska Regional Development Organizations
AS	Alaska Statute
Bering Strait	Bering Strait Development Council
BRE	Business, Retention, and Expansion Project
CEDS	Comprehensive Economic Development Strategy
CISA	Certified Information Systems Auditor
Copper Valley	Copper Valley Development Association
CPA	Certified Public Accountant
DCCED	Department of Commerce, Community, and Economic Development
DED	Division of Economic Development
DLA	Division of Legislative Audit
EDA	Economic Development Administration
FY	Fiscal Year
Interior Rivers	Interior Rivers Resource Conservation and Development Council
Lower Kuskokwim	Lower Kuskokwim Economic Development Council
Matanuska-Susitna RCDC	Mat-Su Resource, Conservation and Development Council
Northwest Arctic	Northwest Arctic Borough Economic Development Commission
SLA	Session Laws of Alaska
UACED	University of Alaska Center of Economic Development
U.S.	United States
Yukon-Kuskokwim	Yukon-Kuskokwim Economic Development Council

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ORGANIZATION AND FUNCTION

Department of Commerce, Community, and Economic Development (DCCED)

DCCED's mission is to promote a healthy economy and strong communities, and protect consumers in Alaska. The department is comprised of seven divisions, including the Division of Economic Development (DED), which supports the growth and diversification of Alaska's economy through business assistance, financing, promotion, and public policy. The division works closely with industry leaders, allied agencies, and economic development organizations across the state, including the 10 designated Alaska Regional Development Organizations (ARDORs).

DED's statutory (AS 44.33.896) and regulatory (3 AAC 57) duties with respect to the ARDORs program include:

- Encouraging the formation of ARDORs by providing assistance to organizations seeking ARDOR status, including assisting with establishing physical boundaries for the proposed ARDOR.
- Gathering information about regional economic issues, international trade, and tourism from ARDORs.
- Serving as a liaison between organizations and other state agencies, and encouraging other agencies to make resources available to help accomplish ARDORs goals.
- Assisting each ARDOR with providing services to encourage economic development; collect and distribute regional economic information; participate in applicable marketing campaigns and trade missions; and develop and implement strategies to attract new industry, expand international trade opportunities, and encourage tourism within the region.
- Processing and approving ARDOR applications, including ensuring eligibility criteria are met, and that the creation of an ARDOR is supported by the regional governments, economic development organizations, and citizens.
- Publishing and delivering an annual report to the legislature by February 1, after the fiscal year end, on statewide and regional economic development projects and ARDOR activities.
- Terminating or suspending an ARDOR if it is out of compliance with program requirements.

Alaska Regional Development Organizations

- Developing regulations to administer the ARDORs program.
- Administering and monitoring the State's ARDOR grants.
- Organizing and attending the two mandatory annual ARDOR meetings.

As of March 1, 2016, DCCED has dedicated half of a full-time position to administering the ARDORs program.

ARDORs are independent entities that monitor, coordinate, and assist local governments, non-profits, and private industry with economically developing specific regions of Alaska. An organization with an ARDOR designation has the following statutory and regulatory duties per AS 44.33.896 and 3 AAC 57:

- Providing services designed to coordinate and encourage economic development in the local villages, communities, and businesses of the region, including attracting new industries, expanding international trade opportunities, and encouraging tourism within the region.
- Collecting and distributing economic information relevant to the region.
- Serving as a liaison between State government and the region.
- Developing, implementing, and maintaining a five-year regional economic development strategy in accordance with regulatory requirements, and submitting an update every two years.
- Carrying out administrative duties such as applying for grants, obtaining match funds, and complying with grant requirements.

As of March 1, 2016, there were 10 qualified ARDORs:

1. Anchorage Economic Development Corporation
2. Bering Strait Development Council
3. Northwest Arctic Borough Economic Development Commission
4. Copper Valley Development Association
5. Fairbanks North Star Borough Economic Development Commission

-
-
6. Kenai Peninsula Economic Development District
 7. Prince William Sound Economic Development District
 8. Southeast Conference
 9. Southwest Alaska Municipal Conference
 10. Yukon-Kuskokwim Economic Development Council

More detailed information regarding each individual ARDOR is documented in Appendix A.

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BACKGROUND INFORMATION

Legislative intent and statutory basis of the Alaska Regional Development Organizations (ARDORs) program

The ARDORs program was created¹ in 1988 in response to a recession and a desire to diversify the Alaskan economy. The program encourages the formation of regional development organizations to address the economic problems of specific regions in the state by:

- Coordinating private and public resources to support economic development on a regional basis; and
- Providing the State with information on regional economic issues and opportunities for international trade, and providing assistance in local economic diversification and development efforts to encourage regions of the state to become economically self-sufficient.

The program was intended to be flexible and informative with collaboration between the State, private sector, regional communities, and ARDORs.

Since the creation of ARDORs, the program's statute has been revised several times. Significant revisions include a 1993 change requiring ARDORs to provide a minimum 20 percent match for each State ARDOR grant, and an FY 14 requirement that DCCED publish an annual report covering specific ARDORs' activities. Prior to FY 14, an annual ARDORs report was published, but DCCED was not statutorily required to do so. Exhibit 1 provides a listing of statute changes from FY 88 to FY 15.

A house bill was passed in 2016 to extend the ARDORs program termination date. The bill reauthorized the ARDOR program until July 1, 2021, and made ARDOR grants subject to appropriation.

Under statute, ARDORs must provide information necessary for the completion of DCCED's annual report even if State grant funds are not awarded. ARDOR grants were not funded for FY 17.

¹Chapter 94 Session Laws of Alaska 1988.

Exhibit 1**ARDOR Statute Changes FY 88 through FY 15**

SLA Year	Type of Change	Statute	Changes Made
1988	Original Statute Passed	AS 44.33.026	Initial authorization
1992	Repeal Date Extended	AS 44.33.026	Program extension
1993	Amended Statute	AS 44.33.026	Match funds may not be less than 20 percent of the grant
1996	Executive Order, Program Moved	AS 44.47.900	ARDORs moved to Department of Community and Regional Affairs (DCRA)
1997	Repeal Date Extended	AS 44.47.900	Extension
1999	New Statute Issued	AS 44.33.895	Moved back to DCCED when DCRA merged with DCCED
2000	Repeal Date Extended	AS 44.33.895	Program extension
2003	Repeal Date Extended	AS 44.33.895	Program extension
2005	Repeal Date Extended	AS 44.33.895	Program extension
2008	Repeal Date Extended	AS 44.33.895	Program extension
2013	Repealed	AS 44.33.895	Program was not reauthorized
2014	Reauthorized	AS 44.33.896	Program reauthorized and requirement for an annual report added

Requirements to become an ARDOR

Organizations must apply to obtain the ARDOR designation. The application process, as prescribed by regulations, requires specific information be submitted, such as:

- A map describing the region's boundaries.
- A description of the proposed ARDOR, including the composition of its board and its bylaws.
- Formal resolutions from 75 percent of the communities and/or traditional governing bodies in the region supporting the application.
- Formal resolutions supporting the application from 75 percent of the non-profits in the region that are directly involved in community or regional economic development activities.

After receiving an application, DCCED has 10 business days to accept or deny. If the application is denied, DCCED must provide an explanation to the applicant. If the application is accepted, DCCED seeks public comment through the public noticing process.

Public notice is required to be made via specific media instruments and contain information outlined in regulations.² The public notice must include DCCED's intention to authorize the ARDOR, and a description of the applicant, its boundaries, and board make-up. Additionally, the public notice states that the application is available for inspection and provides 30 days for submission of comments regarding the decision to designate the applicant as an ARDOR. If, at the end of the comment period, no objections or competing qualified applications are received, the department will authorize the ARDOR designation. The application may be suspended if there are substantive objections or if there is a qualified competing applicant. In these cases, DCCED will provide a written notification of the suspension to the applicant. The region must then resolve any objections and/or competing applications before the applicant can move forward with obtaining its ARDOR designation.

²Title 3 AAC 57.060.

ARDOR revocations and designations

An ARDOR may voluntarily surrender its ARDOR designation, or it can be revoked by DCCED. Per regulation, DCCED can revoke an ARDOR's status if the organization no longer meets eligibility requirements, fails to develop and implement a regional economic development strategy, fails to carry out the approved work plan, or fails to comply with terms and conditions of the grant agreement.

Between FY 13 and March 1, 2016, DCCED terminated three regional ARDORs and designated one new regional ARDOR. The terminated ARDORs were:

- Interior Rivers Resource Conservation and Development Council (Interior Rivers),
- Lower Kuskokwim Economic Development Council (Lower Kuskokwim), and
- Mat-Su Resource, Conservation and Development Council (Matanuska-Susitna RCDC).

Both Interior Rivers and Lower Kuskokwim terminated May 2014, and Matanuska-Susitna RCDC terminated August 2015. In December 2014, Yukon-Kuskokwim received its ARDOR designation. Yukon-Kuskokwim covers areas once overseen by the Interior Rivers and Lower Kuskokwim ARDORs.

Regional Comprehensive Economic Development Strategy (CEDS)

Each ARDOR must develop, implement, and maintain a Comprehensive Economic Development Strategy (CEDS) for its specific region. A CEDS is the product of planning and coordination between an ARDOR and local, state, federal, and private development entities. The CEDS is a five-year strategic document that acts as the cornerstone for regional economic development and drives the specific projects undertaken and promoted by an ARDOR. Portions of the CEDS provide regional economic development information that is not readily available elsewhere. Additionally, a CEDS defines the region's top economic development goals and objectives, and the strategies to implement those goals and objectives. It was noted during the audit that ARDOR regulations, including those governing the contents of the CEDS, have not been updated since 1993. (See Recommendation 2.)

Grant match requirements

Each qualified ARDOR can apply for an annual grant with DCCED not to exceed \$100,000.³

ARDORs are required to match a percentage of any State ARDOR grant received. As shown in Appendix C on page 51, ARDOR regulations require a larger and more specific match than the minimum 20 percent required by statute. Regulations require State ARDOR grants be matched at a minimum of 33.33 percent of the grant amount, and of that amount 20 percent, not to exceed \$10,000, must come from local sources. Regulations do allow an ARDOR to request a waiver from the local matching requirement; however, none of the ARDORs requested a waiver from FY 08 through FY 15. Further regulations allow DCCED to apply alternate matching requirements at their discretion. These alternative matching options are based on the population covered by the ARDOR and whether the region contains an organized borough within the ARDOR's boundaries.

ARDOR coverage by region

As of March 1, 2016, there were three regions in the state without an ARDOR: the Arctic Slope, large expanses of Interior Alaska, and the Matanuska-Susitna region. As discussed above, the Matanuska-Susitna region lost its ARDOR status in early FY 16. Exhibit 2 on page 10 shows regions with and without an ARDOR.

Representatives from economic entities familiar with Alaska's economy provided the following potential reasons the Arctic Slope and large portions of the interior did not have an ARDOR:⁴

- No interest or capacity to apply for grants.
- No need for the ARDOR funding since other funding sources are available.
- Lack of infrastructure and economic opportunities for development.
- Population is small and scattered.

³Alaska Statute 44.33.896(c).

⁴Information was obtained from representatives of DCCED, U.S. Economic Development Administration, Alaska Industrial Development and Export Authority, and University of Alaska Center of Economic Development.

Exhibit 2

Alaska Regional Development Organizations



- | | |
|---|---|
| Anchorage Economic Development Corporation | Prince William Sound Economic Development District |
| Bering Strait Development Council | Southeast Conference |
| Copper Valley Development Association | Southwest Alaska Municipal Conference |
| Fairbanks North Star Borough Economic Development Commission | Yukon-Kuskokwim Economic Development Council |
| Kenai Peninsula Economic Development District | Region without designated ARDOR |
| Northwest Arctic Borough Economic Development Commission | |

Source: FY 15 DCCED ARDOR Annual Report.

REPORT CONCLUSIONS

The audit evaluated the need for the Alaska Regional Development Organization (ARDOR) program by determining if the program is administered in accordance with legislative intent, statutes, and regulations. The audit also evaluated whether the program has stimulated economic development in the different regions of the state, including whether ARDORs were successful in meeting their established goals, and if economic development projects conducted by the ARDORs served the needs of the region. Additional audit objectives included identifying ARDOR program costs, amounts granted to ARDORs, and ARDOR director and staff salaries; identifying duplication of activities between the ARDORs and other economic development organizations; and determining the extent the Department of Commerce, Community, and Economic Development (DCCED) is assisting the ARDORs with securing additional funding and advancing projects.

The audit concluded that ARDORs encouraged economic development in their respective regions; however, the economic benefit was indeterminable due to nonspecific goals and a lack of performance measures. The audit found ARDORs implemented State grant projects based on the Comprehensive Economic Development Strategies (CEDs), which outlined the economic priorities and needs for each region. These activities are in line with the legislative intent of the program; however, barriers to regional economic development remain.

While there are numerous entities pursuing economic development in the state, ARDORs are the only entities within the State that collaborate with local communities and businesses to develop and maintain a regional CEDs. Furthermore, the audit determined that DCCED staff predominately managed the ARDOR program in accordance with legislative intent, statutes, and regulations. Recommended improvements to DCCED's program administration are discussed in Recommendation 1. The need to update ARDOR regulations is discussed in Recommendation 2.

State ARDOR program expenditures increased from \$649 thousand in FY 08 to \$956 thousand in FY 15. Throughout the audit period, ARDORs successfully matched State ARDOR grants with private

contributions, service revenues, and federal grant funds. ARDOR organization director and staff salaries typically reflect the size and complexity of the respective organizations.

Detailed conclusions are below.

ARDORs help advance regional economic development.

Overall, ARDORS positively contributed to economic development by collaborating with state, federal, non-profit, and private sector entities to create CEDS that outline regional development goals and related strategies for goal attainment. The audit concluded that CEDS helped regions plan for economic development and that State ARDOR grants were used on projects in line with CEDS goals. However, the specific impact of the funded grants could not be quantified. The audit also found ARDORS provide the State with valuable economic information, such as community economic profiles and proposed economic development projects.

Representatives from Alaska economic organizations agree that the ARDORS program positively impacts the regional economies. Representatives from the U.S. Economic Development Administration (EDA), Alaska Industrial Development and Export Authority, and University of Alaska Center of Economic Development (UACED) emphasized the importance of having an ARDOR in each region to facilitate discussions and share regional information with the different communities, state agencies, and other organizations.

Specific impact of state funded ARDOR grant projects unknown.

Although it is clear that ARDORS positively impact development planning and facilitate communication between entities, the audit could not measure the degree to which ARDORS benefit Alaska's economy. To evaluate the degree to which ARDORS encourage economic development in the region, and to verify completion and success of goals stated in State grant applications, the audit randomly selected for review 18 out of 90 ARDORS grants awarded by DCCED from FY 08 to FY 15. Examples of commonly identified goals included:

- reducing energy costs,
- reducing transportation costs,

-
- increasing access to low-cost broadband,
 - improving agriculture or food stability,
 - improving workforce development,
 - facilitating discussions with economic development entities in the region, and
 - supporting and expanding existing businesses, military bases, and industries (fishing, timber, and tourism).

These goals are broad in nature and do not provide quantifiable performance measures. The audit found 14 out of the 18 grants tested had insufficient documentation to determine if the grant projects were completed either successfully or unsuccessfully. Although DCCED requires ARDORs to submit mid-year and year-end reports to document their progress on the grant project objectives, until FY 15, no specific guidance was provided by DCCED regarding what grant reports must contain (e.g. whether projects were successfully completed or the quantifiable impacts to the economy). Consequently, the audit found reports did not consistently identify whether goals were successfully completed. Furthermore, reports did not quantify the economic impact.

In FY 15, DCCED implemented new grant requirements which should improve the ability to quantify the success of the ARDORs projects.⁵ Grant applications were revised to require a well-defined purpose, objective, scope of work, deliverables, and performance measures. These requirements were intended to increase the ability to measure the success and impact of the projects undertaken by ARDORs.

Barriers to economic development identified.

During interviews, ARDORs representatives identified several barriers and challenges to achieving the program's intent. Rural and suburban ARDORs' main challenges were high energy costs and a lack of basic infrastructure.⁶ Common barriers regardless

⁵Prior to FY 15, projects were listed as goals.

⁶Examples include roads, buildings, airports, housing, and utilities infrastructure.

of location included high cost of living, workforce development, and transportation costs. Funding was also identified as a barrier, specifically the lapse in funding when the program was not reauthorized in FY 13, a lack of sufficient funding to undertake more and or higher impact projects, and the uncertainty of future grant funding. One ARDOR representative also stated that its region faced challenges to developing natural resources from political and lobbying groups as well as restrictive federal regulations.

ARDORs used State grant funds to conduct projects as outlined in their CEDS.

The audit concluded ARDORs used the State grant funds to conduct projects in accordance with the regional CEDS, which were designed to meet the needs for economic development of their regions. Exhibit 3 on the following page lists the projects adopted by the ARDORs in FY 15 and FY 16. Several ARDORs (four in FY 15 and six in FY 16) worked on the Business, Retention, and Expansion (BRE) project. ARDORs that did not choose the BRE project focused on other regional projects.

The purpose of the BRE project is to promote business expansion and retention, and connect businesses with needed resources to improve the economic health in the different regions. DCCED suggested this project to ARDORs, and several chose to adopt it, as the project was in line with CEDS priorities. The BRE project spans three years, and requires ARDORs to survey and compile data on targeted businesses within the region. The results of the BRE surveys will help identify barriers to growth and retention faced by businesses and identify opportunities to improve the regional business climate. Additionally, DCCED plans to use the BRE results to help develop a statewide CEDS. DCCED has partnered with UACED to provide free trainings for entities, including ARDORs that are interested in participating. Executive Pulse software is used to catalog and analyze the results of the BRE survey responses. The department purchased the license for the Executive Pulse software and made it available to the ARDORs for their use at no cost.

Exhibit 3

ARDORs FY 15 and FY 16 Projects		
Organization Name	FY 15	FY 16
Anchorage Economic Development Corporation	BRE project	BRE project
Bering Strait Development Council	BRE project	BRE project
Copper Valley Development Association	Work toward having an Agri-Business and Natural Resource Center. The center will offer various services to regional businesses, organizations and the community. This project will make the region more self-sustainable.	Offer energy efficiency audits, alternative energy assessments to small businesses in the region by contracting with a regional energy company. Based on the results of these audits, Copper Valley will assist small business owners in applying, filing, and attaining grants and/or loans with federal, state or private organizations to improve their energy efficiency.
Fairbanks North Star Borough Economic Development Commission	Attend Unmanned System 2015 Conference and continue development of the Unmanned Aircraft System in Alaska.	Develop and offer a series of welding classes for military members transitioning out of their branch of service in partnership with the Fairbanks Pipeline Training Center. Develop an expanded Peony Grower and Harvester School to train local residents for jobs in the emerging peony industry in Interior Alaska.
Kenai Peninsula Economic Development District	Updating Situation and Prospect report* and BRE project	BRE project
Northwest Arctic Borough Economic Development Commission	Develop new and expand existing businesses. Develop marketing materials and tourism related business plans.	Conduct an assessment to determine the sustainability for eco-tourism options.
Prince William Sound Economic Development District	Develop a regional energy plan.	BRE project
Southeast Conference	Work on the Southeast Alaska Marine Industry Council project to define fishing fleet boat maintenance and repair value chain.	BRE project
Southwest Alaska Municipal Conference	BRE project	BRE project
Yukon-Kuskokwim Economic Development Council	Develop two business plans for the Integrated Truss Manufacturing and Timber Mill supply project as well as a strategic plan for the project.	Continue the Integrated Truss Manufacturing and Timber Mill project by contracting with another entity to perform the preliminary Design and Cost Phase.

* According to the FY 15 grant application, the Situation and Prospect report contains statistical data that covers specific areas of interest such as: demographics, sales, construction, employment, farm, agriculture, real estate, public health, safety, services, commercial fishing, oil and gas, retail, timber, tourism, and local governments. The information is helpful for future investors and grant writers.

Source: DCCED's ARDOR grant files.

ARDORs complement and facilitate the activities of other economic development entities.

There are numerous entities within the State that work to develop Alaska’s economy. In that regard, their activities duplicate ARDOR’s activities in purpose. ARDORs are unique from other entities in their development of a CEDS. ARDORs work collaboratively with other economic development entities and incorporate the respective economic development goals and projects into the regional CEDS. Overall, the audit concluded that ARDORs complement and facilitate the activities of other development entities in Alaska.

DCCED staff generally administered the ARDORs program in accordance with legislative intent and state law.

A review of ARDOR grant files and interviews with DCCED management, ARDOR management, and representatives from other Alaska economic organizations concluded that DCCED staff is generally administering the program in compliance with legislative intent and state law. This conclusion is based on the following:

DCCED staff assisted ARDORs in finding and securing non-ARDOR resources.

Six of nine⁷ ARDOR representatives interviewed stated that between FY 08 and FY 15, DCCED acted as a liaison between the ARDOR and another entity or State agency. These same six reported that DCCED had encouraged the other entity to make resources available to help accomplish the ARDOR’s goals. A review of correspondence between DCCED and the ARDORs from FY 15 to January 2016 identified three instances where DCCED notified ARDORs of other available grants or funding.

DCCED staff conducted outreach, facilitated networking, and sponsored training.

DCCED staff provided non-financial assistance to the ARDORs, including networking opportunities, workshops, and trainings. Some of the workshops and trainings were provided at no cost; others required a fee to attend. DCCED staff also assisted with marketing, research, and promotion of ARDOR projects; responded

⁷One ARDOR interviewed, Fairbanks North Star Borough Economic Development Commission, had a change of administration in December 2015. The new staff member did not have the experience to answer questions regarding their historical perspectives of the ARDORs program.

to ARDOR inquiries; and informed ARDORs of legislation impacting the program.

Based on interviews with nine of ten ARDORs, generally ARDORs were “satisfied” or “very satisfied” with the workshops and conferences hosted by DCCED. All respondents rated DCCED-sponsored ARDOR meetings as “very helpful” or “somewhat helpful.” However, only five of nine respondents were “satisfied” or “very satisfied” with DCCED trainings. Appendix B to this report summarizes ARDOR interview questions and responses.

New ARDOR designations were substantially in compliance with statutes and regulations.

During the audit period, Division of Economic Development (DED) staff granted an ARDOR designation to one economic development entity. A review of the ARDOR’s application packet confirmed that the applicant met all qualification requirements as stated in regulation, and that DED staff had provided appropriate assistance to the applicant and appropriately granted the applicant ARDOR status. However, the public notice was not performed per regulations, as it was not advertised on a local radio station and the newspaper advertisement did not specifically identify when the 30 day comment period ended. (See Recommendation 1.)

Non-performing ARDORs were terminated timely.

During the audit period, DCCED staff revoked the ARDOR status of three economic development entities.⁸ The ARDORs lost their designation because all three failed to develop and implement a CEDS, and two of the three failed to execute an approved work plan per program requirements.

A review of DCCED’s revocation letters and the ARDOR grant agreements and amendments for the time period leading up to the revocations determined all three terminations occurred timely. The audit defined timely as termination occurring after one year of non-compliance. However, the calculation did take into consideration

⁸The terminated ARDORs were Interior Rivers, Lower Kuskokwim, and Matanuska-Susitna RCDC.

the time period⁹ when the ARDOR program was not reauthorized, and consideration was given to documented efforts by DCCED to help the organizations which spanned over one year.

Not all ARDOR CEDS meet statutory and regulatory requirements.

Overall, the CEDS contain valuable regional economic development information; however, DED could improve administrative procedures to ensure CEDS fully comply with statutory and regulatory requirements. The audit reviewed all 10 ARDORs' CEDS, as of March 1, 2016, to determine if they contained all the elements required by statute and regulation. Eight out of ten CEDS reviewed had incomplete or missing elements. The missing elements included lack of information on international trade opportunities, incomplete or missing community and village economic profiles, and incomplete work plans established to address the regional economic development strategies. (See Recommendation 1.) Although the CEDS were missing some required elements, overall the strategies provided valuable regional economic development information, allowing ARDORs to carry out their activities.

Interviews with representatives from economic entities¹⁰ identified that DED has worked to increase the accountability of the program. DED employees have made changes to the grant and reporting processes, which should increase the ability to quantify the economic impact of grant projects.

The ARDORs appropriately matched State grant funds received.

The audit randomly selected 18 out of 90 ARDOR grants awarded between FY 08 and FY 15 to determine if the grantees met the regulatory matching requirement when applying for an ARDOR grant. The grantees are required to record the amount and general source of their matching funds on the grant application. The audit found that grantees were able to effectively leverage federal funds, private funds,¹¹ and other funds to meet the required 33.33 percent match for the ARDORs grants. Additionally, of the 33.33 percent, 20 percent came from local sources, as required by regulations.

⁹Between July 1, 2013, and March 25, 2014.

¹⁰U.S. Economic Development Administration, Alaska Industrial Development and Export Authority, and University of Alaska Center of Economic Development.

¹¹Private funds include membership fees, conference fees, contract and service fees, rental, and interest income.

ARDOR program expenditures increased from \$649 thousand in FY 08 to \$956 thousand in FY 15.

The information reviewed was self-reported by ARDORs. Therefore, the audit can only provide assurance that the grant applications demonstrated compliance, not that the ARDORs actually complied.

Exhibit 4 on page 20 summarizes each ARDOR grant and DCCED administrative expenditures by fiscal year. The ARDOR administrative expenditures were estimated by DCCED management, as the state accounting system does not track wages and benefits specifically for the ARDOR program.

The audit found that generally DCCED awarded each eligible grantee the same grant amount each year; however, unspent funding was carried forward to the following year to complete the project(s) outlined in the grant. This results in the appearance that some grantees received a larger or smaller grant in a given year than their counterparts. (See Exhibit 4.) DCCED administrative costs associated with the ARDORs program ranged between \$36 thousand to \$61 thousand during FY 08 through FY 15.

The audit found that five out of ten ARDORs received additional State grants for specific economic development projects between July 2012 and June 2015. The majority of additional grants were from Alaska Energy Authority and DCCED. Four of the five ARDORs received total additional State grants of approximately \$55 thousand to \$240 thousand, with one ARDOR reporting additional awards of approximately one¹² million during this time period.

ARDOR salaries vary significantly and are not comparable.

As noted in Appendix A, the size and types of organizations holding ARDOR designations vary greatly. An ARDOR may be a municipal government or large regional non-profit with hundreds of employees. On the other extreme, an ARDOR may be a small non-profit organization with one or two employees. The audit found that for larger ARDORs, the presidents or mayors have oversight of the organizations; however, they delegate the ARDORs' responsibilities to program directors. For smaller ARDORs with a singular focus

¹²Southeast Conference was awarded \$164 thousand in FY 13, \$594 thousand in FY 14, \$260 thousand in FY 15. The awards were funded by DCCED and Alaska Energy Authority.

Exhibit 4

**ARDOR Grants and Administrative Expenditures from FY 08 to FY 15
(in thousands and unaudited)**

Organization Name	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Grant Expenditures:								
Anchorage Economic Development Corporation	\$57	\$57	\$56	\$56	\$68	\$73	\$77	\$77
Bering Strait Development Council	56	52	51	68	62	56	50	123
Copper Valley Development Association	53	57	56	62	62	73	77	77
Fairbanks North Star Borough Economic Development Commission	56	52	56	62	62	56	50	123
Interior Rivers Resource Conservation and Development Council	0	52	56	56	6	0	0	0
Kenai Peninsula Economic Development District	56	52	56	62	62	73	77	77
Lower Kuskokwim Economic Development Council	51	57	56	62	62	73	0	0
Mat-Su Resource, Conservation and Development Council	62	52	56	62	62	73	77	0
Northwest Arctic Borough Economic Development Commission	56	52	28	59	87	56	56	118
Prince William Sound Economic Development District	51	57	56	56	68	73	77	77
Southeast Conference	56	52	56	62	62	56	95	77
Southwest Alaska Municipal Conference	56	52	56	62	62	73	77	77
Yukon-Kuskokwim Economic Development Council	0	0	0	0	0	0	0	77
	610	644	639	729	725	735	713	903
Administrative Expenditures	39	49	43	61	57	36	59	53
Grant and Administrative Expenditures	649	693	682	790	782	771	772	956

Source: ARDOR grant expenditures were obtained from the state accounting system. Administrative expenditures were estimated by DCCED management.

on economic development, the directors perform hands-on administration of the organizations, including the ARDORs' activities.

All ARDOR directors are full-time positions; however, eight out of ten directors work part-time on specific ARDOR projects or activities and use the rest of their time on other economic development projects funded by other sources. Seven out of ten ARDORs have one to ten total employees, while the other three organizations holding an ARDOR designation have total employee counts from 100 to over 800. The ARDORs who are part of larger non-profit or local government organizations provide a more diversified range of services, and thus they have higher number of employees and report greater total revenues and expenses. Note that Exhibit 6 reports the salary of the head of the organization. If an ARDOR is a standalone organization, the director's salary is reported. If the ARDOR is part of a large organization (e.g. Bering Strait), the mayor or president's salary is reported.

The ARDOR organization director/president/mayors' salaries, employee salaries, and other relevant information are included in Exhibit 5. The information was obtained from Internal Revenue Service (IRS) tax Form 990 Return of Organization Exempt from Income Tax¹³ and/or collected directly from ARDOR representatives during interviews. For consistency, the tables provide the salaries of the organizations' presidents, directors and/or mayors who have oversight over the entire organization. Therefore, reported organizational presidents/mayors and total staff salaries are not always representational of just ARDOR activities. The information in Exhibit 5 is unaudited.

¹³IRS Tax Forms 990 available as of March 1, 2016.

Exhibit 5:

ARDORs Revenue, Expenses, Salaries, Hours, and Number Of Employees By Year (Unaudited)										
Type	Anchorage* 12/31/2013	Bering Strait* 12/31/2014	Copper Valley* 6/30/2014	Fairbanks† 6/30/2015	Kenai† 6/30/2015	Northwest Arctic‡ 6/30/2015	Prince William Sound† 6/30/2015	Southeast* 6/30/2014	Southwest* 6/30/2014	Yukon-Kuskokwim† 6/30/2015
Total Reported Revenue	\$2,410,103	\$29,104,014	\$356,744	\$177,950,259	\$404,886	\$35,012,972	\$261,000	\$833,380	\$636,999	\$ 42,223
Total Reported Expenses	2,487,941	28,480,604	268,415	178,707,148	454,300	33,465,741	191,000	767,443	565,451	41,135
Total Director/President/Mayors Salary, Other Compensation and Benefits	175,203	206,860	55,290	148,700	79,700	168,464	77,892	98,609	81,350	6,135
Total Employees Salaries, Other Compensation and Benefit	468,907	13,042,609	71,744	44,925,240	66,403	3,384,409	0	157,773	23,905	0
Total Salaries, Other Compensation and Benefits	644,110	13,249,469	127,034	45,073,940	146,103	3,552,873	77,892	256,382	105,255	6,135
ARDOR Program Director Average Hours Per Week on ARDOR Activities	10	10	12 to 20	35	12	20	40	10	30	7
Employees Average Hours Per Week on ARDOR Activities	30	26	12 to 20	2	12 to 15	20	0	40+	30	0
Full-Time Positions Working on ARDOR Activities	7	4	2	2	2	3	1	3	2	0
Part-Time Positions Working on ARDOR Activities	0	0	0	0	0	0	0	2	1	1
Total Number of Employees in the Organization	10	319	2	878	2	101	1	6	5	1

Source: IRS tax form 990 and ARDOR self-reported information.

*Total revenue, expenses, director/president/mayors' and employees' compensation, and total number of employees in the organization were taken from the most recent and available IRS Tax Form 990 (see date above); total ARDOR's director and employee work hours on ARDOR activities per week and number of employees working on ARDOR activities came from the ARDOR's interview as of April 2016.

†All financial information and number of employees in the organization were obtained from ARDORs as of June 30, 2015, and total ARDOR's directors and employee work hours on ARDOR activities per week and number of employees working on ARDOR activities came from the ARDOR's interview as of April 2016.

‡Total revenue, expenses, and number of employees in the organization were obtained from ARDORs as of June 30, 2015, mayors and employees' compensations were as of December 31, 2015, and total ARDOR's directors and employee work hours on ARDOR activities per week and number of employees working on ARDOR activities came from the ARDOR's interview as of April 2016.

FINDINGS AND RECOMMENDATIONS

Recommendation 1: Department of Commerce, Community, and Economic Development (DCCED) Division of Economic Development's (DED) director should establish procedures to improve administration of the Alaska Regional Development Organizations (ARDORs) program.

DED staff did not ensure all ARDOR statutes and regulations were followed in the administration of the ARDOR program. Instances of non-compliance were identified in regards to the public noticing of a new ARDOR, and in the completeness of the ARDORs' Comprehensive Economic Development Strategy (CEDs). Specifically:

- The application for designating Yukon-Kuskokwim as an ARDOR was not publicly noticed in all required mediums and did not specifically identify the available comment period. ARDOR regulation 3 AAC 57.060 requires new ARDOR applications to be advertised in regional newspapers and on radio and TV stations.¹⁴ However, the application was only public noticed on the State's public noticing website and in the regional newspaper; DED staff did not provide public notice on the local radio station. Additionally, 3 AAC 57.060 requires DCCED to provide 30 days¹⁵ for submission of public comments on the proposed ARDOR applications. The notification in the local newspaper did not identify the end of the 30 day comment period.

These errors were the result of DED staff failing to identify the unique ARDOR public noticing requirements due to their unfamiliarity with the program. By not following the required public noticing procedures, members of the public may not have been aware of Yukon-Kuskokwim's application or the time frame for providing feedback.

- DED does not have adequate oversight procedures to ensure ARDORs' CEDs meet statutory and regulatory requirements. Eight out of ten CEDs reviewed did not contain all required statutory and regulatory elements. Two of ten were missing information on international trade opportunities, six¹⁶ of ten lacked complete community and village economic profiles, and five of ten were missing a complete work plan containing information on resource, responsibilities, and a schedule for implementation of the regional economic development strategy.

¹⁴The Yukon-Kuskokwim region does not have a local TV station.

¹⁵The 30-day comment period was provided on the online public notice website; however, this medium is not part of the regulation's requirement. Furthermore, since this region is part of rural Alaska, many people do not have access to a reliable broadband connection.

¹⁶The CEDs did not document whether these communities and villages were part of an organized municipality which agreed to participate in these ARDORs.

Alaska Statutes 44.33.895 and 44.33.896 state that the department shall gather information about regional economic issues, international trade, and tourism from the ARDOR organizations. Alaska Administrative Code title three 57.090(a) requires the CEDS develop a strategy for local economic development which includes a work plan that proposes the methods, resources, responsibilities, and schedules for implementing the developed strategy. Additionally, CEDS must include a set of community and village profiles that are part of an organized municipality which has agreed to participate in the ARDOR.

According to DED management, staff relied on the U.S. Economic Development Administration (EDA) review of the CEDS rather than conducting their own review to ensure compliance. While the EDA reviews the CEDS, the federal review does not ensure compliance with state statutes and regulations. Failure to provide complete and comparable information increases the risk future economic development decisions may be based on incomplete information.

We recommend DED's director develop procedures to improve administration of the ARDORs program.

**Recommendation 2:
DCCED DED's director
should review ARDOR
regulations to determine
if updates are necessary
to ensure program
requirements are
relevant and in line with
current program needs.**

The regulation governing the ARDORs program has not been updated since 1993. The department is charged with the creation of ARDOR regulations per AS 44.33.896(b) and (c), which state in part:

The department shall by regulation adopt procedures for applying for regional development grants, including application deadlines. The department may by regulation establish additional grant eligibility requirements.

The department shall establish by regulation a formula that determines the amount of the match required under this subsection based on the capability of each organization to generate money from nonstate sources.

Relatively few statutory changes to the program during its existence, coupled with periodic administration and staffing changes, made regulation changes a lower priority during the last 20 years. An evaluation of the continued relevance of regulatory requirements,

followed by applicable changes, may benefit the efficient and effective administration of the program.

We recommend DED's director review ARDOR regulations to determine if updates are necessary to ensure program requirements are relevant and in line with current program needs.

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Alaska Regional Development Organizations (ARDORs) administered by the Department of Commerce, Community, and Economic Development (DCCED).

Objectives

Audit objectives were to:

- Evaluate the need for the ARDOR program in terms of whether the program is meeting its statutory purpose by reviewing the program's activities for the period FY 08 through FY 15. This included determining whether the program is administered in compliance with legislative intent and statutory requirements and the degree to which ARDORs were successful in meeting their established goals.
- Determine the extent to which the ARDOR program duplicates the efforts of other government, nonprofit, or private entities in terms of encouraging economic development in regions of the state.
- Evaluate the need for economic development by region and compare the need with the areas being served by the program.
- Summarize the legislative intent of the program at creation in 1988 and significant program changes.
- Summarize the ARDOR program expenditures for the period FY 08 through FY 15, including administration costs, amounts granted to ARDORs, grant match requirements, grant recipients, and region served.
- Analyze ARDOR director and staff salaries.
- Determine the extent DCCED is assisting ARDORs with the goal of finding additional funding and advancing projects.

Scope

The audit reviewed the ARDORs program for the period July 1, 2008, to June 30, 2015 except as specifically noted below:

- The ARDOR Comprehensive Economic Development Strategies (CEDs) were reviewed as of March 1, 2016.
- All ARDOR's grant applications were further analyzed from July 1, 2015 to March 1, 2016 to identify changes to the grant process and verify grant activities were in line with CEDs.
- ARDOR legislative intent and program changes were reviewed from program inception in April 13, 1988 to July 28, 2016.
- ARDOR salaries were compiled from the last completed fiscal year or tax year on file as of March 1, 2016.
- DCCED's documented level of assistance provided to ARDORs in finding additional project funding and advancing ARDOR projects was evaluated for the period of July 1, 2014 to January 26, 2016.

Methodology

To gain a general understanding of the ARDOR program, we reviewed and evaluated:

- ARDOR statutes and regulations to gain an understanding of required duties and processes related to grants and CEDs's.
- DCCED's website, annual reports and ARDORs related online articles to gain an understanding of the economic development organizations.
- Research materials from Infobasis, Session Law books, and the Legislative Reference Library to identify the legislative intent of the program.

To further understand the ARDOR program, interviews were conducted with:

- DCCED's ARDOR Coordinator to gain an understanding of the ARDOR grant award, grant disbursement and monitoring process, and possible reasons why several regions of the State do not have an ARDOR.

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- Representatives from U.S Economic Development Administration (EDA), University of Alaska Anchorage, Center of Economic Development (UACED) and Alaska Industrial Development and Export Authority (AIDEA) to gain an understanding of their roles in economic development, perception of the ARDOR program including DCCED's administration of the program, and to obtain their opinion on why several regions of the State do not have an ARDOR.

Interviews were conducted with administration of all ten ARDORs¹⁷ to gain an understanding of each ARDOR, and to obtain their views on program performance and administration. ARDOR interviews further identified, as applicable, total revenues and expenses, the organizational leader's reported salary, total employee compensation, number of employees, and number of hours worked each week by directors and staff on ARDOR activities. The ARDOR organizations interviewed were:

- Anchorage Economic Development Corporation
- Bering Strait Development Council
- Northwest Arctic Borough Economic Development Commission
- Copper Valley Development Association
- Fairbanks North Star Borough Economic Development Commission
- Kenai Peninsula Economic Development District
- Prince William Sound Economic Development District
- Southeast Conference
- Southwest Alaska Municipal Conference
- Yukon-Kuskokwim Economic Development Council

¹⁷As of March 1, 2016.

During the course of the audit, the following samples and files were reviewed and evaluated:

- A random sample of 18 out of 90 grant files was selected for the period July 2008 through June 2015 to evaluate whether the grantees were successful in meeting their established goals. In determining sample size, audit risk and inherent risk were considered low to medium. Results of sample testing were not projected to the grant files' universe because the population was small and the results were sufficient to support our conclusion.
- The same random sample of 18 out of 90 grant files selected for the period July 2008 through June 2015 was used to evaluate whether grantees' self-reported match funds were in compliance with statutory and regulatory requirements. In determining sample size, the audit risk and inherent risk were considered low to medium. The information was self-reported on the grant applications and actual compliance was not verified. Results of sample testing were not projected to the grant files' universe because the population was small and the results were sufficient to support our conclusion.
- Departmental files supporting the one new ARDOR designation between July 2008 and June 2015, to determine if the ARDOR designation was supported and in compliance with statutes and regulations, including verification that the ARDOR designation was approved by the DCCED commissioner or their designee.
- Revocation letters and a communication tracking document to determine if ARDOR terminations occurred timely. The audit defined timely as termination occurring after one year of non-compliance. However, the calculation did take into consideration the time period¹⁸ when the ARDOR program was not reauthorized, and consideration was given to documented efforts by DCCED to help the organizations retain their ARDOR status which spanned over one year.
- All ten current CEDS as of March 1, 2016 to determine if they were in compliance with statute and regulations.

¹⁸Between July 1, 2013, and March 25, 2014.

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- A map of Alaska was extracted from DCCED's annual report in FY 15 to show the regions of Alaska with and without an ARDOR.
 - Emails and various documents maintained by the DCCED ARDOR's coordinator to help evaluate DCCED's level of assistance provided to ARDORs.
 - Applicable IRS tax forms 990¹⁹ to obtain information regarding total revenues, expenses, director or president and employees' compensation and total number of employees for those ARDORs that file an IRS 990. Information was not audited.

Inquiry with DCCED, EDA, UACED, and AIDEA indicated that other than the ARDOR's CEDS there are no other sources of information that record the economic development needs of each region in Alaska.

The audit assumed that every region in Alaska needs continued economic development. To compare the regional needs to areas being served by ARDORs, the audit reviewed all 20 grant applications from July 2015 to March 2016 to evaluate whether the projects undertaken by the ARDORs were in line with the regional priorities listed in the individual CEDS.

Expenditure reports were generated from the state accounting system to obtain ARDOR program expenditures by fiscal year. Administrative expenditures were estimated based on information provided by DCCED employees. Information is noted as unaudited.

We researched the missions and activities of other state economic development entities to determine if they duplicated the ARDOR's economic development activities. The entities were:

- o Alaska Municipal League
- o Alaska Manufacturing Extension Partnership
- o Alaska Village Initiative
- o Alaska Chamber of Commerce

¹⁹As of March 1, 2016.

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- o Fairbanks Economic Development Corporation
 - o Juneau Economic Development Council

One internal control was identified as being significant to the audit objectives, specifically that DCCED's commissioner or designee authorizes the designation of each new ARDOR. This control was verified through the review of DCCED documents supporting the designation of Yukon-Kuskokwim Economic Development Council as an ARDOR. No other internal controls were found to be significant to the audit objectives.

APPENDICES

SUMMARY

Appendix A provides unaudited profiles for each active Alaska Regional Development Organization (ARDOR) as of March 1, 2016. The information is intended to provide a general understanding of the ARDOR's structures, programs, and services. Information in Appendix A was obtained through the Comprehensive Economic Development Strategies, self-reported information by the ARDORs, or obtained from ARDOR websites.

Appendix B summarizes the results of the interviews conducted with ARDOR representatives regarding their perspective on the success of the ARDOR program in relation to its legislative intent. Additionally, the interview discussed their perspective on the level and quality of program administration and assistance provided by Department of Commerce and Community Development (DCCED) staff. The information is unaudited.

There were 10 ARDORs as of March 2016. Due to turnover, one ARDOR representative did not have historical knowledge and was unable to answer questions. This Appendix summarizes the interview results from the other nine ARDORs.

Appendix C documents the required match for all DCCED issued ARDOR grants. Additionally, this appendix documents optional matching requirements at the disposal of DCCED. The information was obtained from the referenced Alaska Statute, and Alaska Administrative Code.

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APPENDIX A

Anchorage Economic Development Corporation

General Information:

- Region covers the municipality of Anchorage
- 2010 Census population is 291,826
- Became an ARDOR in 1989
- Private non-profit corporation 501(c)(6)
- Membership fees range from \$500-\$20,000 annually
- 31 member board of directors

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Offer business assistance such as research, marketing, and business attraction.
- Maintain a listing of available commercial properties on its website.
- Host events to educate the business community and policy makers on regional economic development topics.
- Conduct entrepreneurial programs such as the Statewide Entrepreneurship Week and the Alaska Hackathon.
- Lead initiatives such as Live. Work. Play. (making Anchorage the best city to live, work, and play in by year 2025).
- Conduct annual conference and luncheons for educational and networking purposes.

Bering Strait Development Council

General Information:

- Region covers Nome Census area

APPENDIX A (Continued)

- 2010 Census population is 9,492
- Became an ARDOR in 1997
- Non-profit organization 501(c)(3)
- No membership fee
- 17 member board of directors

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- This ARDOR is part of the larger Kawerak, Inc. organization which provides many other services. As a whole, Kawerak offers child care services, community education (general educational development) programs, employment education and training (workforce development), youth employment services, native employment work services, tribal welfare assistance, vocational rehabilitation, marine programs, Eskimo Walrus Commission, Eskimo Heritage program, social science program, land management services, and community planning and development.
- Oversees Reindeer Herders Association, Tumet LLC, transportation (Indian Reservation Roads), children and family services, child advocacy center, head start, wellness, and village public safety officer programs.

Copper Valley Development Association

General Information:

- Region covers the Copper River Valley of the Valdez-Cordova Census areas
- 2010 Census population is 2,997
- Became an ARDOR in 1990
- Non-profit organization 501(c)(3)

APPENDIX A (Continued)

- No membership fees
- Seven member board of directors

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Offer business assistance such as technical support, business plan development, and financial and funding research.
- Identify and advocate for natural resource development.
- Serve as a regional advocate for businesses in a region without a borough, municipal, or other form of government.
- Partner with other entities to conduct projects such as agriculture and business development and to improve resource sharing.
- Act as a liaison between the federal and state government, private sectors, and local communities.

Fairbanks North Star Borough Economic Development Commission

General Information:

- Region covers Fairbanks North Star Borough area
- 2010 Census population is 97,581
- Became an ARDOR in 1999
- Local government organization
- No membership fee
- Nine member commission

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.

APPENDIX A (Continued)

- This ARDOR is part of the larger Fairbanks North Star Borough local government. General government activities cover the following areas: levy and collection of taxes, education, elections, planning and zoning, animal control, flood control, public libraries, air pollution control, solid waste disposal, parks and recreation, transportation system, housing finance, limited health and social services, and natural utility.
- Other government authorities include: firework control, emergency disaster services, emergency medical services, and economic development.
- Special government authorities include solid waste collection.
- Service government authorities include: road maintenance and construction, fire protection, water supply, sewage disposal, and street lights.

Kenai Peninsula Economic Development District

General Information:

- Region covers the Kenai Peninsula Borough area
- 2010 Census population is 55,400
- Became an ARDOR in 1989
- Non-profit organization 501(c)(4)
- No membership fee
- 16 member board of directors

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Update the situation and prospects report.
- Offer business assistance such as answer questions, inquiries, and

APPENDIX A (Continued)

support services to existing and newly started business.

- Maintain the business incubation center.
- Manage the micro business loan program.

Northwest Arctic Borough Economic Development Commission

General Information:

- Region covers the Northwest Arctic Borough
- 2010 Census population is 7,523
- Became an ARDOR in 1989
- Local government organization
- No membership fee
- Eleven member commission

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy. Including coordination with local communities, mayor, and assembly to update Borough comprehensive plans and provide support to the village/communities to update their comprehensive plans.
- Offer business assistance such as economic enhancement research and development consistent with regional culture, grant administration, loan, and marketing program.
- Collect and distribute data regarding employment, education, and other demographic information.
- Coordinate with other agencies and governments within and outside the region on economic development projects.
- This ARDOR is part of the larger Northwest Arctic Borough. The Borough administers all public services in the region such as capital

APPENDIX A (Continued)

projects, public works, and public safety.

Prince William Sound Economic Development District

General Information:

- Region covers Chenega Bay, Cordova, Tatitlek, Valdez, and Whittier Census Areas
- 2010 Census population is 6,599
- Became an ARDOR in 1991
- Non-profit organization 501(c)(3)
- Nine member board of directors
- Membership fees are between \$60-\$3,000

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Participate in educational and workforce development projects with school districts, community college, and science center.
- Operate the Whittier Museum.
- Host an annual conference and the Valdez Fly-In event.
- Provide support to local events and projects, such as the Brownfields Study of the Buckner Building in Whittier and an energy assessment of the region.

Southeast Conference

General Information:

- Region covers the following census areas: Haines Borough, Juneau City and Borough, Ketchikan Gateway Borough, Prince of Wales, Outer Ketchikan, Sitka City and Borough, Skagway-Hoonah-Angoon,

APPENDIX A (Continued)

Wrangell-Petersburg, and Yakutat City and Borough

- 2010 Census population is 71,664
- Became an ARDOR in 1989
- Non-profit organization 501(c)(6)
- 13 member board of directors
- Membership fees are \$500-10,000

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Host regional collaboration meetings twice a year between the industry leaders, community members, businesses, and government representatives.
- Provide regional economic development planning, regional energy planning, land access advocacy for energy projects, transportation projects, mining projects, timber projects.
- Offer business and individual energy audits.
- Support workforce development program with the University of Alaska Southeast and private industries.
- Support small business development through Lemonade Day.
- Partner with mariculture industry.
- Represent the Southeast Alaska on the Alaska LNG Project.

Southwest Alaska Municipal Conference

General Information:

- Region covers Aleutian/Pribilofs, Bristol Bay, and Kodiak Census Areas
- 2010 Census population is 29,769

APPENDIX A (Continued)

- Became an ARDOR in 1989
- Non-profit organization 501(c)(4)
- Membership fees are \$0.65 to \$390²⁰
- Eleven member board of directors

Programs and Services:

- Develop, maintain, and implement the regional comprehensive economic development strategy.
- Designee of the Manufacturing Extension Partnership for Alaska by U.S. Department of Commerce, National Institute of Standards and Technology.
- Host the annual conference between organization governance and membership business to provide business assistance for economic and community development and networking opportunities.
- Conduct projects such as energy cost reduction, access to broadband, transportation improvement and cost reduction, solid waste recycle, and workforce development.

Yukon-Kuskokwim Economic Development Council

General Information:

- Region covers Bethel and Wade Hampton Census Areas
- 2010 Census population is 24,467
- Became an ARDOR in 2014
- Non-profit organization 501(c)(3)
- No membership fee
- Ten member board of directors

²⁰According to Southwest Alaska Municipal Conference's website, if a municipality has a population less than 500, the membership fee is 65 cents per person.

APPENDIX A (Continued)

Programs and Services:

- Develop, maintain and implement the regional comprehensive economic development strategy.
- Assist with finding funding opportunities.
- Offer technical assistance in grant application, provide training and planning services for economic and energy development in the local communities.
- Promote affordable and energy efficient housing alongside the Cold Climate Housing Research Center.
- Partners with federal and state agencies to carry out economic development projects.

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APPENDIX B: ALASKA REGIONAL DEVELOPMENT ORGANIZATIONS SURVEY

1. The Department of Commerce, Community, and Economic Development (DCCED) was tasked with assisting ARDORs between July 1, 2007, through June 30, 2015, with developing and implementing strategies to attract new industries, expand international trade opportunities, and encourage tourism within the region.

Which of the following statements best describes DCCED's involvement during this specific time period?

Responses	Number of Responses	Percentage of Responses
The most assistance possible	0	0%
Above average assistance	5	56%
Adequate assistance	2	22%
Limited assistance	2	22%
No assistance	0	0%
Total Respondents	9	100%

2. If applicable, between July 1, 2007, through June 30, 2015, did DCCED staff assist your organization in participating in state marketing campaign(s) relevant to the region?

Responses	Number of Responses	Percentage of Responses
Yes	5	56%
No	3	33%
Not Applicable	1	11%
Total Respondents	9	100%

APPENDIX B: (Continued)

3. If applicable, between July 1, 2007, through June 30, 2015, did DCCED staff assist your organization in joining a state trade mission relevant to the region?

Responses	Number of Responses	Percentage of Responses
Yes	3	33%
No	3	33%
Not Applicable	3	34%
Total Respondents	9	100%

4. If applicable, between July 1, 2007, through June 30, 2015, did DCCED staff act as a liaison between your organization and other organizations or state agencies?

Responses	Number of Responses	Percentage of Responses
Yes	6	67%
No	2	22%
Not Applicable	1	11%
Total Respondents	9	100%

4a. To your knowledge, did DCCED staff encourage other organizations/state agencies to make resources available to help accomplish the goals of your organization?

Responses	Number of Responses	Percentage of Responses
Yes	6	67%
No	0	0%
Not Applicable	3	33%
Total Respondents	9	100%

APPENDIX B: (Continued)

5. If applicable, between July 1, 2007, to June 30, 2015, did DCCED staff assist your organization in providing services designed to encourage economic development to local communities and businesses?

Responses	Number of Responses	Percentage of Responses
Yes	8	89%
No	1	11%
Not Applicable	0	0%
Total Respondents	9	100%

6. If applicable, between July 1, 2007, to June 30, 2015, did DCCED staff assist your organization in collecting and distributing economic information relevant to the region?

Responses	Number of Responses	Percentage of Responses
Yes	7	78%
No	1	11%
Not Applicable	1	11%
Total Respondents	9	100%

7. Between July 1, 2007, to June 30, 2015, please rate how successful your organization was in achieving the intent of the program which is "to coordinate public and private resources to encourage economic development in the region."

Responses	Number of Responses	Percentage of Responses
Very Successful	3	33%
Successful	6	67%
Neither Successful nor Unsuccessful	0	0%
Unsuccessful	0	0%
Very Unsuccessful	0	0%
Total Respondents	9	100%

APPENDIX B: (Continued)

8. Between July 1, 2007, to June 30, 2015, please rate how successful your organization was in achieving the intent of the program, which is “to provide the state with information on regional economic issues and opportunities.”

Responses	Number of Responses	Percentage of Responses
Very Successful	3	33%
Successful	4	45%
Neither Successful nor Unsuccessful	2	22%
Unsuccessful	0	0%
Very Unsuccessful	0	0%
Total Respondents	9	100%

9. Between July 1, 2007, to June 30, 2015, please rate how successful your organization was in achieving the intent of the program, which is “to provide assistance in local economic diversification and development efforts to encourage regions to become economically self-sufficient.”

Responses	Number of Responses	Percentage of Responses
Very Successful	3	33%
Successful	5	56%
Neither Successful nor Unsuccessful	0	0%
Unsuccessful	1	11%
Very Unsuccessful	0	0%
Total Respondents	9	100%

APPENDIX B: (Continued)

10. If applicable, between July 1, 2007, to June 30, 2015, please rate how satisfied you were with the following events hosted or coordinated by DCCED staff as being helpful and informative in achieving your goals and objectives.

a. Workshops

Responses	Number of Responses	Percentage of Responses
Very Satisfied	3	33%
Satisfied	4	45%
Neither Satisfied nor Unsatisfied	1	11%
Dissatisfied	1	11%
Very Dissatisfied	0	0%
Not Applicable	0	0%
Total Respondents	9	100%

b. Training Activities

Responses	Number of Responses	Percentage of Responses
Very Satisfied	2	23%
Satisfied	3	33%
Neither Satisfied nor Unsatisfied	3	33%
Dissatisfied	1	11%
Very Dissatisfied	0	0%
Not Applicable	0	0%
Total Respondents	9	100%

c. Conferences other than the ARDORs mandatory meetings

Responses	Number of Responses	Percentage of Responses
Very Satisfied	3	33%
Satisfied	4	45%
Neither Satisfied nor Unsatisfied	1	11%
Dissatisfied	1	11%
Very Dissatisfied	0	0%
Not Applicable	0	0%
Total Respondents	9	100%

APPENDIX B: (Continued)

11. In your opinion, how effective was the Division of Economic Development's administration of the ARDOR program in the time period between July 1, 2007, through June 30, 2015?

Responses	Number of Responses	Percentage of Responses
Very Effective	1	11%
Effective	4	45%
Somewhat Effective	3	33%
Not at all Effective	1	11%
Total Respondents	9	100%

12. Between July 1, 2007, to June 30, 2015, DCCED hosted and required all ARDORs to participate in two or more mandatory meetings per year. In your opinion, how helpful were these meetings in assisting your organization in meeting your ARDOR goals?

Responses	Number of Responses	Percentage of Responses
Very Helpful	5	56%
Helpful	0	0%
Somewhat Helpful	4	44%
Not at all Helpful	0	0%
Total Respondents	9	100%

APPENDIX C

Grant Match Requirements per Statute and Regulation

Statute (AS 44.33.896(c))

1. Match must be from non-State sources.
2. The required match may not exceed the amount of the grant.
3. Match may not be less than 20 percent of the grant.

Regulation (3 AAC 57.070(c))

1. Match funds must not be less than 33.33 percent of the awarded grant.
2. Match funds must be in cash and from non-State sources.
3. Of the 33.33 percent required match, 20 percent, but not to exceed \$10,000, must be from local regional sources such as municipalities, local entities, and the private sector.*
4. A waiver may be applied if a grantee cannot raise the 20 percent local match. A written request must be sent to DCCED to explain that significant effort was made to obtain local funding.

Optional Matching Requirements (3 AAC 57.070 (e)):

1. If the population within the ARDOR's region is 40,000 or greater, funding will be awarded on a dollar for dollar matching basis.
2. If the population within the ARDORs region is less than 40,000 but the region includes all or part of an organized borough, funding will be awarded on the basis of two department dollars for each matching dollar.
3. If the population within the ARDORs region is less than 40,000 and the region includes no part of an organized borough, funding will be awarded on the basis of three department dollars for each matching dollar.
4. An ARDOR can request a waiver to substitute up to 20 percent of the match requirement with an in-kind service contribution. However, the waiver is only available during the ARDOR's first two years of funding and only for entities falling under optional matching requirement 1 or 2 above.

*ARDORs can collect more than \$10,000 from local sources; however, DCCED cannot require more than \$10,000 in local match.

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Agency Response from the Department of Commerce, Community, and Economic Development



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

OFFICE OF THE COMMISSIONER

P.O. Box 110800
Juneau, AK 99811-0800
Main: 907.465.2500
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November 7, 2016

Ms. Tram Nguyen
Senior Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Nguyen

Thank you for the opportunity to comment on the Confidential Preliminary Report regarding the Alaska Regional Development Organizations (ARDORs). Following is the department's response to the report.

The department generally concurs with the report but would like to share a few comments. First, there are numerous other agencies around the state that interface with communities to implement a CEDS in a region outside of the ARDORs (page i and 11).

The department requests review of the staff time devoted to the program. The statement on page 2 is correct that on March 1, 2016 the division did devote half of a full time position to the ARDOR program but since July 1, 2016 that has been reduced to 10 percent of one full time position.

There are two other points of clarification the department would offer. First, on page 7 of the report, the use of formal resolutions from 75 percent of communities is more accurately reflected as letters of support. There is not always a mechanism for a formal resolution to be composed. Second, on page 8 the interpretation of the statute by the department does not require a formal Comprehensive Economic Development Strategy (CEDS) to be developed, implemented or maintained by an ARDOR. The requirement is for a work plan containing goals, objectives, and strategies to attract new industries, expand international trade opportunities and encourage tourism within the region.

Recommendation 1:

The department agrees with the recommendation and will take steps to rectify any gaps in the procedures to improve the administration of the ARDOR program. The recommendation and examples given will be of use in outlining targeted areas of the program to address.

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LEGISLATIVE AUDIT

Hladick
November 7, 2016
Page 2

Recommendation 2:

The department agrees with the recommendation and will review ARDOR regulations and determine if updates are necessary to ensure program requirements are relevant and in line with current program needs.

Again, thank you for the opportunity for DCEED to provide comment on this Confidential Preliminary Report. Should you have any questions about the content of this letter, please do not hesitate to contact me at 907-465-2500.

Sincerely,



Chris Hladick
Commissioner

Cc: Britteny Cioni-Haywood, Director, Division of Economic Development
Micaela Fowler, Legislative Liaison, DCCED

Legislative Auditor's Additional Comments

ALASKA STATE LEGISLATURE LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Audit

P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
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legaudit@akleg.gov

November 15, 2016

Members of the Legislative Budget
and Audit Committee:

We have reviewed the Department of Commerce, Community, and Economic Development's (DCCED) response to this audit report. Nothing contained in the response causes us to revise or reconsider the report conclusions and recommendations. However, there are points raised by DCCED management that we wish to address.

DCCED management asserts that *"on page seven of the report the use of formal resolutions from 75 percent of communities is more accurately reflected as letters of support. There is not always a mechanism for a formal resolution to be composed."* While the department may consider letters of support a valid substitute for formal resolutions, Alaska Regional Development Organization (ARDOR) regulation 3 AAC 57.060 does specify that communities provide a formal resolution supporting the creation of an ARDOR.

DCCED management states that *"on page eight the interpretation of the statute by the department does not require a formal Comprehensive Economic Development Strategy (CEDS) to be developed, implemented or maintained by an ARDOR."* We agree statute does not specifically require ARDORs develop and implement a CEDS. However, department regulation 3 AAC 57.090 does require ARDORs to prepare and implement a regional CEDS. Additionally, per 3 AAC 57.100, failure to develop and implement a CEDS is grounds to terminate an ARDOR's designation.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

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