

Alaska Economic Report

*Tracking resource, business, industry
& construction issues since 1974*

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Permanent Fund contribution to budget set to increase \$200 million more available for FY 2020, Fund says

Alaska's Permanent Fund will pay \$2.93 billion to the state General Fund next year, up from \$2.72 billion paid this year, Fund managers said. While that sounds good, in reality it mainly covers built-in cost increases in the budget such as for rising health care and pension costs. The payment, under the new percent-of-market-value payout rule, is now confirmed for Fiscal Year 2020, the state budget year beginning July 1, 2019. *This is still important because for the first time legislators will begin the session knowing with certainty the amount of a significant chunk of state revenue.* Previously they depended on forecasts of oil revenue, which were uncertain. The Permanent Fund's long-term projection is for steady increases in the POMV payment due mainly to ongoing growth of the Fund. If income meets the target of 8 percent yearly, its historic average, the POMV payments

will reach \$3.66 billion in FY 2028, according to the Fund's projections. Payments are made under a formula set in a new state law that provides 5.5 percent of the Fund's market value to the General Fund (the amount drops to 5 percent after two years.) The Legislature must decide next spring how much of the \$2.93 billion will be used to support public services and how much will be spent on the annual Permanent Fund dividend, or PFD. For the current year, FY 2019, \$1 billion of the \$2.7 billion POMV payment went to fund the \$1,600 2018 PFD and \$1.7 billion went to support the state general fund.

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Health care:

Opposition stirs to proposed state health authority

A proposed State Health Authority is picking up opposition. The plan seeks efficiencies and reductions in health care costs by combining all health plans that are state-funded under one large state-managed plan. The pushback is coming from private health plan consortiums that manage public and private plans, who say they are negotiating better deals with health providers than a large state-run health authority could. Proponents of a state au-

thority cite similar authorities in Washington and Oregon as models. But critics like the Pacific Health Coalition, which manages public and private plans in Alaska and the Pacific Northwest, say the Washington and Oregon state authorities are actually having problems and losing money. The state Dept. of Administration has contracted for consultant studies of the idea and is discussing the idea with the public employer groups. *(More on this in our next issue)*

Transportation:

Fuel shipments by sea to slope

Crowley Fuel delivered a bulk load of diesel by barge to the North Slope in late August, the first marine fuel shipment to the slope in 20 years. Two million gallons were delivered to Colville Enterprises, a fuel distributor on the slope. The barge shipment landed an amount of fuel that would have required delivery by 200 trips by tank truck up the Dalton Highway. State officials have cited the safety and environmental risks of the industry's total dependence on truck fuel transport. A Colville driver was killed in a tank truck accident on the Dalton this summer. Colville said it plans another barge shipment next summer. Increasing industry activity on the slope is adding to local fuel demand.

Short reroute on Dalton Highway

The state Department of Transportation and Public Facilities has rerouted a small section of the Dalton to avoid a mass of frozen debris slowly moving down a hillside. The mass, nicknamed "the blob," would have reached the highway in three or four years. The reroute cost about \$2 million. Vehicles, mainly trucks supporting the North Slope oil fields, began using the reroute Aug. 31.

Energy:

More LNG storage in Fairbanks

Construction is proceeding in Fairbanks on a \$52.5 million liquefied natural gas storage tank for the Interior Gas Utility with the project on track for completion in late 2019. Meanwhile, IGU's board approved a contract for engineering on a second, smaller LNG tank at North Pole, with a preliminary cost estimate of \$12 million. Completion of the second tank is also expected in late 2019. The tanks will allow IGU to buy more gas during summer, storing it for winter peak demand. That smooths out annual gas purchasing from Cook Inlet gas producers, hopefully leading to a better price. IGU

Energy:

LNG storage in Fairbanks (Cont.)

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now operates five to six LNG truck tankers a day up the Parks Highway, dropping to one to two trucks a day in summer. Having storage will allow the winter traffic to be reduced.

IGU's board, meanwhile, continues to study a proposal from Siemens and Knik Tribal Council to build a modular LNG plant at Houston, north of Wasilla in the Matanuska-Susitna Borough, in lieu of building a new plant at the site of its current small LNG facility near Port MacKenzie, also in Mat-Su. There is time on this, however, because it will take time for gas demand in Fairbanks to build, and in the meantime incremental demand growth can be met with the existing plant aided by new storage facilities.

Private solar project in Mat-Su

Private Alaska-based developers are building a large solar panel array near Willow, on the Parks Highway north of Anchorage, to serve local customers. The 100-kilowatt project, being built for \$200,000 to \$300,000, will switch on in mid-September as a "proof of concept," to set the stage for an expansion in 2019, the developers said. The company is Renewable IPP, funded by four local investors. The main initial customer is Matanuska Electric Association, the local utility, which will buy solar power at a wholesale price of \$0.09 per kilowatt hour. MEA now purchases power from two other small independent power producers, both "run-of-river" small hydro projects near Palmer and Eagle River.

GVEA's Healy 2 coal plant on line

Golden Valley Electric Association has officially restarted its 50-megawatt Healy 2 coal plant, which uses advanced emission controls. The plant is now operating at near full-capacity, the utility said. Healy 2 was shut down for years over a commercial dispute with the state, which built the plant in 1989.

Politics: Three-way governor's race unpredictable

Is Walker being squeezed between Begich, Dunleavy?

On the governor's race the street talk in Alaska is that Democrat Mark Begich is expanding his support base on the liberal left side of the slate while Republican Mike Dunleavy on holding his conservative voters on the right, and that independent Bill Walker, in the middle, is getting squeezed. Most of the betting is on Dunleavy being the state's next governor. However, this is really too volatile to realistically predict. What is known is that whoever is elected will win with a minority of voters, less than 50 percent, in this three-way race.

Begich swings left, endorses salmon initiative

Begich is surprising many by swinging further left, for example in endorsing the controversial "Stand for Salmon" ballot initiative. Critics also accuse Begich of pandering to "save my Permanent Fund Dividend" voters by promising to put the PFD into the state Constitution, which may have legal problems. The plan also faces dubious prospects of getting the three-quarters vote in the state Senate and House needed to put the question on the ballot. Also, experienced legislative observers say Begich's proposal for a large statewide general obligation bond for capital projects is unrealistic because many types of projects won't fit well on a g.o. bond. Also, it will be virtually impossible to prevent the bond authorization from becoming a "Christmas tree" in the Legislature, a sure-fire road to voter rejection at the ballot box. Begich, an experienced former mayor and U.S. senator, surely knows this.

Meanwhile, Dunleavy is frustrating his opponents by keeping silent about positions on issues other than broad generalities. He likely fears that being too specific will only inspire criticisms. The fact that he is such an unknown should be a concern, but this hasn't surfaced yet. Dunleavy is close to the influential sports-fish lobby, which indicates a leaning in the sports vs commercial fish competition. He is also sounding more moderate in some pronouncements. For example, he told the Anchorage Chamber of Commerce that a \$4 billion state operating budget adjusted for inflation sounds "right." (The actual operating budget this year is about \$4.6 billion.)

Walker runs on record of addressing state's fiscal challenge

Meanwhile, Walker is running on his record of supporting a fiscal restructuring, accomplished through Senate Bill 26 and the percent of market value formula for tapping some of the Permanent Fund income to help support the state budget. The governor also said that rising oil prices, along with the POMV plan, will ease the state deficit. At a \$73 oil price (year-long average) and the POMV draw the state budget will balance, the governor said. However, that does not address the need for a state capital budget or for the \$1.8 billion-plus deferred maintenance backlog on public buildings including the university.

However praiseworthy the record is, what many voters remember is that Walker cut the 2015 PFD sharply, from the amount specified in a formula in state statute. That he did this in the midst of a state financial emergency, and that the Legislature basically followed a similar course in setting the 2016 and 2017 PFDs through a budget action, doesn't seem to matter to many voters.

Business Intelligence

Military, tourism lifts Fairbanks this year

Its jobs are still down from 2015 but Fairbanks is enjoying a mini-boom in home construction this year, lifting construction employment, with most of this in the North Pole community east of the Interior city. About 300 new residential housing units are needed for new Air Force personnel and families moving to Eielson Air Force Base with the two new F-35 squadrons arriving in 2019 and 2020. The Air Force said about 900 units are needed in total but when the normal Fairbanks area new construction and vacant existing capacity in the community are factored in, the new units needed drops to about 300, community officials say. Vacancy in older housing units are not included in the survey.

Meanwhile, construction at Eielson for new interceptor support facilities is underway, with \$565 million budgeted. The work is boosting local employment in construction and engineering services. Fairbanks construction jobs are up 7.7 percent this year, state labor economists say.

Tourism boosts Fairbanks; leisure and hospitality employment up 12 percent this year.

Tourism is boosting Fairbanks. Leisure and hospitality employment, about half of which is restaurant and hotel workers, is up 12 percent this year. Winter tourism is increasing too. First quarter 2018 hotel/motel “bed tax” collections totaled \$10.1 million with first quarter 2017 bed tax collections totaling \$11.7 million. That reflects a sustainability in the trend. First quarter collections were \$8.96 million in 2016 and \$7.89 million in 2015.

Wages paid in Alaska rose 1.6 percent in the first half of 2018

Total wages paid in Alaska rose 1.6 percent in the first half of 2018, according to the state Department of Labor and Workforce Development. This occurred despite a small loss of jobs, of 0.6 percent, for the period. The apparent contradiction is explained by the mix of jobs, with more higher-paying jobs included in the overall mix. Health care, a relatively well-paid field, showed strong growth. In oil and gas jobs were down 8 percent but total income in the occupation was up 4.7 percent. Bonuses and incentive pay, which typically happens in the final quarter of the year, explain part of the income growth, state economists said. The state has lost 10,000 jobs since the recession started three and a half years ago.

Marijuana tax revenue continues to climb; funds earmarked for drug treatment

Marijuana continues to be a growth industry. State tax collections from marijuana sales reached \$1.37 million in July, \$110,000 up from June. Half of the state’s marijuana revenue collection is earmarked to support prisoner recidivism programs. Beginning in October one quarter of collections will support a new state marijuana education fund.

Arguments in cruise industry lawsuit in Juneau

A federal judge heard arguments Sept. 18 in the cruise industry’s lawsuit against the City and Borough of Juneau over how Juneau is spending money collected through a state cruise passenger tax. The industry argues that the funds should have been spent on projects benefitting cruise passengers under interstate commerce provisions of the U.S. constitution. The projects underway by the city do not directly benefit cruise visitors, it was argued. The city contends the projects do provide benefits.

University requests \$24.5 million increase for next year's budget

University of Alaska regents will propose a \$351.5 million operating budget to the governor and Legislature for next year, Fiscal Year 2020. This would be a \$24.5 million increase from the current year. Separately, the regents requested a \$50 million capital budget for deferred maintenance on university buildings (the university's deferred maintenance backlog totals about \$1 billion) and another \$5 million for the USArray Program, a system of seismic monitors that would detect ground movements. Legislators appropriated \$327 million for the university's current-year budget, a \$10 million increase over last year. Regents met in Juneau in a two-day budget retreat in early September.

Anchorage teachers at contract impasse with district

The Anchorage School District and the teachers' union declared an impasse in contract negotiations and have asked a federal mediator to step in. There are disagreements over salary and benefits and teachers are also asking for more autonomy in the classroom. The union's contract proposal would add \$54 million over three years in costs for the district, school officials said.

State issues air violation notices to cruise ships

The state Department of Environmental Conservation filed nine notices of violation of air quality regulations to cruise lines this year, the highest number since 2014. Holland America was cited for four violations on ships; Princess Cruises for two; Royal Carribean for two and Norwegian Cruise Line for one. Fines could be as high as \$40,000 per violation but the state will take in account steps taken to decrease emissions or a past record of compliance with regulations. Most violations occurred in Ketchikan, but that is where DEC's compliance staff are located.

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Latest Nenana Basin well is dry

Tough break for Doyon and Cook Inlet Region, partners in the latest well in the Nenana Basin, Totchaket #1. The well is 20 miles north of the city of Nenana. Drilling to 11,225 feet was completed July 5, but no commercial oil or gas was found. In its monthly newsletter to shareholders CIRI said, “While Totchaket #1 did not discover commercial quantities of gas or oil, the well encountered multiple gas shows and CIRI continues to believe the basin holds considerable natural resources,” CIRI said in a statement, trying to be upbeat. The well will be permanently plugged and abandoned. Doyon, which was operator on the project, has not made a statement. This the fourth test well drilled in the basin in recent years, with Doyon in the lead on all four.

Caelus tight on Smith Bay plans

Caelus Energy is keeping its plans for another Smith Bay appraisal well tight. State agencies say the company has filed no plans for this upcoming winter drill season in Smith Bay. Reports are Caelus is still working to raise funds. The recent sale of Caelus’ leases southeast of Prudhoe Bay to Eni Oil and Gas may help. However, another test well, hydraulic fracturing and flow test at the remote Smith Bay site will be costly, maybe in the \$100 million range. Caelus did a very thorough seismic mapping of the prospect last winter so there’s more information for potential investors. We hear the Apollo group, which financed earlier work, is no longer be able to help. Meanwhile, the litigation over the state’s proposed bonding plan for unpaid tax credits, which might help Caelus, is still dragging out in court.

Oil and gas employment level

Oil and gas employment held steady in August at compared with July, at 9,400, but was 400 down from August 2017, state labor economists said. The industry is about 5,000 jobs down from its peak in 2015.

Moose Pad on track for startup

Hilcorp Energy will begin development drilling on its “Moose Pad” heavy oil project on the North Slope in November and expects to have first production by the end of December, company officials said in a briefing. The project is expected to reach 10,000 barrels per day production in 2019 and over 20,000 barrels per day in 2020. Moose Pad will triple Hilcorp’s production of the thick, viscous fluid. Hilcorp is now producing about 10,000 barrels per day of viscous oil from the Schrader Bluff formation, a part of the Milne Point field, which produces mostly conventional oil. Schrader Bluff oil is similar to West Sak oil produced in the nearby Kuparuk River field. Schrader Bluff and West Sak oil are both in the range of 19 degrees API.

Hilcorp is also experimenting with a polymer flood procedure that it hopes will loosen the thicker oil, and improving recovery from the large oil resource in place. Schrader Bluff is now expected to produce about 10 percent of the oil in place, and the company hopes the polymer can boost that to 25 percent recovery.

Liberty project producing by 2023?

Hilcorp is also continuing development planning for Liberty, a larger \$1 billion nearby project in offshore Beaufort Sea waters, which will produce 60,000 barrels per day of conventional light oil when it goes into operation, which is expected in 2023. About 60 to 80 will be employed in drilling. Production will require about 30 to 50 people, Hilcorp said. Liberty is in federally-owned Outer Continental Shelf waters. The U.S. Bureau of Offshore Energy Management issued a Final Environmental Impact Statement for Liberty Aug. 31 and a federal Record of Decision is expected in mid-October. That will clear the way for final federal permits for the project. Liberty is 15 miles east of Prudhoe Bay and is six miles offshore and in 19 feet of water. The deposit is now estimated to hold 80 million to 130 million barrels of recoverable oil.

Minerals:

Pogo Mine sold by Sumitomo

Australia-based Northern Star Resources Ltd. is purchasing the producing Pogo gold mine east of Fairbanks from Sumitomo Metal Mining Co. and Sumitomo Corp., two Japanese companies that developed and owned the mine. A sales price of \$260 million was confirmed. The deal is expected to close in October. Pogo has been a very successful undertaking, overcoming obstacles in developing an underground mine in a remote location north of Delta in 2006. The mine produces about 300,000 ounces of gold yearly, a total of 3.6 million ounces since production began. An expansion program to tap nearby discovered gold resources is expected to allow Pogo to continue its current production for an extended period. The mine employs about 320 staff directly along with about 150 contractors.

Pebble opponents cry foul

Groups fighting the proposed Pebble mine said a U.S. Army Corps of Engineers report on comments from a series of public “scoping” meetings was inadequate in presenting comments against the project. Pro-mining groups complimented the corps. The Alaska Miners Association said the agency indicated “a willingness to listen” by allowing 90 days for the meetings and follow-on comments instead of the 30 days usually allowed for scoping sessions. The corps is working on the draft Environmental Impact Statement for Pebble, based on the company’s amended application for permits. The original application was made last December.

The corps also published 50 requests for more information it has made to Pebble Partnership, developer of the proposed mine. The requests and the corps’ answers are on the Corps’ Pebble project website. Pebble is 200 miles southwest of Anchorage near Lake Iliamna. The project is controversial because it is located in a sensitive area where there could be impacts on salmon-bearing river systems.

Fisheries:

Salmon season wraps up

Alaska’s 2018 summer salmon fishery is about wrapped up. The harvest will be well below the pre-season forecasts due to unexpected timing of some runs, which disrupted fishing. Sockeye catches are coming in on target at about 50 million fish but pink and silver harvests are below expectations. Bristol Bay had its second-best sockeye harvest, however.

Fall fisheries pick up statewide

With summer over the state’s busy fall fisheries are getting underway. Harvesters in Southeast are bringing in sidestripe and pink shrimp and spot shrimp fishing begins Oct. 1. About 900,000 pounds of sidestripe and spot shrimp are expected to be harvested. Dungeness crab fishing also begins again in October along with the niche dive fisheries, such as for sea cucumbers. Most of this is in Southeast but cucumbers are also harvested near Kodiak and in the Alaska Peninsula and Bering Sea regions

Halibut fishing is also underway, with about 78 percent of the 20-million-pound catch limit harvested so far. The halibut season started last March and ends Nov. 7. Pollock fishing in the Bering Sea gets underway Oct 1 also, and the red king crab and snow crab fishing begins in mid-October. Meanwhile, fishing for cod continues.

Ocean Beauty Petersburg plant

Ocean Beauty Seafoods is permanently closing its cannery in Petersburg, in southeast Alaska, and will rely on its facilities at Excursion Inlet, 40 miles west of Juneau, and in Cordova and Kodiak to meet canning needs. This leaves Icicle Seafoods as the only company operating a cannery in Petersburg. Ocean Beauty officials said the new arrangement give it flexibility to deal with increasingly erratic pink salmon runs in Southeast.

Business Intelligence - *continued*

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Well-known businessman, financial advisor Robert Gillam dies

Robert Gillam, founder of Alaska-based McKinley Capital Management and a well-known foe of the Pebble mine, died unexpectedly of a stroke. He was 72. Gilliam was reported to be one of Alaska's wealthiest individuals. Gillam's firm grew and prospered, proving that a major financial management firm could be successful in Alaska.

Niche retailers in Anchorage do well; Moose's Tooth owners expanding

Niche retailers in Anchorage are doing well. The owners of Anchorage's highly-successful Moose's Tooth Pub and Pizzeria will open a new establishment at the former La Mex restaurant on Spenard Road in Anchorage. The new project will be a "food hall" with about 10 local food vendors providing service. Food halls are fast gaining in popularity in the Lower 48. Moose's Tooth also opened the Bear's Tooth Restaurant and theater in Spenard, and the company also owns the popular Alaska Rock Gym. A common theme in all of the enterprises is an appeal to a young demographic set with disposable income.

North Slope oil work pays over 25% of Mat-Su payroll

Most Alaskans think North Slope oil work is important to residents of Fairbanks, Anchorage and the Kenai Peninsula, but it's also important to the Matanuska-Susitna Borough. The most recent state labor data, for 2016, shows 2,871 Mat-Su residents employed on the slope with about \$281 million in wages earned. Interestingly, while slope workers constituted only 7 percent of Mat-Su's employment in 2016 the wages amounted to over 25 percent of the total \$1 billion estimated to be earned in 2016 by Mat-Su residents. 2016 is the most recent year the residency data can be compiled because labor economists match employer reports against Permanent Fund Dividend applications to verify residency, and there is a two-year lag in doing that. Mat-Su slope employment dropped from 3,588 in 2014, but that reflects the effect of the oil-price drop in 2015 and cutbacks by companies and contractors.

Alyeska Pipeline will trim 10 percent of its workforce in reorganization

Alyeska Pipeline Service Co. said it will trim about 10 percent of its workforce in a reorganization. The move is aimed at simplifying maintenance and will not affect the quality of support work for the 800-mile Trans Alaska Pipeline System. About 130 jobs will be eliminated. The split of layoffs between field workers and headquarters staff, mainly in Anchorage, is not yet known but Alyeska said the move is aimed at giving more authority to workers in the field.

BP says it spent \$855 million, employed 1,600, in Alaska in 2017

In its annual economic impact report BP said it spent \$855 million with vendors in Alaska in 2017 and paid \$543 million in taxes, royalties and other payments to Alaska governments. The \$855 million to vendors is down from \$1.3 billion paid in 2016, however. That was likely due to cuts in drilling. The company employed 1,600 in Alaska in 2017, and made more than \$3 million in charitable donations in the state last year.

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