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Native corporations' new stake in slope oil

New projects will pay $173 million/year in royalties at peak

Alaska Native corporations have a direct stake in North Slope oil production that will increase when new oil projects now planned go into production. Three new projects by themselves will pay $173 million a year to Native corporations at peak production, according to information provided to state legislators by the state Department of Natural Resources.

Arctic Slope Regional Corp., the Alaska Native development corporation for the state's northern region, owns a share of subsurface mineral interests in several oil discoveries on the slope as well as two fields that are producing, the Alpine field on state lands and GMT-1 in the National Petroleum Reserve-Alaska. Under terms of the Alaska Native Claims Settlement Act of 1971, or ANCSA, ASRC shares 70 percent of its oil royalties with other Native regional and village corporations formed under ANCSA. That means almost all of Alaska's Native people, who are shareholders in ANCSA regional or village corporations, have a financial stake in oil development on the slope.

Data presented to legislators by the state DNR illustrates the Native holdings in three new oil projects. DNR showed that at GMT-1, which is producing, ASRC receives 82 percent of the royalty share; in GMT-2, a nearby project now in construction, ASRC will receive 8 percent of the royalties.

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In this Issue:

Governor's new budget is a shocker!

As he said he would, Gov. Mike Dunleavy introduced his new state budget Feb. 13, slashing $1.6 billion, or about a fourth, from the current budget. The governor proposes cutting the University of Alaska by almost one half, taking most state funds from the ferry system and eliminating small agencies like the Division of Agriculture. State funding for schools would be cut by one-fourth. In one surprise move, Dunleavy proposed ending the ability of municipalities to levy property taxes on oil and gas facilities, which will virtually eliminate the tax base of the North Slope Borough and City of Valdez, and severely reduce the tax base of the Fairbanks North Star Borough and the Kenai Borough. which also hold substantial petroleum-related properties. The governor said he sees this as part of a negotiation with the Legislature, an implication that he may back off on some of the proposals.

Petroleum:

Alaska Native corporations have big stake in North Slope oil fields

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At Pikka, a new project on state lands, ASRC will receive 17 percent of the royalties. When GMT-1 reaches its peak of about 30,000 barrels per day ASRC's share of royalty will total $102.5 million per year of $125 million per year in total royalty, according to the DNR estimates; when GMT-2 reaches its peak, also 30,000 barrel/day, ASRC's royalty will be about $12 million per year of $149 million in total royalty. When Pikka reaches its expected peak of about 120,000 barrels/day, ASRC's royalty share will be about 17 percent of a total $345 million/year in royalties paid, or $58.6 million net.

Combined royalties paid to ASRC at peak production for these three projects, a total of $102.5 million at GMT-1; $11.9 million at GMT-2 and $58.6 million at Pikka, is $172 million a year. This does not include ASRC's royalty share from the Alpine field production, which was not included in the DNR presentation. Alpine royalties would be in addition, and they would be substantial.

However, ASRC actually nets only 30 percent of the royalties received because 70 percent is shared with other Alaska Native regional and village corporations. Of the $173 million total royalty expected at peak years of production, ASRC's share is $51.9 million a year with the remaining $121.1 million to be paid to other Native corporations.

The revenue-sharing is required under terms of the 1971 Alaska Native Claims Settlement Act, which established the Native corporations and the settlement for aboriginal land claims. ANCSA established the surface land ownership and subsurface mineral rights of the new Native corporations.

Royalty is similarly shared from other resource projects on Native-owned lands, such as from the Red Dog lead and zinc mine in northwest Alaska, which is on lands owned by Nana Regional Corp. However, if oil is discovered on a Native-owned inholding in the Arctic National Wildlife Refuge, where ASRC is the owner of mineral rights, revenues would not be shared with other Native corporations. That is due to the unique manner in which the rights were transferred to ASRC by the Department of the Interior through an exchange for ASRC-owned surface lands in the Gates of the Arctic National Park. Some efforts are underway in Congress to provide a small royalty share from ANWR to other Native corporations, however.

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Economy:

Mat-Su showing job gains

The Matanuska-Susitna Borough gained jobs from 2015 to 2018, at a time when most communities in the state lost employment, according to data from the state Department of Labor and Workforce Development. Mat-Su employment was up 3.4 percent during that period, or 769 jobs. Most of the gains were in health care and social assistance. Anchorage lost 6,084 jobs in the same years, and the statewide employment loss was 12,700.

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Health Care:

Medicaid covers 210,000 Alaskans

Alaska's Medicaid population is now over 210,000 recipients, up from 123,335 in 2015 before Gov. Bill Walker expanded the program. The state Department of Health and Social Services is struggling with the administrative load with a processing backlog of about 15,500 new applicants. The current enrollment total constitutes about 24 percent of the state's population. Gov. Mike Dunleavy wants to reduce the program's costs but there are no plans for now to roll the expansion back.

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Governor's budget cuts hit across the state

It's hard to believe Gov. Mike Dunleavy is really serious about the draconian budget he introduced March 13. The cuts are severe across the state and affect almost every significant community and interest group, from coastal communities that depend on the state ferry system (gone, in its present form) to a state university system cut in half (essentially gutted.) The public school system would take a big hit, and the entire tax base of the North Slope Borough, in the influential Arctic Slope region (where Arctic Slope Regional Corp. endorsed Dunleavy) would be eliminated, taken over by the state.

Basically, the governor's budget reduces total state appropriations from $6.09 billion in current year to $4.633 billion (the number is a bit larger if compared with former Gov. Bill Walker's proposed FY 2020 budget, which Dunleavy is changing).

Some details:

- Public schools would see a $280 million reduction, mainly through a reduction in the formula that allocates state money to school districts
- The Alaska Marine Highway System would take a $98 million, or 65 percent, cut of its state support. State ferries would only be able to operate until October. The administration will also seek to privatize the system
- The university would see a $155 million cut, which would force closures of some campuses and curtailments of major programs, including workforce training and research
- Health spending would be cut $270 million, part of this through a hoped-for increase in federal Medicaid reimbursement but also a proposed decrease in payments to medical providers to patients in the Medicaid system (which now amount to about one-fourth of the state population).

In a press briefing for the budget roll-out, state budget director Donna Arduin downplayed the employment impact. About 500 state jobs would be eliminated, she said. But that did not include 320 ferry system workers, some of whom who presumably transfer to a possible new private operator, or the university system, where UA President Jim Johnson predicted a possible loss of 1,300.

Governor's oil tax change, aimed at North Slope Borough, would hit Fairbanks, Valdez and Kenai

One proposal by the governor may have been poorly thought-out. The plan would not allow municipalities to levy property taxes on oil and gas facilities, effectively reserving this tax base to the state under its current state 20-mill property tax on oil. This effectively wipes out the tax base of the North Slope Borough but what probably isn't understood by the people around the governor is that it also wipes out the industrial tax base of the city of Valdez, where the oil pipeline terminates, and would greatly affect the Fairbanks North Star Borough and Kenai Borough, both of which have substantial petroleum facilities as tax base. Also, bonds sold by those municipalities backed by the industrial tax base would be in jeopardy. That likely affects a large amount of money, and will quickly get Wall Street's attention, and would ultimately damage Alaska's state credit because the state is basically seen as the guarantor of municipal debt. It's known as "moral obligation" debt in financial terms.

Business Intelligence

Construction spending nudges up this year; oil, military

A survey of expected construction has estimated that spending in the industry will rise by 10 percent in 2019 over 2018, to a total value of $7.2 billion. Associated General Contractors of Alaska sponsored the study, which is done annually by the University of Alaska Anchorage's Institute of Social and Economic Research. Oil and gas and military-related building will be the fastest-growing parts of the industry, with both expected to grow 13 percent. Oil and gas drilling work is counted as construction in the study. Mining-related construction, while much smaller than petroleum or military work, is predicted to increase 18 percent.

Overall private sector construction is forecast at 9 percent, while public-sector building is estimated to grow by 7 percent. The study did not include money to be spent in earthquake rebuilding in Southcentral Alaska.

CRUISE TOURISM WILL SHOW SHARP GROWTH: Cruise tourism to Alaska is now expected to grow 16 percent in 2019 over 2018, according to the latest estimates from the Cruise Lines International Association. That translates to 175,000 more cruise visitors arriving in Ketchikan, Juneau, Sitka, Skagway, Seward and Valdez, the main ports of call for cruise ships. The growth is being accommodated mainly by larger ships. Three new vessels in the 2019 schedule will have capacity for 3,000 each; one vessel returning has capacity for 4,000.

Juneau, which is on the Southeast cruise ship itinerary, has seen its visitor numbers double over the last decade. On a "heavy ship day" the community may experience about 15,000 visitors; with the larger vessels that may grow to 20,000 daily. Juneau has about 35,000 permanent residents.

ANCHORAGE LOOKS AT TAX HOLIDAY FOR NEW HOUSING: Anchorage Mayor Ethan Berkowitz is proposing a 12-year property tax reduction for developers working on new or redeveloped multi-unit housing in the city's downtown. Projects would have to add at least four units to qualify. The tax reduction must also be applied for before construction begins and would not apply until the development is complete and certified for occupancy. New housing is badly needed in Anchorage, particularly in the core downtown area where it would bring new population and energize the downtown, but developers say high land costs there make projects extremely expensive.

There are some downtown projects now under development or proposed including a mixed-use project by nonprofit Cook Inlet Housing Authority and a condominium project on Alaska Railroad Corp. land, both in construction. In the proposal stage is a redevelopment of Anchorage's downtown transit center into a mix of apartments, retail and a hotel, and another mixed-use project by the nonprofit Anchorage Community Development Authority.

BETHEL'S FARM NOW SERVES OUTLYING VILLAGES IN Y-K: A small commercial farm operating in Bethel, and also importing organic produce from Oregon, has expanded deliveries of fresh food to small villages in the Yukon-Kuskokwim delta region and will also expand its farming operation in Bethel itself. Family-operated Meyers Farms was shipping 180 boxes of fresh food weekly from Bethel to villages through most of the fall, although shipments slowed in December due to lack of air transport capacity. The

farm itself will also expand from 17 acre to 27 acres in 2019. Soils in the Y-K region are highly fertile with enough depth of top soil to be very productive, farmer Tim Meyers said. Local farms could be expanded to meet more of the local food needs, he told us.

AIDEA BUSINESS LOANS SHOW A DIP; LIKELY DUE TO RECESSION: Business loan participations by the Alaska Industrial Development and Export Authority dipped in 2018 to $71.7 million, down from $108.5 million in the prior year, according to presentations to legislators by the state Department of Commerce and Economic Development, the agency that houses AIDEA. Loan participations are loans to businesses joint-ventured with commercial banks, mostly for real estate development and capital expansion. The reduction is a result of the slowing economy.

MORE SMALL COMMUNITIES OUT OF COMPLIANCE ON INDICATORS: The number of Alaska communities out of compliance with management "sustainability" indicators ticked up last year, although the number is below noncompliant levels in 2014 and prior years, according to data from the Department of Commerce and Economic Development. The data showed 123 communities out of compliance and 263 in compliance in state Fiscal Year 2018. The out of compliance number was 117 in FY 2017 but was up to 144 in 2014 and 161 in 2009.

The measurements include whether communities have active workers' compensation policies; whether municipal elections are held on time; whether state and federal financial audits have been completed and filed; whether there are liens filed; whether the community is current on public employee retirement payments; whether the community is current on fuel loans and whether financial documents such as budgets and certified financial statements have been completed and filed. Most of the problems are in rural

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Petroleum:

Top officials depart state agency

Two top state officials who deal with oil and gas are leaving. Chantal Walsh, director of the Division of Oil and Gas, and Paul Decker, senior petroleum geogist in the division's resource evaluation group, are headed out. The moves are unrelated to the change of administration. Decker is taking a position at Oil Search, the company now developing the Pikka prospect, while Walsh is returning to PetroTechnical Resources, where she worked previously.

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ConocoPhillips' 2018 Alaska profit

ConocoPhillips earned a $1.8 billion profit on its Alaska operations in 2018 and $445 million in the fourth quarter. The company also said it also spent $1.3 billion on capital projects during the year. In a review of the year for financial analysts, ConocoPhillips said it has set a $40-per-barrel break-even price for all of its future Alaska projects, a reduction from a break-even threshold of $60 three years ago. The lower threshold is a result of cost-cutting initiatives.

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ANWR lease sale next winter?

Public hearings are wrapping up on the Draft Environmental Impact Statement for leasing in the Arctic National Wildlife Refuge with the final EIS and Record of Decision still scheduled for this fall. That means a lease sale could be held next winter. Meanwhile, SA Exploration, a seismic company hoping to do a geophysical exploration program in the refuge, says it might still be able to move equipment in and do a short program, and be ready for next winter. Issues over detection of polar bear dens, and the federal shutdown, affected the company's ability to do a full program this winter.

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ASRC to do flow test at Placer

ASRC Exploration says it plans to do a flow test at its Placer No. 3 well beginning in late March. ASRC's leases are near the western boundary of the Kuparuk River Unit, in which the producing Kuparuk field is located. ASRC plans a 18-to-20 day flow test to determine productivity of the well. If developed, Placer would likely be a small producer similar to the Brooks Range Petroleum's Mustang field, which is nearby. ASRC is tentatively planning a four-well development with three production wells and one injector well.

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Hilcorp's Moose Pad completion

Hilcorp Energy is proceeding with final installation and testing work related to its new $400 million Moose Pad project in the Milne Point field. Moose Pad will add about 60 million barrels of reserves in the field, and Hilcorp has designed a new production facility with capacity for 85,000 barrels per day of new production.

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Minerals:

Appeals filed, Donlin Gold permits

A consortium of tribal governments in the Yukon-Kuskokwim region has appealed state approval of permits issued for the Donlin Gold project in the mid-Kuskokwim River area. Earth Justice, an environmental law firm, filed the appeals on behalf of 14 tribes in the region. The mine is in an advanced planning stage and would be built and operated by owners Barrick Gold and Novagold Resources. Land and mineral rights at the mine are owned by Calista Corp., the regional Native corporation, and The Kuskokwim Corporation, which is owned by villages in the area.

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Economy:

Oil, construction jobs on the rise

December employment data from the state shows oil and gas jobs up 1.1 percent and construction rising 1.5 percent, continuing a trend as the state's recession levels off. Total employment statewide was down 0.3 percent, or 900 jobs, from December 2017.

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Energy:

Renewables: 30% of Alaska power

Renewable energy, mainly from hydro and wind, provided 30 percent of Alaska electric power requirements in 2016 but the percentage dropped to 29 percent in 2017 because of variations in rain and seasonal snow-pack, which affect hydro. The state's goal is 50 percent renewable by 2025 but achieving that will be problematic given the small number of new renewable energy projects being planned, the state Department of Commerce and Economic Development told legislators. The largest new project now underway, the Bradley Lake expansion, will increase the percentage less than 1 percent. At this pace it will take 100 years to reach 50 percent, the department said. Still, Alaska has seen a rapid increase in its renewable portfolio in the last 10 years. In 2009 only 17 percent of power needs were met by renewable energy. The commerce department hosts the Alaska Energy Authority, the state entity charged with promoting renewable energy.

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Hydro One deal is scuttled

Hydro One's acquisition of Avista, the holding company that also owns Juneau's Alaska Electric Light & Power is off. The Regulatory Commission of Alaska had approved the deal but utility commissions in Washington and Idaho denied approval based on concerns over political influence on Hydro One of the Province of Ontario, which is a 47 percent shareholder. When a new political party took power in Ontario in 2018 the province used its ownership stake to oust the CEO and the board of Hydro One. That was a red flag for the Washington and Idaho regulators.

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Chugach-ML&P merger

Chugach Electric Association is expected to file in March for Regulatory Commission of Alaska approval of its acquisition of Anchorage's city-owned Municipal Light & Power. Anchorage's assembly and Chugach's board approved the deal in December. A critical part of the RCA's decision will be on Chugach's proposed plan to recover costs from ratepayers. If the commission approves the plan Chugach would move to secure several hundred million dollars in financing. The RCA will have six months to review the application.

Chugach-ML&P merger (Cont.)

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Fisheries:

Alaska seafood still tops menus

Alaska seafood retained its No. 1 ranking as the most asked-for protein brand on restaurant menus for the third year a row, according to Dataessentials Research. In 2016 Alaska seafood passed Angus Beef, previously the most commonly requested protein. Branding is important, also. The research found that 87 percent of consumers are more likely to order a fresh seafood dish if an Alaska seafood logo is on the menu, and 94 percent said they are likely to order fish/seafood when the word "Alaska" is on the menu. Alaska Seafood Marketing Institute, a state agency supported by industry and federal funds, works in promotion of Alaska seafood.

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Transportation:

Truckers need younger drivers

Alaska's truckers are working to ease a federal rule that inhibits the industry's ability to hire younger drivers, age 18 to 21. The rule applies to freight in interstate commerce and even if the mode of transport to Alaska is by water or air, if the "last mile" of delivery is by truck, which is most often the case, drivers must be 21 or older under the rule. Trucking companies, which are being hit hard by shortages of drivers, want to recruit young drivers and get them into entry-level jobs making local deliveries. Recruiting right out of high school is crucial because if companies have to wait until people reach 21 they are usually lost to other industries. Once they have experience, drivers in Alaska make over $100,000 per year.

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Business Intelligence - *continued*

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communities where there are limited resources, both financial and human. At the same time, the commerce department's community assistance program, which can provide help, has been under budget pressures. The picture this paints is that small rural communities are under stress in compliance with legal requirements that are important in securing, among other things, federal and state grants.

Health Care:

No signal from Dunleavy yet on state health authority plan

Gov. Mike Dunleavy has not said what he plans to do with a Walker administration initiative to create a state health authority. The idea has been in the discussion stage for several months. When he was in the state senate Dunleavy proposed a similar plan to centralize public employee health plans under state management. Many municipalities and school districts, who would see their independently-run health plans merged under the state, are not happy with the idea and want an "opt out" provision. Fairbanks officials say they are doing a good job containing health cost increases on their own and are skeptical a state-managed centralized entity can reduce costs. The Fairbanks North Star Borough says its employee health costs were only 9 percent higher in 2017 than in 2012. The Fairbanks North Star Borough School District said it has reduced its health costs by $5 million a year in recent years with its locally-managed plan. Medical costs amount to 15 percent to 20 percent of the Fairbanks school costs, the district said.

SURVEY: ANCHORAGE 65% ABOVE NATION ON HEALTH COSTS: The Health Care Cost Institute reported that overall price level for health care in Anchorage between 2012 and 2016 was the highest of 112 metropolitan areas surveyed, and was 65 percent above the U.S. average. San Francisco was next highest at 49 percent above the average. The Institute's Healthy Marketplace Index surveyed inpatient, outpatient and medical professional services in an analysis of 1.8 billion health insurance claims filed during the period. This was reported in First National Bank's periodic survey of economic conditions, which is compiled by University of Alaska economics professor emeritus Scott Goldsmith.

STATE CONTRACTS OUT API MANAGEMENT: Gov. Mike Dunleavy will turn management of the troubled Alaska Psychiatric Institute over to a private company, Wellpath Recovery Solutions. The contract was awarded without a competitive process on an emergency basis, state officials said. API, the state's only facility for patients with acute mental health issues, has experienced serious management issues and staff turnover to the point that its certification to receive federal Medicaid and Medicare funding could be at risk. Wellpath, based in Nashville, Tenn., was recommended to the state by the National Association of State Mental Health Program Directors. The company has ties to private prison operators. The state's timeline is to bring API into compliance with national regulations and to restore its 80-bed capacity by June.