

Alaska Economic Report

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ANWR: \$3 billion a year to state?

The U.S. Interior Department estimates that full development of lands with oil potential in the Arctic National Wildlife Refuge could result in \$3.04 billion per year to the state of Alaska and \$52 million yearly to the North Slope Borough, according to the newly-released Draft Environmental Impact Statement, or DEIS, for ANWR leasing. If lease sales are held in 2019 or 2020 it would still take a decade or more for exploration and development of discoveries, the DEIS said. New direct payroll related to ANWR could be \$29 million a year during exploration (650 jobs at peak); \$97 million yearly during development (680 jobs at peak) and \$125 million/year during production (730 jobs, permanent). A caveat is that 36 percent of oil contractor workers and 28 percent of oil production employees typically reside outside Alaska, so only two-thirds of the payroll would remain in the state.

The estimates are based on scenarios of possible discoveries and development including three major discoveries over time, one each in ANWR's "high" and "medium" potential areas of the coastal plain and a third later in a "low" potential area. What isn't apparent in the DEIS is how potential state and local revenues are estimated and what production assumptions they are based on. These would be in appendices in the DEIS that were not available due to the federal government shutdown. There is also concern that the estimates may be optimistic (*see page 3*).

Wishing our readers a prosperous 2019!

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Jobs: Petroleum workforce shows first increase since 2015

The state's recession appears near bottom. The economy is still shedding jobs but key industries like oil and gas and construction are showing upticks, according to state labor department estimates. Petroleum showed a year-over-year gain of 100 in November compared with the same month of 2017, the first increase since oil prices dropped sharply in 2015. Construction jobs were also up 200 in November. In other industries, retail was down

700 jobs compared with November 2017; professional and business services, which includes engineering and consulting, was down 500, but health care was up 500. Government employment overall was down 300 but within the category state jobs were up 100; local government was down 300 and federal employment was down 100. Overall employment was down 1,300 in November, an increase over the estimate of 1,100 jobs lost in October. Final job figures will be published later.

Infrastructure:

Cruise tax decision a dilemma

U.S. District Court Judge Russel Holland's decision on litigation over cruise passenger fees levied by coastal municipalities has created a dilemma for those communities. The decision, on a case brought against the City and Borough of Juneau by the Cruise Lines International Association, was not unexpected. Holland ruled that Juneau's use of the cruise tax revenue to build tourism enhancements was illegal. The ruling was narrow, however, finding that expenditures of the revenues could only be used for improvements to aid cruise vessels, and not cruise passengers. Thus, a port improvement to aid docking of vessels would be acceptable, but support for public services to aid tourist passengers would not. The problem being cited is that municipalities must have services on hand, for example emergency medical, to aid passengers on the ships, which are now carrying about 1 million a year.

Seward, for example, funds its summer tourist bus shuttle, which operates only when cruise ships visit, with its share of cruise tax revenues. The city also contracts for more emergency medical services but also uses some of the \$458,165 it receives for infrastructure upgrades. Seward officials say they believe many services will still fit within the guidelines of Holland's ruling but acknowledge that this is a gray area in the decision.

As for port improvements, there is a disconnect between needs for port improvements in some coastal communities and revenues collected by them. The cruise lines have proposed that municipal tax revenues be shared in a fund to finance port development across regions where cruise ships are operating. This issue is assuming greater importance with the increasing size of cruise ships and improvements needed at ports to handle them. Also, cruise lines are expanding their destination stops into smaller communities where port facilities are less well developed.

Tourism:

Petersburg debates cruise tours

Pro-tourism Petersburg residents shouted down the town's mayor, Mark Jensen, over a letter Jensen proposed to Viking Cruise Lines asking the company to delay a plan for cruise vessel stops, saying the Southeast fishing town "isn't ready" for large-scale tourism. Local people objected, saying they want the economic benefits. Viking officials visited Petersburg in August, looking for vessel stops for the 2020 summer season. Petersburg had 8,850 visitors this year. Nearby Wrangell, in contrast, had 16,000 without the town's character being affected.

Fairbanks delays hike in hotel tax

Fairbanks' city council postponed a vote on a proposed increase in the hotel/motel "bed" tax from 8 percent to 10.5 percent. The increase would occur in increments and reach the top rate in 2021. The increase, if it happens, would raise an additional \$2.4 million in revenues. The vote is delayed to the June, 2019 meeting, so that a better picture of city finances is available. The bed tax money is used for tourism promotion and economic development activity.

Telecom:

High-speed internet in Nome

Nome is now getting high-speed internet through Quintillion Inc.'s fiber-optic undersea cable. The cable was completed in October, 2017 but service has just started. Local telecom provider TeleAlaska is delivering internet locally under an agreement with Quintillion. The service will triple the speed at which data can be downloaded at prices competitive with what consumers are paying now. Plans for service range between \$179 per month to \$329 per month. GCI now offers service through its terrestrial microwave system within Nome's city limits but areas outside Nome must still rely on slower satellite-based service.

What if ANWR has no oil? Geologists' views differ

Alaskans have come to believe that large oil discoveries will be made in the coastal plain of the Arctic National Wildlife Refuge, where lease sales may be held in 2019 or 2020. However, some exploration geologists harbor doubts about ANWR's prospective resources. "I don't see what I hear in the political talk," about the refuge's geologic potential, said Richard Garrard, a geologist with NordAq Energy who is familiar with the North Slope. Geologically, ANWR's coastal plain is an extension of the Brooks Range, which is to the south. "How many oil fields have been discovered in the Brooks Range? None," Garrard noted. The results of one exploration well drilled in ANWR in the early 1980s, the KIC No. 1, are confidential but Garrard said he is unimpressed by data available to the public from wells drilled offshore, on state submerged lands, just north of the refuge. "There's no reason why the geology is much different a few miles to the south, in the coastal plain," Garrard said.

It's possible, even likely, that there could be shallow oil deposits in the coastal plain based on known oil seeps but these could also be small, not the giant fields many expect. Small oil finds and one large gas discovery have been made in the area immediately west of ANWR, on state lands in the Point Thomson area, where there is similarity in the geology. Some geologists also believe the coastal plain may be more prone to natural gas discoveries than oil. If advanced "3-D" seismic can be done there could be indications of gas vs. oil. However, nothing will really be known until exploration wells are drilled.

Garrard also said the seeming lack of enthusiasm for ANWR over the years from major oil companies is also telling. The push for exploration seems to be mainly coming from Alaska's political leaders as well as from Arctic Slope Regional Corporation, an influential Alaska Native corporation which owns a 91,000-acre inholding in the central part of the coastal plain. Roger Herrera, a BP geologist who has worked extensively on promoting ANWR's opening after retiring, has frequently cited his concern over seeming lack of interest from major companies which have knowledge of the area. However, BP and Chevron did negotiate an exploration agreement with ASRC in the 1980s and now hold rights in the inholding. The two companies' current interest is unknown. It's possible that large companies are just leery of the political radioactivity of ANWR and reputational damage for any public company getting involved. Also, there may be a feeling in the industry that Chevron and BP have inside knowledge based on their agreement with ASRC and the drilling of the one exploration well. However, if lease sales are held companies are still likely to make offers. The question is how robust the bidding will be.

Polar bears will be point of contention in ANWR

Meanwhile, one potential glitch in the planned ANWR lease sales is polar bears, which are protected by the Endangered Species Act. There is concern that infrared sensing, the accepted technology used on the North Slope for detecting maternal polar bear dens in winter, will be less effective in the ANWR coastal plain because of terrain differences from the flat central slope area further west where infrared sensing has been used. Even there, studies by federal scientists have demonstrated only a 50 percent success rate in detecting snow covered bear dens. Problems in protecting bear dens will be an issue in litigation. The DEIS is just the first step. Interior expects to get a final EIS out in 2019 and possibly hold the first of two lease sales in the same year, but the schedule could slip with expected lawsuits.

Business Intelligence

Governor cites lower oil prices in budget plan

Gov. Mike Dunleavy submitted former Gov. Bill Walker's proposed \$11.5 billion FY 2020 budget on Dec. 15 as a "placeholder" to meet the statutory deadline for submitting a budget. The full 2018 revenue forecast was also released, but there differences with the preliminary forecast released by Walker two weeks earlier, just before Dunleavy took office. The Dec. 15 budget assumes a \$64-per-barrel average oil price for Fiscal 2020, the budget year beginning next July, compared with \$75/barrel assumed by Walker. Assuming a status-quo state budget and a larger Permanent Fund Dividend planned by Dunleavy, that oil price results in a \$1.6 billion deficit. Of that, \$911 million is due to the larger PFD payout, a key campaign pledge by Dunleavy. About \$698 million of the projected deficit is due to the lower oil price assumption.

Where oil prices will really average over the next year and a half is anyone's guess. Prices for North Slope crude oil have dropped from \$70.58/barrel, the average last July, to \$60.38/barrel, the average for the first three weeks of December, and prices closed at \$55.69/barrel on Dec. 26. The budget filed Dec. 15, a formality (it is required), featured an operating budget of \$5.49 billion with \$4.86 billion for state operating agencies and \$246.5 million for a capital budget. The amounts are close to the current-year FY 2019 spending. They are Undesignated General Fund spending totals and do not include federal or other funds that are essentially budget pass-throughs. A revamped budget will come from the new governor in January.

Is governor setting the stage for budget cuts?

Dunleavy's highlighting of the projected \$1.6 billion deficit would appear to set the stage for budget cuts by the new administration, if that course is decided on, even though most of the shortfall would result from the larger PFD. "All items of state expenditures are on the table. The state must learn to live within its means and we get there by making the tough spending choices," Office of Management and Budget Director Donna Arduin said in a statement issued by the administration.

Earthquake damage in Southcentral more extensive than first thought

Damage from the 7.0 earthquake in Southcentral Alaska was more extensive than first thought, particularly in schools and other large structures in the Matanuska-Susitna Borough and Eagle River community within Anchorage, which were near the epicenter of the quake. Those areas were also not covered by building codes, which did apply in the main Anchorage bowl area. Also, most damage including that within the Anchorage bowl was related to soil conditions beneath the structure, particularly at sites where construction occurred on man-made fill.

About 620 homes suffered damage in Southcentral Alaska, 288 severely damaged and 9 homes destroyed. A state-federal estimate puts repair costs at \$76 million, including \$28 million in homes and \$48 million in public facilities. The damage assessment is continuing. Anchorage Economic Development Corp. now has a survey of its members underway to further aid a community-wide damage estimate. Most damage resulted from ground movement and not structural failure in buildings, engineers are concluding. The Legislature gave the state transportation department authority to receive \$25 million in federal funds for repair work.

Few Southcentral residents had earthquake insurance

Meanwhile, few Southcentral Alaska homeowners with damage had earthquake insurance, state insurance official said. Only about 15 percent of residents had purchased the coverage, mainly because of cost – a policy would typically require an annual premium as much as 20 percent of the value of a home, brokers reported. Federal grants will be available to assist residential property owners, while Small Business Administration loans will be available for businesses. Alaska Sen. Lisa Murkowski said Congress will move on a supplemental disaster assistance funding measure in January that will include money for Alaska earthquake and California fire damage. Year-end 2018 disaster funding is allocated to hurricane damage in the U.S. Southeast and gulf coast.

State transportation agency praised for quick earthquake highway repairs

The state Dept. of Transportation and Public Facilities received gold stars for its fast response in repairing damaged roads and bridges, even if many were temporary fixes. One example was the reopening of an off-ramp on Anchorage’s busy Minnesota Drive expressway within four days of its collapse during the quake on Nov. 30. Permanent repairs will be done next spring, DOTPF officials said. One factor aiding the fast response was an incident last spring when a bridge over the Glenn Highway was damaged by a truck collision, closing the busy highway. Emergency response plans put in place following that were used in responding to the Nov. 30 highway closures. So far the state has spent \$25 million on temporary road and bridge repairs.

Small Port MacKenzie LNG plan undamaged by quake

A small natural gas liquefaction plant near Point MacKenzie in the Matanuska-Susitna Borough was not damaged in the 7.0 earthquake that shook the area. Damage in the Mat–Su was extensive because of

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Petroleum:

Light bidding in NPR-A lease sale

As oil lease sales go, it seemed a bust. The federal government's Dec. 12 lease sale Wednesday in the National Petroleum Reserve-Alaska, on the North Slope, pulled in \$1.5 million and 16 bids from three companies. Interior Department officials looked at the upside: "It was better than last year, when we got only seven bids," Assistant Interior Secretary Joe Balash said. Still, the results seemed dismal compared with \$28 million the state of Alaska pulled in November when it auctioned off tracts on state-owned lands a few miles to the east, across the Colville River. The river is the boundary between the federal petroleum reserve and state lands on the North Slope.

The reserve, which is west of the large producing fields on the North Slope totals 23 million acres but most of it is not available for exploration including lands that are the most prospective for oil discoveries.

ConocoPhillips and two independent companies offered up \$1.53 million in bonus bids for 16 tracts on 174,440 acres in the area of the reserve open to bidding. The agency had made 254 tracts totaling 2.85 million acres available. ConocoPhillips acquired five tracts; independent Emerald House LLC acquired 10 and Nordaq Energy, another independent, won rights to one tract.

Balash said ConocoPhillips' bids were a positive sign because the company already has a strong lease position in the area with tracts acquired in the 2016 NPR-A sale. The company's desire to add to its extensive land position reflects confidence, Balash said. The company has been exploring and has made three discoveries including Willow, a prospect that could hold up to 750 million barrels of recoverable oil.

Most of the bids in the Dec. 12 sale were for tracts south of existing leases mostly held by ConocoPhillips and north of Umiat, the site of a small 1950s-era oil discovery by the U.S. Navy. Umiat is

Petroleum reserve bidding (Cont.)

on the Colville River at the southeast corner of the NPR-A. The reserve was formerly Naval Petroleum Reserve No. 4 under management by the Navy until it was transferred to the BLM by Congress in 1976 and renamed as National Petroleum Reserve-Alaska.

Light bidding for the acreage available was not a surprise to Interior officials because the more prospective acreage further north near the "Barrow Arch," a geologic formation that is highly productive across the North Slope, is not available for exploration. The U.S. Bureau of Land Management, which manages the NPR-A, hopes some of this might be made available in the 2020 NPR-A sale following possible changes in BLM's Integrated Activity Plan for the reserve, which governs leasing.

Some coastal wetlands in the northeastern part of the reserve have always been off-limits to exploration because of their ecological sensitivity. The previous federal administration, under President Barak Obama, significantly expanded the restricted areas in the current land management plan to include lands judged by state biologists to have relatively low habitat value, but which do have oil potential. BLM is in the middle of a "scoping" process of an Environmental Impact Statement for revisions to the land plan. If Interior can keep to its policy of completing EIS documents within a year these more prospective areas might be offered in BLM's 2019 or 2020 lease sales.

Feige names new DNR leads

Department of Natural Resources Commissioner Corri Feige named Sara Longan as deputy commissioner for oil and gas and resources attorney Peter Caltagirone as a special assistant. Longan has 14 years' experience with the state. Caltagirone, an attorney, has represented DNR as an assistant attorney general and worked recently with the Alaska Oil and Gas Association as regulatory and legal affairs manager.

Fisheries:

Coastal Villages' worker bonuses

Coastal Villages Region Fund, a western Alaska Community Development Quota group, will pay \$100,000 in bonuses to 640 youth workers employed last summer on various community job in villages in CVRF's region. Bonuses averaged \$156 per youth worker, who were between 14 and 19 years old. CVRF engages in offshore fishing in federally-managed waters off Alaska's coasts.

Concerns over Kodiak rockets

Kodiak fishermen are voicing concerns over closures of fishing near Narrow Cape, on the south end of Kodiak Island, at times when the state Alaska Aerospace Corp. plans launches from its complex at Narrow Cape. Alaska Aerospace plans more launches in 2019 and 2020 from commercial launch customers and some federal agencies, including military. The fishing closures, a safety measure, can sometimes last several days as aerospace managers await optimal conditions. More frequent closures could substantially disrupt certain fisheries, such as Tanner crab.

Forest products:

Viking Lumber manufacturing

Viking Lumber, operator of two sawmills in Southeast Alaska, is now making a "firelog" for heating in homes and businesses and distributing them in retail outlets in Southcentral Alaska. The product is made from waste trimmings and sawdust left from Viking's primary wood products such as lumber, and is manufactured through a compression technique without chemicals or binders. The product burns hotter and longer than ordinary logs, according to Tongass Wholesale Distribution, a company formed to market the product. Nine Walmart stores in Alaska will carry the firelogs, the distribution company said.

General Business:

Railroad: Winter passengers up

The Alaska Railroad is enjoying a nice surge in winter ridership, much of it related to growth in winter tourism, Anchorage Daily News writer Annie Zak reported. The railroad is operating passenger service for 102 days this winter, in contrast with 66 days during the winter of 2012-2013. Winter ridership increased by a third from 2015-2016 to 2016-2017, and tour operators are reporting increasing business. Many winter visitors are coming from China, and the U.S.-China trade war doesn't seem to be affecting demand. Winter visitors from the Lower 48 states are also up.

Sears to close its Fairbanks store

Sears will close its store in Fairbanks in February, parent company Sears Holdings announced. The company's Anchorage store closed in early 2018. Both are part of a national corporate restructuring. The Fairbanks store was listed on Fairbanks North Star Borough property tax rolls as having a combined building and property value of \$13.6 million. Retail in Fairbanks saw another loss last year when Sam's Club closed, also as part of corporate changes, but then Costco announced it will open a store in Fairbanks.

Ketchikan gives teachers a raise

Ketchikan's school board ratified a new agreement with teachers represented by the Ketchikan Education Association, following a long period of negotiations. The new compact grants 2 percent pay raises each year through 2020 and cuts employee health insurance premiums by half, from \$235 per month to \$110. Employees' deductibles would remain the same. Estimates are the new agreement will require an additional \$1.17 million from the Ketchikan Gateway Borough for the current FY 2019 fiscal year. About \$681,000 of that is for a one-time retroactive payment for the pay increase. Borough officials are now considering where to get the money.

Business Intelligence

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proximity to the quake's epicenter. Access to the plant was affected because Vine Road, which serves the area, was heavily damaged. The Interior Gas Utility, which now owns the plant, credited building codes and facility standards. The plant is operated by Titan LNG, which is owned by the IGU, which serves natural gas customers in Fairbanks. The plant produces about 38,000 gallons/day of LNG, which are trucked to Fairbanks for the utility.

More economic data: Personal income up; slower population growth expected

Alaska personal income, including both wage and nonwage, has been increasing since 2016 despite the decline in statewide employment, according to federal data. Income rose to \$43.5 billion in the second quarter of 2018. Slower population growth is now projected for Alaska. In its latest estimate the state Department of Labor projected that Alaska's population will grow to 838,000 by 2024, down from 900,000 projected in a 2016 estimate by the department. This is a "middle" case between high and low projections.

BLM conveys land in Goodnews Bay to state; first of several land transfers

BLM conveyed 39,995 acres to the State of Alaska in the Goodnews Bay area of Southwest Alaska under terms of the 1959 Alaska Statehood Act, the largest single conveyance of land to the state in eight years. Alaska Department of Natural Resources staff had identified the area as a priority. "This conveyance is just one of many we anticipate in the near future," said Ted Murphy, BLM's acting Alaska State Director.

The conveyance is a result of a revocation of Alaska Native Claims Settlement Act-related withdrawals known as 'd-1s' (referring to Section 17(d)(1) in ANCSA) that were made prior to ANCSA's passage but never revoked. There are approximately 50 million acres of BLM-managed federal lands in Alaska encumbered by d-1 withdrawals, approximately the land area of Utah. Over the past four years, BLM has been working on a statewide strategy to initiate large-acreage d-1 revocation recommendations. The State of Alaska has roughly five million acres of a 104 million-acre land entitlement remaining and has previously identified other d-1 withdrawals and lands in the Trans-Alaska Pipeline Corridor as priorities.

Bristol Bay Native Corp. buys environmental service company

Bristol Bay Native Corp. is adding to its portfolio of environmental service companies. BBNC announced Dec. 12 that it has entered into an agreement to purchase Environmental Resource Solutions, Inc., which is based in Jacksonville, Florida. The company specializes in environmental permitting, biological assessments and document preparation.

Minerals: Pebble's draft EIS on schedule; company plans 2019 work program at mine site

Pebble Partnership Ltd. plans a 2019 work program at the Pebble mine site but its scope is still being worked out. Meanwhile, the U.S. Army Corps of Engineers is on track for a release of the draft EIS in early spring.

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