

Alaska Economic Report

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Governor's budget shakes business confidence

Uncertainties now cause projects to be delayed

Gov. Mike Dunleavy's proposed cuts in the state budget, which are huge, are causing a lot of anxieties. This is now also affecting business confidence to the point some projects are being deferred. For example, new treatment facilities and expansions at Alaska Regional Hospital are now on hold because of the governor's planned cuts to Medicaid, the state-federal program that provides health care to lower-income Alaskans. A major expansion at Mat-Su Regional may also have phases delayed.

Dunleavy proposes to cut \$1.6 billion from the current state operating budget of about \$5 billion. However, a third of this would be costs transferred to municipalities, which would increase local taxes, and another third would be one-time draws on funds remaining in state savings accounts or from capitalization of state development corporations. The remaining third would be actual cuts in appropriations to state operating agencies. The reductions, on the scale they are being done, are needed to make funds available for the \$3,000 Permanent Fund Dividend the governor promised voters.

A preliminary estimate from the Legislative Affairs Agency is that the budget cuts would eliminate about 5,000 jobs directly (i.e. not including the economic multiplier) but a better estimate is due this week in a report to the Legislature from the university's Institute of Social and Economic Research.

Legislators are not about to accept Dunleavy's budget, and will write their own

Sen. Natasha von Imhof, cochair of the Senate Finance Committee, told Commonwealth North, the Anchorage business policy group, that an alternative plan from the Legislature will be developed. One scenario being considered is a smaller cut of \$400 million, which would leave money sufficient for a \$1,000 PFD. Whether Dunleavy would accept that is unknown. If he vetoes an alternative budget passed by the Legislature a veto override vote would require three-fourths of 60 members of the Legislature is possible, which will be difficult to achieve. *The Legislature is unlikely to cave in on this, so the stage could be set for an extended budget impasse.*

On Page 4: Anchorage's housing; and new cargo facility under construction

Infrastructure:

Skagway dock options eyed

Engineers have developed five options for a new floating dock for Skagway, with costs ranging from \$18 million to \$26.5 million. White Pass and Yukon Route, which owns Skagway's docks, is leading the work. KPFF Consulting developed the scenarios and cost estimates. Alternatives range from a lighter floating dock to a heavier, concrete floating unit that would handle heavier loads. A steel floating dock is another option, although it would require more maintenance, KPFF said. White Pass and Yukon Route is now owned by Carnival, an operator of cruise lines. The new dock is intended to enhance Skagway's capability to accommodate larger cruise vessels that are being deployed in Alaska.

An issue yet to be dealt with is the submarine contamination in Skagway's port left from years of ore loading at an ore terminal at Skagway. That facility is now owned by the state's Alaska Industrial Development and Export Authority and is operated by a contractor. An unresolved issue is who would pay for cleanup of the contamination, which may be needed before federal permits can be issued for port redevelopment. It is uncertain whether this would affect the planned floating docks, however.

Transportation:

Truckers' big economic clout

Truckers in Alaska put a lot of money into the economy. Data presented to state legislators in Juneau in early February by the Alaska Trucking Association showed that trucking companies paid \$700 million in wages to employees in 2017 with an average salary of \$56,250; there were 2,640 heavy and tractor-trailer truck

Truckers' economic clout (Cont.)

drivers employed that year in the state. In 2016 the industry paid \$53 million in federal and state roadway taxes. Companies paid 43 percent of all taxes paid by Alaska motorists although trucks constituted only 9 percent of vehicle miles traveled in the state that year. As of April 2018 a typical five-axle tractor-semitrailer combination paid \$8,906 per year in federal highway user fees and taxes and \$1,783 per year in state highway user fees and taxes. These are in addition to other taxes typically paid by businesses.

Plan to delay ferry service cutoff

Coastal community leaders were shocked at Gov. Mike Dunleavy's plan to shut down the state ferry system Oct. 1. State Sen. Bert Stedman, R-Sitka, who cochairs the Senate Finance Committee, is working with the administration on a plan to allow the system to operate through the middle of FY 2020, or essentially next summer and fall, to allow time for planning. Stedman has also asked the administration for cost estimates of shutting down the state ferry system. The governor intends to hire a consultant to advise on restructuring the system, presumably to privatize it. The Alaska Marine Highway System has meanwhile stopped taking reservations past the end of September.

Energy:

Southeast hydro: Low water

Ketchikan, Wrangell and Petersburg electric utilities have had to fire up diesel generators due to low water levels at Lake Tyee and Swan Lake, which supply hydro plants. Fuel supplier PetroMarine agreed to give Petersburg a special price of \$2.55 per gallon in recognition of the situation.

State gas project “shutdown”: Sending a signal?

Was this a signal? Alaska Gasline Development Corp.’s CEO, Joe Dubler, told state legislators the state corporation is prepared to shut down the big Alaska LNG Project if customers or investors are not lined up, but there was no timetable on a decision. Some think the statement, widely reported, was a signal to potential partners that time may be limited for Alaska LNG and that decisions should be made. Sinopec, the major Chinese energy company, is considering buying LNG from the Alaska project with a decision threshold in June. A decision had been expected in December but was postponed due to the U.S.-China trade spat. If the trade spat is resolved soon and includes agreements for China to buy more LNG from the U.S., as is expected, prospects for Alaska LNG will improve.

AGDC is meanwhile trimming expenses. Dubler told the legislators that the state corporation is closing its office in Houston and will reduce its space in its Anchorage offices, giving up one floor in the Calais building to consolidate to the second floor.

Talks underway with two of three slope producing companies

Meanwhile, preliminary talks between the state administration and two of the three North Slope producers are underway. The third company isn’t interested, but will sell gas to a project. Gov. Mike Dunleavy is trying to get the companies involved again (they had exited in 2015.) We’re told that producer involvement would also boost Sinopec’s confidence in the project.

On other news, the U.S. Federal Energy Regulatory Commission delayed its release of a draft Environmental Impact Statement for the Alaska LNG Project for three months, which also delays the Final EIS to June, 2020. We’re told the federal government shutdown was a factor. AGDC said the action won’t affect the overall project schedule.

“Smaller” backup gas pipeline gets its federal permits

In a related development the U.S. Army Corps of Engineers and the U.S. Bureau of Land Management issued a joint Record of Decision for the Alaska Stand Alone Pipeline, or ASAP, final EIS. This is the smaller gas pipeline proposed as a backstop in case the larger Alaska LNG Project is delayed. The Record of Decision triggers the Clean Water Act Section 404 Dredge and Fill permit from the Army corps and the right-of-way across 299 miles of federal land. The right-of-way can also be used for Alaska LNG, so the ASAP approval represents key regulatory progress for both projects. The ASAP permits also includes a lateral pipe to reach Fairbanks, which Alaska LNG would also use.

ASAP is a smaller project than Alaska LNG but it would still be a substantial undertaking, with a 2015 cost estimate of \$10 billion. It would involve a 36-inch gas pipeline instead of the 42-inch pipe planned for Alaska LNG. It also has no LNG export plant at the south end and would terminate in the Mat-Su Borough, unlike Alaska LNG with its big gas liquefaction plant at Nikiski, on the Kenai Peninsula. If the smaller project could be built, with a large industrial customer in the Mat-Su, the ASAP project would also avoid having to build a costly submarine crossing of Cook Inlet to the Kenai Peninsula.

Business Intelligence

Anchorage's housing appears stable, but there are challenges

Anchorage's housing market is stable, which is a good sign in the current economy, but housing experts also call it stagnant in terms of the pace of new building needed to replace aging properties and to develop types of housing in demand in the city's changing demographics. A lot of this came out in a presentation on housing in Anchorage on March 5 sponsored by Common Ground, a volunteer policy group. Real estate broker Janelle Pfeifer told the audience that Anchorage's single-family residential sales price average was stable at \$373,100 in 2018 with an average condominium price of \$209,136. There are currently 569 units of both types on the market. The average time on the market for homes across all price points, up to \$900,000, is one to three months and the inventory of homes appears steady across those price ranges, Pfeifer said. The market is stable, in other words, also tight.

There are some disturbing trends, however. In the last decade the inventory of homes priced around \$100,000 – an affordable “starter” price for a young couple or a worker earning medium-scale wages – has dropped from 3,600 units in 2009 to 2,600 in 2018. This is an impediment for many businesses trying to recruit workers from out-of-state, or even to retain workers. The housing stock is aging with much of it built in the 1980s, and new homebuilding is at a low level. Against this backdrop is the changing nature of Anchorage's population with more seniors desiring homes on single levels and near amenities like retail, parks and trails. Young people value homes of this type, too. However, the cost of new construction makes building housing with types of homes most in demand economically challenging.

Anchorage city officials are moving to address the need, at least in the city's downtown core. The municipal assembly approved a 12-year tax abatement for multi-unit projects that are mixed-use, including commercial. The residential portion of the project would get the tax break. Some developers criticized the plan as too restrictive in applying only to the downtown.

SIGN OF CONFIDENCE? NEW FREIGHT TERMINAL UNDER CONSTRUCTION: In a signal of confidence in the state's economy, Span Alaska said it will build a new 54,000-square-foot freight terminal in Anchorage to support the company's operations. Span is owned by Matson Logistics and is the state's largest freight forwarder and less-than-container-load shipper, handling 180,000 shipments of 400 million pounds yearly. The facility will be on a 16-acre parcel near Chugach Electric Association's Southcentral Power Plant in west Anchorage. Foundation work is underway now and “vertical” construction of buildings will start soon, the company said.

ANOTHER POSITIVE NOTE – PERSONAL INCOME RISING: New data on Alaska personal income show a 2 percent gain in 2017 and 3.7 percent gain in 2018, an encouraging trend after a 2 percent drop in personal income in 2016. The gain is a likely sign of gradual economic recovery but it is not all due to wage growth – other sources of income are also a factor, state economists said. Data for 2018 is for only the first three quarters, the latest information available, but are compared with the first three quarters of 2017.

ALASKA MUNICIPALITIES TO COORDINATE SALES TAXES FOR ONLINE PURCHASES: Amazon, the on-line retailer giant, is charging local sales taxes for purchases within Alaska municipalities that have sales tax. Residents of Juneau, for example, will see 5 percent tax added to the cost of on-line purchases. Skagway residents would see 3 percent added. The online collection stemmed from an initiative of the Alaska Municipal League following a U.S. Supreme Court decision allowing states to collect sales tax from retailers with no physical presence in the state. Amazon is also adhering to local variations in tax, such as Skagway's seasonal changes in tax rate and local tax exclusions and caps. AML is now working to clear technical difficulties on the online collections.

FAIRBANKS MOVES TO ADDRESS ITS DEFERRED MAINTENANCE: The Fairbanks North Star Borough is taking steps to address its backlog of deferred maintenance on borough facilities, something the state of Alaska has yet to do. A new ordinance, approved unanimously by the borough assembly, requires 7 percent of local tax collections to go toward facilities maintenance. A backlog of several hundred million dollars in deferred maintenance has been estimated. Borough officials are developing a plan to tackle the problem, which will be presented to the assembly in coming months. Deferred maintenance on state buildings is meanwhile estimated at nearly \$2 billion statewide, about half of which is in the University of Alaska system. The state has no plan in place to address the problem.

EIELSON HOUSING CONTRACTOR STILL BALKS AT LOCAL TAX: Corvias Military Living, which provides on-base housing at Eielson Air Force Base, is still contesting local property taxes levied by the Fairbanks North Star Borough. The company operates 900 units of housing at Eielson and owes the borough \$10 million in taxes, the borough contends.

- Continued on page 8

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Petroleum:

Slope production dips this winter

North Slope oil production is running substantially lower this winter compared with last year, according to state Department of Revenue production data. The problem appears to be in the Nikaitchuq field operated by Eni. Total slope production averaged 517,227 barrels per day in February, down 31,204 barrels per day from the February 2018 average of 548,431 barrels per day. In January, slope production averaged 525,075 barrels per day, down 17,335 barrels per day from January 2018. The first four days of March were worse, with total slope output at 504,990 barrels per day compared with 542,141 barrels per day for the March 1-4 period of 2018, a drop of 37,151.

All the North Slope fields were holding steady during those periods except for the Kuparuk River field, which was down by those amounts. ConocoPhillips, the Kuparuk major owner, said its output was steady and even up a bit. That left only Eni's Nikaitchuq. State officials said Eni had its production facilities down during the period, but did not have details.

Energy:

GVEA drops Eco-Green deal

Golden Valley Electric Association of Fairbanks has suspended its analysis of a proposal from Colorado-based Eco-Green Generation to sell wind and propane-fueled power to the Interior utility because the Colorado company has not yet filed a required application with the Federal Energy Regulatory Commission to qualify as a small private power producer to supply a public utility under a 1978 federal

GVEA drops Eco-Green deal (Cont.)

law. Eco-Green has applied to state regulators but not FERC, Golden Valley said. The company had given the utility a Feb. 27 deadline to respond. Eco-Green proposes to expand wind power production in Delta under an agreement with Mike Kraft, who now operates a small wind facility there, and to build a network of propane generators in the Fairbanks area.

Minerals:

Another step for big Donlin project

The state Department of Natural Resources issued a proposed right-of-way lease for a 315-mile pipeline to transport natural gas to the Donlin Gold project in the mid-Kuskokwim River area northwest of Anchorage. Donlin Gold, a joint-venture of Barrick Gold and NovaGold Resources, hopes to build a large surface gold mine with energy to be provided by gas shipped from Cook Inlet.

Correction: We incorrectly reported last issue that thirteen tribes filed suit over state permits for the proposed Donlin mine. In actuality the tribes filed appeals of permits through the state Department of Natural Resource appeals process. Litigation may still be the end result. The environmental law firm Earthjustice filed the appeal on the tribes' behalf.

Another big step for Pebble, too

The U.S. Army Corps of Engineers published the Draft Environmental Impact Statement for the large Pebble copper/gold/molybdenum project near Lake Iliamna, 200 miles southwest of Anchorage. The DEIS is a review of environmental impacts and alternatives and its release begins a period of review and public hearings in communities near the proposed project. The 90-day public comment review period began March 1 and concludes May 31.

Energy:

Rural renewable energy program

State Sen. Natasha von Imhof, R-Anch., is working with Sen. Lyman Hoffman, D-Bethel, to fashion a rural energy program that could maintain the progress rural communities have made in renewable energy development. State energy programs are on the chopping block along with everything else, in Gov. Mike Dunleavy's new budget. Von Imhof mentioned the plan, which is still being discussed with communities and stakeholder groups, in a March 4 talk before a meeting of Commonwealth North, the Anchorage-based business policy group.

UA's new power plant to fire up

University of Alaska Fairbanks' new-technology coal-fired power plant is set to begin operations in April. The 17-megawatt plant was built at a cost of \$245 million and will be the first new U.S. coal plant to open since 2015, bucking a trend of coal plant closings in the nation. UAF's new plant replaces an obsolete, aged coal plant that has operated for decades and which put the university at risk if a shutdown occurred in winter. The coal plant provides heat to university buildings as well as power. Coal is shipped by rail to the plant from the Usibelli Mine, Alaska's only producing coal mine, which is about 100 miles southwest of Fairbanks.

Timber:

New Southeast harvest contract

The state of Alaska signed a contract to sell timber to ALCAN Timber Inc. to do harvesting at a site at the northeast end of Gravina Island, near Ketchikan. The company will pay \$2.1 million to the state for three years of harvest rights in the Vallenar Bay timber sale.

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Timber harvests near Ketchikan (Cont.)

The project involves about 16 million board feet of timber to be harvested from 481 acres of state and federal lands. A federal policy, the "Good Neighbor Authority" allows the U.S. Forest Service to join with neighboring landowners, in this case the state, to hold timber sales. Wood to be harvested is a mix of old and young growth Sitka spruce, western hemlock, red alder, western red cedar and Alaska yellow cedar. Small Southeast sawmills need new supplies of wood to meet customers' orders.

Seafood:

Large new mariculture projects

The public comment period closed March 1 on applications for new state mariculture sites including two large oyster farms in Southeast Alaska. One is a proposal for a 182-acre farm by Sitka Sound Seafoods, an established seafood processor in Sitka. Another farm is proposed at a 127-acre site near Prince of Wales Island near Ketchikan. If approved and developed these are the largest oyster farms in the state. To date the largest farm is 26 acres. All are family-type operation. Sitka Sound's proposal would not only be the largest but also the first operated by a company, in this case a firm in the seafood business. The biggest obstacle facing development of a mariculture industry in Alaska has been achieving a large enough scale to get economies and to have financially-strong owners and operators involved, advocates for the industry argue. The state's Mariculture Task Force, established three years ago, says the industry has potential to achieve \$100 million in revenues in 20 years. Mariculture is the cultivation of marine life for food, typically involving shellfish and including seaweed.

Business Intelligence - *continued*

- *Continued from page 5*

In its property tax dispute with the Fairbanks, Corvias Military Living argues it is not liable for taxes on base housing because it must relinquish ownership of the houses to the Air Force after 45 years, and thus is not a conventional private property owner. The borough and the state of Alaska, which oversees local property tax assessments, disagree. A lawsuit filed in the dispute is now before the state Supreme Court. The customary practice for private owner/operators of facilities on military bases is to negotiate a payment-in-lieu-of-tax, or PILT, with a local municipality.

FAIRBANKS TEACHERS WANT NEW CONTRACT, RAISES: Amid the gloom on state funding for schools Fairbanks teachers and the Fairbanks North Star Borough School District have started meetings on a new contract. The Fairbanks Education Association, representing about 900 teachers in the district, has asked for 4 percent annual pay raises and supplemental retirement benefits. The teachers are also asking for extra pay for teaching large classes and improvements in working conditions. The district is offering 0.5 percent pay raises and status quo in retirement and health benefits. Contract proposals were also exchanged on two other education unions with contracts expiring June 30, the Fairbanks Principals Association and the Education Support Staff Association. The three bargaining units represent about 1,750 employees, of which teachers are the largest group. Cuts to state education funding for school districts proposed by Alaska's governor will affect negotiations.

ALASKA FEDERATION OF NATIVES RETURNS TO FAIRBANKS IN 2019: The big Alaska Federation of Natives annual convention returns to Fairbanks this October after being held in Anchorage for three years. The Interior city is also pitching AFN to be selected as host city for the 2020 convention. AFN's annual gathering is one of the state's biggest meetings, typically drawing several thousand people. It provides a big boost to local hotel, retail and restaurant businesses in the city where it is held. It is also one of the state's most important forums for policy discussion and debate. Many business meetings are also held at AFN, in separate sessions. Alaska Native corporations are major business enterprises in Alaska, employing substantial numbers.

NEW ALASKA TV SERIES, THIS ONE ACTUALLY FILMED IN STATE: Los Angeles-based film producers are working to develop a television series to be named "Sitka" set and filmed in the Southeast Alaska community. The story lines would be fictional but the production company, Driven Equation, hopes to develop a realistic portrayal of Sitka. The overall theme will be healing, a contrast with the kinds of films and reality-TV shows that have portrayed Alaska. Some of the seven supporting roles would be locals as will half of the production crew, the company said. A pilot show is planned to be filmed this spring which will be used for marketing the series. The company hopes to land a video streaming service, the first choice being Amazon.

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