

# Alaska Economic Report

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## **Economy perks up; now budget hits raise worry**

### ***First employment increase in three years; may decline again***

How ironic. Statewide employment turned a corner in January and February, showing the first increase, though small (0.1 percent, or 400 jobs in February) after three years of job losses. It would appear to mark the end of the recession. However, the reports came just before Gov. Mike Dunleavy's release March 13 of a state budget with huge cuts. If implemented the \$1.6 billion in spending reductions would over time cost the economy about 11,800 jobs, effectively extending the recession. The Legislature is resisting the governor's cuts, so whether many will really happen remains to be seen. However, the immediate damage will be in a loss in business confidence. New projects, particularly in health care, are now being put on hold.

### **Businesses fret over Anchorage port modernization**

Business groups are fretting over the cost of modernizing the Port of Alaska, which they fear will be paid largely through revenue bonds and higher tariffs. Port officials say a \$2 billion estimate that has sparked concern is very preliminary and would encompass the entire project. Work will actually be broken into phases as funds are raised, but a rebuild of the port's petroleum and cement terminal must be done initially and will start next year. A better estimate of overall costs will come when the first hard bids for that work are in hand. Until now figures quoted are engineers' estimates.

About \$200 million must be raised for the petroleum and cement terminal, and if funded with a revenue bond the effect could be to raise the tariff, or charge, for fuel unloaded from 0.38 cents/gallon to as much as 2.4 cents/gallon in 2023. The worry is that this could cause international air cargo operators who refuel in Anchorage to stop somewhere else, or that it would cause more cargo to move in fuel-efficient long-range aircraft. While there is always some chance of that happening the bets are that it won't, at least soon. There is no other mid-route trans-Pacific refueling location that would seem to have more favorable economics than Anchorage. Meanwhile, no other alternative to a revenue bond seems likely because the chances of state or federal grants seem nil. There is also no chance, it seems, for a state general obligation bond for capital projects this year given the political turmoil in Juneau.

**Page 6: Alaska LNG Meetings set with state's AGDC, ExxonMobil, BP**

## **Infrastructure:**

### **Mat-Su transportation grant**

The Matanuska-Susitna Borough expects to hear this summer whether its application for a \$25 million federal infrastructure grant will be approved. The funds would be applied toward the half-completed railroad spur linking the borough's Port MacKenzie with the existing Alaska Railroad main line. The borough needs \$125 million to finish the project, but believes costs can be reduced. Meanwhile, the Alberta-Alaska Railway Development Corp., a company working on a long-range plan for a U.S.-Canada rail connection, may be able to contribute equity in completion of the rail spur to the port.

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## **Energy:**

### **Railbelt utilities at odds, again**

Lack of unity among Alaska's "railbelt" electric utilities was once again on display when two utilities told the Regulatory Commission of Alaska they are unhappy with a plan proposed by four other utilities on plans for a private company to invest in grid infrastructure upgrades. The proposal is to form an entity jointly-owned by utilities and a private investor. Anchorage's city-owned Municipal Light & Power, Golden Valley Electric Association of Fairbanks, Homer Electric Association and Seward's city-owned utility, are supporting Alaska Railbelt Transmission, the joint-venture entity. Chugach Electric Association and Matanuska Electric Association are voicing concerns. Chugach and MEA argue the plan lacks a check-and-balance mechanism to guard against rate hikes. A separate nonprofit entity to do planning for railbelt infrastructure, separate from ownership and operation, might be a solution, it is argued.

– Continued top right

### **Railbelt utilities at odds (Cont.)**

Interestingly, Chugach and Anchorage's ML&P are on opposite sides on this. Chugach is in the process of acquiring ML&P.

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### **Lower water levels in Southeast**

Low water levels in Southeast Alaska are continuing to cause problems for utilities with hydro plants. In Juneau, Alaska Electric Light & Power has had to curtail power to customers on interruptible plans, or those with alternative means of heating. Snettisham, the hydro project owned and operated by AEL&P, has received about 79 inches of rain from October through February instead of 90 inches, which is typical. Last year's rainfall was well below average, also: Snettisham received 136 inches of rain from October 2017 through October 2018 instead of the usual 172 inches during the period.

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## **Health care:**

### **New hospital planned for Sitka**

South East Alaska Regional Health Consortium and the City and Borough of Sitka have agreed conceptual terms for the sale of the municipal Sitka Community Hospital to SEARHC. The regional health consortium is also now planning construction of a major new hospital. The pending acquisition of the municipal hospital would involve the sale of the facility's health care business to SEARHC and the building leased by the consortium. Different financial options for the purchase are being evaluated including cash payments ranging from \$9 million to \$14 million.

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## **If governor prevails on budget, huge adverse impacts**

Gov. Mike Dunleavy's proposed FY 2020 state budget would have severe effects on the state's economy and in particular on municipal governments due to the shifting of costs from the state to local governments. The University of Alaska Anchorage's Institute of Social and Economic Research has estimated that the aggregate effects of the government reductions in state, local and federal funds would approximate 16,924 jobs to be lost. This would be partly offset by estimated jobs gained from a "fully-funded" Permanent Fund Dividend, meaning a \$3,000 PFD, the governor has promised. ISER puts the job-creation effect of the PFD at 5,047. The net jobs lost, or 16,924 minus 5,047, is 11,877.

An unknown in this is the real quality of the PFD jobs created. ISER's work indicates that the jobs may be more in retail and more temporary in nature. Also, the PFD estimate is uncertain to begin with. Other economic assessments including one by the state Dept. of Labor and Workforce Development have not been able to document job-creation effects of the PFD, for example by examining employment data in years of unusually large dividends. No impacts were seen in the data.

*The fully-funded PFD would have the effect of adding \$696.1 million to the economy, but economists have no idea of how much of this "leaks" out of state (spent on vacations, for example) or how much of it fails to enter the economy, usually because it is saved.*

## **Petroleum, construction lead rise in statewide employment**

Here's some positive news: The small increase in statewide employment reported for February by the state Department of Labor and Workforce Development (page 1) was led by growth in petroleum and construction, the same industries that first declined when the state's recession hit in late 2015. One company active this winter, ConocoPhillips Alaska, said it has about 800 employed this winter in drilling, ice road construction and support work, up 100 over winter employment levels in recent winters. "It is a very robust season for us," company spokesperson Natalie Lowman said.

Some industries are still shedding jobs. Retail was down 300, for example. But leisure and hospitality, a sector that includes bars and restaurants, was up 300, a reflection of the spending of disposable income. In the government sector state government employment was flat in February while federal and local government were each down 200 for a total loss of 400 for government.

## **Health care growth slowed in February; Medicaid cuts will slow it further**

One aspect of the February jobs report is the slowing of health care increases. In February health care showed a 0.5 percent gain, or 200 jobs, a rate much lower than in previous months. One aspect of the governor's planned reductions in state Medicaid spending will be to cut reimbursement rates to medical providers by 5 percent and forgoing an inflation adjustment. This will further slow the expansion of employment.

# Business Intelligence

## Despite austere times, state nurtures strategic developments

Despite austere times, the state is still nurturing the South Denali Visitors' Center in Denali State Park south of the more well-known Denali National Park. Phase one for the project, which involves access improvements, is now complete and \$25 million for more work is in the governor's FY 2020 state capital budget. Federal and private funding are also being solicited. In a briefing, legislators were told that one of the smaller cruise companies would like to build a hotel near the South Denali center. Administration officials believe the project could generate up to \$1 million in annual revenues for the state when fully developed. Tourism is one of the state's bright spots, with 2019 likely to be another record-setting year.

**PERMANENT FUND NOW SURPASSES OIL IN CONTRIBUTION TO STATE BUDGET:** It's no surprise to those following the state budget but Alaska's Permanent Fund now pays more to the state treasury to support the budget than do state oil and gas taxes and royalties. Under a new state law, 5.25 percent of realized, or cash, earnings of the Fund are withdrawn from the Fund's Earnings Reserve account and deposited into the general fund. In the current FY 2019 fiscal year this amounted to \$2.7 billion in contrast with \$2.26 billion in oil and gas revenues. In 2020, the fiscal year starting July 1, about \$2.9 billion will be paid from the Fund's earning reserve compared with \$1.97 billion in expected oil revenues. Permanent Fund earnings will increase as the Fund grows larger while oil revenues are expected to remain static for the next few years, according to the state Department of Revenue.

**ANCHORAGE WILL SPEND \$33.6 MILLION IN REPAIRING QUAKE-DAMAGED SCHOOLS:** The Anchorage School District will spend \$33.6 million to repair Eagle River schools damaged by the November earthquake in a plan approved by the school board. Gruening Middle School and Eagle River Elementary School have been closed since the Nov. 30 quake. Gruening Middle will need a new roof and stairwell, seismic upgrade and other repairs that will cost \$24.2 million. Eagle River Elementary will need a new roof, seismic upgrades upgrade and other repairs for \$12.1 million. The repairs are expected to take two years. Some teachers at Gruening Middle pushed back on the decision to repair, arguing that the aged school really needs a complete replacement to be safe.

**RURAL SCHOOL DISTRICT TO SEND STUDENTS TO ANCHORAGE FOR TECH-ED:** The Lower Yukon School District has purchased the former Long House Alaskan Hotel for \$2.7 million to house rural students who will be able to attend technical and college-prep classes in Anchorage. Students from 10 small villages in the Southwest Alaska District will attend nine-week residences in Anchorage, taking classes in electrical, medical, aviation and other occupational classes at King Career Center, operated by the Anchorage School district. Lower Kuskokwim will pay the Anchorage School District under the arrangement, and ASD will lengthen operating hours at King Career to accommodate the rural students.

DESPITE UNCERTAINTY, MAT-SU STEPS UP EMERGENCY RESPONSE: Despite fiscal uncertainties over future state funds the Matanuska-Susitna Borough Assembly voted to add 25 new emergency medical technicians and two more ambulances. Mat-Su is dealing with continued population growth, estimated at 2,500 additional persons a year, and emergency calls to the borough have doubled since 2010. The borough now has 18 ambulances stationed across a wide geographic area the size of Ireland with only four of them staffed at any given time.

JUNEAU'S DISPUTE WITH CRUISE COMPANIES IS SETTLED: A contentious dispute between cruise companies and the City and Borough of Juneau is laid to rest, at least for now. Cruise Lines International Association, representing major cruise operators stopping in Juneau during the summer tour season, filed a lawsuit over Juneau's construction of a \$10 million park and downtown walkway as an illegal use of cruise passenger fees, which are supposed to be used to benefit cruise ships. The agreement allows the city to continue to collect the tax but with agreement from cruise companies on projects to be funded. The city said it will pursue projects aimed mainly at enhancing cruise visitor safety as well as those that provide direct benefits to cruise vessels.

JUNEAU STUDIES SUPPLYING POWER TO MORE CRUISE SHIPS: One project being proposed, to be funded by the local passenger tax, is constructing shoreside infrastructure in Juneau so that Alaska Electric Light & Power, the local utility, can provide electricity to cruise ships while they are in port. In doing this the vessels would shut off engines and reduce local air pollution while also drawing on Juneau's hydro power. Princess Cruises has been connecting with AEL&P while in port since 2001, paying the utility about \$1 million per year. Juneau's city manager has requested \$250,000, also from passenger tax revenues, to study the idea, but the city's assembly did not act on the proposal.

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## **Petroleum:**

### **State: Costs appear to be rising for new North Slope projects**

North Slope operators are reporting higher costs as activity increases, state officials are saying. Estimates of future capital and operating costs are filed by the companies with the state Department of Revenue. Between reports filed in December and March, estimated capital investments in projects increased from \$3.14 billion to \$3.38 billion in 2021; \$3.24 billion to \$3.35 billion in 2022 and \$2.6 billion to \$2.9 billion in 2023, according to the reports. The estimates were published in the state's annual fall 2018 revenue forecast published in December and the spring, 2019 updated forecast published in March. "We attribute the increase in forecast capital expenditures, compared to the fall forecast, to higher expected costs for new developments. Our understanding of the cost of these developments has changed and we've increased the forecast," Commissioner of Revenue, Bruce Tangeman, told us.

New discoveries have been made recently by major companies ConocoPhillips and Repsol, and independents Armstrong Oil and Gas and Oil Search in the Nanushuk, a geologic formation extending across the western North Slope. Two of these, Willow, by ConocoPhillips, and Pikka, by Repsol and Oil Search, are in advanced stages of development planning, with several hundred thousand barrels a day of new production expected in 2023 or 2024.

The increases in drilling and development work may now be causing prices to tick up. Contractors' ranks are depleted after three lean years of low oil prices and layoffs, so there is now less competition. Rising costs could pose a problem, however. There is concern that developers could eventually be squeezed between higher costs and static crude oil prices. This could particularly affect new projects in remote, high cost areas like the National Petroleum Reserve-Alaska, where ConocoPhillips has made significant new finds.

The Department of Revenue's long-term forecast for North Slope oil is for prices to remain static in the low-to-mid \$60-per-barrel range, inflation-adjusted, for the next decade. The expected capital and operating costs published by the revenue department are derived from estimates given by companies in state production tax returns filed with the state. Alaska has a net profits-type oil and gas production tax and state law requires companies to provide estimates for expected future costs in producing fields and for new developments.

### **AGDC, BP and ExxonMobil set meetings on Alaska LNG**

Technical teams from the state-owned Alaska Gasline Development Corp., BP and ExxonMobil will meet in Houston for several days next week to discuss cost-reduction strategies and other collaboration for the large Alaska LNG Project. The work will result in a new assessment of the economic feasibility of the project due in the third week of April, Joe Dubler, AGDC's interim CEO, told state legislators in briefings last week. Another series of meeting with potential Chinese LNG buyers, led by Sinopec, is planned in Shanghai in the first week of April. The schedule for Alaska LNG is being slowed to be more realistic, Dubler said.

## **Fisheries:**

### **Trade war Alaska's China sales**

The China trade war has resulted in a drop of Alaska seafood sales to China by 20 percent in 2018. Another hit in 2018 is expected by the state's seafood industry, Alaska Seafood Marketing Institute told a legislative committee in Juneau. Sixty five percent of Alaska processors and other stakeholders report immediately losing China sales when the tit-for-tat escalation of tariffs began. Inventories of frozen product are meanwhile building up as seafood companies seek other buyers. Negotiations are continuing on trade agreements to end the dispute.

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### **2019 Halibut fishing now underway**

Halibut fishing opened statewide March 15 with Alaska receiving a quota of 22 million pounds, a 1.5-million-pound gain over 2018. Fishing will continue through Nov. 14. All areas of the state's coastal waters received increases in allocations except the western Gulf of Alaska. The harvest quotas were set by the International Halibut Commission in February.

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### **Winter crab fishery in Sound**

A winter Tanner crab fishery is underway in Prince William Sound for the second year and harvesters are feeling good about catches. State fish and game biologists approved the fishery following positive results from surveys and after last year's experimental opening. As of the third week of March 11 vessels have landed 28,700 pounds of crab.

The crab fishery had been closed for 30 years because of concerns for stocks. Having a winter fishery helps harvesters and processors spread fishing beyond the hectic summer salmon season, broadening and stabilizing the local economy.

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## **Minerals:**

### **AIDEA's mine-access projects**

Alaska Industrial Development Authority, the state's development finance corporation, is working closely with developers at the Palmer mine-project near Haines being planned by Constantine Metal Resources and Dowa Metals and Mining Co. Ltd. Palmer is a multi-metal project with copper, zinc, gold and silver. The project appears to be three to five years from moving into development, AIDEA officials said. The authority's role would be in helping finance infrastructure, which would include a short access road to the mine and a possible ore-loading facility in Haines.

On another AIDEA mine infrastructure project, the U.S. Bureau of Land Management is expected to issue a Record of Decision on the Ambler access road Environmental Impact Statement in December, AIDEA officials told legislators. The state authority is funding the EIS and road right-of-way work and has spent about \$17 million to date. Trilogy Metals is in development planning on its high-grade Arctic copper project and advanced exploration at Bornite, a second deposit west of Arctic. If the mines are developed AIDEA could finance and own the road with tolls being paid for shipments of ore by truck.

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### **\$30 million in project fundings**

AIDEA has \$30 million in project finance fundings planned for FY 2019, the current financial years, most this for economic-development projects. In the authority's commercial loan activity, which is typically done in partnerships with commercial banks, the authority has funded \$37.29 million in loans so far this year. It has \$45.5 million in commercial loan commitments and pending applications. Commercial loan cash inflows, net of fees, is \$20.56 million for the year so far. The authority's commercial loans is one of its biggest sources of income.

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## **Business Intelligence - *continued***

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**NATIONAL PARKS SEE A NEW RECORD IN VISITORS:** A record 2.9 million people visited national parks in Alaska during 2018, up from the previous record of 2.7 million set in 2014, the National Park Service said. Klondike Gold Rush National Historic Park in Skagway, had the most visitors, at 1.01 million; Denali National Park had 594,660; Glacier Bay National Park and Preserve had 597,600, and Kenai Fjords National Park in Seward had 321,600. Denali National Park actually saw a decrease in 2018, dropping from 642,800 in 2017 to 594,660 in 2017. Year-to-year shifts aren't unusual, tour professionals say, and are typically influenced by changes in group excursion procedures.

**DUBIOUS FIRST? ALASKA ALLOWS ON-SITE MARIJUANA USE:** Alaska will be the first state in the nation to allow marijuana consumption in marijuana retail establishments. New state regulations go into effect April 11 allowing the consumption. Retail establishments will still have to apply to the state for an endorsement allowing the use. State officials said it will probably be mid-July when the on-site provision becomes effective. Some Lower 48 cities allow on-site use but Alaska will be the only state allowing it statewide. Advocates say it will be a boon for tourism.

**NEW BATTLE OVER AN INDEPENDENT POWER PRODUCER IN THE INTERIOR:** There's a new battle brewing between Golden Valley Electric Association, the Interior electric cooperative and an independent power producer, Colorado-based Eco Green Generation. The company's plan is to generate power in Interior Alaska in a wind project at Delta and dispersed small propane systems within the Interior communities has been rejected, prompting a protest from the company. Eco Green had offered power under the Public Utility Regulatory Act, or PURPA, which is set up for independent power producers within a regulated utility area. The company is now claiming bad faith on the part of Golden Valley Electric Association, the intended utility customer. GVEA asserts that Eco Green's plan, involving 21 separate components, would have a disruptive effect on its system.

**STATE REGULATORY COMMISSIONER ORDERS PRUDHOE WELLS PLUGGED:** The Alaska Oil and Gas Conservation Commission ordered BP to "plug and abandon," (permanently cement) 14 wells that were previously shut in by the company because of potential problems with permafrost thaw and leaks. The 14 wells, all drilled in the 1970s, used an obsolete well design replaced early on by BP. However, problems with thaw and damage to surface facilities resulted, so the shutdowns and now permanent plugging of the wells is being taken as a precaution. The commission also asked BP to gather information on whether permafrost thaw might cause problems on wells with other designs. BP said it is now monitoring the shut-in wells in real-time.

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