

Alaska Economic Report

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Employment edges up, led by construction, oil

Uptick is slow but appears to gather momentum

It's gradual, but an increase in statewide wage and salary employment that started in February is continuing. Jobs were up 0.3 percent in preliminary data from the Department of Labor and Workforce Development reported for March. The comparison is of March employment with the same month of 2018. Construction led the increase with a gain of 8.1 percent, or 1,100 jobs, followed by oil and gas, which was 2.1 percent up, or 200 workers. The strength in construction mainly reflects significant building on military-related facilities near Eielson Air Force Base east of Fairbanks. With oil, the improvement is linked to a robust winter exploration season on the North Slope. The Eielson construction can be seen as a temporary bump – facilities for new F-35 squadrons coming in will be complete in 2020 – the influx of new military population will cause continu-

ing building activity in housing and other support infrastructure. The oil increase is likely to continue, however, as development work on new North Slope discoveries kicks into gear. Other sectors of employment reflected an economy that is stabilizing after three years of jobs losses, with jobs in some industries still declining. Two industries that reflect consumer spending include retail, where jobs were down 0.3 percent, and leisure and hospitality employment, mainly eating and drinking establishments, which was up 1 percent year over year. Health care gained 1 percent, a slowdown from higher monthly growth rates in recent years, a trend possibly linked to uncertainties in state health care spending.

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U.S. Navy coming back to Adak?

The U.S. Navy is planning to return to Adak, the remote Aleutians Island, to establish a cold weather training and logistics facilities. The first exercises are planned for next September, we're told. This won't be the substantial presence the Navy had during the cold war years, before the Adak Naval Air Station was closed, but it could

develop further as the U.S. projects more force into the northern Pacific and Arctic regions to counter Russia and China. Adak is now owned and operated by the Aleut Corp. The island still has substantial warehouse, fueling, housing and other facilities that support nearby fisheries. A seafood processing plant operates there. *(See more on Adak, Page 4)*

Health care:

State backs out of Wellpath deal

The state Department of Health and Social Services cancelled a long-term contract with Wellpath, a Tennessee-based firm, to manage the Alaska Psychiatric Institute, the state-owned acute care mental health hospital. Wellpath has been working under a short-term emergency contract but was given a long-term contract to manage the facility without going through a competitive bid process, which is required by law. Also, the state failed to conduct an analysis, required under its bargaining agreement with workers, to demonstrate that privatization will save money. That prompted the Alaska State Employees Association Local 52, which represents API workers, to file suit. The state administration was also embarrassed when word leaked out the Providence Health Systems, an experienced mental health provider, had expressed interest managing API before the state's DH&SS let the long-term contract to Wellpath.

Legislators criticized the long-term contract award because the health department had not informed the state procurement officer, who must approve sole-source bids, that there was another operator potentially interested and that Wellpath and its predecessor companies have experienced problems in its contract management of facilities in the Lower 48.

The DH&SS has now let a consultant contract to conduct the required study of privatization savings. The award went to Public Consulting Group, Inc. *The same firm did an earlier study of privatizing API, finding no savings. Legislators will be watching closely because this time the client, the state administration, is in support of privatization.*

Medicaid changes being planned?

Health providers are carefully watching signals from confidential talks between state and federal officials over a reorganized Medicaid program for Alaska. Gov. Mike Dunleavy told President Donald Trump the state would be open to federal "block grants" as a way to give the state flexibility in managing Medicaid, and in seeking cost reductions. Federal officials have been urging states to try block grants as an alternative to the current system under which the state and federal governments pay for health care on a modified (reduced) fee-for-service program. Health providers are resisting block grants arguing that they would conflict with existing law and would lead to reduced funding. Medicaid provides health coverage for lower-income Alaskans. Currently about one fourth of Alaskans are covered by Medicaid, the bulk of them children.

Fairbanks gas utility hits bumps

The Fairbanks-based Interior Energy Utility is on schedule with its expansion, which includes a large liquefied natural gas storage tank in Fairbanks now nearing completion and a second, smaller LNG tank in North Pole and an expansion of a small LNG plant near Point MacKenzie, in the Matanuska-Susitna Borough. But there are speed bumps, including an \$11.8 million cost increase for the large LNG tank and a need to raise \$15 million in financing. The Fairbanks North Star Borough is working on a plan to loan IGU \$7.5 million.

Kenai plant to import LNG?

Andeavor, owner of the idled Kenai LNG plant and the Kenai refinery, has asked federal permission for minor modifications to the plant to allow offloading and storage of imported LNG.

The outlook in Juneau: Foggy!

The state's recession appears to be leveling out with even a small growth in employment (see page 1) but the uncertainties over the state budget are causing anxieties in local government and are unsettling to business leaders who would otherwise be pleased at the firming of job numbers. Basically, here is what is happening: Oil revenues are rising modestly and shrinking a deficit that had been projected. A state budget with modest reductions could fit within existing revenues and allow for a Permanent Fund dividend, or PFD, in the range of \$1,200. Gov. Mike Dunleavy has promised voters a \$3,000 dividend, however, which would result in a \$1.6 billion deficit. The governor proposes a series of drastic budget actions to cover the gap and allow for the large PFD. The actions include about \$600 million in reductions to state agencies, a curtailment of state school bond assistance to municipalities and what amounts to a confiscation by the state of industrial tax base of several local governments and denying coastal communities a 50 percent share of fish tax revenues. If these were to actually happen the finances of several communities would be decimated. However, many of the governor's proposals won't happen because legislators, who must change statutes, are refusing the governor's requests. The House has largely rejected Dunleavy's plan when it passed its version of the operating budget, and the Senate appears headed in the same direction as it finalizes its budget.

Big PFD as a compromise?

What about the dividend? The House did not put a PFD in its budget, preferring to negotiate this in a separate bill. The appropriation can be made either in a bill or in the budget. The Senate, in a surprise move, put a \$3,000 PFD in its budget. Now having given sanction to the governor's amount for the dividend it may be politically difficult for legislators to walk back the number. It is possible this may be part of a ploy to get the governor to wield his veto pen lightly. Dunleavy has the power to reduce spending through the veto but he cannot make an appropriation, such as for the PFD. That is the tension: Dunleavy can reduce the budget but only the Legislature can give him the dividend at the amount promised to voters last fall. If the Senate Finance plan, basically a budget with some cuts and a \$3,000 PFD, were to actually prevail, it would push the required draw from the Permanent Fund's earnings reserve account above the 5.25 percent-of-market-value limit set in last year's Senate Bill 26. It would actually push the draw to between 6.3 percent to 6.5 percent, according to estimates. This wouldn't say much about Alaska's financial credibility or willingness to stick with fiscal discipline, but it would be a (typical) maneuver out of a political problem created by the governor's promise on the PFD.

How will all this end up? The Legislature's required adjournment is mid-May although there is a provision for a short-term extension. There could yet be a battle over budgets and vetoes, and the governor's proposals for constitutional amendments are controversial. He has also put a lot at stake in criminal justice bills, some of which are being resisted. How all this will play out is uncertain. A further problem is that a \$3,000 dividend this year means a big dividend next year, an election year. This further pressures any stabilized draw from the Permanent Fund earnings reserve. A sense of a durable fiscal plan is pretty much out the window.

Business Intelligence

Adak argues it can be freight container hub for Arctic shipping

Adak is making a push to become a container-shipping hub for future ice-breaking cargo vessels using Russia's northern sea route. There will be increased interest by vessel operators to switch cargoes to conventional vessels at a strategic point, in this case the former Naval base in the Aleutian Islands that is now owned by the Aleut Corp. While the Northern Sea Route has been proven to save time for seasonal Europe-to-Asia shipping, the efficiency of ice-breaking ships will be limited on portions of their routes in non-Arctic Waters. The solution, Adak's promoters say, is to use ice-breaking ships in only the northern waters and transfer cargo at Adak, which is on the North America – Asia great circle shipping route used by thousands of vessels per year. Many of these travel with spare capacity. The concept is that a "hub" at Adak would allow container ships with spare capacity to stop and pick up extra freight. The concept is proven because ships often stop at Unalaska/Dutch Harbor to pick up frozen fish.

With continued warming of the Arctic the ice-free shipping window along the northern coast of Russia is expanding. With new ice-breakers being built Russia believes the shipping window will soon be seven months a year. The Aleut Corp. is meanwhile looking for partners to expand the port at Adak.

TELECOM COMPANIES FEEL THE EFFECTS OF STATE'S RECESSION: The major telecom companies operating in Alaska are feeling the state's economic headwinds, although Alaska Communication Systems' focus on business and institutional customers seems to have served it well. ACS reported a 2.8 percent growth in revenue for 2018, increasing from \$227 million in 2017 to \$232 million in 2018. The trend held through the fourth quarter of the year, with revenue growth from \$54.9 million to \$58.7 million for a year-over-year comparison of the final quarter. Business revenue, which includes government, was up 3.9 percent for ACS, although consumer services revenue was flat.

In contrast, General Communications Inc. saw a dip in annual revenue from \$895 million in 2017 to \$875 million in 2018. Business revenue, which includes government, was hit by federal decisions to cut funding for rural health care facilities, which reduced funding for GCI services by \$28 million. On the plus side, GCI's consumer revenue stayed level in 2018. Growth in data services was a bright spot, up 10 percent. Other parts of GCI's business reflect consumer trends that are national but exacerbated in Alaska by a gradually falling population. Cable modem subscribers increased 1 percent, reflecting growth in streaming, while video subscribers dropped 8 percent. Consumer voice lines were down 9 percent as more people switched to sole use of cell phones.

JUNEAU SOLICITS IDEAS ON USING CRUISE TAX REVENUE: The City and Borough of Juneau has a May 2 deadline for public comments on how the city should use its \$5-per-passenger cruise passenger tax revenue. A recent court settlement in litigation brought by cruise lines has set guidelines that projects funded with the fees must directly benefit cruise vessels. One local group, Renewable Juneau,

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is proposing money to be used for dockside facilities allowing ships to plug into the local electric grid instead of providing on-board power through leaving engines idling. The bulk of Juneau's power comes from renewable hydro. If implemented, the plan would reduce local air pollution in summer when cruise ships crowd into the capital city. Princess Cruises is now able to connect with Alaska Light and Power, the utility, using the one dock with the proper equipment.

NEW FERRY TERMINAL PLANNED NORTH OF JUNEAU: The state Department of Transportation and Public Facilities is studying a \$27 million new terminal for state ferries at Cascade Point, at the end of the Glacier Highway north of Juneau, as an alternative to an existing terminal at Auke Bay, which is closer to the city. The new terminal would allow two new "Alaska Class" state ferries to serve Haines and Skagway in northern Lynn Canal in a 12-hour period. The current schedule from Auke Bay is longer because of the greater distance. With the reduced travel time the ferries can provide twice the level of service.

NOME TO SEE JUMP IN CRUISE SHIP VISITS: Nome will see a surge in cruise ship visits this summer. Seven vessels will stop at Nome, some more than once, for an expected total of 12 visits. Last year a jam in ice in the Northwest Passage, the intended route, caused several vessels to call off the Nome stop, two ships did visit as part of a cruise through the Bering Sea. Ships scheduled at Nome this summer will carry 500 to 1,000 passengers. Nome once saw brisk summer tourism, with as many as 10,000 visitors a year, when Alaska Airlines promoted a Nome-Kotzebue tour. The airline halted that several years ago and summer visitors have dwindled.

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Petroleum:

New oil project in Cook Inlet

Hilcorp Energy is planning to develop an oil deposit below the gas reservoir in its North Cook Inlet field, where the company now operates the Tyonek platform. The first development well is planned for 2020. Hilcorp has also built a new oil pipeline to connect with Cook Inlet's west side. Presence of the oil has long been known. ARCO Alaska made the original discovery in the early 1990s. Although test wells were drilled the deposit was not developed. Hilcorp has now decided to move ahead with it.

Slope deposit reaches to ANWR

Independent Jade Energy is planning a test well in 2020 in the Sourdough prospect area a few miles southeast of the Point Thomson gas and condensate field operated by ExxonMobil. BP drilled two wells at Sourdough in the mid-1990s that discovered oil. Reserves have been estimated at between 50 million barrels and 100 million barrels but the find was never developed. Jade's leases border the Arctic National Wildlife Refuge, and we're told the oil formation extends across the border into ANWR. This could force the federal government into offering that acreage for lease so that drainage of oil doesn't occur from wells drilled on nearby state leases.

ConocoPhillips bullish on slope

ConocoPhillips finished up its busy winter exploration season on the North Slope and is still bullish about future development. The company had 700 employed on its GMT-2 project in the National Petroleum Reserve-Alaska along with about 400 on the exploration program, state legislators in Juneau were told in a briefing by ConocoPhillips. A gravel pad, vertical support members and some pipeline has been installed. Another 700 will be employed

– Continued top right

ConocoPhillips (Cont.)

next winter. GMT-2 will cost about \$1 billion and is expected to begin producing in 2021, with peak output of 35,000 barrels per day to 40,000 barrels per day, Scott Jepsen, the company's vice president for Alaska external affairs and transportation, told the House Resources Committee.

On Willow, a larger project further west in NPR-A, a Final Environmental Impact Statement from the U.S. Bureau of Land Management is expected later this year with a Record of Decision, which also approves federal permits, coming in the first half of 2020. The ROD and issuance of permits will clear the way for ConocoPhillips to approve construction. Willow is expected to begin production in 2024 or 2025 with a current expectation of producing 100,000 barrels per day at peak. That could change if more oil is found in the area. ConocoPhillips is already assessing another discovery nearby, "Willow West."

The company also expects the new Doyon Drilling "extended-reach" drill rig to be on the slope a year from now to begin drilling wells to Fiord West, an identified oil deposit in the northwest part of the Alpine field. Production is to begin in August, 2020 with an expected peak of 20,000 barrels per day. One secret to the company's success is new efficiency in development and drilling, which has lowered costs. ConocoPhillips can now profitably develop North Slope oil at crude prices down to \$40 per barrel, Jepsen said.

One concern oil producers have is that the state will look once again to the industry to help balance a fiscal deficit. There is really no revenue gap for the state unless a large Permanent Fund dividend is paid. A \$3,000 PFD is now proposed.

Fisheries:

Surge in salmon in 2019 season

State biologists expect a big increase in salmon harvests in 2019 to 213 million fish, up from about 116 million in 2018. The big bump will be driven by higher pink salmon catches, which has a two-year cycle (last year was low) and a higher chum salmon harvest. About 138 million pink salmon are expected this year up from 41 million last year. That variation is not unusual for pinks in their cycle, biologists say.

The sockeye catch is expected to be down by nine million fish statewide. Last year sockeye catches boomed in Bristol Bay but were dismal in other parts of the state. Outside of the Bay, the statewide sockeye harvest was 40 percent below the 10-year average.

Minerals:

Water concern at Graphite mine

Tribal groups on the Seward Peninsula are registering concern over permits for water rights issued to Graphite One, a company planning a project to mine graphite in the area. The state has issued an authorization for the company to take 129,600 gallons a day from six creeks in the project area, which is near Kigluaik Mountains about 50 miles northwest of Nome. The Native villages of Teller, Mary's Igloo and Brevig Mission have formed the Imuruk Basin Intertribal Watershed Council to assess potential impact of the mine on local water resources and subsistence.

A 2018 field survey conducted by the group documented pink salmon spawning in creeks that will be affected by water withdrawals. State agencies have the responsibility to ensure a sufficient flow of water in streams to support aquatic life. Graphite One conducted test drilling at the site last year and proposes another program this year.

Graphite mine near Nome (Cont.)

If a mine is developed the company would extract and manufacture high grade coated spherical graphite for the lithium electric vehicle market.

Mining economic impact in 2018

A new report from McDowell Group, the economic consulting firm, says mining employed 9,200 Alaskans directly and indirectly during 2018, and injected \$715 million in payroll into the state's economy. Mine workers were some of the highest-paid in Alaska in 2018, with an average salary of \$102,100 per year. The research was conducted for the Alaska Miners Association, a statewide advocacy group for the mining industry. There are currently six large producing mines in the state producing gold, lead, zinc, silver and coal along with a large number of small to medium-sized placer gold mines, many which are family-operated.

Regional payments to local governments:

- \$14.9 million paid to the Northwest Arctic Borough by the Red Dog Mine, in a negotiated payment-in-lieu-of-tax, or PILT
- \$8.2 million in property tax paid by the Fort Knox Mine to the Fairbanks North Star Borough
- \$1.7 million in property tax paid by the Greens Creek Mine to the City and Borough of Juneau
- \$1.4 million in property tax also paid to Juneau by the Kensington Mine.

Payments to the state:

- \$58.8 million in mining license tax, rents and royalty
- \$34.5 million in state corporate income tax
- \$15.9 million paid to the Alaska Railroad for moving coal, sand and gravel
- \$28.2 million to the Alaska Industrial Development and Export Authority for use of the state-owned road and port facilities for the Red Dog Miner and, at Skagway, in support of mines in Yukon Territory

Business Intelligence - *continued*

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SOUTHEAST PILOTS WORRY ABOUT MEGA-SHIP: Southeast marine pilots have expressed worries over the maneuverability of the Royal Princess, one of four mega-size cruise ships expected in Alaska waters this summer. Vessel operation simulations appeared to present problems for the vessel in certain wind and tide conditions, mainly in entering Ketchikan. Princess Cruises, the vessel owner, challenged the simulations. Three other megaships are expected in Alaska this summer including Royal Caribbean's Ovation of the Seas, the largest cruise ship ever to visit the state with capacity for 4,900, but those vessels didn't present the problems cited by pilots on Royal Princess, which is expected in Alaska in mid-May. The Royal Princess has capacity for 3,600 passengers.

KETCHIKAN TALKS WITH CRUISE COMPANIES ABOUT PUBLIC-PRIVATE PARTNERSHIP:

Ketchikan officials are talking with cruise ship companies about possible industry investment in further dock expansion and upland development in Ketchikan. Cruise passengers on Alaska voyages are continuing to increase and Ketchikan is the Alaska gateway for most of the ships. However, the city is loaded with debt for port and dock expansions and can't take on more debt, city officials say. Discussions about investment occurred during the recent Seatrade Cruise Global Expo in Florida. Cruise companies would want preferential access to docks. Princess Cruises is already making dock and upland investments in Skagway, another major cruise ship port.

NEW DEFENSE DEPARTMENT STRATEGY PAPER ON ARCTIC: A new U.S. Defense Department strategy for the Arctic is to be released in June and is expected to put more emphasis on projection of U.S. power in the region with increasing military activity by Russia and commercial shipping by China. China is touting plans for a "Polar Silk Road" to be used by cargo vessels in an Arctic that is increasingly ice-free in summer.

BILL TO BAN USE OF PLASTIC BAGS ADVANCES IN LEGISLATURE: A bill to ban the use of plastic bags in retail sales is advancing in the Legislature but some lawmakers representing communities that have established local bans say the restriction has been ineffective. The proposed measure, by Rep. Andy Josephson, D-Anch., would exempt fresh produce and certain other sales from the requirement. An exemption for small businesses was taken out of the bill. Seventeen communities in Alaska have adopted bans on plastic bags, and a ban in Anchorage will take effect in September. Three states, California, Hawaii and New York, have statewide bans, but 12 states have passed laws prohibiting communities from enacting local bans. In Alaska, Rep. Colleen Sullivan-Leonard said the ban has not worked in Wasilla, a community she represents that has a ban. However, Fairbanks borough assemblyman Andrew Gray has introduced a resolution in support of the statewide ban.

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