Half Full or Half Empty?

A glance at the state of Alaska’s economy
What to Remember:

• How Alaska's economy works

• The good, the bad, and the ugly

• What you can do to influence it
What's at risk
1979 vs. today

• 1979
  – Income tax
  – Gross receipts tax
  – School tax

• Today
  – No income tax
  – No gross receipts tax
  – No school tax
  – Permanent Fund Dividend
Primary Sectors Fueling Alaska’s Economy: 1/3 Rule

Oil & Gas

Federal Govt

Everything Else...
Econ 101:

- A capital investment turns a profit, which is invested again, turning another profit, and so on and so forth, until eventually an employee’s at your local restaurant benefits by a wage and tip.
New Hotel in Anchorage: an example

Alaska:

(Note: Our financial industry employs 1.6% of our workforce, according to Dept. of Labor - March 06)

- Upfront costs
  - Engineers
  - Architects
  - Design Phase

- Construction
  - Supplies & Materials
  - Equipment
  - Labor & Workers
  - Transportation & Infrastructure
Often, Profits Outside SUPPLIES:
- materials
- Housing
- Health Care
- Humpy's Labor/Workers

EQUIPMENT:
- crane rentals, excavation equipment
- Housing
- Health Care
- Humpy's Labor/Workers

TRANSPORTATION/INFRASTRUCTURE:
- gravel (AK Sand & Gravel), etc.
- other vendors (Spenard Builders Supply)

Dining
Return to the Economy: Capacity of Tourism is Increased

More Tourists

More Tourist $$$

Hotels
  - Labor/Workers
  - Housing
  - Health Care
  - Humpy’s

Air Taxis
  - Labor/Workers

Restaurants
  - Labor/Workers

Retail
  - Labor/Workers
New Oil Field Investment

Example: ALPINE FIELD (new development)

- **DRILLING**
  - 50%
  - est. $1bil.
  - LABOR: 70%
    - Healthcare
    - Housing
    - Humpy's
  - MATERIAL: 30%
    - Steel/pipe

- **FACILITIES**
  - 50%
  - est. $1bil.
  - LABOR: 66.67%
    - Subcontractors (Doyon, ASRC, Veco, etc)
  - MATERIAL: 33.33%
    - Healthcare
    - Housing
    - Humpy's
Return to the Economy

Expanded Production Capacity

- Permanent Fund
- Royalties
- More Jobs
- More $$ in economy
- Profits

More Investment
Federal Government Spending

- Rest of Economy
- Civilian
- Military
Types of Federal Spending:

• Salaries & Wages

• Grants

• Procurement

• Retirement & Disability

• Other Direct Payments
A good example of federal contribution to AK’s economy is military construction projects. Some top military contractors in 2000:

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Value of Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Williams Companies, Inc.</td>
<td>$77,390,000</td>
</tr>
<tr>
<td>Arctic Slope Regional Corp.</td>
<td>65,186,000</td>
</tr>
<tr>
<td>Alaska Mechanical Inc.</td>
<td>46,961,000</td>
</tr>
<tr>
<td>Arctec Services JV</td>
<td>40,486,000</td>
</tr>
<tr>
<td>Chugach Alaska Corp.</td>
<td>29,324,000</td>
</tr>
<tr>
<td>Lynden Inc.</td>
<td>22,635,000</td>
</tr>
</tbody>
</table>

Salaries & Wages

• Since WWII, the federal government has been the state’s single largest employer:
  - Military
  - Dept. of the Interior

(Interior, Postal Service, FAA, Forest Service are the top AK employers)
Source: USDC. Consolidated Federal Funds Report
Grants

• Growth Engine: Grants increased 128% 1991-2000

• The largest category of construction grants is transportation:
  – Roads
  – Airports
  – Harbors
  – Infrastructure
  – All other
Federal Spending

• In 2004, the Federal Government spent $3.14 billion in total grants into Alaska

• If roughly half were capital investments, $1.5 billion was fed into our economy

• If these $$ were as productive as our hypothetical oil & gas investment in creating permanent jobs (60 per $100 million), we should see 900 new permanent jobs from this ONE year of federal grants

Source: Scott Goldsmith, ISER 2007
Examples of some relatively small grants in 2006 (thousands)

- $750  Construction of Ketchikan Aquarium
- $400  Bean’s Café kitchen expansion
- $950  Construction of Boy Scout Camp
- $150  Expansion of Botanical Garden

Source: Scott Goldsmith, ISER
FEDERAL GRANTS
Real Per Capita 2005 $

Source: USDC. Consolidated Federal Funds Report
Source; USDC. Consolidated Federal Funds Report
North Slope/Oil Industry

Oil & Gas contributes roughly 1/3 of jobs & income
North Slope/Oil Industry:

  - $64 bill in production costs

- $77 BILLION: State revenues from North Slope oil production (1978-2006)

Source: ISER 2004
Other Natural Resources

- Rest of Economy
- Oil & Gas
- Mining
- Seafood

Timber, agriculture, and miscellaneous Manufacturing are too small to show (yellow)

Source: Scott Goldsmith, ISER 2004
Other Industries

- Tourism and air cargo transportation has larger potential for growth than timber, agriculture

- Anchorage Intl Airport is the #3 Cargo airport in the world
Oil and Gas Sector Investment

**PAYROLL:** $422 million (in 1999)

- For every $100 million invested in oil & gas, 60 permanent jobs are created.
- 12% of private sector jobs and 20% of private sector payroll are in oil & gas.
- Oil & gas generates more payroll than any other non-governmental industry in Anchorage, Fairbanks, Kenai, Valdez, & the Mat-Su.
- The industry has the highest average wage in Alaska ($7,754/month in 2001).

Permanent Fund

- Fund Market Value: $37.7 BILLION in 2007
- $14.3 Billion paid in dividends since 1982
- Since ’82, a family of 4 has benefited from over $100,000 in PF Dividends
Where the household wealth is:

- As shown in the flow charts, labor/workforce invests in HOUSING, healthcare, durable goods.

- Housing is completely DEPENDENT on the housing market. This is INDEPENDENT of your connections, whether you are a federal employee, have outside income, or not. EVERYONE is affected by the housing market.
Economy in the mid-80’s
ALASKA SHAKEN BY OIL-REVENUE DROP

August 26, 1986, Tuesday
By WALLACE TURNER, SPECIAL TO THE NEW YORK TIMES (NYT);
National Desk
Late City Final Edition, Section A, Page 10, Column 3

- As Alaskans look for ways to replace the oil royalties and taxes that no longer flow out of the state treasury, signs of economic distress abound here. More houses are for sale in Anchorage than ever in its history, real estate agents say. Foreclosures have become so common that ...
A look back: the early 80’s

+85% of State revenue came from oil industry (sound familiar?)

Building Boom to Bust: Jump in price of oil spurred 5 years of frenzied state spending

Building permit values topped $1 billion in Alaska in 1983
Then…

The price of oil fell to UNDER $10/bbl

- Housing Prices Crashed- Permit values dropped to $87 million (from $1 billion)

- Property taxes skyrocketed- as state aid to local government declined and property values sank. The tax mill rate in Anchorage doubled between 1985 and 1989.
And then...

- Alaska lost 20,000 jobs in ‘86 & ’87
- Anchorage lost nearly 12% of its population
- Between July ‘85 & July ‘89, 44,000 more people left Alaska than arrived
And then....

- 15 financial institutions folded or consolidated
  (14,500 are currently employed by the bank/finance industry)

- State capital budget was cut by $1 billion between FY85 and FY88

- GF Petroleum Revenue dropped from $2.6 billion in ‘86 to $1.3 billion in ‘87
  --Dropped 50% in 1 YEAR
ALASKA NATURAL RESOURCE PRODUCTION
MARKET VALUE (Billion 2005 $)

Source: ISER
What’s Different Now:

- Constitutional Budget Reserve (overdraft protection)- voter created
- $40 billion in the Permanent Fund
- More mature economy
- Retirees
- Tourism: 1.6 million visitors in ’06 compared to 690,000 in ’90
- Native Corporations- 8(a)
- Air Cargo- traffic increased by 1 million Metric tons in past 5 years
Declining Oil Production:

• Oil production in Alaska is declining at a rate of 6% per year.

• Since 2001, production has dropped from 1 Million barrels/day to 750,000

• Prices have masked declining production

• The high price of oil is a two-edged sword
A decline in federal dollars:

- Both of our U.S. Senators have spoken of fewer available dollars available for Alaska in the years ahead.

- This is a result of: appropriation reform, loss of chairmanship power.
The other 1/3:

- Tourism and Cargo have a larger potential for growth because they are largely not affected by what happens in state.

- Timber is largely locked up by federal regulations.

- Mining

- Fisheries have flourished under Magnuson-Stevens Act… another resource dependent on federal management.
What will sustain our energy based economy:

- Gas
- Heavy Oil
- New exploration
What can the State do?

- Curb Government Spending
  - Operating Budget

- Encourage Resource Development

- Make decisions for the long term.
What you can do:

• Get involved
• Talk to your employees and family
• Contact your legislators