

Alaska's Economy: The Challenge Ahead

by

Scott Goldsmith

Institute of Social and Economic Research
University of Alaska Anchorage

Bankruptcy Court Lawyers

Anchorage, Alaska

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Institute of Social and Economic Research
University of Alaska Anchorage



Northrim Bank

Customer First Service

Alaska at Statehood



- SMALL: 90 thousand jobs
- THIN: limited support businesses
- SEASONAL: summer private jobs 2x winter
- TRANSIENT: seasonal and temporary
- FEDERAL DOMINATION: ½ jobs with fed
- INFRASTRUCTURE UNDERDEVELOPED
- LIMITED TAX BASE
- POOR: Income 10-20% below US average

Alaska Today



- NOT SO SMALL: 450 thousand jobs
- MATURE: broad range of support businesses
- ANNUAL: slight summer bulge in jobs
- STABLE: fewer transient workers
- FEDERAL "PRESENCE": fed jobs don't dominate
- INFRASTRUCTURE MORE DEVELOPED
- **LIMITED TAX BASE**
- PROSPEROUS: Low Taxes, PFD, Incomes 10% above US average, Generous Public Services

The Alaska Economic Structure: The Myth



The Reality



Sources of Prosperity: The 3-Legged Stool



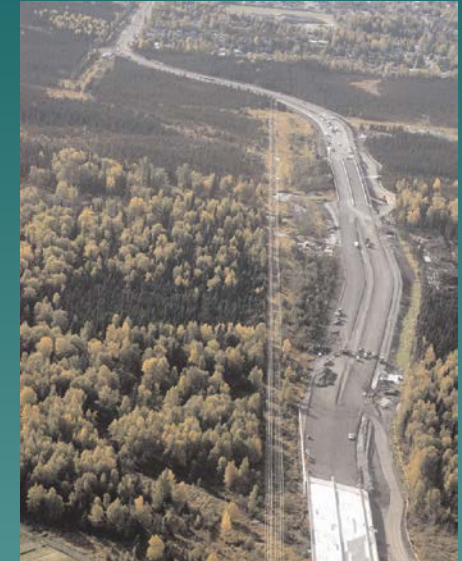
Non-Petroleum Natural Resources: \$8.5 Billion (2011 Market Value)

◆ Mining		\$ 3,588
◆ Seafood		\$ 1,328
◆ Timber	about	\$ 150
◆ Agriculture		--
◆ Furs		--
◆ Tourism		\$ 1,483
◆ Retirees	about	\$ 1,500
◆ Air Cargo		???

Value determined at point of production except for mining.

Federal Spending: \$10.9 Billion in 2010

- GRANTS \$3.5
- PAYMENTS TO PERSONS \$2.6
- DEFENSE \$3.3
 - Wages \$1.5
 - Procurement \$1.8
- FEDERAL AGENCIES \$1.5
 - Wages \$.8
 - Procurement \$.7



Excluding ARRA Funds

Petroleum: Oil Patch

\$24.5 Billion @ wellhead in 2011

The Role of the Oil and Gas Industry in Alaska's Economy

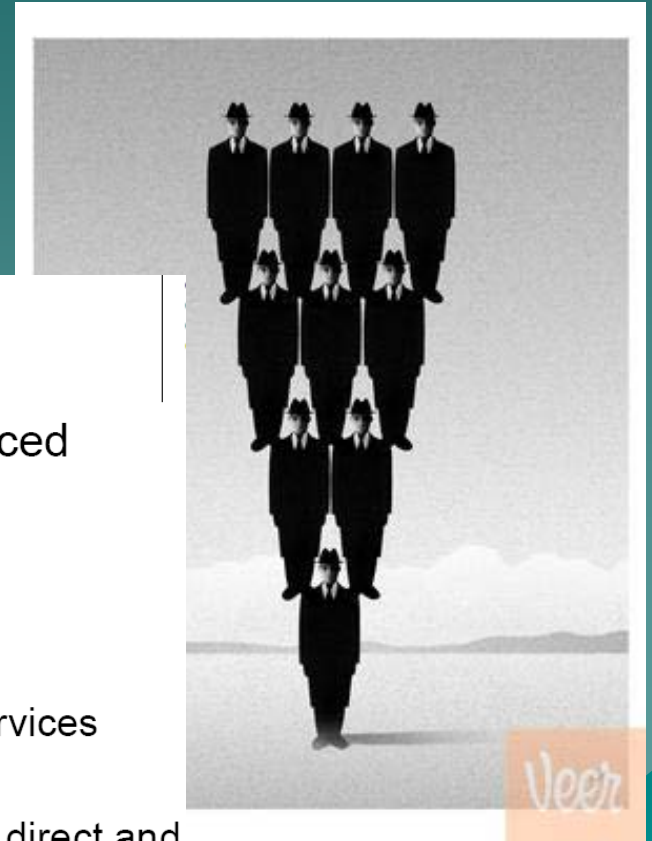
Anchorage Chamber of Commerce
June 30, 2008

Information Insights
Fairbanks • Anchorage



Job creation

- 41,744 jobs – direct, indirect, induced
 - 4,497 Direct – primary companies
 - 8,410 Indirect – support industry companies providing goods and services
 - 28,837 Induced – jobs created when direct and indirect employees spend their income locally



Petroleum: State Revenues

\$9.9 Billion in FY 2012



SAVE
\$47
Billion



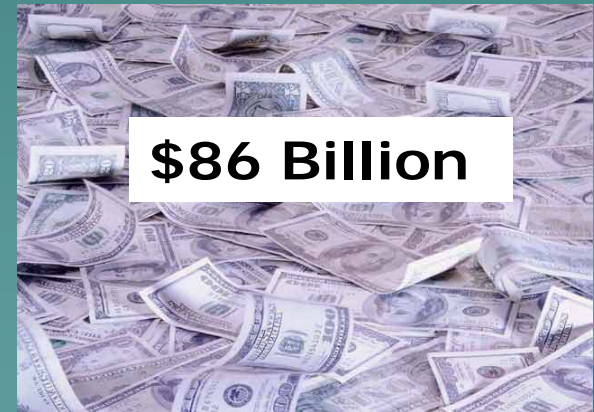
Lighter Tax Burden



SPEND
\$144
Billion



Greater Public Spending



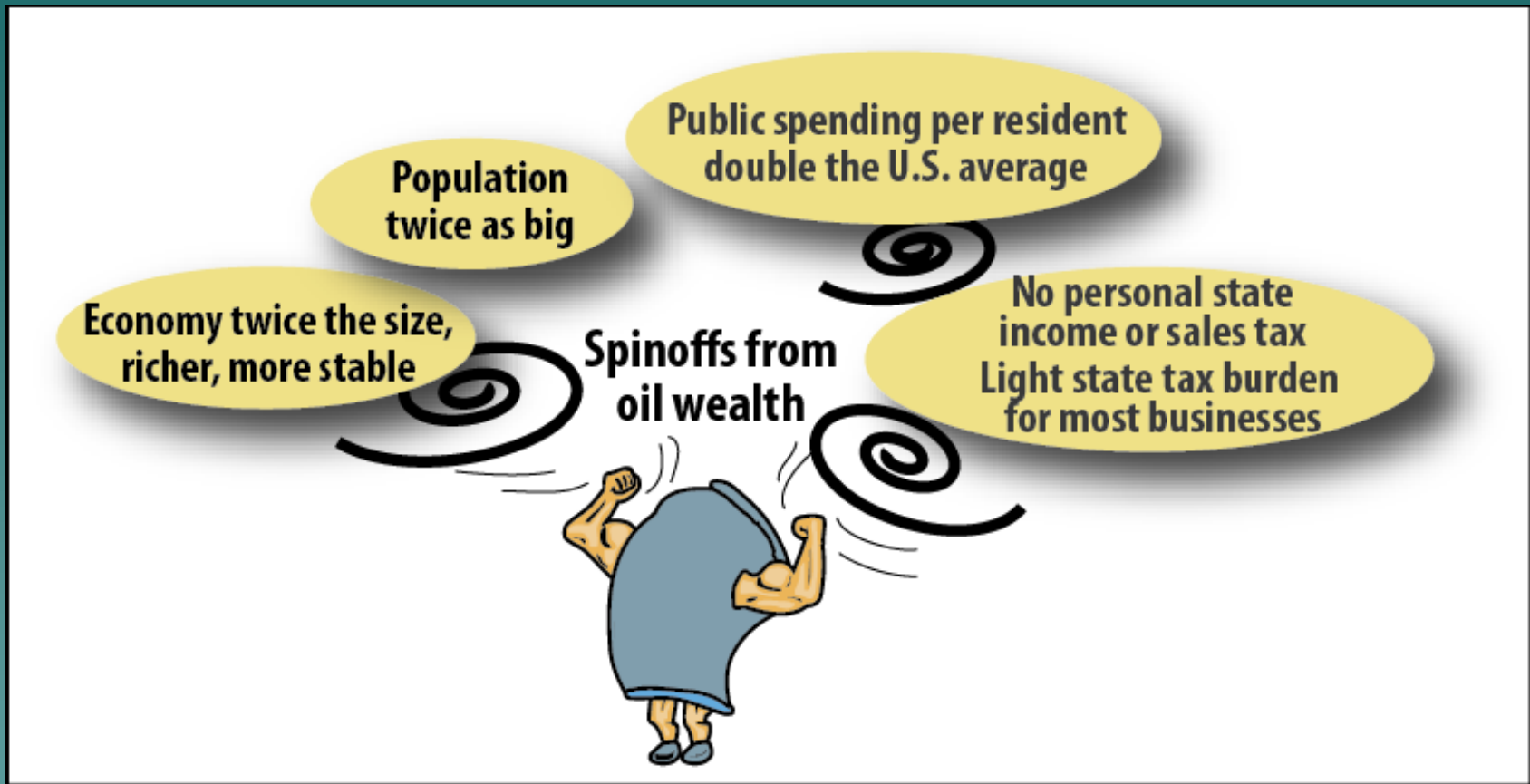
59-13 in 2012 \$

Petroleum: Financial Savings

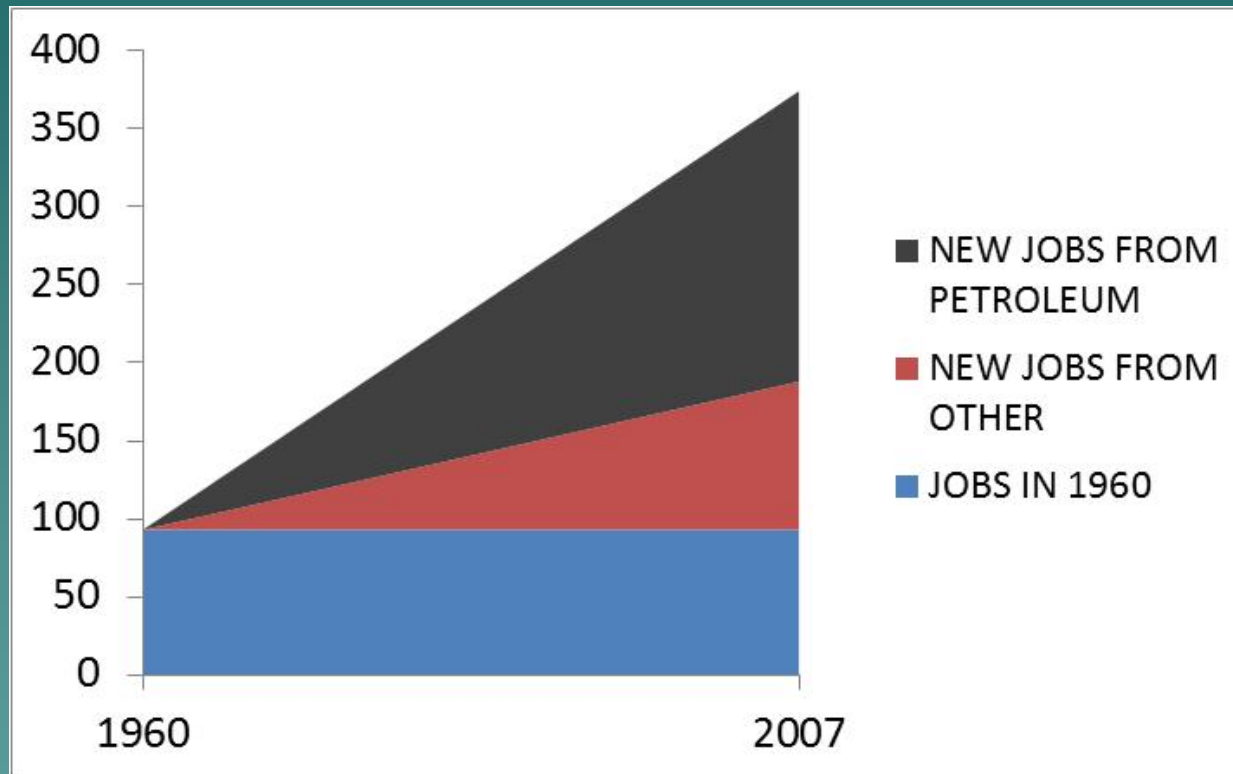
\$60 Billion



Petroleum: Spinoffs

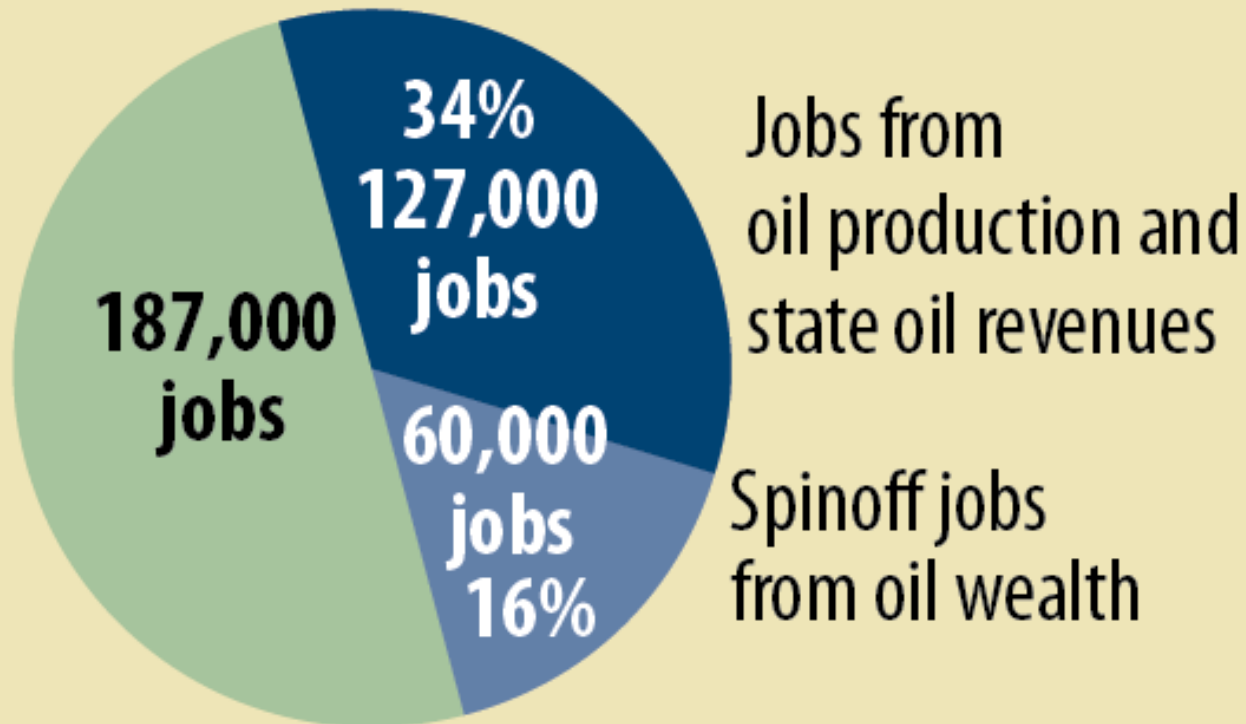


New Jobs since 1960



Petroleum = Half of Alaska Jobs

Actual 2007



Alaska Today: No Oil



- SMALL: 187 thousand jobs
- THIN
- SEASONAL
- TRANSIENT
- FEDERAL DOMINATION
- INFRASTRUCTURE UNDERDEVELOPED
- LIMITED TAX BASE
- POOR: Income 10-20% below US average

But the Oil Barrel is Running Dry

How Much Conventional Oil Remains on State-Owned Land?

Estimated oil as of 1960: 22.8 billion barrels (100%)



1977: 20 billion barrels (87%)

2000: 10.5 billion barrels (46%)

2010: 4.8 billion barrels (21%)

2020: 2.9 billion barrels (13%)

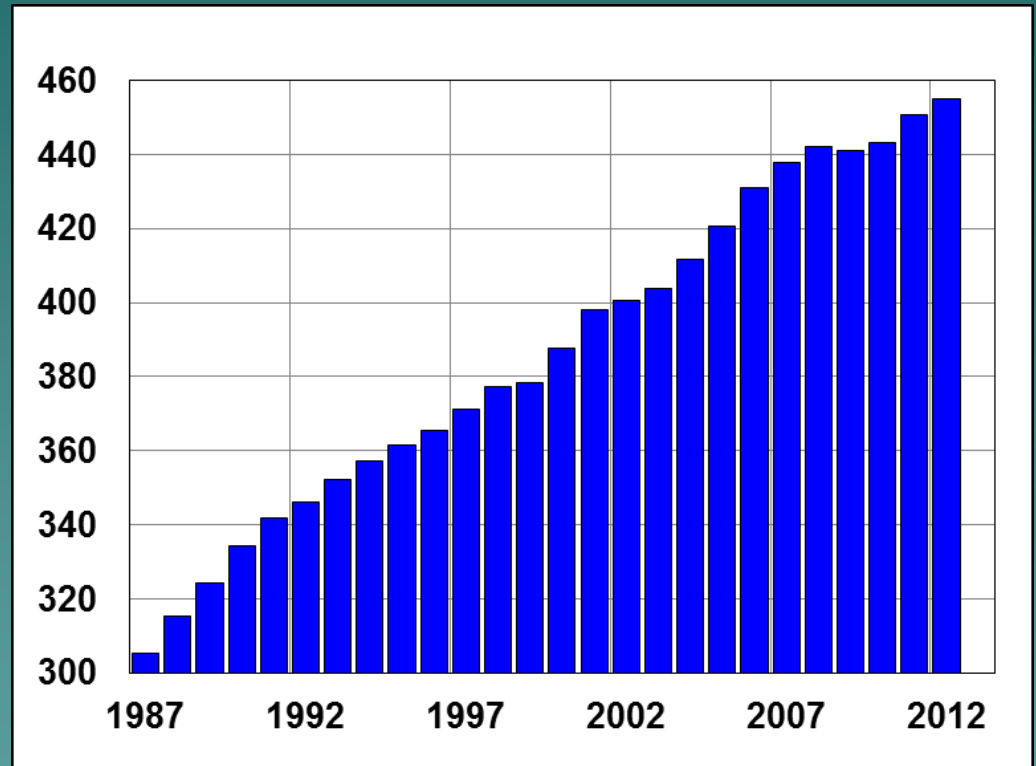
Source: Alaska Department of Natural Resources, historical production and projected future production

The Economic Landscape: It Seems Rosy

By CAROLINE SCHULTZ, NEAL FRIED, ALYSSA SHANKS, and MALI ABRAHAMSON

Employment Forecast for 2013

Alaska's modest employment growth to continue this year



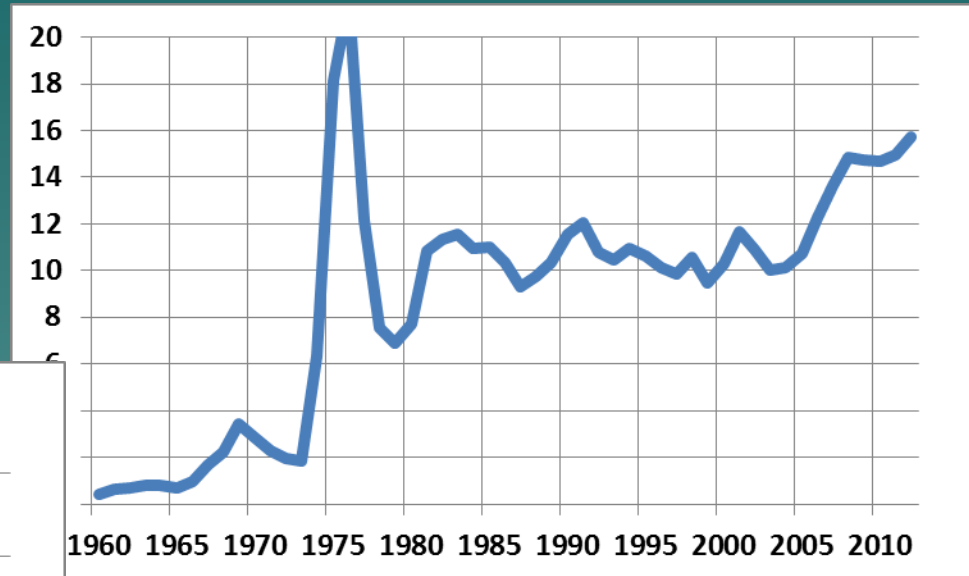
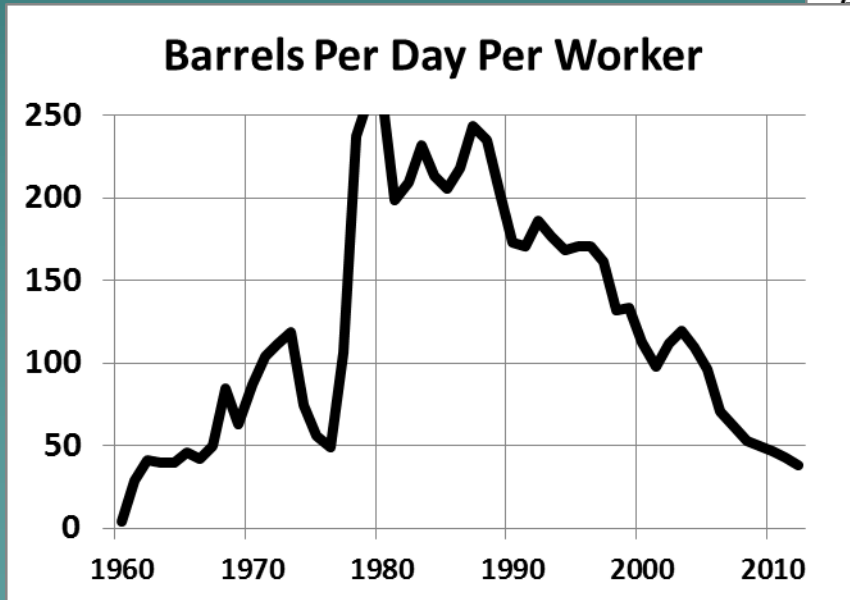
Explaining The Paradox

- ◆ Federal \$\$ (Ted Stevens)
- ◆ Military Expansion
- ◆ Tourism, Mining
- ◆ Retirees
- ◆ Air Cargo

- ◆ Support Sector Catching Up
- ◆ Wealth Accumulation

- ◆ Anticipation of Gas Line, OCS, etc.
- ◆ Petroleum Revenues
- ◆ Increased Labor Intensity of Petroleum

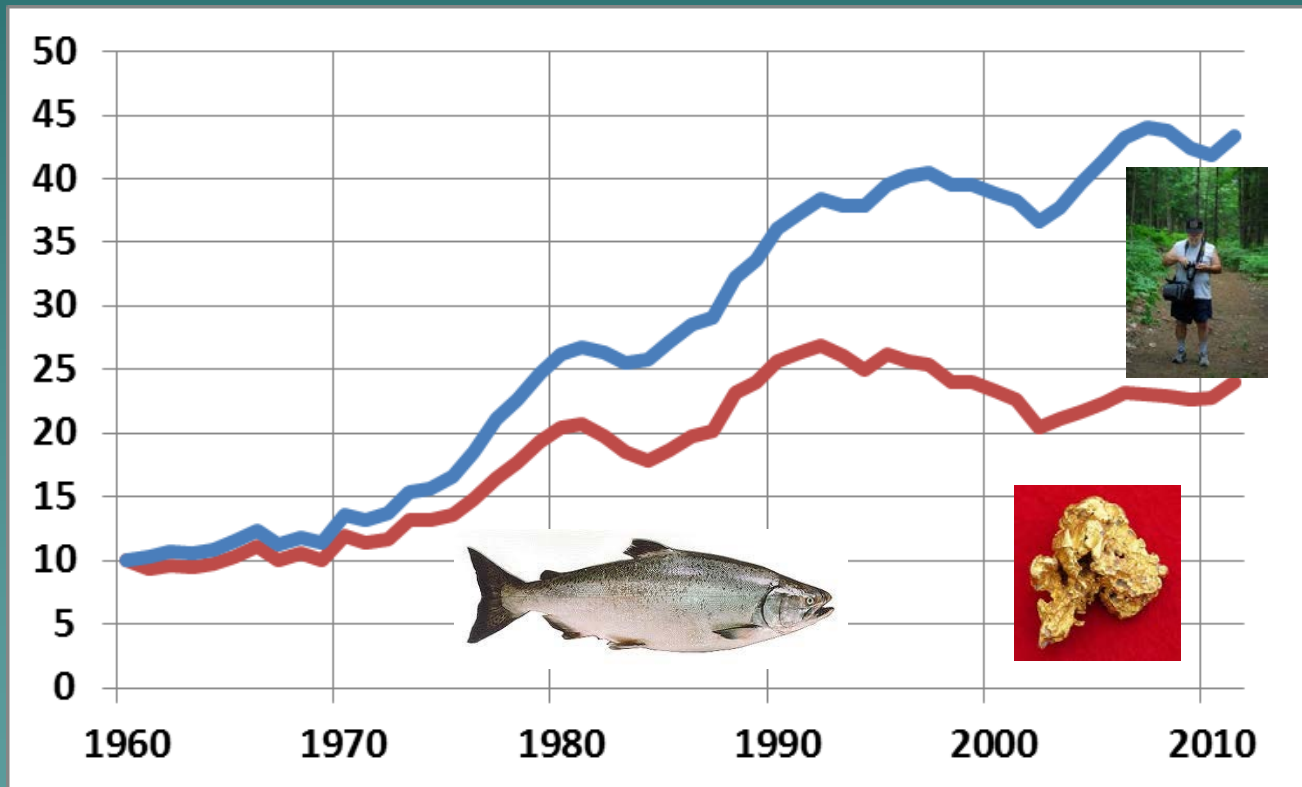
Trend in Oil Patch Employment



Strategies for the Future?

1. Natural Resource Development
2. Value Added Processing
3. Federal Spending
4. Infrastructure Investments
5. Renewable Energy
6. Footloose Industry
7. Other Economic Development Ideas
8. PETROLEUM

Strategies Moving Forward #1: Natural Resource Production Jobs (000)



Replace \$7.5 Billion in Petroleum Revenue with Taxes on Other Resources?



\$10,000 /
OZ. GOLD



\$5,000 /
TOURIST

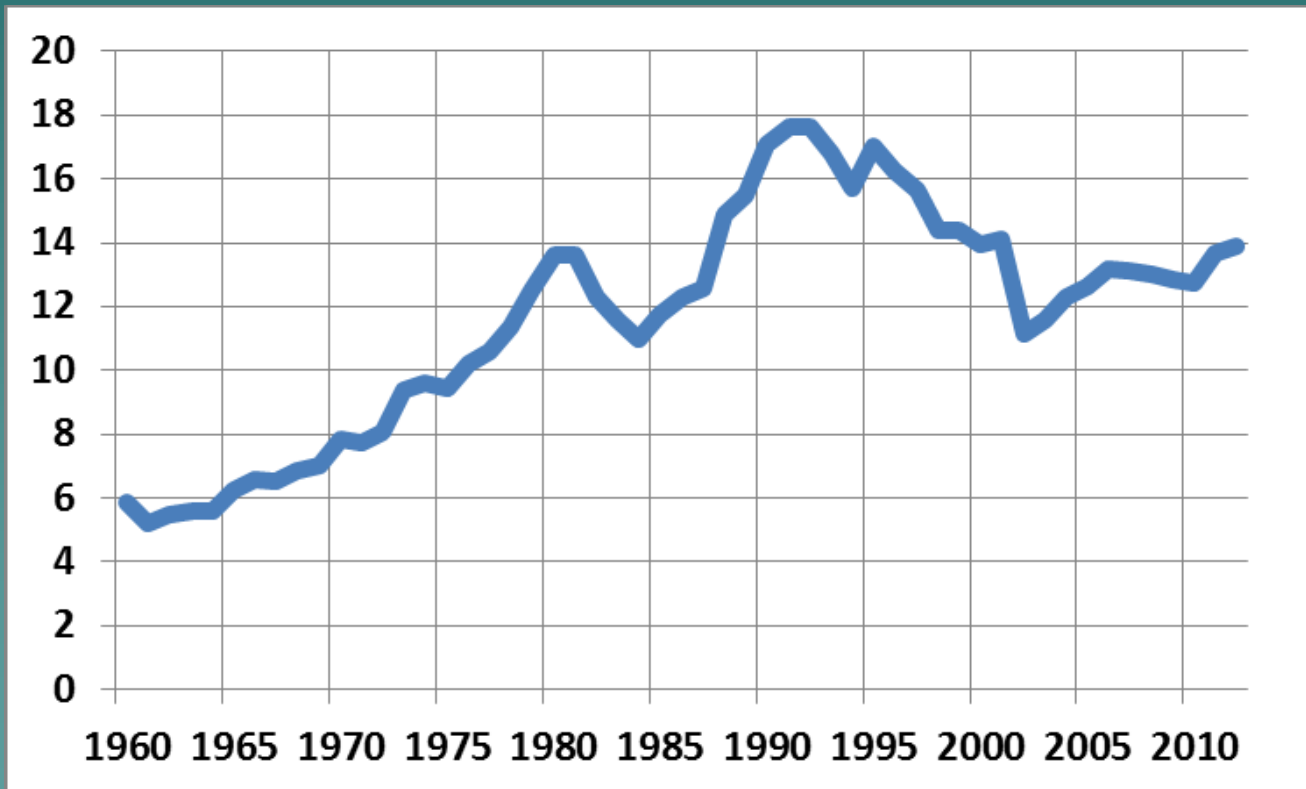


\$50 /
SALMON

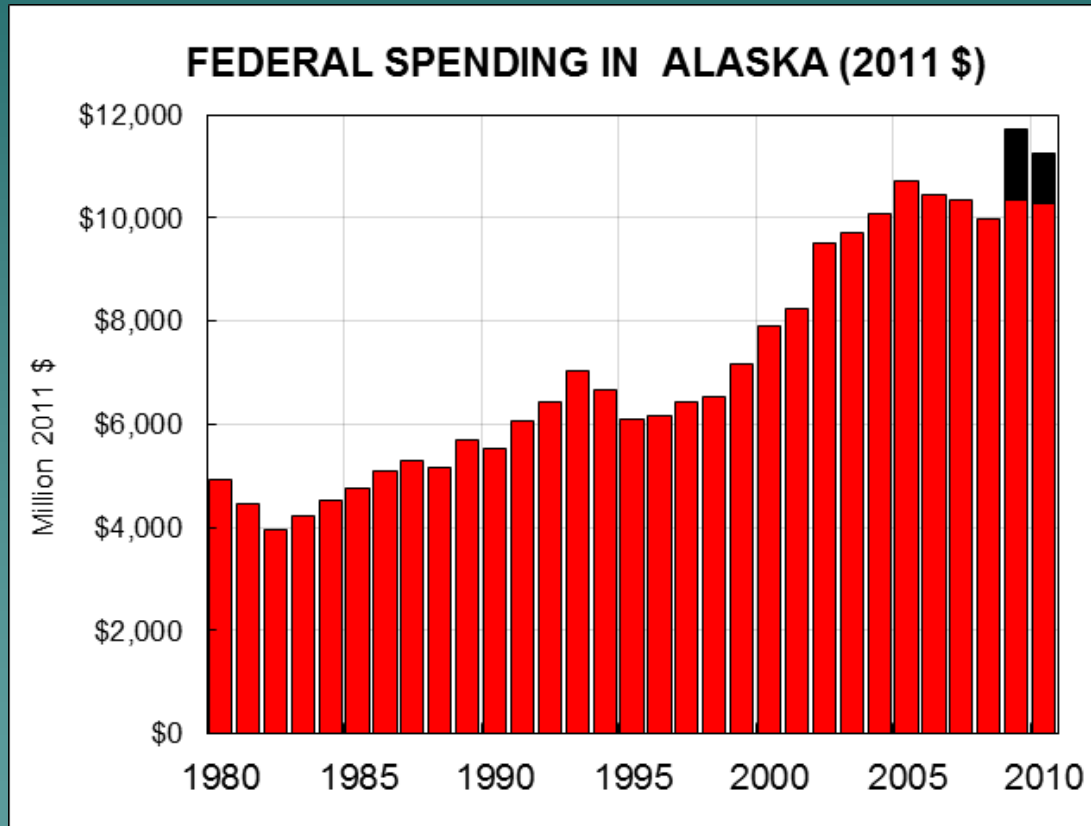
*Estimate for FY 2011

Strategies Moving Forward #2: Value Added Processing

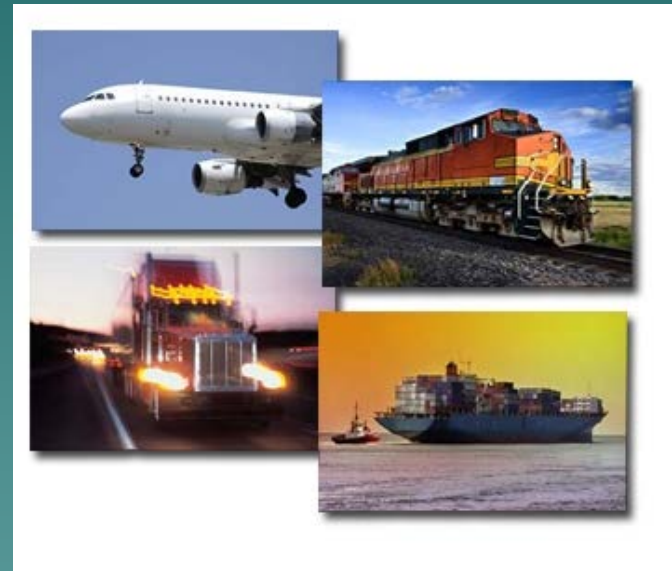
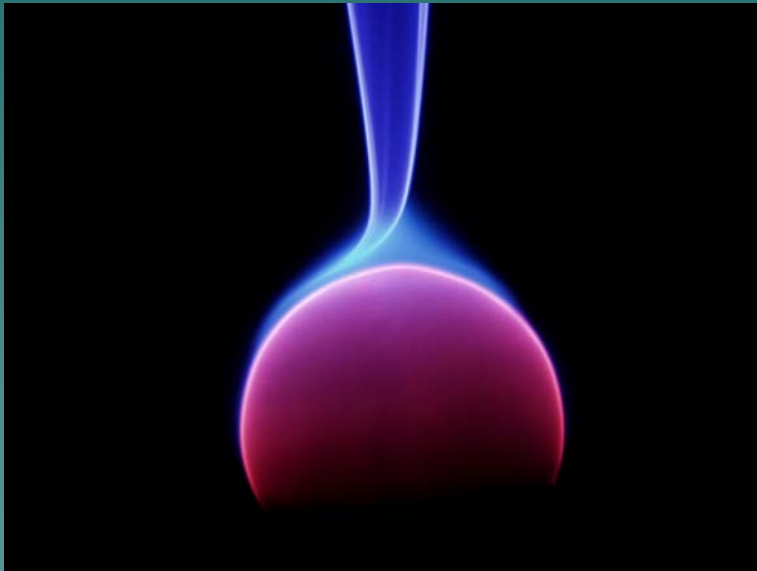
Jobs (000)



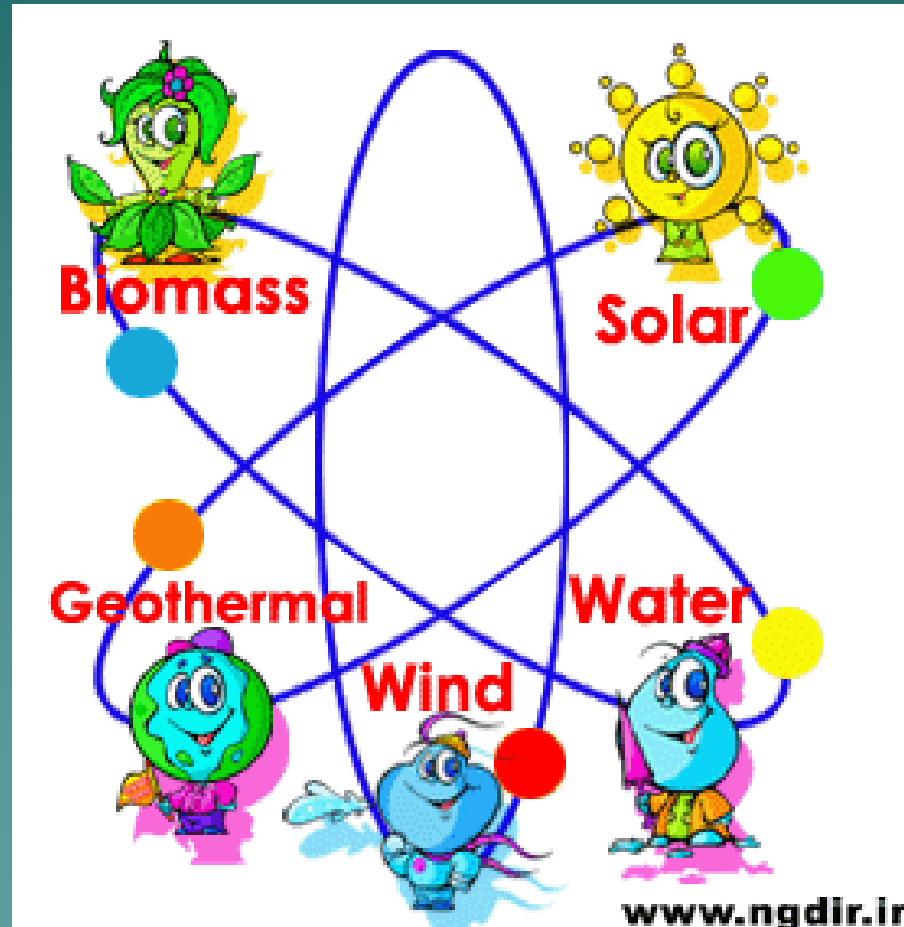
Strategies Moving Forward #3: Federal Relations



Strategies Moving Forward #4: Speculative Investment in Infrastructure



Strategies Moving Forward #5: Renewable Energy



Strategies Moving Forward #6: Footloose Industry



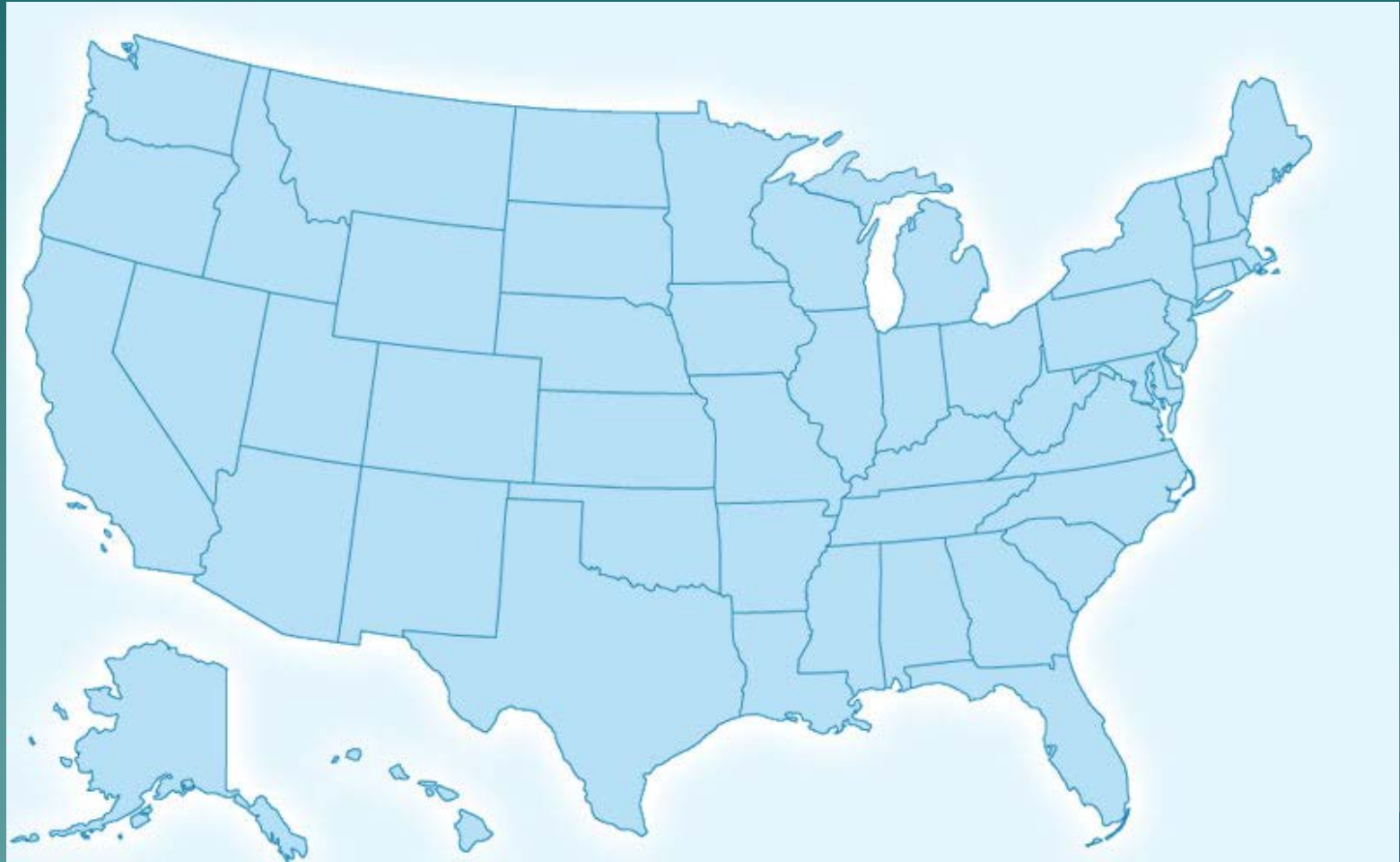
Strategies Moving Forward #7: Other Economic Development Ideas



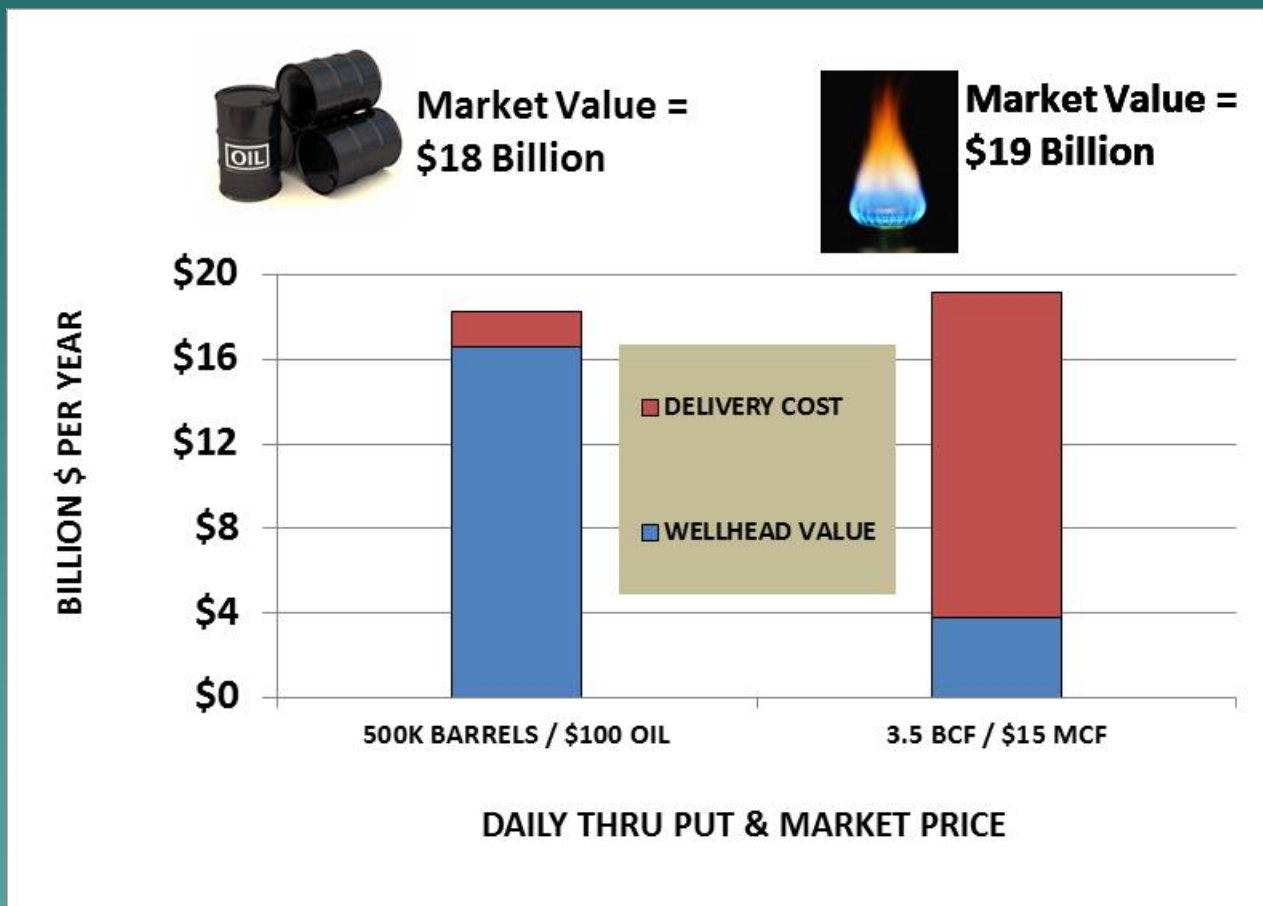
Alaska Economic Development Strategic Plans

About 374,000 results

Alaska: An Island Economy



Why A Gas Pipeline is NOT Our Salvation: Oil and Gas Values Compared

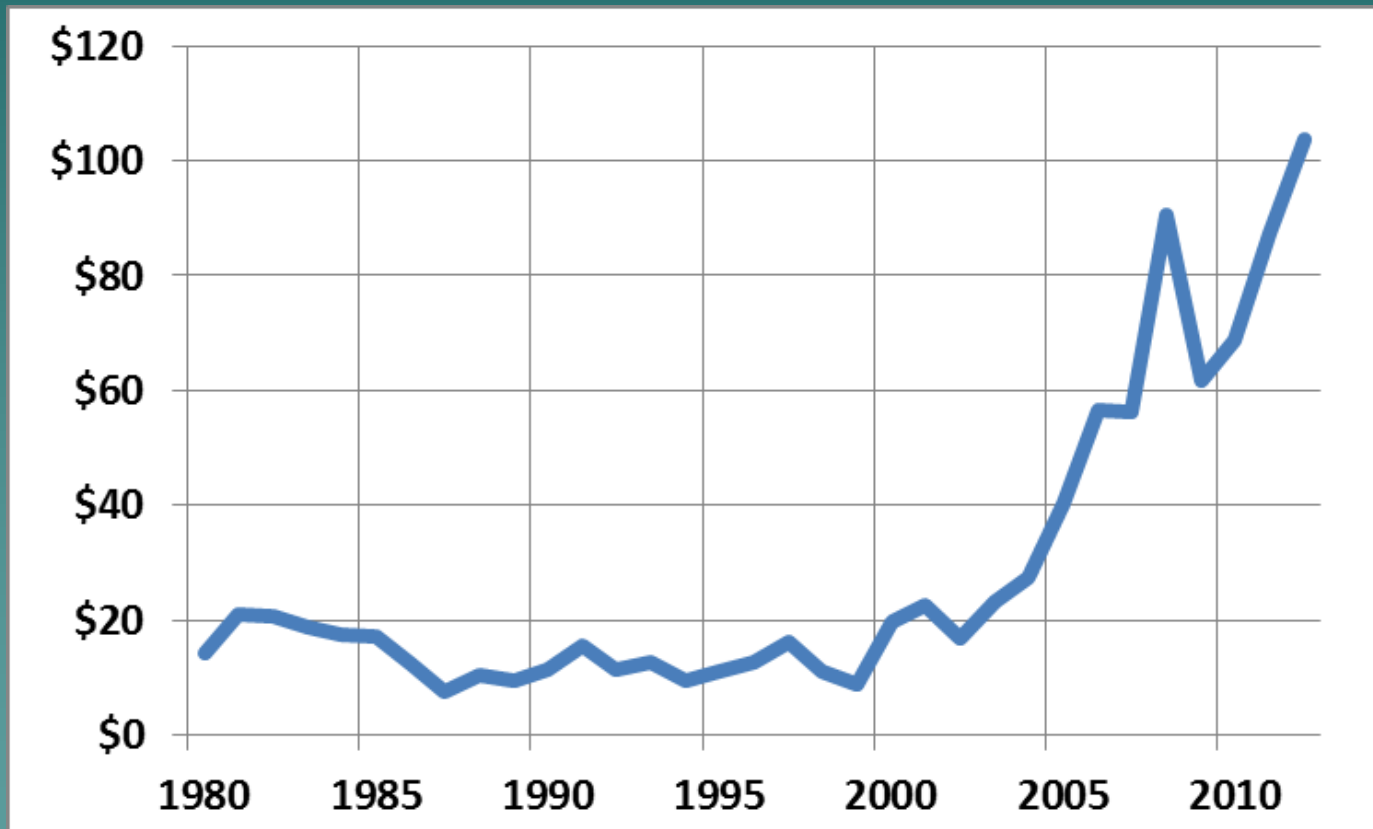


Another Strategy



"Please God, give us another oil boom, we promise not to piss it away this time"

God Answers Our Prayers: The Second Oil Boom

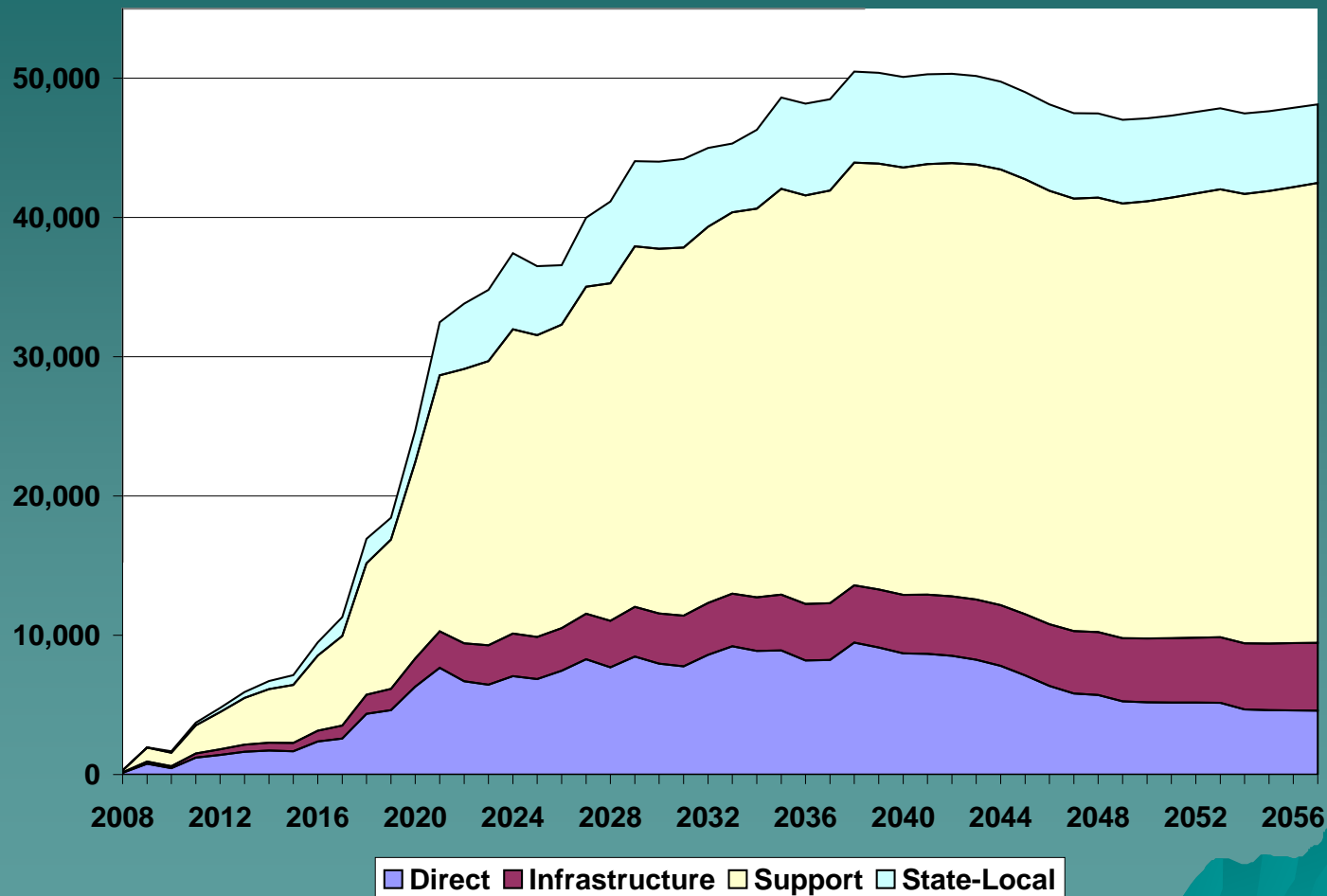


Economically Recoverable Oil: Northern Alaska(???)

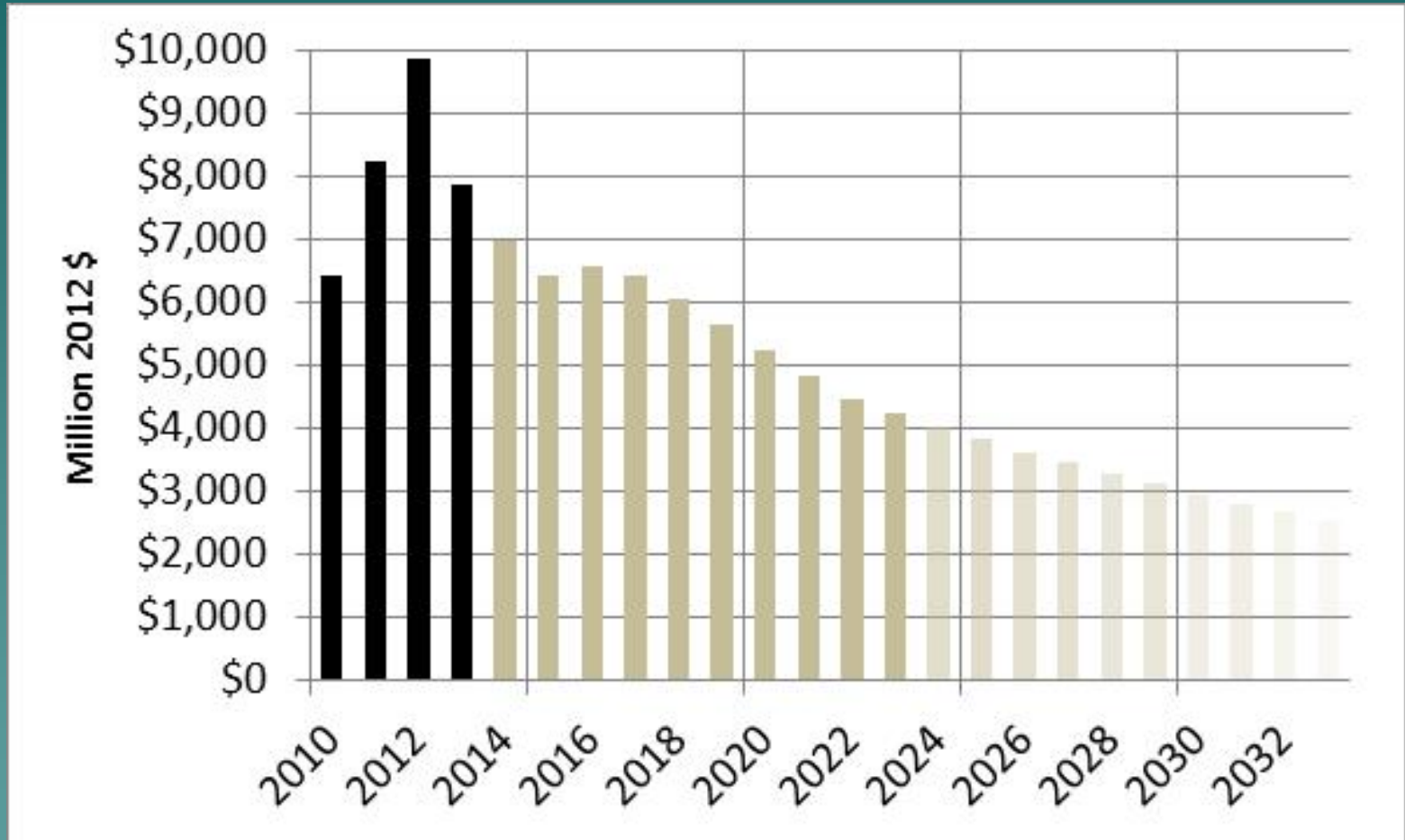


	(Billion Barrels)
KNOWN CONVENTIONAL ON STATE LAND	5
KNOWN UNCONVENTIONAL ON STATE LAND	4
YET TO BE DISCOVERED ON STATE LAND	3
FEDERAL LANDS	22

One Petroleum Employment Projection



DOR Projected Petroleum Revenues



Fall 2012 (before SB21) – 5% Real Decline Rate

State Fiscal Plan?

Spring 2013 Revenue Forecast and Projected Reserve Balances

(\$ millions)	2013	2014	2015	2016	2017	2018	2019
Oil Price and Production							
Forecast ANS West Coast Price (\$/barrel)	\$109.21	\$109.61	\$111.67	\$114.88	\$116.22	\$117.16	\$118.29
Forecast Production (Million Barrels per Day)	0.539	0.527	0.513	0.500	0.477	0.443	0.422
Revenue versus Spending							
General Fund Revenues*	\$7,585.5	\$6,162.7	\$5,993.5	\$6,232.3	\$6,206.5	\$5,864.6	\$5,775.0
General Fund Expenses	\$7,969.9	\$6,830.6	\$6,775.0	\$6,750.0	\$6,725.0	\$6,700.0	\$6,700.0
Budget Surplus / (Deficit)	(\$384.4)	(\$667.9)	(\$781.5)	(\$517.7)	(\$518.5)	(\$835.4)	(\$925.0)
Reserve Balances							
Constitutional Budget Reserve	\$11,604.5	\$12,055.4	\$12,560.9	\$13,124.5	\$13,751.4	\$14,447.0	\$15,216.6
Statutory Budget Reserve	\$5,103.6	\$4,435.7	\$3,654.2	\$3,136.5	\$2,618.0	\$1,782.6	\$857.6
Total Reserve Balances	\$16,708.1	\$16,491.1	\$16,215.1	\$16,261.0	\$16,369.4	\$16,229.6	\$16,074.2

How Can We Sustain a Healthy Level of Public Services in the Future?

MAXIMUM SUSTAINABLE YIELD
Management of our biggest asset—
Petroleum.

- 1) How Big is Our Nest Egg?
- 2) How Should We Manage It?
- 3) How Should We Spend it?

Petroleum Wealth \$149 Billion



\$ IN THE BANK	\$60
Permanent Fund	\$42
CBR (Constitutional Budget Reserve), SBR (Statutory Budget Reserve), GF (General Fund)	\$18

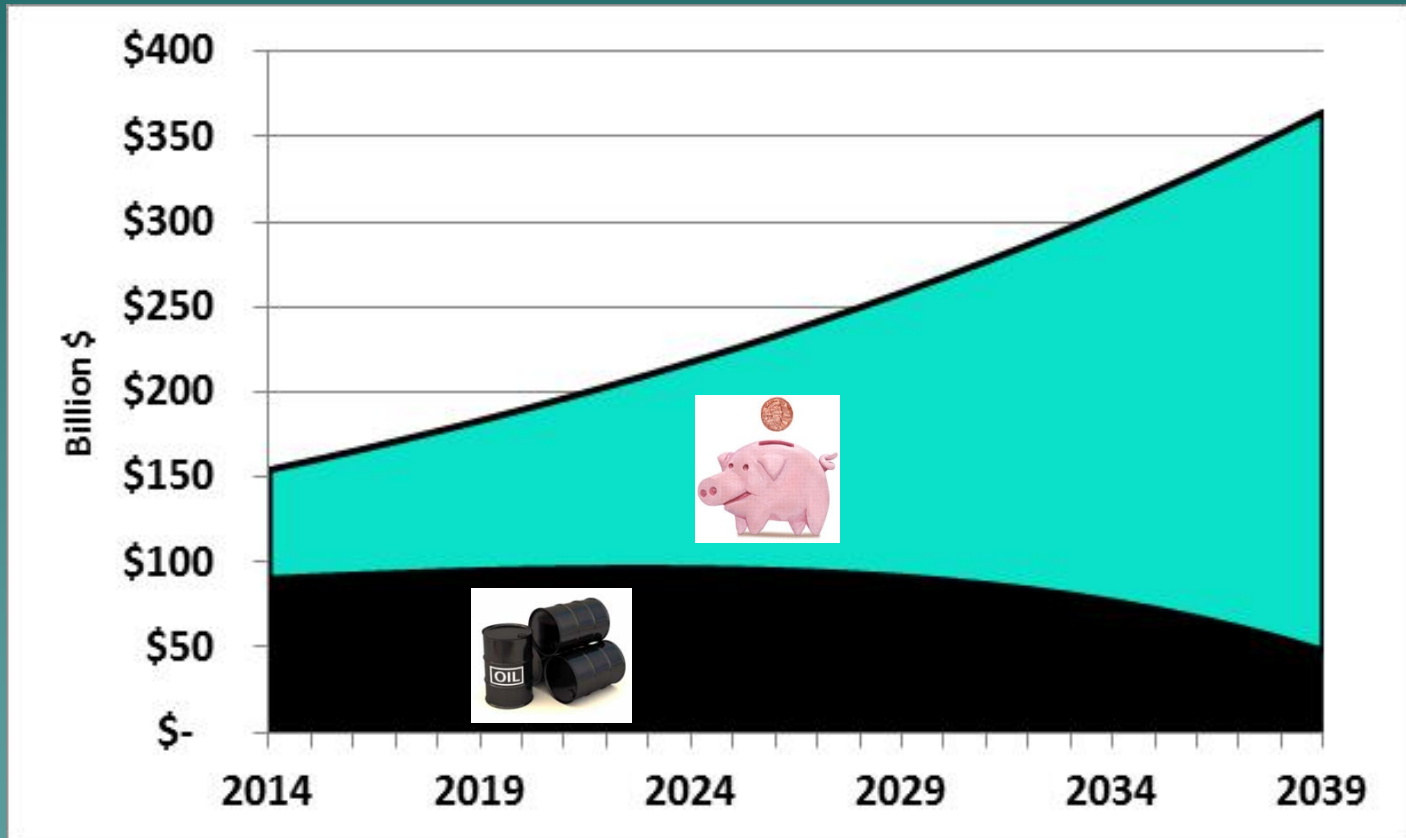
IN THE GROUND	\$89
Conventional State Land	\$67
Other Oil	\$10
Natural Gas	\$12



Maximum Sustainable Yield: Calculation

Nest Egg	\$149 Billion
Investment Return (After Inflation)	5%
Population Growth	1%
MSY Draw Rate	4% = (5%-1%)
MSY Draw	\$6 Billion = (\$149*4%)

Maximum Sustainable Yield: Nest Egg Growth



Is It Possible?



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More Information at
www.iser.uaa.alaska.edu/Projects/investak/

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