

Alaska's Petroleum Industry: Transformative, But is it Sustainable?

by

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Alaska House Finance Committee
Invited Presentation

March 17, 2011

Juneau, Alaska

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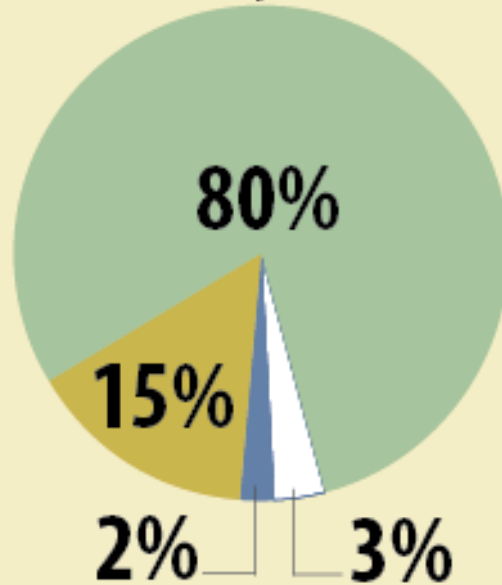
Alaska at Statehood



- 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

1960 Economic Structure

Actual 1960
92,000 jobs

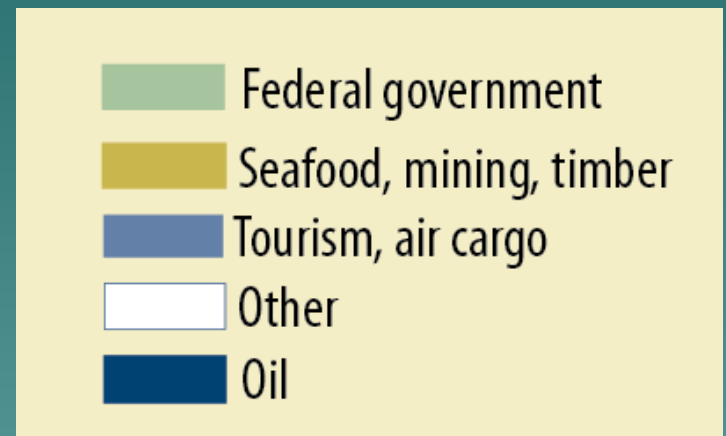
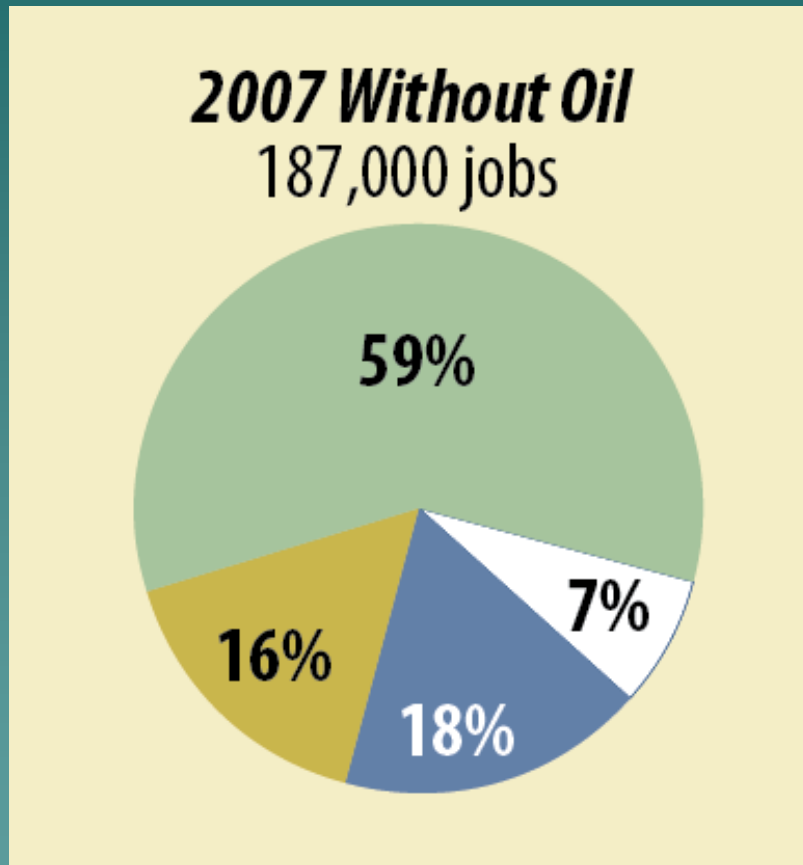


- Federal government
- Seafood, mining, timber
- Tourism, air cargo
- Other
- Oil

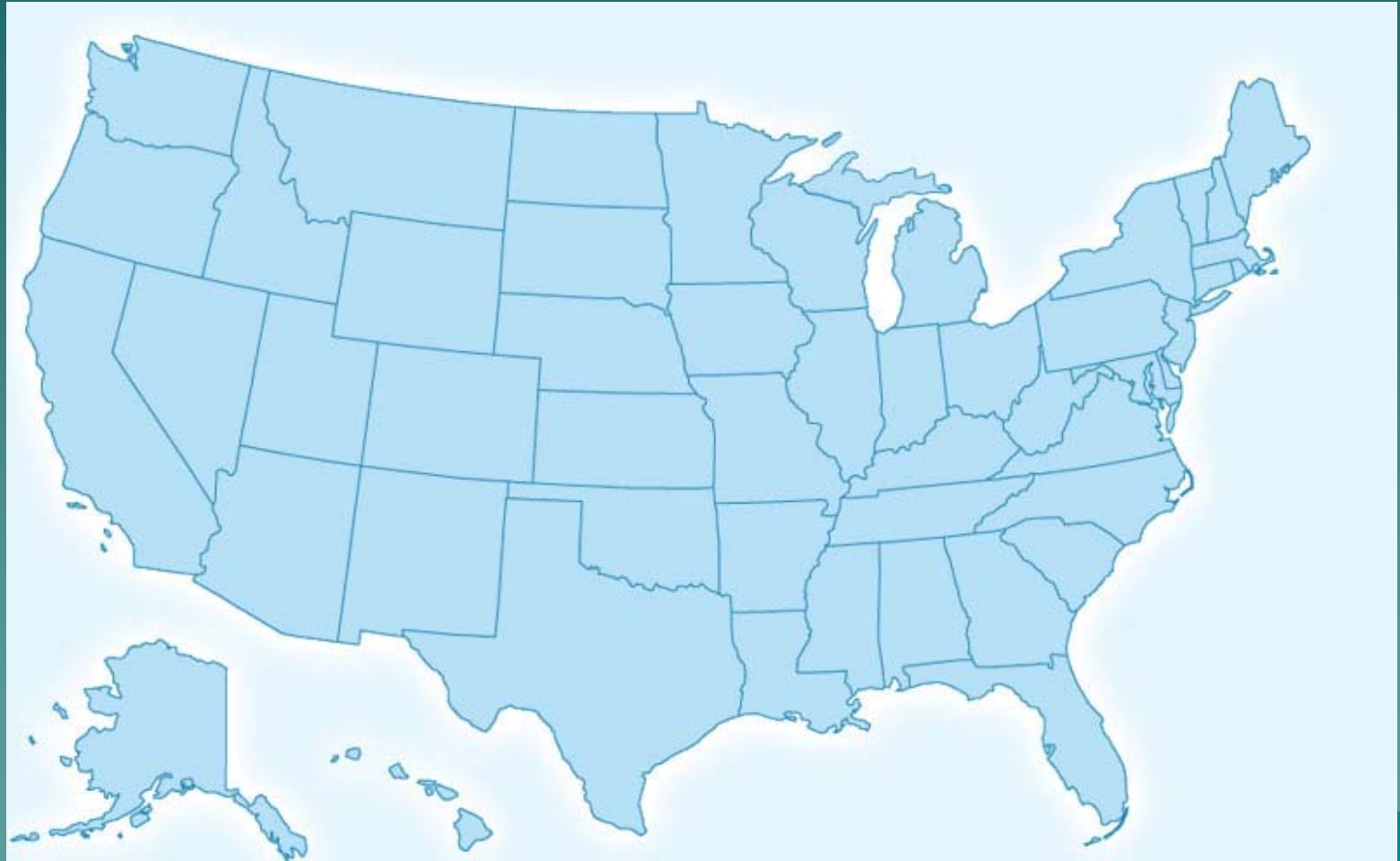
Alaska Today: No Oil

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

2007 Economic Structure without Petroleum



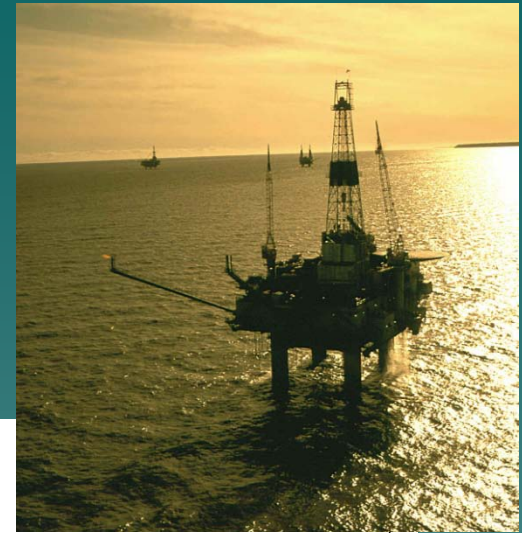
Alaska: An Island Economy



Petroleum Jobs: Oil Patch Related

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

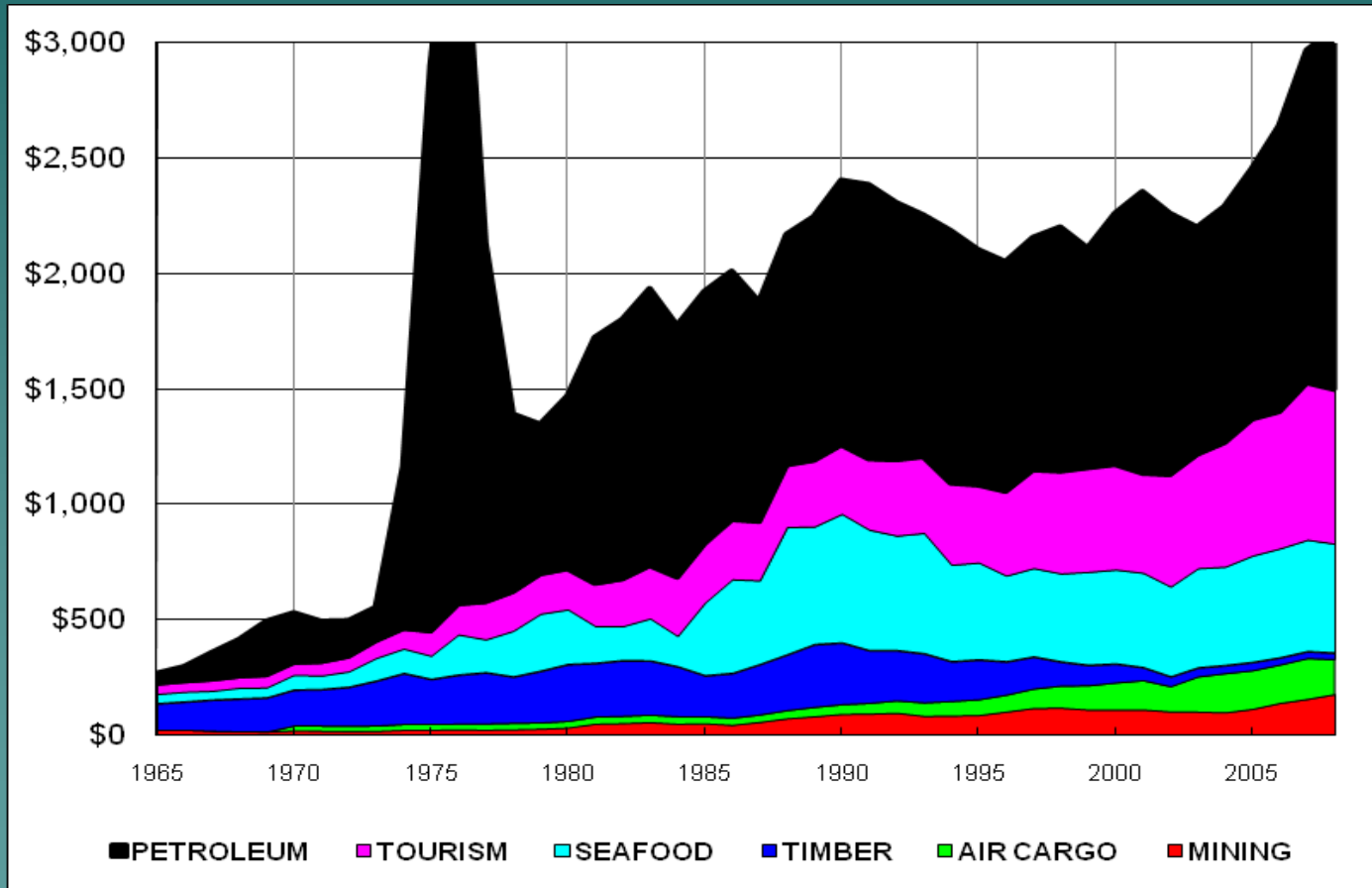
Anchorage Chamber of Commerce
June 30, 2008



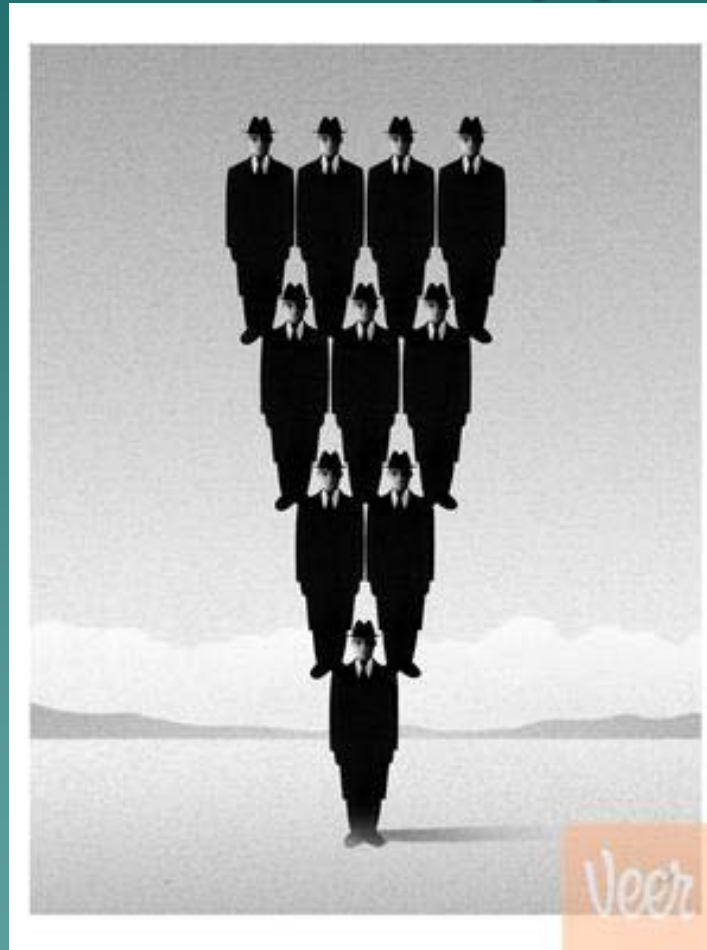
Job creation

- 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

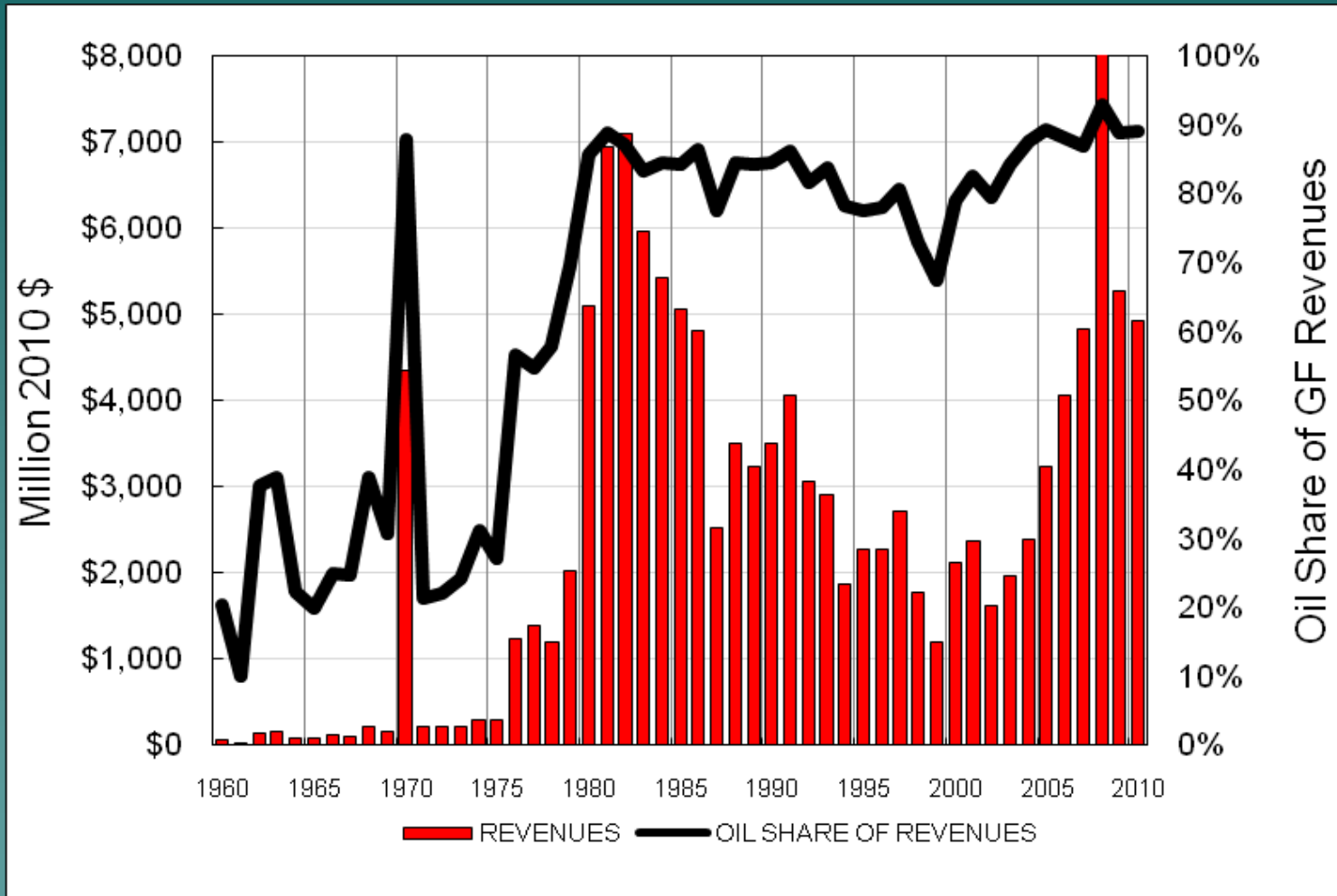
Petroleum Jobs: Oil Patch Payroll (Million \$)



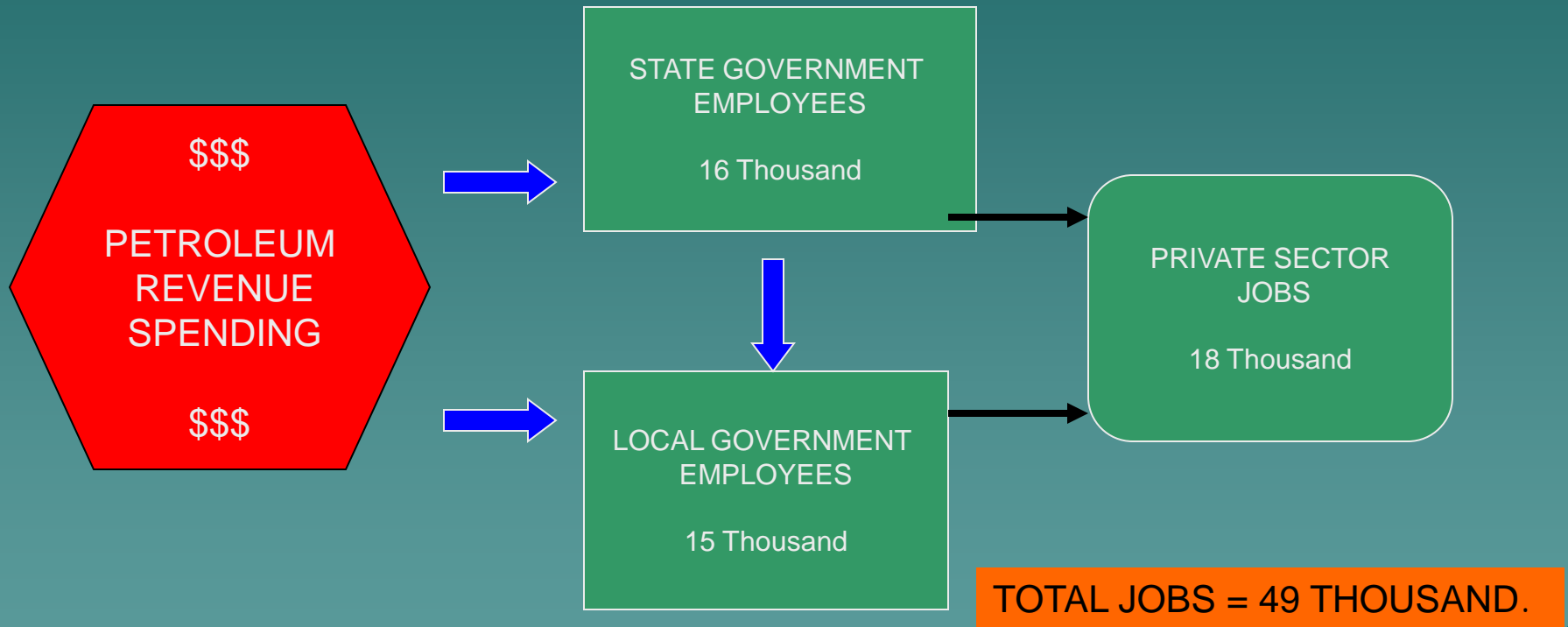
Petroleum Jobs: Oil Patch Support



General Fund Oil Revenues

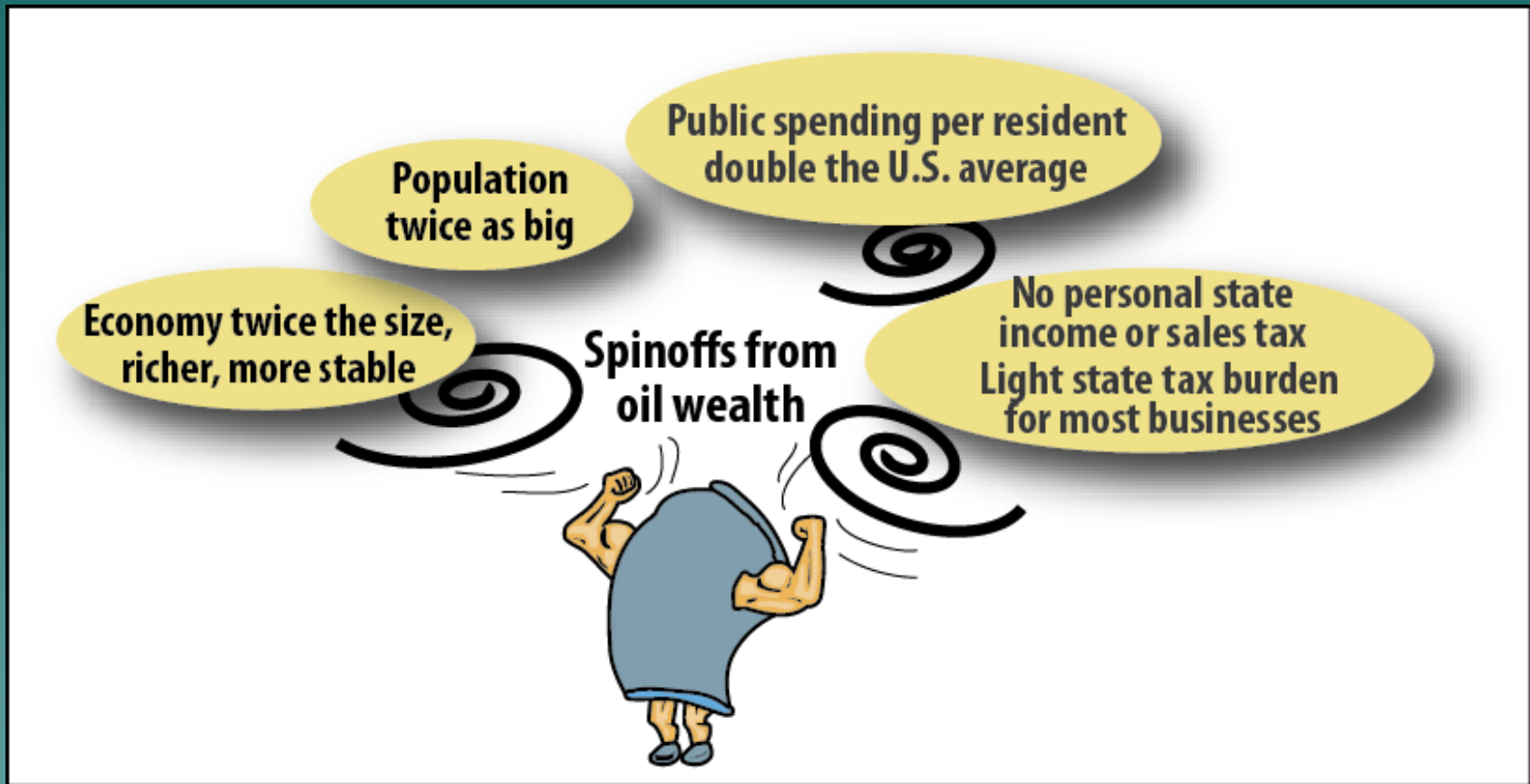


Petroleum Jobs: Funded by Petroleum Revenues



Assumption: All Spent Petroleum Revenues Pay for Operations.

Spinoffs from Petroleum



Alaska Petroleum Revenues



SAVE
\$37
Billion

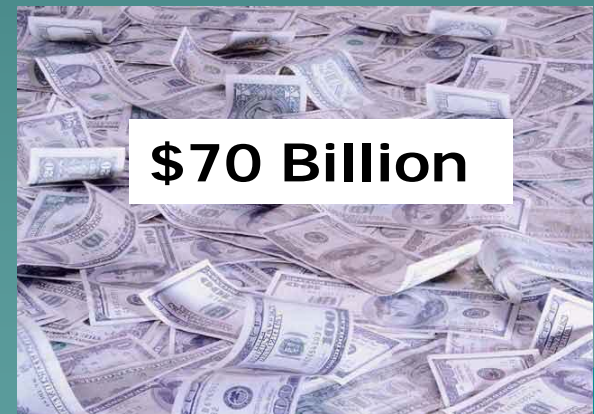


Lighter Tax Burden



SPEND
\$120
Billion

Greater Public Spending



59-10 in 2010 \$

Petroleum Spinoff: Lite Tax Burden on Households

\$2,300 per capita*



* Based on national average state Income and sales tax rates in 2008.

Petroleum Spinoff: Lite Resource Industry Tax Burden



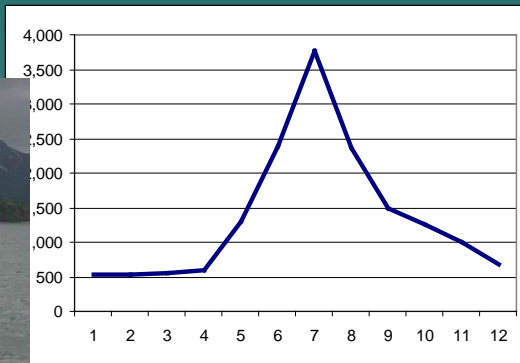
State & Local Revenues from Seafood, Tourism, Mining, Timber

Actual (avg 05-07)	\$200 mill
If Oil \$ Disappeared	\$900
Incremental Burden, no Oil \$	\$700
Increase in Tax Rate	4 X

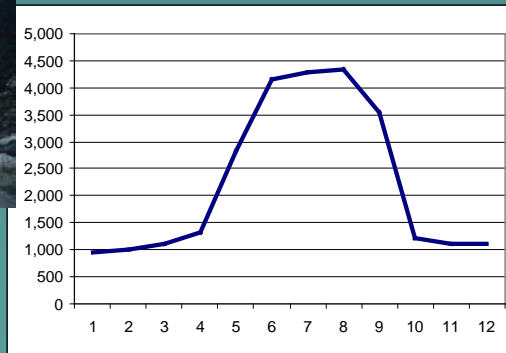
Petroleum Spinoff: Enhanced Public Spending



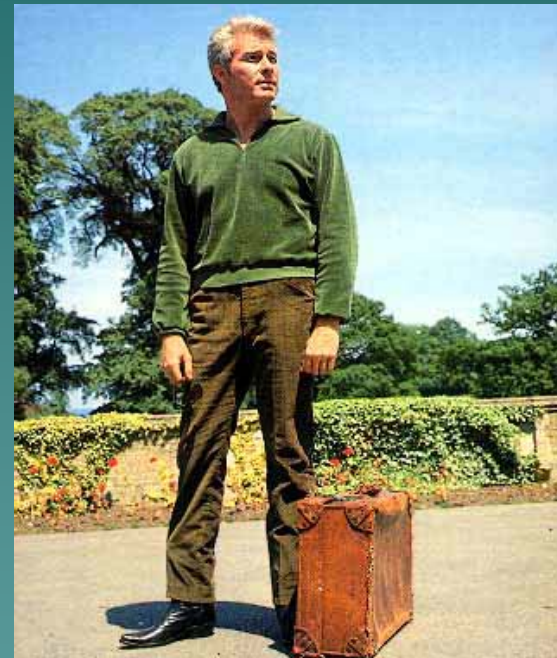
Petroleum Spinoff: Stability



Bristol Bay

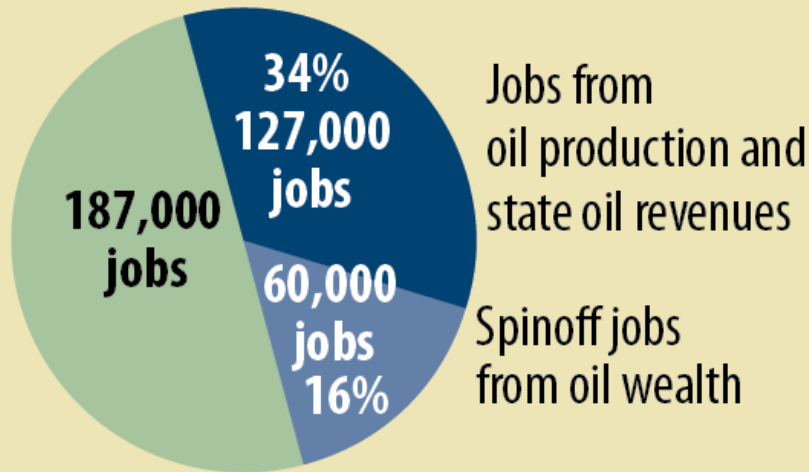


Denali Borough

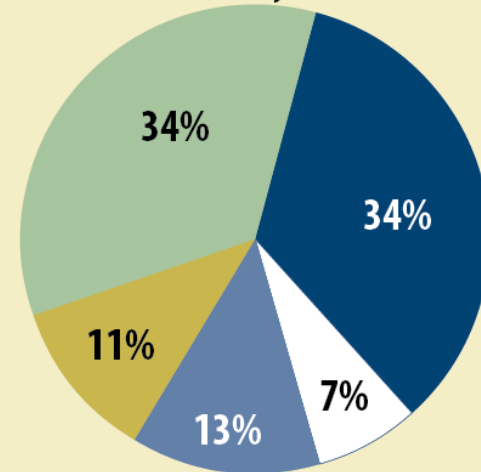


Petroleum Transforms Alaska Economy

Actual 2007

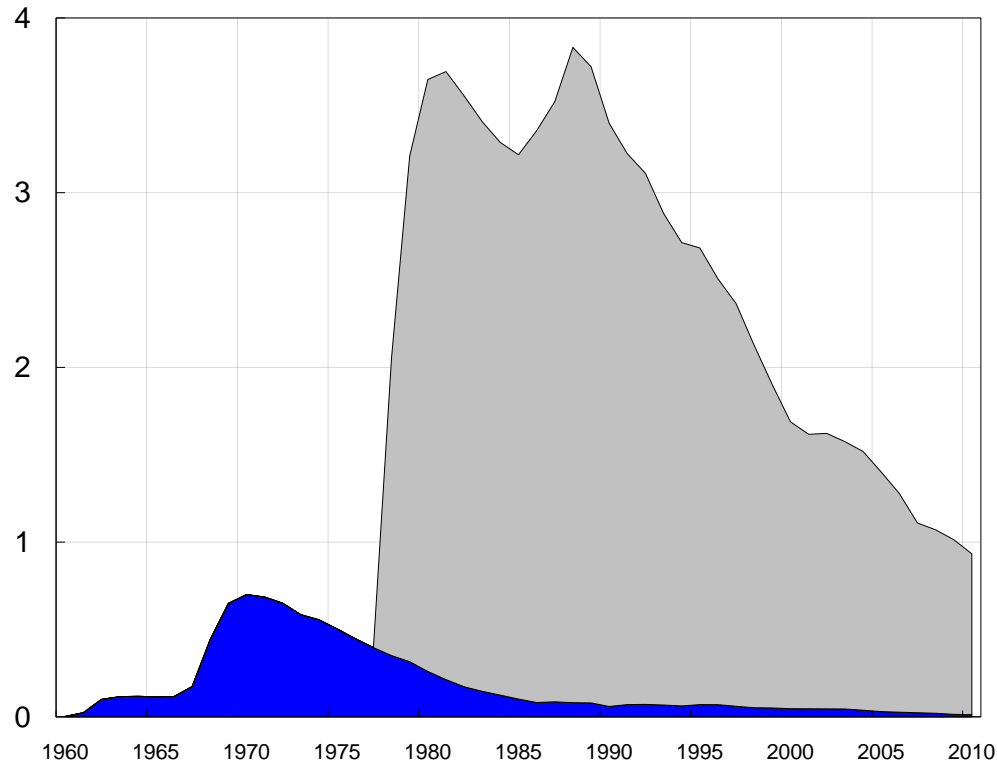


Actual 2007
374,000 jobs

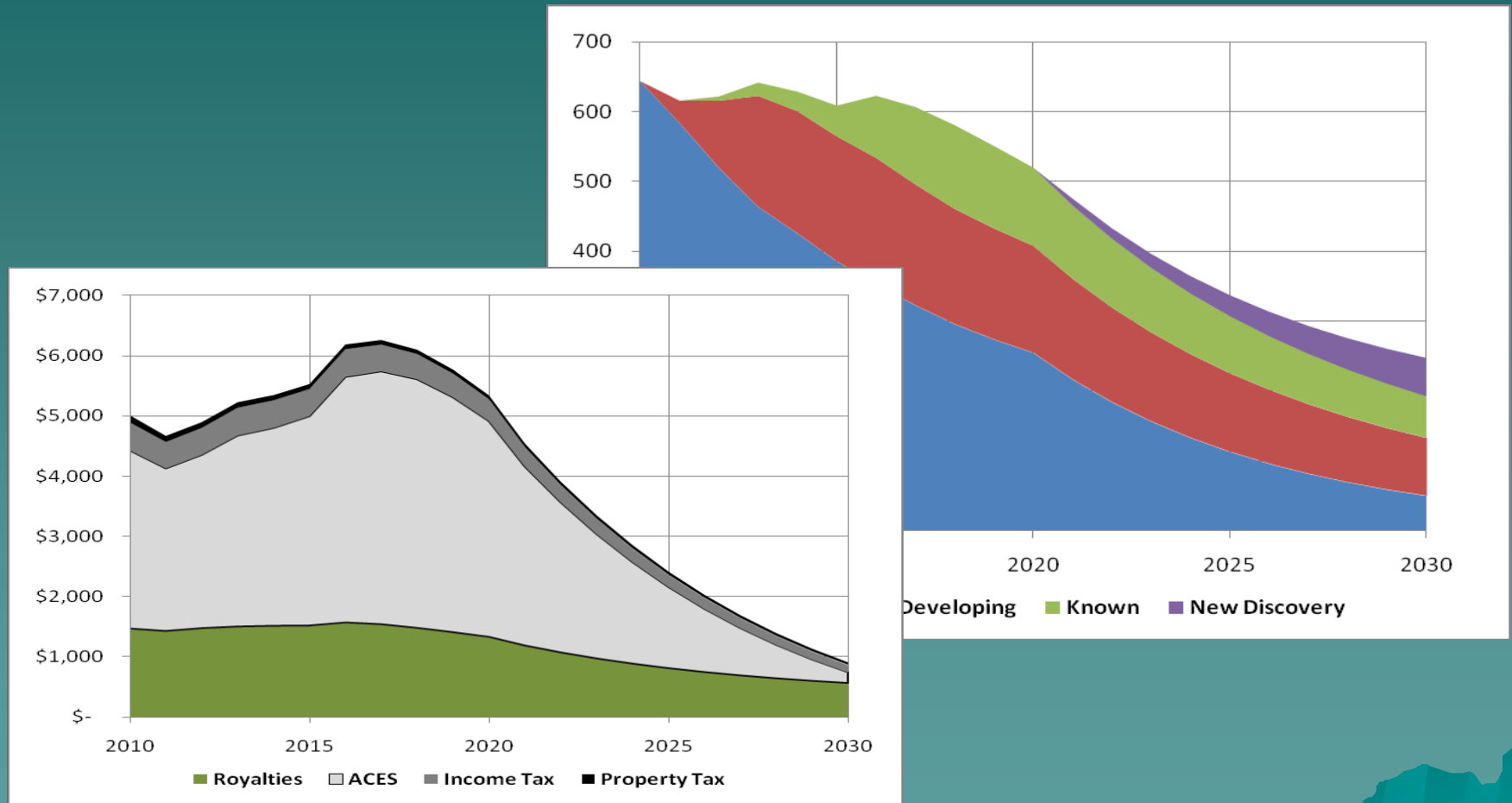


- Federal government
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A Troubling Indicator: Oil Barrels per Capita

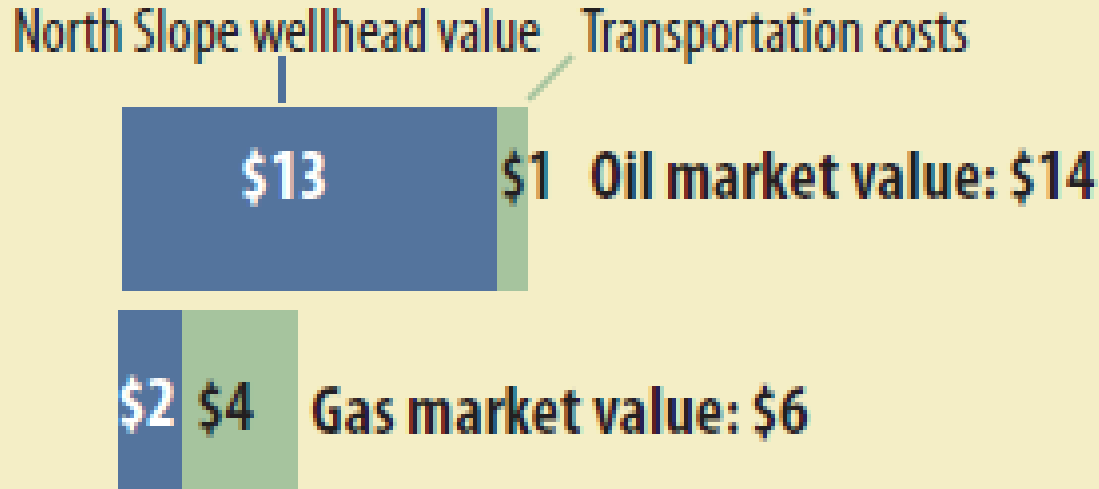


Looking Ahead: The Official Story (Extended)



Strategies Moving Forward #1: Gasline

Figure 7. Value of Equivalent Energy from Oil and Natural Gas*
(1 million BTUs, or about one-sixth of a barrel of oil)



*Assumes oil at \$80 per barrel and 5.6 million BTU per barrel; price per thousand cubic feet of gas

Strategies Moving Forward #2: Non Petroleum Natural Resources



MINING 1K
\$4,000 / Oz.

TOURISM 10K
\$2,000 / Visitor



SEAFOOD 0K
\$20 / Salmon

* \$3 Billion

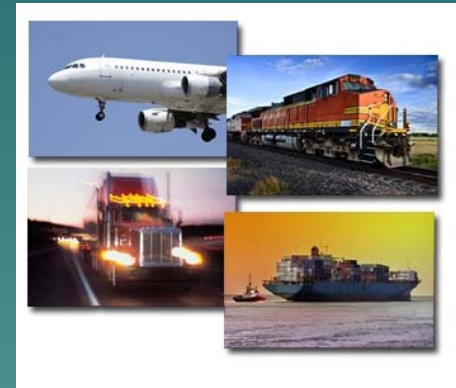
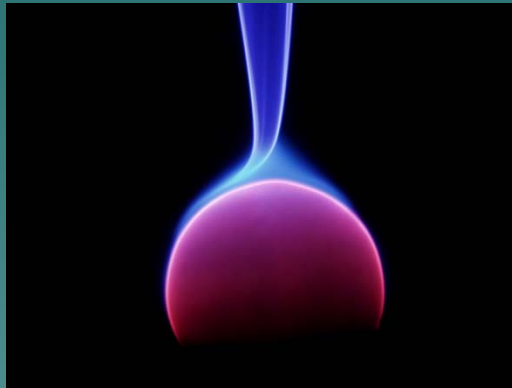
Strategies Moving Forward #3: Traditional Economic Development



Alaska Economic Development Strategic Plans

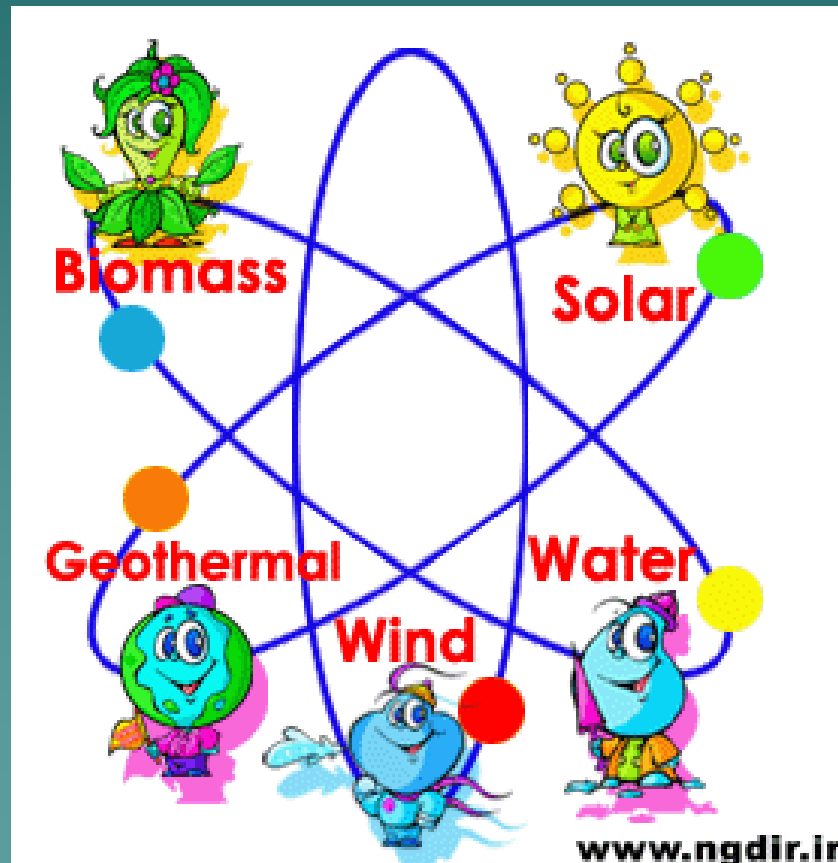
About 374,000 results

Strategies Moving Forward #4: Speculatively Invest in Infrastructure



Oil and the Alaska Economy

Strategies Moving Forward #5: Develop Renewable Energy



What Is the Economic Future of Alaska?

- We Are the Chosen Ones
- The Big Crash
- The Slow Squeeze

Undiscovered Potential North Slope Resources: Technically Recoverable

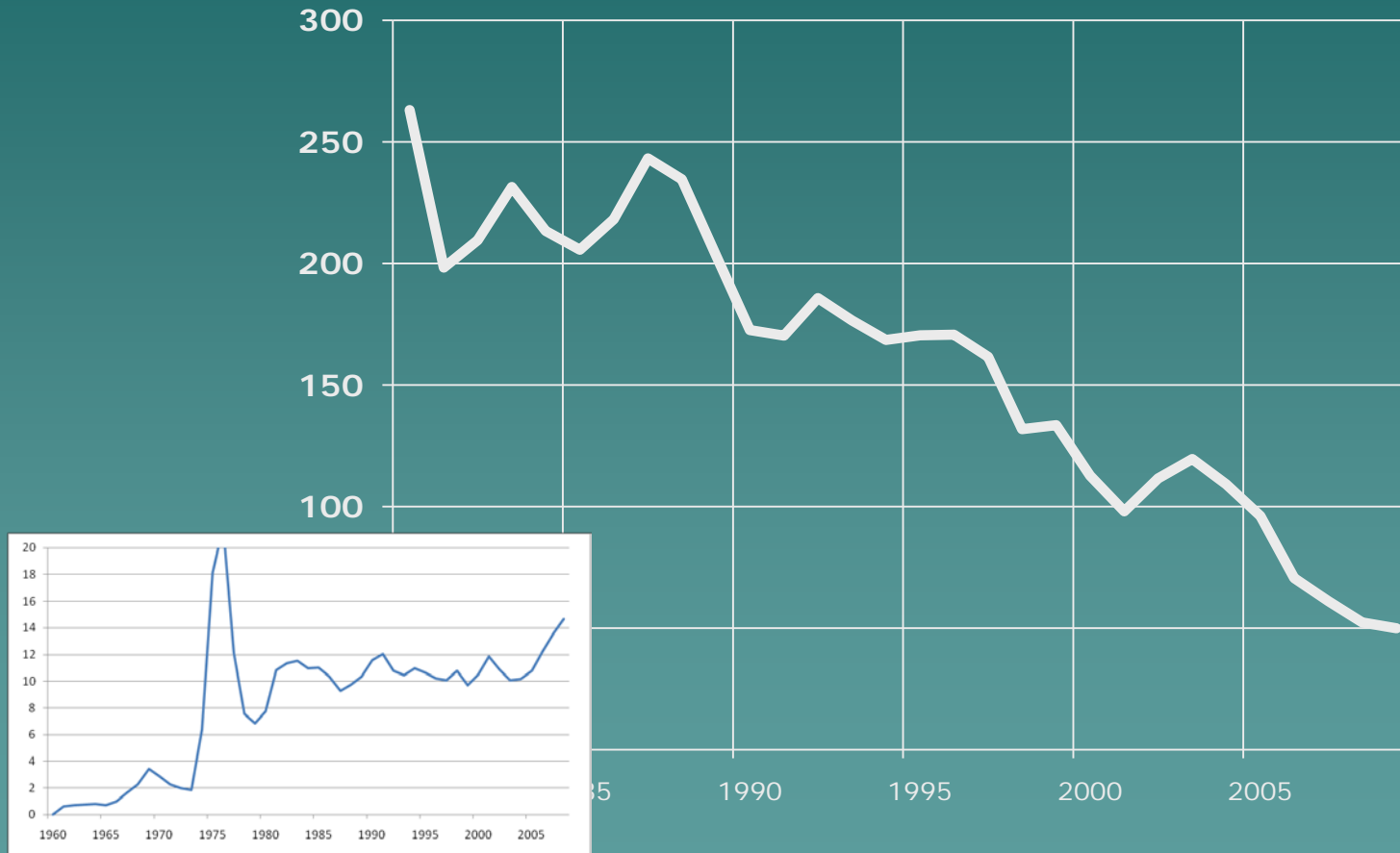


	OIL (Billion Barrels)	GAS (TCF)
Colville/Canning	4.5	37.5
ANWR 1002	10.3	3.8
OCS-Beaufort	6.9	32.1
OCS-Chukchi	15.5	60.1
NPRA	.9	52.8
TOTAL	38.1	186.3

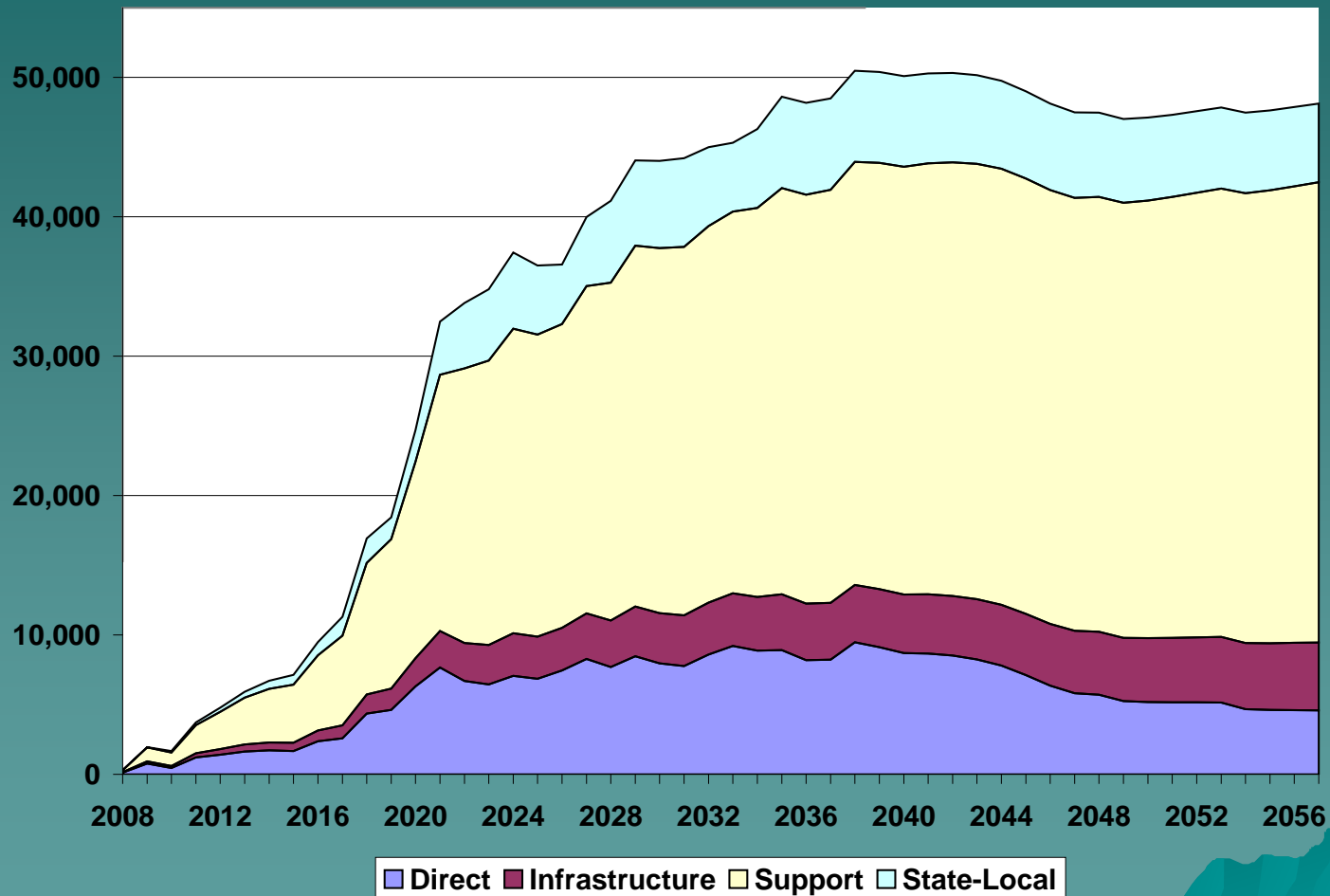
Alaska's North Slope



Daily Oil Production per Worker (Barrels)



One Petroleum Employment Projection



How to Get Those Petroleum Jobs

Get Access Federal Lands

Find the Petroleum Tax “Sweet Spot”

Fiscal Terms

	ONSHORE TO 3 MILES OFFSHORE							OFFSHORE	
	STATE				FEDERAL		PRIVATE*	FEDERAL	
	North Slope		Cook Inlet						
	Lease <1980	Lease >1980	Lease <1980	Lease >1980	NPRA*	ANWR*		3-6 Miles	More Than 6 Miles
ACES Production Tax	Yes	Yes	ELF	ELF	Yes	Yes	Yes	No	No
Corporate Income Tax	Yes	Yes	Yes	Yes	Yes	Yes	Yes	?	?
Property Tax	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
State Royalty: Negotiated	Typical 12.5% of value	Typical 12.5% of value	Typical 12.5% of value	Typical 12.5% of value					
Federal Royalty					Typical 12.5% of value	Typical 12.5% of value		Typical 12.5% of value	Typical 12.5% of value
State Share of Federal Royalty						50%		27%	0%
Royalty—PF Share	25%	50%	25%	50%		25%		25%	
Royalty—GF Share	75%	50%	75%	50%		75%	-	75%	-

State Revenues (million \$ / year): Hypothetical Field

	ONSHORE TO 3 MILES OFFSHORE							OFFSHORE	
	STATE				FEDERAL		PRIVATE*	FEDERAL	
	North Slope		Cook Inlet						
	Lease <1980	Lease >1980	Lease <1980	Lease >1980	NPRA*	ANWR*		3-6 Miles	More Than 6 Miles
ACES Production Tax	\$ 400	\$ 400			\$ 400	\$ 400	\$400		
Corporate Income Tax	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99		
Property Tax	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20		
State Royalty: Negotiated	\$ 319	\$ 319	\$ 319	\$ 319					
Federal Royalty & State Share of Federal Royalty					\$ 319	\$ 319		\$ 319	\$319
						\$ 160		\$ 86	\$ -
TOTAL	\$ 838	\$ 838	\$ 438	\$ 438	\$ 518	\$ 678	\$ 519	\$ 86	\$ -
—PF Share	\$ 80	\$ 160	\$ 80	\$ 160		\$ 40	\$ -	\$ 22	\$ -
—GF Share	\$ 758	\$ 678	\$ 358	\$ 278	\$ 518	\$ 638	\$ 519	\$ 65	\$ -



Petroleum Wealth (Billion \$)

FINANCIAL ASSETS	\$45
Permanent Fund	\$33.3
Constitutional Budget Reserve	\$8.7
Statutory Budget Reserve	\$1
General Fund	\$2
Other	-

PETROLEUM IN THE GROUND: \$81 **NET PRESENT VALUE OF REVENUES**

Oil	\$74
State Land—North Slope 2011-2020	\$45
State Land—North Slope 2021+	\$27
State Land—Other Locations	-
State Land—Heavy Oil	\$1
Federal NPRA	-
Federal OCS	\$1
Federal ANWR	-
Gas	\$7



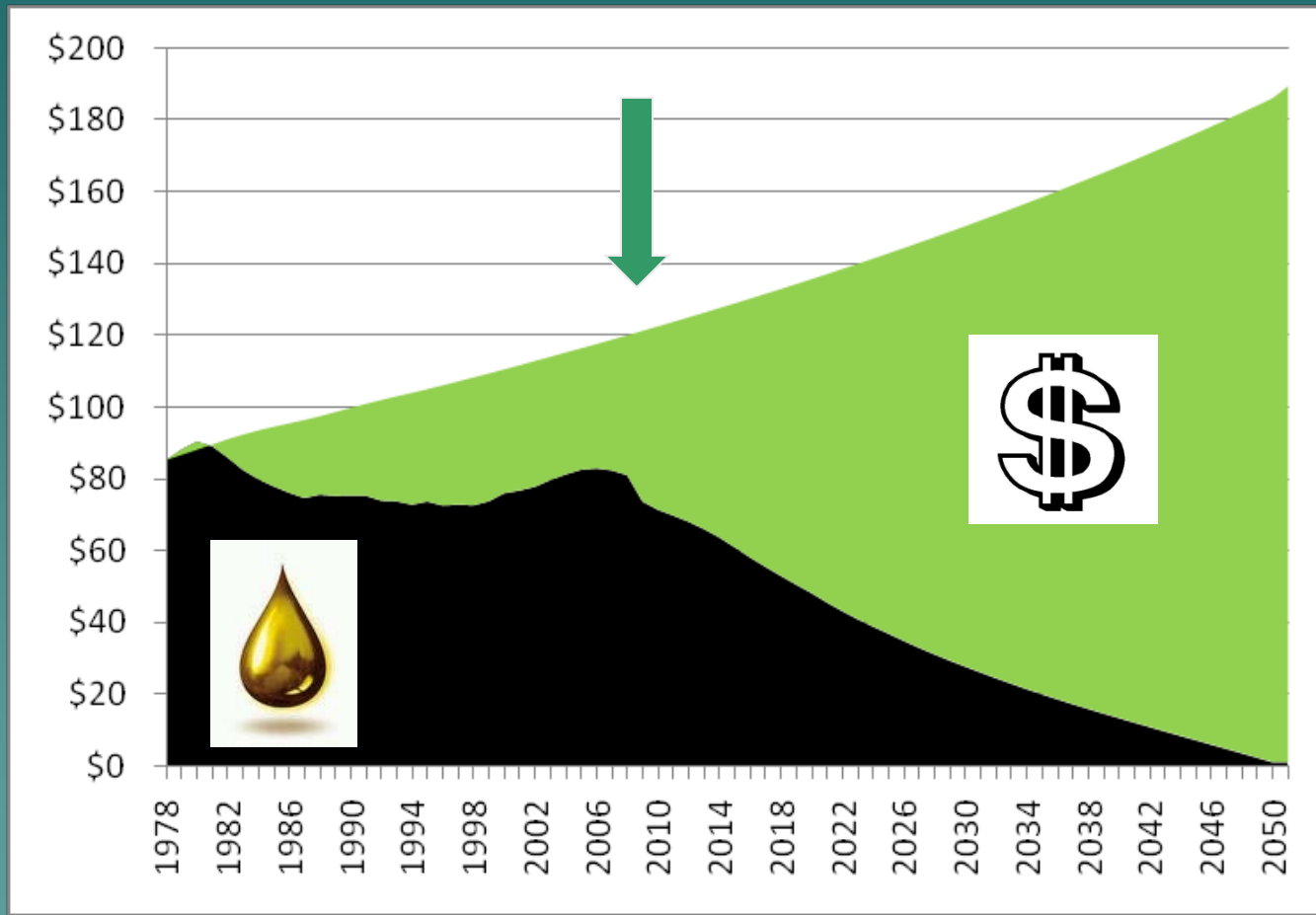
What is My Annual Share?

\$7,200

Wealth Preservation Strategy: Implementation = Spending Cap

	Annual Share	\$7,200
X	Population	700,000
=	Petroleum Wealth Spending Cap	\$5.0 Billion

Wealth Preservation Strategy: The Long View



Can We Do It?



Alaska's Petroleum Industry: Sustainable— If We Take Action.

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