

STATE OF LABOR IN ALASKA

CHALLENGES AND OPPORTUNITIES IN OIL
AND GAS PROJECTS

VINCE BELTRAMI
JULY 10, 2018

Challenges Facing Labor

- * Alaska's unemployment rate is 7.2%
- * First wave of recession hit oil and gas
 - * Ex: O&G employment peaked at around 14,000 in 2015 but hit a 10 year low (9,800) in Sept. 2017.
- * Second wave of recession hit construction industry

1 Historical Oil Patch Employment AND OIL PRICES, 1986 TO 2017*

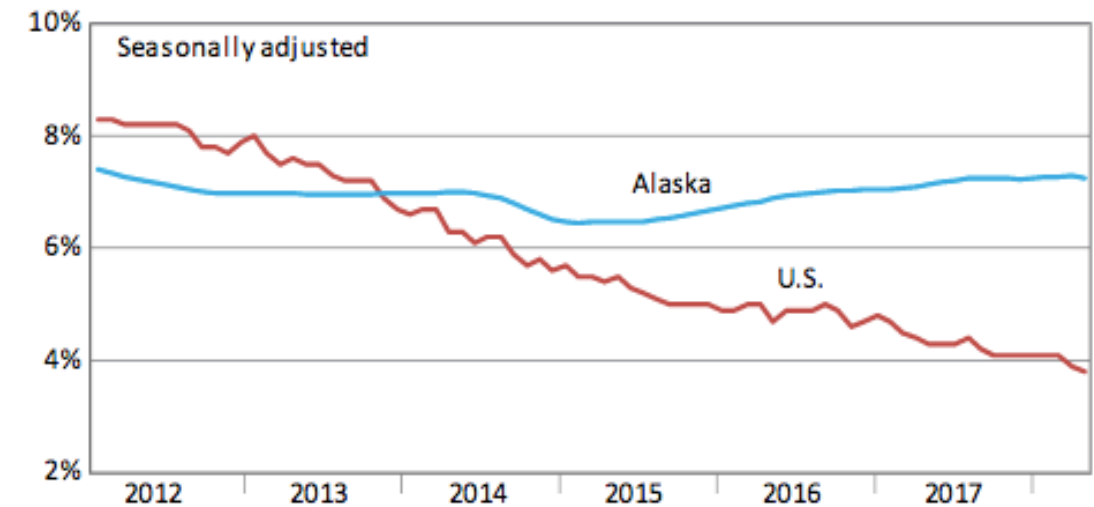


*Based on the first nine months of 2017

Note: Employment numbers include all industries.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Unemployment Rates, Alaska and U.S. January 2012 to May 2018



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Bureau of Labor Statistics

- * Shrinking capital budgets
- * Oil prices hover in the \$70-75 range currently (prices are predicted to remain in the \$55-65 per barrel range for a while).
- * Alaska ranks **last** in job growth in the U.S.

1

Historical Oil Patch Employment

AND OIL PRICES, 1986 TO 2017*



*Based on the first nine months of 2017

Note: Employment numbers include all industries.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Alaska's Workforce

- * Residents in the workforce: 327,000
- * Non-Residents in the workforce: 82,000
- * Non-residents account for 21.5% of workers in Alaska (higher in oil industry at 37.1%). This is a missed opportunity to hire Alaskan residents.
- * 15,000 employed in Construction (down from 17,600 in 2015) and 9,800 in Oil and Gas (down from 14,000 in 2015).
- * We have 2,200 registered apprentices in 60+ occupations with 300 employers (vast majority in construction).

Impact of State Capital Budgets

Construction loses steam in Anchorage

The construction industry in Anchorage lost 400 jobs in 2017 and is forecasted to lose 300 more in 2018. The state's capital budget peaked at \$3.7 billion in 2013 and most of those legacy dollars have worked their way through the system. (See Exhibit 3. Construction projects for schools, the university, and state government will be sparse.

Couple bright spots

The outlook is also positive for highway and airport related construction, which are largely federally funded.

Construction losses turning to major gains in Fairbanks (MILITARY spend)

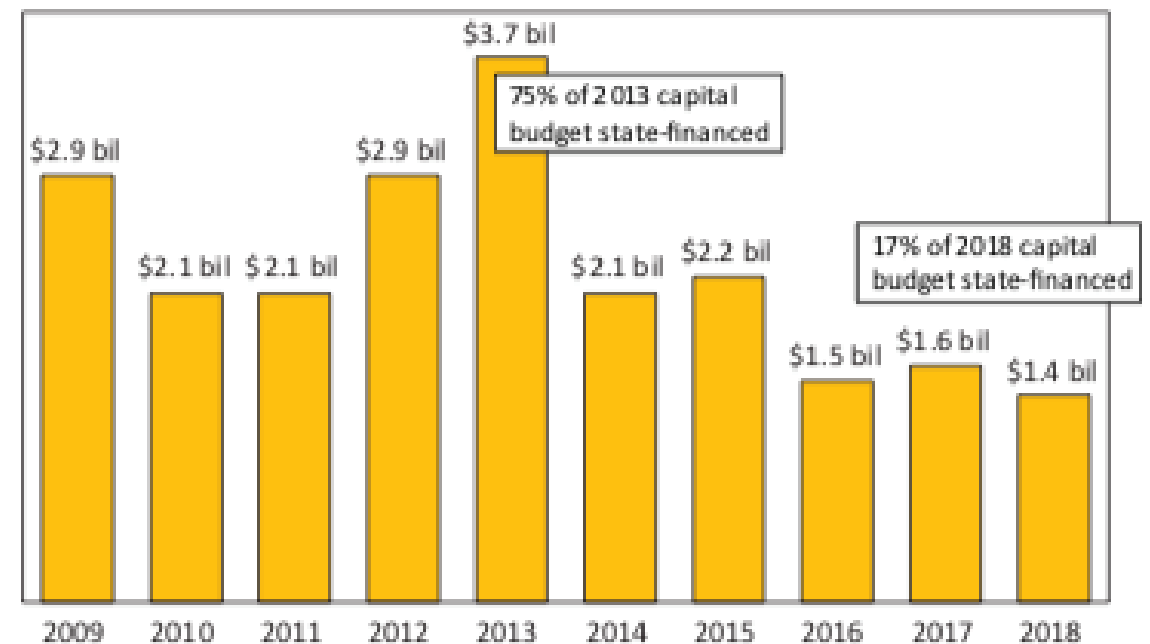
Fairbanks' construction industry continued to lose ground in 2017 with diminished state capital budgets and a lack of commercial or residential building. Job losses in the oil and gas industry on the North Slope also hit local contractors. These losses are expected to end in 2018 as large construction projects related to the new F-35s planned for Eielson Air Force Base gain momentum over the next three to four years. **Construction employment is forecasted to grow by a whopping 7.7 percent this year. Preparation for the 2020-2021 arrival of the two squadrons of F-35s is the biggest known positive economic development for Fairbanks and Alaska overall in 2018.**

Preparing for the planes' arrival will require more than \$500 million, almost entirely for construction. The Fairbanks area will need to accommodate about 2,800 more people over the next few years as a result, so construction of new housing is also on the horizon.

3

Dwindling Capital Budgets

STATE OF ALASKA, 2009 TO 2018



Source: Alaska Division of Legislative Finance

Oil and Gas Opportunities

Many exciting developments are happening in O&G

- * **Hilcorp and Milne Point**

- * “Hilcorp will also begin drilling and production at its new Moose Pad project in the Milne Point field on the slope late next year and is forecasting peak production of 16,000 b/d by 2020 . . . the accumulation being targeted has an estimated 30 to 50 million barrels of recoverable oil. Development costs are estimated at \$300 to \$400 million.” (Frontiersman, 11.18.17)

- * **Hilcorp and Cook Inlet**

- * “Hilcorp is planning to spend \$285 million in Alaska during 2018 . . . Hilcorp plans seven new Cook Inlet wells in 2018. Five will be offshore wells from its Steelhead platform into the McArthur River field, one of Cook Inlet’s most productive areas, to extract both oil and gas.” (Peninsula Clarion, 1.16.18)

- * **Exxon - Pt. Thomson**

- * 8 trillion cubic feet of natural gas, 200 million barrels of natural gas condensate, 25% of known gas on North Slope
- * From Exxon: “ExxonMobil Alaska has invested \$4 Billion in Point Thomson (70% of that in Alaska) . . .built production facilities designed to produce up to 10,000 barrels of natural gas condensate per day . . . connected to TAPS.”

- * **ConocoPhillips and Moose’s Tooth**

- * Moose’s Tooth: Willow discovery estimated to hold 300 million barrels of recoverable oil, 100,000 bpd potential
- * “ConocoPhillips expects GMT-1 to come online late 2018 and produce 30,000 bpd.” (Petroleum News, 5.28.17)

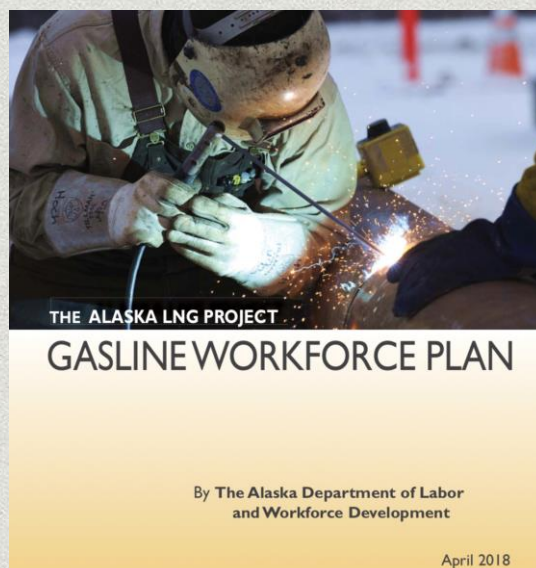
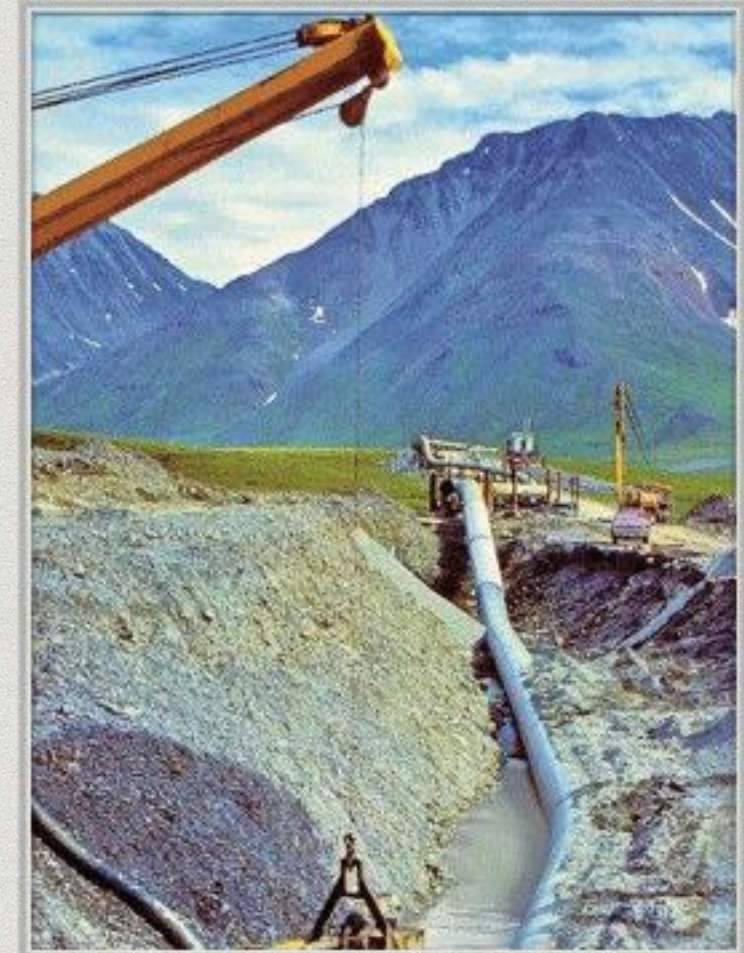
- * **Armstrong (now Oil Search Ltd.)**

- * Oil Search [took over operations](#) with a \$400 million stake in the Nanushuk field. The field is part of the massive [Pikka unit](#), reportedly the state’s third largest with an estimated volume of 1.2 billion barrels of oil, with estimates of 120,000 barrels a day at peak production ([oilprice.com](#) 4.22.18)

*Job numbers for these prospects are not known

Alaska LNG Project

- * Alaska LNG Project will create 12,000 direct jobs during construction, additional 1,000 long term operations jobs
- * 6,000 indirect jobs during construction and 500 indirect jobs during operations
- * Demand for:
 - * 3,500 truck drivers
 - * 1,300 heavy equipment operators
 - * 2,300 laborers
 - * 1,500 pipe fitters
 - * 1,600 culinary and camp support personnel
 - * 400 electricians



http://jobs.alaska.gov/energy/2018_Gasline_Workforce_Plan.pdf

Training now, ready to train more!



“Alaskans are already training for the myriad occupations required to construct and operate the Alaska LNG project. Alaska has a robust network of regional training centers, joint apprenticeship training centers, career and technical education providers, registered apprenticeship programs, and the University of Alaska system. We are fortunate to have the only comprehensive pipeline industry training center in the United States: the Fairbanks Pipeline Training Center.”

- AKDOL Commissioner Heidi Drygas

However:

“The lack of construction work today is the industry’s biggest challenge. The severe drop in construction over the past four years has also reduced contributions to private sector training funds and halted the growth of trade apprenticeship programs.”

Construction spend up slightly from 2017, but still anemic. Increase primarily from MILCON

Meanwhile:

State capital budget primarily consists of just enough to secure federal funds

...and our infrastructure gets worse, approaching \$2 billion in backlogged deferred maintenance

We must increase capital spending from General funds and/or seek Government Obligation (GO) bonds to infuse \$ into the economy and start growing the workforce to meet demonstrated future need

2017 Alaska Construction Spending

		Change
TOTAL	\$6,463,000,000	-10%
TOTAL EXCLUDING OIL & GAS	\$4,033,000,000	-7%
PRIVATE	\$4,008,000,000	-9%
Oil & Gas	\$ 2,430,000,000	-15%
PRIVATE EXCLUDING OIL & GAS	\$ 1,578,000,000	2%
Mining	\$ 187,000,000	4%
Other Basic	\$ 130,000,000	14%
Utilities*	\$ 498,000,000	-1%
Hospitals/Health Care*	\$ 336,000,000	55%
Other Commercial	\$ 150,000,000	-19%
Residential	\$ 277,000,000	-21%
PUBLIC	\$2,455,000,000	-12%
National Defense	\$ 635,000,000	15%
Highways and Roads	\$ 629,000,000	-4%
Airports, Ports, and Harbors	\$ 370,000,000	-15%
Alaska Railroad	\$ 22,000,000	-15%
Education	\$ 212,000,000	-48%
Other Federal	\$ 255,000,000	-8%
Other State and Local	\$ 322,000,000	-33%

* Many projects in these categories are supported by public funds.
Source: Institute of Social and Economic Research, UAA.
Percent change based on revised 2016 estimates.

2018 ALASKA CONSTRUCTION SPENDING

		Change
TOTAL	\$6,567,000,000	4%
TOTAL EXCLUDING PETROLEUM	\$4,012,000,000	-2%
PRIVATE	\$4,068,000,000	7%
Petroleum	\$2,555,000,000	15%
PRIVATE EXCLUDING PETROLEUM	\$1,513,000,000	-5%
Mining	\$ 239,000,000	6%
Other Basic	\$ 110,000,000	10%
Utilities*	\$ 539,000,000	4%
Hospitals/Health Care*	\$ 275,000,000	-14%
Other Commercial	\$ 125,000,000	-17%
Residential	\$ 225,000,000	-17%
PUBLIC	\$2,499,000,000	-1%
National Defense	\$ 630,000,000	11%
Highways and Roads	\$ 667,000,000	6%
Airports, Ports, and Harbors	\$ 387,000,000	3%
Education	\$ 235,000,000	-20%
Other Federal	\$ 270,000,000	-2%
Other State and Local	\$ 310,000,000	-16%

* Many projects in these categories are supported by public funds.
Source: Institute of Social and Economic Research, UAA.
Percent change based on revised 2017 estimates.

More detailed information can be found in the following *Alaska Economic Trends* publications:

