

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM**

October 25, 2007
2:07 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Carl Gatto
Representative Wes Keller
Representative Andrea Doll
Representative Mike Doogan

MEMBERS ABSENT

Representative Kyle Johansen
Representative Bob Lynn

OTHER LEGISLATORS PRESENT

Representative Sharon Cissna
Representative Bryce Edgmon
Representative Anna Fairclough
Representative Jay Ramras
Representative Ralph Samuels
Representative Paul Seaton
Representative Bill Stoltze
Senator Charlie Huggins

COMMITTEE CALENDAR

ALASKA'S ECONOMY - PAST, PRESENT, & FUTURE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

SCOTT GOLDSMITH
Institute of Social and Economic Research
University of Alaska, Anchorage
Anchorage, Alaska

TIM BRADNER
Alaska Journal of Commerce

BILL SHEFFIELD
Port of Anchorage
Anchorage, Alaska

MARC LANGLAND, President/CEO
Northrim Bank
Anchorage, Alaska

BRUCE CARR, Director
Strategic Planning
Alaska Railroad Corporation
Anchorage, Alaska

PHIL STEYER, Director
Government Relations and Corporate Communications
Chugach Electric Association
Anchorage, Alaska

MARIE DARLIN
AARP-Alaska
Juneau, Alaska

ACTION NARRATIVE

[2:07:38 PM](#)

CHAIR MARK NEUMAN called the House Special Committee on Economic Development, International Trade and Tourism meeting to order. Committee members Gatto, Keller, Doll, Doogan, and Neuman were present, as well as Representatives Gardner, Wilson and Roses.

ALASKA'S ECONOMY - PAST, PRESENT, & FUTURE

CHAIR NEUMAN told members that today's meeting would focus on Alaska's economy and its relation to oil taxes. He has invited a variety of experts on different aspects of the economy to present to the committee. He introduced Professor Scott Goldsmith and asked him to begin.

[2:09:31 PM](#)

SCOTT GOLDSMITH, Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska Anchorage,

thanked members for the opportunity to testify. He told members:

Here are some of the things I would like to talk about. Where's the economy been? Where are we today? What does the structure look like and what are the prospects for the future?

If we look at the standard economic indicators that come out from government, and this is a list of most of them, things look pretty good - jobs, income, commodity prices and so on and so forth. ... And there's nothing wrong with these indicators. It's always nice that the number of jobs is growing and income is growing but the problem is they don't tell us the most important thing about the economy that we want to know, and that is are we building for a strong future for our economy or are we basically living on borrowed time. Really, in order to begin to answer that question, we have to look behind the numbers and look at what the foundation for the economy really is. This is what I've tried to do in the next set of slides here where I divide the ... foundation of the economy into three parts and this is sort of what I call the ... one-third rule. I will talk about each of these thirds in a moment.

The idea here is the foundation of the economy is the source of the new money that comes into Alaska. It is that new money that comes in different forms that supports the Safeways, supports the banks, supports the phone company. It supports the restaurants. It supports most of the jobs that are held by Alaskans.

The way you might think about this is that if the oil and gas industry - if we never had found any oil and gas in Alaska, the economy would be about two-thirds the size that it is today and about one-third of those of us in the room here today wouldn't be here. We'd be in who knows where - Florida, California.

So let's talk about these three components that make up the foundation of the economy and I want to start off with the federal government. About one-third of the economy is dependent upon the activities of the federal government and, of course, the laws and regulations and so on that the federal government

promulgates are an important component to determining the size and direction of our economy. Today I just want to mention the...dollars that flow in each year from the federal government and their importance in terms of supporting other jobs in the economy.

We can think about the federal government presence in terms of the civilian side and the military side but another way to think about it is the three main types of money that come in. The first is grant. Capital and operating grants go to state and local governments and non-profits. The second is operations of the various federal agencies. The third is support that goes directly into individual and household pocketbooks; social security and so on and so forth.

Well, Alaska doesn't stand out from the crowd in terms of support that goes to individuals but where Alaska does stand out [is] in terms of both grants and agency operations. This graph looks a little weird, compared to when I put it into PowerPoint yesterday, but I think you can read it. What you can see is the total federal grants currently are about \$3 billion a year and that's both for construction and operations that are administered by various levels of governments and non-profits. Two other interesting things on this graph, because it shows the history of the flow of grants, is the very rapid run up, starting in the mid 90s and the plateau of the annual amount of grants, starting in about 2002. I think that is relevant for thinking about what has been driving growth in the economy in the last five years and I'll come back to that in a second. One of the things about grants ... for the general public it is sometimes hard to relate the economic activity that they see with the ultimate source.

[2:15:40 PM](#)

MR. GOLDSMITH continued:

This is a view outside my window in Anchorage and some of you may recognize it as being the Alaska Native hospital. I think it's a good representation of what these federal grants go to pay for. Two of the very important things are construction, and there's a lot of construction represented by the buildings that you

see here. The other large component of federal grants is health care. Again, this is one of the locations where a lot of that federal money enters the Alaska economy.

Just to give you some sense of what the composition of federal grants is, this is a little bit dated but only the size has changed in the last five years and not necessarily the composition. Where do we stand in federal grants compared to the rest of the United States? Well, we are far and away the highest on a per capita basis. What this shows is that we are currently running about three times the national average, which is about \$1,500 per capita. We're at about \$4,500. It also shows that because there's some historical information here shown by the growth in the size of the bars by the different colors, that we have grown quite dramatically in the last five or ten years and also that historically we'd also been much higher than the national average.

The other component that makes us stand out compared to the rest of the U.S. is agency spending in Alaska and I've combined here the spending that goes to payroll of federal employees, military and civilian, and procurement, and that's construction spending as well as the procurement spending of other goods and services used by the federal agencies. Again, what you see is a very large amount of money to begin with, \$4 billion in the most recent year - 2005 that we have data for, and also a huge run up doubling, if you will, from \$2 billion to \$4 billion a year flowing into Alaska between the year 2000 and 2005, so a dramatic increase. If we look behind the aggregate numbers, the agency that has accounted for the biggest share of that is the Department of Defense and other military-related operations. What stands out particularly here is that it hasn't been military payroll but it's been military procurement in primarily construction dollars that has grown the most dramatically in the last three or four years. Again, if we compare ourselves to the rest of the U.S., the other states, Alaska comes out nearly on top. Virginia, which happens to be where the Pentagon is, gets a little bit more per capita than we do but Alaska is number 2 and, again, we're running about three times the national average in terms of per

capita spending. Again, that growth has been quite dramatic in the last several years.

[2:19:33 PM](#)

MR. GOLDSMITH continued:

There are some that say the growth in federal spending, which has been one of the important drivers of the economy in Alaska in the five, if not ten, years is topping out. Although military personnel have increased dramatically in 2006, it's unlikely that growth will continue. Health care job growth has slowed dramatically. Public construction dollars, the total amount, has dropped off and the annual increase in construction jobs has gone negative in the last couple of years. So, although in recent years the economy has had a boom, or at least partly, driven federal grants and federal agency spending growth that, I would argue, is now behind us. The question is whether we'll be able to maintain the current level of federal spending, which is about \$9 billion a year, or whether it's going to drop off. Nobody can answer that question but I think everybody in their own mind is trying to do their own calculus to determine the answer to that question. I'm not going to certainly answer it today.

In terms of this one-third of the foundation for the economy, we have to ask ourselves what that \$9 billion that is being spent...each year is contributing to the long-term growth and development of the economy. And certainly there are some things that it is contributing to. It's contributing to the development of our infrastructure. It's contributing to the quality of our workforce and our families and it is benefiting us as individuals. But you can't say that it is directly adding sustainable jobs to the economy because when we look at this picture and think about the future of federal spending, I think we all in our minds think well if these federal dollars go away, it's going to be bad for the economy but it's going to be bad for the economy today, not necessarily that it's going to have a negative effect on our long term growth prospects.

One of the more obvious ways that we can see this is when we think about the tax base that is generated by federal dollars in Alaska. The reason that there's no figure in this figure is because there is no tax base. The federal dollars don't generate any tax base directly.

2:22:57 PM

It's the most obvious example of a problem that we face in this state that is called the Alaska disconnect and that is that we spend today to generate jobs for today, and that's what we're doing with our federal dollars, but we're not getting any kind of a return in terms of an increase in the tax base that will allow us to pay the cost of government associated with the families of the workers who come to fill the jobs that we're creating. And what we've done in the last five or ten years is we've created, I haven't run the numbers, how many additional jobs based on this growth in federal spending, we haven't generated really a single dollar to pay for the additional costs of the population that we've attracted to the state to fill those jobs. And so we've dug ourselves into a deeper hole than we were five or ten years ago with this federal spending.

Who has paid? Well we're attempting to put the additional burden on one of our industries, the oil and gas industry that contributes a second third to the foundation of the economy. I would divide the contribution of oil and gas into three components, as you see - production, taxes and royalties in the Permanent Fund and the Constitutional Budget Reserve. Just to give you a sense of the importance of petroleum to our tax base, here's a slightly different way of looking at it. What's the...industrial property tax base of the state? Well, it's mostly oil and gas, \$14 billion as opposed to less than \$4 billion for all other industrial.

We're finally coming to the realization that production on the North Slope and Cook Inlet is falling. It's taken us a long time to do that. Usually we look at the straight production profile. What I like to do is to take Alaska oil production and look at it on per capita terms because that highlights

the fact that not only is production falling, but at the same time population has been increasing and, on a per capita basis, we're now at about 30 percent tax base in terms of annual production capacity than we were at the peak of 1988. Another way to think about that is in 1988, we were producing about 4 barrels per day per capita and it won't be too soon before we'll be producing one barrel a day per capita so it's not only a burden of falling production, it's...a burden of increased population dependent upon this production.

What I call the oil patch action I characterize by an iceberg and I hope nobody takes this wrong but the reason I do it is because if you look at the statistics, there aren't very many oil company jobs in the state. The oil companies, as we're finding out, spend a lot of money on production each year and they spend a lot of money on construction and those production dollars and those construction dollars, to a large extent, get passed to other sectors of the economy. The construction industry, the transportation sector, other support sectors, other support industries providing services up on the Slope - there's also the pipeline, there's also refining, there's also manufacturing. Most of that is a little hard to see and, in that sense, it's like an iceberg. Most of the jobs that are created are not in the oil industry directly. They're somewhere else. But, if you add that all together, it adds up to a much larger payroll and impact on the economy through a number of different industries and would be the case just looking at oil and gas company employment.

[2:27:53 PM](#)

MR. GOLDSMITH continued:

And, of course, the second part of the impact of the oil industry on the state now is the Permanent Fund dividend and the Constitutional Budget Reserve. Really, if you think about it, the Permanent Fund is the most successful case of our ability in the last 30 years...to diversify the economy because we have created through the Permanent Fund a source of wealth totally independent of all the other sectors of the economy and it can now throw off \$2 billion a year in

perpetuity. That's something that most other industries in the state cannot boast of.

The other part of the oil contribution to the economy, of course, is the revenues that support government and, if you look at the green line here, you can see that historically we have not been able to wean ourselves from oil revenues. We've not been able to diversify our fiscal sources away from oil.

The other third of the economy that is the foundation of all the jobs that are created is what I would call traditional resources and new resources.

[2:29:25 PM](#)

The traditional resources others - today and tomorrow we'll talk about it at some point - it's easiest to see what they are if you look at the seal of the great State of Alaska. If you look closely, you can see that there's mining, fishing, timber, agriculture, it looks like there's some value-added production - I'm not sure what that is coming from the smokestack, and I think I even see a seal on the seal of the State of Alaska. Those are certainly important industries and, particularly, before oil their contribution was primary. Now, because of the growth of oil and the growth of the federal presence, their contribution is relatively small. We might think about redesigning the seal of the state if we want it to be a little bit more up-to-date as to what's really going on.

[2:30:36 PM](#)

... In addition to our traditional resources, we've got some newer resources that are beginning to make a contribution to the foundation of the economy and those, of course, are: the natural beauty of the state, which draws 1.5 million tourists to Alaska; the location of Alaska, which provides the basis for servicing the international air cargo industry out of Anchorage; and although this guy is unlikely to ever move to Alaska, we are starting to develop a retiree industry in the state, and that is not only from those of us who live here who are reaching retirement age, but we are beginning to draw people in from outside. Many of those retirees do have money.

2:31:48 PM

... This is a fruit salad comparison to sort of summarize what I've said about the one-third, one-third, one-third and I call it a fruit salad comparison because we're really comparing different kinds of dollars here so it's not really appropriate or accurate but I want to give you some sense of relative magnitudes and I think this does it. It shows quite clearly, I think, that the \$9 billion of federal grants and procurement and wages that come in each year is a large chunk of money relative to the value of minerals, fish, timber and agriculture, relative to the dollars that tourists bring in, relative to the dollars that retirees bring in or the air cargo [indisc.]. ... The value of production of oil and gas, of course, is the largest of all the bars. It does sort of reinforce the idea of the one-third, one-third, one-third.

The point I've been trying to make here is a lot of the growth we've seen in the last five and ten years we can trace back to growth in federal dollars. There has been growth in some of the final, the last one-third, the traditional resources and the new resources. Each of those sectors is small relative to either oil or gas or to the federal presence so growth in the number of tourists, which has been significant, growth in air cargo activity, which has been very significant, they're good but they don't add a lot of juice to the whole. Where the juice comes from is in federal dollars.

2:33:54 PM

MR. GOLDSMITH continued:

If we look back, a little bit further, say back to 1980, a small share of the overall growth has been due to our traditional resources and this is employment in the various sectors: mining, air cargo, timber, petroleum and so on and so forth. You can see that from 1980 on there's been some growth but it hasn't been very dramatic. If you look at the value of output of our various natural resource industries, you

see that oil and gas has far and away dominated and it continues to dominate the other sectors.

If you look at employment by industry, you'll see that a large share of the growth since 1980 is due to what I call the economy maturing. That really means that more and more we're taking in our own wash ... rather than sending it out to Seattle to be done. So, it's growth in retail trade. It's growth in various services. It's growth in accommodations and in restaurants and so on and so forth that has accounted for a lot of the job growth since 1980.

[2:35:27 PM](#)

If we look ahead on this graph we look behind and we look ahead both. This is the annual rate of wage and salary job growth and about three-quarters of the way over there we start to get a projection of what the future might look like. We can see a couple of things. One is that the bars are not generally as high as they were back in the '80s and '90s. The second thing is that we do see a boom and a bust. I would argue that our days of boom and bust are not all behind us. If the stars align in a certain way, we can continue to have booms and busts in the future.

That boom and bust that you see there between 2010 and 2015 - and this projection is a couple of years old, so it's not completely current - that is a result of the construction of the gas line and development in ANWR. They happen to coincide and that's really what leads to that boom and bust there that you see. The growth out beyond that, and I think it's important to think about the long term, rather than just next year or the year after, the growth that happens after that I would argue that it's most likely to come from these sectors of the economy but that it's not guaranteed. It's something we have to work at and the reason is that I think that we suffer from some of the symptoms of what has come to be known as the resource curse.

[2:37:30 PM](#)

MR. GOLDSMITH continued:

The resource curse is the notion that resource wealth leads to slower economic growth than otherwise would be the case. There's evidence that that has happened in many places that have gotten windfalls from petroleum or other resources. I don't think that we suffer as badly as some other places but we do have some symptoms, and I've listed some of them here, the most important one for us today is the notion that we are under investing and that the flip side of that being that we're over consuming. Just to give you a couple of examples to get you thinking about this notion, I ran an interesting calculation, which was to ask the question what if - and I'm not advocating this please - what if, instead of paying Permanent Fund dividends that last 25 years, we had taken that money and simply reinvested it in the corpus of the Permanent Fund. How big would the Permanent Fund be today? Well to my surprise, I discovered that the Permanent Fund would likely be about \$31 billion larger than it is. It's running about \$37 billion so it would be not quite twice as big as it is today. I think, to me, what that is an example of is the fact that we need to think about what our options and our opportunities are. We've had some big opportunities because we're not poor. We have to ask ourselves have we taken appropriate advantage of those opportunities. I think it's worth asking ourselves...what has been the value of the Permanent Fund dividend and think about it in relation to \$31 billion that we could have today if we'd taken this other path.

[2:39:28 PM](#)

MR. GOLDSMITH continued:

The second example is a hypothetical example of an investment that I think is an appropriate one, and this one just happens to be for a marginal oil field. This is an analysis that was done some time ago but I think it shows the three important components of a successful investment that builds sustainability for the future. Those three components are, first of all, that the investment dollars ... create jobs when the investment is being made, in this case, 1,780 jobs. But it doesn't end there. That's the end of the story, which unfortunately is the end of the story for

a lot of things that we called investments in the past.

The second and third returns are, first of all, that it creates an annual flow of jobs and payroll that goes on for many, many years - a smaller number but it's sustained for many years. Last, there is a bonus in terms of public revenues that are generated in this case. This was done a long time ago when we thought oil would be \$12 a barrel. This particular hypothetical case generated not only enough revenues to pay for the cost associated with this new development, but it left \$103 million left over as a bonus that could support other public spending. So, to my mind, this is the kind of investment that we should be thinking about and trying to foster, not only in the oil industry but in other industries as well.

[2:41:23 PM](#)

The process of doing that and the public role in fostering that is not an easy one to accomplish. If it were, we would have done it many years ago but we haven't been very successful at it. One of the reasons I think we haven't been successful is that we've been spending a lot of time, too much time in my [opinion], worrying about this other problem, which is really a non-problem because it has an easy solution. That's the problem of where are we going to get the revenues to pay for government? We see that if we look at non-petroleum revenues, we haven't done a very good job over time in fostering growth in non-petroleum revenues. Looking ahead, some of us think that the gas line is all that we need and it will solve all of our problems but I don't think it will. But we do have an obvious solution to Alaska state finances. If you just run the numbers, it looks pretty good right now if we're willing to make use of our entire tax base, which would include part of the Permanent Fund earnings and personal taxes. It's an easy problem to solve. We shouldn't be spending a lot of time moaning and groaning about it. I know politically it's difficult but we do have a much thornier problem to deal with and that is how we're going to foster this investment that will help the private sector to expand.

Well I've talked about the state economy quite a bit and one of the problems that we face when we're trying to describe the economy and how we're doing is that the state economy is dominated by what happens in urban Alaska and that's Anchorage, Fairbanks, Juneau and the surrounding areas.

[2:43:22 PM](#)

MR. GOLDSMITH continued:

There really are, to my mind, three Alaska economies. The other two are rural Alaska, which is most of Southeast and some of Southcentral, and remote rural Alaska - that part of Northwest Alaska that is, in a sense, off the grid. It's off the transportation grid.

Well, the majority of economic activity is in urban Alaska. Right now about 78 percent of that [indisc.] rural and remote together account for about 22 percent. What's happening in other parts of Alaska outside of urban Alaska is very different than what's happening in urban Alaska. Historically, a rising economic tide would sort of lift all boats and so if there was expansion that lifted urban Alaska, it also increased employment in rural Alaska and remote rural Alaska. You see this during the '70s and '80s. But if you look forward to the '90s and into this decade, you see that the picture looks quite a bit different. The job growth is more and more concentrated on urban Alaska and I'm not going to have time to talk about what's going on in the rural or remote rural, but they're very different structurally and they have very different challenges. If we look just at the overall picture for the state, we miss what's happening out in those areas and that is something that we should not be doing. That makes monitoring what's happening to the economy much more of a challenge.

[2:45:26 PM](#)

MR. GOLDSMITH continued:

The other thing that is becoming more important to consider is how are Alaska families doing. Traditionally, we pretty much follow the number of

jobs being created and per capita personal income and if those things are going up well then everything must be okay. But I think more and more, we're going to have to look at the distribution across families and households to find out how healthy the economy is. If we look between the '80s and the '90s in jobs being added to the Anchorage economy, for example, in the '80s there was a mix of jobs under \$60,000 and jobs over \$60,000. In the '90s, the pattern was completely different. Jobs added under \$60,000 ... well, there were jobs added over 60 but there were more jobs lost over \$60,000 so there was quite a significant shift there. We need some better measures of what's going on at the family level.

Finally, the economy impacts population; population impacts the economy. One of the things that we need to be aware of is the fact that we have two big bulges in our population that are moving through the age distribution. Those are baby boomers - we have more baby boomers that share the population than any other state, I believe, and young people. We have many more young people that share the population than the U.S. as a whole. As those two groups move through the age distribution, it is going to have tremendous impacts on the economy. Are the boomers going to retire or keep their jobs? Are they going to stay here when they retire or are they going to move out of the state? Are there going to be jobs opening up for the young people that we're going to be moving into the labor market? Are they going to want to live in Alaska? Is it going to be attractive for them? These are the kind of questions that we're going to have to face.

[2:47:23 PM](#)

MR. GOLDSMITH continued:

So, in conclusion, sort of a take away message is let's solve the fiscal problem. It's an easy one. We've got more difficult problems to wrestle with. We need to get serious about investing for the future rather than just talking about investing that really turns out to just be consumption for the present. I didn't talk about it much but we have to recognize the limits of government. Government can fund

infrastructure. It can create some of the necessary requirements for economic development but it can't do the whole thing itself. We have to recognize the difference between growth, which doesn't necessarily lead to sustained economic activity and development that does. We need to look beyond the aggregate indicators that I showed you at the beginning to really ... monitor the health of the economy. We need to focus on the long term, rather than what's happening today or in the next year. And, with that, I'll finish and if there ... is time for questions you have I'll try to answer them.

[2:48:38 PM](#)

CHAIR NEUMAN asked when a dollar flows through the Alaskan economy, whether the impact can be determined, such as with an economic multiplier and whether it can be analyzed based on whether it is a federal dollar, tourist dollar, or other dollar.

MR. GOLDSMITH said each dollar does represent a different picture based on the source and intent. For example, a dollar spent by a tourist that is spent on something manufactured in Hong Kong doesn't "stick very long in the state." A federal construction dollar provides jobs to perhaps build a road but that is the end of the story. A dollar invested in a new mine initially creates construction activity but continues to generate economic activity through its life. That has a more sustainable impact versus the other two so the dollars are not the same, even though they look the same.

[2:50:44 PM](#)

REPRESENTATIVE DOOGAN referred to the "fruit salad" comparison slide, and asked if that shows the Permanent Fund dividend as the third largest economic driver in the state.

MR. GOLDSMITH said that slide shows that the Permanent Fund's average annual earnings of \$2 billion provide a dividend amount of about half that size, so \$1 billion.

[2:51:40 PM](#)

REPRESENTATIVE DOOGAN asserted the slide entitled, "Looking Ahead: Alaska Wage and Salary Job Growth," indicates that the largest growth occurred around 1974-76. He asked if that was due to the pipeline construction.

MR. GOLDSMITH said that is correct.

REPRESENTATIVE DOOGAN said it appears that a lot of activity happened prior to that time.

MR. GOLDSMITH said most of the growth occurred between 1974 and 1976. The pipeline was completed in 1977 so employment fell in that year.

[2:52:22 PM](#)

REPRESENTATIVE GARDNER asked Mr. Goldsmith to define the phrase "footloose services."

MR. GOLDSMITH explained that it refers to an industry that is not location specific; it can locate anywhere. An example of that would be a software development company.

[2:53:01 PM](#)

REPRESENTATIVE GATTO referred to slide 2, "The Alaska Economic Drivers: The Foundations of Our Economy," and asked if oil and gas truly represent only one-third of Alaska's economy. He constantly hears that it represents 85 percent of Alaska's economy.

MR. GOLDSMITH replied it represents 85 percent of the general fund revenues in a typical year. If one looks at the contribution of the oil and gas industry to the total number of jobs in Alaska and to the total household income, it represents about one-third.

REPRESENTATIVE GATTO asked why that differs from the federal government share. He stated, "Maybe it doesn't go in the general fund and then get spent, but it is nonetheless a person having a job and getting a federal paycheck that comes from...the federal government. It doesn't come through the general fund. It's still a certain part of the economy."

MR. GOLDSMITH agreed that it is and explained that his point was that it is an important part that is under recognized. For an economy that produces about \$27 billion of total personal income per year, \$9 billion per year of federal funds is substantial.

REPRESENTATIVE GATTO asked if the oil companies were to leave Alaska tomorrow, Alaska would have more than two-thirds of its

economy because the federal sector or other sectors would increase and take up the slack.

MR. GOLDSMITH said he does not see anything coming along to take up the slack because for at least 30 years, efforts have been made to find other industries to diversify the economy that have only been partially successful. He did not believe the economy would contract by a full one-third because the Permanent Fund would continue.

[2:56:43 PM](#)

REPRESENTATIVE GATTO asked:

Would the jobs that disappear because the oil companies are no longer here be oil company jobs and relatively unnecessary where they actually leave the state so that the number of jobs remaining is already filled by non-oil company employees, or would there be a dynamite change in that we would have a lot of oil company employees simply unemployed?

MR. GOLDSMITH responded the jobs would go away and the employees would leave. He reminded members of a crash in the economy in 1986. The price of oil fell precipitously and about \$1 billion was pulled out of the state budget. The oil industry cut a significant number of jobs and the population dropped. This caused a recession until the Exxon Valdez wreck brought back work opportunities. The housing market was a clear indicator of the recession. Every household felt the impact of the recession.

[2:59:11 PM](#)

REPRESENTATIVE DOLL asked Mr. Goldsmith to elaborate on the last slide, entitled "The Take Away Message," which says get serious about investment and focus on the long term.

MR. GOLDSMITH replied that as he analyzes how federal and state dollars have been spent in the past, particularly in the capital budgets, he would have to say a lot of those funds went to consumption rather than investment. That money was spent to get construction activity jobs but did not lead to anything further. He cautioned that fewer opportunities to invest are likely in the future.

REPRESENTATIVE DOLL noted Mr. Goldsmith isn't offering suggestions.

MR. GOLDSMITH replied he is saying that challenge is much tougher than balancing the budget, so the focus should be on investment.

[3:00:57 PM](#)

REPRESENTATIVE ROSES asked why Mr. Goldsmith predicted dips in wage and salary job growth in 2008 and 2009 and again in 2014.

[3:01:21 PM](#)

MR. GOLDSMITH answered the boom is due to the construction of the gas pipeline and the development of ANWR and [the completion] would cause the second dip. He predicted the first dip based on a slow down of the federal dollars coming into the state. He said he made those projections over one year ago.

[3:01:54 PM](#)

REPRESENTATIVE ROSES said the legislature has already seen a decrease in federal dollars during the last session. He asked, regarding making wise investment decisions to "stretch" a dollar, whether the legislature is better off investing in the oil industry than in other sectors since the oil industry provides 85 percent of general fund revenue and is accountable for one-third of the economy.

[3:02:45 PM](#)

MR. GOLDSMITH said that depends on what is happening in the margin. The tourism and mining industries have a lot of upside growth potential and are particularly important for certain areas of the state. Many factors must be taken into consideration so it is not a matter of one being better than another.

[3:03:48 PM](#)

REPRESENTATIVE EDGMON commented that the take-away message should include the crippling effect of rising energy costs, particularly in rural Alaska. He stated, regarding the three economic areas of the state, urban, rural and remote, must be considered because many people are moving from rural to urban areas due to the cost of energy. He pointed to the age

distribution graph and asked whether the two bumps in population relate to Bush Alaska.

[3:04:55 PM](#)

MR. GOLDSMITH said Bush Alaska will have a pronounced hump among young people and a bigger dip among 30 to 50 year olds.

REPRESENTATIVE EDGMON referred to a study ISER did on the economy of rural Alaska and asked whether that study indicates a migration of the young people from Bush Alaska to urban areas.

MR. GOLDSMITH responded it does. Both rural and remote Alaska populations are growing much slower than urban Alaska. The migration to find work in urban areas is highest among younger females.

[3:06:10 PM](#)

CHAIR NEUMAN thanked Mr. Goldsmith for his presentation and introduced Tim Bradner, an oil industry economist from the Alaska Journal of Commerce.

The committee took an at-ease at [3:06:28 PM](#).

[3:09:39 PM](#)

CHAIR NEUMAN called the meeting back to order and then asked Mr. Bradner to give his presentation.

[3:09:40 PM](#)

TIM BRADNER, natural resources writer for the Alaska Journal of Commerce, and co-editor, Alaska Legislative Digest and the Alaska Economic Report, gave the following testimony:

... Chairman Neuman asked me to appear before you and make a few comments on the oil and gas industry and some of the observations that some of us who write about the industry have made over the years. ...I'm talking mainly about the growth of what I term as the Alaskanization of the industry, the growth of a locally based oil service industry and workforce that I think has been very successful. This is a good story. I think it's a real strength of our economy and so one thought I might leave with you is when you think about [petroleum production profits tax] PPT,

and you've been deeply engrossed in these issues, there's been a lot of discussion about cost allocations under PPT.

One thing I haven't heard discussed much and you just might think about is that when the industry's costs go up, that's also money flowing into the economy to the extent that we have Alaskan firms engaged in the industry, doing support work, Alaska workers involved with the industry, wages are going up, more money is going out into the community. A lot of that money is flowing into the state's economy. That's good. So I mean on one side of the equation you have to weigh the effect of higher costs under PPT, potentially reducing revenues to the general fund treasury, but the other side of that is a lot of that money is flowing out into the paychecks and the bank accounts of Alaskan workers and firms that are doing business here. So, just with that in mind, I thought I'd make just a few observations and I'm going to move very quickly through this.

[3:11:38 PM](#)

MR. BRADNER continued:

Alaska oil and gas employment is really at record levels right now. I can't give you precise answers or numbers right now but the last time I looked, we had the highest employment in the industry and this includes direct company employees as well as contractors. Most of it is contractors that we've had since the 1970s, since pipeline days. That's really quite remarkable. It speaks partly to the pipeline renewal efforts and repair efforts that are going on in Prudhoe Bay. It also speaks to the high level of activity all across the North Slope. Last winter beds were so scarce on the Slope that that was a real constraint for contractors. Planes going to the Slope were full. There was a real scarcity of skilled labor and I think a lot of that - it may not be as severe this winter, but I think a lot of it is going to happen again this year so, record employment. The logical question that you might ask is well, so what, employment is high.

[3:12:43 PM](#)

What is the Alaskan percentage of that? How many Alaskan workers are employed there? I can't give you specific numbers but I would observe that probably - and the Department of Labor can give you these numbers but I would observe that probably the Alaska hire percentages of the Alaska contractors working on the Slope and the major companies themselves probably haven't changed a lot in the last two or three years despite the high levels of activities. Normally in a boom time the percentage of Alaskan workers would go down a little bit because ... there's a certain amount of skilled labor supply here in the state so the only way that these contractors can meet the demand that they have is to import workers from out of state.

But right now it's sort of a unique situation because there are demands all over the world for the same pool of skilled labor and so the contractors have been, to a large extent, unable to recruit from out of state. So the percentages state the same but it also means that people are now getting very serious and very focused on training, pruning and trying to grow our own. That's something I'll sort of finish and get to in a couple of minutes here.

[3:14:04 PM](#)

MR. BRADNER continued:

It sort of goes to the point also that it's obvious why it is important to hire Alaskan workers and Alaskan businesses in the oil patch - the money stays local. I think that's obvious for all of us.

I'd like to just give a little history here on why this has happened and why the strong Alaska support industry is, in my opinion, probably unique in a lot of places. I would argue that probably the local content of our Alaska oil services work force is higher than a lot of other regions. There's some history for that. Back in the 1970s, when the Alaska Native Claims [Settlement] Act passed and the Alaska Trans Alaska Pipeline Act passed, there was a relationship between the two. The oil industry helped get the claims act passed through Congress and a couple of years later, because they needed clear title

for the pipeline, a couple of years later the Alaska Native groups helped get the Trans-Alaska Pipeline [Act] through Congress that allowed the pipeline to be built.

But, you know, the historical significance of that, in my opinion, is that it established a relationship between Alaska groups and the petroleum industry that has turned into business relationships. You have - these Native corporations formed companies, they've all been companies, contracting entities, that started doing work for the industry and that's continued to this day. I can name several very successful Alaska businesses that are owned by Alaskans: Doyon Drilling Company was formed by Doyon Corporation. Several years ago you had other entities, including NANA, which had interests in drilling. Those rigs were sold and there have been some changes in the industry but Doyon Drilling, ASRC Energy owned by Arctic Slope is one of the major contractors on the Slope. VECO Corporation, which is a name a certain amount of attention has been paid to recently, but VECO is an Alaskan owned company. It was, it's now been bought by another company. It started here. It prospered. It's been very innovative, very successful and has, in fact, grown overseas with operations in Russia, as has ASRC and NANA and the other corporations. The skills that these companies have acquired in the oil patch have turned into ... intellectual assets that they've been able to translate into doing business in other places. So I think that's a real advantage and it speaks well to our home grown industry here.

[3:16:41 PM](#)

So that was one thing that historically happened and helped create an Alaskan oil services industry. Another thing, surprisingly, was that the major layoffs of the industry in 1992, 1993 - some of you may remember the major layoffs by ARCO. I think there were 800 people that were laid off at one time. Well you know a lot of those people stayed here. They didn't leave the state. They took their packages and they formed consulting companies. They formed small contracting entities. You can see that the membership in the Alaska Support Industry Alliance took a big jump in that period. It was very interesting because

there were all these people that had been formally managers and engineers with ARCO or BP that were out on their own, hanging their own shingle out. Ironically, most of them went back to work for their former employers but they also grew their businesses. There was Alaskan owned investment capital that played into those businesses. So today we have a lot of consulting companies and contracting firms that are based here because of that and I think that's a real success story.

I just want to leave the thought with you when you think about money being spent by the industry and costs are going up and prices are going up and things like that. Well that's good for our economy. So it's a question for you as to whether you want the dollars to go into the state treasury and to be spent on public services or to go into the economy, and that's a policy call. But that's just something to reflect on.

[3:18:17 PM](#)

There are some challenges though that I think are also worth reflecting on. It's a good story. A lot of these firms have been successful but they're sharing constraints. They have to acquire skilled workers just like the other firms do. I think the big challenge we have in continuing this Alaskanization of the workforce is to sustain it. We have to invest in vocational education. We have to invest in education in general to make sure that we've got workers that are trained and ready to meet the demands.

Right now the industry is very short of skills in certain categories. I think this is just not the petroleum industry. It's all through the economy. The construction industry is a good case in point. The industry has done its part, I think, in stepping up to recruit and train Alaskans. BP and ConocoPhillips have been recruiting from the University of Alaska engineers and professionals. They've been recruiting operators from the UA operator training program. ... This has been a very successful program. These companies have become Foundation contributors to engineering programs at the UA, which have gotten national recognition, one I can think of

is the Alaska Native Science and Engineering Program [ANSEP] at UAA, which has become a national model as to how to encourage not only minority people to stay with a very difficult, challenging five-year engineering degree program but also all students. Now it's been so successful in its track record that there are a lot of non-Native students that also are part of ANSEP in the sense that they follow the same curriculum and they participate in the same study programs. There are a lot of reasons for the success of that program, which we can go into some other time.

Basically, it illustrates that when industry steps up to the plate, whether it's the construction industry or the transportation industry or, in this case, the oil industry and gets involved with the education community directly, the results are good and I think we can point back and see the track record of success that's contributing. Each year tens of new graduates of engineers are entering the workforce and all of them are snapped up just like that. These are good jobs. The starting salaries in these engineering jobs are pretty outstanding.

But the thing to leave you with, just to make a few brief comments here, is that I think the state needs to do its part too in stepping up and Scott Goldsmith talked about the need to invest.

[3:21:26 PM](#)

I think in this case, the investment is in vocational education. I know Chairman Neuman has a couple of bills in - mechanisms for increasing funding and support for voc ed. I think those things are very important and I've been, frankly, kind of disappointed that as much talk as there has been over the years about the need to increase voc ed, there hasn't really been a lot of action and there's a lot of reasons for that. I think it's something to think about. If we're going to keep that pipeline full and keep our Alaskan quotient of skilled workers up, we need to put some money into education, and particularly vocational education. So, anyway, a few thoughts, some things to think about. With that I'll leave it. Any questions?

[3:22:12 PM](#)

CHAIR NEUMAN agreed with Mr. Bradner about the importance of vocational education programs, and particularly offering them at the high school level. He asked Mr. Bradner for his best guess on the amount of oil that will be flowing in TAPS ten years from now.

[3:22:40 PM](#)

MR. BRADNER said Dudley Platt, a Department of Revenue [DOR] petroleum engineer, follows oil projections very closely and urged members to listen to Mr. Platt's advice. He said he was struck by BP's remarks last January that the decline rate at Prudhoe Bay has been 7 percent plus the past couple of years. He noted that a 6 percent decline rate has been discussed recently but he fears it may be higher than that. The oil companies' goal may be 6 percent but they would not want to talk about their difficulty in achieving that goal. He said the DOR numbers for last year show a 12.5 percent decline. Part of that was due to the Prudhoe Bay incidents and the resulting loss of production. He noted those barrels were not lost; they are still in the ground and will be produced in the future. However, the decline in the previous year was higher than 6 percent, perhaps 7 or 8 percent. He advised members to look at the DOR rates later this year to determine what they really are. If the decline is greater than 6 percent, the annual flow through TAPS in ten years will decrease to levels that may not sustain pipeline operations. He told members he has no special knowledge of the situation but, obviously, great efforts are being made to stem that decline.

[3:25:22 PM](#)

CHAIR NEUMAN questioned whether the record employment levels are connected to the changes made with the PPT.

MR. BRADNER said he believes it is too early to see the effect of the PPT. He thought the intense amount of activity that occurred last winter was probably due to the pipeline repair work that was done. That work will continue through this year. However, there is a high level of activity throughout the North Slope in addition to the repair work. He believed a gradual effect of the PPT will be seen over the next few years.

[3:26:15 PM](#)

REPRESENTATIVE SEATON asked regarding the current situation with record employment and the problems that is causing, such as lack of beds and equipment, whether that is constraining oil companies when it comes to expanding their capacity at this time. He asked if the state leaves additional investment dollars available to the oil companies, whether they will be able to use those investment dollars.

MR. BRADNER said he suspects the severe bed shortage and capacity are a short-term problem and that if that level of activity can be sustained, a rapid expansion of capacity will occur. He surmised that a more incremental increase in heavy oil work has the greatest growth potential. He pointed out that new exploration requires a lengthy permitting process, so investment activity in that arena will not show a quick increase in activity.

[3:29:28 PM](#)

REPRESENTATIVE SEATON noted that BP and ConocoPhillips testified that they are fully utilizing all available rigs at this time. He asked whether Mr. Bradner had any insight about that situation.

[3:31:07 PM](#)

MR. BRADNER replied there is a shortage of rigs but more are being brought to the North Slope. New rigs are being built for Arctic conditions. He felt over time the capacity will expand so the capacity will not be a constraint over the long term.

[3:32:25 PM](#)

CHAIR NEUMAN stated the committee heard testimony that 800 new wells were drilled last year, 6 new rigs were brought up to Prudhoe Bay and Anadarko is bringing one or two more, and the oil companies have been investing in existing infrastructure and updating technology to handle more capacity. He thanked Mr. Bradner for his presentation and announced the committee would take a brief at-ease.

[3:39:11 PM](#)

BILL SHEFFIELD, Director, Port of Anchorage; Former Governor, State of Alaska, gave the following testimony:

Thank you very much for inviting us to come down. I'm the director of the Port of Anchorage. My name is Bill Sheffield. Laurie Hermann is going to do the computer work over here at the right time

As I said, I appreciate Mr. Chairman, the opportunity to talk today about Alaska and the infrastructure and where we are and where we might be going and what might happen and to talk about trade and economic development. So the subject of today's hearing, economic development in Alaska, is one that is near and dear to my heart, one that I've spent the better part of my professional career pursuing. There are so many opportunities in Alaska. I'm going to just devote my time to maybe four or five of them here before I talk about some other things.

The Alaska gas line is, of course, at the top of everybody's agenda. It's probably the largest project that any state will ever have the opportunity to undertake. It means an awful lot to Alaskans and to the nation as a whole. At my age, as Mr. Goldsmith's chart showed a little while ago, the age and the people that are here at that age, I'm at the far bottom right of that column so I won't be here all that long but it's their kids and their children that are going to benefit by an Alaska gas line. I suppose when we get down to 300 or 400 barrels of oil in a pipeline per day, and forget what the price might be, it doesn't really matter because there won't be very much income. So an Alaska gas line would look pretty good and we should keep that in mind for the long term. I know people don't like to think out there too far, but I suffer from that disease. I was born in the Depression and kind of know what it is to not have as much as you'd want.

We're in pretty good shape. The economy is ... good but it's flat. I see some deterioration here and there coming along. Development of the vast rich coal deposits in Northwestern Alaska is in need of development of transportation infrastructure - there's probably three or four more Red Dog Mines where Red Dog Mine is now. Just over the hill about 45 miles, starts the best coal in the entire world - 3 trillion tons of it from Point Lay all the way across the map to Barrow. 3 trillion tons, they tell me, is enough

to heat all of America for 500 years so we're probably not going to run out soon. It just happens to be in a tough place to get it out of on the Chukchi Sea, shallow water, ice 11 months of the year, and so infrastructure is what we need to get that coal to market.

Coal for Alaska Bush villages - we've been talking about trying to lower the cost of living in the Bush ever since I've been around, some 55 years. We talked about solar energy and windmills and some of that has been tried but we have steam coal all over Alaska. It's good coal for heating and it's good coal for power plants and if you could think about most villages are on a river system, bringing coal to a village once a year to give them heat and power would lower the cost of living. A rail line extension to the Arctic - I just want to go to the Arctic. Governor Hickel wants to go on to Siberia with it. I can only get as far as the Arctic with it in my mind but things like that would develop coal for the Bush villages. It would provide a market for our ore and other resources that we have in Alaska. It might sometime happen.

We've been given money in Alaska by the congressional delegation over the years for a study to the Arctic for a rail line but I've never seen one finished or ever talked about once the money was spent. I share in that blame as well. A rail line extension is needed for Port Mackenzie in the Mat-Su Valley, if that dock is ever going to do anything, because if you add a rail line to it then you could export coal from there instead of taking the coal to Seward. Seward could probably well do without that coal in their backyard.

[3:44:57 PM](#)

It doesn't employ many people but it would be cheaper and more effective if it could be taken to tidewater at an earlier time and not have to be railed all the way to Seward.

When the time comes, and I don't know that it is now, but when the time comes that should be done sometime to haul bulk [indisc.] such as coal and mineral

resources. A rail extension to Canada through the valuable military training ground in Interior Alaska would not only enhance its support and its ability to serve but enhances the jobs in Alaska, the training ground for Alaska, more things happening and I'll talk just a little bit about that as well as new shipping routes through the Northwest Passage. Some think that's kind of far fetched but I learned a lot about it the last two or three weeks and I want to discuss it a little bit.

But here is one economic development project that is underway that we can all get our arms around, the Port of Anchorage expansion. ... We have container traffic and petroleum and dry bulk cement, Coast Guard, military, cruise ships and four or five steel ships or steel barges coming in from Asia every year to load their cargo. As you can see from this slide, the annual tonnage of the Port of Anchorage has risen significantly and steadily since 1992. There was a study performed before I went to the Port six years ago and I went there for just a few days to fix a couple of things and I'm still there but that said, by the year 2014, the Port would have 5,000 tons of cargo across their dock - 5 million tons, and we did that in about 2005. The Port is old. It was built in 1958, 1960, 1961. It's 50 years old. It's basically in bad shape. The pilings take a beating with ice and weather in the wintertime and the winds and the storms. We spend over \$1 million a year just putting sleeves on pilings and fixing pile and driving some new pile just to keep it intact and safe until we tear it all down. So, it needs to be replaced.

The Port of Anchorage expansion project will increase the size of the existing port by approximately 135 acres of ground and I'll show you a couple of slides showing the Port in just a little while. With a gravel filled dock and open cell sheet pile front face of it and tail walls, it has a lot longer life and will withstand a greater earthquake than we had in 1964 and 2,000 feet of the dock will even be designed to carry a much more severe earthquake than in 1964.

The project will also add an administration building, a building for the Coast Guard's maritime safety and security team and a maintenance building and new

hundred gauge cranes like they have in all of the ports down in America. They are 100 gauge, 100 feet across, five highway lanes under them and they reach out to 16 containers wide. Horizon Line is going to have ships built here pretty soon and new ones will come in 2009.

3:48:49 PM

They'll be 13 wide, another reason for new cranes. There's a picture on the top right of the film showing a crane ship and that's the kind of crane ship that will be bringing our three new cranes in August of 2009 and that will be kind of a sight to see.

The Port serves 80 percent of the state of Alaska's population. It supplies about 90 percent of its consumer goods. It supplies all of the jet fuel for Elmendorf Air Force Base, which comes in by barge all of the time from Valdez and all of the jet fuel for the Ted Stevens International Airport, 85 percent of it, I should say.

I think I missed a slide there. I missed the cost. I didn't want to say it. The cost is estimated to be in excess of \$400 million. We'll know what the actual cost is in about December when we go out for our bids in December for another phase of construction, which will include sheet pile for the first time. The expansion will be funded with 52 percent federal funds and 48 percent non-federal funds. The non-federal funds are comprised of Port profits and equity funds through future revenue bonds and state participation. There's where you folks come in. Don't rush off and leave now. We've requested at the next legislative session \$20 million and \$20 million each year for the next five years. That's \$100 million. When you put \$100 million into this project, which will be \$126 with what we have in the past, you'll have \$126 million in it and the Municipality of Anchorage will have about \$146 or \$148 million in it and the federal government will have the other half so it's kind of a half, a quarter and a quarter.

It's a statewide project. It's not just an Anchorage port and we'll show that to you here in a little bit and how it functions and takes care of 80 percent of

the state geographically. The Port serves 80 percent of the state's population and 90 percent of the goods that go out to those areas. It provides all of the jet fuel, which I talked about, for Elmendorf and the jet fuel for the Stevens International Airport.

Here's a slide that I want to pause and go just a little slower on because this really shows - you see where Anchorage is. It's right there.

3:51:49 PM

MR. SHEFFIELD continued:

When fuel comes in to Anchorage, it comes in by ... ships and tanker barges and by rail line from Fairbanks on a daily basis. Fuel comes in, the barges will bring fuel in from Valdez and from Nikiski, and some tanker ships will bring fuel in that's contracted for from outside. But mostly we raise what we use in Alaska as far as refined products. But then it goes out and it goes to Naknek and Dillingham and Bethel and Nome and Kotzebue and once you're up to Barrow, and then it goes out by ship - items go out by ship, by airplane, by air cargo to the hubs and it goes by smaller planes out to the villages and up the river system. When the fuel is delivered to all of those hubs from the Port all the time, then it goes into smaller barges and tugs as it goes up the river. Some places only get served once a year - and out the Aleutian Islands, down at the bottom and all of that, so by truck and by sea and by air is how everything goes. It truly does serve 80 percent of the state of Alaska and that's hard to explain to someone that doesn't know Alaska and doesn't understand the bigness of it and how it works. But it's been doing that for years and that's how people get their goods.

3:53:33 PM

So it's not just an Anchorage project, it's a statewide project.

The port expansion project is administered by the U.S. Maritime Administration. We have federal dollars so we have a lead agency, which is MARAD - the Maritime

Administration. ICRC is a project manager contractor. The project began in 2003 with environmental assessments and a public scoping process. We negotiated a lease with the military for some needed land in the rear of the Port. This is all Elmendorf Air Force Base behind us and some Army land at the end of it, which is the old defense fuels property. A lot of you know about it.

In 2004, the project performed design, development and geotechnical analysis.

[3:54:40 PM](#)

MR. SHEFFIELD continued:

Geotechnical analysis means that seeing that we could use an open cell sheet pile dock. A road and rail project was started in gravel extraction and an agreement was reached with the neighboring Elmendorf Air Force Base. That gravel extraction project was worth about \$100 million to the Port of Anchorage. Gravel doesn't cost much; it's the transportation. So, we figure we get that gravel for about \$7 a yard because we're hauling it down from the north end of the North-South runway and from Cherry Hill, which we'll show you a little bit more in just a little bit.

The Corps of Engineers issued our Phase 1 permit back in 2004, which was the North backlands. In 2005, the new railroad tracks were installed at tide to port into the Alaska Railroad main line. These are the two sittings here and the track was extended from down in this area for the main line coming in the back of the Port.

A floating dock was installed for an AMSST - that's the maritime safety and military safety part of the Coast Guard. It's right here. Work began on a new ultra-low sulfur diesel pipeline. 2006 - Expansion of the Port began with the creation of 21.5 acres of new land referred to as the North back lands. That's this area in here and that's been filled. Application for the Phase 2 Corps of Engineers' permit was filed that same year. Incidentally, we did receive our permit with the entire balance of the project in the middle of August and we're under construction now.

In 2007 - this year, the project moved forward on the improvement of its main road coming into the Port - new drainage, new asphalt and sidewalks, so on, so forth, upgrading and a new route into Horizon Lines new gate house providing turning lanes for better traffic flow and pedestrian and landscaping, as I said. Construction is underway on a new security command control center, which is toward the bottom of the map. We've got 85 trucks running every day for the last month and a half, and if it doesn't freeze up for another couple of weeks, I think we'll get our contract work done this year.

Talk about jobs - we have 300 people badged to come in and out of Elmendorf Air Force Base with the gravel operation and about 50 more in addition to that down at the Port working 24 hours a day. In 2008 new barge bursts will be added to the south back land - that will be completed. That's the orange part right there. That's a big year. That's the first big, big year for us because we'll be driving sheet pile, as well as filling ground. When we get that ground filled, we'll have 60 acres of new ground filled then we'll come back and we'll pave it all. In 2009 we'll come in here and we'll put new crane rails in here, 1,000 feet of crane rails. We'll move our container ships from here to here, back to here then so we can tear these docks out and keep on filling in the years 2009 and 2010.

2009 - The north extension will be completed. That's the crane ship there, a model of it, dropping the cranes off. This is 60 acres of new ground. The barge docks will be at the end down here. The first public barge docks [indisc.] Cook Inlet. We've talked about the cranes will be installed. Container operations will move. The other part of the dock will be demolished.

2010 - The north replacement will be underway down here. We're doing this work right in here this year and then this will be the new docks here on the south end. Our cement ship will be parking down here delivering cement to the silos right here. ABI [Alaska Basic Industries], Anchorage Sand and Gravel, and the petroleum docks will be in here for our ships.

We'll have two petroleum docks. One will be in here and one will be right about here before we get finished.

4:00:02 PM

2011 - We'll finish this and then we'll fill in the middle and we're getting down toward the end here. Now I've spent a lot of money here in about 10 minutes. So, in 2012 the south replacement will be completed. The Corps of Engineers harbor deepening will occur then. We'll be going down to minus 49 feet draft for all except the barge docks on the North end. They'll be all at minus 49; we're at minus 39 now. The driveway out here off of Fire Island, off of the Knik Arm shoal will be dredged as well, down to 49 feet. There will be driveways about 2,000 meters wide and about 3,000 meters long. It's pretty well self scouring so we don't have to dredge that. We read it twice a year in the summertime to make sure it's okay for the ships.

So, what that means is Panamax ships can come in and load and unload or an aircraft carrier could come in and not get trapped at low tide and not be able to get out of there.

So our dock will be 1,080 feet long - that's not right - 1.87 miles long, let me get it right. Now that sounds like a lot. Here's Cairn's Point. Here's Flint Hills Loop Track down here. The dock will come to this area here. We're going out from the original docks 400 feet, creating 135 acres of new ground. That's before and below is after.

4:01:39 PM

Now then, during a recent trip to Washington, D.C. where I met with officials from the U.S. Department of Transportation, the U.S. Army Corps of Engineers and members of our congressional delegation, it became apparent that with the increasing year-round ability to navigate the Northwest Passage, the federal government is seriously looking at this route for future shipping, for both military and commercial use. There are actually ships that go through there now from north to south.

This shows just a view, let's say Shanghai is over here and you're coming this way. Here's Unimak Pass, you're coming right down through Dutch Harbor. So coming through here there is a couple of ways to go but if you keep watching the maps, this ice keeps going away, more and more all of the time. ... Governor Hickel's been talking about the Northwest Passage for a long time and darn if it didn't start to melt when he started talking about it. So maybe he's right. So here's the Port of Anchorage and right out here is Asia and the great circle route and you go the Canadian route you come here - here's London. You can go the Russian route, the North Sea route up here like this, which is a little longer.

When I was in Virginia a couple of weeks ago at a port convention and the President of Panama was speaking about the \$5 billion he's putting into the Panama Canal and how much bigger and better and greater it's going to be for everybody, I thought we're sure going to ruin his life one day. When you go from up here and you come through - you go down through here and all the way down to the Panama Canal and all the way underneath and all the way over here and come back into London, you've traveled three weeks longer than you have to if you just come and go straight. So, things are happening out there and we just want to keep abreast of it and keep contact with the Navy and the Coast Guard and see what's going on because eventually, we could almost be a Long Beach where we are.

[4:04:15 PM](#)

MR. SHEFFIELD continued:

Alaska, and Anchorage in particular, is perfectly situated to play a hub in this potential new route. The Port of Anchorage is also of great significance to the military. We were designated as the nation's 15th strategic commercial seaport by the Department of Defense for supporting the rapid deployment of the Stryker Brigade Combat Team and other U.S. Army Alaska combat forces due to its immediate proximity to Elmendorf Air Force Base in Fort Richardson and the rail that we have to Fairbanks and Fort Wainwright.

The next slide, the entire state of Alaska has long been recognized to be of great importance to the United States. It has a large number of military installations and vast areas set aside for military training, both air and ground. We've had 20 something deployments to Iraq and Afghanistan out of the Port of Anchorage and into the Port of Anchorage over the last four years - equipment going out and equipment coming back in.

4:05:55 PM

The haul road has been constructed - this is the East-West runway. This is the Cherry Hill area - there's Cherry Hill housing for you folks that live in Anchorage and know the area. Here's the Port down in here. We built a haul road several years ago from the Port up to here. We have about 300 acres that we're mining for gravel in this area. Then we built a haul road last year and this spring finished it. It goes all the way up here to the north end of the North-South runway. We have about 400 acres up there that we're mining. We're taking the hill down for Elmendorf. Pilots don't like to come along and take off coming this way and then have to go up Federal Hill. That's not good and you wouldn't like it either if you were sitting behind them. So we're taking that down as far as we can. We're making a lot of new ground over on this side and a lot of new ground over in here and at Cherry Hill we'll have some new ground for them to use out here in the flats and it will be very good. So when we're through with that road in four years from now, we'll pave that road. We'll clean it up and pave it and then they can extend it right into Ft. [Richardson] right about here and so even now they use it. So when we deploy and have military equipment going from Ft. [Richardson] to the Port for deployment, it goes back here now and down our haul road but it will be the main traffic lane when we're out there and totally done so it doesn't have to go through town, over the bridge to the ACI [indisc.] and all of that stuff.

So, it's kind of a win-win arrangement for the Port. The Elmendorf Air Force Base just dedicated the haul

road to the Eklutna Village people. In name they call it the Dena'ina Road and have road signs up now.

4:07:51 PM

MR. SHEFFIELD continued:

The Port of Anchorage is the natural hub for the future Navy expanded Arctic operations. This picture over here shows some Donlin training grounds out of Fairbanks towards Ft. Greeley. There are thousands of acres. This is like a whole state down in the Lower 48 and here's Fairbanks and it's up in this area here. Bruce is here. He might talk about that a little bit further but the rail line would go through that area and they would have Strykers in this area so troops could come in and be deployed and learn how to use them and then leave and more people could come in. Now they take them down to the Lower 48, take them to Texas, Louisiana and other places; move them around, training people when they could leave them all right here all of the time, year-round. It's beneficial to Alaska.

Then you're getting close to the Canadian border with the rail line so you let your mind wander a little bit. If you had a gas line maybe you could have a Canadian line come on down here, about Ft. Nelson, tie in with the system. And then our Port of Anchorage would be five days by train to haul merchandise from Asia to Chicago. You'd beat the time that it takes to go to Los Angeles and Long Beach by about three or four weeks. So, we're out in the middle of nowhere but we're going to play a very important role.

4:09:24 PM

MR. SHEFFIELD continued:

The Port of Anchorage will play a key role in the construction of an Alaska gas pipeline. At project completion, the Port will be a major intermodal ship-rail-truck staging facility for the pipeline, for the North Slope to Western Canada and the U.S. We've been told by consultants and people thinking about a gas pipeline that we would have a Panamax ship every three weeks carry 2,700 pieces of pipe for two years to

unload the pipe that would be going to Fairbanks and up to the North Slope. It would move out of our yard by train, go to Fairbanks, unloaded and trucked on up, as was the oil pipeline. So we'll play an important part.

The Port of Anchorage will have the necessary acreage to provide loading and offloading and storage of materials before eventually moving the direct pipe to Fairbanks.

4:10:59 PM

So, in closing, I guess I'd just like to say that we need infrastructure in Alaska to continue to keep jobs going, things happening, raising our income. We need a gas line to help pay for the infrastructure. The federal government is cutting back on aid to Alaska. That was mentioned earlier by a couple of speakers. Alaska needs to do more without federal funds. The economy is good, I think, but it's flat. We see that in our numbers in railroad season and in their numbers. We see [fewer] kids in school in Anchorage and [fewer] kids in school predicted for next year. I think the same thing is happening in Fairbanks. ... I've heard numbers on dollars of income between 22.5 percent and 25 percent and I don't know if they're right or wrong so I won't quote them. All I know is that you can't tax yourself rich and we are a resource state and our income comes from the resources, and probably always will. We know it's probably 85 to 90 percent of our budget. The budget is \$9.5 billion now. When I was here it was a little less than \$3 [billion] so we're growing by leaps and bounds in some areas.

4:12:34 PM

We need reinvestment. We need extraction of our resources. I agree with Tim Bradner wholeheartedly. When I was down here in my short learning experience in government, we worked hard on vocational education but never really achieved anything for it. That's a hard one to start with the University system. But there are so many opportunities in Alaska and so many good jobs if people are trained to do certain jobs. Anchorage is probably number one in all forms of

engineering. Sometimes you can't get enough engineers in Anchorage. They're all too busy. Surveyors for one - our people like to survey so we've had a lot of experience in it but anyway, there's so many things to do in education. If we're going to have a gas line, it's going to be with us a long time and we need to use as many of our own people as we can. We need to get them trained. Thank you very much.

[4:13:51 PM](#)

CHAIR NEUMAN praised Mr. Sheffield's work on the Port of Anchorage and asked him to comment on the price of oil at \$8 when he was governor and the price of oil today at \$89.

[4:14:57 PM](#)

MR. SHEFFIELD told members he wrote to Governor Hammond to tell him how good he had it with revenue increasing during his term, compared to decreasing revenue during Mr. Sheffield's term. He said the budget was not as high but \$8 a barrel was a low price. He pointed out the state was destined to be in trouble because it had been overextended. In the '70s and '80s, the state grew by leaps and bounds. Alaska was starved for everything in the world up until then so when the oil money came in, the state needed to spend it. A lot of it was spent well but some was not. His goal was to run the state as a business and to cut the operating budget, but he quickly learned from the legislature that would not happen. Trying to trim up government and cut the operating budget took an effort. It is important to do the right thing for the state and the constituents. A fiscal policy or road map is important; it enables one to see and navigate what is coming down the road. He pointed out that mining could employ a lot of people in the state; however the problem with mining is that most mines are on federal or Native land. The Pebble Mine is on state land, which provides a good opportunity. He advised legislators to keep their eyes on the big picture and consider future generations. Mistakes have been made and are allowed, but it is important to think out of the box and have a plan.

[4:21:25 PM](#)

REPRESENTATIVE DOLL asked if ships will be built at the Port of Anchorage.

MR. SHEFFIELD said yes, Horizon Lines is building three new ships and is investing about \$375 million. He pointed out aside from federal and state funds, the private sector is putting nearly 1 billion into the Port project. Totem Ocean Trailer built two new ships three years ago that it plans to enlarge. ABI, Alaska Basic Industries, will build more silos for cement storage.

[4:22:49 PM](#)

REPRESENTATIVE DOLL asked if they will be built in Anchorage.

MR. SHEFFIELD clarified they will not.

[4:23:07 PM](#)

REPRESENTATIVE DOLL said, in regard to connecting transportation supply routes, she did not see anything coming to Southeast Alaska on his map.

MR. SHEFFIELD said for the most part, there has not been a shipping tie-in from Southeast Alaska to Anchorage or Western Alaska. He thought previous attempts had been made but were never successful.

[4:23:56 PM](#)

REPRESENTATIVE DOLL said the shipping routes connect every dot on the map except Southeast Alaska.

MR. SHEFFIELD affirmed that every place above Cordova is served by the Port of Anchorage, while every place below Cordova is served by Southeast Alaska. He pointed out the cost of shipping freight on the water is not high; the cost of stopping and loading or unloading is.

[4:24:49 PM](#)

REPRESENTATIVE GARDNER asked about direct income generated by the Port of Anchorage and possible changes to that over time.

MR. SHEFFIELD replied the Port of Anchorage has in excess of \$400 million in cash flow on an annual basis. Its profits are about \$2.85 million annually but about \$5 million with depreciation. All of that is put back into capital projects for the Port. He explained:

We've estimated that ... federal funds will be half of our income and 25 percent will be state and 25 percent will be the Municipality of Anchorage. That's either a revenue bond that we'll pay back at the rate of \$4 or \$5 million a year or it's Port profits [indisc.] and money that we saved up for a few years in advance of this construction. We call that equity funds that we have.

[4:27:09 PM](#)

REPRESENTATIVE GARDNER asked if all of this construction is completed and the loans are paid, what will happen to the Port's revenue.

[4:27:34 PM](#)

MR. SHEFFIELD said there should be a lot of income but that will be 25 years down the road. In the meantime, other projects will be on-line. The Port pays the municipality money in lieu of property taxes and, at that point, that amount may increase. The Port may also become married to other ports as part of a port authority. All of the procurement is currently run through the federal government. He envisioned ports around the Southcentral region becoming part of a port authority.

[4:29:05 PM](#)

REPRESENTATIVE WILSON noted the Port of Anchorage has made its own road map, which is not something that is easy for the state to do because of the different entities involved. She asked if he had any advice on what the legislature could do differently and what is working correctly.

MR. SHEFFIELD agreed it is a difficult job for both the legislature and the governor to analyze the priorities. He recalled the budget was split into thirds during his term, one for the Senate, one for the House and one for the governor. The system changed to one in which the communities prioritized their needs and submitted them to OMB and legislators. Prior to that, money that was never requested by the communities would appear in the budget. He thought the community approach centers around providing jobs and sustaining the economy.

[4:34:08 PM](#)

REPRESENTATIVE FAIRCLOUGH said she is curious about the 52 percent federal funding, considering that federal aid is likely to be cut. She asked if that money is "in the bank." She said legislators have been tasked in the last week by the governor to be prepared to talk about the quality of Alaska's return on its investment in the form of oil resources. The oil industry is saying if the tax structure is changed, it will run a different economic model and some projects may become uneconomical. She asked him to comment on what the oil industry means to Alaska in regard to revenue from his perspective as a former governor and how the oil industry impacts the Port of Anchorage. In other words, how much of what is transported through the Port is actually affected by industry, she asked.

[4:36:11 PM](#)

MR. SHEFFIELD noted that while the oil industry represents 85-90 percent of state revenue, it touches every walk of life in Alaska. It touches the Port of Anchorage via cargo that is brought through. The Port will be especially impacted if a gas line is built. State revenue from oil dollars goes into everything: water, sewer, education, and etcetera. He said the Port project will actually cost closer to \$500 million. The bid proposals accepted in December will show what the rest of the Port expansion will cost because future work will be similar. Every phase of this construction stands on its own and is valuable. He said he has a cash flow statement that he studies every day.

[4:40:36 PM](#)

CHAIR NEUMAN thanked Mr. Sheffield and introduced Mr. Langland and asked him to begin his presentation.

[4:41:08 PM](#)

MARC LANGLAND, President and CEO of Northrim Bank, told members his presentation is about Alaska's past, present and future economy. He paraphrased from a prepared statement as follows:

During the last century Alaska's economy prospered. Our infrastructure developed and the standard of living of our residents improved dramatically. We progressed from a territory to a full-fledged member of the United States. The development of our natural resources played a central role in this development. The discovery of energy in the Cook Inlet helped

provide the assurance that we could support ourselves as a financial part of the state. Our world class mining, timber, and fishing industries made significant economic contributions during those days.

Then the discovery of Prudhoe Bay and the construction of the Trans Alaska Pipeline brought our economy to a whole new level. Thousands of the highest paying jobs in Alaska were created by the energy industry and they have continued for many decades. In the 80s we saw a dramatic increase in oil production leading to escalating government budgets with boundless expectations for the future. Then suddenly oil prices fell, as Governor Sheffield just described. Industry investments dried up and the massive government spending cuts led Alaska into a very major recession. Our economy has diversified somewhat in the past 20 years, however we can have no illusions. Natural resource development is still the economic base. It provides the foundations for our state's economy.

Oil prices and investment levels can change quickly, creating an enormous volatility in our government budget and entire economy. If we want a bright future, we have to learn from the past. My hope is that we continue to develop our abundant natural resources, attract new investors, create jobs and export our products. We can build on our successes of the 20th Century and advances in society. Alaskans have already had many great achievements in our young state's history. We can continue to work hard to provide a better future for ourselves.

[4:43:34 PM](#)

We cannot spend the royalties of good decisions made decades ago without taking action now to prepare ourselves for the future.

The decisions being debated in this special session clearly have an important impact on the future of our state. I would like to offer my testimony today, both as a business person and a 42-year citizen of Alaska. Alaska's private sector companies and Alaska's citizens have depended on the strength of our economy. When the economy is strong and the business conditions are stable, private sector companies can create more

jobs and better pay for Alaskans. My company doesn't produce oil but we do benefit when energy companies invest billions of dollars in Alaska each year. This is one of the large new sources of new money that enters our economy and then circulates through other industries and supports thousands of jobs.

Every month, billions of dollars flow out of Alaska to buy goods and services that are not created within our borders. The only way to keep the economy thriving is to offset these losses by attracting more inflows in the form of individual and company investments. We have built up a successful economy over several decades now on the back of natural resources. For the foreseeable future, our resources will be the economic base and the principal driver of our economy. That's why I'm so concerned about the governor's plan to increase oil taxes again. Unfortunately, the Administration and some politicians seem to be too focused on the short term budget needs of the government rather than building a strong private sector economy for the long run. This belief creates an enormous disconnect between politicians who want more money for state government and citizens of Alaska who need job opportunities and more money circulating in the private sector economy.

The gross state product, or GSP, is the economic measurement with a total value added in production in the state in one year. According to the federal bureau of economic analysis, in 2006 total government spending accounted for only 18 percent of GSP. The other 82 percent of contributions to GSP in the form of wages, profits and taxes were created by the private sector.

[4:46:13 PM](#)

MR. LANGLAND continued:

If we think of the economic output of Alaska and GSP as the pie, then it is important to remember that the state government take is only a small slice of the pie. The easiest way for the pie to get larger is if the private sector grows. Government revenues are a result of a successful economy. We should not let

escalating government spending drive our oil tax policy.

The Alaska spirit values independence but the Alaska reality is increased government dependence. Alaskans value self discipline and self reliance but we have moved to a state of increased government dependence and government reliance.

Economic productivity occurs when Alaskans wake up each morning and get to work on making something that did not exist before, fixing something that was broken or developing a natural resource. This is wealth creation, not just dollars changing hands. We have to break free of the government wealth redistribution mentality, and focus on creating new wealth for Alaskans.

Because our economy is so dependent on natural resources, the government, and you as legislators, play a critically large role in determining the success of the private sector economy. Alaska is often the exception to the rule and, in this respect, the government plays a larger role in our economy than any other state. Through tax policy and regulation, you can quickly change the attitude and therefore the level of investment made in Alaska. There's no question you have the power to create opportunities and you have the power to destroy them.

Uncertainty in tax policy slows investment decisions, not just by the oil companies, but all types of businesses and individuals. In response it feels like many in the general business community are in a holding pattern now. We are taking a wait and see approach before we commit large amounts of investment capital in Alaska. I hear people saying will the state drive away investments with taxes too high. Will the governor's [Alaska Gasline Inducement Act] AGIA process actually lead to a gas line project? The oil prices and production stay high enough to support ever-increasing state budgets.

[4:48:49 PM](#)

MR. LANGLAND continued:

So how do we overcome some of these common fears? First we need to do a better job of aligning our tax policies with our goals. If our goal is to encourage exploration and reinvestment in Alaska to increase oil production, then increasing taxes again will have the opposite effect - pretty basic Economics 101. We need to reward long term risk taking, not penalize it. Just having this special session on oil taxes is creating more uncertainty and adding risk to the producer decision making process on future investments.

Secondly, if the Administration's top priority is getting a natural gas pipeline built, then a higher tax rate will only push us further away from that goal. Antagonizing and criticizing our largest investor in this project is not as productive as negotiating with them to achieve a successful outcome.

The PPT is not only about oil, but also gas tax rates. The [Alaska's Clear & Equitable Share] ACES plan adds more uncertainty to the gas line project by bringing into question the stability of our tax system for both oil and gas. It will also reduce the companies' profits by raising the costs of developing the gas. This lowers the feasibility of the project for investors. It seems the special session time would be better spent talking about natural gas tax rates for the preparation of the gas line. Let's work on achieving our goals, not moving further away from them.

Third, we need to control our spending habits when revenues rise. The government needs to save money during these days of prosperity and spend it when the economy slows, rather than spending our oil windfall during years that the private sector is already strong. The government should utilize more counter-cyclical spending practices.

Open and transparent capital budget planning is also needed. We can do a better job planning ahead for needs and prioritization spending. This will help avoid over reactions in times of crisis and knee jerk reactions when decisions are made at the last minute. Higher oil prices have been a blessing and a curse. They are helping to pay for an ever-increasing state

budget, but are also allowing many to avoid their responsibilities to conduct long term fiscal planning.

[4:51:28 PM](#)

MR. LANGLAND continued:

I feel that the higher prices are also having another unseen effect. They are changing the dynamics of the relationship between the oil companies and the state. In the past there has been more partnering; now it seems there is more contention. This is only reinforced by the need for a gas line. The state and oil companies are now clearly entrenched on opposite sides of the bargaining table. This does not lead to a healthy relationship with the state's largest paying customer. I've heard members of this legislature say we need to get a fair share by taxing oil companies to the limit then back off a nickel. How do you think individual property tax payers would take it if you just kept increasing taxes on their houses to the limit and then backed off a nickel? That would put a lot of good, hardworking families on the street because they couldn't pay their bills before you found out what the limit was. Why should the tax paying energy companies be treated much differently? This reminds me of an old saying. Pigs get fed and hogs get slaughtered. We can't be overly greedy and try to squeeze out the last penny of profits and taxes. Successful negotiations happen when both sides leave something on the table and each side feels like they would like to come back and do the deal again. We want a long term relationship with the oil industry and they have to be able to see the benefits of taking long term investment risks in Alaska.

Politicians tend to live in the present and make decisions that have an impact during their re-election cycle. However energy companies have to make the very long term investment decisions that span many administrations. This fundamental difference in perspective causes a misalignment in government policy that adds risk to the companies. Attitude can be a principal driver in our economy. When there is generally attitude toward the future prospects of Alaska, then there is more interest in investing in Alaska. Money gravitates toward what is seen as a good

opportunity. This investment leads to more jobs and options for local residents.

4:54:00 PM

Money multiplies through the economy in wages and profits and other service industries. Government attitude toward industry is equally important. The oil companies have a limited pool of capital to invest in exploration and development around the world. Alaska must compete for these investment dollars in a globally competitive marketplace. Yes, there are a variety of variables that go into making an investment decision. The tax rates are one of the most important. Certainly some countries have more political risk. Others have higher development costs. Some locations have more potential for discovering large fields. All of these factors have been weighed in a given point in time and the final outcome is the balance of global investment decisions we see today.

For Alaska, this means that we only attract a fraction of the total investment dollars available. At this level of investment, the end result is constantly declining oil production in our state. Clearly there is not enough investment. If there was enough investment, we'd have a stable or even increasing production, not a decline. We know this decline is not occurring because of a lack of energy resources in Alaska. The cause is most likely the result of our tax policy, regulatory environment, high cost of production and legal access to explore in large regions of our state. If your only change in this special session is to increase taxes and regulatory burden, then you have just made our location relatively less attractive than our competitors'. The governor's ACES plan not only raises tax rates, but removes some production incentives that create uncertainty that is already having some chilling effects on Alaska's economy.

You may see cranes all over Anchorage and think that the economy is booming but those cranes are the result of investment decisions made years ago. Just like investment in oil production, other investments in our economy take years to plan, design and construct. At the time those investment decisions were made,

Alaska's business leaders were confident in Alaska's future.

[4:56:22 PM](#)

MR. LANGLAND continued:

We can't control oil prices but the other decisions about oil and gas are in our hands. We are in control of our own destiny for a change. A successful economy puts its assets to use in the most productive means possible. We have an abundant supply of natural resources, literally billions of dollars of assets lying dormant in the ground. Our economy can continue to flourish if we choose to build a business climate that attracts investments and exploration and increased production.

In this society often driven by immediate satisfaction, it is hard to properly value long term stability. We need to have a stable tax environment so companies can make long term investments without the fear of having the rules changed on them after they commit billions of dollars to develop research for mutual benefit. Long term fiscal planning can help bring this state and the energy industry together to focus on their common goal of having a strong, stable economy. We can learn from the mistakes of the past, and better prepare ourselves for the future. The choices you and the governor make now will have a significant impact on our economy for many years to come. Your responsibility is not only to balance the budget, but it is also to create an investment climate. It allows individual citizens and private businesses to prosper. Thank you for allowing me to testify.

[4:57:54 PM](#)

CHAIR NEUMAN asked Mr. Langland what guiding factors he uses when deciding whether to loan business or housing funds as a member of the banking industry.

MR. LANGLAND said Mr. Goldsmith spoke of the key indicators. U.S. housing starts are another key factor. [Building] permits in the Anchorage Bowl are down 50 percent. Incoming freight at the Port facility is an indicator and it is currently down 10%.

Those factors can be seen more easily but another factor to watch is the general attitude. Right now people are very concerned about what role the government will play in oil taxes. The oil industry touches everyone. Alaska's economy is fragile so small events can have a big impact.

5:00:00 PM

CHAIR NEUMAN thanked Mr. Langland for his presentation and introduced Bruce Carr and asked him to begin his presentation.

5:00:26 PM

BRUCE CARR, Director, Strategic Planning, Alaska Railroad, told members he was asked to review the status of Alaska's economy, past, present and future, for the committee. He pointed out that members will hear a lot of common themes in the business industry today from independently prepared presentations. He began his presentation, as follows:

As background, the Alaska Railroad is a state-owned corporation that was given the responsibility of acting as a quasi-private business with an added mission of being an economic tool for development in the state. We offer freight, passenger and real estate services through 13 municipalities from Seward to North Pole. This provides us a broad perspective.

Speaking of the past, the Alaska Railroad has been an integral part of the system of the transportation infrastructure since its completion in 1923. We connected tidewater in Anchorage and Seward to the Interior moving freight and passengers as the territory got started. Railroad construction camps were the genesis of many of the thriving communities that exist today in the Railbelt, which comprises about 70 percent of the population of the state.

The railroad, even back in those days, was seen as a tool for economic development by the federal government. They wanted to open up the Mat-Su Valley coal mines and serve the Interior gold mines in Fairbanks. We have a rich and proud history, one of which the citizens of Alaska can be very proud. However, few events in the railroad's history are as important as the sale of the federal railroad to the State of Alaska in 1985 and we're very privileged to

have one of the prime movers of that event, Governor Sheffield, who testified before me.

The wisdom of the legislature in accepting the operation of the railroad from the federal government cannot be overemphasized. The wisdom of the legislature in establishing us as a business based model of ownership is of equal importance. We are required by the state to act like a business. We must build a sustainable budget, justify that budget before our board of directors, and then execute that budget with a high degree of certainty.

Our board of directors is intimately involved in the business details of operating the Alaska Railroad to make sure we meet that expense budget but also to ensure we are reinvesting our capital dollars into the railroad assets to sustain us into the future. We must be responsive to our customers and we must be flexible to anticipate changing markets as they occur.

So what do we move? Well, it's no secret. We primarily move bulk materials - coal, gravel, refined petroleum products.

[5:03:38 PM](#)

MR. CARR continued:

Representative Fairclough's question about how does the industry touch us? Well, we move a significant amount of tubular steel, hazardous materials, tubular pipe and other products to sustain the activities on the North Slope. It's not a large part of our business but is a significant part of our business from a revenue standpoint.

We support mining operations at Fort Knox gold mine. We provide critical, logistical support to our military, as you saw from Governor Sheffield's slide about deployment from Fairbanks, Fort Wainwright down to the strategic Port of Anchorage. We help DOT build roads. We supply jet fuel that he mentioned to the Port of Anchorage to ship over to the international airport at Ted Stevens. We supply coal for power generation in the Interior in Fairbanks and we also supply coal for export to overseas market. We are an

integral part of the economy today and we will continue to be that part.

5:04:25 PM

What are we doing today? What do we see today, which I think, Chairman Neuman, I congratulate you on putting together this panel to talk about that. I really think this is important.

From our perspective, we see the state's economy at a crossroads. Reduced federal highway trust funds coming into Alaska reduce the potential market for gravel, for example, as state highway projects decline. You saw earlier from Scott Goldsmith the amount of the impact of the federal dollars. A large part of that is federal highway dollars. Recall that I am addressing my points from the perspective of an infrastructure system of a railroad. Roads and railroads and airports provide that transportation infrastructure.

5:05:26 PM

In addition to federal highway money, large projects and subdivisions are falling off, and gravel for construction for those is also going down. We expect gravel and construction to continue to decline slowly over the next two years and more steeply thereafter, unless there is some stimulus to the economy. We just heard Mr. Langland talk about what happened in 1986. I was part of a team that prepared a budget for our board of directors in November of 1985. We gave them a very rosy picture. I was part of the same team that went back in there in January of 1986 and said we have to recommend a 10 percent pay cut across the board and that we would not even come close to our revenue projections. Mr. Langland said it can happen quickly. The spigot just turned off.

It's all based on perception.

Oil patch spending continues to be satisfactory but seems fragile. Will there be a gas pipeline? When will that occur?

5:06:34 PM

The current blip in pipe shipments that we are experiencing will come to an end as the majority of the feeder line replacement project is completed. Additional drilling is probably based on a function of the current debate in the legislature. While there will be a need to maintain pressure in the fields, I see no reason to return to the large shipments of the past. What we see, however, is a halt to capital projects and slowed growth until the oil producers understand the economic changes required, if any, by the special session.

5:07:15 PM

MR. CARR continued:

Current housing markets - in the Mat-Su Valley troubles in that market may translate to reduced spending on durable goods, which could reduce trailer and container shipments coming into Alaska. Again, in my opinion, this is a function of the optimism placed in the market on the potential for a gas pipeline. This could, and probably will, impact the larger Anchorage housing market as well. We just heard that from Mr. Langland.

The steamship companies serving Southcentral Alaska - that's the companies that service into the Port of Anchorage as well as barges and others - carry about 70 percent of all the goods coming in for the region and the state through the Port of Anchorage. Overall, consumer goods, project freight and construction through the Port of Anchorage appear to be flat or down one or two percent in the near future. Governor Sheffield gave us a good idea of what that market may be.

Freight moving to the Interior through the Port of Anchorage is up, largely due to that military construction that you saw from Mr. Goldsmith this morning - tremendous boon going on in Fairbanks because of the build-up of the Fort Wainwright and the Stryker Combat Brigade team. Again, that level of spending is not expected to continue though. Once

they get all the facilities built, they'll stop building.

[5:08:38 PM](#)

MR. CARR continued:

Permitting problems with hard rock minerals may have additional downward pressures on the need for mining equipment and support materials for this sector that the Alaska Railroad moves. The recently approved proposed ballot initiative aimed at limiting the ability of Pebble Mine to be permitted may affect the rest of the sector dramatically. I don't want to sound all negative with that. It really isn't. It's simply what we see is happening in the economy. There are some bright spots though. The opportunity for greater shipment of export coal - you heard Governor Sheffield talk about the tremendous resources that are available. The resources that we have currently available to us at Usibelli Coal Mine, what we're working with them in partnership, is that we are testing new markets, for example, in Chile and our foreign markets in Japan and Korea to land additional contracts. There is more capacity available at Usibelli.

The Port Mackenzie rail extension, if built, could have a significant impact on not only the railroad, but also on the Interior, additional jobs at Usibelli and the long term potential for development of mines in the Interior unless, again, they may be stymied by a permitting process.

Agrium's Kenai coal gasification project is going through a business case justification at Agrium. All of the additional jobs we see from the marketing side are related to that single project, jobs at Agrium, jobs at the railroad, jobs at Usibelli. These are those long term, sustainable, high paying jobs that Mr. Langland, Scott Goldsmith and others spoke about.

[5:10:35 PM](#)

MR. CARR continued:

Air cargo shipments through the Ted Stevens International Airport will continue to grow, providing an opportunity for Flint Hills refinery to participate as the demand for jet fuel increases. We currently ship the majority of that output. It represents 35 to 40 percent of our freight revenue stream. Freight revenue represents right now about \$80 million in revenue to the Alaska Railroad. Our passenger revenue is about \$20 million. Our real estate revenue is an additional \$20 million. So, as you can see, the importance - the railroad in the Lower 48, if you ask someone about the Alaska Railroad, they'll know us for our passenger services. But the real benefit to the state of Alaska is from our freight services.

What do we see for the future? You know, Governor Sheffield is a hard act to follow. A lot of what he said has rubbed off on the railroad. We look at a tremendous number of possibilities. My job at the railroad is to look ahead 50 and 100 years and see what we're going to be like then and then try to put into place policies and have decisions made to help implement that in the future. You've heard it before, I'll repeat it again. From a strategic standpoint, the state must invest in its transportation infrastructure, whether it be roads, railroads, airports, marine transportation, or ports. We cannot continue to rely on the dwindling federal dollars for our capital investment program in our infrastructure.

Recognizing that same fact, the State of Washington produced a strategic plan for its transportation infrastructure about three years ago. They then followed it up by issuing \$4 billion in general obligation transportation bonds.

[5:12:30 PM](#)

MR. CARR continued:

It goes back to a question that I believe it was - Representative Wilson, I believe it was you. What can the state do? The state is not a business, it's a government. Well, there's an example of a government that put out a strategic plan and then followed it up with action.

The State of California two years ago issued \$20 billion in general obligation bonds for their transportation infrastructure. They developed a plan, they looked at their future and made strategic investments to make themselves and keep themselves competitive in a world market.

You've heard it before, you'll hear it again. The development of natural resources is absolutely critical to the future of Alaska. To bring it down to the Alaska Railroad, the majority of our traffic that we move is bulk material, coal, gravel, petroleum products. So when we start talking about mineral resources, what do we talk about? The rail port to the extension of the spur to Port Mackenzie is a very important strategic investment that the state can make. It opens up mines in the Interior.

Governor Sheffield talked about the Northwest Arctic. Well, there's somewhere between 600 million and a billion ton limestone deposit 25 miles away from Fairbanks. ... Now it would do away with a little bit of Governor Sheffield's business at the Port because you can produce Portland cement. The state of Alaska all of a sudden would be able to export Portland cement rather than being a net importer of Portland cement. What does that create? Additional jobs, long term, sustainable jobs. For the railroad it represents about 30 years of movement of trains every day, back and forth through the corridor.

As I mentioned here, with this one Port, those Interior resources become available. The geologic models tell us that somewhere between Delta and the Canadian border, there's one, on a conservative level, to six, on an aggressive model, world class mines of the Red Dog size. These mines over the life of their production will produce literally trillions of dollars of gross revenue. It's time we invest in making the transportation infrastructure possible.

[5:15:18 PM](#)

MR. CARR continued:

We are currently pursuing an environmental decision for an extension from Eielson Air Force Base to Delta,

some 80 miles away. What will that do? That will open up that million acres worth of training ground that's available to the Donlin Training area and the Tanana Flats, south of Fairbanks. It will open up the opportunity to provide commuter rail service between Delta and Fort Wainwright so their troops can be stationed there and just commute back and forth to Delta and get off the Richardson Highway during the winter.

We have no actual funding for construction though. The legislature approved \$500 million in revenue bonds for us about four years ago when we pitched this project. It's a good project. It was based on the military helping to pay for the capital debt service. The war in Iraq happened, the military cannot pay for that now so we're continuing to look for ways of happening for that debt service and, until such time as we can find something, the project will be approved but it will go on the shelf. Again, an opportunity for the state to take the money that it has and invest in its infrastructure.

[5:16:31 PM](#)

MR. CARR continued:

I recently served on a bilateral commission from the State of Alaska and Yukon government that looked at the feasibility of the Alcan railway. After two years of study, the initial report issued says it's economically possible. The legislature gave the University of Alaska about \$5 million to continue the effort. That will move it along but it won't move it along very far. Again, we need to invest in our infrastructure.

In closing, transportation infrastructure drives your economy. It develops natural resources. It provides those long term sustainable jobs that have been talked about here previously. It makes us more efficient in the global market we compete in. Governor Sheffield's graph that shows where Alaska is in reference to the rest of the world is dramatic. We know it works for the air cargo business. We're nine hours from...75 percent of the world's population - Anchorage International Airport. Well, by steamship we're not

quite that close, but the bottom line is, you can go from Alaska, the Northwest, Point Lay coal resources and give Europe that has an insatiable demand for coal and is turning very much green. That coal is very low in sulfur, high in [British thermal unit] BTU; we've got 3 trillion tons of it. The State needs to invest in its infrastructure. The Alaska Railroad thanks you for giving it an opportunity to present.

[5:18:18 PM](#)

CHAIR NEUMAN thanked Mr. Carr and announced that the final two presenters will wrap up the presentations.

[5:18:34 PM](#)

REPRESENTATIVE GATTO noted the grade of Alaska's coal varies from very good to bad. He asked what kind of coal is currently available in sufficient quantities on the rail line.

MR. CARR said the railroad currently gets all its coal from Usibelli, near Healy. That coal is lower grade than anthracite coal. It is about 8,000 BTU and has about 27 percent moisture content. Since 1984, when Alaska began to export coal to Korea, it has been used as a feeder coal. It is added to a higher BTU coal to reduce costs while producing an equivalent amount of electricity. Some [Korean] plants are in the process of converting equipment so that the lower grade coal can be used exclusively. He noted the Beluga fields across from Port Mackenzie have coal resources but he does not know its quality.

[5:20:04 PM](#)

REPRESENTATIVE WILSON asked how long the Alaska Railroad has been under state authority.

MR. CARR said the Alaska Railroad started as a state corporation on January 5, 1985, after federal and state legislation passed.

[5:20:53 PM](#)

REPRESENTATIVE WILSON asked whether the railroad corporation has been doing a much better job than the federal government would have.

MR. CARR answered yes.

REPRESENTATIVE WILSON questioned whether Mr. Carr thought the ferry system could benefit from a similar change.

MR. CARR replied he presented the Alaska Railroad's business model to the Marine Transportation Advisory Board in Juneau several weeks ago. He noted a lot of enthusiasm for that model, but some critical aspects need to be considered. The Alaska Railroad through former federal ownership and state maintenance was endowed with 36,000 acres of land that the ferry system does not have. The land that the federal government owned as a result of developing the railroad was in downtown Anchorage, Seward, and Fairbanks. That land has been very important from the perspective of a real estate [revenue] stream. Second, the railroad serves the Railbelt with a population of 450,000 to 500,000. Southeast Alaska's population is probably one-tenth of that. He believes the railroad could provide advice to the ferry system but the two entities have fundamental differences.

[5:23:25 PM](#)

CHAIR NEUMAN again thanked Mr. Carr and asked Mr. Steyer to begin his presentation.

[5:23:49 PM](#)

PHIL STEYER, Director, Government Relations and Corporate Communications, Chugach Electric Association, gave the following presentation:

... I know many of you but not all of you so if you'll indulge me, I'll tell you a little bit about my organization. Chugach is a vertically integrated cooperative electric utility. Our headquarters are in Anchorage. We perform generation transmission and distribution functions. Those are the three key functions if you break the electric utility industry down in America and we happen to perform them all.

Chugach provides power for Alaskans throughout the Railbelt through retail, wholesale and economy energy sales. We directly serve retail customers at approximately 80,000 metered locations from the Anchorage Bowl to the northern Kenai from Whittier to Tyonek. Chugach is the wholesale power provider for Matanuska Electric Association, Homer Electric Association, and the City of Seward. We also sell large amounts of power on the economy energy market to

Golden Valley Electric in Fairbanks and occasionally to Anchorage Municipal Light and Power.

We are in an interesting business. We cannot store our product. Instead we must have the generation transmission and distribution facilities in place to serve customers at the point in time that they request our service, the point in time they need power. Essentially, they flip a switch and at the speed of light, our system responds to deliver power for them. Consequently, we must pay attention to the economy of our region. Our industry is very capital intensive and infrastructure for us takes years to plan, finance and build. It is important for us to look ahead and make timely decisions so we are ready to provide power when customers request it.

One of our planning documents is a financial plan, a portion of which is presented as a five-year business plan. Part of this effort includes a load forecast. There are a number of different ways you can measure growth as an electric utility. You can count the number of meters on your system. You can count the number of members you have in the cooperative. You can measure the peak demand each year and you can count your annual revenues. We do all of those things but for today's discussion, I'm going to focus on our loan forecast.

Chugach's load forecast attempts to predict the change in Kilowatt hours sold from year to year. In other words, it is a measure of the amount of energy we expect to sell annually. I'm not sure that electric load provides a perfect measure of the state of the economy. I freely acknowledge you may have asked me to come and talk about something that - I may be driving a square peg into a round hole for you.

[5:26:42 PM](#)

But, we do believe that it's a part of the overall picture and we appreciate the invitation to participate today.

Power sales can be influenced by factors other than growth and the number of homes and businesses in the overall health of the economy. Those can include

temperature, hours of darkness, holidays, price. Our modeling takes those things into account and it also emphasizes the most recent data over historical trends.

Human behavior is an important factor in our business. Another interesting point about our industry is, contrary to what many of our customers probably believe, your electric utility cannot force power through your meter. Each of us as a customer has to do something on our side that draws power through the meter. What that really means is that customers then can take actions to limit the amount of energy they use and consequently lower their bills.

The price and availability of natural gas in the Cook Inlet area is of concern to utilities and their customers. Chugach depends upon natural gas to generate power. Last year, 90 percent of the kilowatt hours Chugach sold came from burning natural gas, with the other 10 percent from hydroelectric generation. Between 2003 and 2006, the average unit price for natural gas paid by Chugach doubled, going from about \$2.50 per 1,000 cubic feet, to around \$5. For the past dozen years or so, the rise in cost of fuel has driven nearly all of the increases in a customer's monthly bill. Today the cost of fuel accounts for about 40 percent of the cost of a kilowatt hour for a Chugach residential customer.

Price clearly affects customer behavior and not always just from a single utility. Even though rising fuel costs have led to higher electric bills, the increases from the gas utility have been even more dramatic.

[5:28:43 PM](#)

When Enstar raises the price of natural gas, customers of both gas and electric utilities respond. Residential customers on the Enstar system saw increases of 19 percent in 2006, and 30 percent in 2007, and their total household energy costs, consequently, went up. Even though Chugach's increases were not that dramatic, we know our own retail customers are attempting to better manage their electric bills to help control their total household energy costs. In our most recent research, 82 percent

of residential customers surveyed reported taking steps to conserve and thereby lower their electric bills, interestingly, about two-thirds by doing something with lighting. So, the cost of heating your home goes up and you respond by turning off a light. The truth is your heat is driven by pumps and motors that run on electricity.

So even though changes in the electric load are subject to a number of influences, it is still one of the best indicators we have of changes in the economy. While some would say that when it comes to forecasting, the only thing you can be certain of is that you'll be wrong. We are confident that our effort provides a reasonably close view of the near future. Historically our load forecasts come very, very close to the actual changes that we see in the following year.

5:30:25 PM

MR. STEYER continued:

And because we are the wholesale power provider for Homer Electric Association, the City of Seward and Matanuska Electric Association, as well as for our own retail customers, our forecast looks at the area from the Kenai Peninsula up and through the Mat-Su. In recent years we have seen load growth of about 1 percent on the Kenai Peninsula, about 1.5 percent in the greater Anchorage area, and nearly 3 percent in the Mat-Su. Our 2007 forecast was in line with these numbers but will now be affected by the recently announced plan to shut down the Agrium plant in Nikiski.

Here are our current 2008 projections. Our forecast is for load to fall next year by 6 percent on the Homer Electric Association system, grow by 1 percent on the Chugach retail system, and grow by 3 percent on the Matanuska Electric Association system. The anticipated drop in load on Homer's system is primarily due to the closure of Agrium. We expect to see continued moderate growth on the Chugach retail system and, within [Matanuska Electric Association] MEA's retail service territory, we continue to foresee increases in residential load and also now increases

in commercial activity as this segment of the market develops on the heels of sustained residential development.

Overall, we are still expecting a load on the combined [Homer Electric Association] HEA, MEA and Chugach systems to grow by about 1 percent a year during the next 5 years. That said, there are certainly many things that could affect this forecast but today those are the best estimates I can give you. Again, I thank you for the opportunity to speak.

[5:32:03 PM](#)

REPRESENTATIVE GATTO asserted it is important to note that the cost of fuel is only 40 percent of a person's electric generation.

MR. STEYER clarified it is 40 percent of the cost of the retail kilowatt hour, not of generation.

REPRESENTATIVE GATTO said a 100 percent price increase in the cost of fuel actually results in a 40 percent increase in a person's electric bill. He then asked about whether Commissioner Giard of the Regulatory Commission of Alaska (RCA) has commented on MEA's proposal to collaborate with other utilities about coal generation.

[5:33:28 PM](#)

MR. STEYER replied MEA filed a petition requesting the RCA to open a docket to consider a mandatory generation and transmission cooperative for four Railbelt cooperatives or, alternatively, power pooling. When the RCA held hearings, a few entities asked for more time, so the RCA voted to leave the comment window open until October 15. The RCA gave MEA 10 business days to respond but he does not know whether the RCA announced a deadline for its own action. He said he is not aware of any new information on coal that has been provided to the RCA.

[5:34:43 PM](#)

REPRESENTATIVE DOLL asked if Chugach, in its long term investment plans, is doing anything with alternative energy sources.

[5:35:16 PM](#)

MR. STEYER said Chugach has led the effort to consider wind generation on Fire Island with funds from the Denali Commission. Chugach now considers itself a potential buyer of power from a project developed by another entity. Chugach plans to build new gas fired combined cycle generation in the Anchorage area by 2011. Chugach's natural gas capacity equipment is getting old. Its newest gas turbine was installed in the late 1970s. It's rebuilt its two largest gas turbines and done very good maintenance, however Chugach plans to replace that equipment [in the near future].

[5:37:34 PM](#)

REPRESENTATIVE DOLL asked what percentage of Chugach's earnings is used for maintenance.

MR. STEYER did not know.

[5:37:47 PM](#)

REPRESENTATIVE WILSON commented that increased costs do change behavior in households.

MR. STEYER agreed price does affect customer behavior.

[5:38:45 PM](#)

CHAIR NEUMAN thanked Mr. Steyer and asked Ms. Darlin to present to the committee.

[5:39:00 PM](#)

MARIE DARLIN, AARP, gave the following testimony:

For the record, Mr. Chairman, members of the committee, my name is Marie Darlin. I've been here many times before. I am a volunteer with AARP and currently serve as the coordinator of their Capital City Task Force. We do appreciate the invitation to be with you here today and hope we can put a little different perspective on some of the things that have been discussed. I might say it's been a very interesting afternoon and I have spent many, many years in this building as a lobbyist for different organizations, such as school boards and things like

that. I can say I've heard a lot of this before too, but I'm hoping that we are on a track toward doing something about some of it.

As a third generation Juneauite and an Alaska history buff, because of that, I particularly appreciate the topic of today's hearing and I do have great grandchildren growing up here in this state. And I might say that I can join Governor Sheffield on that further end of the chart that Professor Goldsmith showed us. I want to therefore add a few historic perspectives to all of this, which is what I was asked to do and maybe from a little different perspective being it's from the perspective of seniors and retirees who constitute most of our AARP membership.

[5:40:30 PM](#)

MS. DARLIN continued:

We've all read that in order to know ... where you are going, you should know where you've been and we should have learned from our past and you've heard a lot of that this afternoon. So, I will present a bit of the past. ...Alaska's past as part of the United States began in 1867 and you've all heard that. We were almost totally ignored until suddenly gold became a part of the U.S. economy. Then came furs, and fish, and timber, etcetera. All were our resources and suddenly we became a part of the U.S. In fact, May 17, 1884, this is information from some of Bob DeArmond's historical stuff he has done; the first Alaska Organic Act was signed into law by President Chester A. Arthur. It provided that Alaska would become a civil and judicial district with a governor and a district court but without a legislative body.

[5:42:07 PM](#)

In 1880, gold was discovered in Gold Creek in Juneau here, and although we know there were gold seekers all over Alaska and the Yukon and in the Cassiar in B.C., then the '98 Klondike gold rush began the real rush for our resources and on May 2, of 1913, the first Alaska Territorial Legislature adjourned sine die at the end of its mandated 60-day session. It had, among other things, given Alaska women the vote. That was

the first bill they passed, provided for a pioneers' home, and adopted a two-year budget of \$64,143.75. That's a bit of history for you. So for all those years in between 1884 and 1913, there was not a legislature.

[5:43:15 PM](#)

MS. DARLIN continued:

Today, a century later, our greatest resource now, we may say, is in our people, all 670,000 of them including our retirees and seniors, which is one of the main concerns of our AARP group. We know Alaska's ability to meet the needs of our citizens of all ages and to create a better quality of life for all of us depends on a strong economy. We have older Alaskans who lived through the Depression, although we didn't feel it that much here in Alaska. But indeed some of our fellow citizens ended up in Alaska because of the Depression.

[5:43:53 PM](#)

In those years we were raised to not live beyond our means, to pay our bills, to avoid debt. If we didn't have enough money to buy something, we didn't buy it. Even today, you won't find many credit cards in the wallets and pocketbooks of our older Alaskans. This is all a part of our past. The present, today's economy, is atypical. Very few states have a state budget that is so dependent on resources. In the past few years, and even the past few days, we have seen oil at \$9 a barrel, as well as \$90 a barrel.

AARP members expect our state government, and you, our elected representatives and leaders, to have a fiscal plan that recognizes the wide variations in our income. Closing our eyes and keeping our fingers crossed for high oil prices is not good fiscal planning and yet we've been doing it for years. Many of us lived in Alaska when we had an income tax and some of us wish we had kept it. At some point, Alaska will either choose to develop a fiscal plan or we will be forced into it by circumstances beyond our control. And just as you are now engaged in an historical debate about oil taxes, at some point you will need to

develop a fiscal plan that will have a variety of proposals to bring in income beyond taxes on resources and please note I'm skipping several pages mostly because a lot of this has already been said by all of the previous speakers.

As a membership organization with over 93,000 Alaskans, AARP recognizes that we have an obligation to you to help educate our members and the public that taxes may be the price of good government.

5:46:05 PM

We are also the largest organization of grandparents in Alaska and we want you to remember that. You are all aware of the demographics of the age-wave, which we've been aware of for some time and that Professor Goldsmith laid out for us very well today. So this is something we have to be prepared for, let's say, is the future and, rather than being an age wave, we might say it more appropriately would be titled a tsunami.

Our 85 plus population is growing. This age cohort is also one of the most likely to need health services, especially home and community based care and, for some, nursing homes. And Alaska has the highest percentage of baby boomers in the nation ... and also of veterans. These Alaskans are here and they aren't going to go away. Many of them will live much longer than their parents and grandparents. Indeed, when these boomers first start turning 65 in 2011, 29 percent of the women will make it to age 90, as will 18 percent of the men.

5:47:24 PM

So, can Alaska afford to grow older? Can we do so with intergenerational fairness without burdening our children and our grandchildren? How do we help older Alaskans maintain their quality of life while preserving the integrity of public programs that contribute to that quality? And how do we achieve these objectives without seriously damaging our economy? There is no question that there are serious challenges. In fact, determining how best to adapt to

an aging Alaska may be one of the most important issues of our time.

In AARP we believe Alaska can balance longer lives with the pressures the aging of the baby boomers and increased longevity will put on our economy. First of all, it's important to remember that an ISER study, and this was indicated earlier today, indicated that older Alaskans bring about \$1.5 billion - with a b - into our state's economy and then we aren't even considering the value of all of the volunteer services given by Alaska's retirees.

[5:48:40 PM](#)

MS. DARLIN continued:

Increases in the cost of health care and, in particular, prescription drugs are arguably the biggest problem Alaska faces with regard to managing our public health budget. Our current health care system costs too much and delivers too little. We, and especially you, our elected representatives, all need to work on making our health care more affordable, more accessible, and of higher quality. For the past several decades, about one-half of Alaskans have had some type of a pension plan. This is another aspect of retirees. Obviously pensions have a significant impact on our current economy, as well as the future. And we have basically, with the changes in the public retirement system recently made, shifted the responsibility for retirement security to the worker.

[5:49:38 PM](#)

A healthy Alaskan economy should encourage workers about the importance of beginning to save early, contribute regularly, and invest prudently in retirement savings programs that are available to them. This is one other aspect that AARP has really tried to work on as far as educating the public. You need to start sooner to think about retirement and yet that's not the easiest thing to do. We would encourage you to research and consider making a state-K program available to all Alaskans, as has been done in Washington State. They have taken it a step

further and tried to provide more employers and employees a way to make pensions available.

[5:50:23 PM](#)

So, with that, I just want to close to say please tell us where we are going so we'll know when we get there. And with that, I thank you. Apart from that, I have one other comment I wish to make and this is from my background of being on the school board and involved in education for many years. On the comments regarding vocational education, which you have heard considerably about today, and how did we do it in the past, going back to the past, we did have a good program at one time, about 30 or 40 years ago, which I was familiar with. I was a member of a vo-tech advisory committee for the state. I would just invite you to look to the past.

[5:51:18 PM](#)

CHAIR NEUMAN thanked Ms. Darlin for her comments. He thanked all presenters for attending the meeting at their own expense.

[5:51:41 PM](#)

REPRESENTATIVE ROSES jested that many senior citizens do not have, nor believe in, credit cards but that their contribution to the economy might be \$2 billion if they did.

[5:52:03 PM](#)

CHAIR NEUMAN thanked the speakers as well as the gallery of attendees for coming to today's hearing, particularly the legislators who are not committee members. That same group of legislators has attended every House Special Committee on Economic Development, International Trade and Tourism meeting, which he opined shows a strong commitment to Alaskans. He announced the committee would continue this discussion tomorrow.

[5:53:30 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development and International Trade and Tourism meeting was adjourned at [5:53:34 PM](#).