

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

January 24, 2012

1:31 p.m.

MEMBERS PRESENT

Senator Dennis Egan, Chair
Senator Joe Paskvan, Vice Chair
Senator Linda Menard
Senator Bettye Davis
Senator Cathy Giessel

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: Oil and Gas Industry Employment on Alaska's North Slope by Jim Calvin, President, McDowell Group

- HEARD

SENATE BILL NO. 156

"An Act extending the time period for which the Alaska Railroad Corporation may lease land without reserving the right to terminate the lease."

- HEARD & HELD

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 146(RES)

"An Act authorizing the transfer of land from the State of Alaska and the Alaska Railroad Corporation to property owners along the Eielson Spur Line; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 156

SHORT TITLE: ALASKA RAILROAD LAND LEASES

SPONSOR(s): LABOR & COMMERCE

01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	L&C, CRA

01/24/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: HB 146

SHORT TITLE: LAND TRANSFER FROM STATE AND ALASKA RR

SPONSOR(S): T.WILSON

02/09/11 (H) READ THE FIRST TIME - REFERRALS
02/09/11 (H) RES, FIN
03/21/11 (H) RES AT 1:00 PM BARNES 124
03/21/11 (H) Heard & Held
03/21/11 (H) MINUTE(RES)
03/28/11 (H) RES AT 1:00 PM BARNES 124
03/28/11 (H) Moved CSHB 146(RES) Out of Committee
03/28/11 (H) MINUTE(RES)
03/29/11 (H) RES RPT CS(RES) 8DP
03/29/11 (H) DP: GARDNER, FOSTER, MUNOZ, P.WILSON,
HERRON, DICK, FEIGE, SEATON
04/06/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
04/06/11 (H) Moved CSHB 146(FIN) Out of Committee
04/06/11 (H) MINUTE(FIN)
04/07/11 (H) FIN RPT CS(FIN) NT 10DP 1AM
04/07/11 (H) DP: FAIRCLOUGH, GUTTENBERG, GARA,
JOULE, HAWKER, COSTELLO, EDGMON,
DOOGAN,
04/07/11 (H) STOLTZE, THOMAS
04/07/11 (H) AM: T.WILSON
04/08/11 (H) RLS AT 5:00 PM CAPITOL 120
04/08/11 (H) Moved CSHB 146(RES) Out of Committee
04/08/11 (H) MINUTE(RLS)
04/11/11 (H) RLS RPT CS(RES) 1DP 6NR
04/11/11 (H) DP: AUSTERMAN
04/11/11 (H) NR: TUCK, GRUENBERG, OLSON, CHENAULT,
GATTO, JOHNSON
04/11/11 (H) TRANSMITTED TO (S)
04/11/11 (H) VERSION: CSHB 146(RES)
04/12/11 (S) READ THE FIRST TIME - REFERRALS
04/12/11 (S) L&C, FIN
01/24/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

JIM CALVIN, President
McDowell Group
Anchorage, AK

POSITION STATEMENT: Gave presentation on Oil and Gas Industry
Employment on Alaska's North Slope.

DANA OWEN

Staff to the Senate Labor and Commerce Committee
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Presented SB 156 to the committee.

TIM SULLIVAN, Manager

External Affairs
Alaska Railroad Corporation (ARRC)
Anchorage, AK

POSITION STATEMENT: Available to answer questions on SB 156.

JIM KUBITZ, Director

Project Planning
Alaska Railroad Corporation (ARRC)

POSITION STATEMENT: Supported SB 156.

JON COOK, member

ARRC Board of Directors
Anchorage, AK

POSITION STATEMENT: Supported SB 156.

REPRESENTATIVE TAMMY WILSON

Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of HB 146.

BILL HUPRICH, general counsel

Alaska Railroad Corporation (ARRC)
Anchorage, AK

POSITION STATEMENT: Supported HB 146.

BONNE' WOLDSTAD, representing herself

North Pole, AK

POSITION STATEMENT: Supported HB 146.

ACTION NARRATIVE

[1:31:41 PM](#)

CHAIR DENNIS EGAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Davis, Paskvan, Giessel and Egan.

[1:34:29 PM](#)

**Presentation: Oil and Gas Industry Employment on
Alaska's North Slope**

[1:34:53 PM](#)

CHAIR EGAN announced a presentation by the McDowell Group's Jim Calvin on employment in the oil and gas industry on the North Slope.

JIM CALVIN, President, McDowell Group, said key points their research found in industry employment trends over the last four or five years were possible with the cooperation of the Department of Labor and Workforce Development (DOLWD), and new hire data from earlier in the year suggested a marked increase in non-resident participation in the oil and gas industry in Alaska. He said he also had data on non-resident participation in the oil and gas industry by occupation.

He showed a graph of total oil and gas industry employment in the state over the last eight years split in two by North Slope employment and all other employment in the state. About two-thirds of all oil and gas industry employment in Alaska is on the North Slope. The graph also indicates the remarkable increase in oil and gas employment in Alaska over the last six or seven years, a gain of about 5,000 jobs since 2004, making it one of the fastest growing sectors in the economy over that period of time. Most of that growth was from 2004 to 2008; employment leveled off and took a dip in 2009. Most recently it has seen another uptick with preliminary estimates suggesting about 500 new jobs in 2011, which puts oil and gas industry employment in Alaska at near record levels.

[1:38:55 PM](#)

SENATOR PASKVAN asked him which categories are not included in the North Slope employment figures. He understood that some construction categories had 100 percent of their workforce working on the North Slope, but they are not included in the oil and gas employment figures.

MR. CALVIN responded that these employment numbers, the roughly 13,000 jobs in the oil and gas industry in Alaska, are the numbers the Department of Labor and Workforce Development (DOLWD) and the federal government published; they include the areas of oil and gas extraction, oil drilling and oil field support services. They don't include the TransAlaska Pipeline System (TAPS), Alyeska employment, refining, indirect jobs associated with the industry, nor do they capture any of the induced jobs. These numbers are useful, though, because they are published regularly and therefore it's easy to track trends in the industry.

He showed two graphs (using published data) of Prudhoe Bay employment over the same time period (2004-2010) split by the typical oil and gas industry employment and jobs also on the North Slope that are due completely to oil and gas industry activity that aren't reported: construction, camp support services, transportation, security and so forth. About 8,000 oil and gas industry jobs are reported as such on the North Slope. But about 2,000 jobs aren't. So, he advised whenever they hear published data about employment on the North Slope, they should remember it's only 80 percent of the picture.

Another graph showed the same basic trends for North Slope oil and gas industry employment over the last six or seven years: sharp growth of about 4,000 new jobs (but leveling off most recently). The latest data for 2011 shows a significant uptick in employment as well.

[1:41:37 PM](#)

SENATOR GIESSEL said she was surprised that he used Department of Labor and Workforce Development (DOLWD) data, because there has been some question about its validity. She pointed out that a caveat that says "don't think these are absolutely accurate" and that sometimes an employee gets counted twice. She asked if he had another source for the data or if he had validated any of it.

MR. CALVIN replied they had spent many hours looking at the data and found that it is the best available. Their only alternative would have been to develop employment and payroll data from virtually every employer (in the hundreds) on the North Slope. These are private businesses and don't necessarily see any value in providing detailed data. He said the data they rely on from the DOLWD is very accurate and based on forms that all employers are required to submit to the department for purposes of employment security payments.

But is the data they see published a 100 percent perfect picture of all the jobs on the North Slope? No; Mr. Calvin said they found a few businesses that are active on the North Slope but are reporting their employment in Anchorage. However, he explained that their primary challenge is to understand trends, and the department's data is really useful in terms of trend analysis. It is better than anything they could hope to develop over the course of a three-month study given the diversity of the industry and number of different players engaged in it.

MR. CALVIN went to another graph that narrowed the focus to the last three years or so and to monthly employment in the oil and gas industry. He said it illustrates that while overall on an annual average basis there is a fair amount of stability and some general growth in the oil and gas industry, over the last few years it has been a roller coaster in terms of employment. In 2009 through 2010, no one seemed to be quite sure what was going on. You would hear reports of people losing their jobs on the North Slope, that employers were no longer active and people weren't sure why. On the other hand, you would hear reports that employment was growing to the highest level ever.

[1:44:22 PM](#)

SENATOR MENARD joined the committee.

[1:44:28 PM](#)

MR. CALVIN said all those views are right, because it was a very dynamic environment. Industry employment peaked in December 2008 and over the next 12 months rather precipitously lost 1,700 jobs (about 14 percent of its total employment base). That was related primarily to the global recession when everyone tightened up the pocket book including the oil industry. Almost just as quickly the employment bounced back up, and in 2010 it gained about 1,400 jobs. It's not surprising that there was some uncertainty about just what was going on up there in terms of employment.

Recently industry employment climbed back to its peak levels; the peak in late 2008 was about 13,600 jobs and that peak was hit again in September.

MR. CALVIN showed another graph of North Slope employment with the same kind of roller coaster and stated that even more noteworthy is that department data through November and December shows it is at an all-time high of 9,000 jobs.

SENATOR PASKVAN said because the price of ANS crude was over \$140/barrel in July 2008 and cratered a number of months after that to less than \$50/barrel is consistent with the loss of employment seen in the North Slope oil and gas industry monthly employment.

MR. CALVIN responded that those events are happening in parallel, but the cause and effect is a complicated question. But, yes, employment peaked at the same time oil prices peaked, and there is a relationship in the recovery as well.

SENATOR PASKVAN asked if it is more probable that the drop is the result of the global and US recession and the drop in oil price as compared to oil taxation issues.

MR. CALVIN answered that they didn't investigate taxation issues at all, but a big part of the run-up in employment from 2004 through 2008 related to sustained high and increasing oil prices. Some of the variability since then has related to oil prices, too, but he didn't want to hazard a guess on what role taxation played in that.

SENATOR PASKVAN asked if a corresponding increase in employment is consistent with an increase in price of North Slope crude going from less than \$50/barrel to \$110/barrel.

MR. CALVIN replied yes; clearly there is a relationship between price and an increased interest in exploration. An interesting graph illustrates the number of barrels produced on the North Slope each year per job. In 1994, reasonably close to peak production, for every worker on the North Slope, 200,000 barrels were being produced. That has changed dramatically and they are now down to 27,000 barrels per worker. This is a result of sharply increasing employment at the same time production is declining.

[1:49:36 PM](#)

SENATOR PASKVAN said this graph intrigued him, because if the North Slope reaches approximately 2 million barrels/day on a yearly average, he is trying to factor what the actual calculation is. Is it based on barrels per year?

MR. CALVIN replied it is based on the total North Slope oil production over the course of a year divided by the total number of workers. The DOLWD's methodology for calculating the residency of the workforce is based on PFD applications, Mr. Calvin said; it's not perfect, but it provides a really valuable tool for tracking trends. And unlike any other state, it's a tool that Alaska alone has that allows them to understand the residency of the workforce. It does slightly overstate the percentage of nonresidents, because one has to live here for a year in order to qualify. But the department did its own calculations of non-resident participation labor force and found in the year it examined about 14 percent of workers that are classified as non-resident in one year ultimately become Alaska residents. The study used published 2009 data, but the department would come out with its 2010 report soon.

MR. CALVIN said they found that one in six oil and gas industry workers who are classified as non-residents were at some point over the last five years Alaska residents. So, in looking at Alaska workforce data, one needs to keep these points in mind. If they looked back over 10 years they would see more Alaska residents in that mix. This illustrates the mobile nature of the oil and gas industry workforce.

[1:52:51 PM](#)

MR. CALVIN said that statewide non-resident workers account for about one in five jobs, a very important part of Alaska's labor force, and it varies from industry to industry with seafood processing having a very large non-resident component. The accommodations sector is 41 percent non-resident labor; oil field services about 30 percent; metal mining 28 percent; and food services also has a fair amount of seasonal non-resident activity. He pointed out that the oil and gas sector - oil extraction (BP and ConocoPhillips and a few others) - has about 23 percent non-resident workers, not significantly different than the statewide average across all industries.

MR. CALVIN said that non-resident participation in the oil and gas industry (extractions plus all the oil field services companies) on a statewide basis over the last 12 to 13 years is pretty steady from year to year.

SENATOR PASKVAN said a DOLWD publication from last year indicated that contractors on the North Slope that aren't in the direct category of oil and gas related were in the construction industry, but 100 percent of their workforce was located on the North Slope and were identified as non-resident. He said that was his focus and asked what Mr. Calvin had found out from that analysis.

MR. CALVIN replied that while they can get ranges of information from the DOLWD, they can't get employment data about individual businesses. When they get the 2010 and 2011 data, they will look at non-resident participation in firms like construction companies that are active on the North Slope; right now they just have 2009 data.

[1:56:34 PM](#)

SENATOR PASKVAN asked if in his investigation of non-resident hire in the construction industry he found any anecdotal information that there has been a significant increase in that type of employment (construction companies reporting 100 percent non-resident hire for 2010/11).

MR. CALVIN replied that they have seen a general uptick in the data when industry is growing at its most rapid pace, and they see the greatest non-resident participation in short-term employment assignments when rapid mobilization is used.

SENATOR PASKVAN went back to the 1,700 figure drop in employment that followed the world economic recession and asked why there wasn't backfilling with residents, because most of those workers would have been Alaskans.

MR. CALVIN replied that the latest trends don't show a departure from the overall statewide trend of 28-30 percent for non-resident hire, but that 2010 data would probably show a little uptick.

CHAIR EGAN said he knew Mr. Calvin contacted major companies with employment on the North Slope and asked how many refused to provide information.

MR. CALVIN replied that they targeted about 30 oil field services companies and some elected not to participate, but they got good cooperation from 21 of them. They asked for detailed information and he was pleased with the response; BP and ConocoPhillips were very helpful.

[2:00:52 PM](#)

He indicated that around 35 percent of the workers on the North Slope are non-residents and that a pretty steady figure that may go back up to 36 percent in 2010. He explained that new hire data, which is different than DOLWD data that tells how many jobs there are on the North Slope, is anyone that hasn't been on the payroll of a particular company over the past four quarters. It includes new jobs and new people in the new jobs but also includes replacement for turnover. It showed that about half of the new hires in the oil and gas industry in Alaska were non-residents. They asked the DOLWD to go back several years and run the same analysis to see if it was much different than previous years, and sure enough it was up over 50 percent. In the fourth quarter 2010 when typically the non-resident new hire rate is between 30 and 40 percent (that matches the 35 percent non-resident participation in the previous graph), it went down to normal ranges. That anomalous quarter is even more so when just looking at the North Slope where all non-resident new hires were over 56 percent.

MR. CALVIN remarked that kind of spike would take only one firm coming into the North Slope for even a one-month assignment with a pool of 80 or 100 non-resident workers to get some specialized job done, and they hope to be able to discern that from the new DOLWD data that will come out soon.

Another graph showed 46 percent non-resident hire for occupations on the North Slope where more than 100 people are employed in first line positions like supervisors and managers. Welders, cutters, solderers were 45 percent non-residents; construction managers were 44 percent; and electricians 43 percent on down to trucker drivers at 35 percent. So, there are a few positions where the industry finds it challenging to find suitably skilled Alaskans.

[2:06:51 PM](#)

SENATOR MENARD asked if he had compared those figures with North Dakota non-resident hire, because the shale industry there has unique requirements, too.

MR. CALVIN replied that most states are focused on new jobs and don't even think about non-resident/resident hire issues much less have a way to measure it. Interestingly enough, this issue is unique to Alaska.

SENATOR MENARD said 87 percent of Alaska's revenue comes from the oil industry and asked what North Dakota's percentage is. She thought the data was available and a method should be developed to run the numbers. She thought it would become a big issue in North Dakota as well.

MR. CALVIN responded that looking at those relationships would be an exceptionally interesting analysis.

[2:11:01 PM](#)

SENATOR PASKVAN asked if the correlation might be that North Dakota has a personal income tax, so whether workers are resident or non-resident there is participation in paying for the infrastructure of government.

MR. CALVIN replied that he thought that would be a likely relationship.

SENATOR GIESSEL noted that in May 2011, Alberta (about the size of Montana), that has oil sands, created 22,000 jobs in one month. They currently have 60,000 openings and she said it would

be interesting to know where their workforce comes from since it all can't come from Alberta.

[2:12:35 PM](#)

CHAIR EGAN asked him to talk about training programs for Alaskans for these jobs or the lack of.

MR. CALVIN replied that they looked at recruiting practices in the industry and found that workforce capacity becomes relevant pretty quickly. They didn't attempt to inventory all of the various training programs, and there are a lot of them here.

CHAIR EGAN asked if there are enough.

MR. CALVIN replied that he couldn't answer that. The report is not a comprehensive assessment of the training infrastructure in Alaska and just has a case study that looked at one firm that has been quite proactive in doing all it can to get more Alaskans into its workforce.

CHAIR EGAN remarked that the report talked about retention and how when you train an Alaskan they have a tendency to stick around. He then thanked Mr. Calvin for his presentation.

[2:16:17 PM](#)

SENATOR PASKVAN asked when the 2011 data would be added to his presentation. They are looking for trends, and one more year of data would be good.

MR. CALVIN replied that he would have to talk to the folks in research and analysis about their timeframe. He expected the 2010 residency report would be released soon. Much of the other data in the report is not routinely published, but the process of updating the report can start immediately as new data becomes available.

CHAIR EGAN said as long as they have all this information in their data base, he assumed that updating it would be a lot less expensive than doing the original report.

MR. CALVIN agreed.

SENATOR GIESSEL asked the cost of this study.

CHAIR EGAN answered \$175,000 and it was funded through Senate Finance. He then thanked Mr. Calvin again for his presentation.

[2:18:16 PM](#)

Recess from 2:18 to 2:26 p.m.

SB 156-ALASKA RAILROAD LAND LEASES

[2:26:39 PM](#)

CHAIR EGAN announced SB 156 to be up for consideration.

[2:26:54 PM](#)

DANA OWEN, staff to Senate Labor and Commerce Committee, sponsor of SB 156, said they were approached by the Alaska Railroad to amend the statutes to allow them to be able to lease land for more than the current statutory limit of 55 years. He said it is common in the development industry to lease land for 95 years, and that is how long they want. They believe this will result in higher quality development that retains its value for a longer period of time; this benefit will flow through to the State of Alaska and the leaseholders. SB 156 has letters of support from both the Railroad and potential leaseholders; they have received no letters or phone calls in opposition to the bill.

[2:28:14 PM](#)

TIM SULLIVAN, Manager, External Affairs, Alaska Railroad Corporation (ARRC), said he was happy to answer questions.

[2:29:05 PM](#)

JIM KUBITZ, Director, Project Planning, Alaska Railroad Corporation (ARRC), also said he would be happy to answer questions.

SENATOR MENARD said she is proud of this corporation and asked what would be considered a sizeable investment that wouldn't fit into 55 year lease.

MR. KUBITZ replied with a hypothetical: some Anchorage developers could be interested in doing a multi-phased project if they could control some of the land for a longer period of time. If you add a couple of projects together you could get up \$20-25 million pretty quickly, and the Railroad would be interested in doing that. A standard ARRC leased is 35 years and with a few 55 year leases. The board has instructed them that to get up to the 95 year lease a project would have to be substantial.

SENATOR MENARD asked if leases are typically for 100 years globally.

MR. KUBITZ said he hadn't researched that, but Hong Kong was leased for 99 years to Great Britain a long time ago. It's not uncommon for a developer to go in on a long term lease and want to flip the property to another developer who would need certainty that in fact the investment is worth that. Sometimes properties get flipped a couple of times through the life of the project, and investors all want certainty. They have been specifically told that 55 years isn't enough and the longer the better.

SENATOR MENARD said she can understand if they are trying to flip the leases.

SENATOR PASKVAN asked what additional considerations have been addressed by the ARRC based upon commercial reasonableness in the future, say two or three decades from now.

MR. KUBITZ replied that they are all professionals and would look at whether, for instance, a building was built 20 years ago and someone is buying it from a current tenant, but they won't buy it unless they can get at least one and a half times the term of their loan out of it. So, they may come back and say they would like a 35 year lease. They would analyze it and see if it makes sense. The issue would then go to their real estate committee on their board of directors, and the committee would make a recommendation to the board. It's on a case by case basis.

He explained that new construction is different; in that case you have a bank that is very anxious to have their collateral protected when they are lending money. The bank would tell the ARRC how long the lease term should be. The real estate committee under the chairmanship of Jon Cook talks about this a lot. Since this is a big extension of their existing lease, they would come up with some definite parameters, which would have to be adjusted and inflation-proofed, as to when they would ever allow a 95 year lease.

[2:34:53 PM](#)

SENATOR MENARD asked how the IRS depreciates construction costs with a long lease.

MR. KUBITZ replied that when people do a development, they put a whole case together and he didn't know the tax ramifications.

SENATOR MENARD said she was certain that the IRS has solid rules on this that would make a longer time more advantageous to the bottom line.

SENATOR PASKVAN asked if an improvement upon property under a commercial lease is subject to taxation by local governments.

MR. KUBITZ answered yes.

[2:37:29 PM](#)

JON COOK, member, ARRC Board of Directors, said he has also served on the real estate committee. During the day he works for the largest developers in Fairbanks, and this issue is "pretty near and dear" to him. He said it arose out of various contacts with their leaseholders and other outside professionals and developers over the course of the past year. They have had two open houses with tenants in Anchorage and Fairbanks, meetings with ARRC leaseholders Association and meetings with the Leaseholder Advisory Group, and this topic has come up. They have all recommended increasing the lease term to 95 years for all the reasons outlined.

He explained that what brought this to the forefront is the tightening of credit markets and underwriting standards since 2008, and that the Railroad wants to make sure its existing and future tenants have access to the lowest cost of capital. Frankly, 55 year leases won't obtain favorable financing on very large projects whether they are existing facilities or new. These 95 year leases requiring substantial amounts of capital, at least north of \$10 million at a minimum, would be looked at on a case by case basis. They want to do this to help existing leaseholders who want to know that they can sell or transfer property to family members, to increase the highest and best value of their land and to bring more money into the Railroad and its shareholder, which is the state. It's the way of the future and the way things work in other areas.

CHAIR EGAN found no further comments or questions and closed public testimony saying SB 156 would be held.

[2:41:20 PM](#)

At ease from 2:41:20 to 2:41:41 p.m.

HB 146-LAND TRANSFER FROM STATE AND ALASKA RR

[2:41:41 PM](#)

CHAIR EGAN announced HB 146 to be up for consideration [CSHB 146(RES) was before the committee].

[2:41:51 PM](#)

REPRESENTATIVE TAMMY WILSON, sponsor of HB 146, explained that it restores a revisionary property right to those affected by the repeal of Section 12.09 of the Alaska Railroad Transfer Act (ARTA) in 2003. The repeal was done to address title issues of concern. However, in the process, the reversionary rights of the property owners, the right that allowed them to receive ownership of their property once the right-of-way is no longer in use, was also repealed. It's important to remember that this bill only restores a right that was taken away. It does not grant anyone special privileges beyond what was in ARTA and it only applies to the homesteads along the Eielson Spur. It's also important to know that all affected parties, the Railroad and the constituent, are in agreement with this bill.

[2:43:20 PM](#)

BILL HUPRICH, general counsel, Alaska Railroad Corporation (ARRC), said he was available to answer questions on HB 146 and that they support this bill.

[2:44:13 PM](#)

BONNE' WOLDSTAD, representing herself, North Pole, said HB 146 gives them back their rights and that she supported it.

CHAIR EGAN found no further comments or questions and closed public testimony saying HB 146 would be held.

#

[2:45:28 PM](#)

There being no further business to come before the committee Chair Egan adjourned the Senate Labor and Commerce Standing Committee meeting at 2:45 p.m.