

# Alaska Economic Report

*Tracking resource, business, industry  
& construction issues since 1974*

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Nov. 12, 2024  
No. 16/2024

## Trump's win: Industries urge caution

### **Concerns over trade, haste in regulatory reform, future of IIJA**

You'd think Donald Trump's win would have champagne corks popping within the state's natural resources industries. There is some of that, but there are also notes of caution. At a Resource Development Council briefing in Anchorage last week leaders in oil and gas, minerals, fisheries and timber expressed optimism that headwinds they experienced under President Biden will ease. But they also expressed caution. Diligence in project planning is needed, and haste in regulatory "reform" could backfire with more lawsuits and delays. This happened during the first Trump administration. There were also concerns over trade policy and tariffs if the incoming president really implements heavy import duties. The worry is that this will spark retaliatory tariffs, and fisheries, timber and mining companies are heavily dependent on overseas sales. Aggressive action on immigration, though aimed

at illegals, could spill over into other immigration policy and chill companies' abilities to recruit high-skilled professions from overseas. Another concern is the future of the Infrastructure and Investment Jobs Act, or IIJA, which is entering its last two years. This is one of President Biden's signature accomplishments, along with the Inflation Reduction Act and its funding and tax credits for clean energy. Alaska could see major transportation grants in the next two years because several IIJA programs are now fully developed. There are efforts underway to extend both programs but whether this will now happen is uncertain.

#### **Inside:**

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- Busy winter for ConocoPhillips p. 6
- Greens Creek mine extension p. 7

### **Those big port projects: What's the problem with getting bids?**

Community leaders were shocked when bidding failed at big port projects in Nome and Anchorage. In Nome there was only one bid and it exceeded the U.S. Army Corps of Engineers' rule disallowing bids 25% over estimates. At the big Port of Alaska dock replacement in Anchorage there were no bids. The outcomes actually came as no

surprise to construction experts who say spending on federal infrastructure projects is keeping marine construction contractors busy on the West Coast so that firms are reluctant to take on riskier projects in Alaska. The Anchorage bid package was also said to be complex, increasing a contractor's risk. Anchorage is now simplifying its bid package. – *Continued on page 7*

## **Energy:**

### **HEX has new gas, but how much?**

HEX Alaska has found new natural gas in its Cook Inlet exploration well but must now run tests to see how well the gas flows and, most importantly, how much there might be. This is vital because Southcentral Alaska utilities need new gas to augment resources that are declining in the Inlet. Initial tests on the well, to an undeveloped deposit near its Kitchen Lights field, will be done by the first week of November, we're told. Hilcorp Energy, the Inlet's major producer, is also drilling new gas wells but it is unclear how many of these are aimed at shoring up existing production or in finding new gas in nearby deposits, as HEX is doing. By the way, HEX is selling gas it now produces for \$10.50 per thousand cubic feet, or mcf. Hilcorp is still selling in the \$8/mcf range.

The Alaska Industrial Development and Export Authority also extended a \$50 million line of credit to HEX to finance more drilling and development at its Kitchen Lights field but the company still says it needs royalty relief. The company has applied to the state to reduce its 12.5% royalty. HEX also pays 12.5% royalty to previous owners, so the combined royalty is 25%

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### **LNG import decision at year end?**

This decision keeps getting put off, but Southcentral utilities now say they'll decide on importing liquefied natural gas, or LNG, by year-end. Even if HEX Alaska has new gas that can be produced in its new well (see item above) it's unlikely to be enough. Enstar Natural Gas, the regional gas utility, says it is still 2 billion cubic feet (bcf) short of having its needs for 2025 under contract. Enstar requires about 38 bcf yearly to meet consumers' requirements

## **Transportation:**

### **Aviation biofuels in Anchorage**

State transportation officials are visiting Marathon Petroleum refineries in the Lower 48 states as they consider whether renewable aviation fuel can be made in Alaska and sold at Ted Stevens International Airport in Anchorage. The renewable jet fuel, made from biologic material, would be blended 50-50 with conventional jet fuel. Anchorage's airport is a major U.S. air cargo hub with large sales of fuel, much of it made at Marathon's refinery on the Kenai Peninsula. We're told that Atlas Air, the major air cargo operator at Anchorage, and Alaska Airlines are interested in the idea. Both carriers are major fuel customers and want to reduce the carbon content in fuels they use. A blend with renewable jet fuel could do that.

The biomass for a project could come from any biological wastes including municipal waste and construction debris but most of the focus is on beetle-killed spruce on the Kenai Peninsula and Matanuska-Susitna Borough. The logistics of cutting the dead spruce and moving it to Marathon's refinery at Nikiski, assuming Marathon's involvement, could be complicated. There's also the question of whether the spruce is too deteriorated to be used in a fuel.

The state has two Requests for Proposals set to go out on this, we're told. One asks for an analysis of renewable fuels manufacturing in the state. The second asks for a strategic investment and marketing strategy for "green" fuels.

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***Grocery merger: Incoming President Trump is likely to shake up the Federal Trade Commission, making a Kroger-Albertsons merger likely. This will adversely affect food distribution in Alaska.***

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## **\$75 million grant to ANTHC**

It didn't get much attention, but the recent \$74.9 million grant from the National Oceanic and Atmospheric Administration, or NOAA, to the Alaska Native Tribal Health Consortium, or ANTHC, was the largest national award of \$500 million allocated to U.S. tribal groups to aid coordination of adverse climate change impacts. This is now more important because of the increasing frequency of climate-related storms and disasters in the state. There were over \$16 billion in applications for the NOAA program, which is funded by the federal Inflation Reduction Act, so the ANTHC award makes Alaska look pretty good. It was also one of the strongest applications made, NOAA told the Alaska tribal consortium. This is a five-year grant that cannot be renewed, so good use will have to be made of it. The money will mainly be used to hire dedicated staff for coordination of federal programs that exist to help mitigate infrastructure repair and replacement but which are fragmented and with criteria that do not relate well to rural Alaska. There are 60 federal programs related to rural Alaska but only seven have aided environmentally-threatened communities and only two that assist protection-in-place, (building up protection from storms), managed retreat (to sheltered areas) and relocation efforts to safer ground.

### **There is limited capacity in rural communities**

It's often assumed that small communities have administrative capacity to seek aid from federal and state programs. However, most lack specialized skills in planning and public works. A single administrator must often fill several roles, and turnover is high. ANTHC will be able to develop local capacity, hiring 60 coordinators statewide with 20 in ANTHC's Anchorage offices. Advance planning and preparation is a good investment. Spending \$1 in hazard mitigation saves \$6 in recovery costs later, experts say.

A recent example of impacts is the autumn storm that hit Kotzebue, flooding parts of the community and damaging homes at possibly the worst time of year when there isn't sufficient time to make repairs before the onset of winter. Climate change factors into the increased frequency and intensity of these storms. State and federal disaster declarations provide help in the long-term but not near-term. Larger communities are affected, too, with glacial floods in Juneau and landslides in Wrangell and Ketchikan, linked to climate change. Rural Alaska is arguably where the needs are most acute, however. Of 144 rural communities threatened by erosion induced by climate change, 95% are economically disadvantaged.

### **Problems are amplified by tough economic conditions**

The cost of living is 32% higher than the national average in rural Alaska (January, 2022 data). Heating oil in Noatak, in northwest Alaska, cost \$16/gallon in May, 2022. Noatak costs are high because fuel has to be flown in because water levels in the Noatak River have dropped, making more efficient barge delivery of fuel difficult.

## **Health care**

### **Employers' health care costs expected to rise 8%-9% in 2025:**

Health care costs are expected to rise in the 8% to 9% range in 2025, according to reports in Alaska and nationally. An example is the city of Palmer, in the Matanuska-Susitna Borough north of Anchorage, which included an estimated 8% increase in its proposed 2025 budget, which is done on a calendar year basis. To compare, Palmer's health insurance costs rose 5% in 2024. An 8% rise in costs nationally is the largest increase in a decade, according to Business Group on Health, which represents large employers. Alaska municipalities may see more than 8% cost increases in places.

Nationally, employers are paying 9% or slightly higher costs but they are picking up much of the increases for employees because of a concern for losing workers in a tight labor market. That's according to Kaiser Family Foundation, or KFF, a national nonprofit that tracks health policy. Employers pass costs on by raising deductibles in health policies, or the amount that employees pay before insurance pays. The national average for the deductible was \$1,787 this year for an individual, KFF said, but workers in small companies of 200 or less employees pay \$2,575 average for an individual policy. What is driving up expenses are trends underway for years including rising costs of medications and, more recently, a tight supply of health care workers in a population that is aging. Mergers of large national health care providers is another factor because it lowers competition.

### **Premera Blue Cross to pay part of \$2.8 billion antitrust settlement; underpayments claimed**

Premera Blue Cross of Alaska has told state regulators it will pay part of a \$2.8 billion settlement in a lawsuit brought by hospitals, physicians and other health providers in federal court. The providers claimed underpayments for medical reimbursements and complained of lack of competition because of the way Blue Cross affiliates organize the nation into areas in which they do not compete. Premera, operating in Alaska, will pay a small part of the settlement, it told state officials. Blue Cross agreed in 2020 to pay \$2.7 billion in related antitrust claims from commercial individual policyholders. Last September Blue Cross of Louisiana was ordered by a state court to pay \$400 million to a New Orleans surgery center over underpayment claims.

### **State renegotiates fees on public employee Defined Contribution retirement accounts**

The state Department of Administration has renegotiated a contract with Empower, a financial services firm that manages state employee Defined Contribution retirement accounts, granting an 18% increase in fees for Empower's services to employees. The increase was given to allow Empower to recover losses after the Alaska Retirement Management Board ordered the company last spring to stop putting Alaska public employee retirement funds into poorly-performing accounts but with healthy fees paid to Empower.

### **Governor wants data farms in Alaska. It's been looked at before**

Gov. Mike Dunleavy is interested in soliciting interest among data companies for a potential data server farm to be located in Alaska. Give the governor marks for “outside the box” thinking, but this idea has been explored before and did not appear feasible. One Alaska advantage is the state’s colder temperatures which would lower energy requirements in cooling the facilities, which generate heat. However, previous investigations raised questions as to the capacity and reliability of fiber-optic connections with the Lower 48. The temperature advantage was not considered sufficient to offset capacity issues and the dangers of undersea cable breaks, plus the high costs of energy for a plant located in Southcentral Alaska.

*The best temperature and energy advantages would be with a plant on the North Slope, which has cold weather and vast amounts of “stranded” low-cost natural gas. However, there are also high costs associated with any North Slope project, particularly in operating costs and workforce issues.*

### **Proposals due on state contract to promote Alaska resource industries**

Proposals were due last Monday, Nov. 4 for a state contract to promote Alaska investment nationally among natural resource industries. The value of the contract is up to \$9 million with renewal provisions, although the Legislature has funded only \$3 million so far, Fairbanks journalist Dermot Cole reported. Criteria for responders would seem to narrow the competition. They must have been in business for 10 years, with five years of experience providing public relations support for Alaskan entities or issues and three years of “worldwide” experience.

### **Chugach Alaska acquires two Fairbanks mechanical contractors**

Chugach Alaska Corp., an Alaska Native regional corporation, has acquired two Fairbanks-based mechanical contractors, HVAC LLC and Alaska Integrated Services, or AIS. HVAC is a specialty sheet metal contractor while AIS specializes in building controls and refrigeration. The companies will be operated under Chugach Commercial Holdings, a subsidiary.

### **Alaskans spent \$5.78 billion in hospitals in 2023, up from \$5.3 billion in 2022**

Alaskans’ spending with hospitals increased to \$5.78 billion in 2023, up from \$5.31 billion in 2022 and \$4.94 billion in 2022, according to the latest Alaska Health Facilities Data Report, which is compiled by the state Department of Health. Medicaid paid for 31.4% of hospitalizations and Medicare, for senior citizens, paid 30.6%. Emergency Rooms in hospitals were paid \$1.59 billion last year, according to the report. The top reasons for ER visits were abdominal and upper respiratory issues and alcohol-related problems, the report said. Data from 24 hospitals and 17 surgery centers was included in the report. Military hospitals were not included.

## **Petroleum:**

### **“Poison pill” for ANWR leasing?**

Conditions for an oil and gas lease sale in the Arctic National Wildlife Refuge, or ANWR, were announced by the U.S. Department of the Interior, Alaska U.S. Sen. Lisa Murkowski says the terms seem designed to discourage bidding, a kind of “poison pill” in the leasing plan. The U.S. Bureau of Land Management said it will offer 400,000 acres in the coastal plain of the refuge in a sale that is required to be held in December. The acreage is the minimum required to be offered under the 2017 federal Tax Cuts and Jobs Act.

ANWR is in northeast Alaska near the U.S.-Canada border and east of the Prudhoe Bay area where there are large producing oil fields. The coastal plain where leasing will be done is a 1.5-million-acre area within the 19.6-million acre Arctic refuge. Federal geologists feel major oil and gas discoveries might be made in the coastal plain.

BLM’s final Supplemental Environmental Impact Statement for the sale identifies the area to be leased and sets stipulations including restrictions on seismic work and a limitation that surface disturbance for development be 995 acres. Murkowski said that’s enough for only one oil and gas processing facility and pads for producing wells.

On a more positive note the area to be offered is in the northwestern part of the coastal plain and near the western boundary of the refuge with state of Alaska lands, Alaska officials said on background. That area is relatively near oil and gas discoveries that have been made on the state lands just to the west. The discoveries include a large natural gas and liquid condensate discovery.

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### **Lease sale in Arctic refuge (Cont.)**

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That is at Point Thomson. It was by ExxonMobil and now being produced by that company and Hilcorp Energy, who is now the operator. The companies have also built infrastructure including a 60-mile liquids pipeline connecting Point Thomson with the Trans Alaska Pipeline System at Prudhoe Bay, an advantage for any ANWR development.

Meanwhile, a decision is now pending before federal judge Sharon Gleason on the lawsuit over the Interior Department’s cancellation of seven leases won by the state’s Alaska Development and Export Authority in the first ANWR sale in 2021.

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### **ConocoPhillips’ Willow work**

ConocoPhillips said it is gearing up for a larger winter construction program for Willow than was done last winter. In the company’s Oct. 31 earnings call Kirk Johnson, senior vice president for global operations, said the moving of Willow’s operations center from where it is now, at Oliktok Point, will begin as soon as ice roads are built. Pipeline installation will resume as well as the placement of camps and continued placement of gravel. *Santos, Ltd. will also be hustling at its Pikka project construction as soon as cold weather permits. Santos hopes to complete Pikka earlier than the current mid-2026 target.*

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*ConocoPhillips earned \$267 million in Alaska during the third quarter of 2024 and paid \$341 million in taxes and royalties including \$251 million in the state of Alaska. The company made \$691 million in Alaska capital investments during the period.*

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## **Health care:**

### **Primary care; what can be done?**

Two state agencies, the Division of Insurance and Department of Health, are surveying primary care providers on ways this sector can be shored up. The problem is that the economics are thin due to insurance reimbursements, the result being that too many people have little or no access to primary care and resort to expensive hospital Emergency Rooms for treatment. Much of this is for minor ailments that could be handled by a primary care physician, a physician assistant or registered nurse at a fraction of the expense. Relying on Emergency Rooms winds up either loading big medical debt on patients or imposing “charity care” costs on hospitals. The latter raises costs because hospitals must increase prices for those who can pay to cover costs for those who can’t.

State officials held listening sessions with providers around the state this summer. The results, along with recommendations on solutions, are being compiled in a report to be released later this year. A Request for Proposals for a consultant is to go out this week. *The primary goal is to expand primary care and affordability, state officials said, but reimbursement rates for providers will be part of this.*

One problem identified is that Physician Assistants and Advanced Nurse Practitioners at low rates. PAs and nurse practitioners do a lot of the work for physicians in clinics, so better pay will bring more people onto the field, thus expanding care. The nurse shortage also continues. Hospitals are relying on temporary nurses from the Lower 48, which are expensive. The reimbursement review will be eventually expanded to other specialties but this will take time, state officials said.

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## **Minerals:**

### **Greens Creek mine extension**

The U.S. Forest Service agreed to a plan to expand the Greens Creek Mine tailings storage, which will allow the mine, near Juneau, to operate for an additional 12 to 18 years. The current tailing storage will be at capacity in 2025 which would have required production to be curtailed. The expansion will occur in two phases, the first beginning immediately will provide the mine 1.9 million cubic yards of additional storage over three years. A second phase, to be done in eight to 10 years, will allow storage for another 2.7 million cubic yards. This is contingent on certain additional environmental protection measures, the Forest Service said.

Greens Creek is the nation’s largest silver producer but the mine also produces gold and zinc. The mine is owned by Hecla Mining Co. and is on the northern end of Admiralty Island west of Juneau. The mine is a major employer in the region. Under the plan the mine will have sufficient storage for tailings keep operating until 2043.

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### **Port projects, rescoping**

– *Continued from bottom, page 1*

The Port of Alaska dock replacement is now likely to be broken into smaller packages with some bids on those being asked for in January. An example is electrical work for the new terminals that involves mostly onshore work. Bottom line is that the project will keep moving forward but in increments. Shipping customers that are port customers, and eventually regional consumers, will pay much of the tab through higher user fees. Nome’s port is likely in for a rescoping to reduce costs. The Army corps says the project will proceed but new plans, and schedules, are now uncertain.

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## **Housing:**

### **Average home price in Anchorage: \$524,000!**

Any good news out there for housing? Not really. There was a lot of gloomy news as homebuilders' associations met last week. The average price of a home in Anchorage is now \$524,000, homebuilders were told, and the cost of a newly-built single family residence in Anchorage is now estimated at \$683,000 this year, which puts a newly-built home out of the affordable range for 86% of Anchorage's population, economists said. Home construction costs are estimated to increase 2% to 3% next year nationally, and the same for Anchorage.

What's driving up costs? The usual: Building materials (up 40% over the last four years), tight labor, a shortage of buildable land and regulatory restrictions in Anchorage, local developers said. Developer Connie Yoshimura said people continue to flock to the Mat-Su region north of Anchorage where there's more land and fewer regulations. Yoshimura also said Anchorage should spur construction of condominiums which are a more affordable option for young people just getting started in homeownership. Anchorage housing prices increased 10% yearly over the last two years, Anchorage realtors say, but may moderate this year to about 5% with lower interest rates.

*On a positive note, and reflecting a healthy state economy, Alaska Housing Finance Corp. says its home mortgage delinquencies (loans 30 days past due) are at 2.75% of its portfolio, down from 3.45% last year. Mortgage foreclosures are at 0.008%, down from 0.6% last year.*

## **Education:**

### **Anchorage to close schools as enrollment drops**

The Anchorage School District said it may close eight elementary schools, including Bear Valley Elementary, the district's highest-performing elementary school. Students and teachers will be transferred to other schools. The local school board will make a final decision Dec. 17. As expected, the announcement is setting off a local firestorm among parents affected. The grim reality, though, is that local enrollments continue to drop. Between 2010 and 2024 school populations declined 12%. Homeschooling in Anchorage continues to increase, however, and the number of special needs students continues to climb. Both of those impose costs. Anchorage is just joining Fairbanks and Juneau in school closures. The same dynamic of falling enrollment is affecting those communities. It's unclear whether closing the schools in Anchorage will significantly reduce costs. The local school district said some buildings will be "re-purposed," whatever that means. There are some who think new charter schools will open, but the district will pay for those, too. Buildings still have to be heated and maintained, unless they are sold. Teachers and children relocated will still cost. It's a tough problem.