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Alaska Pacific Bank

Working Paper #1

August 25, 1976

STATE OF ALASKA PERMANENT FUND INVESTMENT OBJECTIVE OPTIONS

In accordance with the directive given to us, this first working paper focuses on identifying all of the possible investment objective options for the proposed permanent fund.

Our effort emphasized comprehensiveness and completeness. It was not our purpose at this point to engage in any analysis of the options. Nevertheless, in the accompanying list some preliminary, somewhat superficial analytical observations are made.

The options appear to fall into three general categories: those with a social orientation, those with an economic orientation, and those with a fiscal management orientation.

Social Orientation

I. Income Redistribution

The principle objective of the fund would be to serve as a vehicle for redistributing income from

high income earners to low income earners. This would imply a strategy of placing investments in the safest securities, with the income from these investments going to low income families on the basis of some sort of formula perhaps similar to those developed for the proposed Federal Negative Income Tax. Obviously, considerable actuarial work would be required to insure that the program were operated so it would not have to be supplemented by the general operating budget.

II. Subsidization of Lower Income Families

Here the fund would be utilized to guaranty or purchase loans up to certain amounts and for certain purposes. The program would be structured so as to provide financing to families who otherwise would have a difficult time obtaining funds. An example would be expansion of the State's home mortgage program.

III. Geographic Redistribution of Wealth

Under this objective the fund would invest principally in rural development programs, making capital available

for both public and private projects that otherwise would not be able to attract such capital. This objective tends to fly in the face of an important concept which should be kept in mind: just because financing is available for a particular project not necessarily make the project sensible from a long-run operational viability standpoint.

IV. Support of a Specific Designated Social Objective: e.g.,
Endowment to Finance the University of Alaska

This strategy, similar to the one pursued in Texas (Permanent University Fund), represents a rather dramatic commitment of state funds. It would seem that such a commitment would have to have some degree of flexibility, as it runs the risk of not coinciding with future social priorities.

V. Directly Increase the Quality of Life of All Alaskans
Through Various Subsidies

The structure of this program would be identical to that under II, except that the lower interest loans would be available all Alaskans regardless of income or their financial criteria. Naturally, such a program would run the risk of some rather dramatic disparities, such as an extremely wealthy individual receiving a state subsidized loan.

VI. Provide a vehicle to allow all Alaskans to participate more directly in the economic development of the state through an ownership position.

This would involve creating a private corporation, the stock of which would be given to Alaska citizens on the basis of some sort of criteria and formula. The corporation (e.g., Alaska, Inc.) would receive the revenues designated for the permanent fund and would have the power to declare dividends on the basis of its earnings.

The legality of such a vehicle is certainly opened to question. Further, establishing such a program would be an extremely complex matter. Such a vehicle might be implemented as a "general stock ownership plan" similar to an "employee stock ownership plan" recently authorized by Congress. In addition to the legal questionability and mechanical complexity, there are some major philosophical questions which such a program brings forth.

Economic Orientation

VIII. Subsidize small businesses through expansion of existing loan programs (Small Business Revolving Loan Fund, Commercial Fishing Loan Fund, and Tourism Revolving Loan Fund) and the development of new similar loan programs.

This program would likely take the form of loan guarantees or purchases to bring about lower interest rates.

Important note: subsidies only make economic sense if the activity directly and indirectly induced by the subsidy generates in the long-run revenue to the state government which exceeds the cost of the subsidy, thereby bringing about a net benefit to the state.

VIII. Vehicle to bolster, beef up, and make viable Alaska's traditional industries, particularly fishing and forest products.

Such a strategy would imply a variety of programs including loan guarantees and purchases, bond purchases, (e.g. "Industrial Bond Bank"), and direct ownership of major projects which effect substantially the viability of these industries (e.g., Quebec Industrial Development Assistance Act).

These programs should be pursued only if they sufficiently alter the very structure of these industries so as to create truly viable enterprises which in the long-run will generate tax and other revenues which more than offset the costs of these programs to the State.

IX. Vehicle to create a more stable and broadly based economy.

Under such an objective the highest priority would be placed on the financing (either debt or equity) of major projects which substantially alter the very structure of Alaska's economy.

Examples might include hydroelectric facilities, petrochemical plants, agricultural projects, hardrock mining ventures, etc.

The organizational structure and modus operandi might be similar to organizations such as The World Bank, the Asian Development Bank, and the Development Bank of Puerto Rico.

Fiscal Management Orientation

- X. Vehicle to provide cushion for possible future revenue down turns.

Under this program the fund would be invested relatively conservatively. Earnings would be re-invested separately in the safest securities, and the accumulation of such earnings would be available to fill any gap resulting from a momentary short-run decrease in revenue to the State of Alaska as a result of cyclical or other temporary factors.

- XI. Reduction in the state debt and/or the tax burden on Alaska's taxpayers.

Under this objective the fund would be utilized to buy back State of Alaska bonds, reducing the state's outstanding debt and thereby (1) lowering the interest payments of the State, and (2) improving the State's bond rating which in turn would lower the interest rate on future bond issues.

Further, under such a strategy earnings of the fund would be utilized to help pay for the State's operating expenses or for the distribution to local government for support of current operations.

General Comments

Upon considerable reflection on this matter, we feel that a subtle yet extremely important distinction must be kept in mind. The very name of this instrument which the Alaska voters will approve or disapprove -- permanent fund -- implies that notion of sustainability and perpetuity. Therefore, it seems to us that management of the fund in accordance with the intent of the Legislature and the Alaska voters would imply a long-range rather than a short-range orientation.

In this regard, it is important to acknowledge that often pursuit of short-run social objectives such as redistribution of wealth often is counter-productive to the extent that it can undermine the very factors that are necessary for their long-run continuation. Further, it should be acknowledged that pursuit of economic objectives, to the extent that they expand the tax base, often more

effectively contribute to the long-run maximization of social objectives.

It is this line of reasoning that at this point causes us to feel that pursuit of investment objective options VIII and IX would most effectively satisfy the intent of the Alaska voters if they approve the creation of the Permanent Fund.

It appears to us that the following activity is now appropriate for the State Investment Advisory Committee:

- (1) Select on a preliminary basis the objectives to be pursued, establish the priority for each.
- (2) Fully analyze the implications and effects of the pursuit of each objective.
- (3) Refine, consolidate, and perhaps reduce the objectives to be pursued, establishing a relative priority for each.
- (4) Determine certain more specific guidelines (e.g. investments inside and outside the State of Alaska, the fund's interface with the private sector, and the mix between short-run and long-run maximization of objectives).
- (5) Determine the organizational structure, administrative procedures, and other specifics required for implementation of the fund.

This working paper represents only our initial thinking on this matter and is intended solely as a basis for discussion which will

lead to a specific identification of further analysis to be performed.

A handwritten signature in black ink, appearing to read "Robert R. Richards", written over a horizontal line.

Robert R. Richards

AlaskaPacificBank

Working Paper #6

November 5, 1976

INTERFACE OF THE PERMANENT FUND WITH THE ALASKA BANKING SYSTEM

Relative to consumers in other states, Alaskans enjoy access to a broad banking system. Exhibit A indicates that on a per capita basis there are more separate banking institutions in Alaska than in all of the other western states. Further, as indicated on Exhibit B, Alaska communities of over 10,000 people have twice as many banks as the United States average. Finally, as indicated on Exhibit C, some extremely small communities in Alaska are served by banks.

The map labeled Exhibit D indicates the broad geographical disbursement of Alaska's commercial banking system. A specific listing of the location of Alaska's banks is on Exhibit E. Note that there are over 100 banking offices in Alaska.

Commercial banks are only a part -- and indeed a small part -- of Alaska's total financial industry. Exhibit F is a partial list of other financial institutions doing business directly in Alaska.

As you can clearly see from these exhibits, Alaska consumers

have available to them a relatively broad geographical disbursement of commercial banks and a very wide variety of types of financial institutions with which to deal.

The information that I have presented to this point is primarily background data. The most important element of the Alaska banking system in terms of the Permanent Fund is the role which Alaska banks have played as conduits for channeling funds from large, long-term investors to Alaska's families and businesses.

Over 80% of the money which finances the purchase of homes in Alaska does not come from Alaska bank deposits. It comes from large institutional purchasers of mortgages. These institutional investors are comprised basically of (1) federal agencies (Federal National Mortgage Association and Federal Home Loan Mortgage Association) and (2) "outside" savings institutions, and (3) union pension plans.

The banks originate the mortgages, that is, they take the application from the borrower, perform the credit analysis, do all the paper work, etc. Then the banks sell the mortgages to these large investors and service the mortgages for a fee. Servicing includes accepting the payments, making the tax and insurance payments, etc. The borrower deals solely with the bank and is not even aware of the institutional investor who purchased his mortgage.

Another way in which the Alaska banks serve as conduits for

the flow of funds into the Alaska economy is through loan participations with "outside" banks. This situation normally arises when a customer comes into his bank in Alaska and requests a loan that exceeds the lending authority of the particular Alaska bank. The bank then presents the loan to an outside bank with which it has a correspondent relationship for consideration by the "outside" bank to lend the amount of money which exceeds the Alaska bank's authority. This is a very common practice, and it goes on everyday. Exhibit G is a partial list of United States financial institutions participating in loans in Alaska.

Probably the most significant investor which injects funds into Alaska's economy through the Alaska banks is the State of Alaska. The state General Fund, the Public Employees' Retirement Fund, and the Teachers' Retirement Fund currently hold over \$100 million of loans and mortgages which were purchased from Alaska's banks.

Additionally, the Small Business Administration has been a substantial purchaser of Alaska's loans.

The relevancy for all of this for our discussion today is that the Alaska banking system is structured and has operating procedures established for serving as an effective conduit for the flow of funds from large investing agencies to Alaska's families and businesses. The Alaska banking system has a considerable amount of experience in this procedure and perceives this as one of its important roles.

The investing agency benefits from this system by receiving the knowledge, skills, manpower, and entire mechanism of, I think, an extremely efficient group of institutions set up to perform this very function. The large institutional investor pays a fee for this service which obviously the institutional investors to date have felt was more economical than setting up their own organizations to take loan applications, process the paper work, etc.

The conclusion then, it seems to me, is that if a portion of the Permanent Fund is allocated toward loans to consumers, families, or Alaska businesses and organizations, it appears to make sense to do this through an efficient system of financial institutions already set up to perform this function.

Further, I think that consideration should be given toward allowing Alaska banks to participate in large economic development type loans. Some Alaska banks already participate in major financing in the state which actually was originated between the corporate headquarters of national firms and a major bank "outside." The advantage of having the participation by the Alaska banks is twofold: (1) the Alaska bank can offer an understanding of the environment within which the loan is being made and (2) the Alaska bank provides a certain amount of local supervision of the loan by maintaining surveillance over the activity which the loan is financing.

I think that most bankers, in Alaska are quite enthusiastic over the Permanent Fund because they are aware of the tremendous

good that can be forthcoming from this vehicle. They certainly do not perceive it as a threat. It should be kept in mind that commercial banks are in business to make short-term commercial loans -- hence, their name. The Permanent Fund, on the other hand, as indicated in my very first working paper presented to you, should have a long range orientation. Its very name implies this and, indeed, the Alaska voters had this in mind when they approved it. So, operated as I think they ought to, the Permanent Fund and the Alaska banking system should not be in a competitive posture.

As an added service to the Permanent Fund, however, the Alaska banking system offers an efficient, conduit through which the Permanent Fund could channel certain of its investments.

EXHIBIT A

NUMBER OF BANKS* PER 100,000 PERSONS

<u>State</u>	<u>Number</u>
ALASKA	3.75
Idaho	3.43
Washington	2.79
Oregon	2.32
Nevada	1.60
Hawaii	.88
Arizona	.83
California	.77
Utah	.55

*Number of separate institutions

Source: "Blue Chart - A comparative position table of the non-reserve city banks and the reserve city banks in the Twelfth Federal Reserve District," The Pacific Banker and Business.

EXHIBIT B

AVERAGE NUMBER OF COMMERCIAL BANKING ORGANIZATIONS
PER CITY IN U.S. AND ALASKA

(1970)

	Size of City			
	<u>5-10,000</u>	<u>10-15,000</u>	<u>15-30,000</u>	<u>30-50,000</u>
Total U.S.	1.99	2.41	2.83	3.29
Alaska	2.50	5.00	--	6.00

Sources: 1970 Census of Population, Advance Report, Final Population Count, Bureau of the Census U.S. Department of Commerce. American Bank Directory, Spring and Fall Editions, 1970, Fall Edition 1973. Operating Banking Officers, January 1, 1970, FDIC. Standard Metropolitan Statistical Areas of the United States, 1967, Bureau of the Budget, Executive Office of the President. Subsidiary Bank of Bank Holding Companies, Dec. 31, 1969, Federal Reserve Board.

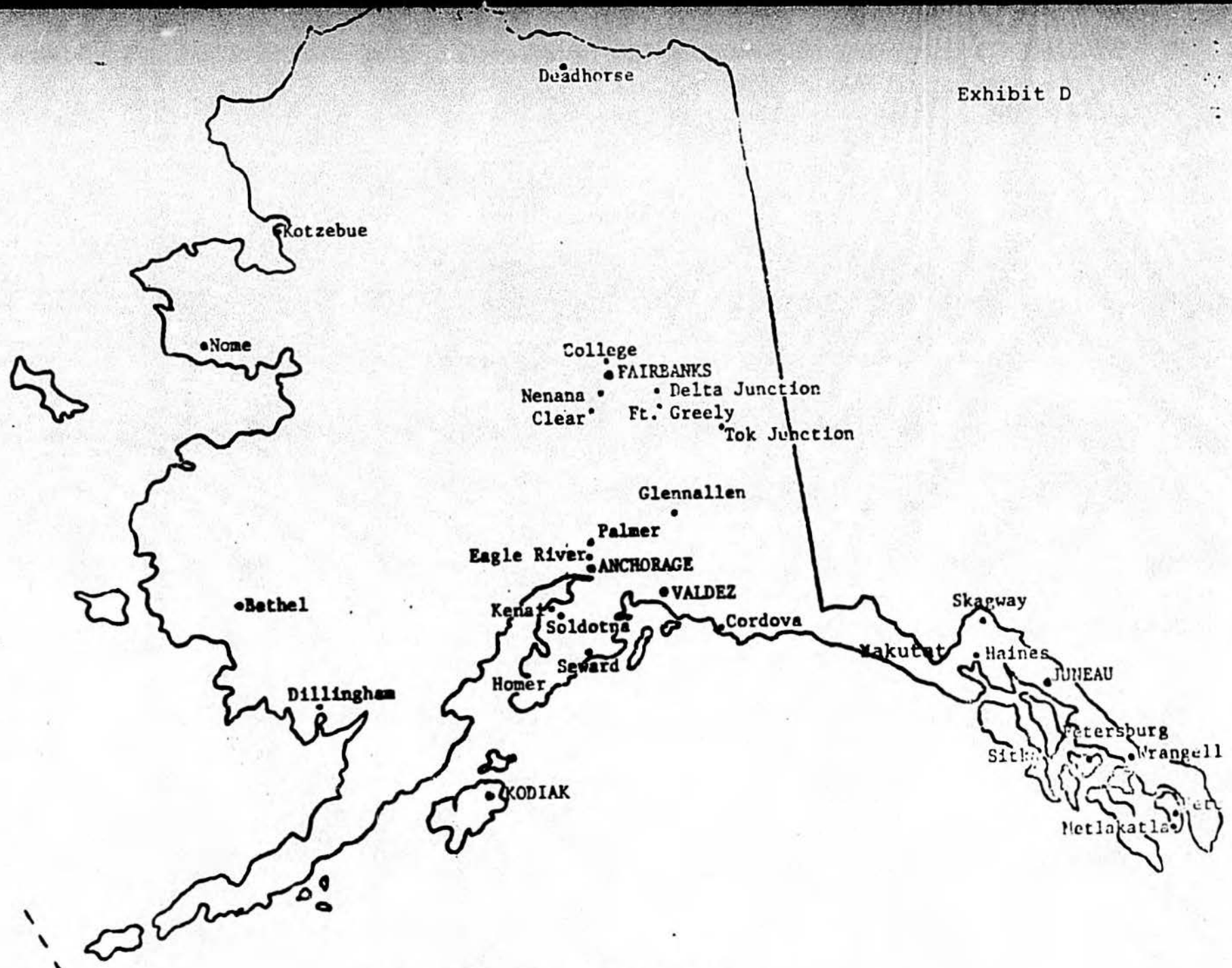
EXHIBIT C

ALASKA COMMUNITIES WITH COMMERCIAL BANKS

<u>Community</u>	<u>Population*</u>
Deadhorse	163
Yakutat	190
Tok	214
Wasilla	300
Nenana (Clear)	362
Glennallen	363
Skagway	675
Delta Junction	703
Dillingham	914
Valdez	1,005
Metlakatla	1,050
Homer	1,083
Palmer	1,140
Cordova	1,164
Soldotna	1,202
Haines	1,351
Seward	1,587
Kotzebue	1,696
Fort Greely	1,820
Wrangell	2,029
Petersburg	2,042
Barrow	2,104
Adak	2,249
Bethel	2,416
Eagle River	2,437 (incl. Anch. Borough)
Nome	2,488
Sitka	3,370
College	3,434 (incl. Fairbanks Bor.)
Kenai	3,533
Kodiak	3,789
Ketchikan	6,994
Juneau	13,556
Fairbanks	45,864
Anchorage	126,333

Source: Research and Analysis Section, Employment Security Division,
State of Alaska, Department of Labor, June, 1971.

*1970 census



ALASKA COMMUNITIES WITH COMMERCIAL BANKS

Adak

EXHIBIT E
ALASKA FINANCIAL INSTITUTIONS

BANKS	Main Office Location	Main Office City	Other Offices	No.
<u>Commercial Banks</u>				
National Bank of Alaska	Anchorage	4th and E Dimond Fifth Avenue Spenard Ft. Rich. Gov't Hill Airport Mall Russian Jack Sand Lake	Adak Cordova Dillingham Fairbanks (2) Glennallen Homer Juneau (2) Kenai Ketchikan (2) Kodiak (2) Metlakatla Petersburg Sitka (2) Skagway Soldotna Valdez Wasilla Wrangell	33
First National Bank of Anchorage	Anchorage	646 W. 4th 5th Avenue Eagle River Eastchester Elmendorf Northern Lgts. Parkway S. Center	Bethel Cordova Fairbanks Haines Juneau (2) Kodiak Palmer Seward Sitka Valdez	19
Alaska Statebank	Anchorage	442 W. 5th Drive-in Br. Mt. View Northern Lgts. Tudor	Fairbanks (2) Kenai	8
Alaska National Bank of the North	Fairbanks	Head Office Airport Rd. Eielson Int'l Arpt. University	Anchorage (3) Barrow Deadhorse Delta Junction Kotzebue Nenana Nome Tok Valdez	16

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
Alaska Bank of Commerce	Anchorage	712 W. 4th Airport C Street Drive-in Eagle River Tudor Boniface O'Malley	Palmer Wasilla	10
First National Bank of Fairbanks	Fairbanks	Cushman College Cushman & Gaffney Ft. Wainwright Gavora Mall	Clear Eagle River Ft. Greely North Pole	9
First National Bank of Ketchikan	Ketchikan	Head Office Totem	Anchorage Craig Petersburg	5
Peoples Bank & Trust	Anchorage	644 W. 8th Sand Lake University Center		3
B. M. Behrends	Juneau	Head Office Mendenhall	Hodnah Yukutat	4
Security National Bank	Anchorage	Head Office		1
United Bank Alaska	Anchorage	Head Office		1
Alaska Pacific Bank	Anchorage	Head Office		<u>1</u>
<u>TOTAL NATIONAL BANKS</u>				83
<u>TOTAL STATE BANKS</u>				<u>27</u>
<u>TOTAL COMMERCIAL BANKS</u>				110
<u>Savings Banks</u>				
Alaska Mutual Savings Bank	Anchorage	5th & F Airport Heights Eagle River		3
Mt. McKinley Mutual Savings Bank	Fairbanks	Third Avenue		1
<u>TOTAL SAVINGS BANKS</u>				<u>4</u>
<u>TOTAL BANKS</u>				114

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
<u>Savings & Loan Association</u>				
First Federal Savings and Loan	Anchorage	305 W. 5th Dimond Muldoon Spenard	Kenai Kodiak	6
Alaska Federal Savings and Loan	Juneau	301 N. Franklin	Ketchikan Sitka Palmer Valdez	5
Arctic First Federal Savings and Loan	Fairbanks	Head Office Downtown Steese	Anchorage Craig* Petersburg* Wrangell*	4
Home Federal Savings and Loan	Anchorage	535 D Street		1
<u>TOTAL SAVINGS & LOAN ASSOCIATIONS</u>				<u>16</u>
<u>TOTAL BANKS & SAVINGS & LOAN ASSOCIATIONS</u>				<u>130</u>

*Agency only

EXHIBIT F

PARTIAL LIST OF FINANCIAL INSTITUTIONS DOING BUSINESS IN ALASKA

Commercial Banks

National Bank of Alaska
First National Bank of Anchorage
Alaska Statebank
Alaska National Bank
Alaska Bank of Commerce
First National Bank of Fairbanks
First National Bank of Ketchikan
B. M. Behrends Bank
Peoples Bank and Trust Company
Security National Bank
United Bank Alaska
Alaska Pacific Bank

Savings Banks

Alaska Mutual Savings Bank
Mt. McKinley Mutual Savings Bank

Savings and Loan Associations

First Federal Savings and Loan
Alaska Federal Savings and Loan
Arctic First Federal Savings and Loan
Home Federal Savings and Loan Association

Credit Unions

AF & S Federal Credit Union
Alaska Command Federal Credit Union
Alaska Teamsters Federal Credit Union
Anchorage City Employees Federal Credit Union
Anchorage Teachers Federal Credit Union
CAA8 Federal Credit Union F301
Starliner Federal Credit Union

Leasing Companies

NBA Leasing Corporation
UCB Leasing Corporation
Bank of California Leasing Corporation
Crocker-McAllister Leasing Corporation
First Bank Leasing Corporation
Chandler Leasing Corporation
IDS Leasing Corporation
Liberty Leasing Company, Inc.
Professional Leasing Company
Booth Computer Corporation
Rockwood Computer Corporation
IBM Corporation

EXHIBIT F Cont'd.

Mortgage Companies

Ballard and Associates
Coast Mortgage Company
Commonwealth
Cronin Mortgage Company
First Chicago Realty Services Company
Kassler and Company
Lomas and Nettleton
Metropolitan Mortgage and Security of Alaska, Inc.
Spokane Mortgage
T-K Mortgage-Investment
First Bank Mortgage

Finance Companies

Household Finance Corporation
Lectro Alaska Finance, Inc.
Beneficial Finance Company
Pacific Finance
AGC of Alaska Sales and Service
GMAC
Chrysler Credit Corporation
Ford Motor Credit Corporation
Friendly Ford
CIT Corporation
Northwest Acceptance Corporation
Westinghouse Credit Corporation
General Electric Credit Corporation
Safeco Finance Company
Deere Credit Corporation
Credit Alliance Corporation

Investment Banks, Advisors, and Money Managers

Brown Brothers Harriman and Company
Schroeder Capital Corporation
Scudder, Stevens, and Clark
Loomis and Kennedy
Lehman Brothers
Wells Fargo Bank Trust Department
Union Bank Trust Department
Bank of America Trust Department
Seattle-First National Bank Trust Department
Trust Company of the West

EXHIBIT G

PARTIAL LIST OF U.S. FINANCIAL INSTITUTIONS WHICH BUY OR
PARTICIPATE IN ALASKA LOANS

Commercial Banks

American Security and Trust Company
Bank of America
Bank of California
Bank of Hawaii
Bank of the Southwest, Houston
Brown Brothers Harriman & Company
Chase Manhattan Bank
Chemical Bank New York
Citibank (First Nat'l City Bank, N.Y.)
Continental Illinois National Bank
Crocker-Citizens National Bank
First National Bank of Chicago
First National Bank of Dallas
First National Bank of Oregon

First City National Bank of Houston
First Western Bank and Trust
Mellon National Bank
Morgan Guaranty Trust Company
National Bank of Tulsa
Pacific National Bank of Seattle
Peoples National Bank of Washington
Rainier National Bank
Republic National Bank of Dallas
Seattle-First National Bank
Security Pacific National Bank
Texas Commerce Bank
United California Bank
U.S. National Bank of Oregon
Wells Fargo Bank

Savings and Loan Associations and Mutual Savings Banks

Gibraltar S. and L., L.A.
Old Stone Bank, Prov., R.I.

Prudential Mutual Savings Bank, Seattle
Washington Mutual Savings Bank, Seattle

Insurance Companies

Beneficial Standard Life
Equitable Life Insurance Company
New York Life Insurance Company

Prudential Life Insurance Company
Standard Insurance Company

ALASKA BUSINESS TRENDS



ECONOMIC OUTLOOK

• FOR THE YEAR 1977 •

Alaska Pacific Bank



TABLE OF CONTENTS

STRUCTURE OF ALASKA'S ECONOMY	3
INDUSTRY FORECAST	7
Summary	8
Petroleum	10
Construction	13
Fishing	14
Forest Products	16
Visitor Industry	18
Distributive Industries	19
Government	21
A LOOK BEYOND 1977	23



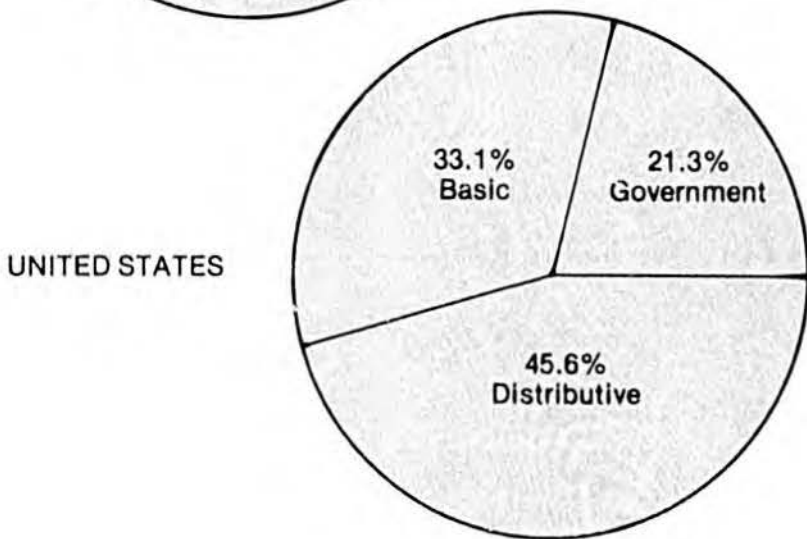
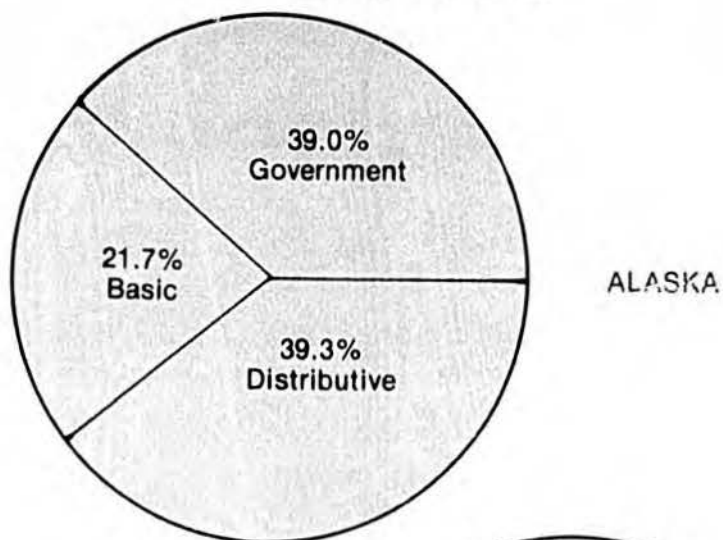
**STRUCTURE OF
ALASKA'S ECONOMY**



THE STRUCTURE OF ALASKA'S ECONOMY

Large public sector. Federal, state, and local government are the major employers in Alaska, providing 39% of the jobs. Prior to the upsurge in construction employment on the trans-Alaska oil pipeline, government accounted for nearly half the jobs in Alaska. As indicated in the charts below, government is nearly twice as dominant in Alaska as in the nation as a whole.

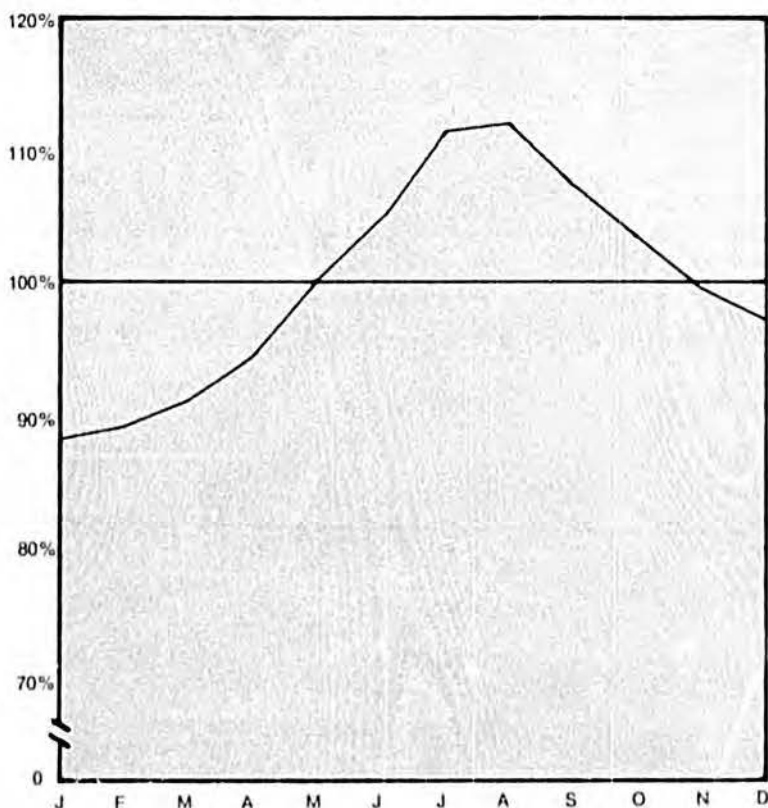
EMPLOYMENT MIX



Labor intensive. As revealed in the accompanying charts, three-fourths of the jobs in Alaska are provided by the government and distributive sectors. Except for the communication and transportation industries, these sectors are highly labor intensive. Further, most of Alaska's basic industries are primarily labor intensive, except for construction which is moderately labor intensive and petroleum which is highly capital intensive.

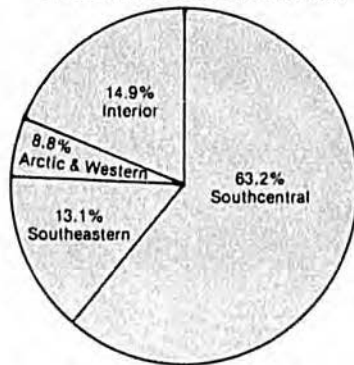
Seasonal. The chart below is an index of monthly employment levels in Alaska, stating the average level of employment during the year as 100%. The chart is based on 1972 and 1973 data to avoid distortions created by the seasonal employment pattern of the trans-Alaska oil pipeline project. Clearly, Alaska's economy is highly seasonal, with employment peaking in August and reaching a trough in January. The chart implies that May and November tend to be months of average employment levels.

ALASKA EMPLOYMENT SEASONALITY

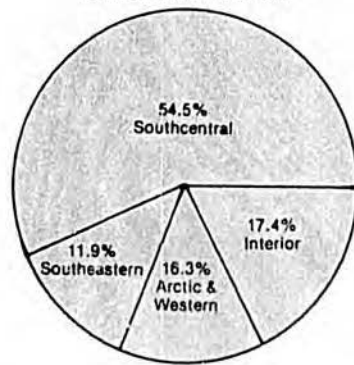


Regional Disparity. Nearly half the state's population lives in Anchorage, the state's commercial center. Comparing the two charts below reveals that the Southcentral and Southeastern regions have the higher gross product per capita and the Interior, Arctic and Western regions have the lower gross product per capita.

GROSS STATE PRODUCT BY REGION

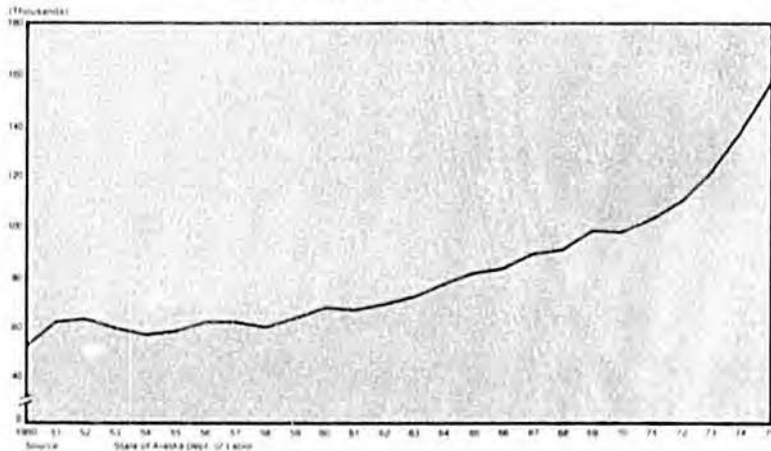


POPULATION BY REGION



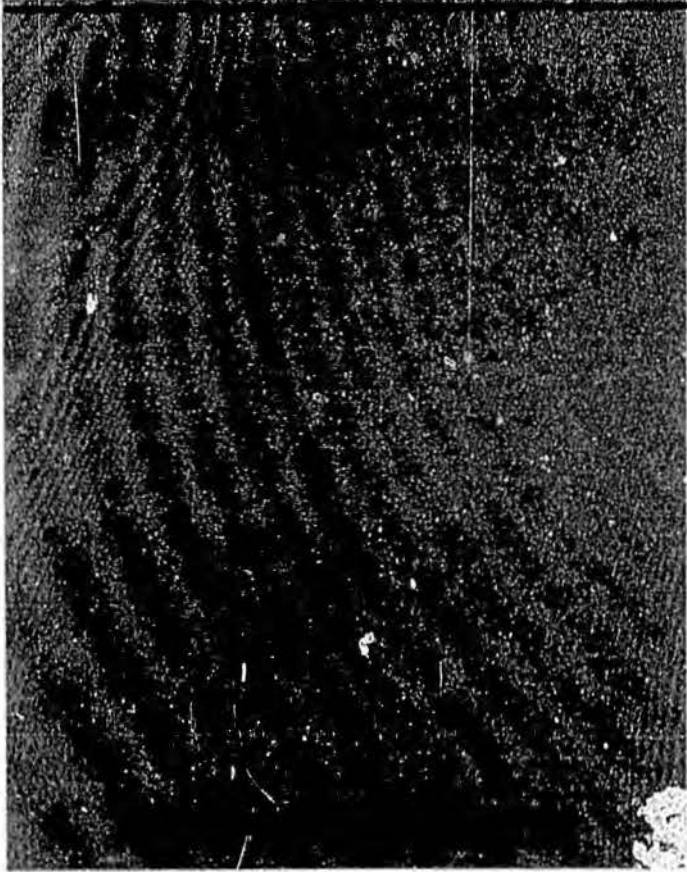
Cyclicity. Certain regions in Alaska, particularly Western and Southeastern, which are dependent upon the fishing, forest products, and tourism industries, are somewhat subject to cyclical fluctuations. Contrary to a popular myth, however, Alaska's economy has not been subject to a series of booms and busts. The chart below, which traces employment since 1950, while reflecting some cyclicity, certainly reveals an absence of any downturn that could be labeled a "bust."

ALASKA EMPLOYMENT
(Military Excluded)





INDUSTRY FORECAST



SUMMARY

As forecasted, Alaska's rate of economic growth decelerated dramatically in 1976, with employment expanding at half the pace of the previous year. In 1977 employment is expected to drop by about 5%.

Alaska's economy is moving into a stage which might be termed the "post pipeline plateau." This period will be characterized by a modest downturn, not in any way resembling a "bust." In fact the forecasted employment decline is somewhat of an aberration resulting solely from the reduction of approximately 16,000 pipeline workers. With an absence of any decrease in pipeline construction jobs, the 1977 forecast would have called for over a 5% increase in employment.

Three factors will serve to bolster economic activity in Alaska in 1977. The major element is the huge underpinning to Alaska's economy: the public sector. Federal, state, and local government, which provide 39% of the jobs in Alaska, are expected to continue their traditional healthy expansion. Secondly, although the construction industry will experience somewhat of a setback in 1977, Alaska's other basic industries, petroleum, forest products, fishing, and tourism will register rather strong gains in 1977. Thirdly, most Alaska businessmen are looking beyond the valley to the next strong upswing anticipated for the early 1980's. There should continue to be rather healthy expansion by Alaska's distributive industries. A brief synopsis of the outlook for each of Alaska's major industries follows.

On the North Slope production of Prudhoe Bay oil will commence by midyear, and substantial exploration will continue in Petroleum Reserve Number 4. In the northern Gulf of Alaska at least four rigs will be drilling by spring. The Federal Power Commission will recommend a gas pipeline route by May, and by next fall the President will submit his decision to Congress. Also next fall a new petroleum refinery near Fairbanks will begin production.

Alaska's construction industry will experience a moderate year in 1977. Trans-Alaska oil pipeline construction, which was virtually completed by the end of 1976, will wind down during 1977. Commercial construction will center around large carry-over activities with the usual addition of government highway and public works projects. Residential construction in Anchorage and Fairbanks will likely decline further reflecting weakening housing markets.

Alaska's fishing industry is expected to experience another good year. Shellfish catch volumes and prices will rise moderately; however, the salmon harvest is expected to decline with prices easing somewhat.

In Alaska's forest products industry both lumber and pulp production will rise strongly in 1977 reflecting continuing economic recovery in Japan which purchases 90% of Alaska's forest products output. Clearcutting will resume on Prince of Wales Island as a result of new federal legislation.

Alaska's visitor industry should see some increases during 1977 aided by the one-year-old Anchorage Convention/Visitors Bureau which has attracted almost 5,000 conventioners for 1977. Total visitors traveling to Alaska are expected to exceed 300,000, slightly above the 1976 level.

In retail and wholesale trade, sales will level off in Anchorage, will drop significantly in Fairbanks, and should rise somewhat in Southeastern Alaska and on the Kenai Peninsula. In Anchorage inflation will continue to decelerate, with the Consumer Price Index rising in the neighborhood of 5%.

Expenditures by the State of Alaska will continue to increase substantially, rising 20% during calendar year 1977. Expenditures by the Municipality of Anchorage will rise an estimated 6%. As a result, state and local government expenditures will surpass \$1 billion bringing their combined level close to that of federal expenditures in Alaska.

While the state's economy in general will decelerate in 1977, Southeastern Alaska and the Kenai Peninsula will offer a dramatic exception. The Kenai region will grow as a petroleum service and supply base for both Cook Inlet production and Gulf of Alaska exploration. The FPC is expected to rule in 1977 on Pacific Alaska's application to build an LNG plant in North Kenai. The Southeastern economy will be buoyed by healthy performance of the fishing, forest products, and tourism industries.

In summary, although the pipeline project is winding down and the construction industry in general will experience a rather lackluster year in 1977, the other sectors of Alaska's economy should exhibit strength. The net result will be a leveling of the economy during 1977 or at worst a modest dip.

PETROLEUM

Production of Prudhoe Bay oil will commence in 1977, nine years after the discovery well was drilled. Alaska will assume a dominant role as an energy supplier to the United States in 1977 with shipment of oil to U.S. markets, substantially increased exploration activity on the North Slope and in the Gulf of Alaska, and a gas pipeline route approved by the Federal Power Commission.

NORTH SLOPE OIL

The nearly \$10-million-per-mile trans-Alaska oil pipeline will be ready to transport oil by mid-1977. Production will build up to 1.2 million barrels per day during the first year of operation in the estimated 20- to 30-year life of the field.

Under the unitization agreement for the Prudhoe Bay geologic area, about 135 wells will be producing by the third quarter of 1977 for the initial 600,000 barrel per day capacity on each side of the field, expanding to more producing wells as the field matures. In preparation for this Prudhoe production, nearly fifty per cent more developmental drilling permits were issued for the North Slope during 1976 as in 1975. Drilling activity is expected to be equally heavy in 1977.

OUTER CONTINENTAL SHELF

As Prudhoe Bay phases into production, offshore exploration in the northern Gulf of Alaska will gain the spotlight for the petroleum industry during 1977. The Gulf, which is regarded by the industry as having the best potential for large reserves among U.S. offshore areas but some of the most severe operating conditions as well, is expected to have at least four rigs drilling by the spring of 1977. During 1976 seven OCS well locations were identified including two wells which were spudded near Cape Yakataga. No production is expected from the area until the 1980's.

The federal OCS lease schedule now calls for an early 1977 sale in lower Cook Inlet and a late 1977 sale in the Gulf of Alaska-Kodiak. Six OCS lease sales are planned for the three-year period 1978-80. A joint federal-state sale is to be held in the Beaufort Sea in late 1977 or early 1978.

PETROLEUM RESERVE NUMBER 4

The work schedule for the winter of 1976-1977 calls for five medium depth exploratory wells, two shallow gas wells, and 2,830 miles of geophysical survey in Petroleum Reserve No. 4 on Alaska's North Slope. At the peak of operation there will be about 525 employees, winding down to 40 workers at the end of May. During Fiscal Year 1978, a total of nine wells are planned, four medium depth, three deep, and two gas.

On June 1, 1977, the Department of the Interior will assume jurisdiction over Pet 4 with the charge to recommend a development plan to Congress by 1980.

NATURAL GAS PIPELINE

Late in 1976 the President signed a gas pipeline procedural bill which requires the Federal Power Commission to announce its choice of a route for Prudhoe Bay gas by May, 1977. This procedure, outlined in the table below, could lead to construction by the spring of 1978.

GAS PIPELINE TIMETABLE

- May 1, 1977: FPC issues recommendation to the President.
- July 1, 1977: Other federal and state agencies issue recommendations to the President.
- Sept. 1, 1977: The President sends route decision to Congress unless he determines the decision should be delayed.
- Dec. 1, 1977: Final deadline for the President to send route decision to Congress.
- Feb. 1, 1978: Congress enacts a joint resolution of approval. (Disapproval remands the matter to the President for reconsideration.)
- April 1, 1978: Judicial review completed.

Three companies, El Paso Alaska, Arctic Gas Ltd., and Northwest Pipeline Corporation, have presented three different routes for approval by the FPC. Late in 1976 the State of Alaska committed its one-eighth share of royalty gas to three firms supporting the El Paso, "all Alaska," route: Tenneco, Southern Natural Gas, and El Paso Natural Gas. Eventually there will be a deadline for delivery of Prudhoe Bay gas in terms of maintaining the technical integrity of the oil field, and construction of any delivery system must begin years in advance. These facts, coupled with the high cost of gas reinjection and the nation's supply shortage, all indicate the necessity of an expeditious decision on the Alaska gas pipeline.

REFINERIES

One new petroleum refinery will be on stream in the fall of 1977 to take advantage of Prudhoe Bay oil production. At North Pole near Fairbanks the first phase of a 25,000 barrel per day refinery is under construction, the production from which will go mostly to interior Alaska.

A NOTE ON OTHER MINERALS

The major hardrock mining activity of 1977 will be U.S. Borax's development of a huge molybdenum deposit near Ketchikan. The company is spending approximately \$2 million per year in exploration and development.

Alaska has almost two-thirds of the nation's estimated coal reserves, the largest nickel-copper ore body in the United States, and significant other mineral deposits including gold, molybdenum, uranium, thorium, fluorite, barite, lead, and zinc. While claim filing activities picked up considerably during 1976, the threat of a State imposed mineral extraction tax, lack of adequate transportation systems, high operating costs, and uncertain land use status, all combined to discourage new mineral production.

CONSTRUCTION

The construction industry in Alaska will experience a rather lackluster year in 1977. Trans-Alaska oil pipeline construction, which was virtually completed by the end of 1976, will wind down during 1977. Commercial construction will center around large carry-over activities with the usual addition of government highway and public works projects. Residential construction will likely decline further in 1977.

TRANS-ALASKA OIL PIPELINE

By the end of 1976, the trans-Alaska pipeline work force numbered 5,000, greatly reduced from the 21,000 peak level. The pipe laying portion of the project is finished. Activity will continue through the winter in connection with a small natural gas fuel line, hydrostatic testing, and construction of the pump stations and marine terminal.

HEAVY CONSTRUCTION

The dollar volume of new construction contract awards decreased during 1976, registering around \$400 million. About two-thirds of the total were State of Alaska highway and airport projects. With the approval of nearly \$200 million in bond issues by Alaska voters in November, 1976, an active construction season for State projects is anticipated.

In Anchorage substantial additions to office space are occurring, and 1977 will likely see the beginning of an oversupply of office space in both Fairbanks and Anchorage. This will be aggravated by the reduction in certain staffs related to the trans-Alaska oil pipeline and the massive addition of facilities for federal agencies over the next few years.

Native regional corporations are entering the commercial building arena highlighted by Calista Corporation's \$25 million convention hotel in downtown Anchorage, Cook Inlet's new 90,000 square foot office building, the Anchorage Air Traffic Control Tower constructed by a joint venture of NANA and NANA Development Corporation, and Sealaska's headquarters building in Juneau.

RESIDENTIAL CONSTRUCTION

Anchorage residential building permits were down by about one-fifth in 1976, reflecting a weakening housing market. The residential housing market will be even softer in 1977.

The Anchorage Multiple Listing Service ratio of sales to new listings indicated twice as many homes were being listed as sold in the summer of 1976. The inventory accumulation is occurring in all price ranges, but is considerably more severe among the higher priced homes. Another sign of the weak housing market is the considerably longer length of time it took to sell a home in Anchorage in 1976 than in 1975. This trend is expected to continue into 1977 unless a strong upgrading demand materializes.

It is impossible to predict to what extent the rather large, but so far latent, demand for upgrading by existing residents will materialize. However, it is reasonable to expect that as we get closer to the anticipated economic upswing beginning in 1978 or 1979, Anchorage families who have accumulated rather sizeable savings and home equities during the present boom will start to get themselves situated in their "permanent" home. A real "buying psychology" could occur. Nevertheless, it does not appear that it would be of sufficient strength this year to completely offset the slowdown foreseen in the number of new households moving into Anchorage.

The conclusion, then, is that the Anchorage housing market probably will weaken further in 1977. However, sufficient demand strength exists to prevent any severe decline.

FISHING

Alaska's fishing industry weathered another hectic year in 1976 dotted with closures and labor disputes. However, generally both catch volumes and prices were up. This trend is expected to continue into 1977 for shellfish, though at a considerably more moderate pace, and to reverse for salmon which should see lower prices and harvest volumes.

SHELLFISH

Shrimp landings are estimated to reach about 100 million pounds in 1976, about the same as the season before. The outlook for the 1977 season calls for about a 10% increase in Alaska shrimp landings. Members of the shellfish fleet again boycotted canneries to negotiate for higher prices. During 1976 both exvessel and wholesale shrimp prices soared partly because initial supplies were low and demand grew. The outlook is for shrimp consumption to continue strong during 1977 and for inventories to start the year low, both circumstances which should stimulate prices further.

Alaska fisheries supply more than 80% of the U.S. tanner crab catch. Tanner landings broke records during 1976 reaching about 70 million pounds. Prices have declined, but should stabilize in 1977. King crab landings were up also, despite the delayed season opening. Exvessel prices rose, and, as 1976 inventories are used up, 1977 wholesale prices should also rise.

SALMON

In 1976 the salmon harvest registered the highest level in five years. The total catch was an estimated 42 million fish, of which over half were pinks and one-quarter reds. The Kodiak fishery contributed over one-quarter of the catch and Bristol Bay, Southeast and the Alaska Peninsula each accounted for 15% - 20%. Higher prices combined with the increased catch caused 1976 to be a good year for Alaska's salmon fishermen.

However, high prices are reducing salmon's ability to compete with red meat and poultry. Therefore, inventories are building up, and prices are expected to decline somewhat in 1977. Further, the outlook for the next two years calls for harvest declines from the 1976 level. Although the potential exists for an annual Alaska harvest of 75 million salmon, it is expected to be at least the 1980's before the runs reach that level.

HALIBUT

The International Pacific Halibut Commission recommended placing the 1976 quota at the same level of last year's 25 million pounds for the area including Alaska. The increased landings in 1975 appeared to suggest that healthy recovery of this resource is beginning, although landings are still down from the highs of the 1960's.

Identical to the situation facing salmon and shrimp, relatively short supplies of halibut accompanied by strong demand resulted in price increases in 1976. In July exvessel prices were 49% higher than a year earlier.

LIMITED ENTRY

The constitutional amendment to repeal Alaska's limited entry law failed to pass on the November ballot, paving the way for stabilization of the permit system. About three-quarters of the permits issued have been to Alaska residents. The State's Fiscal Year 1977 budget increased 150% for limited entry management.

FISHERIES MANAGEMENT

In a remedial effort to supplement natural salmon production, the State and several local groups have begun fish enhancement, farm, and garden programs. The State budget increased by one-third in this area. Also, with the U.S. 200-mile conservation zone law becoming effective in 1977, the State is gearing up for new groundfish processing plants.

As of this writing Japan was the only major maritime nation without an accord with the United States on the new U.S. 200-mile fisheries zone. In mid-December the U.S. renewed negotiations with Japan, which harvests an estimated 15% of its catch within 200 miles of U.S. shores.

FOREST PRODUCTS

After two years of poor markets and an unfavorable regulatory climate, Alaska's forest products industry appeared to reverse itself in 1976. Both lumber and pulp production exceeded

their 1975 levels, and the cut on federal forests was up slightly although still well below the previous five-year average. This rising trend is expected to continue into 1977.

EXPORT MARKET

Japan, which purchases 90% of the output from Alaska's forest products industry, is experiencing extremely sluggish economic recovery. Although the Japanese economy has not yet attained a strong upward momentum, the demand for Alaska's forest products is rising and will continue to rise at an accelerated pace in 1977. Accordingly, 1977 should be a year of expanded production and employment in Alaska's forest products industry.

KETCHIKAN PULP COMPANY

Louisiana-Pacific is now the sole owner of Ketchikan Pulp Company, having purchased FMC Corporation's share. The change in ownership will bring about an additional type of pulp produced as a portion of KPC's Ward Cove mill capacity is switched from dissolving grade to paper grade. Paper pulp production is a cleaner process which will require less stringent pollution control measures. KPC and the U.S. Environmental Protection Agency have agreed to a pollution control plan which granted KPC until December 31, 1980, to install secondary treatment equipment for mill wastes.

JUNEAU SAWMILLS

In 1977 construction will start on two sawmills in Juneau. The mills, which will have a combined capacity of 75 million board feet, will cut rough lumber for export to Japan and dimension lumber for domestic use. The hemlock mill is scheduled for completion in the fall, and the spruce mill is expected to be completed in 1978.

LEGISLATION

The Timber Management Act passed by Congress in the fall of 1976 repealed certain parts of the Organic Act of 1897 to permit clearcutting on national forests. This removes a major threat to the very existence of Alaska's forest products industry and will permit resumption of logging on Northern Prince of Wales Island.

The U.S. Forest Service has imposed a moratorium on timber sales in Alaska for at least two years pending completion of a land use plan for the Tongass National Forest. Further, the U.S. Forest Service recently announced that future timber contracts will be limited to a maximum of ten years rather than 55 years. This means that firms interested in a major wood processing complex will be unable to obtain an assured supply of logs sufficient to justify a large operation. Accordingly, future expansion of Alaska's forest products industry will likely be limited to relatively small mills.

VISITOR INDUSTRY

Alaska's visitor industry should see more increases during 1977 aided by the one-year-old Anchorage Convention/Visitors Bureau which has attracted almost 5,000 conventioners for 1977. Visitors to Alaska are expected to exceed 300,000, slightly above the 1976 level. Convention business, attracting visitors during the non-summer months, is a relatively new market for Alaska, one which promises to be of even more significance in the future.

AIR TRAFFIC

Total air passenger traffic should continue strong as business travel maintains a steady pace and tourist travel expands. This growth will be offset somewhat by the subsidance of travel by pipeline workers. The net result should resemble more of a leveling than a slump. Passenger traffic at the Anchorage and Fairbanks International Airports was about 3.5 million during 1976, but will stop short of four million during 1977. This increase will result in part from growing oil and gas exploration and development and could be substantially increased if an early decision on the gas pipeline is approved during 1977. Further, increased State spending and Native corporation activity will boost air travel next year.

DEVELOPMENTS

A significant new development in the visitor industry is the launching of a major multi-media million dollar tourism

marketing campaign produced by both industry and State funding. It is expected that this campaign will reach over 13 million people, the largest in Alaska's history.

Also ready for release early next year will be a 35mm cinemascope motion picture on Alaska being produced and distributed to motion picture theaters and television stations throughout the country.

Other recent developments in tourism include the funding of the new Juneau Convention and Visitors Bureau, plans for new hotels in Sitka and Homer, and construction of a major convention hotel in downtown Anchorage. Two long-range prospects for the state visitor industry concern disposition of section D-2 of the 1971 Alaska Native Claims Settlement Act, which could create and expand national parks, and a \$60 million federal appropriation for repaving portions of the Alaska Highway and Haines Road.

Further, strong economic recovery in the United States, accompanied by slowing inflation, is resulting in noticeable increases in real incomes. This means greater portions of family incomes going to discretionary expenditures such as travel. Alaska can expect to get its share of this expanded visitors market.

DISTRIBUTIVE INDUSTRIES _____

The distributive industries in Alaska are slowing to a modest rate of increase reflecting the general deceleration in the basic industry and government sectors. The pace for 1977 should accommodate itself to the plateau in the overall Alaska economy.

In 1976 retail sales appear to have held about even in Anchorage and to have dipped somewhat in Fairbanks. During the year from October, 1975, to October, 1976, the Anchorage Consumer Price Index rose 6.5%, indicating a continuous abatement in the rate of inflation which peaked in April, 1975. This moderating trend will continue, reflecting the national situation, with Anchorage prices probably rising in the neighborhood of 5% in 1977.

The rate of growth of Alaska's banking community slowed during 1976, slowing from the increased rates experienced in 1974 and 1975. Bank deposits, excluding government funds, rose approximately 24%, and loans increased an estimated 15%. Banking activity should continue on its steady course during 1977, although the rates of expansion in loans and deposits should subside to the more normal pace of pre-1975. Deposits likely will expand by about 15%.

The transportation industry, which registered some of the largest gains during trans-Alaska pipeline construction years, showed some of the most abrupt slowing during 1976.

Combined air freight at the Anchorage and Fairbanks International Airports dropped about one-third during 1976 to under one-half billion pounds. Rail freight tonnage hauled by the Alaska Railroad grew at a considerably slower rate than in 1975, and waterborne freight tonnage through the Port of Anchorage grew by a modest 5% compared with the over 25% rate of increase in 1975. The outlook for 1977 calls for further decreases in northbound freight volumes.

According to RCA Alaska Communications, Inc., the demand for long distance services has increased at a phenomenal rate. Message telephone traffic increased by 29% in 1976. The growth forecast for 1977 is 20% with the total number of messages estimated at 29.3 million.

A major change in 1976 was the advent of satellite communications to rural Alaska. RCA Alascom and the State have undertaken a joint project to construct small earth stations in at least 100 villages.

In 1977 a television demonstration project is scheduled to go into operation and will bring television to 23 rural villages for the first time. The project will also increase the amount of live television to five urban areas of the state. In addition to bush programming, commercial broadcasters have asked for 500 hours of TV transmission, an increase of 33% from 1976.

GOVERNMENT

Government, Alaska's largest employer, maintained its substantial position in the Alaska economy during 1976. While government employment experienced only negligible gains, the level remained around 50,000, more than double the peak trans-Alaska pipeline work force. In 1977 total state and local government expenditures will surpass \$1 billion, bringing their combined level close to that of federal expenditures in Alaska.

In November the Alaska electorate approved almost \$200 million in general obligation bonds, selected Willow for the new capital location, and authorized a permanent fund to make income-producing investments.

PERMANENT FUND

Alaska's newly created Permanent Fund into which 25% of all mineral revenues will be deposited is forecasted to reach almost \$2 billion by 1985. The principal from the fund must be used for income-producing investments, income from which will go into the General Fund. Fiscal Year 1978 could see more than \$90 million deposited in the Permanent Fund. By fiscal 1985, petroleum revenues alone could contribute nearly \$400 million.

STATE BUDGET

Since 1970 State General Fund appropriations have grown at an average annual rate of 24%. If they were to continue at that same rate, General Fund appropriations would reach \$2 billion in five years.

The 1977 Legislature is expected to exercise greater fiscal restraint than previous sessions. Nevertheless, the Governor recently announced that he foresees the Fiscal Year 1978 budget reaching \$900 million, up 22% from Fiscal Year 1977's estimated \$740 million. This implies that State expenditures for calendar year 1977 will exceed those of 1976 by about 20%. Between \$40-60 million of the Fiscal Year 1978 budget represents payments into the Native Fund from a share of the State's mineral royalties. Absent this payment, the Fiscal Year 1978 budget would rise about 15%.

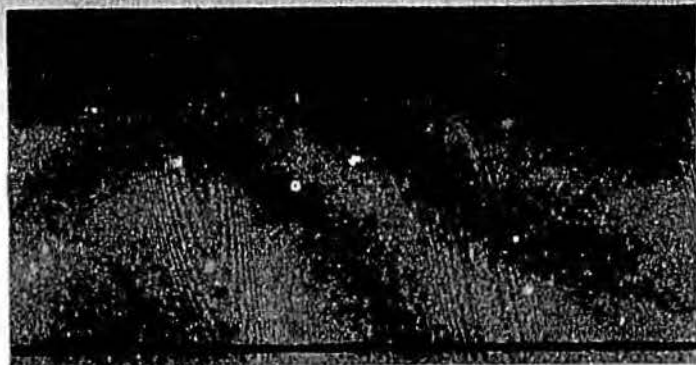
LOCAL GOVERNMENT

In Anchorage the Assembly passed a budget totalling \$233 million, holding 1977 expenditures to a modest 6% rise over those of 1976. However, this total is comprised of a 12% increase in the operating budget and a 6% decrease in the capital budget. Finally, the Municipality of Anchorage intends to hire about 3% more people in 1977.

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A LOOK BEYOND 1977



A LOOK BEYOND 1977

The future looks promising for Alaska's economy. Oil and gas development and government spending—the factors underlying Alaska's prosperity in the seventies—will continue to promote a great leap forward.

For at least the decade of the eighties—and likely far beyond—the petroleum industry will serve as the vanguard of Alaska's economic growth.

Petroleum Industry

The second major oil and gas project in Alaska following construction of the trans-Alaska oil pipeline will be construction of a pipeline to transport Prudhoe Bay gas to U.S. markets. Construction could start as early as mid-1978.

When looking to the future of the petroleum industry in Alaska, it should be kept in mind that the Prudhoe Bay field on the North Slope, which holds one-fourth of our nation's proved crude oil reserves and nearly 10% of our nation's proved natural gas reserves, is simply one reservoir in one of Alaska's fifteen sedimentary basins. That is, development on the North Slope represents only the beginning of major oil development in Alaska. The industry speculates that there is in the neighborhood of 100 billion barrels of oil underneath and offshore Alaska.

Our nation's official commitment to pursuing greater energy self-sufficiency has placed a high priority on lease sales on the U.S. Outer Continental Shelf, over half of which lies off Alaska. The first offshore oil lease sale in the Gulf of Alaska was held in April, 1976. The latest "draft" schedule of the Department of the Interior calls for nine more sales over the next four years as indicated in the accompanying table.

Sale Area	Sale Date
Lower Cook Inlet	February, 1977
Gulf of Alaska (Kodiak Shelf)	November, 1977
Beaufort Sea (Joint Sale)	February, 1978
Beaufort Sea (Shear Zone)	February, 1979
Northern Gulf of Alaska	May, 1979
Bering Sea (Norton Basin)	December, 1979
Bering Sea (St. George Basin)	May, 1980
Cook Inlet	August, 1980
Gulf of Alaska (Aleutian-Kodiak)	December, 1980

Another factor inducing oil development is the transfer of forty million acres of land from the federal government to Alaska's Native corporations. These new private owners of heretofore public lands are showing a strong disposition toward maximizing the long-run economic return from their land. Most of the Native corporations which occupy potentially rich oil and gas basins have consummated exploration agreements with petroleum firms.

Further, a twenty-six-well exploratory program currently is underway in Petroleum Reserve Number 4, and the Department of the Interior is to recommend a development plan to Congress by 1980.

Another possible bright star in Alaska's future is the expansion of the petrochemical industry. Although current world economic conditions and Alaska construction and operating costs are not conducive to the construction of petrochemical plants in Alaska, conditions are likely to change in a more favorable direction over time. Of immediate significance, however, is the fact that the State of Alaska owns the oil and gas at Prudhoe Bay and will be receiving a 12½% royalty. The State can take its royalty in kind, negotiate a contract with firms that agree to process the gas in some way in Alaska, and thereby directly influence expansion of a petrochemical industry in Alaska.

State Government

Another major factor raising Alaska's economy to new heights will be the tenfold increase of revenue to the State of Alaska by the mid-1980's from the 1970 level.

When the North Slope is in full production, the royalties, right-of-way leases, and production taxes will generate substantial new revenue to the State. The anticipated increased State expenditures will be important not only as ends in themselves by creating employment directly and indirectly, but, to the extent that they are devoted to public works projects that expand the state's infrastructure, they will induce additional economic development. For example, expansion of transportation systems in Alaska's interior region might make certain proposed mineral ventures feasible.

Hardrock Mining

Although Alaska's mining industry has been relatively dormant except for extraction of gold, sand and gravel, coal, and a few other minor operations, many projects are waiting in the wings to be developed. There is the proposed Lost River fluorite mine on the Seward Peninsula; Mitsubishi's iron ore deposit at Klukwan near Haines; Marcona's iron ore deposit at Snettisham near Juneau; Newmont Mining's nickle deposit at Glacier Bay; the U.S. Borax molybdenum deposit near Ketchikan; Kennecott's huge copper deposit near Bornite; and many, many others.

One of the most exciting mineral potentials is the Beluga coal deposit across Cook Inlet from Anchorage. The Beluga deposit is very low in sulphur content, and the estimated 2.4 billion tons of sub-bituminous coal contains an energy equivalent 25% greater than that of the crude oil at Prudhoe Bay.

Oil drilling activity in Alaska is placing increasing demand on southeastern Alaska's barite mud. Also, U.S. Borax is pursuing development of its rich molybdenum deposit near Ketchikan. Further, it is reasonable to expect that an iron ore reduction plant will be located in Alaska within the next decade.

Despite Alaska's immense latent mineral potential, the present annual hardrock mineral production of Alaska is less than one-twentieth as great as that of the average western state. The major impediments to development of a viable hardrock mining and processing industry are (1) undetermined land ownership and (2) high construction and operating costs in Alaska. Accordingly, as the Native and State land selections are completed and as costs in Alaska become more in line with those of other states, development of Alaska's hardrock minerals can be expected to follow.

Construction

The primary beneficiary of the enormous increase in State expenditures and the anticipated expansion of Alaska's infrastructure will be the construction industry.

Further, investment by Native corporations and greatly expanded oil and gas exploration and development will generate large projects, all of which auger well for the construction industry.

Visitor Industry

Alaska's visitor industry is expected to continue its strong growth which in the past five years has seen the number of visitors to Alaska more than double.

Alaska will continue to receive considerable national attention as a result of its dominant position in the nation's search for energy. Further, Alaska is expanding its tourist facilities, largely due to investments by the Native corporations. As a result, Alaska can look forward to receiving an increasing share of the burgeoning flow of travelers throughout the country. The state Division of Tourism predicts that in ten years more than one million tourists will be visiting Alaska annually—triple the current level.

Finally, an as yet underdeveloped market for Alaska's tourist industry are the Japanese. At the height of Japanese visitations to Alaska prior to the imposition of exchange controls, 10,000 Japanese visited Alaska annually. At the same time more than 200,000 Japanese were visiting Hawaii. Alaska, with its spaciousness and splendor—two criteria high on the list of Japanese tourists—has a strong competitive advantage in attracting this important market.

In general the long-run outlook for Alaska's visitor industry is extremely favorable. However, the extent to which Alaska will share in the growing tourism market depends largely upon the capacity of tourist facilities and the success with which economical packages can be marketed.

Forest Products

Long-run expansion of Alaska's forest products industry is being thwarted by severe environmental regulations and a policy of smaller timber sales by the U.S. Forest Service.

Champion International, after nearly ten years of apparent endless litigation between the Sierra Club and the U.S. Forest Service, finally abandoned its plans for a huge processing complex at Berners Bay. Further, the Forest Service has adopted the policy of limiting future timber contracts to ten years which creates an absence of wood volumes sufficient to support large operations. Also,

similarly to the hardrock mining situation, land ownership uncertainties and high construction and operating costs are deterring growth of Alaska's forest products industry.

Despite these adverse elements, the basic facts remain that strong economic advance and growing affluence in Japan, combined with substantial population growth in the State of Alaska, are going to place heavy demands on our timber resources. Additionally, since the industry currently is cutting only one-third of the state's total annual allowable cut, there is considerable room for expansion.

It is also likely that the Native corporations, with their interest in creating jobs in their respective regions and their large private land holdings, will be the key element in the future growth of Alaska's forest products industry. Furthermore, Ketchikan Pulp Company, with more diversified output, should be less subject to cyclical swings and, therefore, provide more stable employment in the Ketchikan area.

Fishing

The long-run outlook for Alaska's fishing industry is optimistic as the industry diversifies and its management and marketing techniques become increasingly sophisticated. A major development potential may very well be bottomfish. Increasing demand from Japan, rapidly rising world prices, and improving market acceptance throughout the United States are inducing more and more Alaska fishermen to harvest bottomfish. This trend will reduce the seasonality of Alaska's fishing industry.

Additionally, federal management of the shellfish and halibut fisheries is showing definite signs of effectiveness. Also State and federal aquaculture programs now suggest salmon harvests in the 1980's may approach seventy-five million fish.

It seems reasonable to expect continued gradual growth of Alaska's fishing industry, accompanied, however, by the normal cyclical fluctuations resulting from biological and climatic factors. Again, Alaska's Native corporations will likely be a major force in the development of the state's fishing industry.

Nevertheless, a huge question mark hangs over the future of this industry concerning the uncertainty of whether or not countries will develop the cooperation necessary for effective management of our fish resources to conserve adequate supplies for future generations.

Agriculture

In terms of contribution to gross state product, agricultural output in Alaska is minute with an annual sales value of approximately \$8 million. Alaska's major agricultural production areas include the Seward Peninsula (reindeer), the Aleutian Chain (sheep), Kodiak (beef), the Kenai Peninsula, Matanuska-Susitna Valley, and the Tanana Valley (beef, pork, dairy products, vegetables, and grain).

Alaska has approximately twenty million acres of arable land suitable for supporting a significant agricultural industry. However, both the state and federal government have not yet determined the use classification of most of this land. Although costs in Alaska are extremely high, yields also are high as a result of the long daylight hours during Alaska's summers. Wheat and barley represent Alaska's greatest grain potential.

Presently, Alaska lacks a comparative advantage relative to other states in agricultural production. However, it is conceivable that with continued experimentation subsidized by state government and utilization of more intensive agricultural methods, accompanied by substantial injections of private capital, a significant growth of this industry could materialize. It is impossible to predict the rate at which this will occur; however, the Koreans and Japanese, who import over 200 metric tons of grain annually, have expressed an interest in participating in Alaska's agricultural industry.

Summary

To summarize the outlook for Alaska's basic industries, the three most rapidly growing industries in the 1980's will be petroleum, construction, and the visitor industry. The fishing industry is expected to grow moderately. The hardrock mining and forest products industries are likely to experience some growth but in slightly more erratic patterns and uncertain rates. Finally, agriculture remains a long shot. In the public sector, state and local government will surpass federal government as the dominant employer in the state.

Anchorage

Anchorage is currently, and will continue to be, the state's commercial and financial center. As a result, the growth of the Anchorage area will reflect the general economic development of Alaska.

In the early 1980's employment in Anchorage will break through the 100,000 mark. By 1985 the population of the Anchorage area is expected to be approaching one-quarter million people and will account for half the state's population.

Social Effects

Economic growth tends to be accompanied by social costs. However, the type of industrial expansion Alaska is about to experience will contribute substantial social benefits as well.

In fact it can be asserted that, to the extent that the petroleum industry will play the major role in Alaska's economic development, the social benefits accruing from continued growth will far outweigh the social costs.

One social benefit will be a more stable structure to our economy. Heretofore Alaska's major industries have been highly labor intensive, highly seasonal, and highly subject to cyclical fluctuations. Now, however, certain areas in Alaska have the opportunity to break out of this pattern as a result of expansion by the extremely capital intensive petroleum industry.

Another long-run social benefit from growth of the petroleum industry is that public revenues accruing from this industry will increase to a far greater degree than the need for public services. For example, the 1,700 permanent workers required to operate and maintain the trans-Alaska pipeline and to produce North Slope oil imply a population increase of only about 7,500, while at the same time revenue to the State of Alaska will increase tenfold from pre-pipeline levels! With huge State revenues and few people, Alaska has an opportunity to enjoy relatively profuse public services without a commensurately great tax burden on local

families and businesses. Additionally, future population growth, the major cause of which has been state and local government, will be largely up to Alaskans themselves.

Two Final Comments

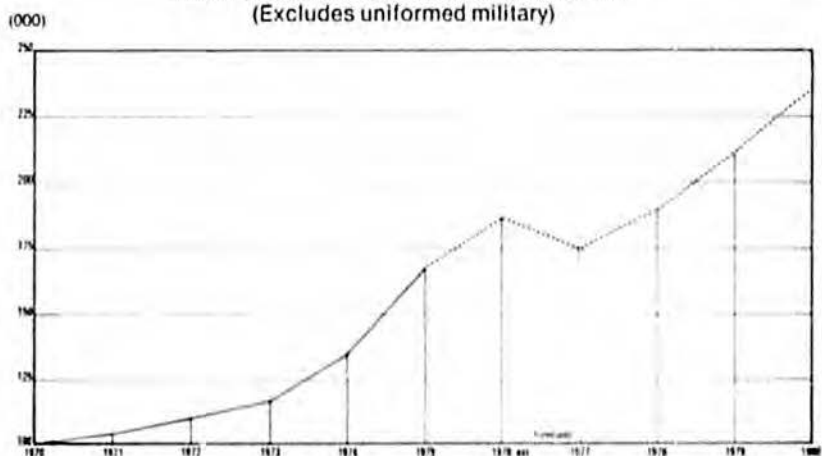
This discussion of the long-run outlook for Alaska's economy dwells solely on major anticipated events and general trends. It is not a comprehensive dissertation. Certainly, many factors not discussed herein may play a role in Alaska's economic future. Some of these include the proposed hydroelectric projects in southeastern Alaska and on the Susitna River, the state capital move to Willow, extension of the Alaska Railroad west or southeast from Fairbanks, and growth of Alaska's handicraft industries.

Secondly, it should be noted that Alaska's future economic growth will consist of a series of major, somewhat disjointed, events rather than a gradual expansion of existing capacity.

The implication is that Alaska's future will be accompanied by a series of hills and valleys—not booms and busts, but certainly rather pronounced cyclical fluctuations. Any businessman operating in Alaska should structure his enterprise and conduct his business so as to be able to effectively cope with these anticipated upswings and downturns.

Clearly, however, the trend is upward as Alaska assumes a dominant position in the world's quest for energy and productive resources.

ALASKA EMPLOYMENT GROWTH
(Excludes uniformed military)



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Arrow Lumber Co., Anchorage, and
Galco Wood Products*

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*Executive Vice President and Director,
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*President, Food Services, Inc.,
operating as McDonald's*

VANCE W. PHILLIPS

President, Phillips Corporation

JULIAN C. RICE

*Senior Partner, Rice, Hoppner
and Hedland*

ROBERT R. RICHARDS

*Executive Vice President
Alaska Pacific Bank*

ROBERT J. SHIMEK

*President,
Shimek and Co., Inc.*

DONALD L. SIMASKO

*President and
Chairman of the Board,
Simasko Production Co.*

HOWARD A. SLACK

*Vice President and
Resident Manager
Atlantic Richfield Company*

LEO A. WALSH

*President,
Walsh and Co., Inc.*

RAY M. WATERS

*Regional Vice President,
Western Airlines*

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Alaska Pacific Bank

Working Paper #2

October 13, 1976

THE CURRENT STRUCTURE OF ALASKA'S ECONOMY

In accordance with the directive given to us, this second working paper defines the nature of the Alaska economy as it is today in order to better understand the economic climate within which any investment objective option for the proposed Permanent Fund would operate.

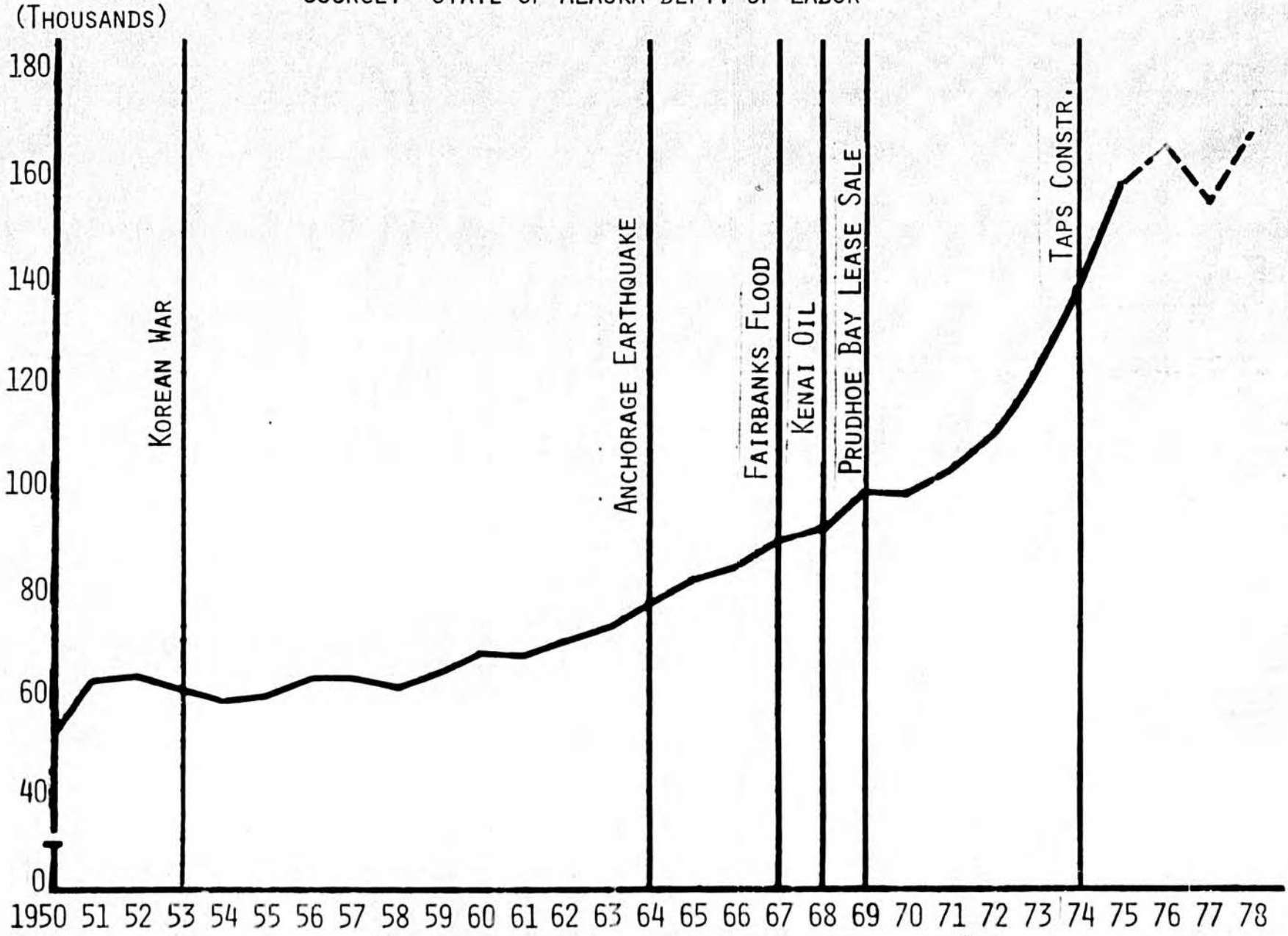
- Where are we
- Where are we going
- Implications of above
- Cases regions

THE CURRENT STRUCTURE OF ALASKA'S ECONOMY
AS IT IS TODAY

Cyclicity.....
Seasonality.....
Diversification.....
Labor Intensity.....
The Public Sector.....

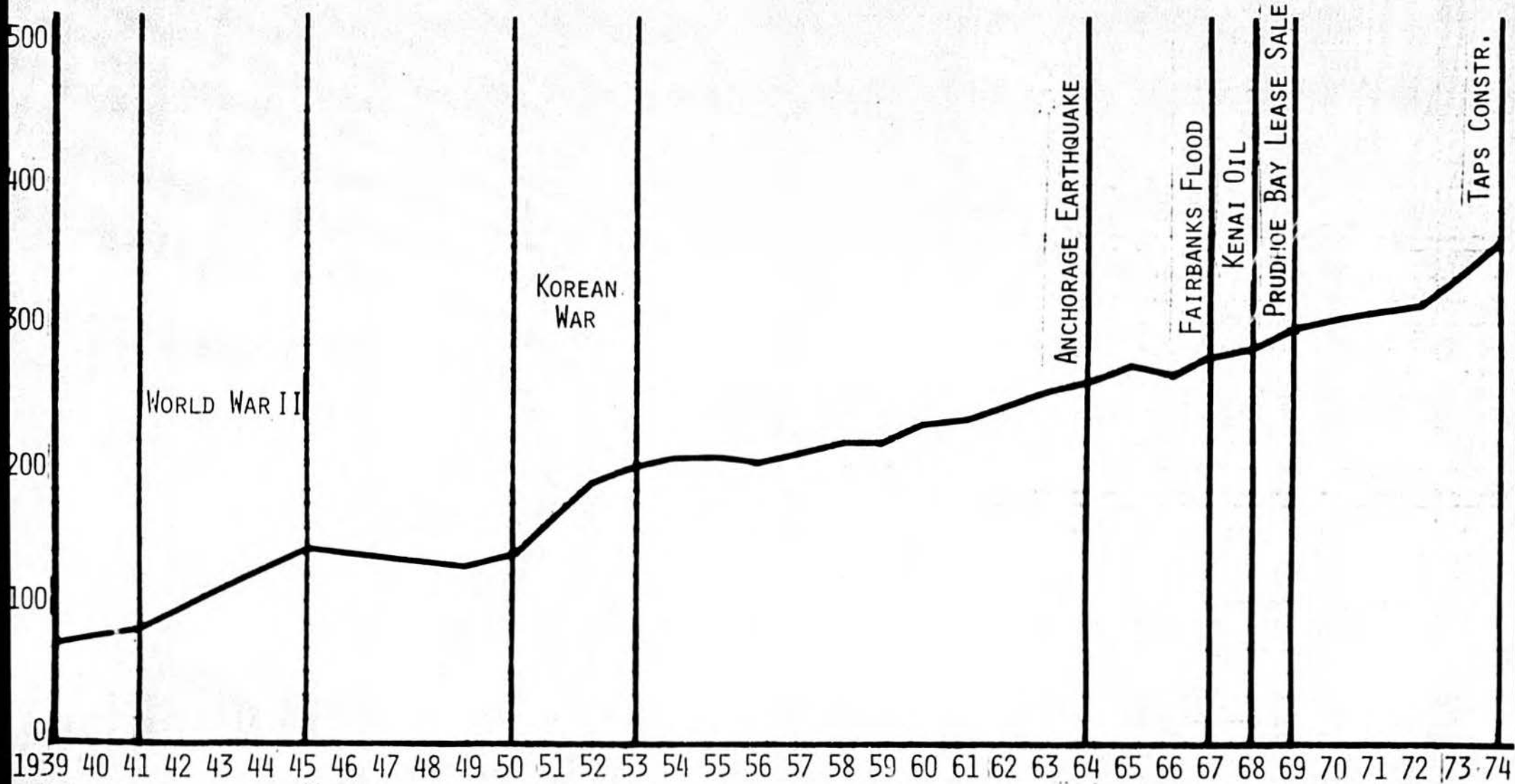
ALASKA CIVILIAN EMPLOYMENT

SOURCE: STATE OF ALASKA DEPT. OF LABOR



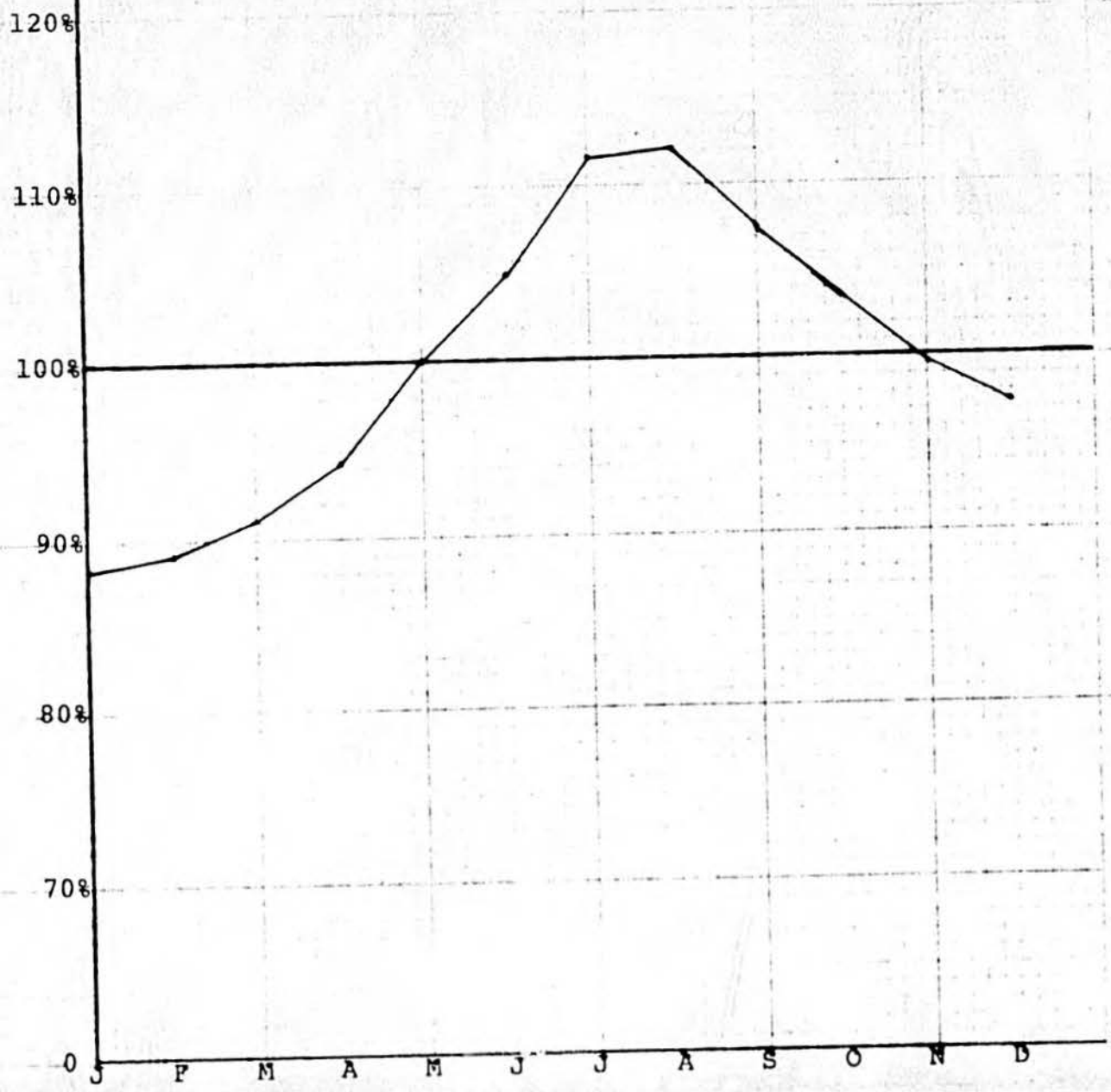
ALASKA POPULATION
(1939-1974)

(THOUSANDS)



(5)

1972-73 DATA



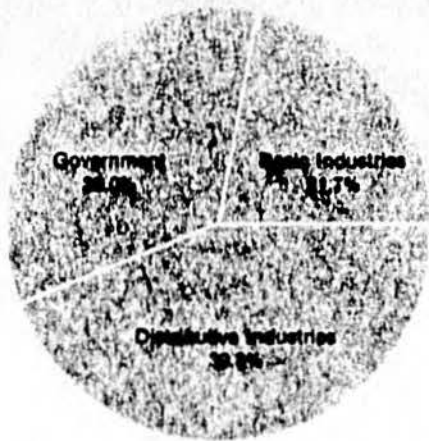
Wage and Salary Civilian Employment Mix 1975

<u>Alaska</u>		<u>United States Average</u>	
Industry	% of Total	Industry	% of Total
Trade, Services, Finance	36.4	Trade, Services, Finance	46.1
Government <i>(excludes military)</i>	31.0	Manufacturing	23.6
Construction <i>*</i>	14.4	Government	18.8
Trans., Comm., Util.	10.0	Trans., Comm., Util.	5.9
Manufacturing	5.5	Construction	4.7
Mining	2.7	Mining	1.0
<u>Industry Group</u>	% of Total	<u>Industry Group</u>	% of Total
Distributive	46.4	Distributive	52.0
Government	31.0	Basic	29.3
Basic	22.6	Government	18.8

** overstated because of pipeline*

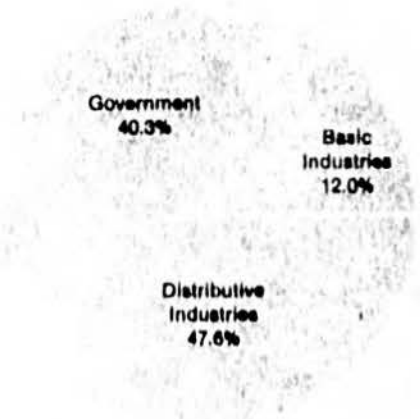
1975

EMPLOYMENT MIX
ALASKA



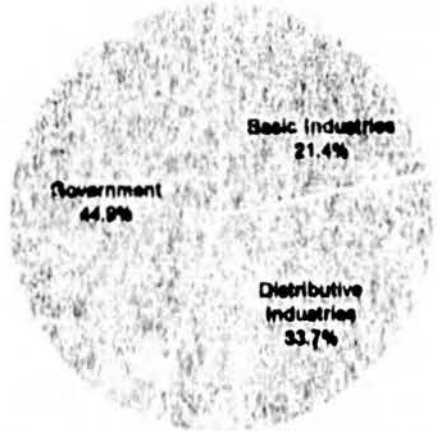
Source: State of Alaska, Department of Labor

EMPLOYMENT MIX
ANCHORAGE



Source: State of Alaska, Department of Labor

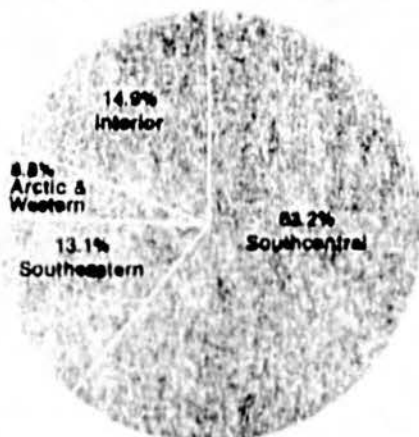
EMPLOYMENT MIX
FAIRBANKS



Source: State of Alaska, Department of Labor

~~1975~~ 1973

GROSS STATE PRODUCT BY REGION



Source: Institute of Social, Economic and Government Research, University of Alaska.

1975

ALASKA POPULATION BY REGION

<u>Region</u>	<u>% of Total</u>
Southcentral	54.5 --
Interior	17.4
Arctic & Western	16.3
Southeastern	11.9

PER CAPITA PERSONAL INCOME BY STATES 1974

<u>State</u>	Amount (\$000)
ALASKA	7,062
District of Columbia	7,044
Connecticut	6,455
Delaware	6,306
New Jersey	6,247
Illinois	6,234
New York	6,159
Hawaii	6,042
California	6,032
Nevada *	6,016
Maryland	5,943
Michigan	5,883
Massachusetts	5,757
Washington	5,710
North Dakota*	5,583
Ohio	5,518
Colorado	5,515
Kansas *	5,500
UNITED STATES	5,448
Pennsylvania	5,447
Minnesota	5,422
Florida*	5,416
Wyoming *	5,404
Rhode Island	5,343
Virginia *	5,339
Oregon	5,284
Iowa *	5,279
Nebraska *	5,278
Wisconsin	5,247
Indiana	5,184
Arizona *	5,127
Missouri	5,036
Montana	4,956
Texas *	4,952
New Hampshire	4,944
Idaho	4,918
Georgia*	4,751
South Dakota *	4,685
North Carolina*	4,665
Maine	4,590
Oklahoma	4,581
Tennessee	4,551
Vermont	4,534
Utah *	4,473
Kentucky	4,442
Louisiana	4,391
West Virginia	4,372
South Carolina*	4,311
Alabama*	4,215
Arkansas *	4,200
Mississippi*	3,803

* HAS RIGHT-TO-WORK LAW

LABOR INTENSITY BY INDUSTRY GROUP

Government

Trade & Services

Fishing

Tourism

Forest Products

Construction

Petroleum

Highly Labor Intensive

Moderately Labor Intensive

Capital Intensive

LABOR UNION MEMBERSHIP 1972
Percent of Nonagricultural Employment

<u>State</u>	<u>Percent</u>
West Virginia	41.3
Michigan	38.4
Washington	38.3
Pennsylvania	38.2
Hawaii	37.0
New York	36.2
Illinois	35.6
Ohio	34.8
Indiana	33.9
Nevada*	33.6
Missouri	32.9
Montana	30.7
Wisconsin	29.7
New Jersey	29.1
California	28.9
Minnesota	28.3
Oregon	27.9
ALASKA	27.6
Rhode Island	27.3
U.S. AVERAGE	27.2
Connecticut	26.1
Massachusetts	26.0
Kentucky	24.9
Maryland**	21.7
Delaware	20.3
Iowa*	20.0
Utah*	19.4
Alabama*	19.2
Maine	19.1
Colorado	18.9
Wyoming*	18.5
Tennessee	18.4
Vermont	17.7
New Hampshire	17.2
Idaho	17.0
Nebraska*	17.0
Louisiana	16.9
Arizona*	16.6
Arkansas*	16.4
North Dakota*	16.1
Oklahoma	16.0
Virginia*	15.5
Kansas*	15.4
Florida*	14.7
Georgia*	13.9
Texas*	13.5
New Mexico	13.2
Mississippi*	12.6
South Dakota*	11.8
South Carolina*	9.0
North Carolina*	7.5

* State has a right-to-work law.

** Includes Dist. of Col.

**STATE OF ALASKA ESTIMATED REVENUE SOURCES
FISCAL YEAR 1977**

<u>Source</u>	<u>Amount (\$ Millions)</u>	<u>Portion</u>
<u>Petroleum-Related Sources</u>		
Reserves Tax	\$ 260	37.2%
Royalties, severance tax, property tax, etc.	<u>\$ 155</u>	<u>22.1%</u>
SUBTOTAL	\$ 415	59.3%
<u>Other Sources</u>		
Income Taxes	\$ 145	20.7%
Other taxes, fees, etc.	<u>\$ 140</u>	<u>20.0%</u>
TOTAL	\$ 700	100.0%

STATE OF ALASKA ESTIMATED REVENUE SOURCES
FISCAL YEAR 1985

<u>Source</u>	<u>Amount</u> <u>(\$ Billions)</u>	<u>Portion</u>
Oil and Gas.....	\$2.0	71.4%
Other Sources.....	<u>0.8</u>	<u>28.6%</u>
TOTAL.....	\$2.8	100.0%

During the ten year period of 1964 to 1974, state and local government employment increased by nearly 15,000 employees. Assuming the state average household size of 3.1 persons implies an increase in Alaska's population of over 45,000. The multiplier effect then adds another 22,000 people. This totals 67,500 people attracted to Alaska because of the expansion of state and local government. This is nearly twice the population impact of the construction, petroleum, hardrock mining, fishing and forest products industries -- the entire basic sector -- combined.

These employment increases reflect the general expansion of state and local government since 1969. In one year (Fiscal Year 1971) the level of State General Fund expenditures doubled. Over the past five years State spending has increased at an annual rate of 26.2%.

As a result of this expansion, the State of Alaska now spends 3.7 times as much per capita as the average state in the country, employs 2.9 times as many people per capita as the average state in the country, and has 4.7 times as much outstanding debt per capita as the average state in the country.

AlaskaPacificBank

Working Paper #3

October 13, 1976

FUTURE DIRECTION OF THE ALASKA ECONOMY

SHORT-RANGE OUTLOOK

Alaska's economy is now entering a plateau period. Over the next two years, our economic growth will slow considerably.

Three factors are going to be responsible for the forthcoming slowdown in our rate of growth:

1. the substantial decrease in employment on the pipeline project;
2. the likelihood of more modest State spending increases; and
3. a holding back in the private sector because most businessmen and developers in Alaska are expecting a slowdown. (As in any business cycle anywhere, this in turn causes them to become more conservative and helps bring about the very slowdown they expect.)

To put some preliminary numbers on this slowdown, in 1975 civilian employment in Alaska rose 22% above the level of 1974. In 1976 the growth rate is expected to fall considerably to somewhere in the neighborhood of 10%. In 1977 employment is expected to decrease by about 5% - 10%. Employment should hold relatively stable in 1978, then in 1979 with substantial royalty and production tax revenues flowing to the State and a gas pipeline probably under construction, the rate of economic growth should pick up.

It should be emphasized that, despite this forecast of a slowdown, there is not going to be any sort of major bust in the sense of the post-gold rush collapse. These factors will prevent the forthcoming slowdown from turning into a bust.

First, we should keep in mind the huge underpinning of the Alaska economy: government. Over the past decade, federal spending in Alaska has risen steadily at an average annual rate of 10%. This is expected to continue. At the state government level large spending increases are occurring. The Fiscal Year 1975 appropriations provided for a 40.1% increase in expenditures over the level of Fiscal Year 1974; the Fiscal Year 1976 budget increased another 28%; and the Fiscal Year 1977 level of expenditures is expected to rise by nearly 20%.

This huge base of government spending and employment (indeed, providing nearly half the jobs in Alaska) presents a stable underpinning to our economy which helps to mitigate cyclical fluctuations in the private sector.

A second element to keep in mind when analyzing the possibility of a post-pipeline bust is the fact that this project is not a situation wherein on July 1, 1977, everybody is going to lay down their tools and go home. Rather, construction on the pipeline will continue into the early 1980's, gradually increasing the capacity to two million barrels a day. Nevertheless, the fact remains that it appears at this point that in 1977 there is going to be a fall-off in the number of workers on the pipeline of approximately 18,000. Interestingly, this fall-off is not going to have the catastrophic effect that would appear on the surface. The workers living in the camps and working on the pipeline are having a more modest impact on Alaska's economy than expected. Forty percent of them send their payroll checks directly to the "lower 48" to a bank in their hometowns for deposit. Further, a substantial number of the local checking accounts of the other 60% are simply temporary or flow-through in nature.

The second factor, then, preventing a post-pipeline bust is the fact that the pipeline project has not itself

contributed as much to the present boom as it appears on the surface. Therefore, the winding down of the pipeline project will not have as great a "bust" effect as some believe.

The third element preventing a post-pipeline bust is the fact that it appears that most Alaskans are focusing on the longer range outlook. We know there will be construction of a gas pipeline, one route or another; we know that oil and gas exploration and development is just in its infancy and will grow substantially; we know that the economic impact from the Native Claims Settlement Act will be significant; we know that a certain expansion of LNG plants and of the petrochemical industry is highly probable; we know that there is a good chance of a major hydroelectric project and of the capital being moved; and we know of numerous other events likely to occur in the 1980's.

The relevancy of all of this is that there will continue to be anticipatory expansion in the private sector. In the very same way that the delayed pipeline in the early '70's did not squelch completely the plans of developers, I feel that the forthcoming slowdown also will not squelch completely the activities of developers who look beyond the valley to the strong growth anticipated for the 1980's.

To summarize the outlook for the immediate future: definitely the rate of economic growth will slow down, and there could be a slight downturn in 1977. But this slowdown will be (1) somewhat modest, not in any way resembling a bust, and (2) relatively short in duration.

LONG-RUN OUTLOOK

The decade of the eighties looks promising for Alaska's economy. Big oil and big government -- the factors underlying Alaska's prosperity in the seventies -- will again promote a great leap forward.

For at least the next decade -- and likely far beyond -- the petroleum industry will serve as the vanguard of Alaska's economic growth.

Petroleum Industry

The second major oil and gas project in Alaska following construction of the trans-Alaska oil pipeline will be construction of a natural gas pipeline. Although there is as yet no specific route approved for transporting the natural gas from Alaska's North Slope to U.S. markets, three routes have been proposed. Canadian Arctic Gas, Ltd., has applied to the Federal Power Commission for authority to transport the gas through Canada to Montana and onto the Midwest where it will connect with existing systems, terminating in Pennsylvania. El Paso Natural Gas Company is proposing to transport the gas from the North Slope to Point Gravina near Cordova, liquefy it, and ship the LNG to the West Coast. A third entrant, Northwest Pipeline Corporation of Salt Lake City,

has filed for permission to construct a pipeline parallel to the first oil pipeline from Prudhoe Bay to approximately Fairbanks, turn east, and enter Canada where it would connect with existing systems to transport the natural gas to the United States. The Federal Power Commission has announced its intention to rule on this matter by the end of the year. Undoubtedly final resolution of the route is expected to be performed by Congress. This is anticipated to be accomplished by fall, 1977.

Regardless of which route is approved, Alaska will feel a substantial impact during construction of a gas pipeline. Nevertheless, the trans-Alaska route, which would transport gas to tidewater, would be most conducive to development of a petrochemical industry in Alaska.

When looking to the future of the petroleum industry in Alaska, it should be kept in mind that the Prudhoe Bay project on the North Slope, which holds one-fourth of our nation's proved crude oil reserves and nearly ten percent of our nation's proved natural gas reserves, is simply one reservoir in one of Alaska's fifteen sedimentary basins. That is, development on the North Slope represents only the beginning as far as oil development in Alaska is concerned. No one knows for sure, but the guesses in the industry are that there is in the neighborhood of one hundred billion barrels of oil underneath and offshore Alaska.

Our nation's official commitment to pursuing greater energy self-sufficiency has placed a high priority on lease sales on the Outer Continental Shelf. Over half of the U.S. Outer Continental Shelf lies off Alaska. The first offshore oil lease sale in the Gulf of Alaska was held last April, and eight more sales are scheduled over the next two years as indicated in the accompanying table.

OCS SALE SCHEDULE FOR ALASKA

Sale Area	Call For Nominations	Sale Date
Lower Cook Inlet		November, 1976 to January, 1977
Gulf of Alaska (Kodiak Shelf)		February, 1977
Bering Sea (St. George Basin)		March, 1977
Beaufort Sea	July, 1976	October, 1977
Bristol Basin	September, 1976	December, 1977
Bering Sea (Norton Basin)	May, 1977	August, 1978
Gulf of Alaska (Aleutian Shelf)	July, 1977	October, 1978
Chukchi Sea (Hope Basin)	September, 1977	December, 1978

Source: Oil and Gas Journal

Another factor inducing oil development is the transfer of forty million acres of land from the federal government to Alaska's Native corporations. Most of the Native corporations which occupy potentially rich oil and gas basins have consummated exploration agreements with petroleum firms, as outlined in the table following.

NATIVE CORPORATION DRILLING CONTRACTS

Native Corporations

Arctic Slope Regional Corp.

NANA Regional Corp.

Calista Corp.

Bristol Bay Native Corp.

Koniag, Inc.

Doyon, Ltd.

Ahtna, Inc.

Chugach Natives, Inc.

Contracting Companies

Standard Oil

Union-Amoco

Texaco

Standard Oil

Shell

Phillips

Standard Oil

Louisiana Land and Exploration

Champlin

Asland

Amoco

Phillips

Another bright star in Alaska's future is the expansion of the petrochemical industry. Current world economic conditions which are not conducive to the construction of petrochemical plants in Alaska can be expected to change in a more favorable direction over time. Of immediate significance, however, is the fact that the State of Alaska owns the oil and gas at Prudhoe Bay and will be receiving a 12½% royalty. Probably the State of Alaska will take this royalty in kind, sell it to those firms that agree to process the gas in some way in Alaska, and thereby strongly influence expansion of a petrochemical industry in Alaska.

State Government

Another major factor raising Alaska's economy onto a new plateau will be the tenfold increase of revenue to the State of Alaska by the mid-1980's from the 1970 level.

When the North Slope is in full production, the mineral royalties, right-of-way leases, and production taxes will generate substantial revenue to the State. The greatly increased State expenditures will be important not only as ends in themselves by creating employment directly and indirectly, but, to the extent that they are devoted to public works projects such as highways, ports, schools, etc., they will induce additional economic development. For example, expansion of transportation systems in Alaska's interior region might make certain proposed mineral ventures feasible.

Hardrock Mining

Although, Alaska's mining industry has been relatively dormant except for extraction of gold, sand and gravel, and a few minor operations, many projects are waiting in the wings to be developed. There is the proposed Lost River fluorite mine to the Seward Peninsula, which contains an estimated one-third of the world's supply of fluorite; there is Mitsubishi's iron ore deposit at Klukwan near Haines; Marcona's iron deposit at Snettisham near Juneau; Newmont Mining's nickle deposit at Glacier Bay; the U.S. Borax molybdenum deposit near Ketchikan; Kennecott's huge copper deposit near Bornite, and many, many others.

One of the most exciting mineral potentials is the Beluga coal deposit across Cook Inlet from Anchorage. The sub-bituminous coal there is very low in sulphur content. The estimated 2.4 billion tons of coal at Beluga contain an energy equivalent 25% greater than that of the crude oil at Prudhoe Bay.

Currently, U.S. Borax is pursuing development of its rich molybdenum deposit near Ketchikan.

Despite Alaska's immense latent mineral potential, currently the annual hardrock mineral production of Alaska is less than one-twentieth as great as that of the average western state.

Construction

The primary beneficiary of the enormous increase in State expenditures and the necessary expansion of Alaska's infrastructure will be the construction industry. The upsurge of construction projects is already about to commence. In November Alaskans will vote on bond issues totalling nearly \$250 million.

Further, investments by Native corporations and greatly expanded oil and gas exploration and development will generate

large projects, all of which auger well for the construction industry.

Visitor Industry

Alaska's visitor industry is expected to continue its soaring growth. Indeed, in just the past five years, the number of visitors to Alaska has more than doubled.

Alaska will continue to receive considerable national attention as a result of its dominant position in the nation's quest for energy. As a result, Alaska can look forward to receiving an increasing share of the burgeoning flow of travelers throughout the country. The state Division of Tourism predicts that in ten years more than one million tourists will be visiting Alaska annually -- triple the current level.

Another boost to Alaska's visitor industry is the establishment of the Anchorage Convention/Visitors Bureau. The objective of this organization is to attract to Anchorage some of the more than 47,000 conventions held annually in the United States. Additionally, Alaska's Native corporations are investing in visitor facilities to accommodate a greater flow of tourists to Alaska.

Finally, a virtually untapped market for Alaska's tourist industry are the Japanese. At the height of Japanese visitations to Alaska prior to the imposition of exchange controls, 10,000 Japanese visited Alaska annually. At the same time more than 200,000 Japanese were visiting Hawaii. Alaska, with its spaciousness and splendor, two criteria high on the list of Japanese tourists, has a strong competitive advantage in attracting this important market.

In general the long-run outlook for Alaska's visitor industry is extremely favorable.

Forest Products

Alaska's forest products industry looks bleak for the long-run. Not only has expansion been curtailed, but the very existence of the industry in Alaska is in jeopardy.

Ketchikan Pulp Company, in the face of severe federal waste water treatment regulations, has announced its intention to close its mill next year. Champion International, after nearly ten years of apparent endless litigation between the Sierra Club and the U.S. Forest Service, finally abandoned its plans for a huge wood processing complex at Berners Bay.

Further, the Forest Service has adopted the policy of limiting future timber contracts to ten years rather than 55 years. This means an absence of wood volumes sufficient to support large operations, and, therefore, any future developments will be limited to relatively small mills.

Despite these extremely adverse events, the basic facts remain that strong economic advance and growing affluence in Japan, combined with substantial population growth in the State of Alaska, are going to place heavy demands on our timber resources. At the same time, we are currently cutting only about one-third of the state's total annual allowable cut. Accordingly, there is considerable room for expansion of this industry.

It is likely that the Native corporations, with their keen interest in creating jobs in their respective regions, will be the key element in any future growth of Alaska's forest products industry.

Fishing

The long-run outlook for Alaska's fishing industry is optimistic as the industry diversifies and its business management techniques become increasingly sophisticated. The major

long-range potential for Alaska's fishing industry may very well be with bottom fish. Increasing demand from Japan, rapidly rising world prices, and improving market acceptance throughout the United States are inducing more and more Alaska fishermen to harvest bottom fish.

Additionally, federal management of the shellfish and halibut fisheries is showing definite signs of effectiveness. Also State and federal aquaculture programs now suggest salmon harvests in the 1980's may approach 50 million fish. It seems reasonable to expect continued gradual growth of Alaska's fishing industry, accompanied, however, by the normal cyclical fluctuations resulting from biological and climatic factors. Again, Alaska's Native corporations will likely be a major force in the development of the state's fishing industry.

Nevertheless, a huge question mark hangs over the future of this industry concerning the uncertainty of whether or not countries will develop the wisdom and cooperation necessary for effective management of our fish resources to conserve adequate supplies for future generations.

Summary

To summarize the outlook for Alaska's basic industries, the three most rapidly growing industries in the 1980's will be

petroleum, construction, and the visitor industry. By early in the next decade these industries will surpass the fishing industry in importance as a source of employment. The fishing industry is expected to grow moderately. The hardrock mining and forest products industries are likely to experience some growth but in slightly more erratic patterns and uncertain rates. Finally, agriculture remains a long shot.

In the public sector, state and local government will replace federal government as the dominant employer in the state.

Anchorage

Anchorage is currently, and will continue to be, the state's commercial and financial center. As a result, the growth of the Anchorage area will reflect the general economic development of Alaska.

In the early 1980's employment in Anchorage will break through the 100,000 mark -- a 50% increase over today's level. By 1985 the population of the Anchorage area is expected to be well over one-quarter million people.

Social Effects

Economic growth has always been accompanied by social costs.

But when looking at the complexion of Alaska's future economic growth, it is clear that the type of industrial expansion this state is about to experience will also contribute substantial social benefits.

In fact it can be asserted that, to the extent the petroleum industry will play the major role in Alaska's economic development, the social benefits accruing from continued growth will far outweigh the social costs.

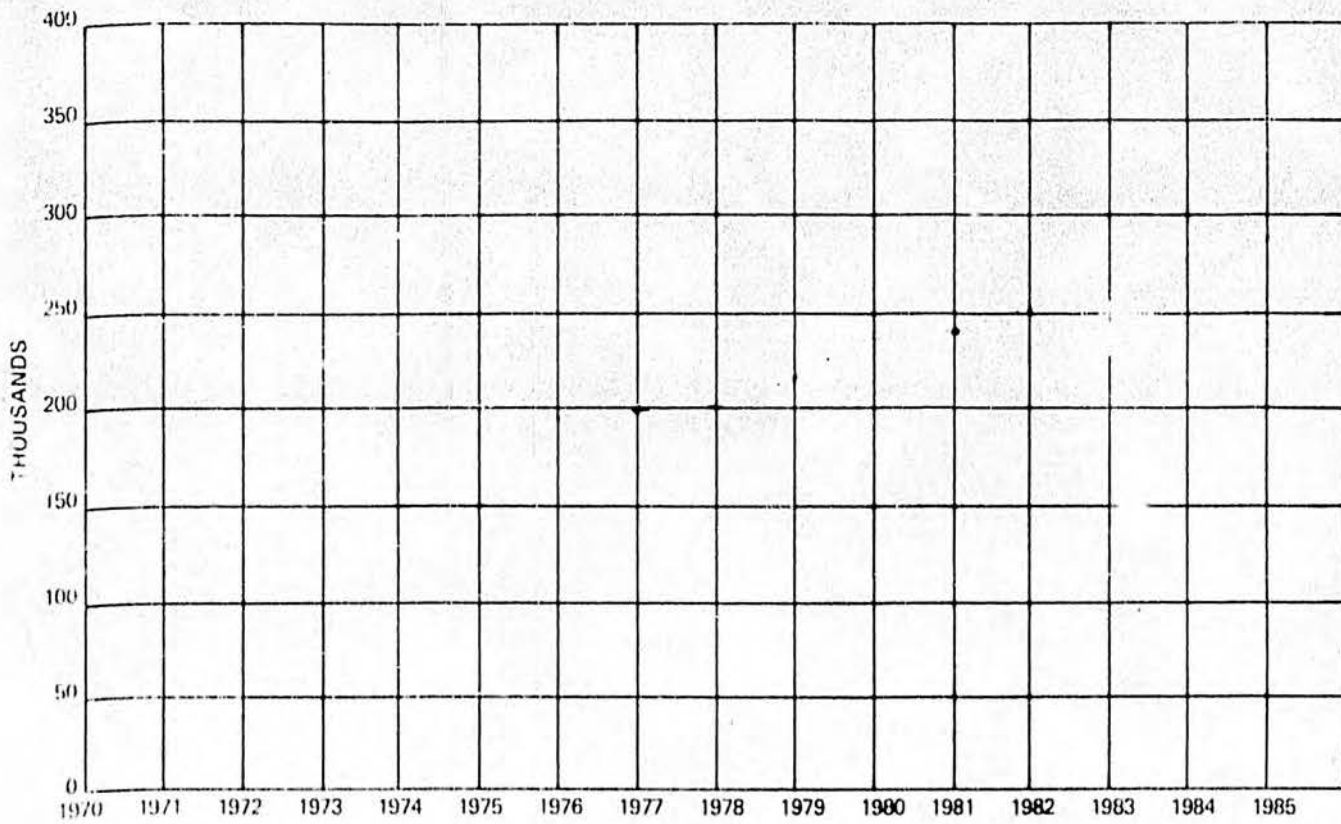
One social benefit will be a more stable structure to our economy. Heretofore Alaska's major industries have been highly labor intensive, highly seasonal, and highly subject to cyclical fluctuations. Now, however, certain areas in Alaska have the opportunity to break out of this pattern as a result of expansion by the extremely capital intensive petroleum industry.

Another social benefit from growth of the petroleum industry is the fact that in the long-run public revenues accruing from this private operation will increase to a far greater degree than the need for public services. For example, the 1,700 permanent workers required to operate the pipeline and produce North Slope oil implies a population increase of about 7,500, while at the same time revenue to the State of Alaska increases tenfold from pre-pipeline levels. With huge

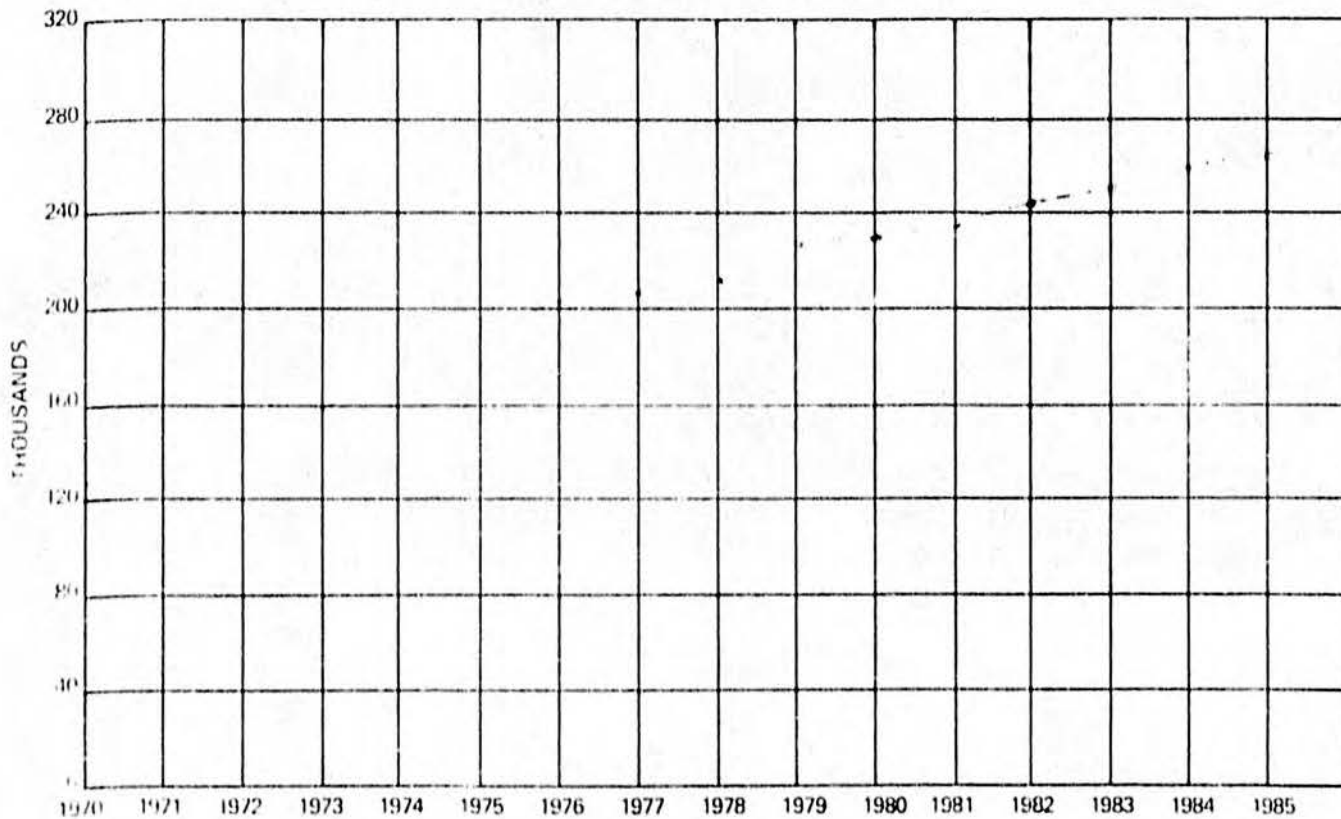
State revenues and few people, Alaska has an opportunity to enjoy relatively profuse public services without a commensurately great tax burden on local families and businesses.

Note: This discussion of the long-run outlook for Alaska's economy dwells solely on major anticipated events and general trends. It is not intended to be a comprehensive dissertation. Certainly, many factors not discussed herein may play a role in Alaska's economic future. Some of these include the proposed hydroelectric projects, the state capital move, and growth of Alaska's agriculture and handicraft industries.

ALASKA EMPLOYMENT FORECAST
(Excludes Uniformed Military)



ANCHORAGE POPULATION FORECAST





Alaska Pacific Bank

Working Paper #4

October 13, 1976

POLICY IMPLICATIONS

Cyclical: Alaska's economy is considerably less cyclical than normally believed. However, certain industries, i.e., forest products, fishing, and construction are more subject to cyclical fluctuations than normal. Therefore, economic development should seek more non-cyclical industries.

Seasonality: More jobs are needed in November, December, January, February, March, and April -- the "wintertime." Some new sources of substitute wintertime jobs should rank high to moderate in labor intensity. Future economic development should seek more counter-seasonal industries.

Diversification: The greatest dislocations in Alaska's economy appear in the lack of diversification. Whereas, for the U.S. as a whole, about one-third of the jobs come from the basic industries and one-fifth from government, in Alaska those proportions are reversed. But despite government's large participation in the labor force, it

contributes only one-fifth of the Alaska gross product. Alaska is also out of balance in terms of regional productivity. Almost two-thirds of the gross state product come from southcentral Alaska alone.

Labor Intensity: Petroleum, which is capital intensive and supplies less than 3% of Alaska jobs, contributes about as much gross state product as government, which is highly labor intensive and accounts for about one-third of all the jobs in Alaska.

Outlook:
(Short Range) The rate of economic growth is expected to pick up in 1978 or 1979, following a moderate lull. Therefore, no explicit, abnormal injection of public spending into the economy is needed for counter-cyclical purposes.

Outlook:
(Long Range) The long range employment projections for Alaska assume continued, gradual expansion of the infrastructure.

The growth that will naturally occur will be highly capital intensive and therefore will not imply a commensurately great demand for public services.

Alaska Pacific Bank

Working Paper #5

October 13, 1976

REGIONAL SUMMARY

As we have observed before, it is dangerous to make generalizations about Alaska's economy. Activity varies considerably from region to region. The southcentral and interior regions, which provide approximately three-fourths of Alaska's gross state product, have exhibited rather sluggish economic growth in 1976 relative to the past two years. On the other hand, the Arctic with its stepped up oil and gas exploration and development, western Alaska with its improved fishing industry, and southeastern Alaska with substantial production increases in the forest products industry are experiencing strong, healthy economic activity.

SOUTHCENTRAL

Anchorage, with about half of the population and nearly half of the jobs in Alaska, is exhibiting poorer retail sales when compared to 1975. Further, during the first quarter of the year the employment growth rate fell to half the rate of the same period last year. Reflecting the slowing population influx, Anchorage school enrollment during the first quarter was less than 1% greater than the first quarter of 1975.

The Anchorage housing market is considerably weaker this year than last. The low sales to listings ratio of homes selling above \$70,000 implies a rather serious accumulation of inventory. Currently it takes approximately one week longer to sell a home this year than last. The value of residential building permits through the first seven months of the year are down 26% from the same period last year. Further weakening is anticipated next year.

Much of the growth from Anchorage is spreading north into the Matanuska Valley. Both permanent and residential land sales have been soaring at a pace similar to recent "land booms" in the southern United States. The Palmer Industrial Park will house a new acetylene and air separation plants for the production of oxygen in its gaseous and liquid form for distribution through Alaska.

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a \$660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a \$6 million barite

grinding mill for drilling mud used in offshore oil and gas exploration. Also, in connection with anticipated OCS exploration in the Gulf of Alaska, the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

INTERIOR

The Fairbanks area has registered virtually no employment growth this year, and sellers of both consumer goods and business, industrial, and construction equipment report rather poor sales.

Similar to the Anchorage situation, the Fairbanks housing market appears to be loosening. There are approximately three times as many units available for rent this year as last year's annual average. Rapid price increases appear to have abated, with some price declines being reported.

Nevertheless, economic activity in the Fairbanks area remains strong. Work continues on the \$120 million Chena River Flood Control project with a \$1.4 million contract for levy construction let in April. Energy Company of Alaska broke ground in June for construction of the first phase of a refinery at North Pole. This job will not only create jobs, but will provide lower cost petroleum products to interior Alaska.

ARCTIC AND WESTERN

The arctic and western regions of Alaska are enjoying relatively strong economic activity this year. Development at Prudhoe Bay and oil and gas exploration in Pet 4, accompanied by investment activity of the Arctic Slope Regional Corporation, are contributing to a vigorous economy in the Alaska Arctic.

Similarily, oil and gas exploration and construction projects of the NANA, Bering Straits, Calista, and Bristol Bay Native corporations, accompanied by another good return of salmon, suggests a relatively satisfactory year for western Alaska.

SOUTHEASTERN ALASKA

Higher prices for fish and timber products underlie a strong economy in southeastern Alaska this year. Offsetting somewhat the favorable prices, the return of salmon to southeastern Alaska is expected to be relatively poor, having not yet recovered from flood damage to spawning grounds and severe winters of a few years ago.

Both prices and output volumes are up considerably in the forest products industry, responding to healthy economic recovery in Japan.

On the other hand, the visitor industry in southeastern Alaska is reported to be registering a rather mediocre performance when compared to previous years' growth rates.

Alaska Pacific Bank

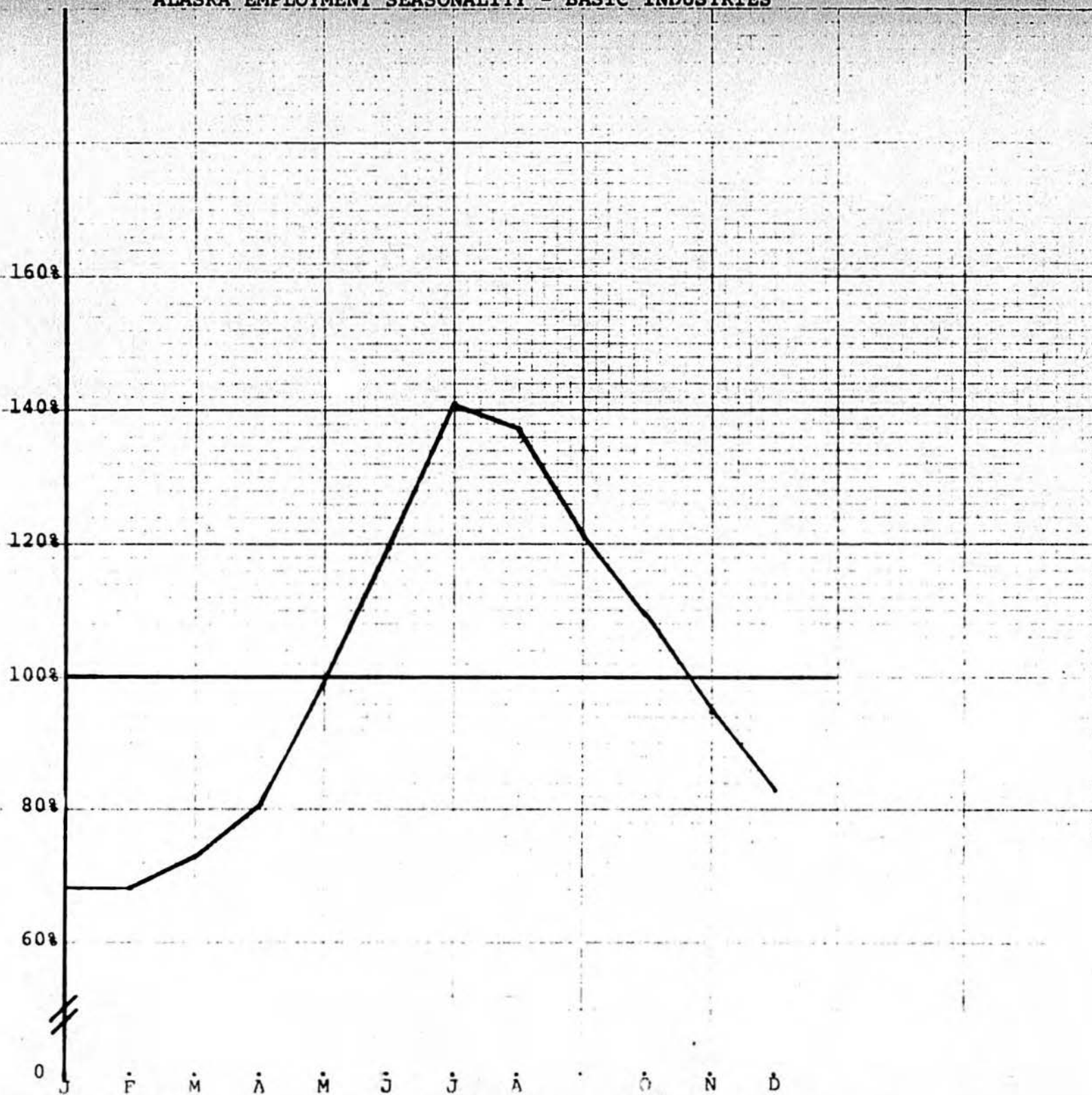
Working Paper #7

December 16, 1976

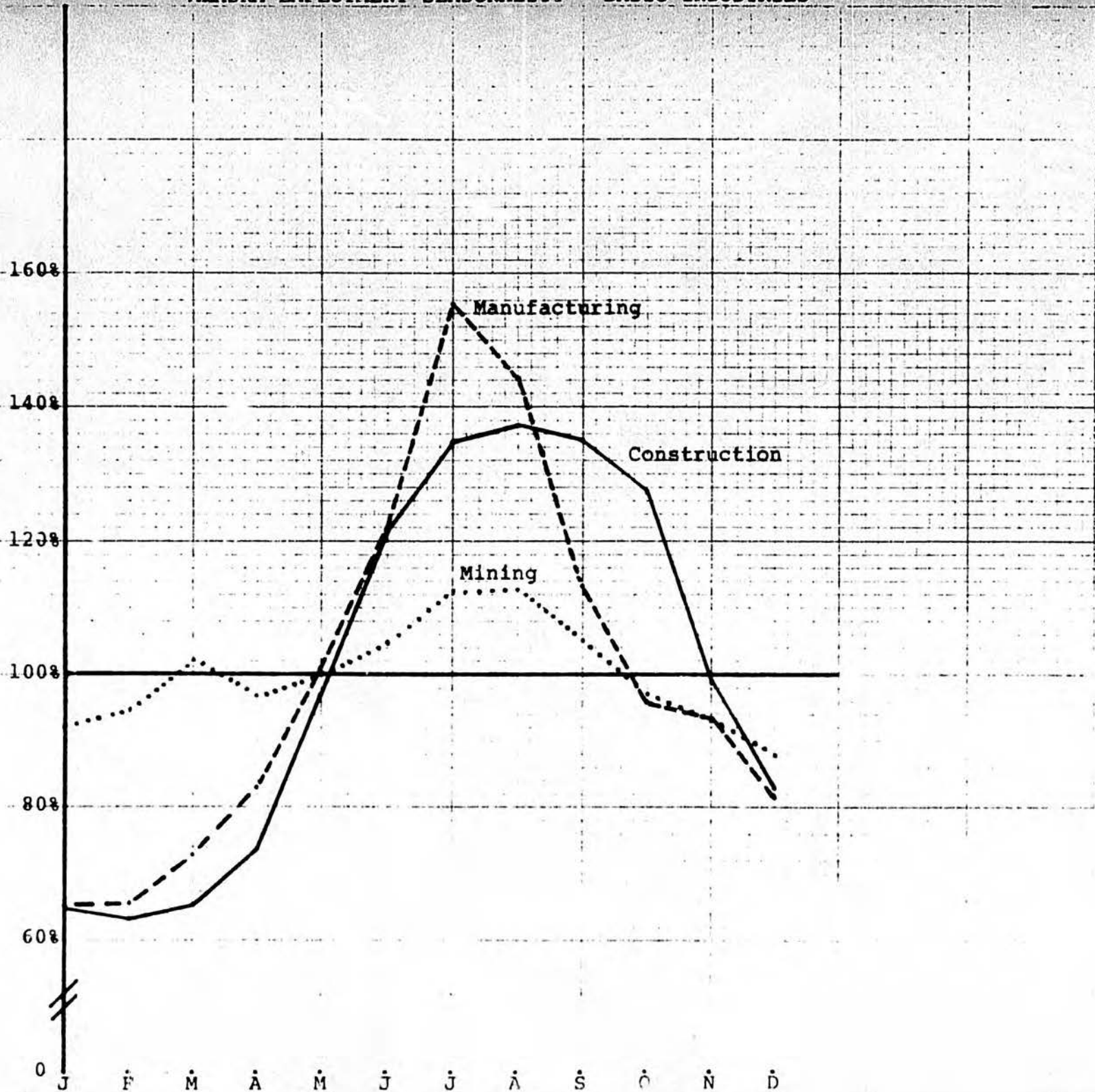
ALASKA EMPLOYMENT SEASONALITY

In compliance with the State Investment Advisory Committee's request, attached are graphs depicting Alaska's employment seasonality by industry and region and a table with comparative cost of living information.

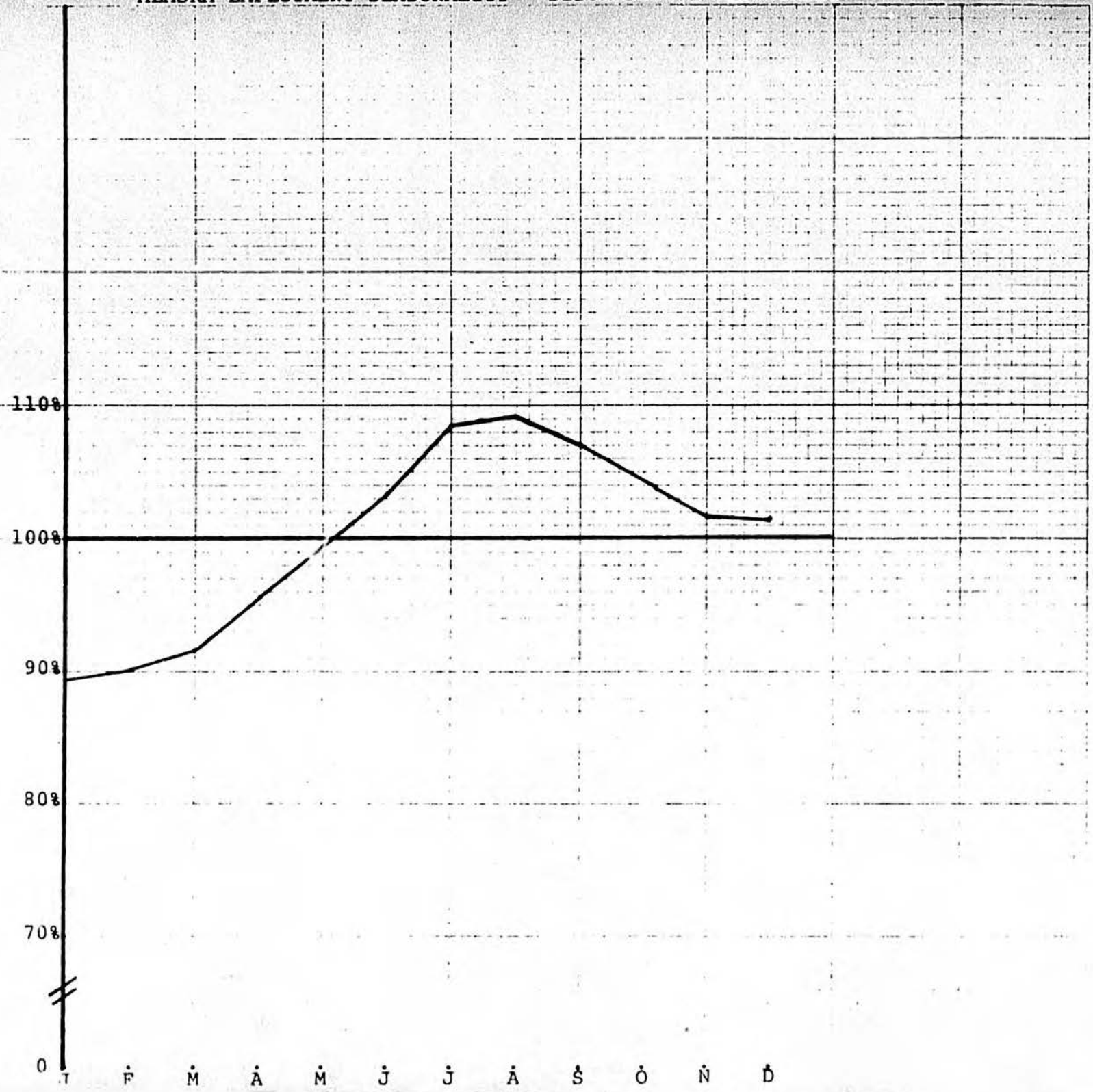
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



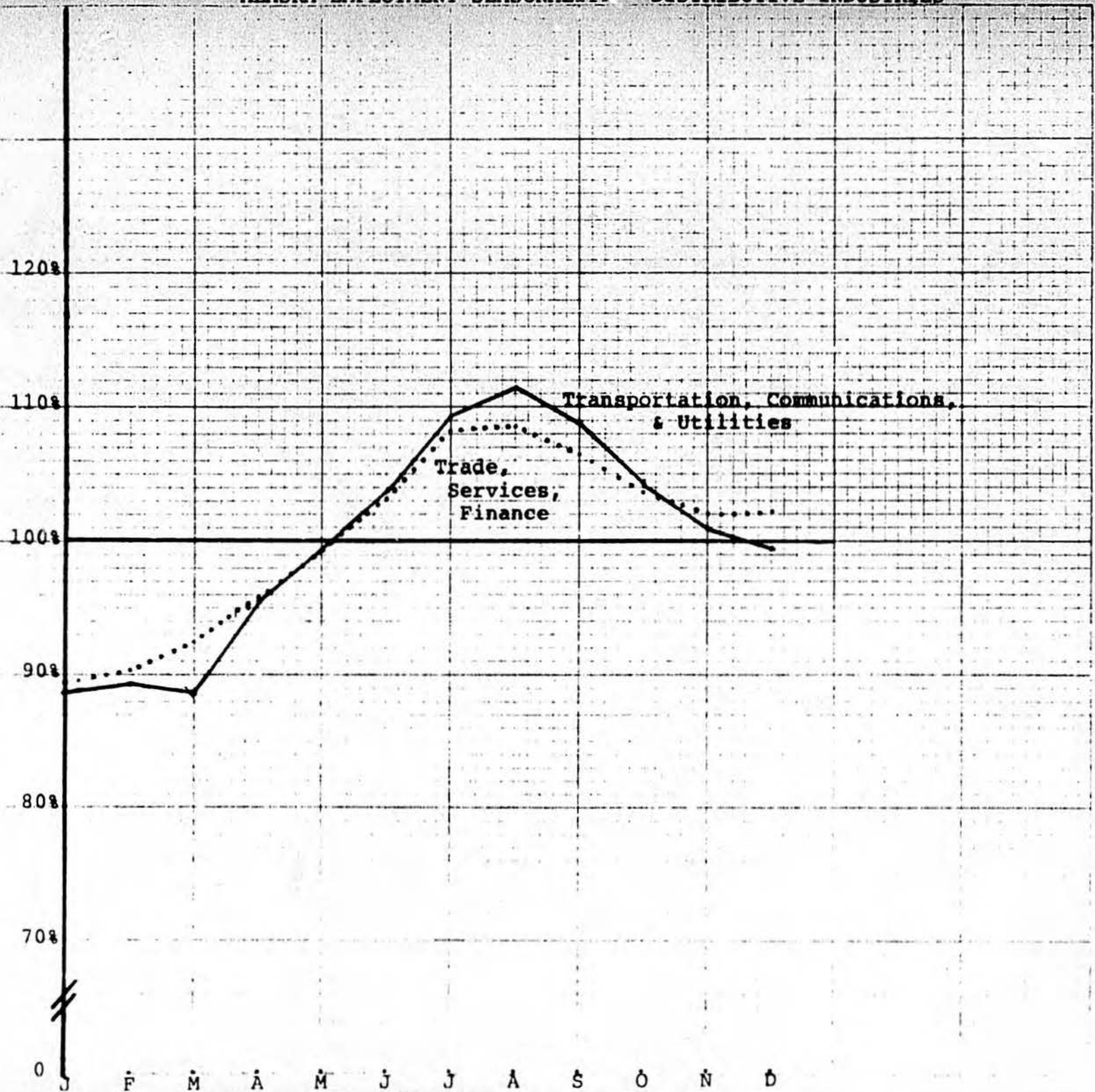
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



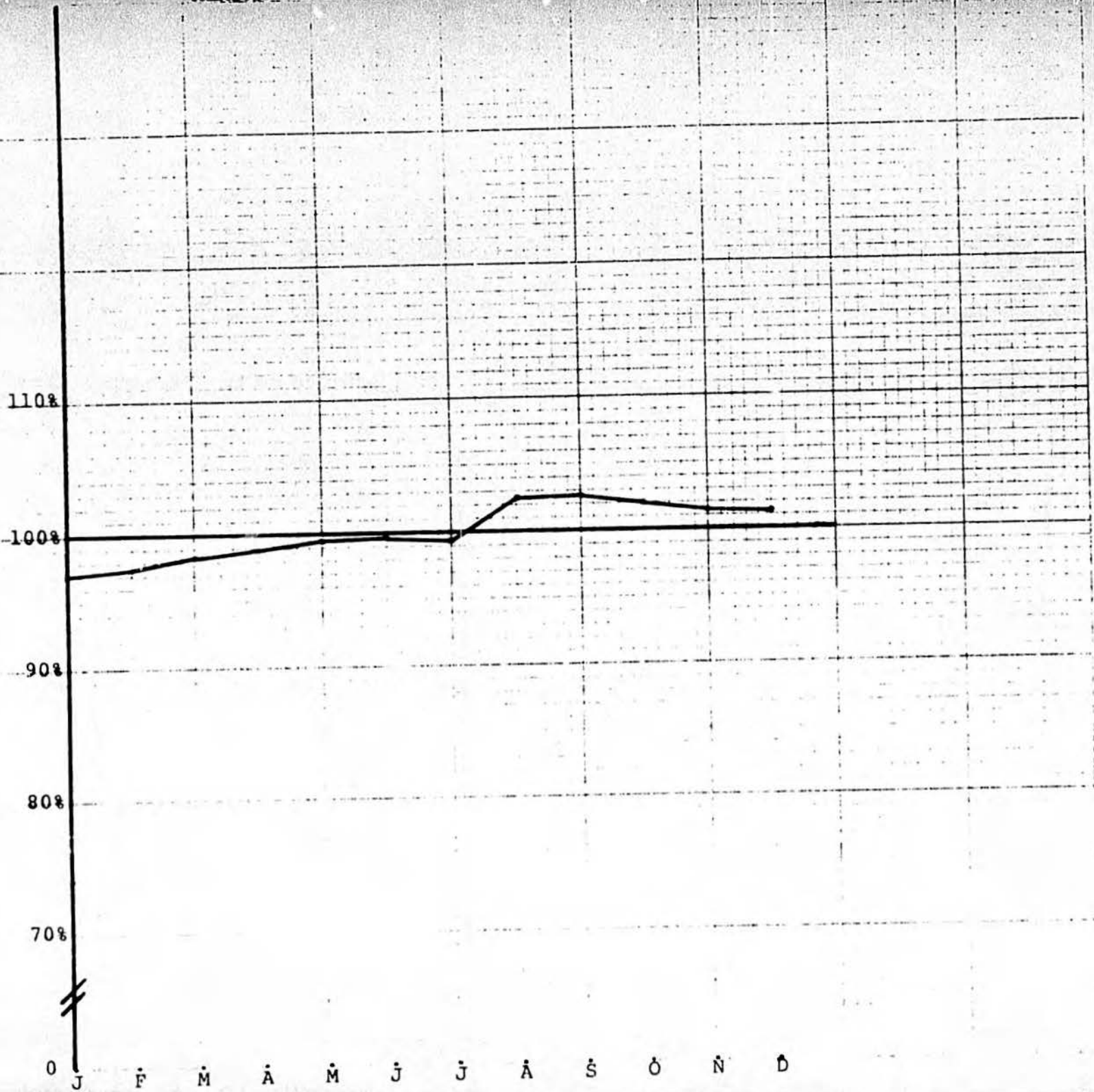
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES



ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES

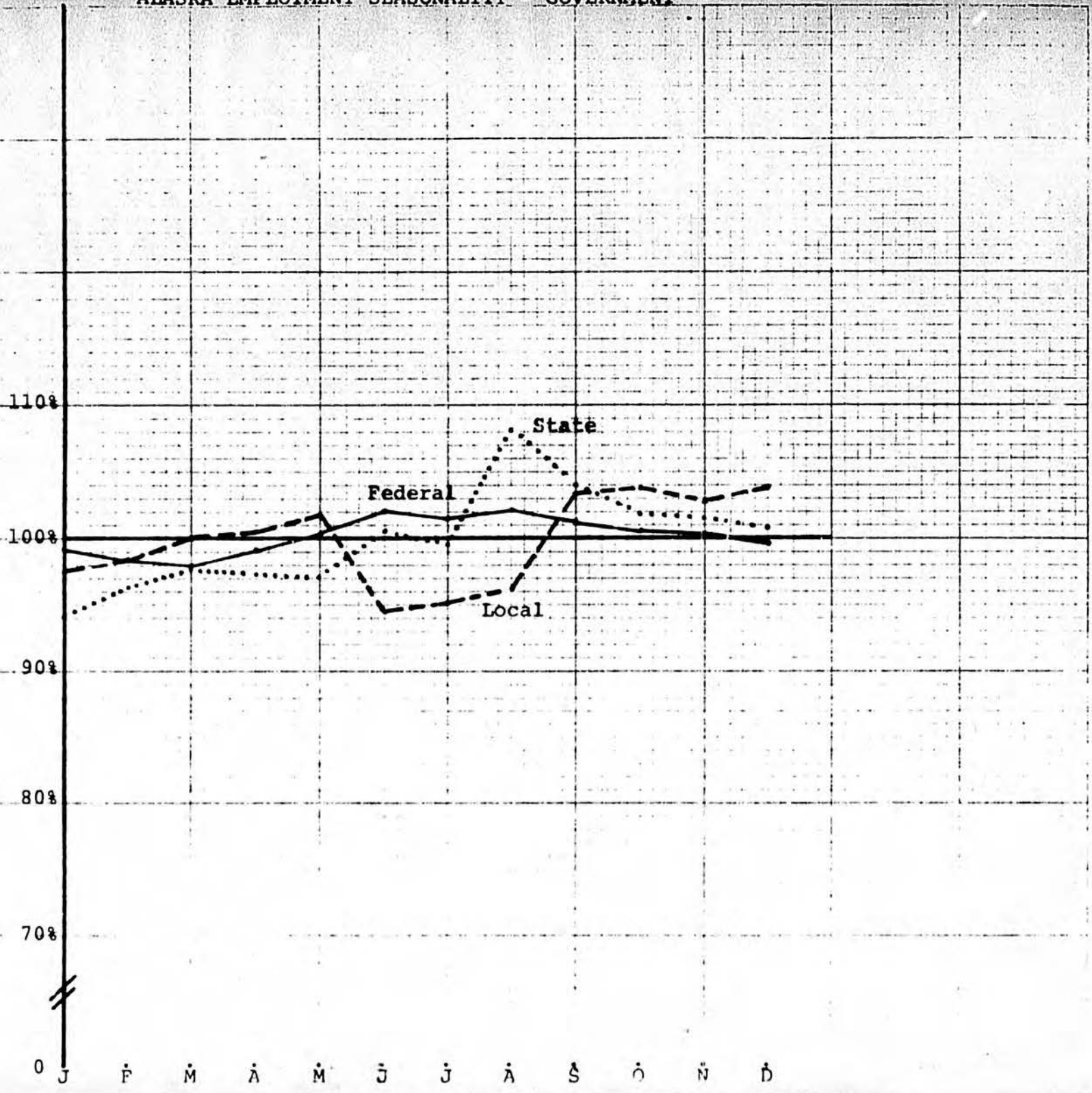


ANNUAL DIFFERENCE PERCENTAGE

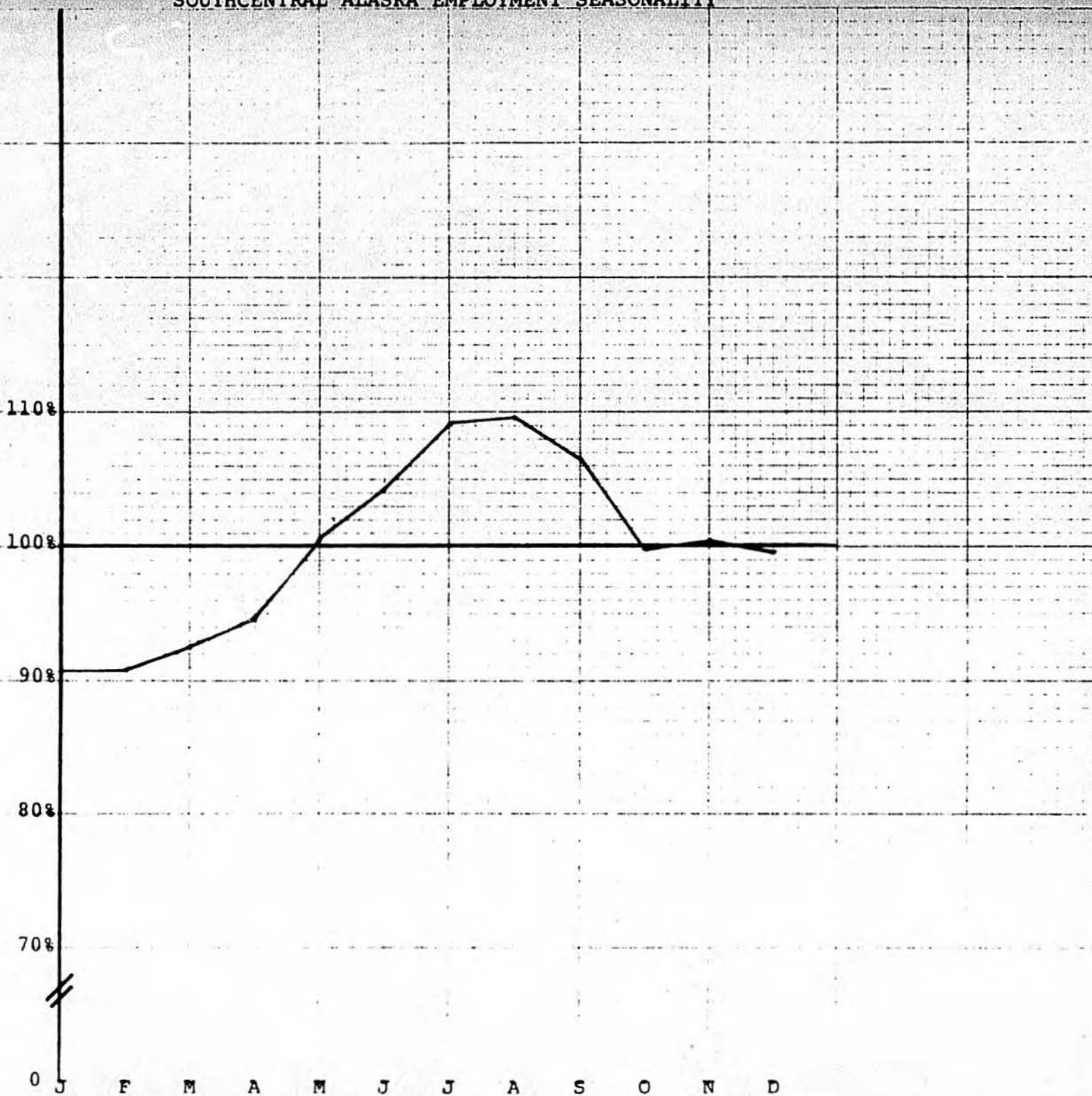


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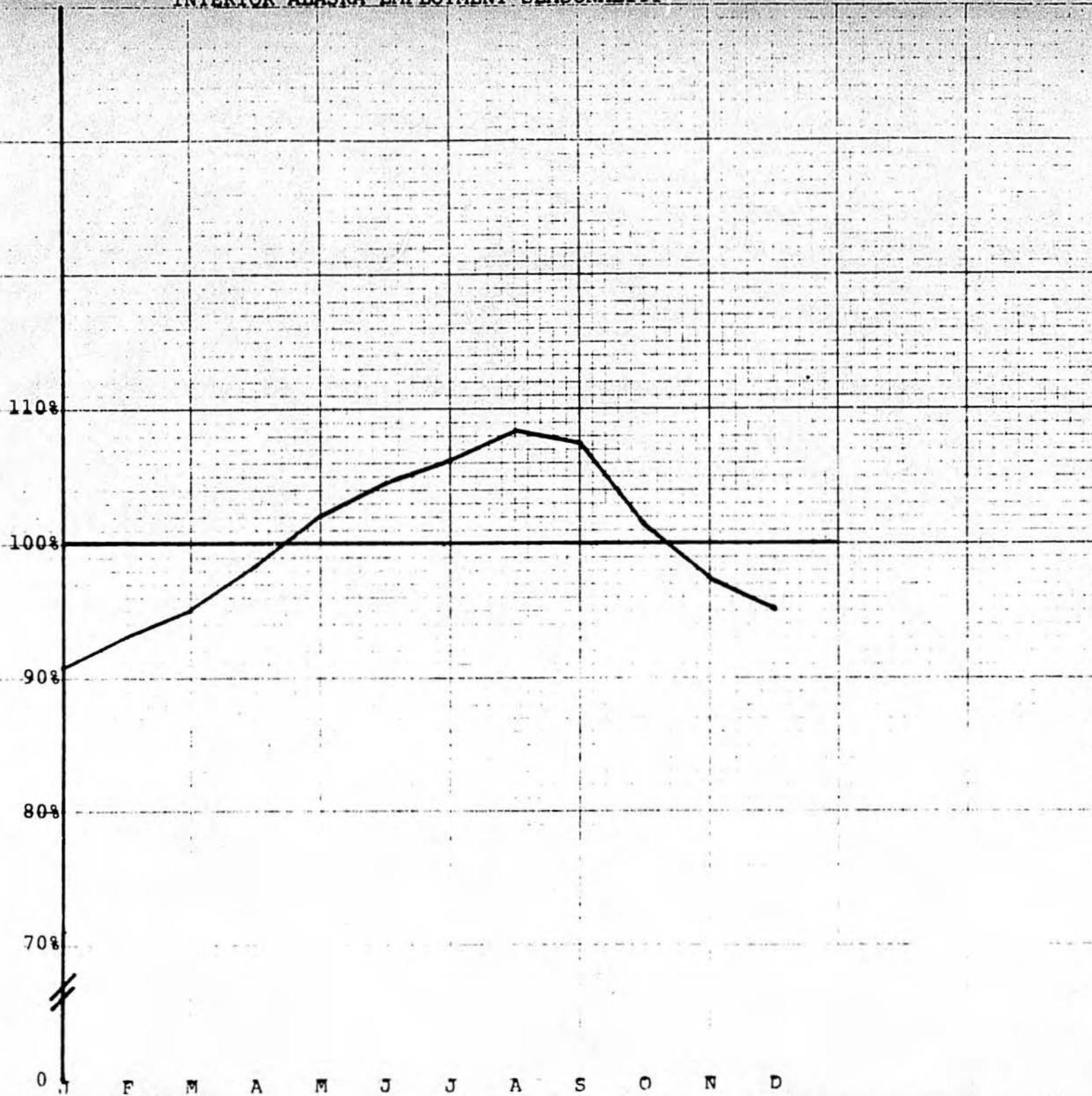
ALASKA EMPLOYMENT SEASONALITY - GOVERNMENT



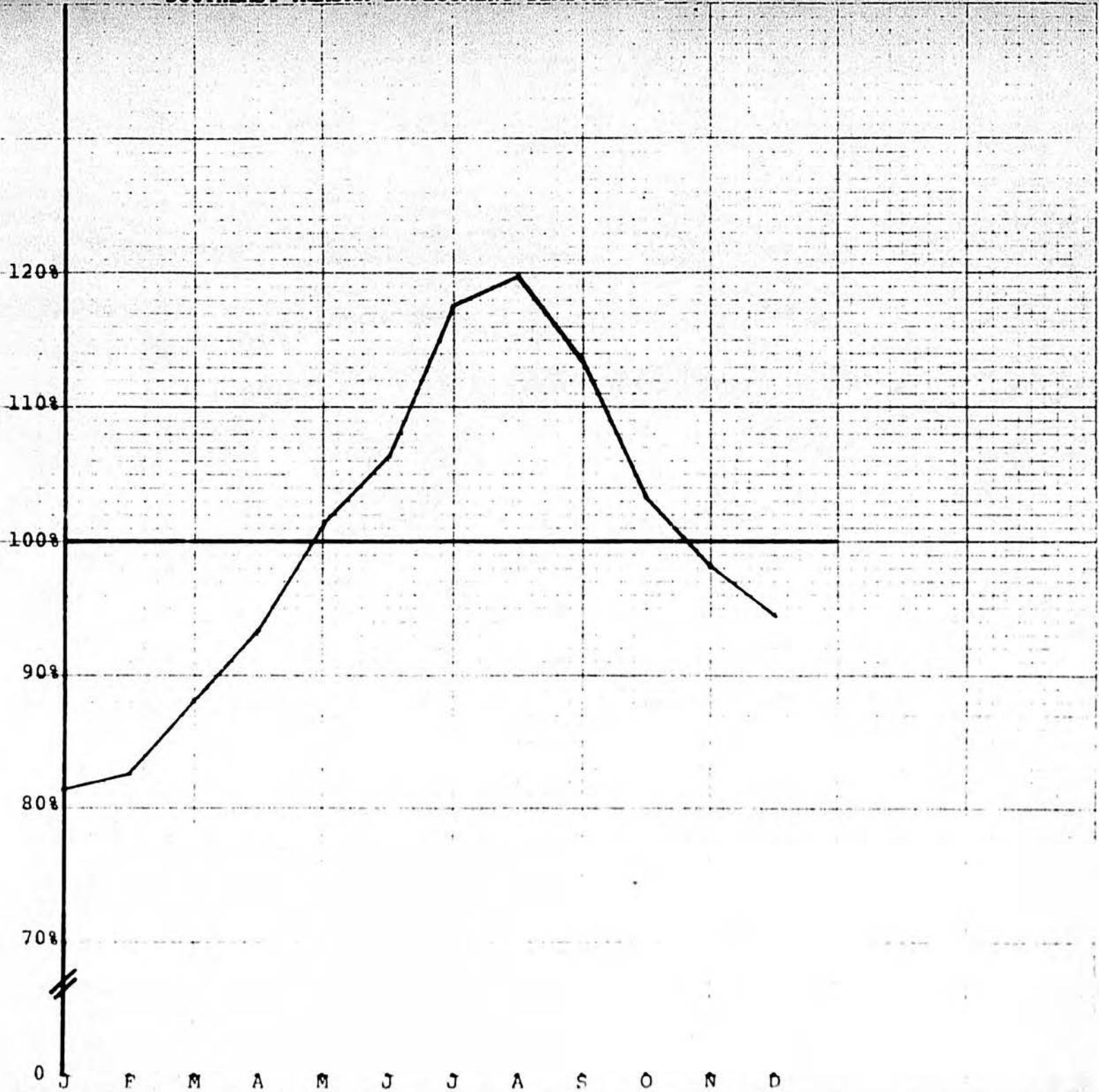
SOUTHCENTRAL ALASKA EMPLOYMENT SEASONALITY



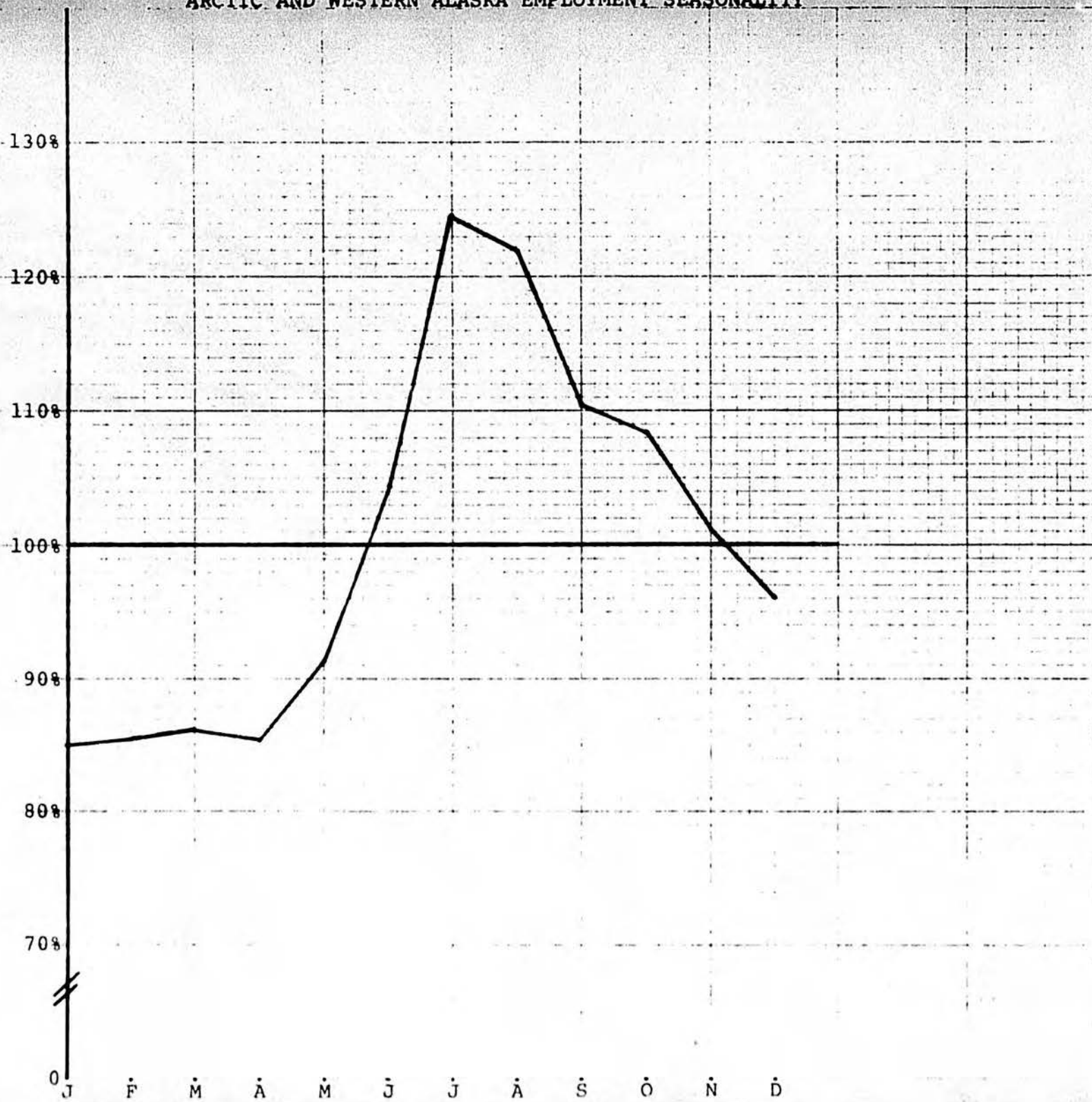
INTERIOR ALASKA EMPLOYMENT SEASONALITY



SOUTHEAST ALASKA EMPLOYMENT SEASONALITY



ARCTIC AND WESTERN ALASKA EMPLOYMENT SEASONALITY



AlaskaPacificBank

COST OF LIVING DIFFERENTIAL

Approximate cost of living differences between Anchorage, Alaska, and other cities are estimated below. Actual spending patterns for individual families, however, will vary in Alaska because of life style changes; therefore, the data below should be regarded solely as general approximates.

CITY	PER CENT MORE SPENT BY ANCHORAGE FAMILY
Atlanta	41%
Baton Rouge	38%
Boston	12%
Chicago	27%
Cleveland	28%
Dallas	37%
Denver	37%
Detroit	28%
Hartford	22%
Honolulu	10%
Houston	38%
Kansas City	33%
Los Angeles	29%
Minneapolis	34%
New York	14%
Philadelphia	28%
Portland, Maine	30%
San Francisco	22%
Seattle	25%
Washington, D.C.	29%
U.S. Urban Average	31%

Based on information supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

Alaska Pacific Bank 
BUSINESS TRENDS

July 1976



NATIONAL AND INTERNATIONAL CONDITIONS
AND EVENTS AFFECTING ALASKA'S ECONOMY

INDUSTRY REVIEW

 Summary

 Petroleum

 Construction

 Fishing.....

 Forest Products.....

 Visitor Industry

 Distributive Industries.....

 Government.....

REGIONAL SUMMARY.....

 Southcentral.....

 Interior

 Arctic and Western.....

 Southeastern.....

A WORD ON 1977.....

NATIONAL AND INTERNATIONAL CONDITIONS AND EVENTS AFFECTING ALASKA'S ECONOMY

U.S. ECONOMIC RECOVERY

Economic recovery in the "lower 48" is well under way, with the rise in real economic growth during the first half of the year surpassing expectations.

Nevertheless, despite its initial strength, the recovery has commenced to lose speed, and the economy is not yet back to pre-recession peaks. The unemployment rate in May stood at an unacceptable 7.3%, and U. S. manufacturing plants are operating at less than three-quarters capacity. Housing starts are up considerably from their eight-year low at the end of 1974, but still remain at an average annual rate of approximately 1.4 million starts. This is far below the annual rates in excess of two million units during the early 1970's.

Although slowing, the nation's economic advance remains strong. The mixed performance of various economic indicators reflects a switching in the sectors responsible for the expansion. Consumer spending, which led the advance during the first half of the year, is being replaced by business investment which is expected to provide the main impetus to growth during the second half.

INFLATION

Price increases abated considerably during most of the first half of the year, but shot up momentarily in May. During the first quarter the rate of inflation was about half as great as last year. Because the extremely low inflation rate of the first quarter was caused primarily by an actual temporary decline in food prices, and because wholesale prices are increasing at a fairly healthy clip, it is expected that the rate of inflation during the second half of the year will pick up somewhat, bringing the total increases in prices for the year to between 5% and 6%.

The rate of price increases in the U.S. in general is the major factor underlying the rate of inflation in Alaska. Accordingly, price rises in Alaska are expected to abate considerably this year to under 7% from last year's rate of 11%.

MONEY MARKETS: INTEREST RATES

A normal phenomenon in periods of economic recovery is rising short term interest rates as business loan demands pick up. After remaining at somewhat low levels longer than expected, short term rates rose strongly in May and June and should continue to rise, though moderately, through the end of the year.

Another factor underlying the upward movement of short term rates was a shift in Federal Reserve policy toward more restraint in increasing the money supply now that the economic recovery is well underway.

Short term rates are expected to increase by less than one percentage point by the end of the year. This means that the New York prime rate, which moved to 7% in July, ought to be about 8%. Although the outlook for short term rates is for a moderate upward trend, they can be expected to fluctuate somewhat during the second half of the year.

Long term rates are not expected to move significantly from their present levels. Increasing demands for long term funds should be offset by a lower inflation premium resulting from diminishing long run inflationary expectations.

As the rate of capacity utilization rises toward its optimum efficiency level of 90% there is reason to hope that the accompanying productivity increases will result in continuing moderating price increases.

Stable long term rates in general, accompanied by only moderate growth in housing starts, will likely result in mortgage rates remaining fairly stable throughout the end of the year. There is some hope for a downward drift in mortgage rates if inflation continues to moderate.

Investors will note that this forecast calls for a narrowing of the spread between long term and short term interest rates. This is consistent with the forecast of continued economic recovery and abating inflation.

JAPAN

After lagging behind the other industrialized countries, economic recovery in Japan now appears to have reached full steam. Industrial production was up nearly 12% during the first quarter of the year over the first quarter of 1975. This is good news to Alaska's fishing and forest products industries.

The Japanese Finance Ministry announced in June its intention to relax foreign exchange controls imposed during the 1973 oil crisis. The amount of foreign exchange a Japanese traveler can take out of the country will be doubled to \$3,000. This should be a boost to Alaska's visitor industry which has seen only a trickle of Japanese following the heavy flows which reached an estimated 10,000 persons in 1972.

WORLD OIL

Strong economic recovery throughout the industrialized world is being accompanied by rising oil consumption. During the first quarter of this year oil consumption in the major industrial countries rose 4.1% from the first quarter of 1975. Note on the accompanying chart that, despite strong conservation measures and a rather severe recession, U. S. crude oil imports have continued to rise dramatically, tripling over the last five years.

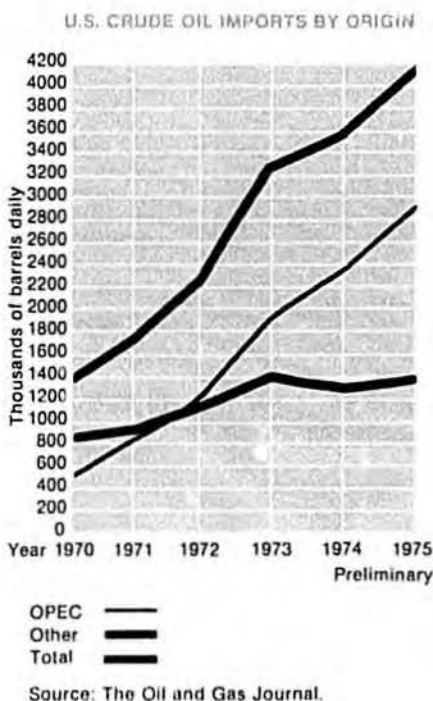
Despite this growing demand for oil, the Organization of Petroleum Exporting Countries refrained from raising prices at its three-day meeting in Bali, Indonesia, at the end of May. Therefore, the price likely will remain at \$11.51 per barrel through at least the end of the year. The next regular session of OPEC is scheduled for December 15.

Oil is now flowing from the North Sea at nearly 200,000 barrels per day, and further development is proceeding strongly. This along with more aggressive exploration and development, particularly by Norway and the Soviet Union, and expanded incentives for tertiary recovery in the United States, at least raises the question of a possible "oversupply" by the early 1980's.

The world price of oil is of great significance to Alaska. If the President excludes Prudhoe Bay oil from administered pricing (which he has until April, 1977 to do), the price of our North Slope oil will vary with the market price. Under present oil and gas revenue statutes, a one dollar change in the price

of oil means a change of nearly \$100 million of revenue to the State of Alaska.

Virtually all of the national and international economic events of the first half of 1976 have been favorable to Alaska. The dominant forces throughout the industrialized world have been strong economic recovery and decelerating inflation.



INDUSTRY REVIEW Summary

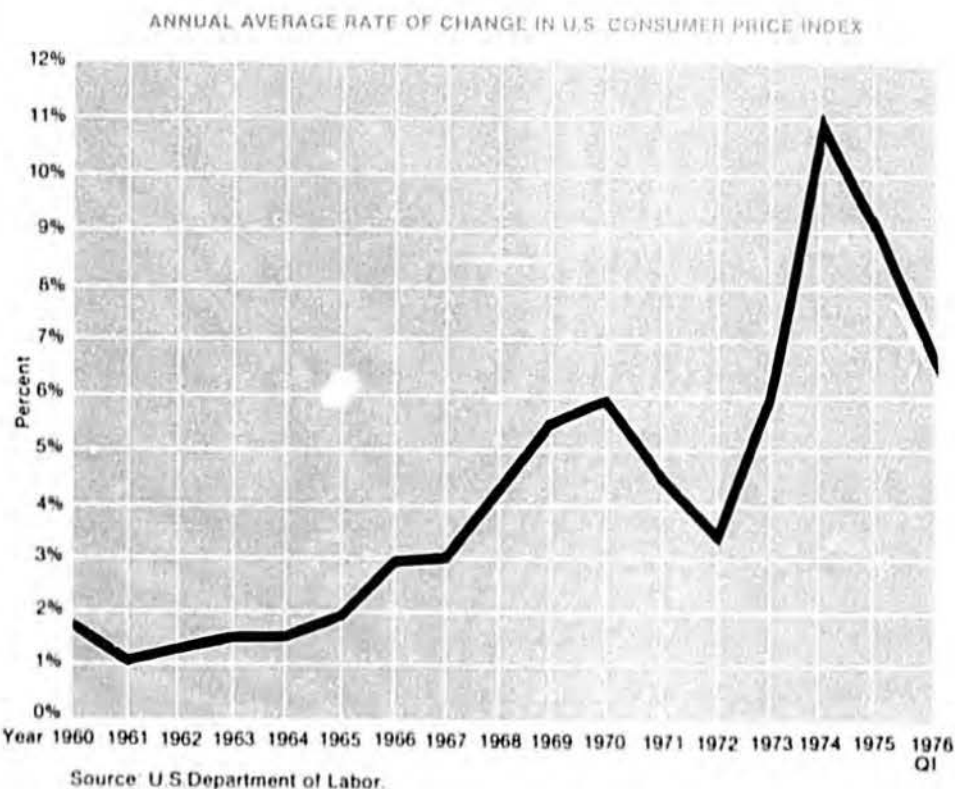
Alaska's economic growth started the year on an extremely strong acceleration during the first quarter but, as the year has progressed, the initial signs of an anticipated growth deceleration have appeared very clearly.

During the first quarter employment in the state grew 20% faster than it did during the first quarter of last year, and personal income rose 53% faster than it did during the first quarter of 1975. Despite this initial exuberance, certain lead indicators are unmistakably foreboding slower rates of growth for the year as a whole compared to last year's experience.

Individual income tax withholding collections in the first quarter grew half as fast as during the first quarter of 1975, and bank loans and deposits are growing only about three-fourths as fast as they did last year. Additionally, new construction contracts during the first five months registered virtually no gain over the same level of last year. Finally, State spending, a major factor in Alaska's economic activity, will increase in fiscal year 1977 at less than half the rate of its growth in fiscal year 1976.

The industry mix of Alaska's economic growth is particularly interesting with some rather dramatic changes from last year. This year the forest products and fishing industries are exhibiting considerably greater vibrance than last year. On the other hand, non-pipeline related construction, the visitor industry, retail and wholesale trade and state government spending, all of which contributed to last year's economic exuberance, are registering either substantially slower rates of growth or absolute declines. Petroleum exploration and development and pipeline construction have been strong in both 1975 and 1976.

In Alaska's petroleum industry the year's major events include (1) development at Prudhoe Bay in anticipation of next year's production for which nearly 700 permanent employees are being hired, (2) the \$572 million federal offshore lease sale in the northern Gulf of Alaska, (3) the entrance of a third applicant for permission to construct a gas pipeline to ship Prudhoe Bay natural gas to the "lower 48", (4) ground breaking for construction of an oil refinery at North Pole, (5) the State's reneging on \$25 million of oil and gas leases in Kachemak Bay, (6) the Presidential order to transfer Naval Petroleum Reserve No. 4 from the Department of the



Navy to the Department of the Interior, and (7) stepped up oil and gas exploration activity by eight of Alaska's twelve Native corporations. Approximately twice as many wells are scheduled to be drilled in Alaska this year as last.

For the third year in a row the mammoth \$7.7 billion trans-Alaska oil pipeline project is the dominant element in Alaska's construction industry. Non-pipeline related construction activity is rather lackluster this year, with new construction contract awards registering no growth and residential construction activity in Anchorage off 20%. The chief cause of the slowdown seems to be fewer public projects in light of tighter fiscal reins at both the state and federal levels and fewer private projects because of arrested population growth resulting from slower increases in government jobs and a peaking of the influx of families related to the pipeline project.

Alaska's fishing industry is reversing its mediocre performances of the past few years. Each of Alaska's major fisheries, salmon, halibut and shellfish, are experiencing both higher catch volumes and rising prices. As a result, fishermen throughout Alaska should enjoy a relatively good year.

As a result of strong economic recovery in both the United States and Japan, Alaska's forest products industry

output is up considerably with first quarter lumber and cant exports rising 38% over first quarter 1975 levels. Despite this short-run favorable news, however, some events occurred during the first half of the year with serious unfavorable long-run implications: Champion International announced its abandonment of its plans for a pulp mill at Berners Bay, Ketchikan Pulp Company announced its intention to close its pulp mill by July 1, 1977, and the U.S. Forest Service announced its intention to limit future timber contracts to a maximum of 10 years.

Alaska's visitor industry, which has soared over the past few years, is showing signs of virtually negligible growth this year. Whereas business travel is up somewhat, the flow of tourists to the state appears to be off significantly. This has resulted from adverse publicity regarding the "pipeline boom" and competition from bicentennial related travel to the East.

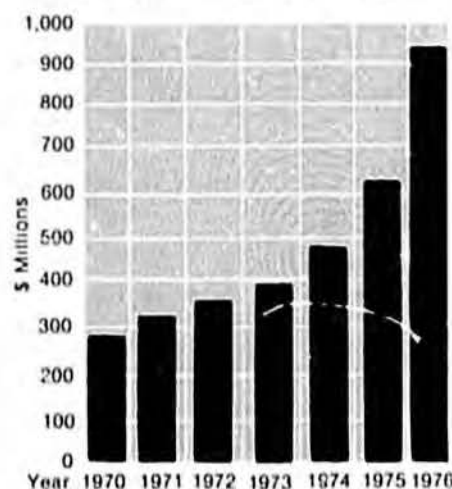
Alaska's distributive industries are registering a mixed performance, with the dominant theme being declines. The flow of freight to Alaska is off slightly this year. However, freight volumes last year were unusually great because of the transport of pipeline material and equipment. Retail sales in Anchorage and Fairbanks — particularly of durable goods — appear to be down somewhat from last year.

Reflecting an apparent concern over burgeoning "big government" throughout the country, spending increases by both federal and state government are moderating in Alaska. The State fiscal year 1977 budget recently signed into law by the Governor calls for a spending rise of less than half the rate of increase of fiscal year 1976. This abating activity in the public sector, which provides 39% of the employment in Alaska, is a major factor contributing to the generally slower rate of economic growth being experienced by Alaska this year.

The Alaska Native corporations have essentially completed their organizational efforts and are now turning their attention to long-run plans and investments oriented toward establishing and maintaining their economic viability. They have made major investments in existing Alaska operations of all types and are vigorously pursuing programs oriented toward resource development. Eight of the twelve regional corporations are actively engaged in oil and gas exploration.

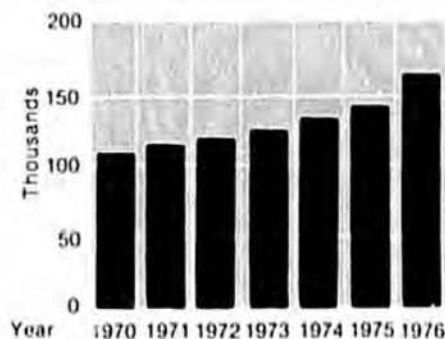
As of March 31, 1976, \$283.1 million had been paid into the Alaska Native Fund, slightly less than one-third of the total required by the Alaska Native Claims Settlement Act of 1971. Conveyance of lands to the Native corporations is proceeding more slowly with less than one million acres of the total 40 million acres transferred.

FIRST QUARTER PERSONAL INCOME



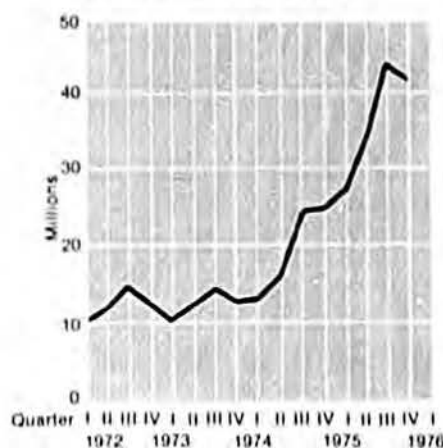
Source: Federal Reserve Bank of San Francisco and Business Week Magazine

AVERAGE FIRST QUARTER EMPLOYMENT (Excludes Uniformed Military)



Source: State of Alaska Department of Labor

ALASKA INDIVIDUAL INCOME TAX WITHHOLDING COLLECTIONS



Source: State of Alaska Department of Revenue

The Anchorage economy is experiencing considerably slower growth than the state as a whole, with employment rising in the first quarter at half the rate of the statewide pace. Fairbanks experienced virtually no employment growth during the first quarter of the year over the same period in 1975. On the bright side, inflation is abating in Anchorage, coinciding with the national trend. In fact, price increases have been decelerating continuously since peaking in April of 1975 at the annual rate of 15.6%. During the year from April, 1975, to April, 1976, the Anchorage Consumer Price Index rose 7.8%. This suggests that price increases for the year 1976 ought to be slightly under 7%.

Making generalizations about Alaska's economy is particularly dangerous this year as the rates of growth and levels of activity relative to previous years vary considerably from industry to industry and region to region. Nevertheless, for the state as a whole, the general trend appears to be one of moderating growth.

Petroleum

The prime focus in Alaska's petroleum industry during the first half of the year includes (1) continued development at Prudhoe Bay in anticipation of next year's production and (2) the \$572 million federal offshore lease sale in the northern Gulf of Alaska. Both of these important occurrences support the major contribution the petroleum industry is making toward Alaska's continued economic growth. Approximately twice as many wells are scheduled to be drilled in Alaska this year as last with about one-third to be wildcats and two-thirds to be development wells. About 150 development wells will be necessary to bring the volume through the trans-Alaska pipeline up to 1.2 million barrels per day by the end of 1977.

NORTH SLOPE

Currently on the North Slope ARCO and BP Alaska, the two operators, are preparing the field and production facilities required to accommodate the 1977 oil flow. This spring BP and ARCO began hiring the 680 permanent employees required for initial production of Prudhoe Bay oil.

GULF OF ALASKA

On April 13, the first Alaska Outer Continental Shelf oil and gas lease sale was held. The sale brought \$571,871,586.92 in bonus bids on 81 of the 189 tracts offered. However, five bids were subsequently rejected as too low, bringing the net sale figure to \$559.8 million. In terms of the number of tracts acquired, ARCO, Shell and Exxon were the big winners.

While the Gulf of Alaska is rated best by the industry for the entire United States in unexplored resource potential, it is also rated worst by the Council on Environmental Quality in terms of risk. This was one of the factors underlying the State of Alaska's opposition to the oil lease sale. The second reason was the State's desire for a share in the revenue from OCS activity. Congress has passed a ten-year, \$1 billion impact loan program providing offshore impact aid for coastal states. The coastal communities of Yakutat, Seward, and Cordova are receiving considerable attention as support activity bases and are gearing up for an anticipated doubling or tripling of their small population levels. Nevertheless, it is expected that it will be four to ten years before any oil production will occur in the Gulf of Alaska.

FUTURE LEASE SALES

At the present time the Department of Interior is considering the following additional lease sales on the Outer Continental Shelf off Alaska: (1) 564 tracts in the western Gulf tentatively scheduled for December, 1976, but requested by Native groups to be delayed; (2) 152 tracts in the southern two-thirds of Cook Inlet for the winter of 1977; and (3) 299 tracts in the southeastern Bering Sea for sale in the fall of 1977, but reported to be postponed until 1978.

In anticipation of this last sale, ARCO is using the world's largest semi-submersible drilling rig this July for stratigraphic tests in the St. George Basin. This drilling is for the Continental Offshore Stratigraphic Test Group, a cooperative research venture open to all interested parties.

COOK INLET

This spring the Legislature voted to negotiate the repurchase of \$25 million in oil and gas leases in Kachemak Bay and imposed a one-year moratorium on oil and gas exploration there. During this moratorium the State intends to reacquire the leases it sold in 1973 by negotiation or, if necessary, eminent domain. This legislative action was encouraged when the jackup drilling rig, George Ferris, became mired in 82 feet of clay. The legs of the rig were severed, and it is now being floated to the West Coast.

Elsewhere in Cook Inlet, Union Oil Company has contracted a Global Marine drill ship for exploratory drilling in the Redoubt Shoals area.

NATURAL GAS

The major event so far this year related to Alaska's natural gas was the emergence of a third proposed route for transporting Prudhoe Bay gas to the "lower 48." Northwest Pipeline Corporation of Salt Lake City announced its filing of an application with the Federal Power Commission for permission to construct a pipeline parallel to the trans-Alaska oil pipeline from Prudhoe Bay to approximately Fairbanks where it would turn east and follow the Alaska Highway into Canada, entering the United States through existing systems. This is the very route found most environmentally desirable by the staff of the FPC when evaluating the other two proposals by Alaskan Arctic Gas Study Company and El Paso Alaska Company.

Supporters of the El Paso trans-Alaska route have been advocating the State commit its royalty gas to that route. However, the State has not made any commitment of its North Slope royalty gas, although in April it sold its north Cook Inlet royalty gas to Alaska Pipeline Company for distribution to Anchorage and the north Kenai Peninsula. In June, the FPC began hearings on Pacific Alaska LNG's application to purchase the remaining uncommitted Cook Inlet gas reserves for liquefaction at a proposed \$660 million plant at Kenai from which the gas would be shipped to California. A decision is not expected until early next year.

REFINING

Tesoro-Alaskan continues the expansion of its refinery at Nikiski. Some products from this refinery will be shipped the 68 miles to Anchorage through a new ten-inch common carrier pipeline now under construction. The line, which will cross under Turnagain Arm and cost approximately \$19 million, is scheduled to be ready for use this fall.

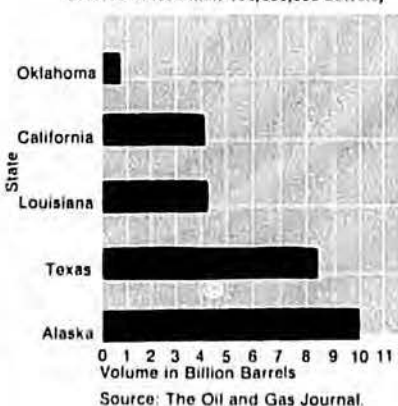
In June, ground breaking ceremonies were held for Energy Company of Alaska's refinery at North Pole. The refinery, the first phase of which is expected to cost over \$30 million, will use North Slope crude oil for the manufacture of a broad range of products for consumption in the Interior, except for asphalt which will be shipped to Anchorage.

PET 4

This spring the President ordered the transfer of Naval Petroleum Reserve No. 4 from the Department of the Navy to the Department of Interior. This area will be called the National Petroleum Reserve in Alaska. Pet 4 has seen some exploratory drilling this year; however, of the first two wells, one was "non-commercial" and the other apparently was a dry hole. This winter should see drilling of five exploratory and two gas wells.

To summarize the current petroleum picture in Alaska: both development and exploration are strong this year. This results from five factors: (1) anticipated completion of the trans-Alaska pipeline next year; (2) the recent Gull of Alaska lease sale; (3) several federal lease sales scheduled for offshore Alaska; (4) the Pet 4 program; and (5) exploration activity by the Native corporations. These elements not only underlie the present strength of the petroleum industry in Alaska, but also assure its continued healthy growth. Alaska's oil and gas potential is huge as indicated by the accompanying graph.

1975 VOLUME OF MAJOR OIL FIELDS
(Excludes the volume of oil in pools having an ultimate reserve of less than 100,000,000 barrels)



Construction

Alaska's construction industry is exhibiting less fervor this year than last. The trans-Alaska oil pipeline project is now over half completed, fewer government projects exist, and development in the private sector has slowed considerably.

TRANS-ALASKA OIL PIPELINE

Again this year the largest segment in Alaska's construction industry is the trans-Alaska oil pipeline project. Over half of the 7,800-mile, \$7.7 billion project has been completed, and oil is expected to flow in July of next year.

As the spring construction began, any army of machines and over 20,000 men and women were mobilized again to carry on this immense enterprise. The work force reached its maximum in May of this year instead of August as it did last year.

Although the pipeline welds have received considerable publicity and attention, virtually a negligible number of the 30,800 mainline field girth welds have been determined to be below standard.

HEAVY CONSTRUCTION

In non-pipeline construction work, activity has been predictably about the same level this year as last, with approximately \$95 million in new contracts awarded during the first five months. This leveling of heavy construction activity results from a reduction in government contracts as well as a holding back in the private sector as developers anticipate a general slowing of the economy over the next two years. Nevertheless, some notable projects are underway including the Chena River Flood Control project, the federal building, and refinery and power plant near Fairbanks, and the federal building and highway projects in Anchorage. Highway construction should pick up as a result of more than \$100 million in federal funds appropriated for Alaska.

RESIDENTIAL CONSTRUCTION

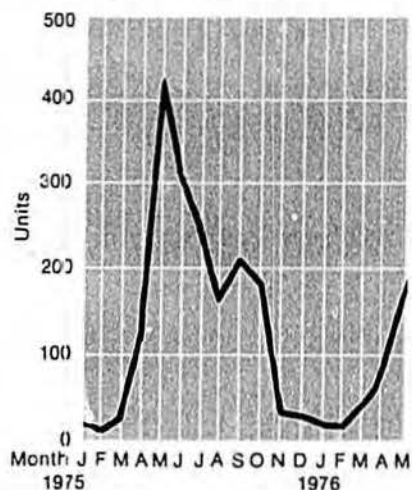
Residential construction is off somewhat this year as a result of the subsidizing influx of pipeline-related workers and government employees, the chief cause of Alaska's housing boom over the past two years. In Anchorage, residential building permit values were down 20% through May of this year. The accompanying graph reveals the lower level of building permits in Anchorage this year. Although the average selling price of houses listed with the Anchorage Multiple Listing Service had risen to \$63,000 or 12.2% above last year during the first quarter, it is taking about a week longer to sell a house this year on the average.

Approximately 80% of the funds which finance Alaska homes come from outside the state. Consequently, an abundant supply of money has been available to Alaska's home buyers resulting from relatively low demand for mortgages in the other states combined with a heavy flow of funds into savings institutions. However, by May the sav-

ings inflow appeared to have leveled, and housing demand outside Alaska had picked up considerably. At the same time, the Federal Reserve adopted more monetary restraint causing rising short term rates, raising the specter of possible disintermediation. As a result, the mortgage money situation is tightening.

In the construction industry, Alaska's largest basic industry even when the pipeline workers are subtracted, activity depends largely on government spending and private development. Both are decelerating, creating a less than banner year for the non-pipeline related sector of this important industry.

ANCHORAGE AREA SINGLE FAMILY RESIDENTIAL BUILDING PERMITS



Source: Department of Housing and Urban Development.

Fishing

Alaska's fishing industry, which has not fared well over the past few years, is expected to register a healthy performance this year. Both volume and prices are expected to be above the levels of last year.

SALMON

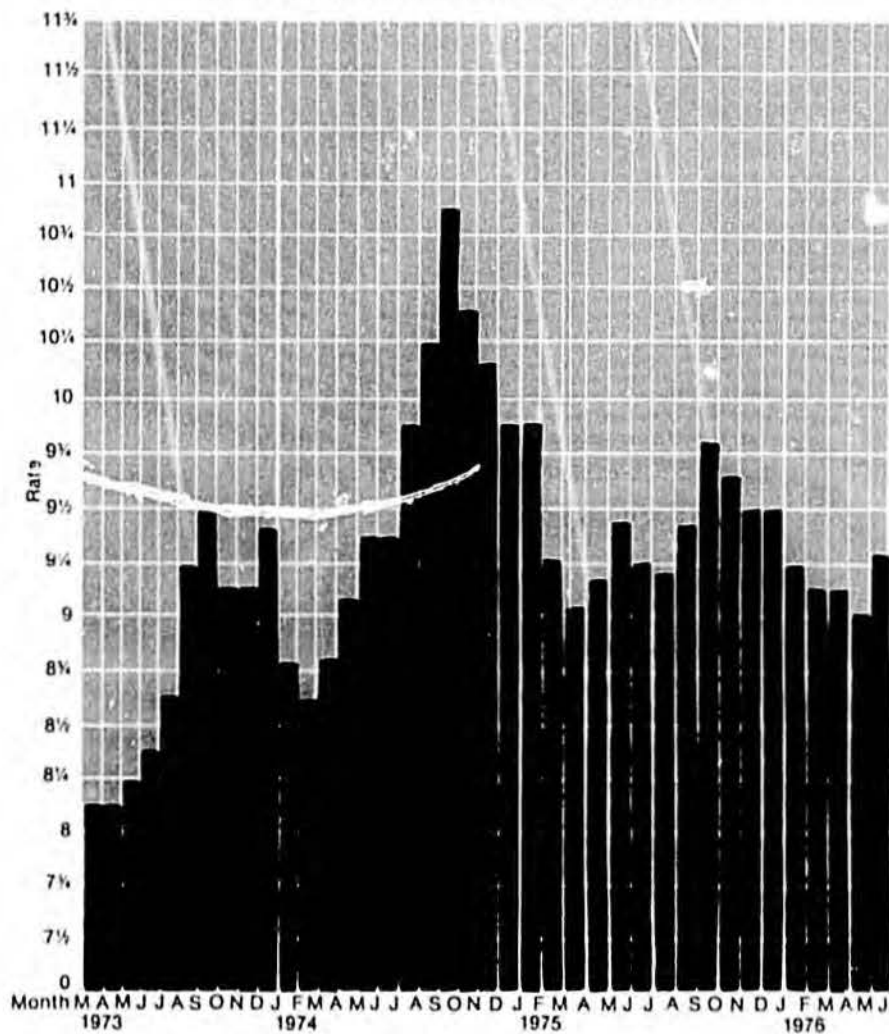
This year's salmon catch is predicted to total 37.8 million fish, about 50% above last year's level. This represents a continued upward climb from the 1971 low of 19 million fish. Nevertheless, it is an extremely low catch in the perspective of the 100 million fish harvests of the 1930's. The chart on the following page presents an historical view of Alaska's salmon harvests.

This year's improved catch will be reflected throughout Alaska except in Southeastern which has not yet recovered from floods and severe winters of a few years ago. Bristol Bay is expected to have another good return of red salmon, and Kodiak, where 320 salmon boats operate, should experience good pink runs. Prince William Sound is forecast to have improved volumes of both pink and chum salmon.

U.S. markets have faced low supplies of salmon resulting from the lower returns of the past few years, an adverse court decision affecting Washington trollers, and a long fishermen's strike in Cordova. This low supply, accompanied by rising demand based on higher discretionary spending throughout the United States, has brought about improved prices for salmon during the first half of this year. Prices should continue their upward movement into the second half of the year until the new pack starts to enter the market. The initial signs indicating extremely strong returns of salmon suggest that present market conditions could be reversed by fall, with possible price declines.

To help rebuild Alaska's failing salmon fisheries the State legislature approved this year a \$200 million non-profit hatchery loan bill and a \$29 million bond proposal for State hatcheries.

FHLMC CONVENTIONAL MORTGAGE INTEREST RATE



Source: Federal Home Loan Mortgage Corporation.

SHELLFISH

Initial indications suggest that harvests of crab and shrimp should be excellent this year. Higher volumes are being accompanied by price increases for the same reasons salmon prices are rising. Kodiak, where about 90% of the seafood catch is shellfish, ranked eighth nationwide for commercial landings last year.

As indicated on the accompanying chart, shrimp and king crab comprise the major portion of Alaska's shellfish catch.

HALIBUT

The International Pacific Halibut Commission recommended placing the 1976 quota at the same level of last year's 25 million pounds for the area including Alaska. The increased landings last year appeared to suggest that healthy recovery of this resource is beginning, although landings are still down from the highs of the 1960's.

Identical to the situation facing salmon and shellfish, relatively short supplies of halibut accompanied by strong demand are resulting in price increases. Kodiak halibut fishermen have set prices with Seattle and Alaska processors at \$1.29 per pound, 10 cents higher than last year's closing high of \$1.19. Interestingly, halibut prices are now higher than those of certain small red and white salmon.

The rising demand for halibut reflects an increase in acceptability of bottomfish on the part of the American consumer. As a result, increasing numbers of Alaska fishermen are going after bottomfish. It is estimated that between two and five billion pounds of bottomfish are harvested from Alaska's continental shelf each year, almost all of which are caught by foreign fleets. In April, 179 Japanese and 147 Russian fishing vessels were sighted operating off Alaska's coast.

LIMITED ENTRY

Entry into Alaska commercial fisheries has been regulated for about a year and one-half. Although there has been

no resolution of the mixed feelings regarding the somewhat controversial legislation, this November an initiative to repeal the limited entry law will be placed on the ballot.

As of April, about 6,700 limited entry permits had been issued from a total of 94,000 applications received. This wide discrepancy is somewhat misleading, however, for it is reported that only 14% of the eligible fishermen did not receive a permit. Nearly three-fourths of the permit holders are Alaskans.

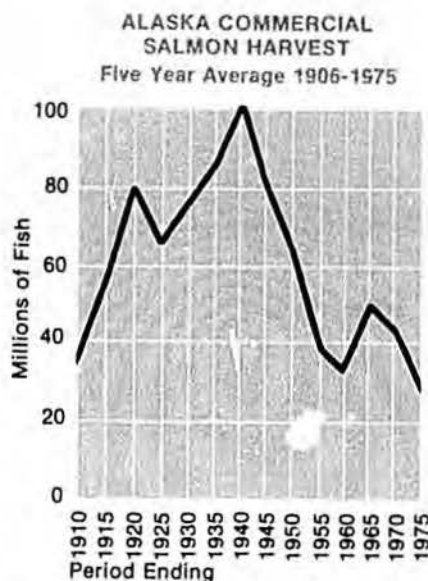
Already some of the permits have been bought and sold with prices ranging from a low of \$1,000 to a high of \$11,035. The average price for drift gill net permits in Southeastern Alaska has been \$9,100; for purse seine permits in Prince William Sound, \$7,600; for gill net permits in Cook Inlet, \$2,200; and for gill net permits in Bristol Bay, \$1,000. In January, 1977, the State of Alaska will assess the buy-back prices as fishermen sell their permits back to the State. The acquired permits will be discontinued in order to limit gradually the number available in any particular fishery.

Alaska's limited entry law has been given credit for reducing the potential problems arising from the decision by Judge Boldt in Washington State giving 50% of that state's salmon harvest to the Indians. It was feared that this decision would result in a strong northern migration of Washington fishermen.

200-MILE LIMIT

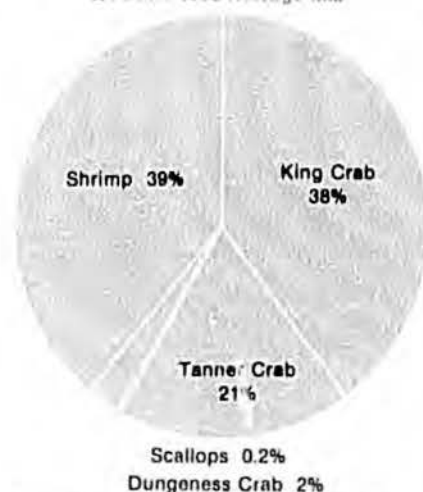
On April 13, 1976, the President signed into the law the 200-nautical-mile exclusive fisheries conservation zone interim bill which will be in effect unilaterally until the United States signs a comprehensive Law of the Sea treaty. Enforcement is to commence on March 1, 1977. However, implementation of the law may not be possible by that date if certain existing fishing treaties between the United States and other countries have not been renegotiated. This law reflects concern over alleged overharvesting of Alaska fish by foreign vessels, particularly Japanese. A recent study in Japan estimated that nearly one-fifth of Japan's total seafood harvest comes from within the 200-mile zone off Alaska.

In general, it appears as if both the short run and long run outlooks for Alaska's fishing communities are brightening.



Source: Kramer, Chin & Mayo, Inc.

ALASKA SHELLFISH CATCH BY SPECIES
1974 and 1975 Average Mix



Source: State of Alaska Department of Fish and Game.

Forest Products

Despite some grave problems threatening the very existence of Alaska's forest products industry, this year's production levels and prices are reflecting improving market conditions in both the United States and Japan. First quarter lumber and cant exports from Alaska were 38% above the level of the first three months of last year.

The short run favorable news, however, is overshadowed by three unfavorable events: a court decision restricting clearcutting; severe environmental requirements threatening the continued operation of the Ketchikan Pulp Mill; and the announcement by Champion International to abandon plans for a pulp mill at Berners Bay.

CLEARCUTTING

In late December last year the U.S. District Court ruled to uphold the 1897 Organic Act which in effect forbids clearcutting as it is now practiced on portions of particular national forests. The case dealt with a distinct Alaska sale on northern Prince of Wales Island. Both the forest products industry and the U.S. Forest Service are displeased with the clearcutting ban as both agree clearcutting is the most appropriate silvicultural system in southeastern Alaska forests. This decision, if appealed and upheld, could upset the entire southeastern Alaska forest products industry. Unlike other regions in the U.S., where a significant portion of the commercial timber is on state and private lands, in Alaska 95% of the merchantable timber is on federal lands.

Currently the U. S. Senate is wrestling with this problem, endeavoring to reach a compromise between the Randolph Bill, which is highly environmentalist oriented, and the Humphrey Bill, which would take a considerably less restrictive approach toward clearcutting. Like many issues which have a great impact on Alaska's future, this matter will be decided in the halls of Congress.

ENVIRONMENTAL PROTECTION REQUIREMENTS

Both of Alaska's large southeastern pulp mills are facing strict requirements handed down by the Environmental Protection Agency. The Alaska Lumber and Pulp mill in Sitka has been required to install a multi-million dollar secondary waste water treatment facility which will add \$37 per ton to the cost of producing pulp at that mill.

Ketchikan Pulp Company, which employs one-fourth of the job holders in the Ketchikan area, has announced its intention to close its pulp mill by July 1, 1977. This decision resulted from (1) an EPA requirement to add \$32 million of investment in secondary waste treatment facilities; (2) uncertain future log supplies resulting from adverse court decisions regarding clearcutting; and (3) somewhat unfavorable market conditions. Following considerable testimony by Ketchikan residents at public hearings in that community, the EPA granted a delay in enforcement of the requirements until January 1, 1977.

PULP MILL PLANS ABANDONED

In another blow to the forest products industry, Champion International and the U.S. Forest Service have agreed to terminate their 50-year, 8.75 billion board feet contract. This was the largest timber contract consummated in the history of the Forest Service. After six years of vigorous litigation by the Sierra Club in federal courts, Champion asked to withdraw its bid. Additionally, portions of the contracted timber lands, which exceeded a million acres, qualify for selection by Native corporations within the Sealaska region under provisions of the 1971 Alaska Native Claims Settlement Act.

The U.S. Forest Service has imposed a moratorium on timber sales in Alaska for at least two years, pending completion of a land-use plan for the Tongass National Forest. Further, the U.S.F.S. recently announced a major policy decision which will alter substantially the very structure of Alaska's forest products industry. Future timber

contracts will be limited to a maximum of ten years rather than 50 years. This means that firms interested in a major wood processing complex will be unable to obtain an assured supply of logs sufficient to justify a large operation. Accordingly, under present U.S.F.S. policy, any expansion of Alaska's forest products industries will be limited to relatively small mills.

Visitor Industry

Reports from throughout the state this spring indicate a very slow start to Alaska's tourist season. Initial indications suggest a possible drop-off in the number of visitors coming to Alaska this year with a significant number of package tours having been cancelled. Passenger traffic through the ALCAN Port of Entry decreased 12% in the first quarter of this year compared to the same period last year.

EXTERNAL FORCES

The cause of this year's reversal of recent climbing trends is twofold: (1) the adverse publicity given Alaska from dramatic stories in publications throughout the country on the "pipeline boom," and (2) competition from east-bound bicentennial travel by westerners who traditionally supply the major portion of Alaska visitors.

On the positive side, strong economic recovery in the U.S., accompanied by slowing inflation, is resulting in noticeable increases in real incomes. This means greater portions of family incomes going to discretionary expenditures such as travel. Throughout the country airline travel is expected to rise 6% and the number of Americans taking cruises is forecast to increase about 9%. At Anchorage and Fairbanks International Airports, air passenger traffic topped three million last year, registering almost one million during the third quarter. This year, combined Fairbanks and Anchorage air passenger traffic is running about 14% ahead of last year.

The net result of this combination of positive and negative factors, as estimated by the Alaska Visitors Association, is that approximately 300,000 tourists should visit our state this year.

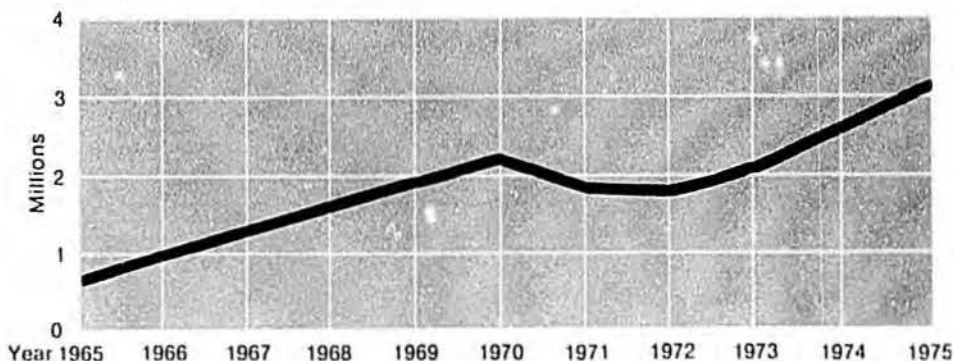
LEGISLATION

Congress has authorized the Klondike Gold Rush National Historic Park with Skagway, the Chilkoot Trail, and White Pass Sections in Alaska. In Canada, proposed maritime legislation could halt round-trip visitor travel between Whitehorse and southeastern Alaska beginning next season.

This year's lackluster tourist season is expected to be simply a momentary

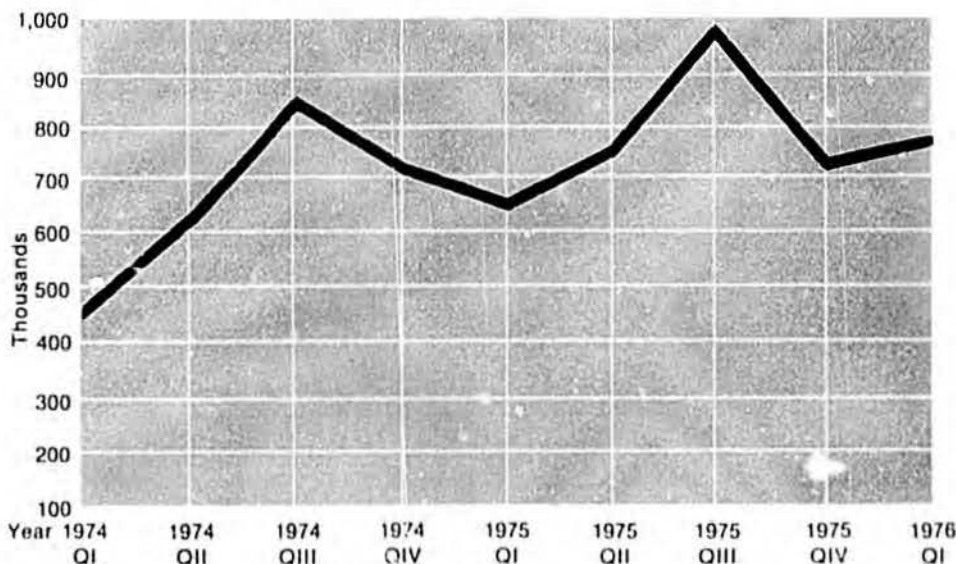
interruption in a longer term escalating trend. A recent NATIONAL GEOGRAPHIC Magazine poll revealed Alaska is the place readers most want to know about. Additionally, the Superintendent of Mount McKinley National Park has reported receiving twice as many inquiries this year as last. Finally, the flow of Japanese tourists is expected to resume next year when foreign exchange restrictions are reduced by the Japanese government.

TOTAL PASSENGERS AT ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS



Source: State of Alaska Division of Aviation.

SEASONAL PATTERN OF PASSENGER TRAFFIC AT ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS



Source: State of Alaska Division of Aviation.

Distributive Industries

In general, the trade and service industries which support the basic industries and government sector in Alaska are exhibiting decelerating rates of growth.

RETAIL AND WHOLESALE TRADE

Retail sales in Anchorage and Fairbanks are showing less exuberance than last year. Reports from retailers in both communities suggest that purchases of consumer durables during the first half of the year were down somewhat from the same period last year.

Reflecting the overall deceleration of the state's economic growth, the increase in bank loans and deposits slowed during the first quarter. This year's first quarter loan levels were 16.2% above those of 1975 which had increased 22.4% over those of 1974. Deposits exhibited a similar pattern, increasing 17.3% from the first quarter of 1975 to the first quarter of 1976, compared to a 23.0% increase from the first quarter of 1974 to the first quarter of 1975. This deceleration in the rate of growth of loans and deposits is expected to continue throughout the year.

In 1969, the year of the Prudhoe Bay lease sale, and in 1974, startup of trans-Alaska pipeline construction, the annual average rate of change in Alaska bank deposits increased dramatically, as revealed by the graph on page 12.

The ability of Alaska borrowers to compete for funds was aided this spring when the Legislature amended the State's usury law to change the floating formula for maximum rates on loans under \$100,000 to five percentage points above the federal discount rate for one to four family residential loans and 5½ percentage points above the discount rate for commercial loans.

TRANSPORTATION

Of great significance as an indicator of general economic trends in Alaska, 1976 marked a reversal in the flow of household goods to and from Alaska, with outbound volume exceeding inbound volume.

The flow of air freight to Alaska is off this year. From the first quarter of last year to the first quarter of this year air freight volumes in Anchorage and Fairbanks decreased 31.4% compared to the 85.5% increase of the previous year. (See the accompanying graph.) The first half of the year saw numerous applications for route authorities presented to the Civil Aeronautics Board by airlines serving Alaska. Western Airlines applied for nonstop service between Anchorage and San Francisco and to resume service to southeastern Alaska. Wien Air Alaska also has applied for an exemption with the CAB to serve Ketchikan and Seattle. Alaska Airlines added an additional two round-trip flights between Seattle-Anchorage-Fairbanks.

Rail freight fell also during the first quarter of the year compared to the same period in 1975, decreasing 0.4%. This almost 500,000-ton level is, nonetheless, 26.8% above 1974's first quarter, as depicted on the chart on page 12. It should be kept in mind that the Alaska Railroad was used heavily for transport of oil pipeline material and equipment. Therefore, this data is highly biased by the fact that pipeline construction has passed the halfway point.

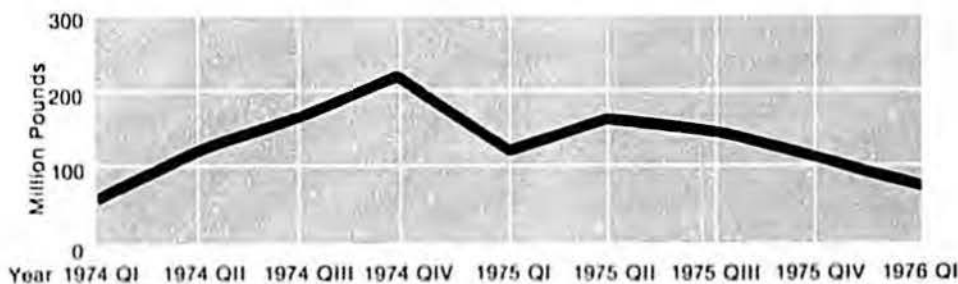
The Alaska Railroad, one of two federally owned railroads, has ordered 212 additional flat cars and hopper cars to update the rail fleet this year at an approximate cost of \$3.7 million. Also, a \$152,000 spur from Palmer to the Palmer Industrial Park is planned for summer operation.

Sun Shipbuilding's second large roll-on-roll-off trailership started service this summer. Totem Ocean Trailer Express, the operator, has moved its southern terminus from Seattle to Tacoma where it will create about 240 dock jobs. This resulted from the Seattle longshoremen's refusal to take a manpower training program which TOTE requested to speed up ship loading time.

In anticipation of heavy tanker traffic between Valdez and the West Coast commencing next year, the Alaska State Legislature passed a law requiring sophisticated navigational radar and anti-collision systems along with heavy assessments for not providing double bottoms, segregated ballast tanks, and explosion deterrents. One obvious result of these new requirements, some of which are believed to be counter-productive, is to increase the cost of fuel to American consumers.

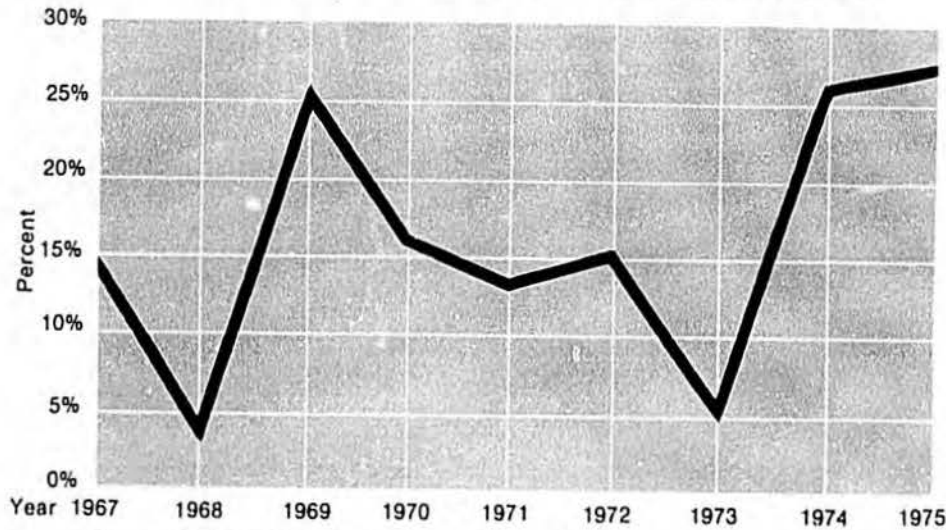
Construction has begun on the three LORAN-C radio navigation systems which will assist ocean tankers traveling between California and Alaska. Total cost for the three Alaska stations near Ketchikan, Tok, and Kodiak Island is \$14.2 million.

TOTAL AIR FREIGHT THROUGH ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS



Source: State of Alaska Division of Aviation.

ANNUAL AVERAGE RATE OF CHANGE IN ALASKA BANK DEPOSITS



Source: Federal Reserve Bank of San Francisco.

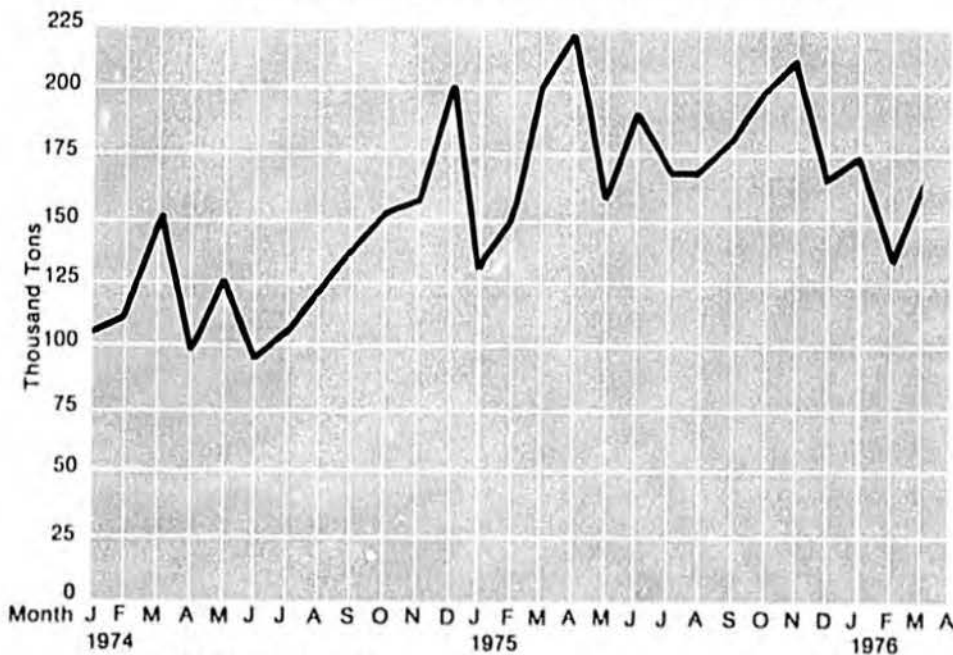
COMMUNICATIONS AND POWER

RCA Alaska Communications has completed two more major satellite ground facilities. These combine with six others to link all of southeastern Alaska for the first time into one civilian communications system. In June, RCA Alascom announced construction plans for 50 satellite earth stations in rural communities this year.

In February, the Governor's special task force recommended that the Watana and Devil Canyon hydroelectric projects were feasible. The project as currently proposed calls for the first dam to be completed in 1986.

Preliminary work will begin this summer on a study for the Federal Energy Research and Development Administration of Cook Inlet tides as a source of electrical power.

TOTAL TONNAGE HAULED BY THE ALASKA RAILROAD



Source: The Alaska Railroad.

Government

Government spending continues to be the underpinning of Alaska's economy. Federal, state and local government, which provide 39% of the jobs in Alaska, are continuing their massive swell.

STATE

The State's Fiscal Year 1976 spending, which ended on June 30, is estimated to be nearly 30% greater than that of Fiscal Year 1975. The Fiscal Year 1977 budget which commenced on July 1, calls for approximately a 13% increase in the level of spending over that of Fiscal Year 1976.

The current level of State spending is

seven times greater than it was immediately prior to the 1969 Prudhoe Bay lease sale. In the three years from Fiscal Year 1974 to Fiscal Year 1977, State spending has doubled. Today, while Alaska's per capita personal income is only about one-fourth greater than the U.S. average, the State of Alaska on a per capita basis spends nearly four times as much as the average state and employs three times as many people as the average state.

As indicated in the table below, the petroleum industry presently pays for over half the spending by the State of Alaska. Note that this is before any production from Prudhoe Bay.

FEDERAL

Although state government has been the most rapidly growing part of the public sector, federal government is by far the largest. The United States Government provides nearly one-fourth of the jobs in Alaska and is responsible for

one-fifth of Alaska's gross state product. Despite recent military cutbacks, total federal spending has continued to increase because of substantial growth in civilian federal employment. The Department of Interior has expanded considerably to perform the necessary functions associated with accelerated oil and gas lease sales in Alaska and broader resource management responsibilities.

LOCAL

On the local government scene, Anchorage voters in April rejected 10 of 13 bond issues for a wide variety of public projects. It would seem that the State bond issues totaling approximately \$236 million, which are to be voted on next November, might be in jeopardy.

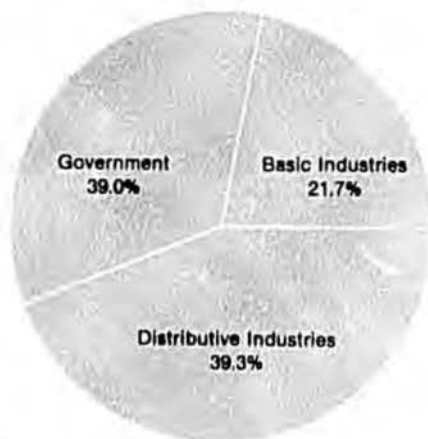
STATE OF ALASKA ESTIMATED REVENUE SOURCES FISCAL YEAR 1977

<u>Source</u>	<u>Amount (\$ Millions)</u>	<u>Portion</u>
<u>Petroleum-Related Sources</u>		
Reserves Tax	\$ 260	37.2%
Royalties, severance tax, property tax, etc.	\$ 155	22.1%
SUBTOTAL	\$ 415	59.3%
<u>Other Sources</u>		
Income Taxes	\$ 145	20.7%
Other taxes, fees, etc.	\$ 140	20.0%
TOTAL	\$ 700	100.0%

REGIONAL SUMMARY

The Southcentral and Interior regions, which provide over three-fourths of Alaska's gross state product (see accompanying chart), have exhibited rather sluggish economic growth in 1976 relative to the past two years. On the other hand, the Arctic with its stepped up oil and gas exploration and development, Western Alaska with its improved fishing industry, and Southeastern Alaska with substantial production increases in the forest products industry are experiencing strong, healthy economic activity.

EMPLOYMENT MIX
ALASKA



Source: State of Alaska, Department of Labor

SOUTHCENTRAL

Anchorage, with about half of the population and nearly half of the jobs in Alaska, is the state's commercial and financial center. It therefore reflects the general tone of the state's economy. During the first quarter of the year the employment growth rate fell to half the rate of the same period last year. Reflecting the slowing population influx, Anchorage school enrollment during the first quarter was less than 1% greater than the first quarter of 1975.

The Anchorage housing market is considerably weaker this year than last. The low sales to listings ratio of homes selling above \$70,000 implies a rather serious accumulation of inventory. Currently it takes approximately one week longer to sell a home than at this time last year.

Responding to this weakening demand situation, Anchorage home builders have exercised admirable restraint. The value of residential building permits through the first five months of the year were down 20% from the same period last year. This holding back by builders, accompanied by a significant influx of permanent petroleum related personnel, suggests that the Anchorage home market could strengthen somewhat this fall. However, further weakening is anticipated next year.

In May one of the city's two hospitals opened a new \$26 million addition which augments the health care facilities available and emphasizes Anchorage's roll as a major support and service area for the entire state.

Inflation has cooled off in Anchorage, reflecting a national trend. As suggested by the graph on page 16, consumer prices in Anchorage ought to rise about 7% this year.

Much of the growth from Anchorage is spreading north into the Matanuska Valley. Both permanent and residential land sales have been soaring at a pace similar to recent "land booms" in the southern United States. Bids on recent land sales by the Matanuska-Susitna Bureau are running 50% to 100% higher this year than last. The dominant participant in recent land auctions has been Calista Corporation, a western Alaska regional Native corporation with administrative offices in Anchorage.

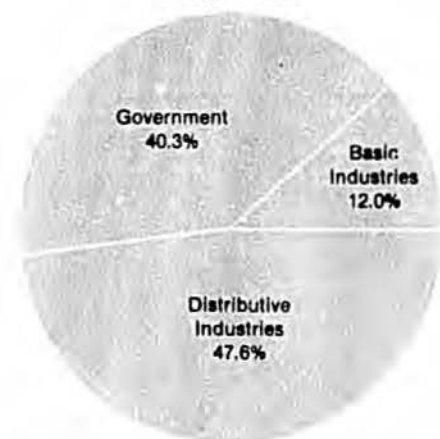
The Matanuska-Susitna Borough is the site of all three proposed new state capitol sites, one of which will be selected by the Alaska voters in November. The Palmer Industrial Park will house new acetylene and air separation plants for the production of oxygen in its gaseous and liquid form for distribution throughout Alaska.

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a \$660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a \$6 million barite grinding mill for drilling mud used in off-shore oil and gas exploration. Also in connection with antici-

pated OCS exploration in the Gulf of Alaska the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

Elsewhere in Southcentral Alaska, a recent land trade which would have given Cook Inlet Region, Inc. valuable state coal lands in the Beluga area was declared illegal in Superior Court.

EMPLOYMENT MIX
ANCHORAGE



Source: State of Alaska, Department of Labor

INTERIOR

The Fairbanks area has registered virtually no employment growth this year, and sellers of both consumer goods and business, industrial and construction equipment report rather poor sales.

Similar to the Anchorage situation, the Fairbanks housing market is weakening. In May there were approximately 2½ times as many units available for rent as May, 1975. Rapid price increases appear to have abated, with some price declines being reported.

Nevertheless, economic activity in the Fairbanks area remains strong. Work continues on the \$120 million Chena River Flood Control project with a \$1.4 million contract for levy construction let in April. In June, the Fairbanks Community Hospital announced its intention to break ground for a \$4 to \$5 million expansion.

As stated in the discussion of the petroleum industry, Energy Company of Alaska broke ground in June for construction of the first phase of a refinery at North Pole. This project will not only create jobs but will provide lower cost petroleum products to Interior Alaska.

ARCTIC AND WESTERN

The Arctic and Western regions of Alaska are enjoying relatively strong economic activity this year. Development at Prudhoe Bay and oil and gas exploration in Pet 4, accompanied by investment activity of the Arctic Slope Regional Corporation, are contributing to a vigorous economy in the Alaska Arctic.

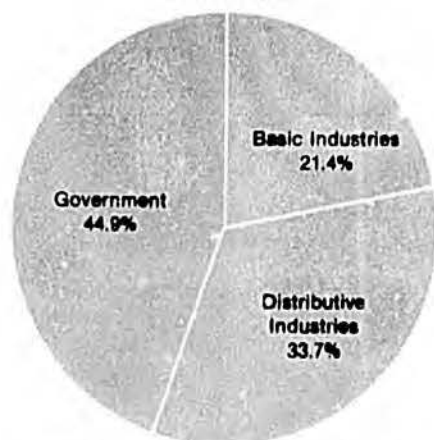
Similarly, oil and gas exploration and construction projects of the NANA, Bering Straits, Calista, and Bristol Bay Native corporations, accompanied by another good return of salmon, suggests a relatively satisfactory year for Western Alaska.

Offsetting somewhat the favorable prices, the return of salmon to Southeastern Alaska is expected to be relatively poor, having not yet recovered from flood damage to spawning grounds and severe winters of a few years ago.

Both prices and output volumes are up considerably in the forest products industry, responding to healthy economic recovery in Japan.

On the other hand, the visitor industry in Southeastern Alaska is reported to be registering a rather mediocre performance when compared to previous years' growth rates.

EMPLOYMENT MIX
FAIRBANKS

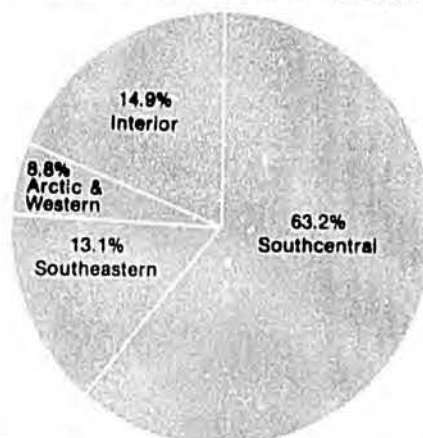


Source: State of Alaska, Department of Labor

SOUTHEASTERN ALASKA

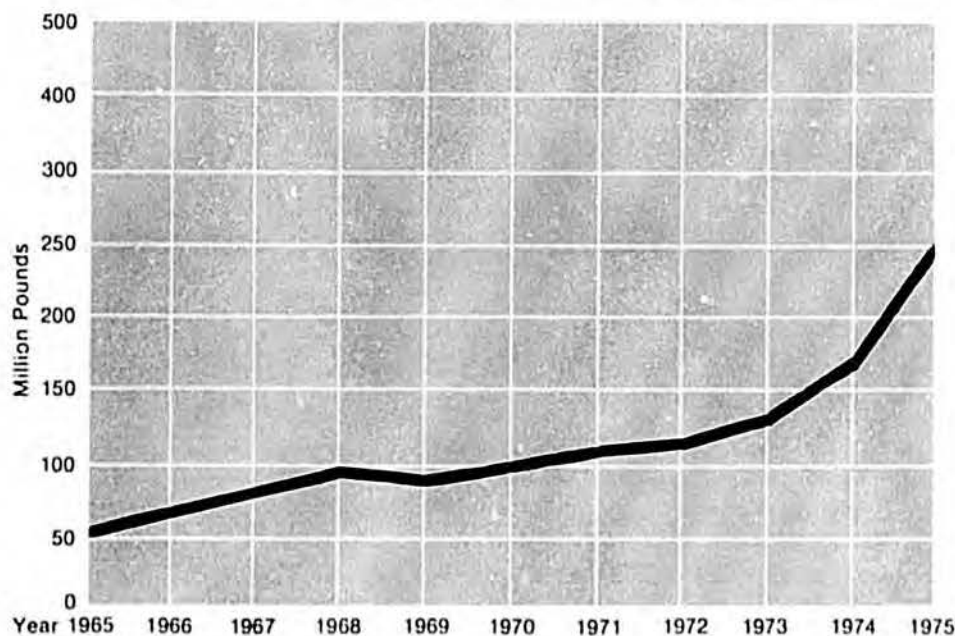
Higher prices for fish and timber products underlie a strong economy in Southeastern Alaska this year. Southeastern's major basic industries are fishing, forest products and tourism. Accordingly, the reader's attention is directed to these sections in the preceding discussion of Alaska's industries.

GROSS STATE PRODUCT BY REGION



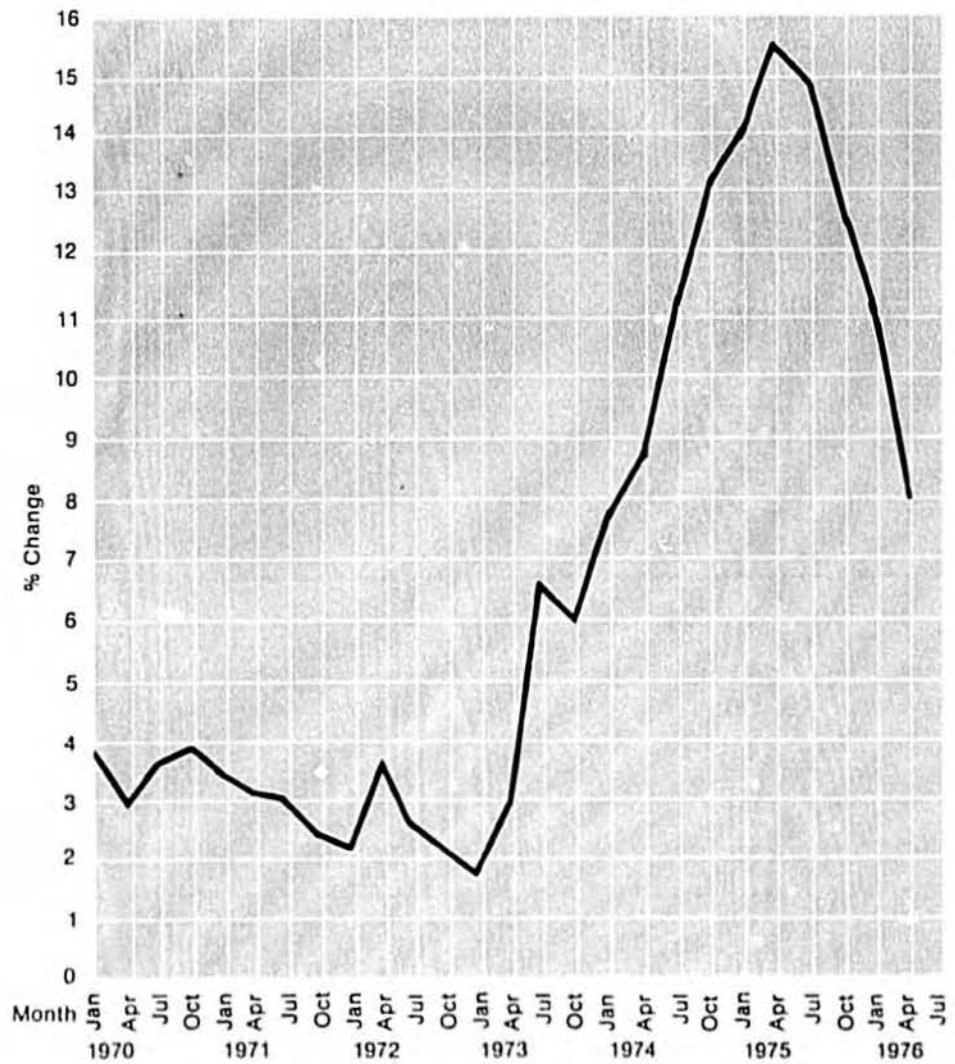
Source: Institute of Social, Economic and Government Research, University of Alaska.

AIR FREIGHT THROUGH ANCHORAGE INTERNATIONAL AIRPORT



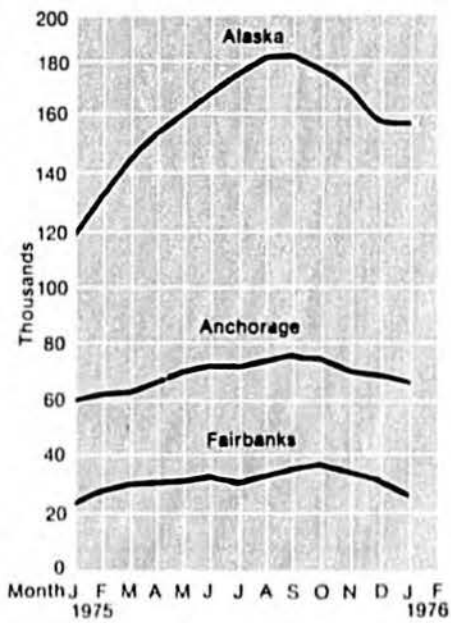
Source: State of Alaska Division of Aviation.

RATE OF CHANGE IN ANCHORAGE CONSUMER PRICE INDEX
(% Change From Previous Year)



Source: U.S. Department of Labor.

TOTAL EMPLOYMENT
(Includes Only Wage and Salary Workers)



A WORD ON 1977

Because most national firms doing business in Alaska are now preparing their 1977 budgets, perhaps a few comments on the outlook for next year will be helpful.

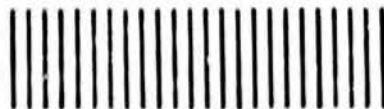
The aggregate level of economic activity in Alaska is tracking almost precisely as anticipated. The rate of growth this year for the state as a whole is about half the rate of growth as last year. We expect this deceleration to continue with the rate of growth in 1977 being somewhere between a low of zero and a high of approximately half the rate of growth of this year.

The growth slowdown is being brought about by a reversal of the very factors that contributed to the boom of 1974 and 1975: State spending and the trans-Alaska oil pipeline project. As both of these elements wind down, Alaska's distributive industries will feel the impact considerably — as they are commencing to this year. Wholesale and retail trade, equipment sales, residential and commercial construction, and freight traffic are expected to continue their lackluster performance. Oil and gas exploration and development and forest products output will continue strong, and the visitor industry should take off again from its present plateau. It is too early to forecast the outlook for Alaska's fishing industry.

Even if the Federal Power Commission grants authority early in the year for construction of a natural gas pipeline, no real impact will be felt in 1977. However, the psychological effect may be manifest in some anticipatory expansion in the distributive industries.

Although the general overall outlook for 1977 calls for slower growth, the longer range outlook suggests that this is merely a lull before the next flurry of activity commencing in 1978 or 1979 when huge oil and gas revenues are flowing to the State of Alaska and a natural gas pipeline is likely to be under construction.

Alaska Pacific Bank
P.O. BOX 420
ANCHORAGE, ALASKA 99510



FIRST CLASS
PERMIT NO. 139
ANCHORAGE,
ALASKA



AlaskaPacificBank

#5

31 August 1976

Mr. Bob Richards
Executive Vice President
Alaska Pacific Bank
Box 420
Anchorage, AK 99510

Dear Bob:

I agree with a theme of yours at the first meeting of the State Investment Advisory Committee, that most uses of the Permanent Fund are likely to involve some subsidy to various businesses and groups. Assuming the capital markets are functioning reasonably well in regard to Alaska (although investors may not always have good information about this State), we can define the subsidy in any case as the difference between the going rates of interest and terms and those offered by the Permanent Fund.

In measuring the tradeoff between the costs of any subsidy and its benefits, however, you speak only of the benefits of new tax revenues for the State government. But I think you would agree that we also need to add in other economic benefits such as new income from new jobs (insofar as that income remains in the State), the effects on living standards if a part of that income goes to lower income groups, the benefits of saving "rusting" job skills or upgrading or creating new ones, removing bottlenecks in the local economy, reducing congestion and other externalities by our timing and placing of investments, and perhaps others. I trust you will have a chance to elaborate on this at the Committee's next meeting.

With best wishes, I am,

Sincerely,

James B. Rhode
AA to the Chairman,
House Finance Committee

cc: Mr. Jim Edenso
Department of Revenue
Legislative Members
S.I.A.C.

JR/jb