

12/09/15

Overview on
Commonwealth

North

Activities; and
Presentations on

Alaska's

Economic Climate
and Fiscal

Future

<TARGET><BILL></BILL><SUBJECT>12-09-15 Overview on
Commonwealth North Activities; and Presentations on Alaskas
Economic Climate and Fiscal
Future</SUBJECT><COMM>HEDA29</COMM></TARGET>

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT,
TOURISM AND ARCTIC POLICY



Representative Bob Herron, Chair

State Capitol Building, Room 406

Phone (907) 465-4942

Rep.Bob.Herron@akleg.gov

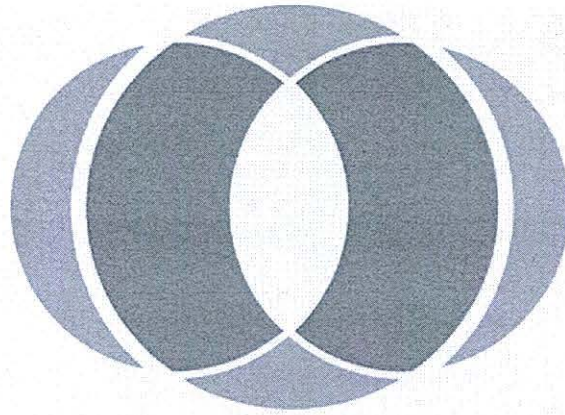
Rep. Craig Johnson, Rep. Charisse Millett, Rep. Cathy Tilton, Rep. Louise Stutes,
Rep. Dan Ortiz, Rep. Adam Wool

Alaska's Economic Outlook

December 9, 2015 – 9:30-11:30am – Anchorage LIO, First Floor

AGENDA

- Mary Ann Pease, President, Commonwealth North: Overview of CWN activities; AND Cheryl Frasca, President-Elect, Commonwealth North: CWN's recent fiscal policy work
- Dr Scott Goldsmith, Professor Emeritus, UAA Institute of Social and Economic Research (ISER): "Unlocking the Potential of the Permanent Fund: A Game Plan for Meeting Alaska's Fiscal Challenge"
- Neal Fried, Economist, Alaska Dept. of Labor: "Alaska's Current Economic Climate"
- Martin Cary, Vice President and General Manager, Managed Broadband Services, GCI: "Securing Alaska's Fiscal Future and Arctic Opportunity"



COMMONWEALTH NORTH

Presentation to the Alaska House Special Committee
on Economic Development, Tourism, & Arctic Policy
December 9, 2015



Commonwealth North

- ▶ Commonwealth North is a public policy membership organization comprised of Alaskan leaders in business, education, health, and public service. Our mission is to address the critical issues affecting Alaska in an objective, non-partisan way, and to make recommendations to benefit Alaska's future.
- ▶ Commonwealth North was co-founded in 1979 by Governors Walter J. Hickel and William A. Egan.

Commonwealth North

- ▶ Since 2009, Commonwealth North has completed eight major studies on Alaskan public policy issues including the strategic importance of the arctic in U.S. policy decisions, railbelt energy, rural and alternative energy, Alaska's oil tax structure, the State budget, and a roadmap for transportation and energy infrastructure development.
- ▶ Our reports provide members, policy makers, legislators, and Alaskans the fundamental tools needed to affect changes that improve the quality of life for Alaskans and the State's ability to effectively manage its resources.

Commonwealth North- Energy Action Coalition

ENERGY FOR A SUSTAINABLE ALASKA THE RURAL CONUNDRUM

Executive Summary

The hallmark of a healthy, sustainable community is the availability of reliable and affordable energy. Affordable energy remains unavailable in virtually all of rural Alaska and as a result Alaska's rural and indigenous communities are at severe risk.

Recent studies have demonstrated that the poorest households in rural Alaska spent up to 47% of their income on energy in 2008, more than five times their Anchorage neighbor. Given the meteoric rise in the cost of oil since then, estimates of the burden today are significantly higher.

The Commonwealth North Rural and Alternative Energy Study Group received presentations from regional organizations on energy plans in various stages of developments. Virtually all the plans included some version of renewable energy - generally still in the early concept design stage - and interconnection of communities to that generation source. All the plans appeared to be very high cost, upward of \$500 million per region, and none would dramatically lower the cost of energy without massive government subsidies.

The Renewable Energy Fund, established in 2008, is authorized to underwrite \$250-300 million of energy projects, but with projects for small communities coming in at \$4-5 million each, it is likely that per-community renewable solutions will cost \$2 billion statewide, and will at best keep electricity prices stable into the future. Heat and transportation fuel substitutions will greatly increase this number.

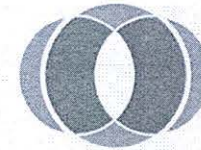
This study identifies barriers to electric energy development and offers solutions to overcome those obstacles. Ultimately, this study proposes that Alaska's energy challenge must be tackled in a holistic manner with the development and adoption by the Legislature of an energy plan that systematically addresses these barriers and enables the implementation of solutions to overcome them.



Energy for a Sustainable Alaska— The Railbelt Predicament

The Railbelt Predicament A Commonwealth North Energy Study

Contents	
INTRODUCTION	3
PRESENTATIONS	4
STUDY GROUP CHAIRS	5
POLICY ACTION GROUP FINDINGS AND PROPOSED ACTION	6
FRAMING THE SOUTHCENTRAL GAS PREDICAMENT	7
THE COOK INLET NATURAL GAS MARKET	8
HISTORIC COOK INLET BASIN NATURAL GAS PRODUCTION	8
CURRENT COOK INLET NATURAL GAS PRODUCTION AND DELIVERABILITY	12
COOK INLET GAS PRODUCTION	12
DELIVERABILITY	14
AVERAGE DAILY IN-STATE GAS USES	16
THE CURRENT SOUTHCENTRAL ENERGY SUPPLY PICTURE	17
THE NOT SO CONVENIENT TRUTH	17
UTILITY CONSUMPTION AND THE ISSUE OF "SWING"	18
THE REGULATORY COMMISSION OF ALASKA, RAPA, AND THE REVIEW OF COOK INLET NATURAL GAS SALES AGREEMENTS	20
THE REGULATORY COMMISSION OF ALASKA	20
REGULATORY AFFAIRS AND PUBLIC ADVOCACY	20
THE RCA'S REVIEW OF GAS SALE AGREEMENTS	21
NEAR TERM DELIVERABILITY RESPONSE	24
ENERGY EFFICIENCY	24
INTERMEDIATE TERM, BRIDGE SOLUTIONS TO ANNUAL SUPPLY SHORTFALLS	25
ENCOURAGE INCREASED, NEAR TERM EXPLORATION AND DRILLING	25
GAS STORAGE	25
PROPANE	26
LNG EXPORTS	28
LNG IMPORTS	28
LONG TERM SOLUTIONS	30
NORTH SLOPE GAS PIPELINE TO LOWER-48	32
SPUR LINE: BELLUGA TO FAIRBANKS NATURAL GAS PIPELINE SYSTEM	32
BULLET LINE	35
HYDROELECTRIC ENERGY	37
SUSTINA/CHAKACHAMNA	37
BACKGROUND: HYDROELECTRIC IN ALASKA	38
GREATER RAILBELT ENERGY AND TRANSMISSION CORPORATION CONCEPT	39



COMMONWEALTH
NORTH

Energy for a Sustainable Alaska *The Railbelt Predicament* A Commonwealth North Energy Study

Co-Chairs Mary Ann Pease and David Wight
Edited by Joshua Wilson

Energy Action Coalition

- ▶ Presentation by Oil and Gas experts, government officials on a bi-monthly basis
- ▶ All presentations are loaded onto the CWN website:
http://www.commonwealthnorth.org/calendar/index.cfm?fa=catalog_class&classid=170

Home > Study and Action Groups > Energy Action Coalition

Energy Action Coalition

Commonwealth North has created an Energy Action Coalition to address Alaska's critical energy needs. This group is chaired by Mary Ann Pease and Arden Page.


Advocacy Coalitions provide continuity in support of recommendations from CWN studies. This program reaches the longer term goal of influencing public policy, in addition educating our members and the public.

This Action Coalition identifies the critical components of Alaska's energy needs and develops policy guidelines and recommendations that provide the baseline for Legislative testimony and CWN's advocacy position going forward. The intent of this group is pro-active policy discussion with an action plan to develop and communicate our direction and findings.










Contact Information:

Aaron Vvedle <events@commonwealthnorth.org>
 Program Manager, Commonwealth North
 907-258-9522

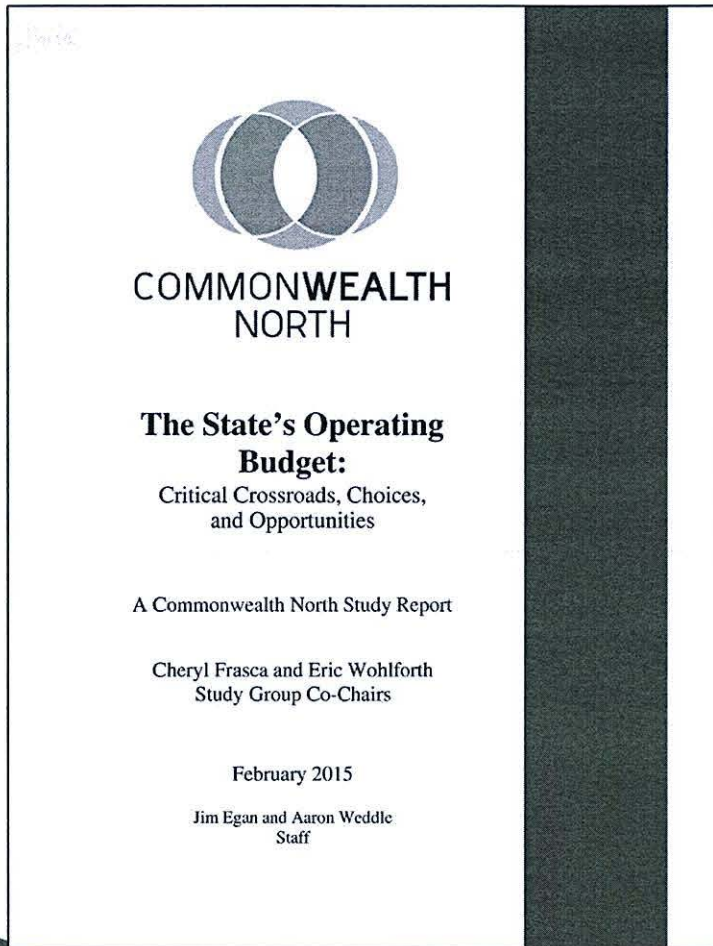
Dates:

 **December 11, 2015**
 12:00 PM - 1:00 PM

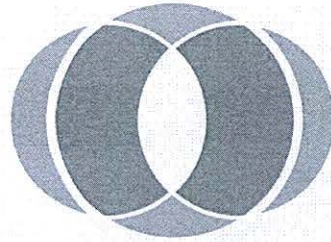
ANCHORAGE
 HDR Building

-  01/23/15 Larry Persily EAC
 Description: On January 23rd, 2015, Larry Persily gave a presentation to the Energy Action Coalition regarding the current status of the Alaska LNG Project and the EIS and FERC permitting process. Larry is the Federal Coordinator for Alaska Natural Gas Pipeline Projects, and a former deputy commissioner at the Alaska Department of Revenue. (103 KB)
-  02/06/15 EAC Great Bear Petroleum
 Description: On February 6th, 2015, Pat Galvin gave a presentation to the Energy Action Coalition about Great Bear Petroleum. (8182 KB)
-  02/12 - Energy for a Sustainable Alaska - The Rural Conundrum
 Description: This 2012 report clarifies the current state of production, fuel transportation, and consumption of energy in rural Alaska and offers long-term, viable, cost-effective solutions to those challenges. (3111 KB)
-  02/13/15 Paul Decker
 Description: On February 13th, 2015, Paul Decker, Acting Director of the Division of Oil and Gas gave a briefing to the Energy Action Coalition on oil and gas activity in the Cook Inlet Basin. (6127 KB)
-  03/06/15 David Gillespie ARCTEC
 Description: On March 6th, 2015 David Gillespie, Chair of ARCTEC gave a presentation to the Energy Action Coalition. (176 KB)
-  03/06/15 Jim Trent ML&P
 Description: On March 6th, 2015, Jim Trent General Manager and COO of Municipal Light & Power gave a presentation to the Energy Action Coalition. (569 KB)
-  03/06/15 Joe Griffith MEA
 Description: On March 3rd, 2015, Joe Griffith, General Manager of the Matanuska Electric Association, gave a briefing to the Energy Action Coalition. (1711 KB)
-  03/10 - Energy for a Sustainable Alaska, the Railbelt Predicament
 Description: Commonwealth North commissioned this study to evaluate solutions and facilitate dialogue relevant to energy policy throughout Alaska and develop guidelines and recommendations for a secure energy future. Alaska is rich in natural energy sources and yet many Alaskans struggle to meet rising energy costs. Alaska needs a long range, diversified energy plan. A statewide plan would allow for the infrastructure development Alaska needs to move forward beyond the economic drag associated with continued volatility of world, national and local fuel prices, and offer stable opportunities for citizens and business to invest in the future. (3057 KB)
-  03/13/15 Tom Barrett EAC
 Description: On March 13th, 2015 the Energy Action Coalition heard an update on the Trans-Alaska Pipeline System from Alyeska Pipeline President, Admiral Tom Barrett, USCG (ret.). He briefed us on the pipeline system, challenges of operating with declining oil throughput from the North Slope, and the upcoming project season. (1283 KB)

Commonwealth North



- ▶ Our most recent report, *The State's Operating Budget: Critical Crossroads, Choices, and Opportunities*, has been widely distributed among policy makers and is shaping discussions about our state's fiscal future.



COMMONWEALTH
NORTH

*Alaska's Operating Budget: Critical Crossroads,
Choices, and Opportunities*

Commonwealth North
Fiscal Policy Study Group Report
Released February 2015

Cheryl Frasca & Eric Wohlforth
Co-Chairs

CWN Fiscal Policy Work

- “Long Term Economic Sustainability for the State of Alaska” (Feb 2013)
- “Alaska’s Oil Investment Tax Structure, Establishing a Competitive Alaska” (March 2011)
- “At a Crossroad: The Permanent Fund, Alaskans, and Alaska’s Future” (Dec 2007)
- “Permanent Fund Earnings: A Cornerstone for Fiscal Certainty” (May 1999)
- “Alaska’s Asset Portfolio: Managing for Maximum Return” (Dec 1998)
- “Balancing Responsibilities: The Role of State Government” (June 1997)

Report's Bottom Line Recommendations

#1. Scrutinize *all* spending

#2. *All* revenue needs to be available to ensure priority services can be funded

#3. Reform budget and other practices that inhibit achieving #1 and #2

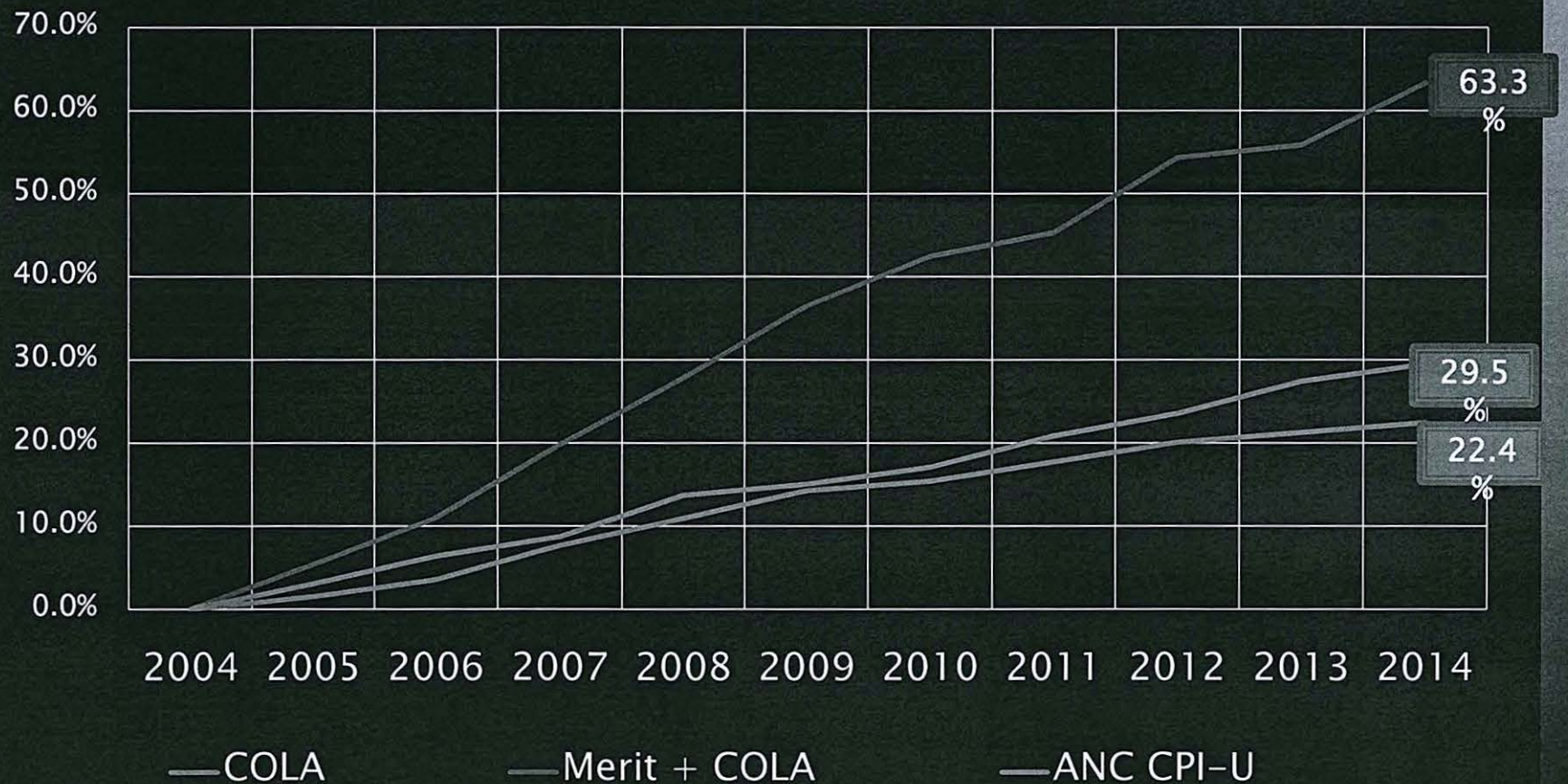
Examine Formula-Driven Costs for Recurring Savings

- ▶ Traditional formula programs
 - K-12 \$1.3 billion
 - Medicaid, public assistance \$906 million

- ▶ State employee salaries, benefits
 - Multiple annual salary increases
 - 100% health insurance cost paid by the state

Recurring Savings: Salary

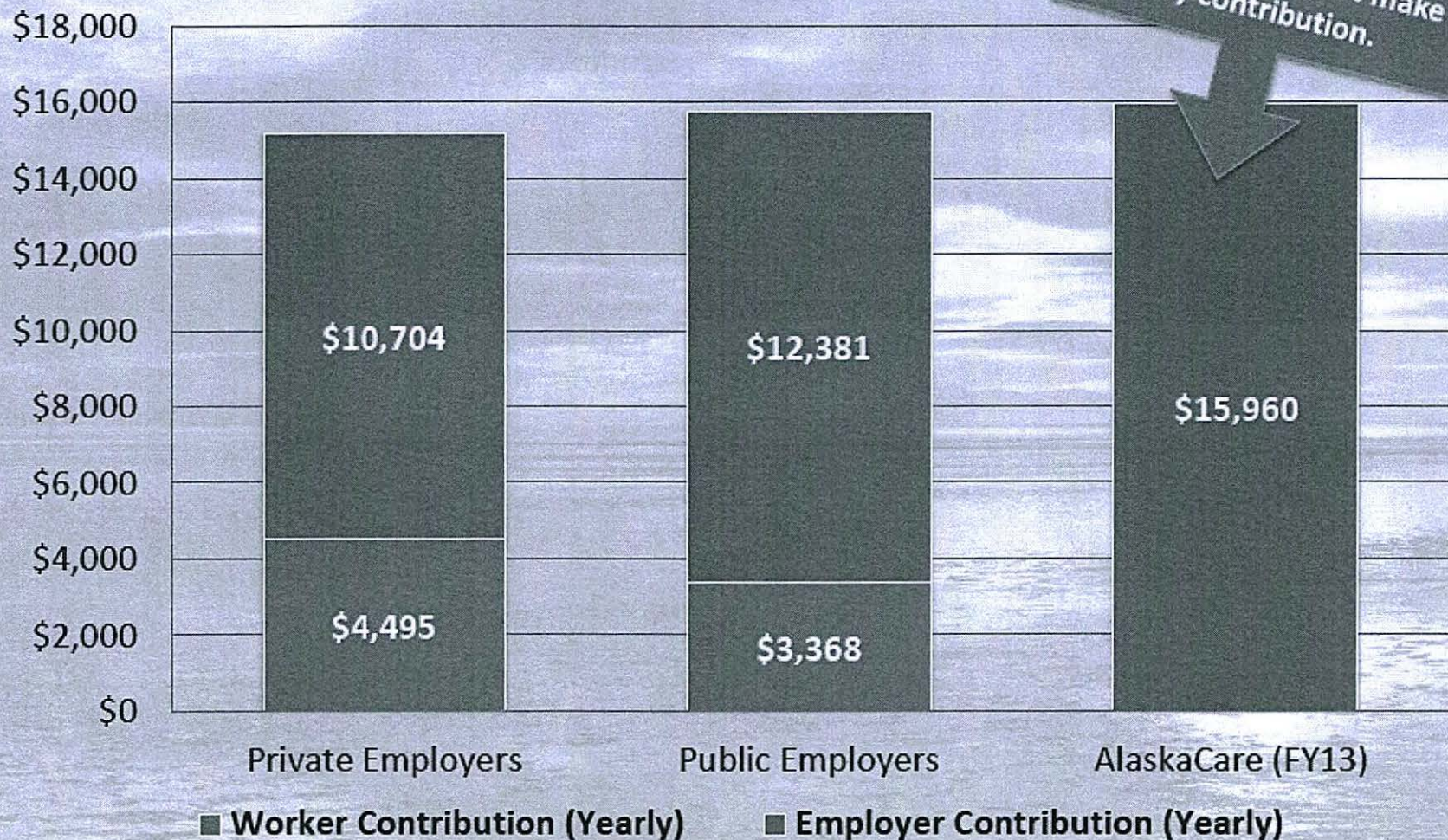
For typical employee over first 10 years, combined COLA + Merit/Pay Increment results in an approximate 63% increase in hourly wage



US EMPLOYER & EMPLOYEE CONTRIBUTIONS

Worker and Employer Premium Contributions for Family Coverage / Economy Plans (2012)

Participants in the economy plan don't make any contribution.



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2012.

Rigorous Review of Programs

- ▶ Appropriate government responsibility?
- ▶ If so, how effective is the program—what are its results?
- ▶ What is the cost to deliver these results?
- ▶ Is the State the only entity that can deliver the service?

Reform Budget Practices & Process

- ▶ Increase time for budget work
 - Governor submit budget by Nov 15
 - Return to Constitution's 120-day session if necessary
- ▶ Revenue Limit
 - Establish limit on savings used in any one year
- ▶ Create Joint Ways & Means Committee

Reform Budget Practices & Process

- ▶ Implement contingency mechanism for mid-year spending reductions when significant drop in revenue
- ▶ Deposit all savings in statutory budget reserve
- ▶ Establish BRAC-type process to re-size government

Engage Alaskans

- ▶ Citizen panels provide input into Governor's proposed budget
- ▶ Management review of state programs by citizen team
- ▶ Statewide dialogue through which citizens better understand state fiscal issues and constructively comment on solutions

Commonwealth North

CWN Presents: *Legislative Agenda 2016*

Today, Noon – 1:30pm at the Dena'ina Center
Our 9th Annual “Legislator Meet & Greet”

- ▶ Keynotes by the Senate President & House Speaker about their 2016 legislative agenda followed by table conversations with Alaska Legislators and CWN members.
- ▶ This program is a unique opportunity to discuss key issues with well-informed, thoughtful Alaskans before the 2016 legislative session.
- ▶ Last year, more than a third of the Legislature participated.

Join us! Registration is available at the door.

Unlocking our Petroleum Wealth Potential: A Game Plan for Meeting Alaska's Fiscal Challenge

State of Alaska

House Special Committee on Economic Development,
Tourism, and Arctic Policy

Anchorage, Alaska

December 9, 2015

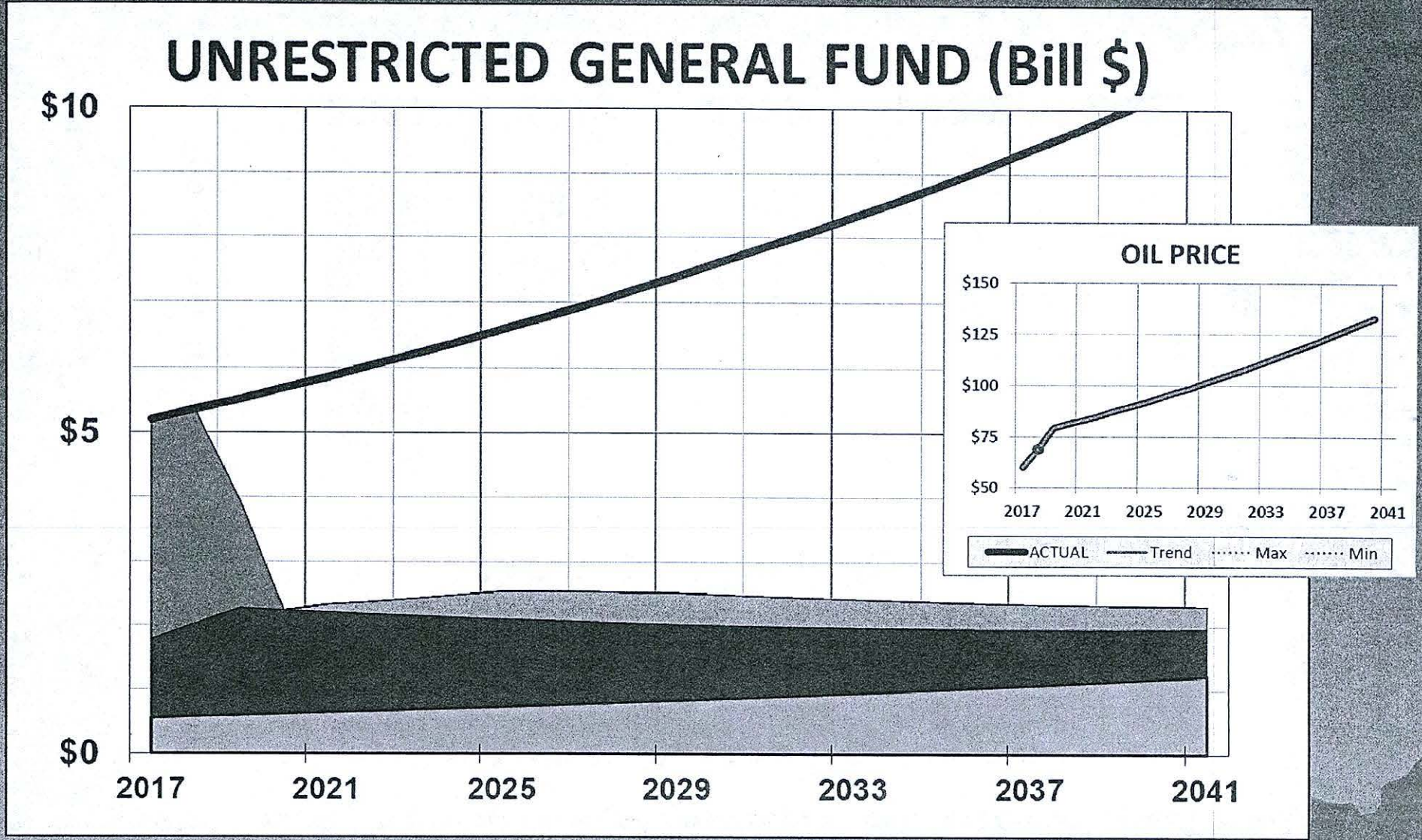
Scott Goldsmith

Institute of Social and Economic Research
University of Alaska Anchorage

Take Away

- There is no solution to our Fiscal Challenge without use of the earnings of the Permanent Fund
- We can use the earnings without compromising either the Permanent Fund or the Permanent Fund dividend
- Use of the earnings is challenging since no other state, and probably no other nation, has had a fiscal structure relying primarily on the earnings of its accumulated wealth
- We have several proposals for implementing the use of earnings to help us start thinking about the best solution
- Crafting a successful solution (game plan) will require everyone working together

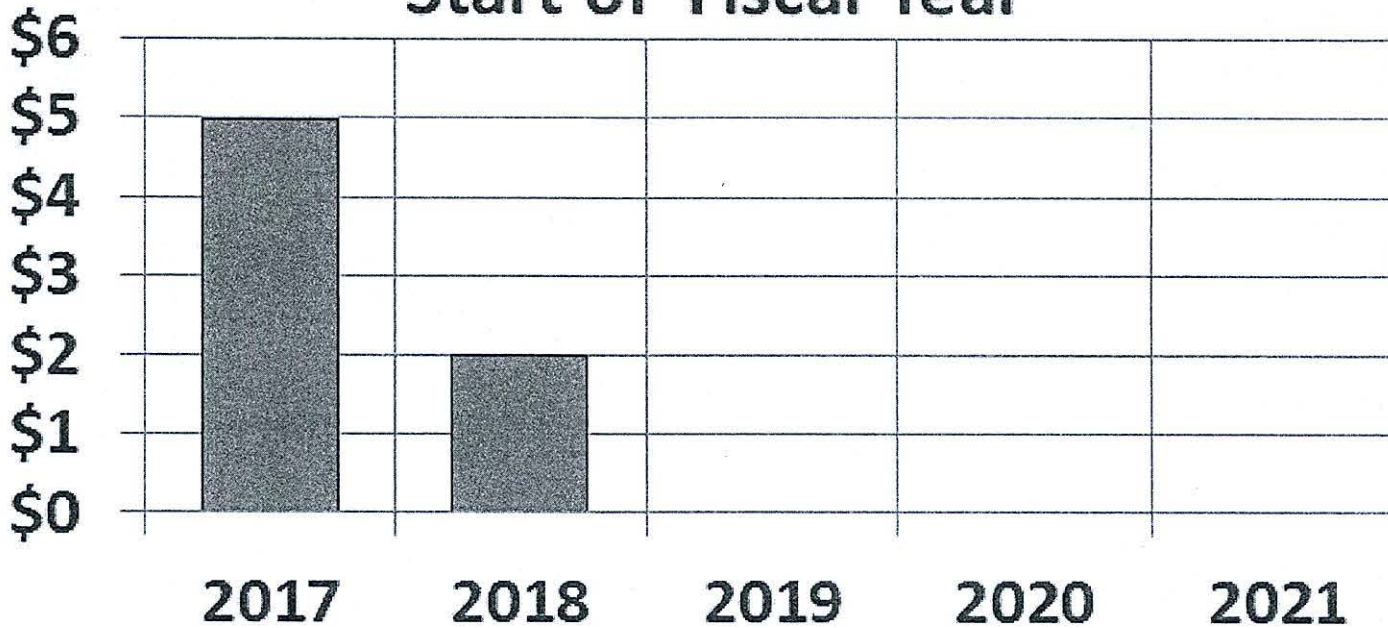
Fiscal Challenge: Cautious View



Time is Running Out

CONSTITUTIONAL BUDGET RESERVE (Billion \$)

Start of Fiscal Year



Fiscal Gap : Zombie Solutions

- Natural Resource Development
- Value Added Processing
- Economic Diversification
- Infrastructure Investments in
Power and Transportation
- Footloose Industry
- Renewable Energy

Fiscal Gap :

Nickel and Dime Solutions

- ✓ Lottery
- ✓ Marijuana Tax
- ✓ Increase the....
 - ✓ Gas Tax
 - ✓ Fish Tax
 - ✓ Mining Tax
 - ✓ Tourism Tax
 - ✓ Alcohol Tax
 - ✓ Tobacco Tax
 - ✓ School Tax
- ✓ Health Care Provider Tax

Fiscal Gap :

Silver Bullet Blank Solutions

- ◆ Squeeze Petroleum
 - Increase Production Tax Minimum
 - Eliminate GVR (lower tax rate on new oil)
 - Increase Production Tax Rate / Progressivity
 - Gas Reserves Tax
- ◆ Optimize Financial Asset Portfolio
 - Pension Obligation Bonds
 - Adjust Debt to Equity Ratio
 - Leverage Assets

Fiscal Gap : 3 REAL Tools

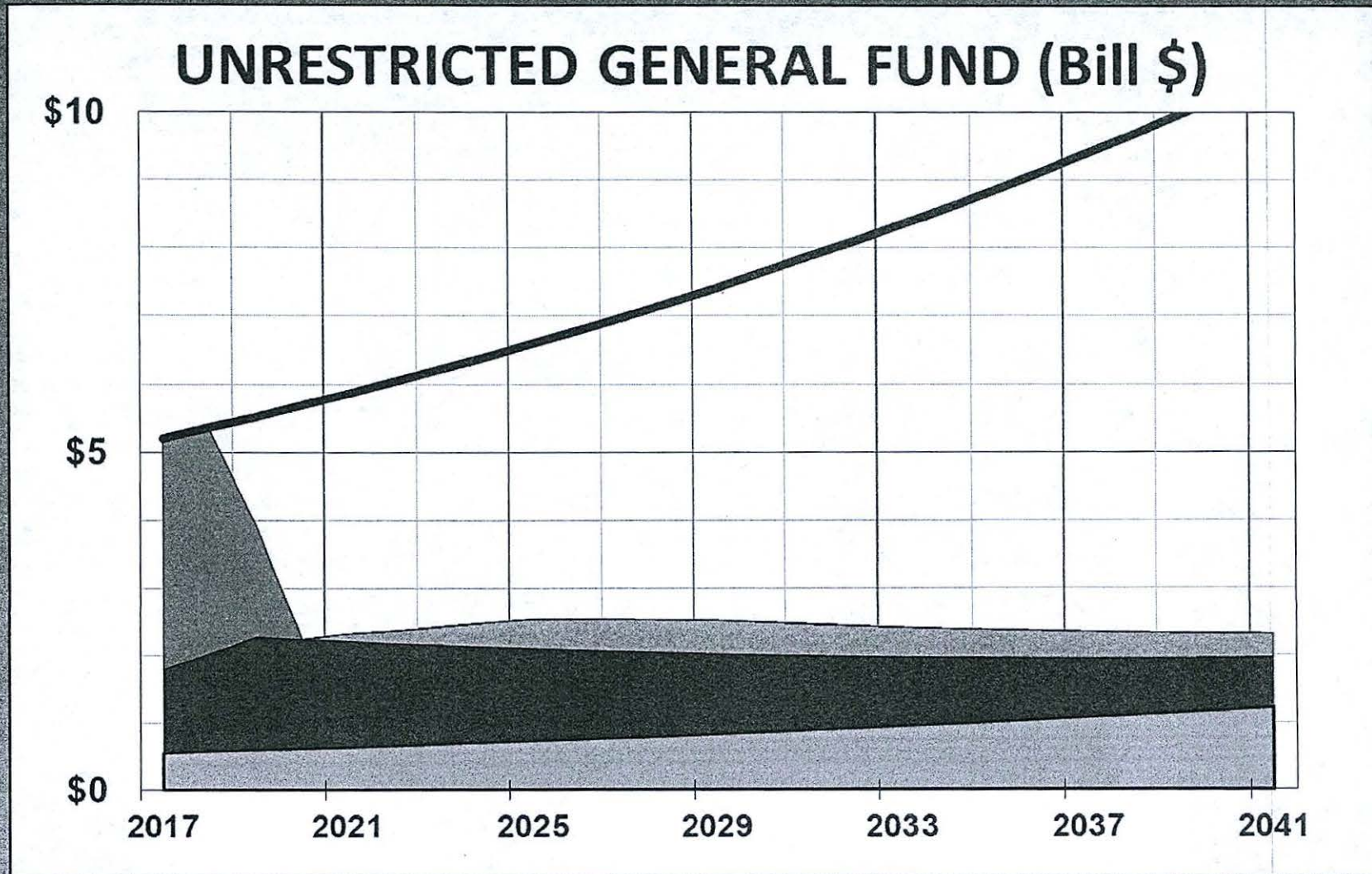
- MORE BUDGET CUTS
- INCOME TAX/SALES TAX/PFD REDUCTION
- EARNINGS FROM STATE ASSETS

**PICK ANY 3 FROM THE
LIST ABOVE!**

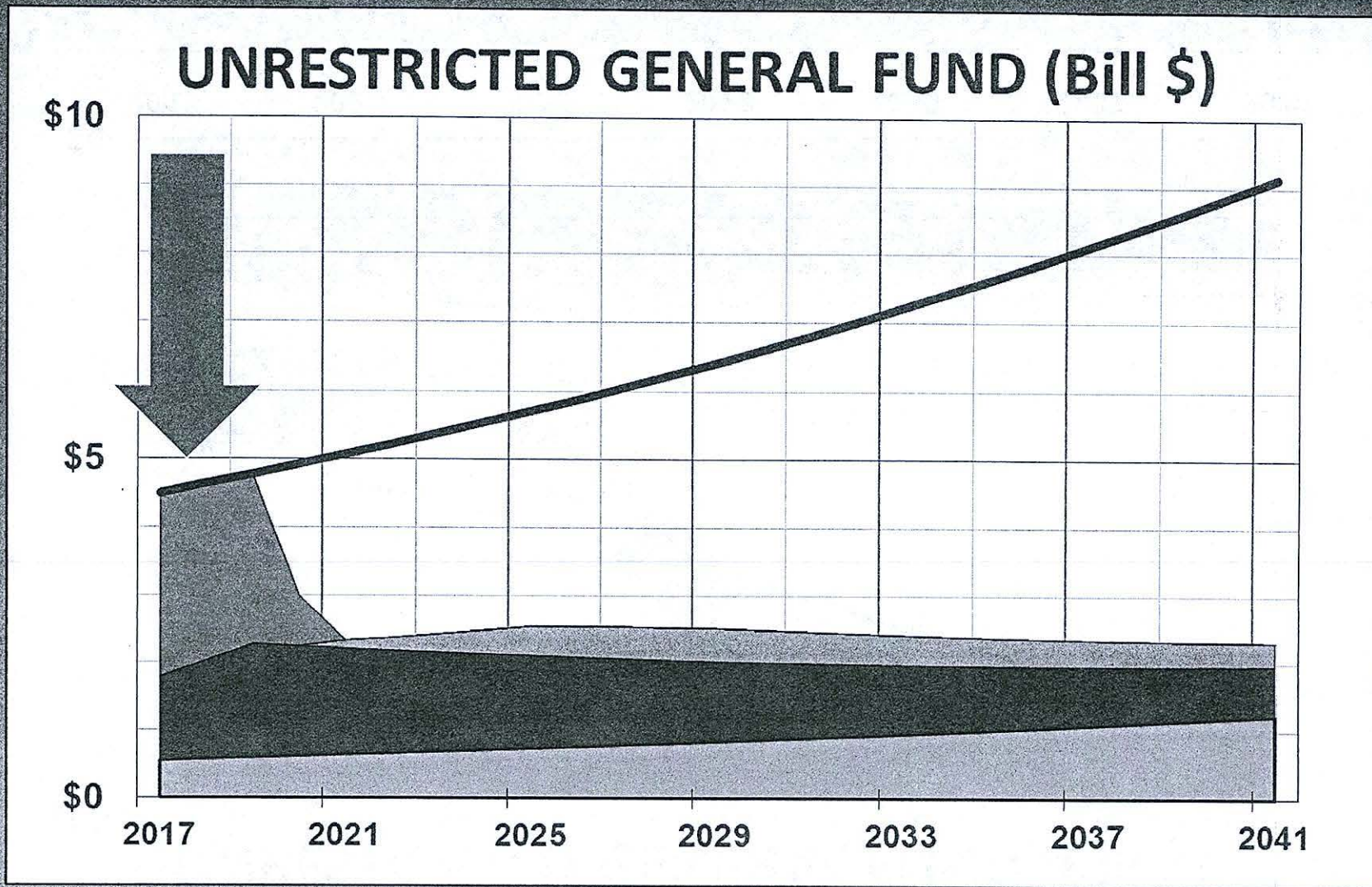
Why Not Do Nothing?



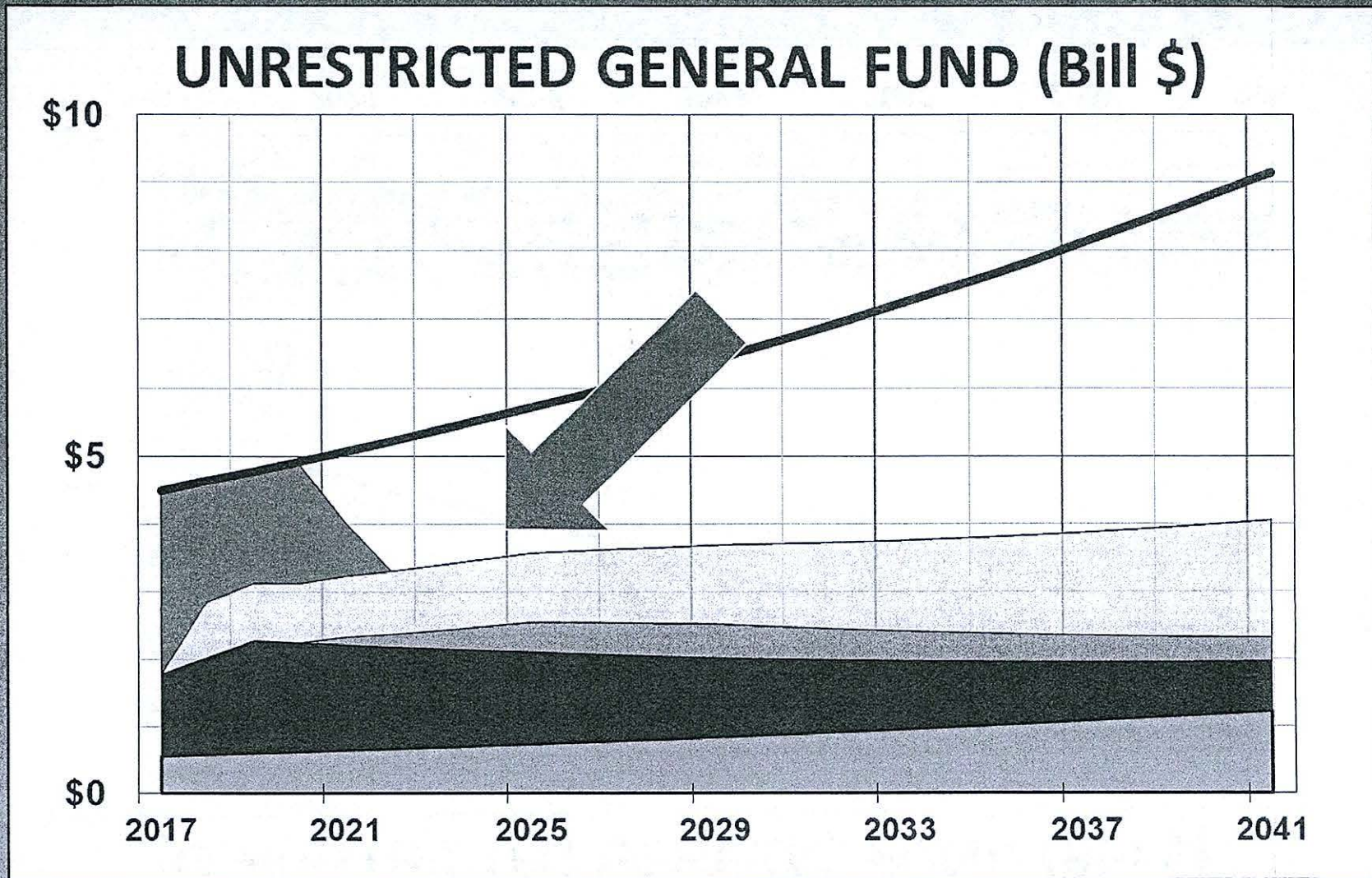
Fiscal Challenge: Fill the Gap



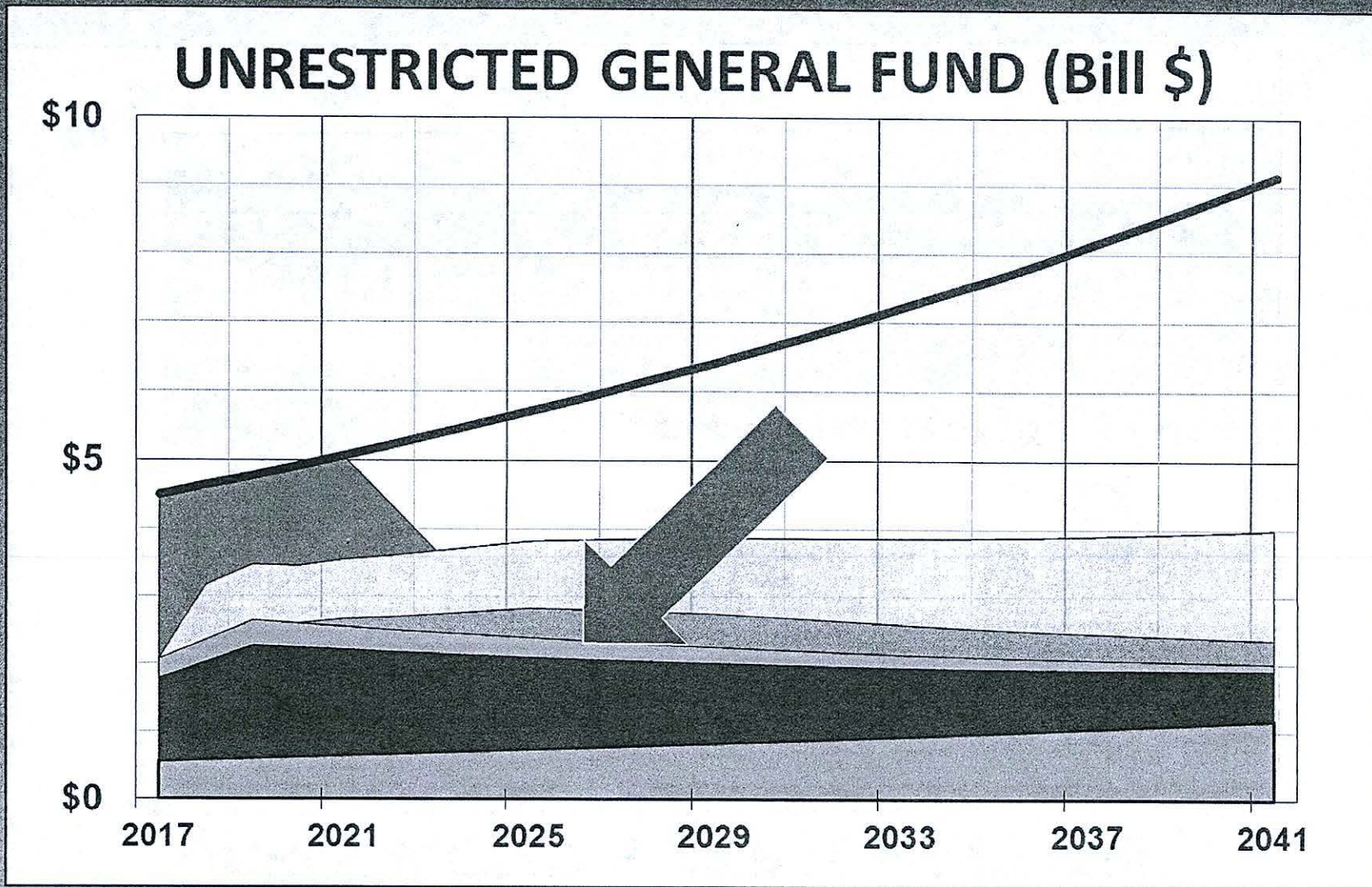
Cut the Budget



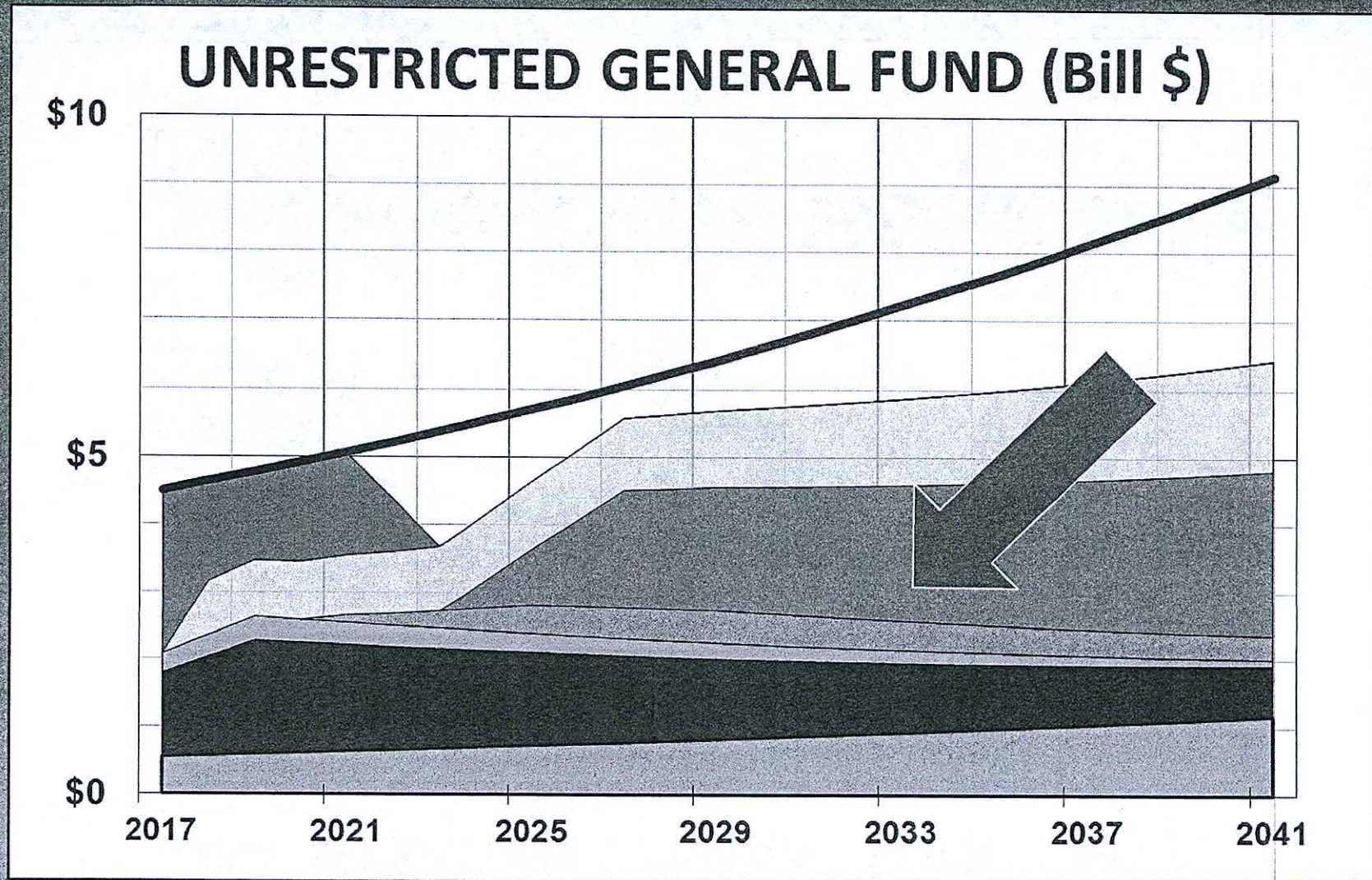
Add Income or Sales Tax



Double the Oil Production Tax



Add Gas Line Revenues



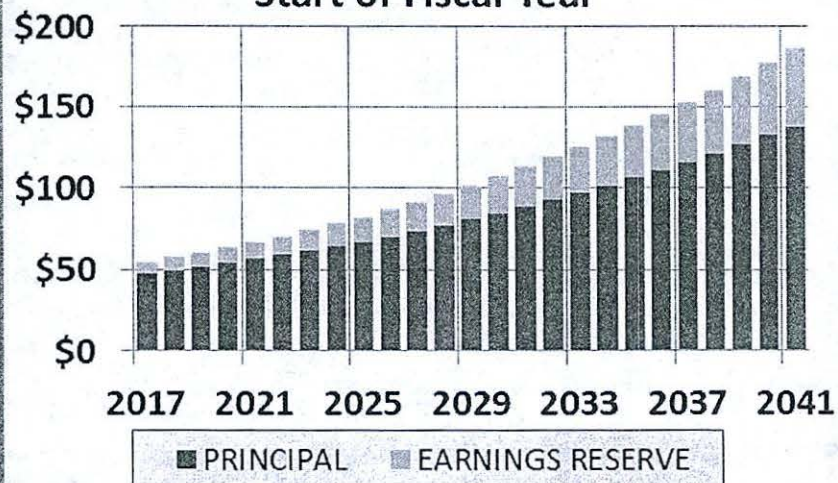
Don't Use PF Earnings: Negative Economic Effects

- Budget cuts
- Taxes on households
- Petroleum investment
- Business community confidence

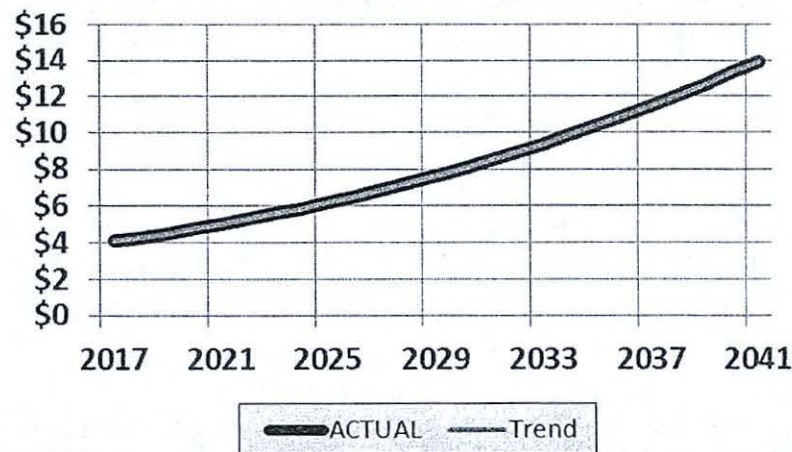
Meanwhile: Permanent Fund

PERMANENT FUND (Billion \$)

Start of Fiscal Year

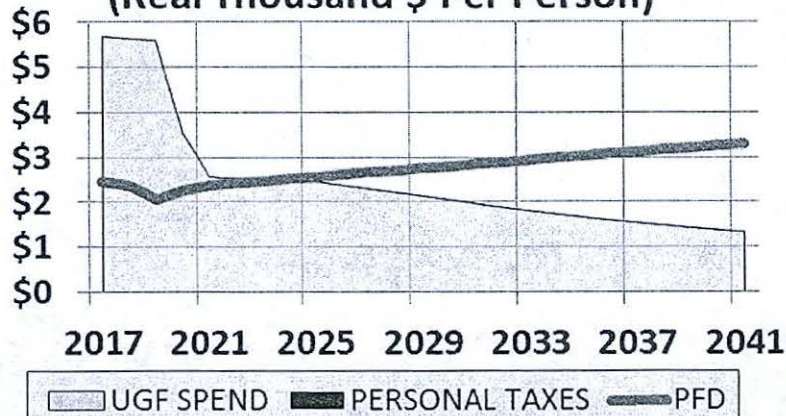


**PERMANENT FUND:
TOTAL EARNINGS (Billion \$)**

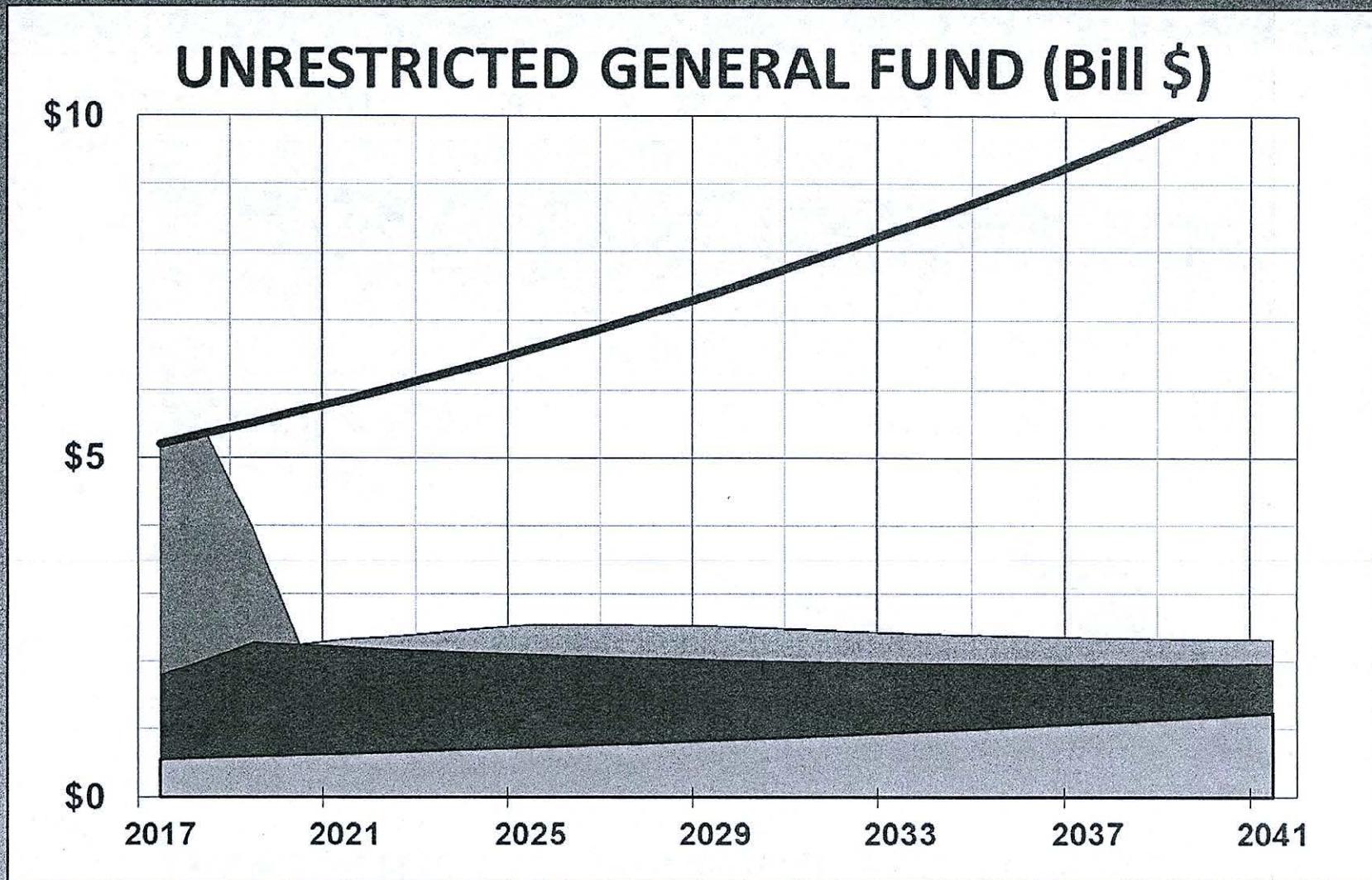


PERSONAL INDICATORS

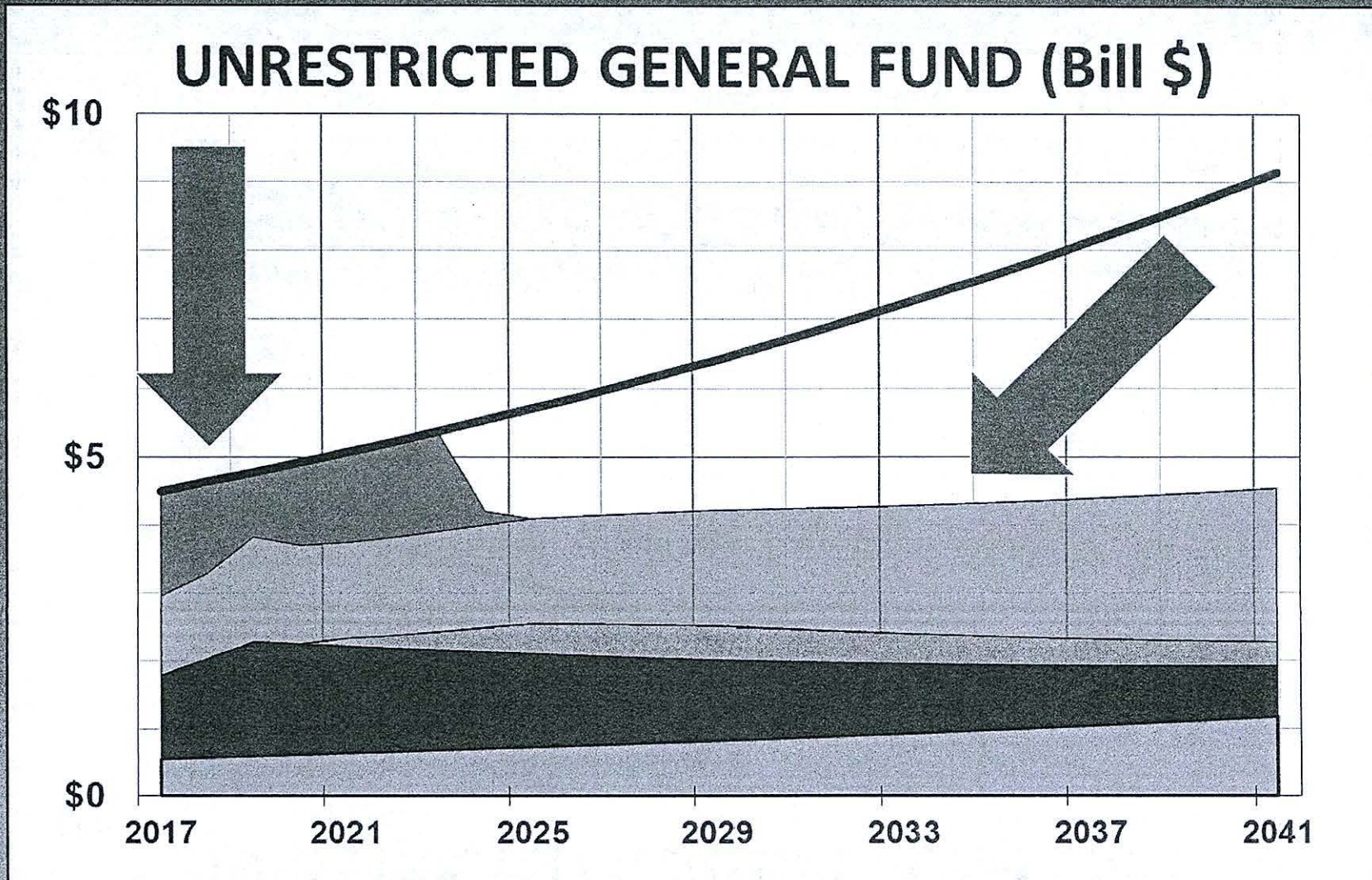
(Real Thousand \$ Per Person)



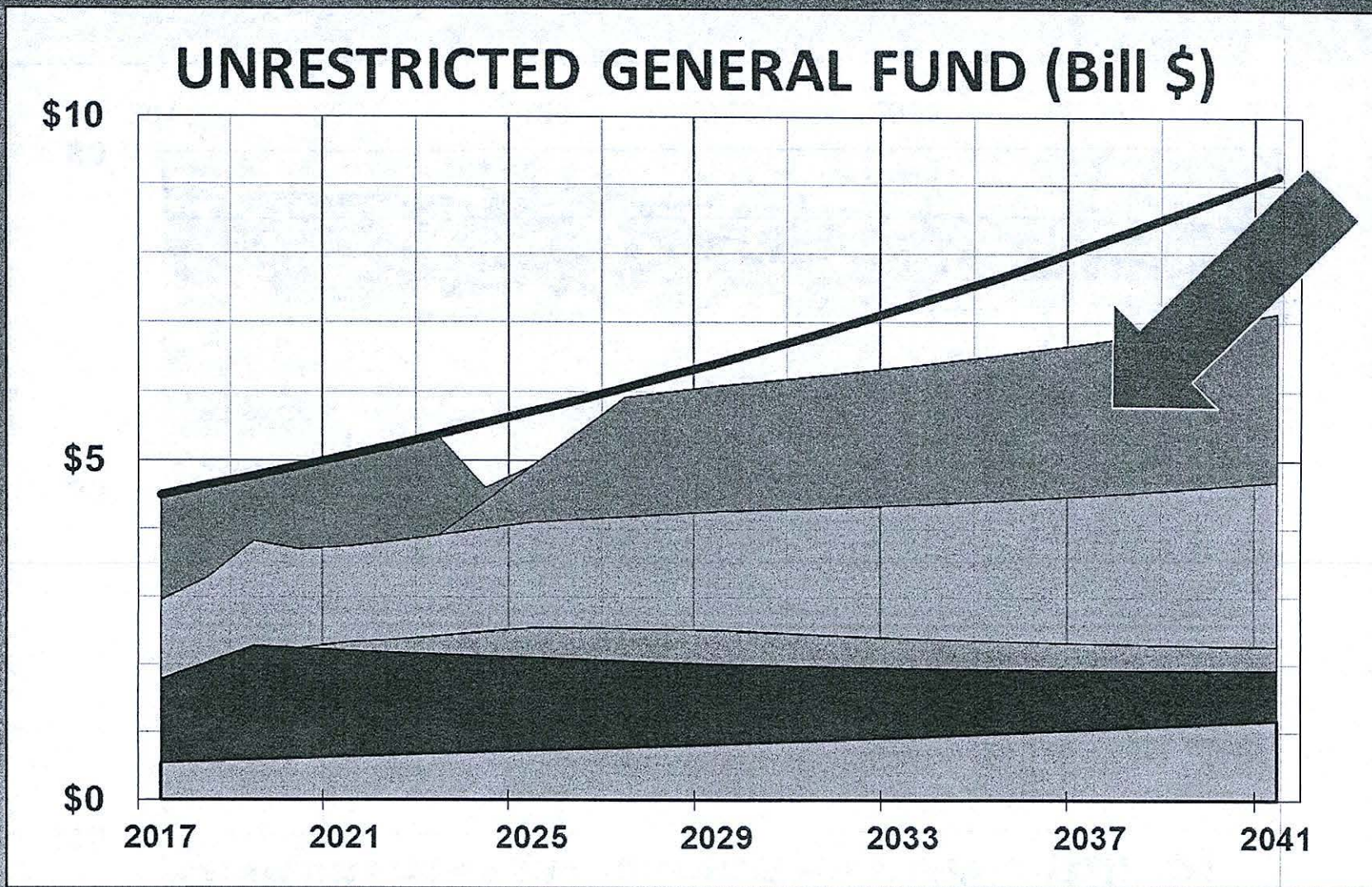
Fiscal Challenge: Fill the Gap



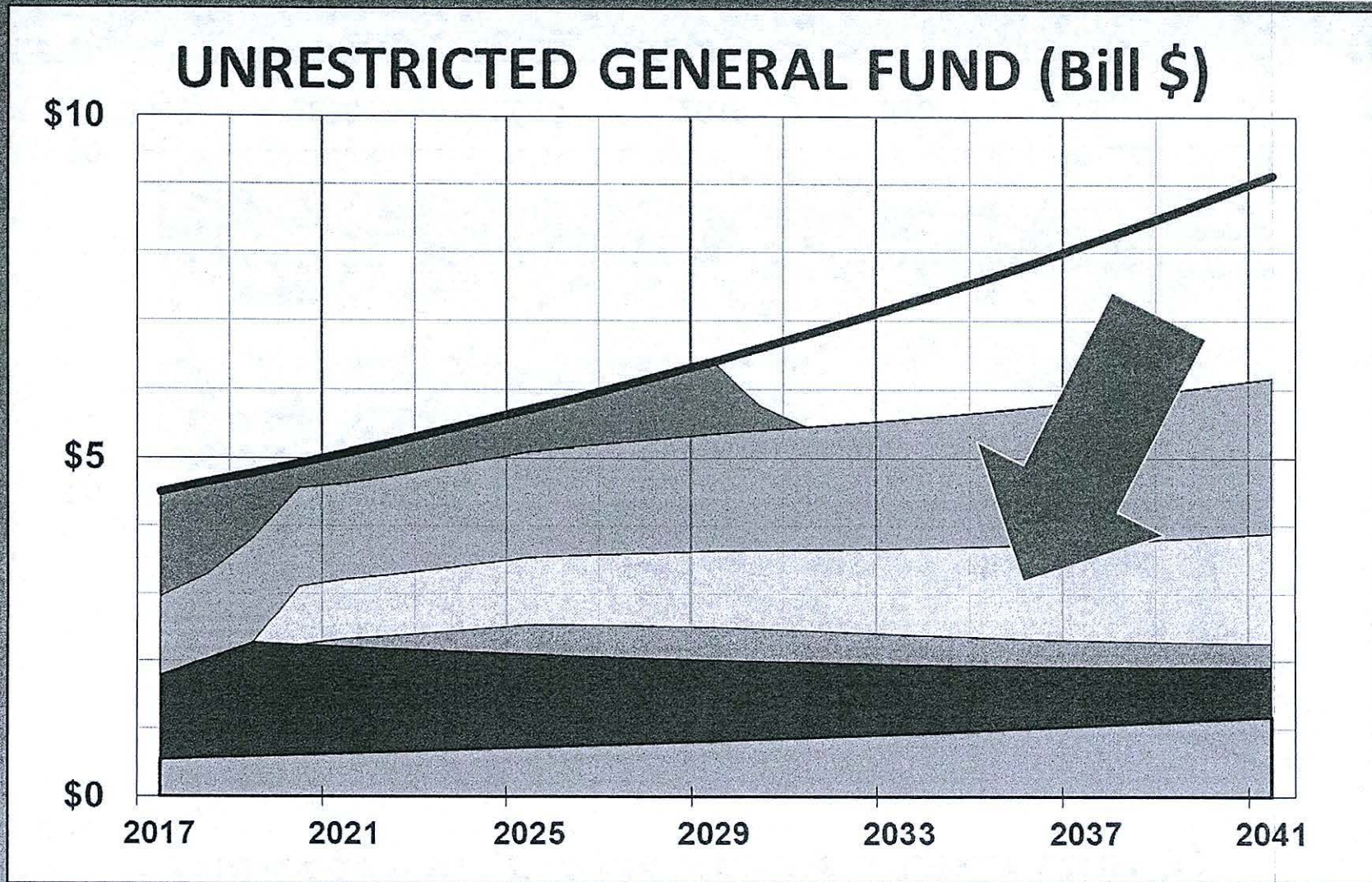
Cuts + PF Earnings Draw



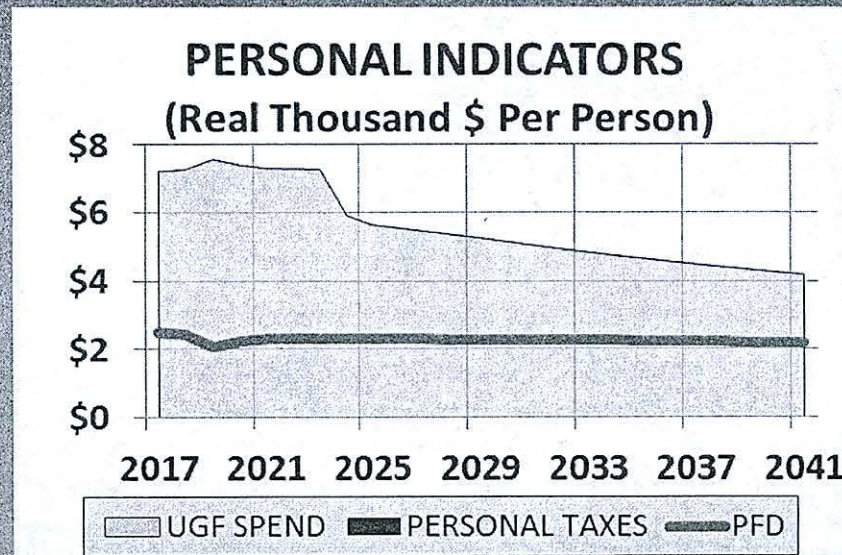
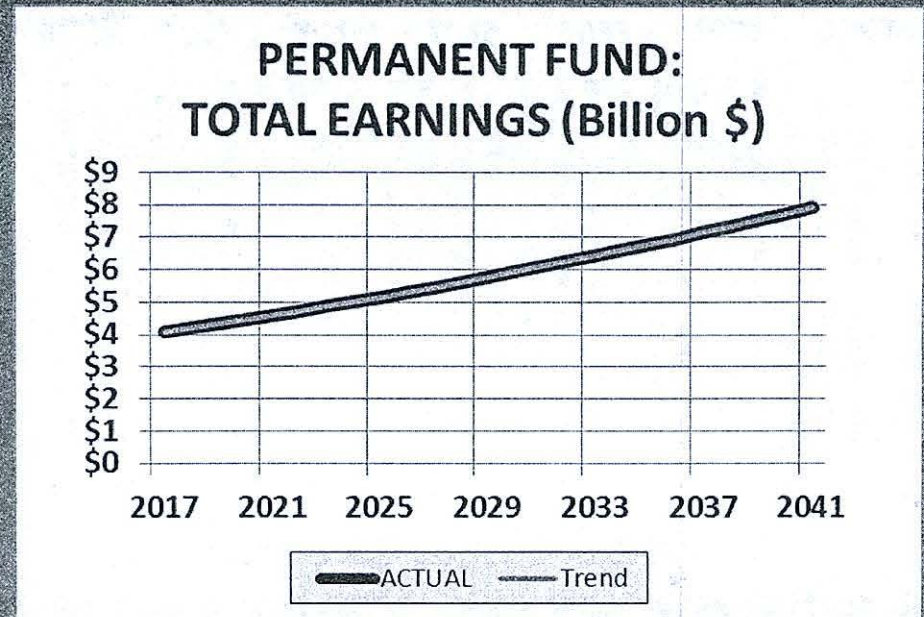
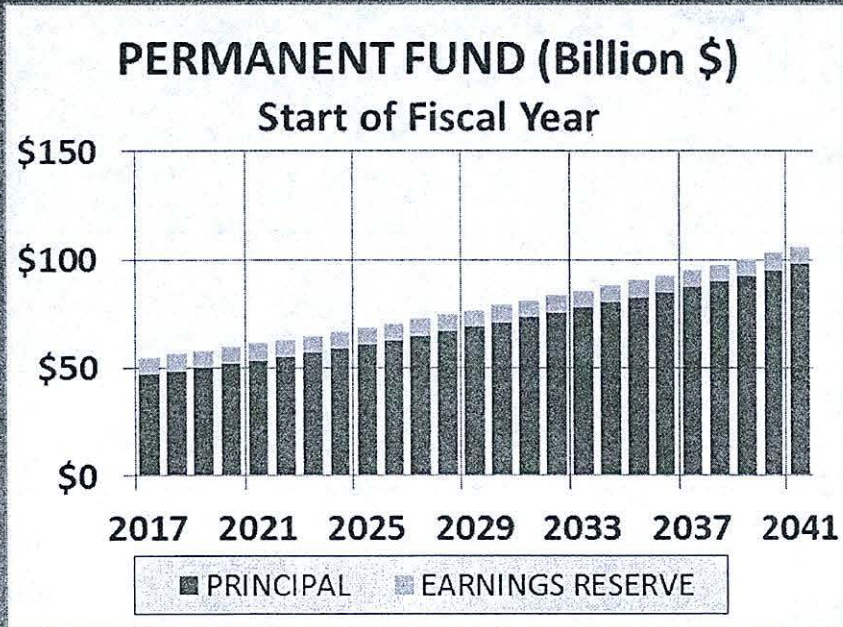
Add a Gas Line?



Or a Tax?

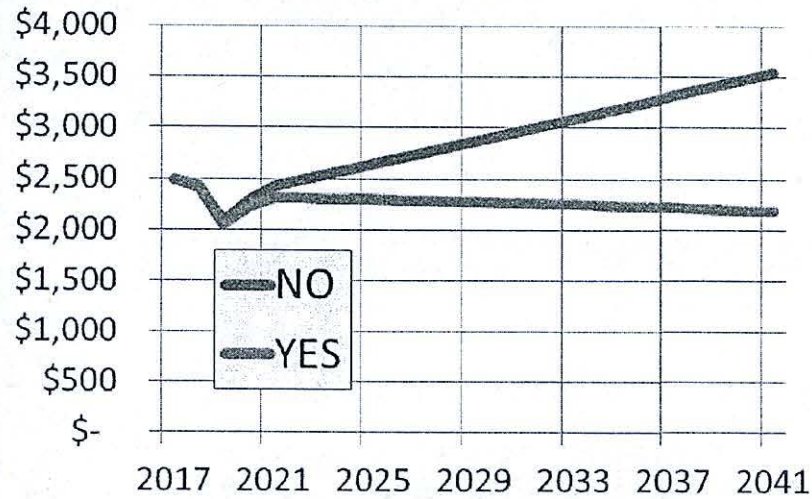


The Permanent Fund

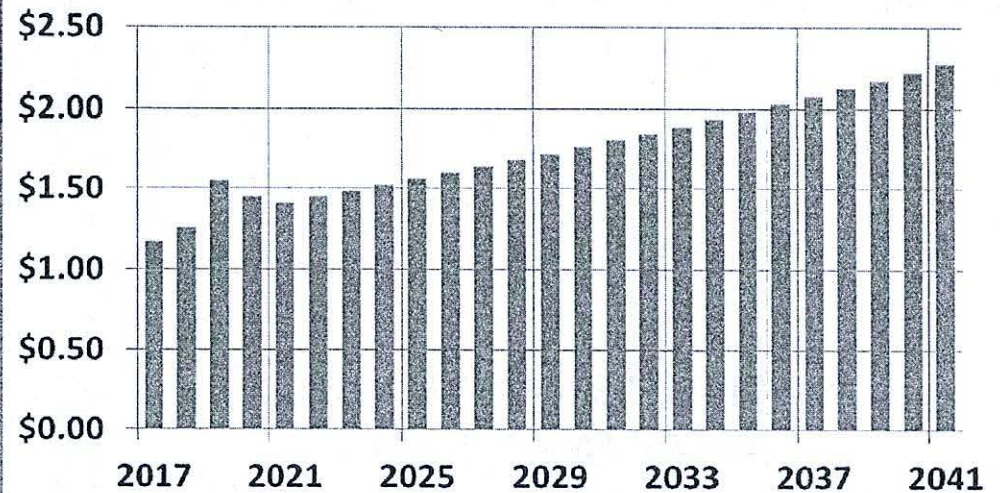


Tradeoff

PF DIVIDEND (2015\$)

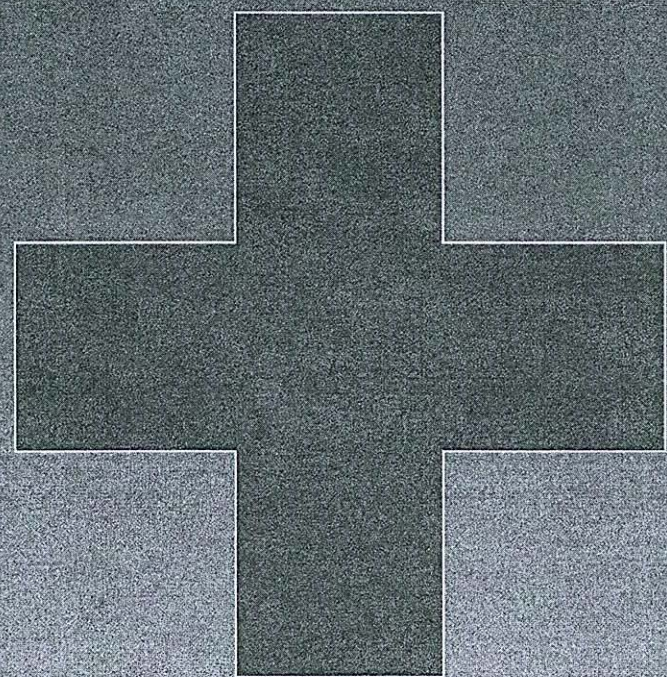


PERMANENT FUND EARNINGS (Billion \$)



Use Permanent Fund Earnings-- Economic Impact

NO DRAW
FROM
POCKETS
OF
ALASKANS
TODAY



SIGNAL OF
CONFIDENCE
FOR
INVESTORS

Postpone Inevitable Tug of War

No
Income
Tax!

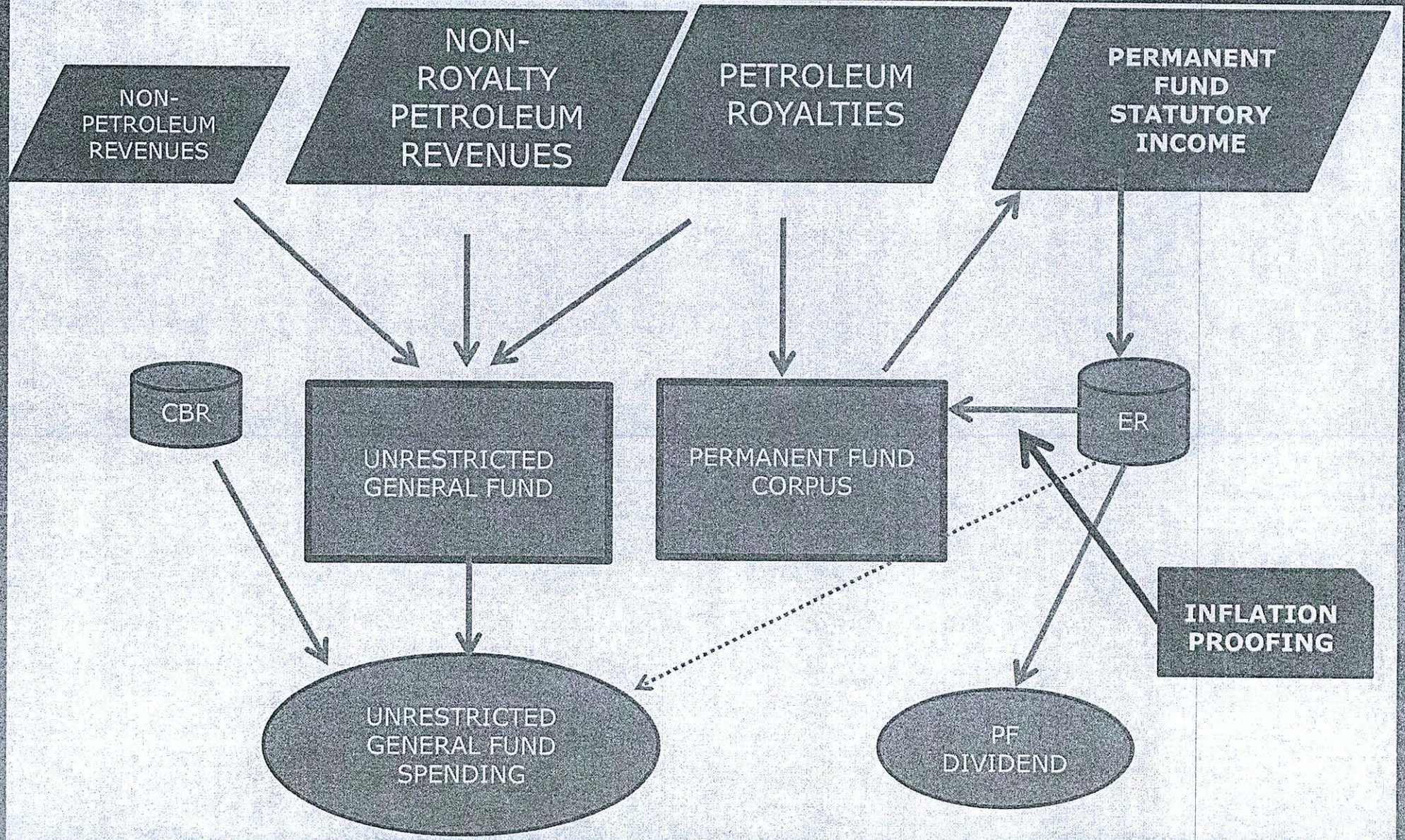
No
Sales
Tax!



No
Dividend
Cuts!

No
Budget
Cuts!

Implementation: Alaska Fiscal Structure



Proposals for Use of Earnings

- ◆ ACCESS TOTAL EARNINGS OF PF--POMV (Constitutional Endowment)
 - Fold Earnings Reserve into PF Corpus
 - Draw 4.5% - 5% of PF value from PF Corpus
 - Divide draw between UGF and PF Dividend

- ◆ IMMEDIATE PLUG--SB114 (Statutory POMV)
 - Draw 5% of PF value from PF Earnings Reserve for UGF
 - Pay PF Dividend from 75% of Royalties (with a floor)

- ◆ STABILIZE REVENUE STREAM—GOVERNOR WALKER PROPOSAL (Statutory Sovereign Wealth Fund)
 - Dump SB21 revenues and additional 25% of Royalties into PF Corpus
 - Transfer \$3 Billion from CBR to ER
 - Draw % of PF value or \$3.1 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
 - Pay PF Dividend from 50% of Royalties

- SUSTAINABILITY--SUSTAINABLE SPENDING (Statutory)
 - Draw amount from PF Earnings and Earnings Reserve) that, together with current Petroleum Revenues, equals the Sustainable level
 - Divide draw between UGF and PF Dividend

Sustainability

A spending level based on current and projected future revenue streams which, if adopted now, could be maintained consistently long into the future--adjusted for inflation and population growth.

Some Criteria for Choice

- STABILITY OF REVENUES
- DISCIPLINE SPENDING
- SUSTAINABLE
- FAIR TO ALL ALASKANS
- UNDERSTANDABLE
- IMPLEMENTABLE
- FLEXIBLE
- PROTECT ASSETS
- MINIMIZES UNINTENDED CONSEQUENCES

Strategy Moving Forward

◆ THIS YEAR

- Budget Cuts
- Structured Use of PF Earnings

◆ NEXT YEAR

- Budget Cuts continued
- Tug of War
 - ◆ Income Tax
 - ◆ Sales Tax
 - ◆ Dividend Reduction

Unlocking our Petroleum Wealth Potential: A Game Plan for Meeting Alaska's Fiscal Challenge

State of Alaska

House Special Committee on Economic Development,
Tourism, and Arctic Policy

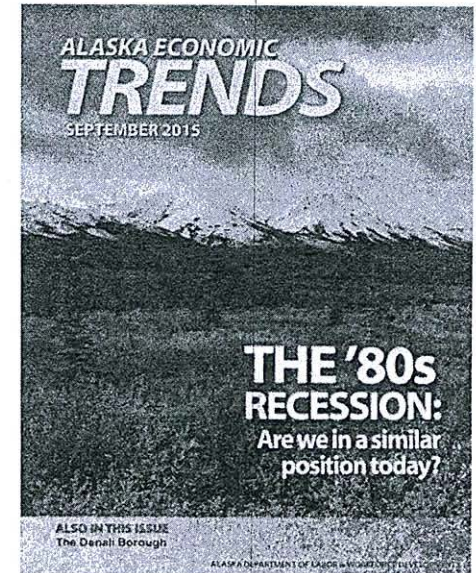
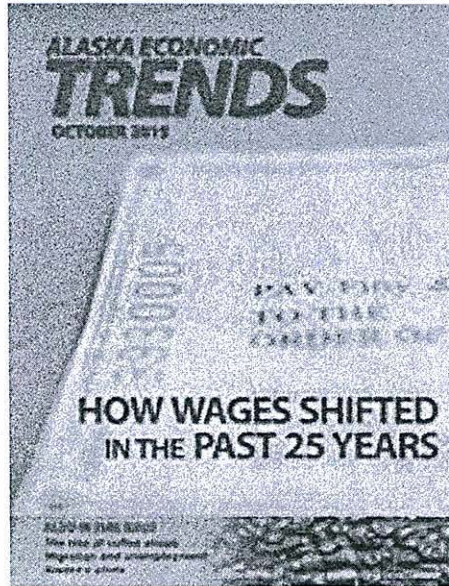
Anchorage, Alaska

December 9, 2015

Scott Goldsmith

Institute of Social and Economic Research
University of Alaska Anchorage

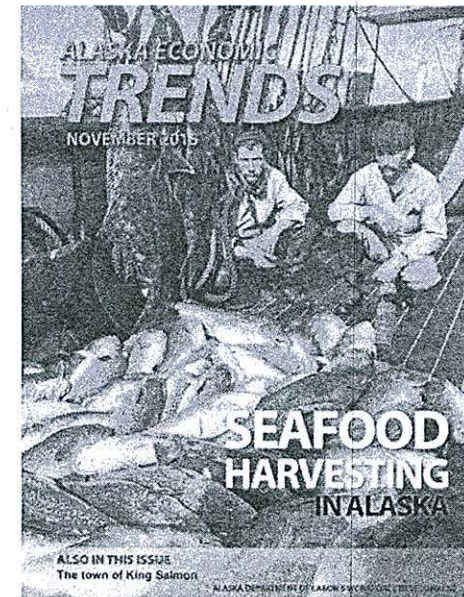
Alaska's Economic Landscape



Alaska State Legislature

December 9th, 2015

Alaska Department of Labor and Workforce Development, Research Section, Neal Fried,
Economist





NEWS POLITICS VOICES ARCTIC CULTURE SPORTS ADVENTURE MULTIMEDIA
Obituaries Nation-World Anchorage Fairbanks Mat-Su Crime Business

Alaska News

Oil patch slump oozing anxiety throughout the industry

Alex DeMarban | November 4, 2015

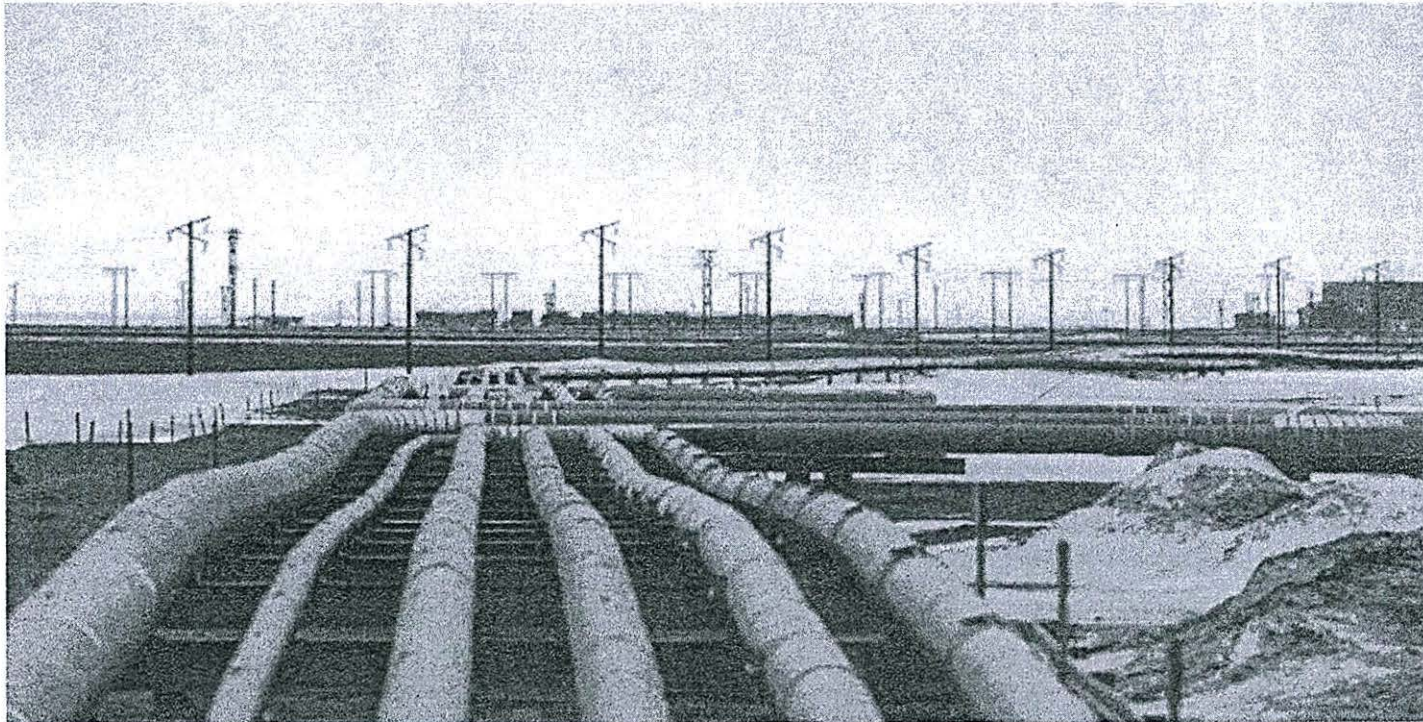
Email Print

Tweet

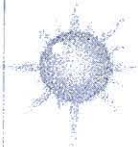
G+1

1

Text Size



Alaska Dispatch News



-6°
Anc

NEWS	POLITICS	VOICES	ARCTIC	CULTURE	SPORTS	ADVENTURE	MULTI
Obituaries	Nation-World	Anchorage	Fairbanks	Mat-Su	Crime	Business	

Economy

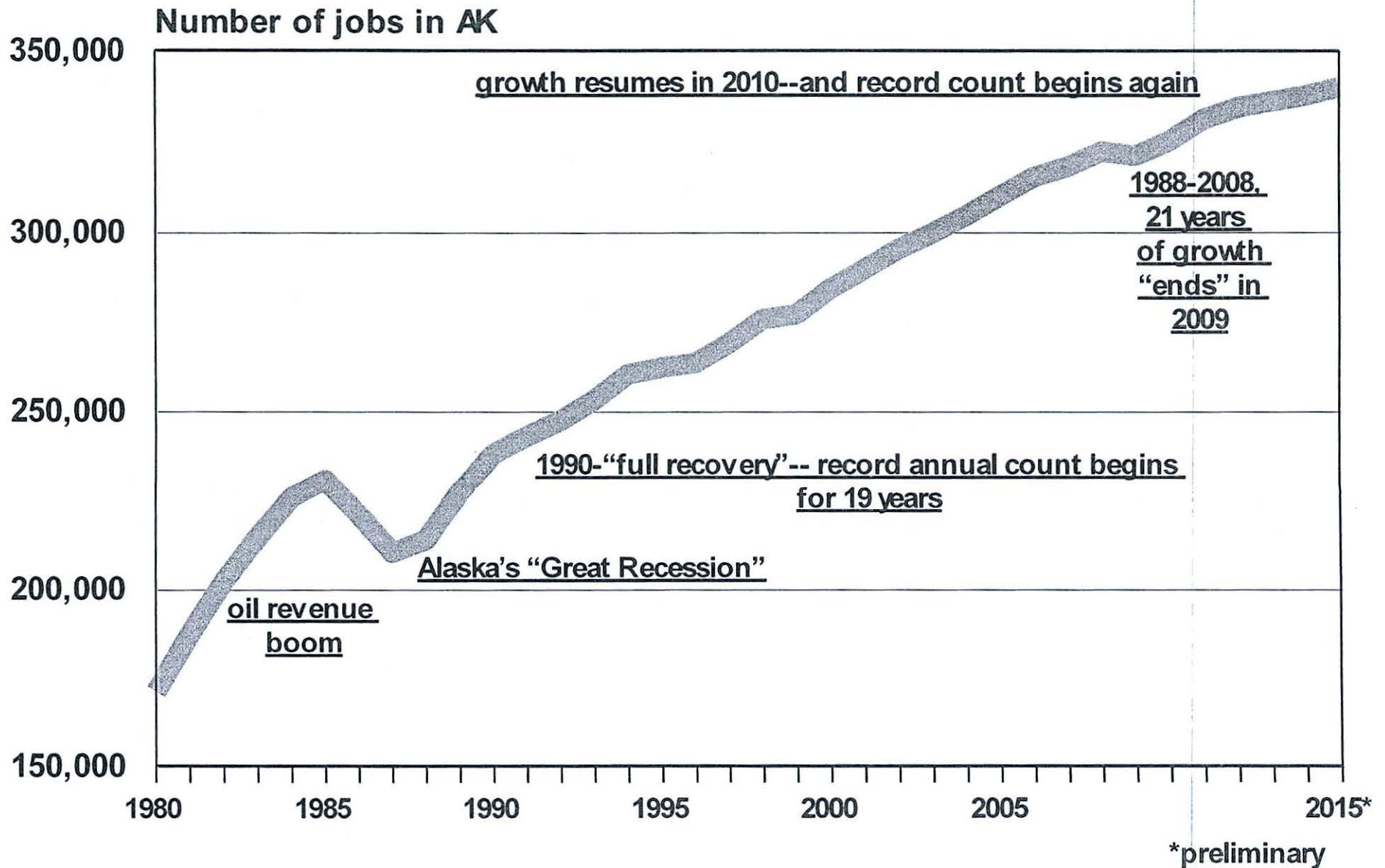
Alaska close to recession, if not there already, economist says

Jeannette Lee Falsey, Zaz Hollander | November 13, 2015

Print [Email](#)

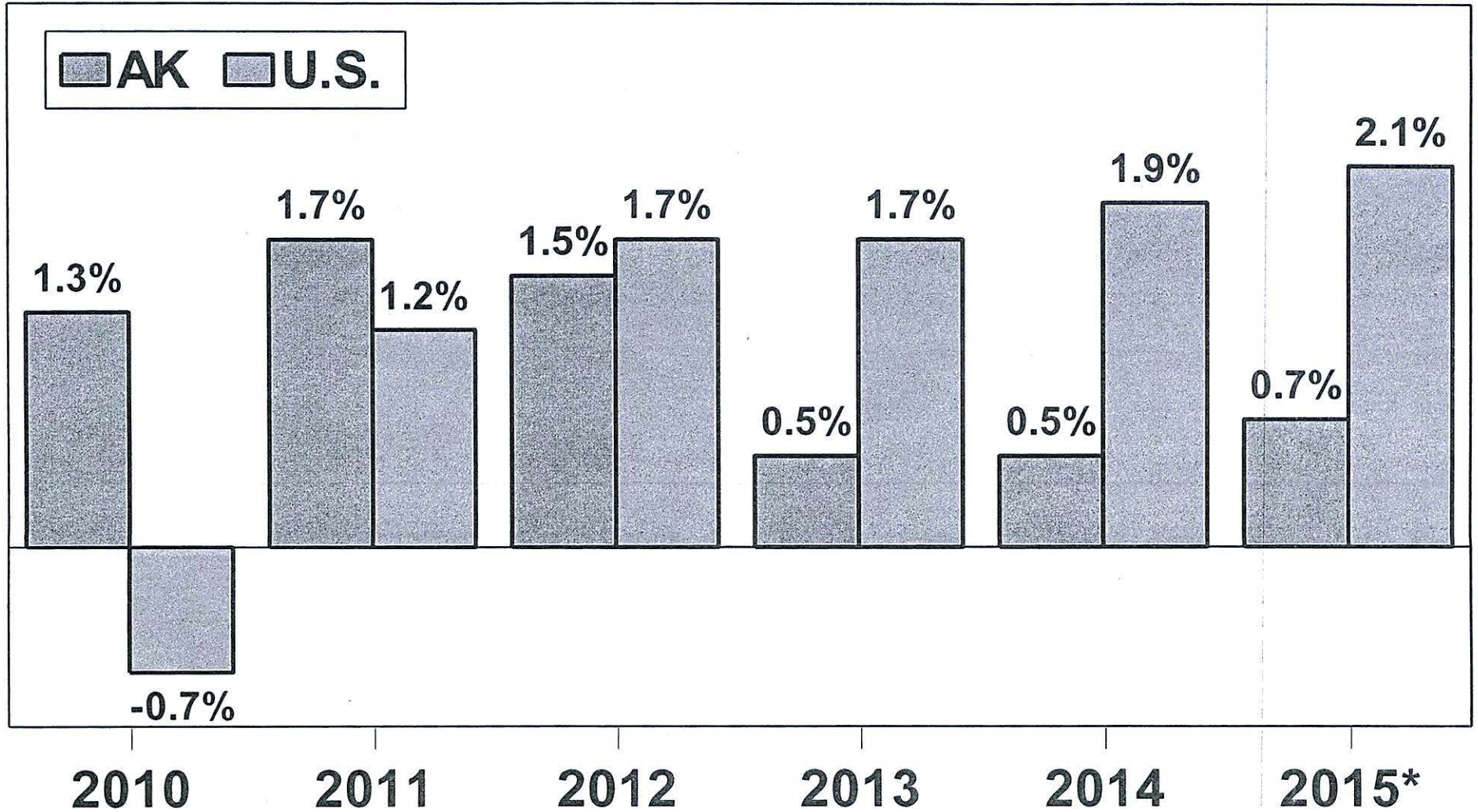
Text Size

Alaska--Boom, Bust and Moderation



Slower Growth In AK

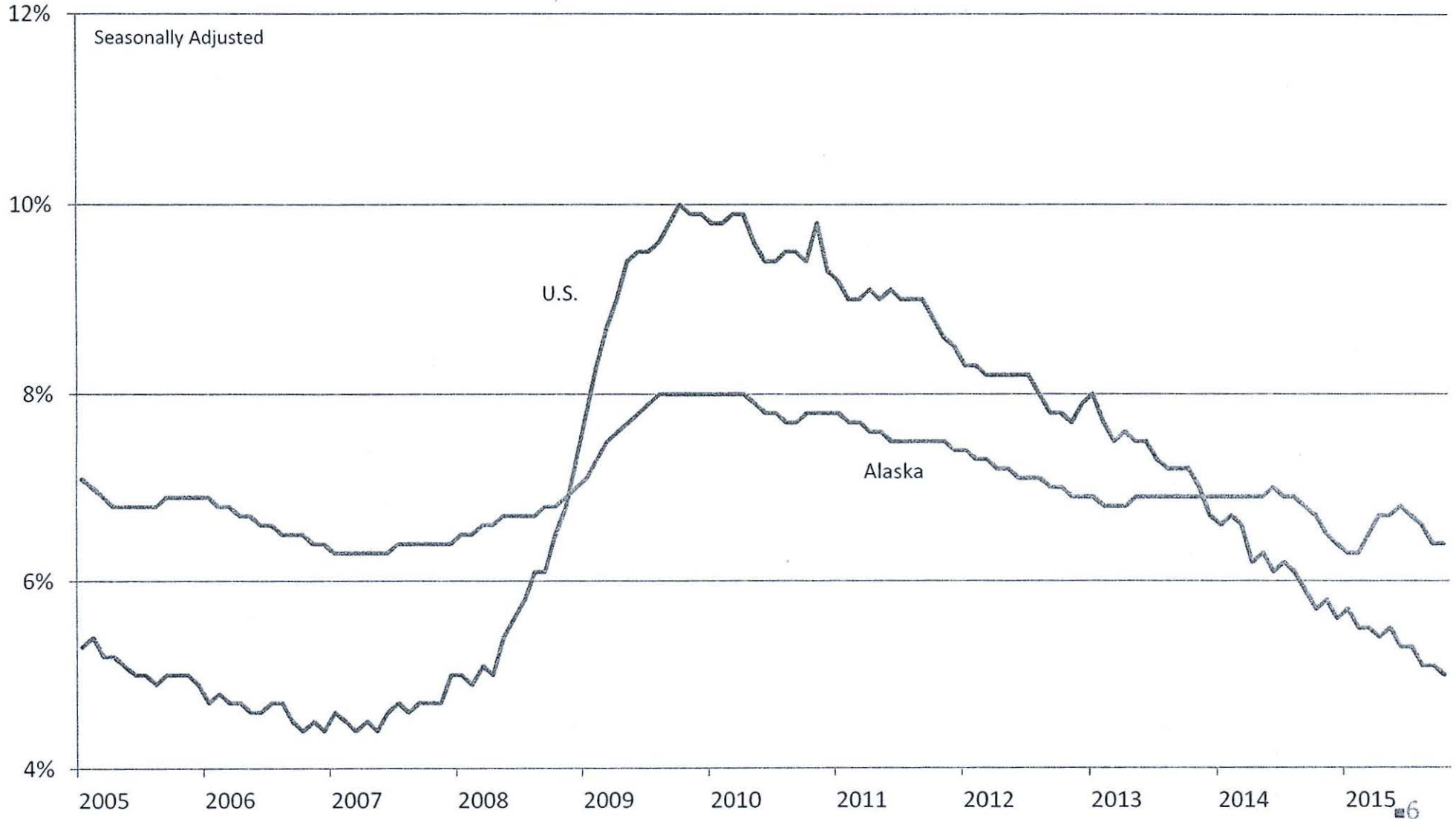
Percent employment change from previous year-AK and U.S.



*Preliminary- AK based on first 2 quarters

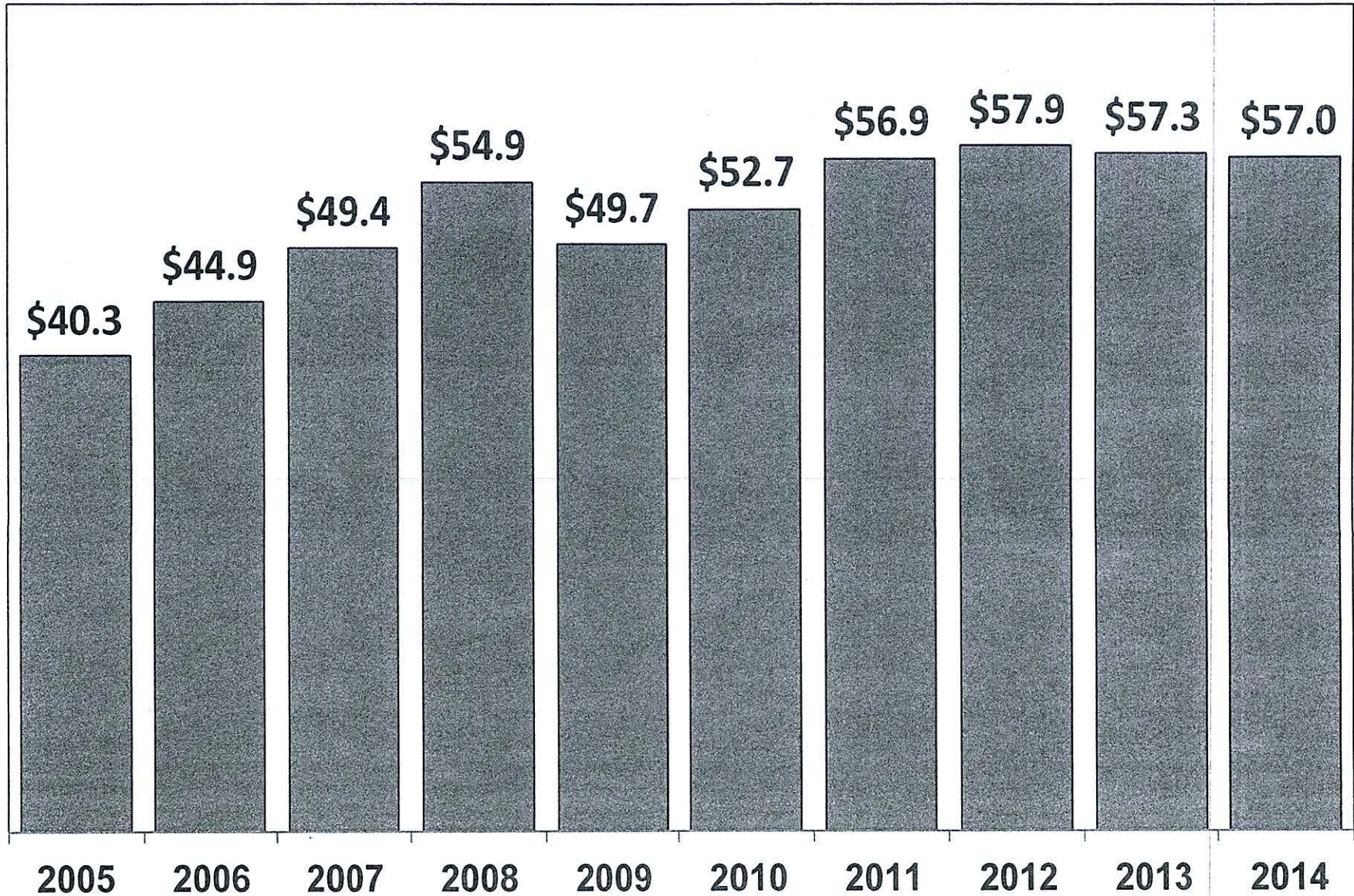
Unemployment Overview

**Unemployment Rates, Alaska and U.S.
January 2005 to October 2015**



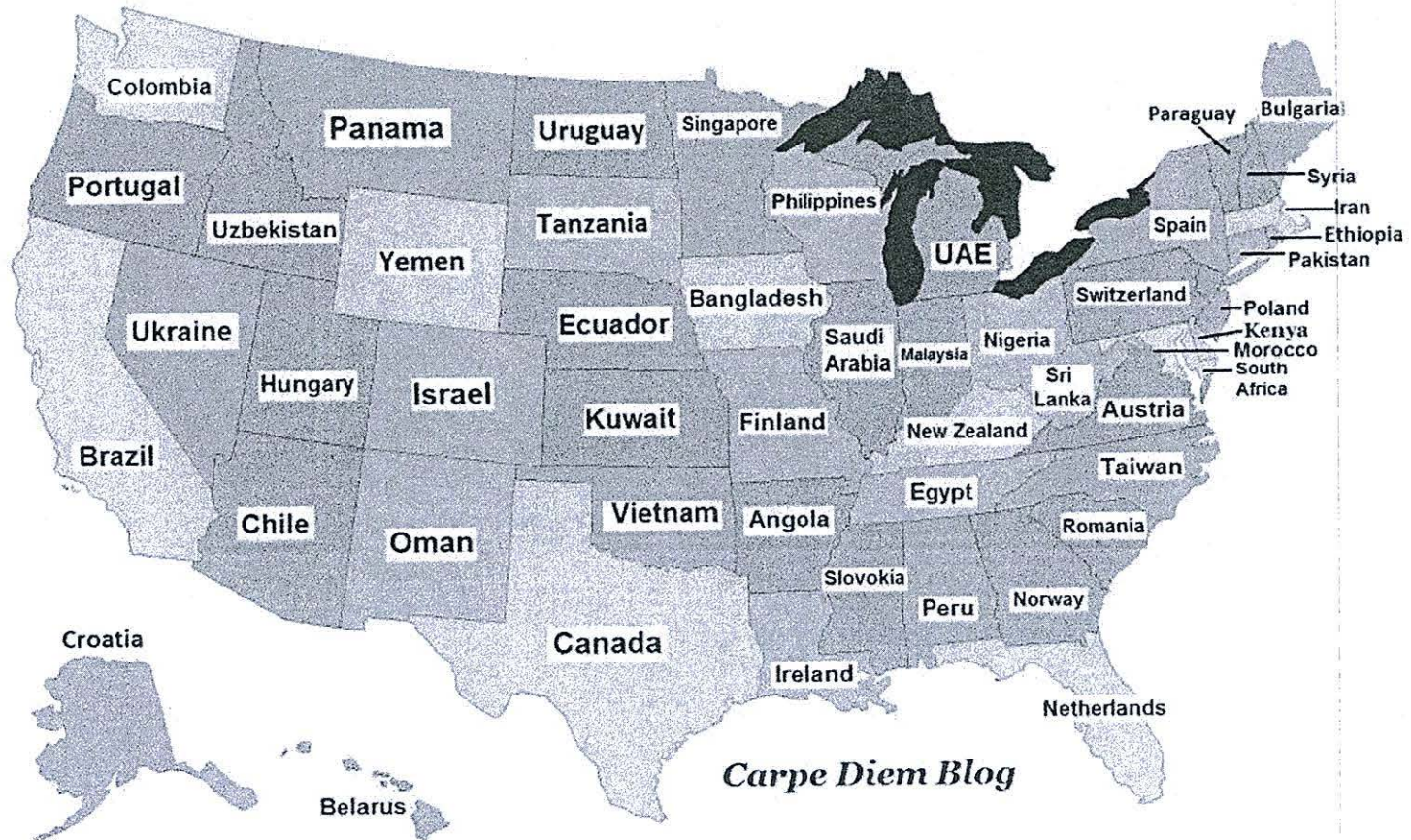
Alaska's GDP Numbers Interesting

\$ billions



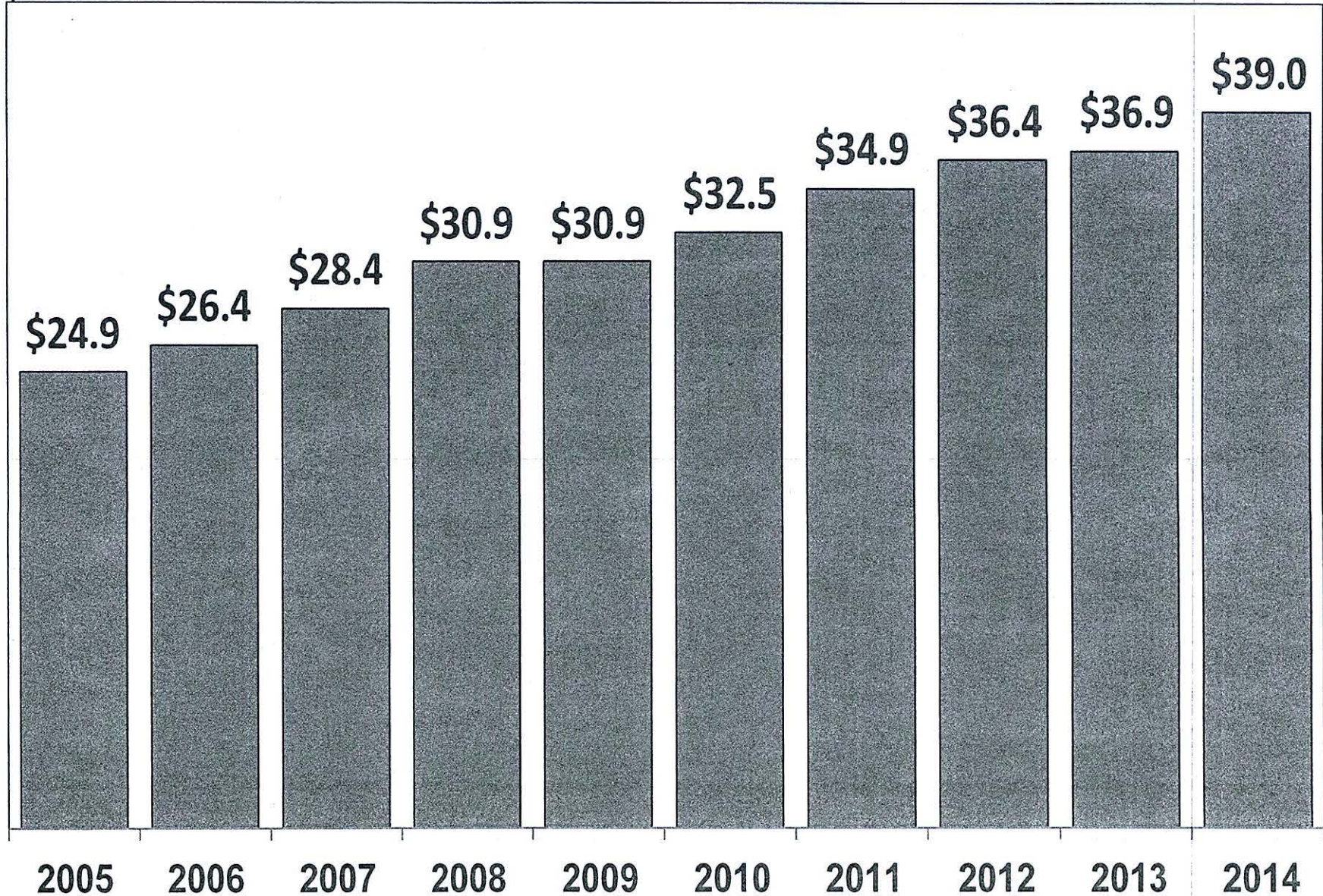
Source: BEA

US States Renamed for Countries with Similar GDPs, 2014



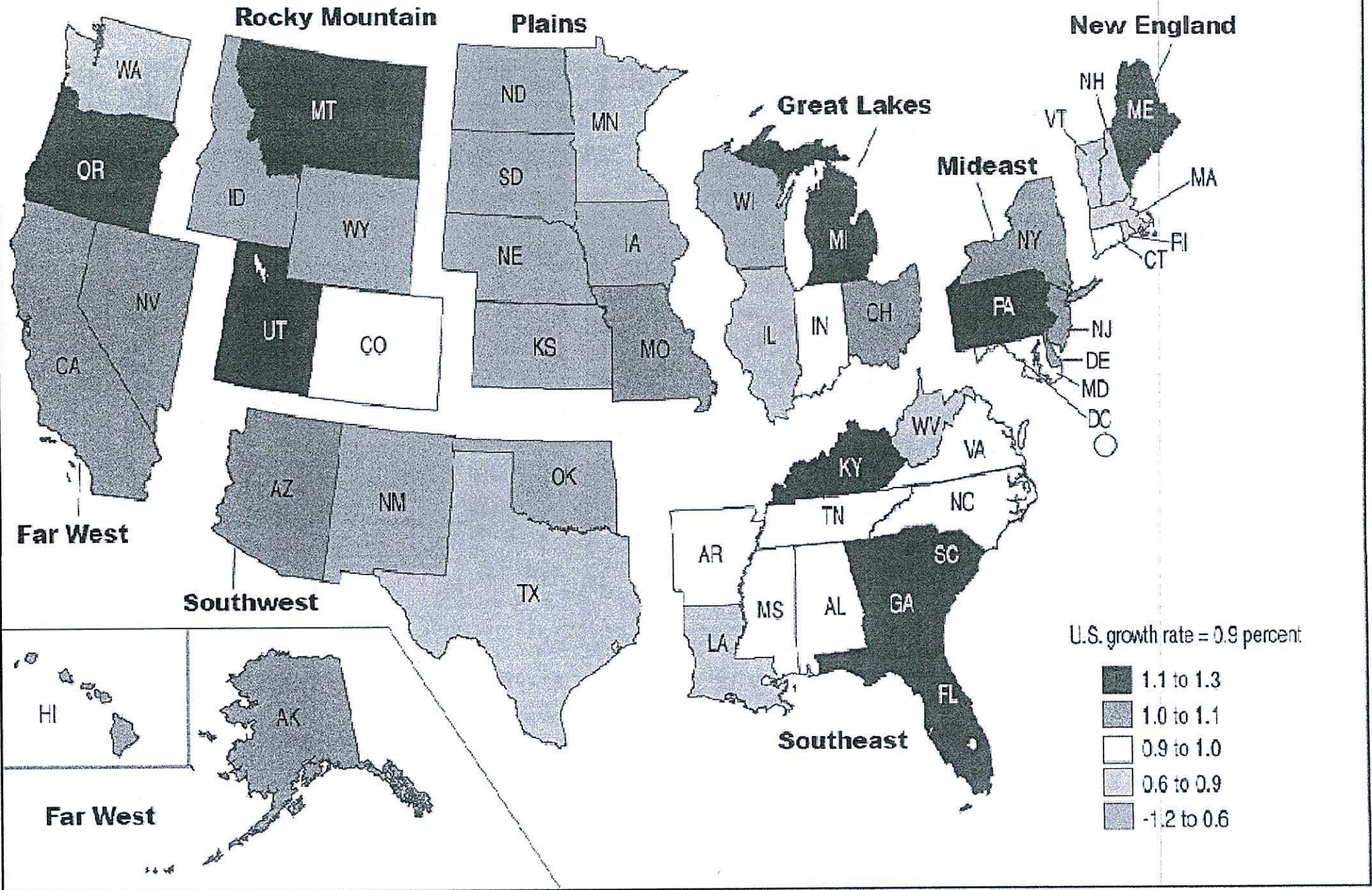
Alaska's Personal Income Kept Growing

\$ billions

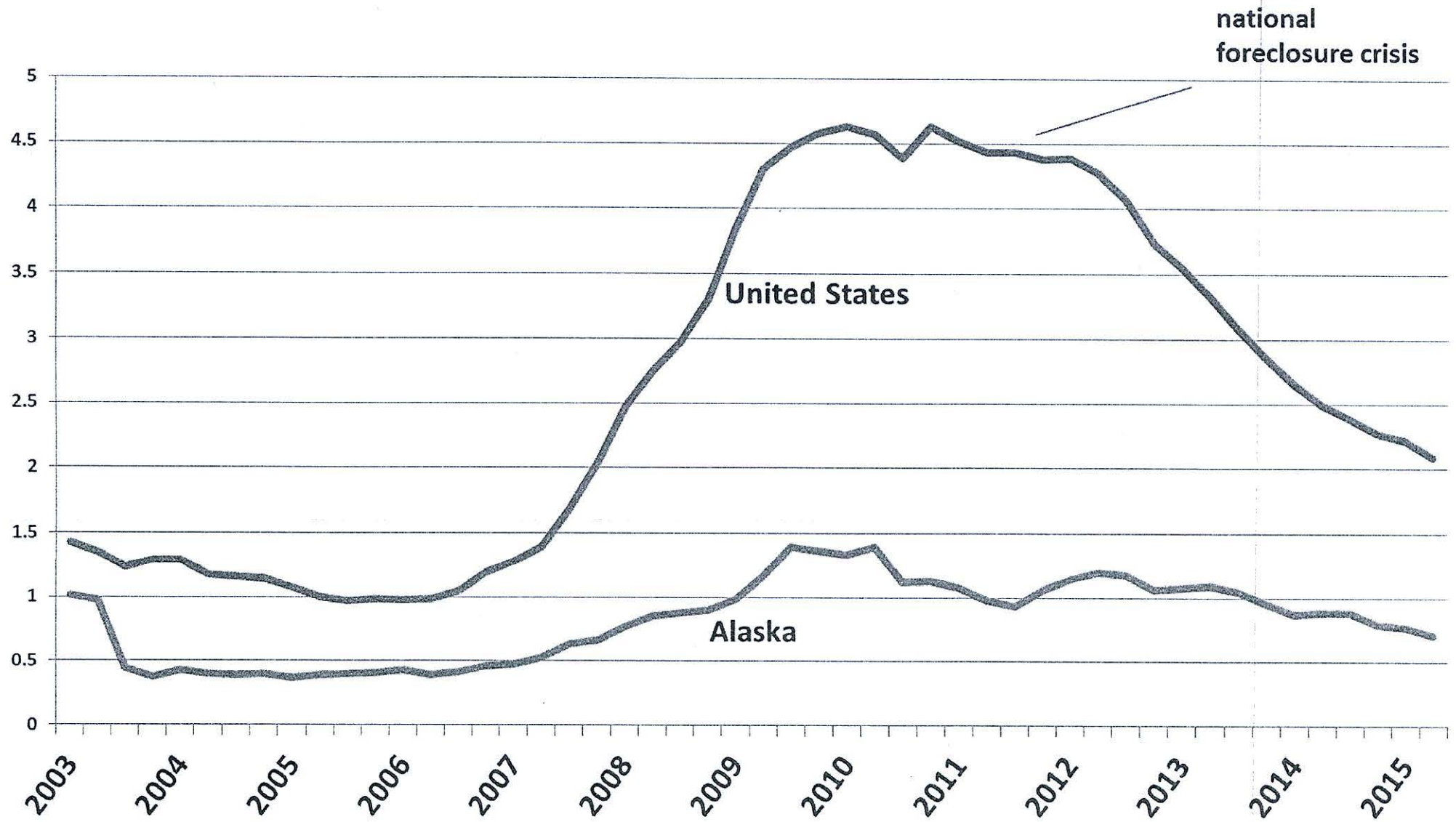


Source: BEA

Personal Income: Percent Change, 2014:IV–2015:I

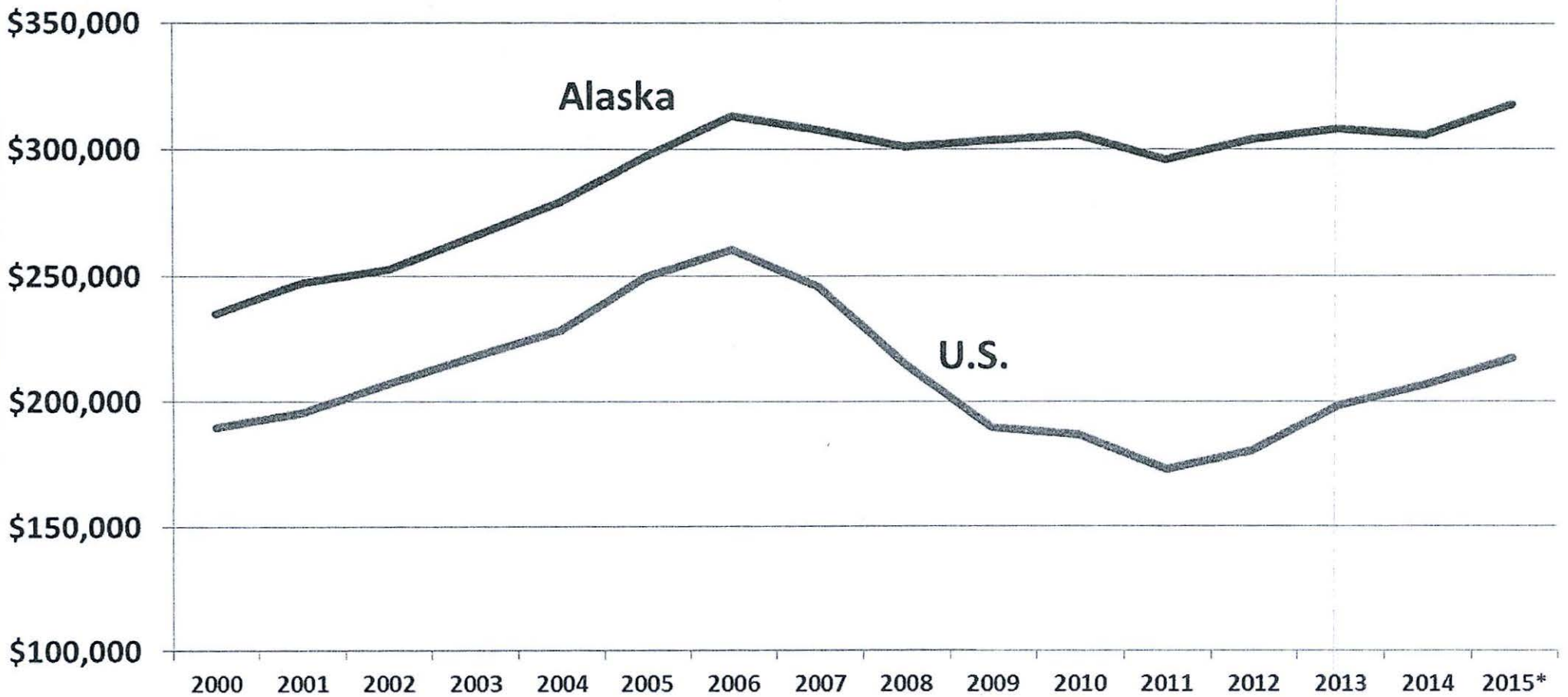


Foreclosure Rate, Alaska and the U.S.



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; Mortgage Brokers Association

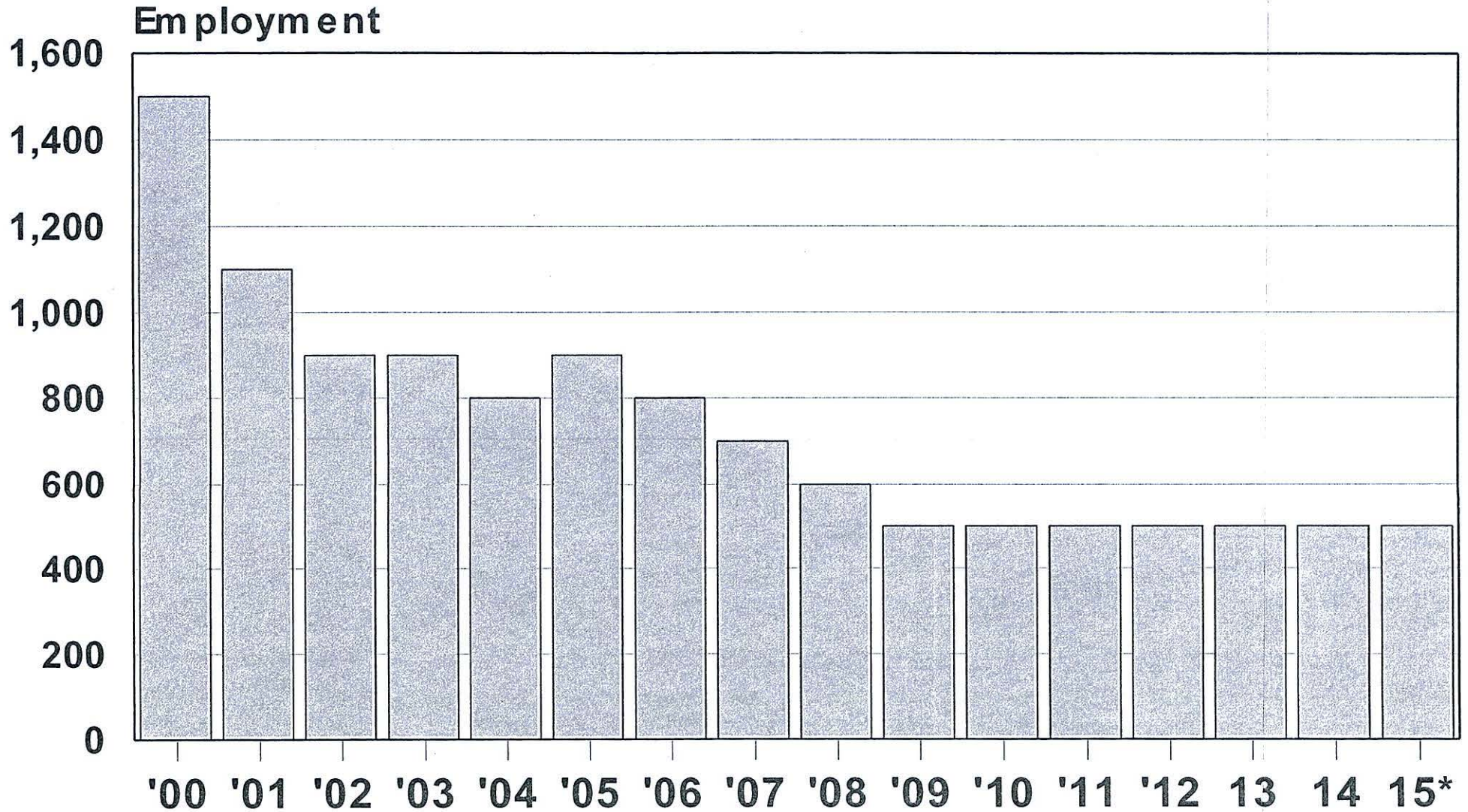
Average Single-Family Sales Prices in 2015 Dollars Alaska and U.S.



* 1st half 2015

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, Quarterly Survey of Mortgage Lending Activity; National Association of Realtors

Alaska's Timber Industry-Still Looking For Growth

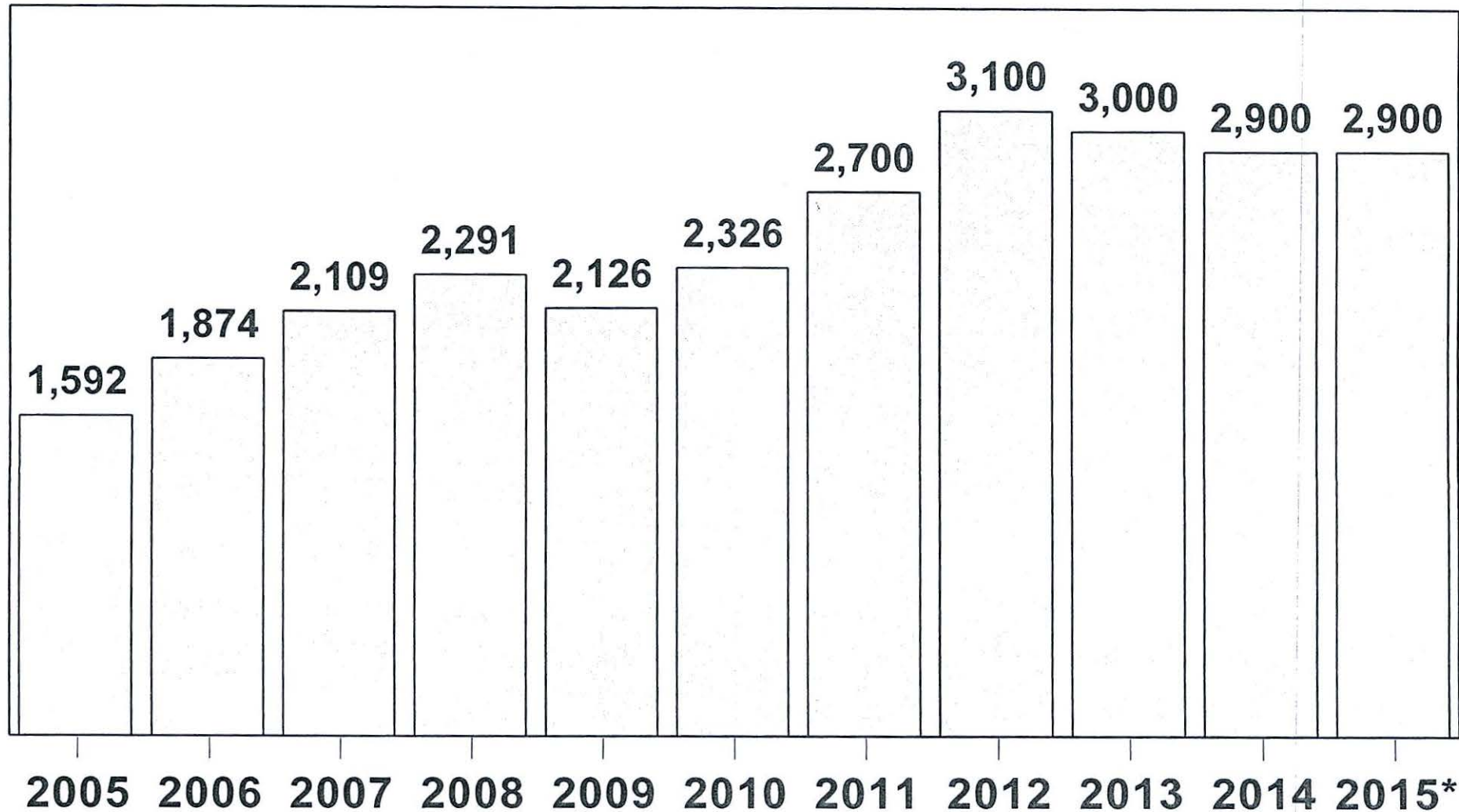


Was at 4,000 in
1990

*Estimate, 1st 2 quarters with adjustment of
employer

Mining Employment Remains Unchanged

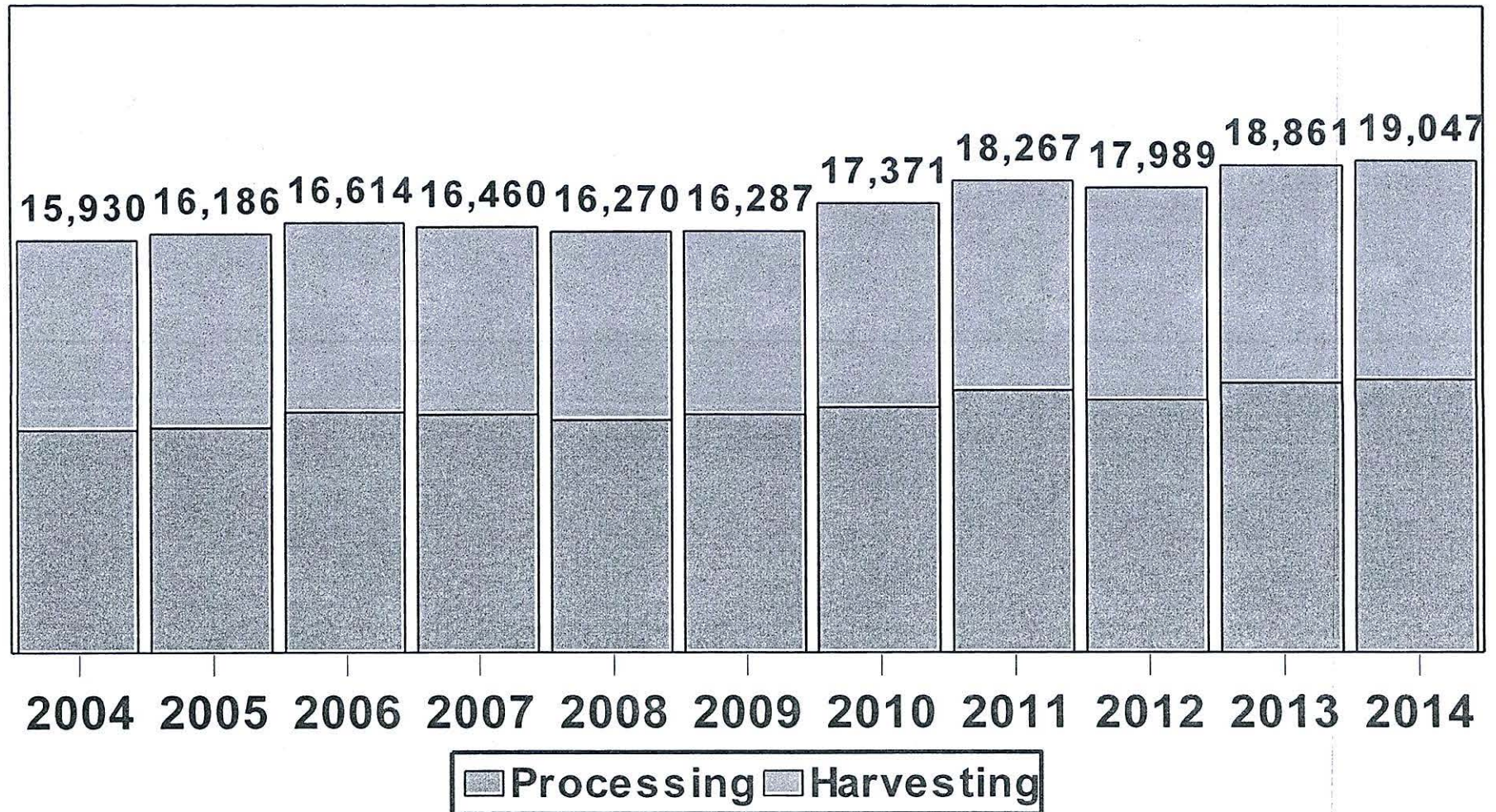
Annual mining employment



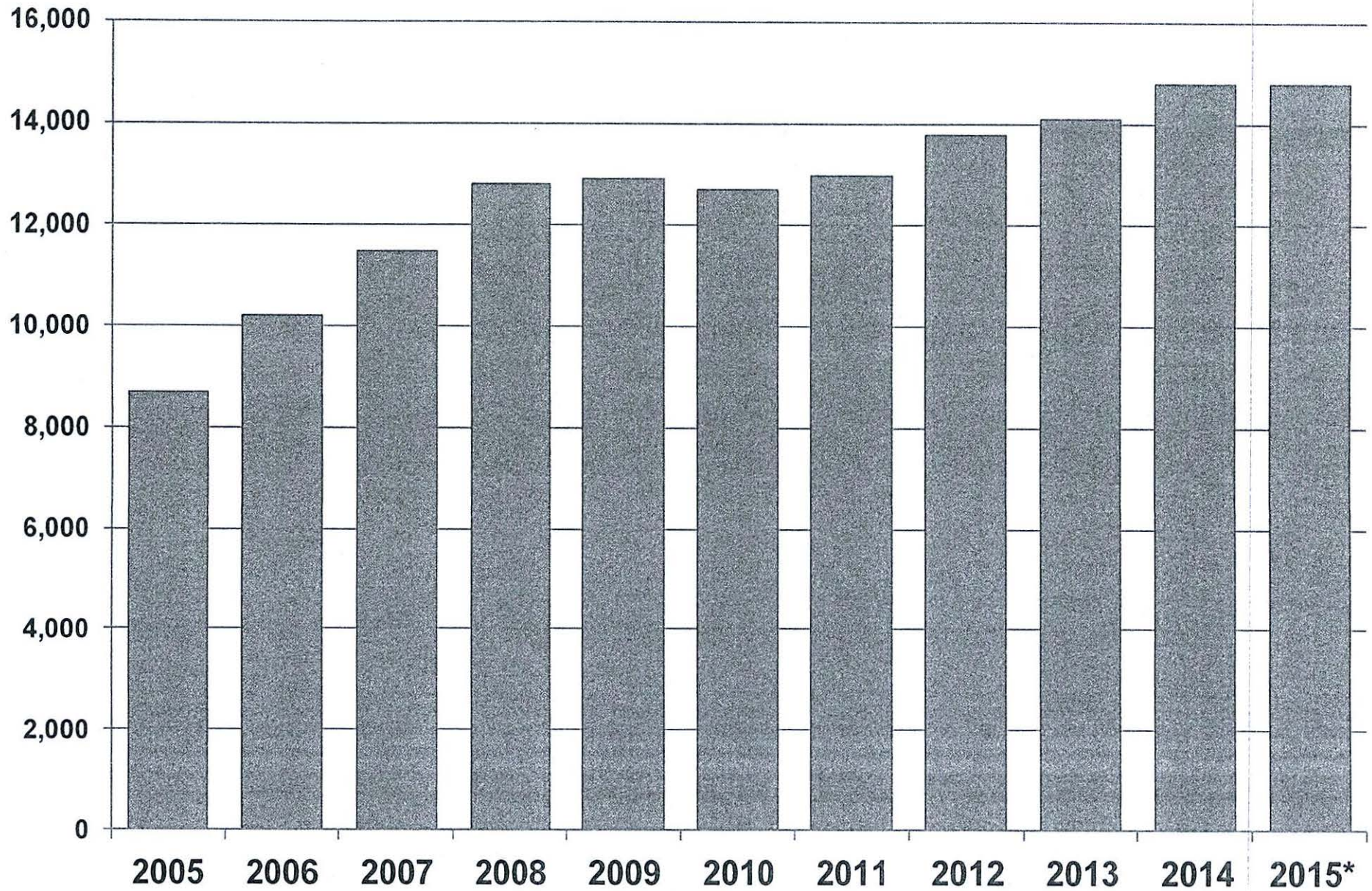
**preliminary*

Nice Growth In Fishing

Fish harvesting and processing employment in the great state of AK

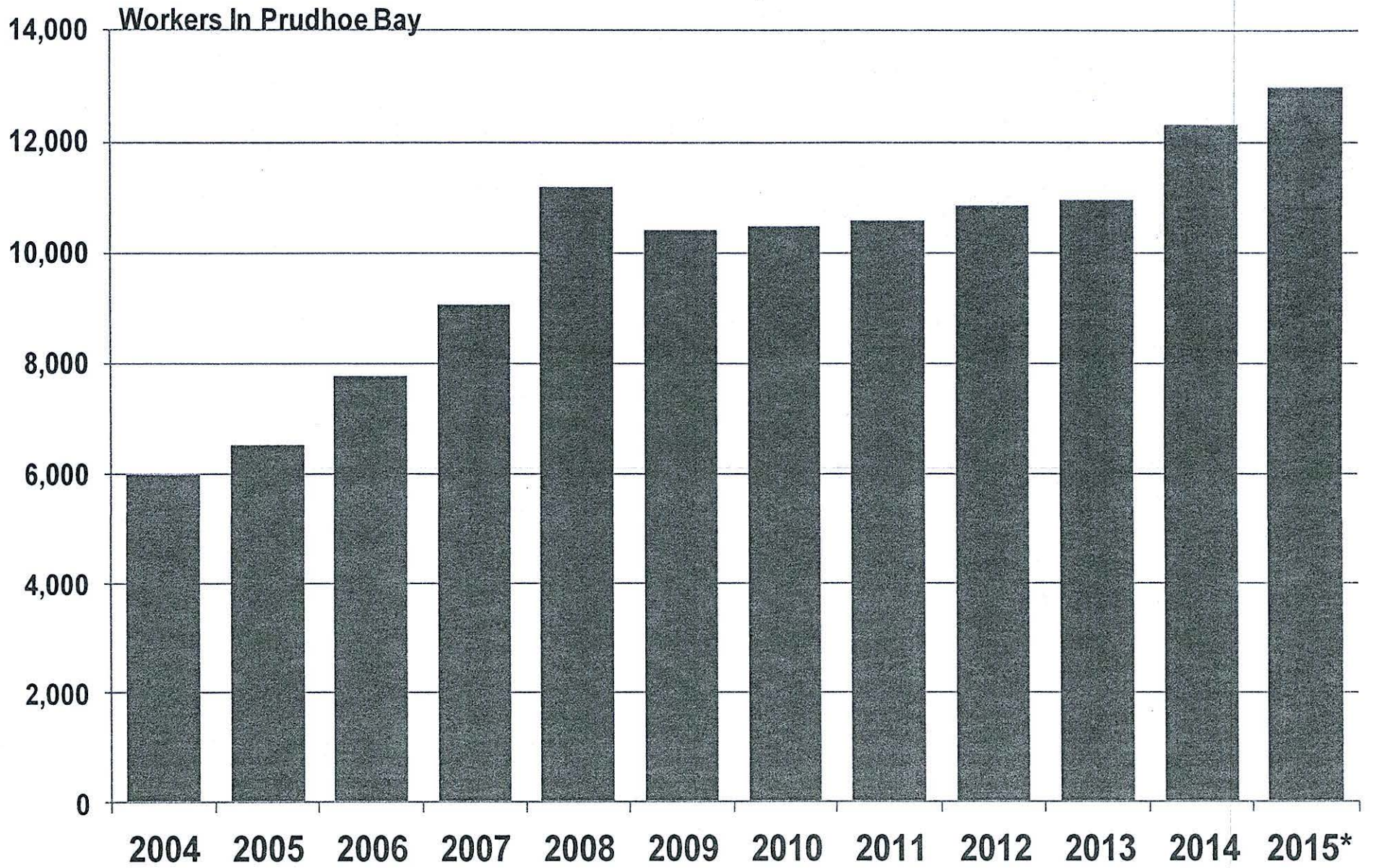


Oil Industry Employment In Alaska Are At Lofty Levels



*Only based on first 2 quarters

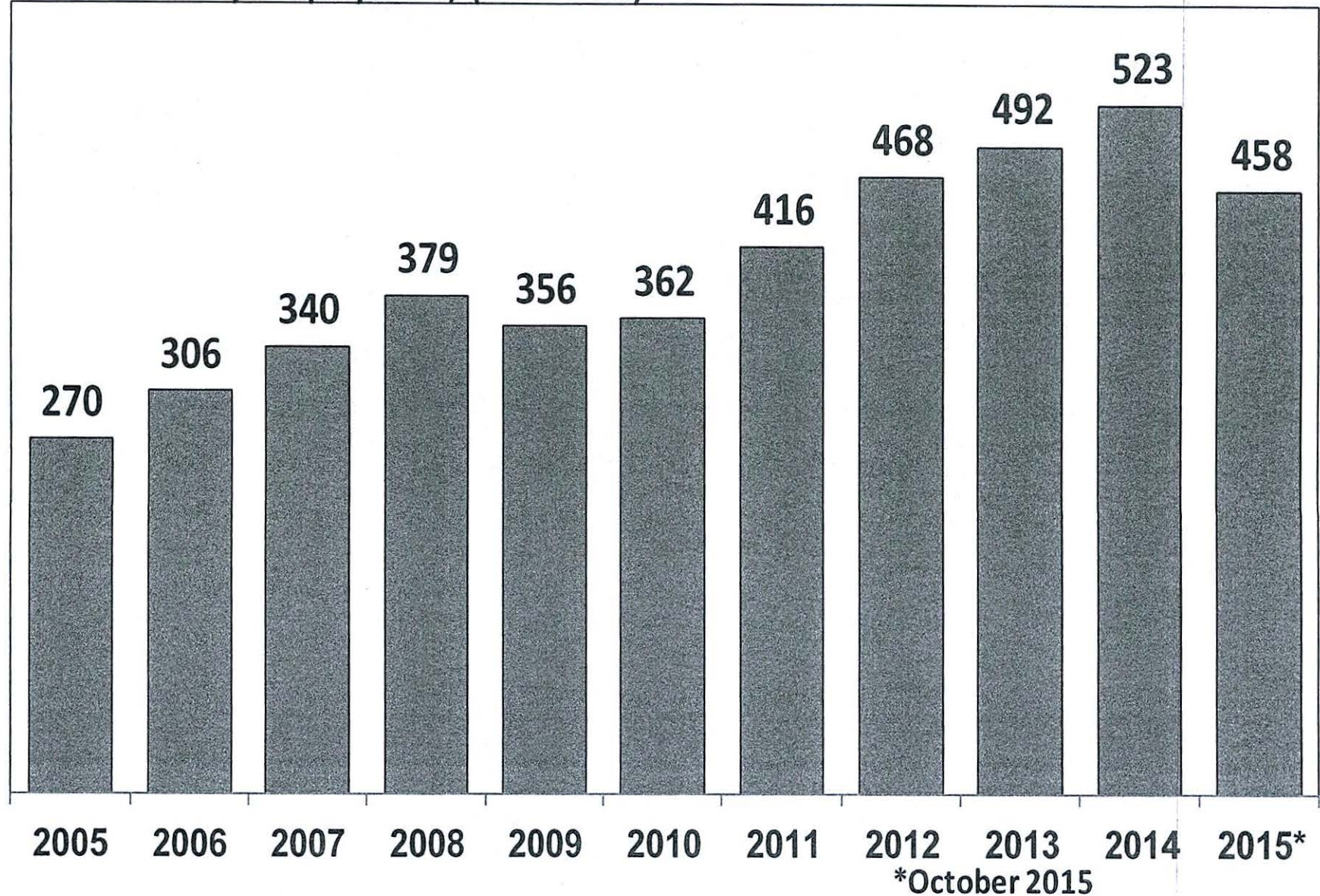
Prudhoe Bay Employment Counts Have Been At All Time Highs



*Only based on first 2 quarters

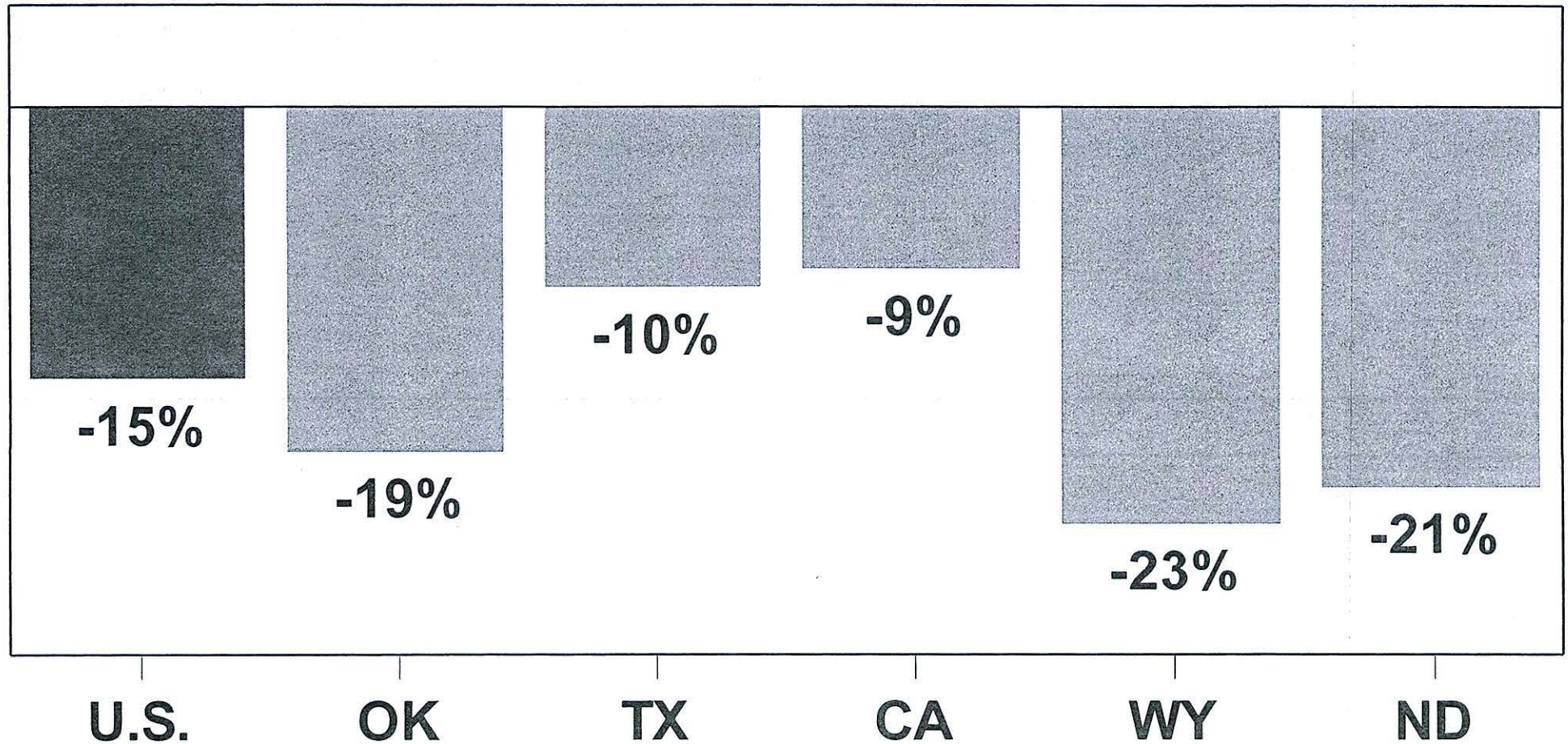
But, Oil Industry Employment Has Begun Falling Nationally

U.S. oil industry employment, (thousands)



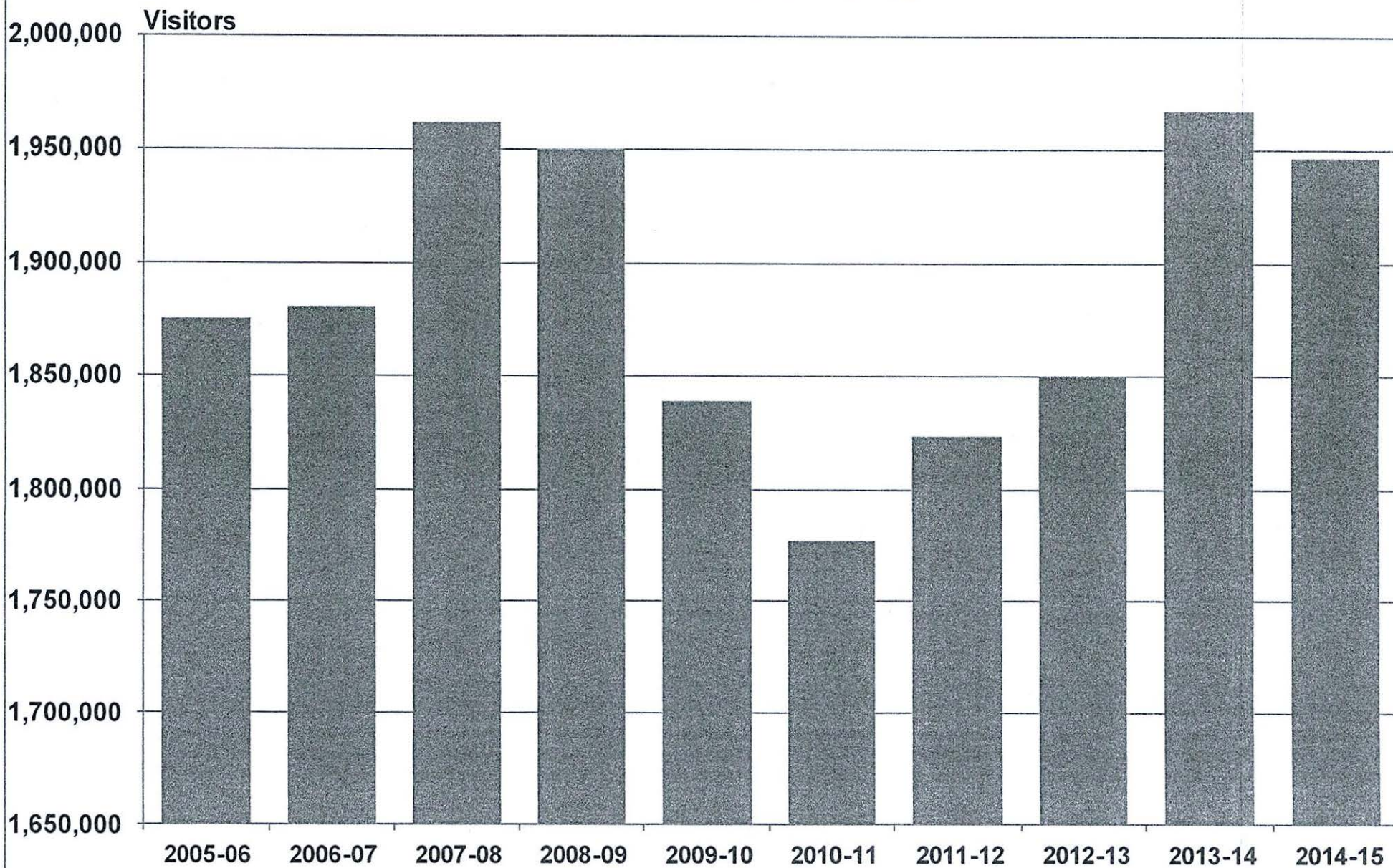
Oil and Gas Employment Has Been Falling In Most States

Oil and Gas Employment: Percent Change, Peak Employment to October 2015



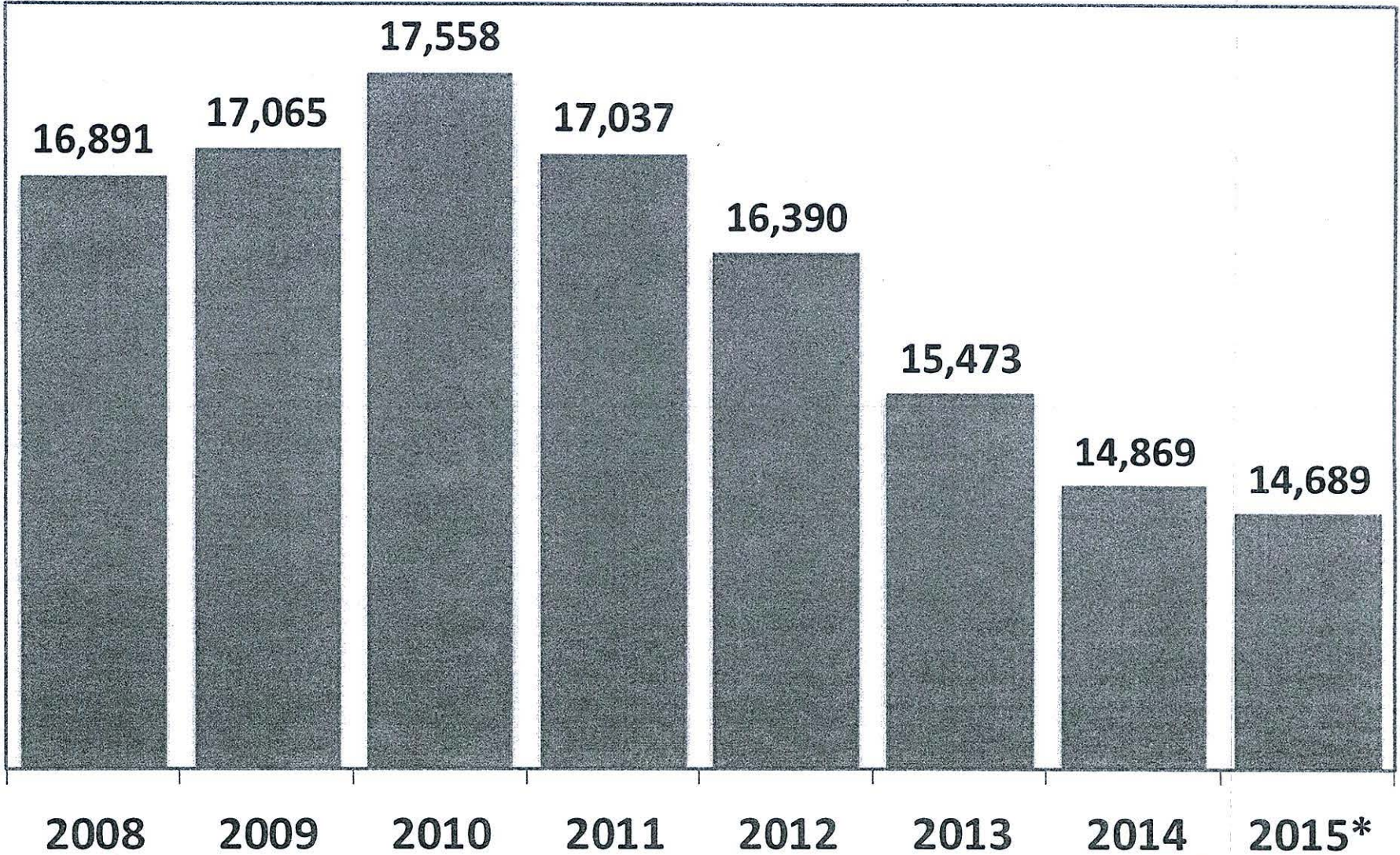
Source: U.S. Department of Labor, Bureau of Labor Statistics, some data adjusted because of lack of detail.

Alaska's Visitor Industry Fully Recovered



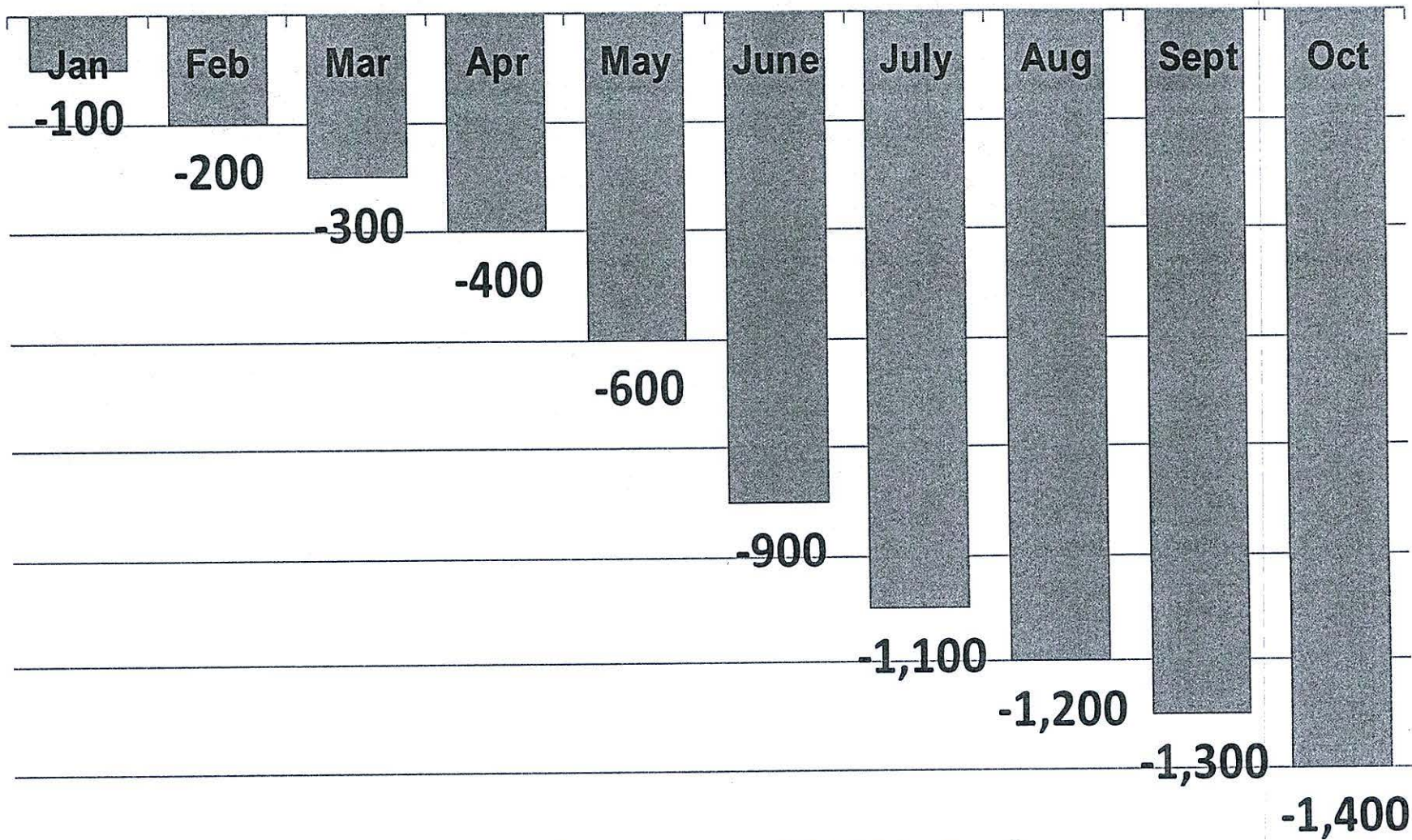
Source: Mcdowell Group

Federal Employment Losses In AK Appears To Be Easing



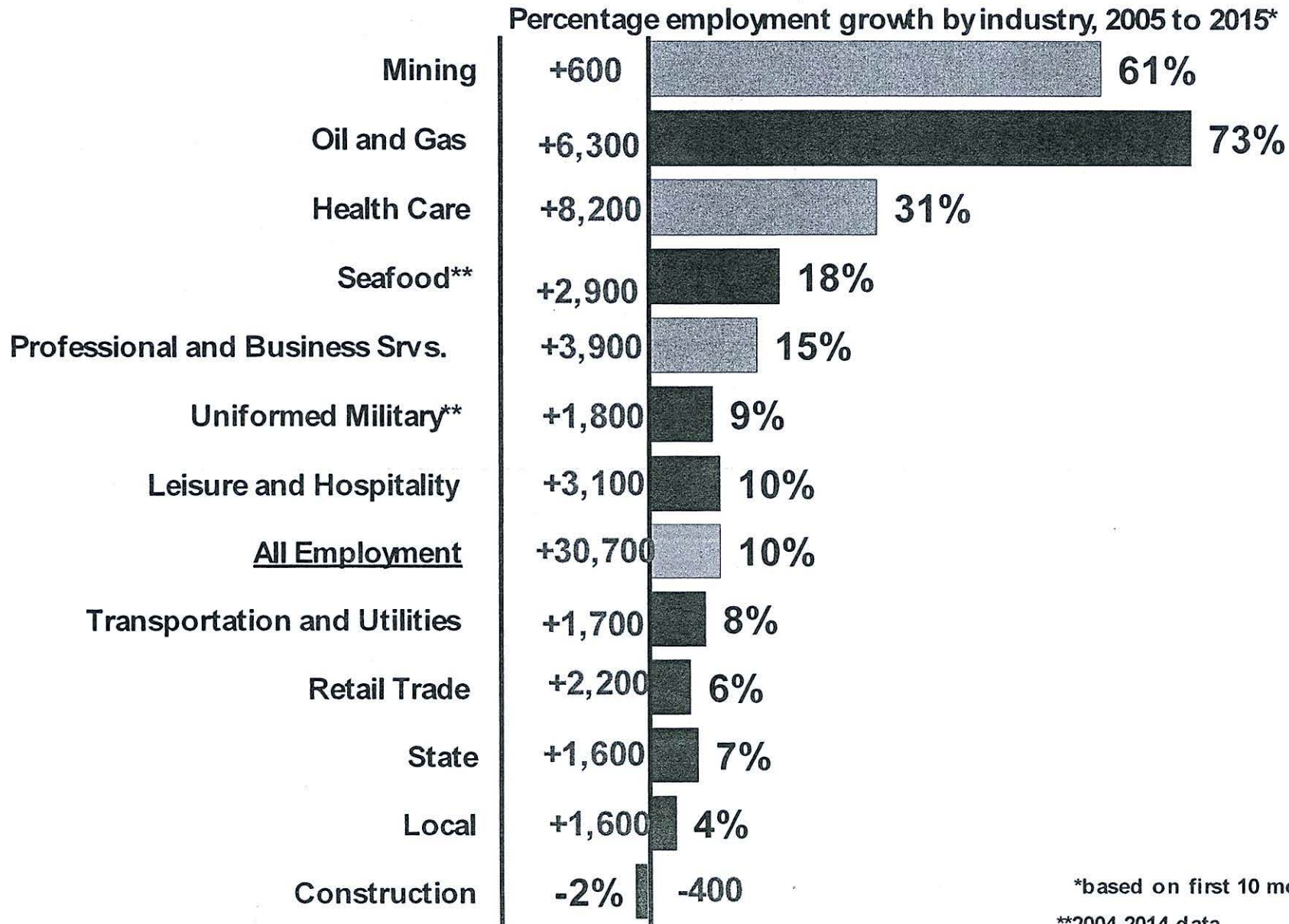
* Very preliminary

State Government Job Losses Growing-2015



*Total State Government Employment was 25,500 in October

A Decade Of Growth In Alaska

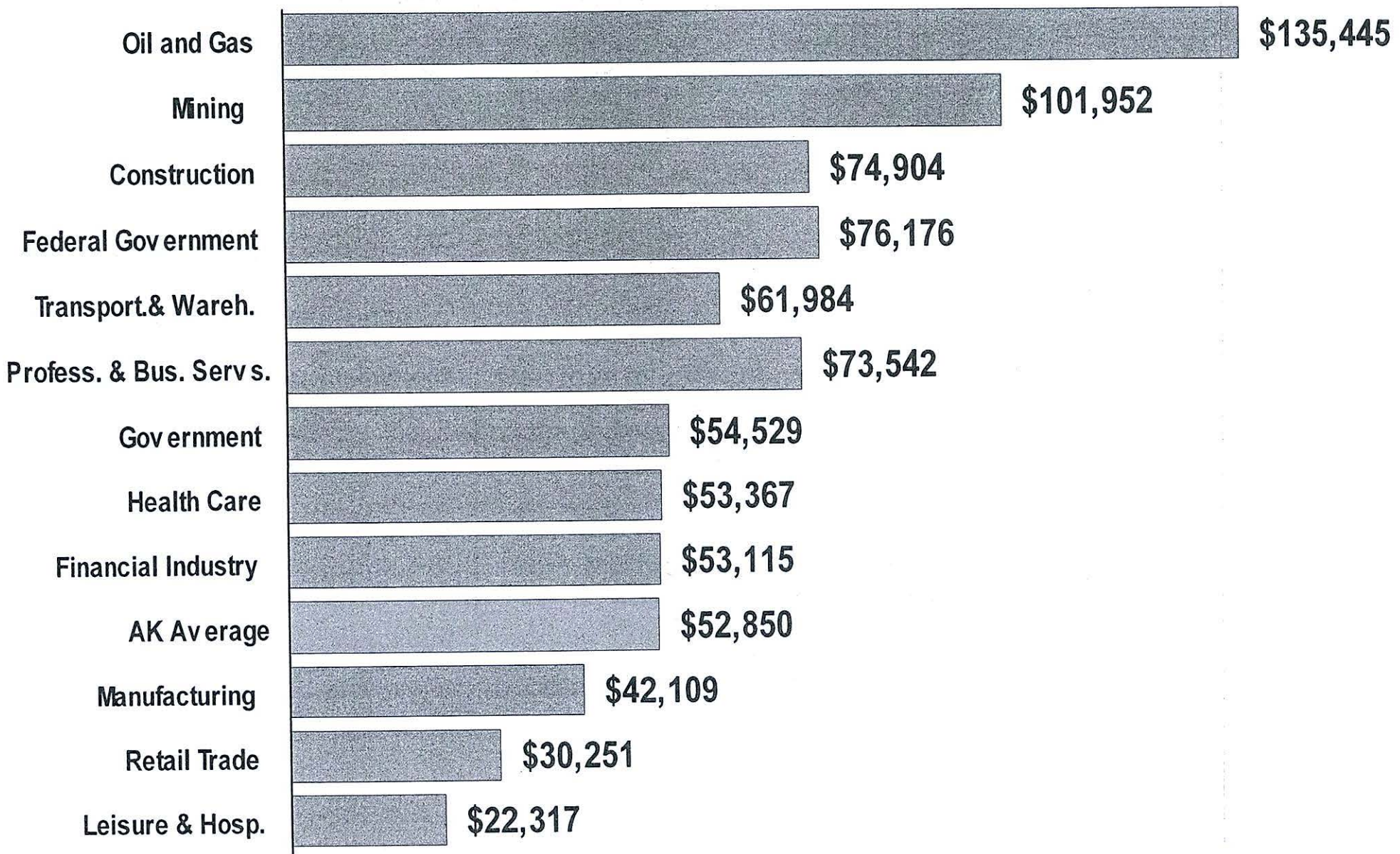


*based on first 10 months

**2004-2014 data

Show Me The Money-It Does Matter Where You Work In AK

Alaska's 2014 average annual earnings

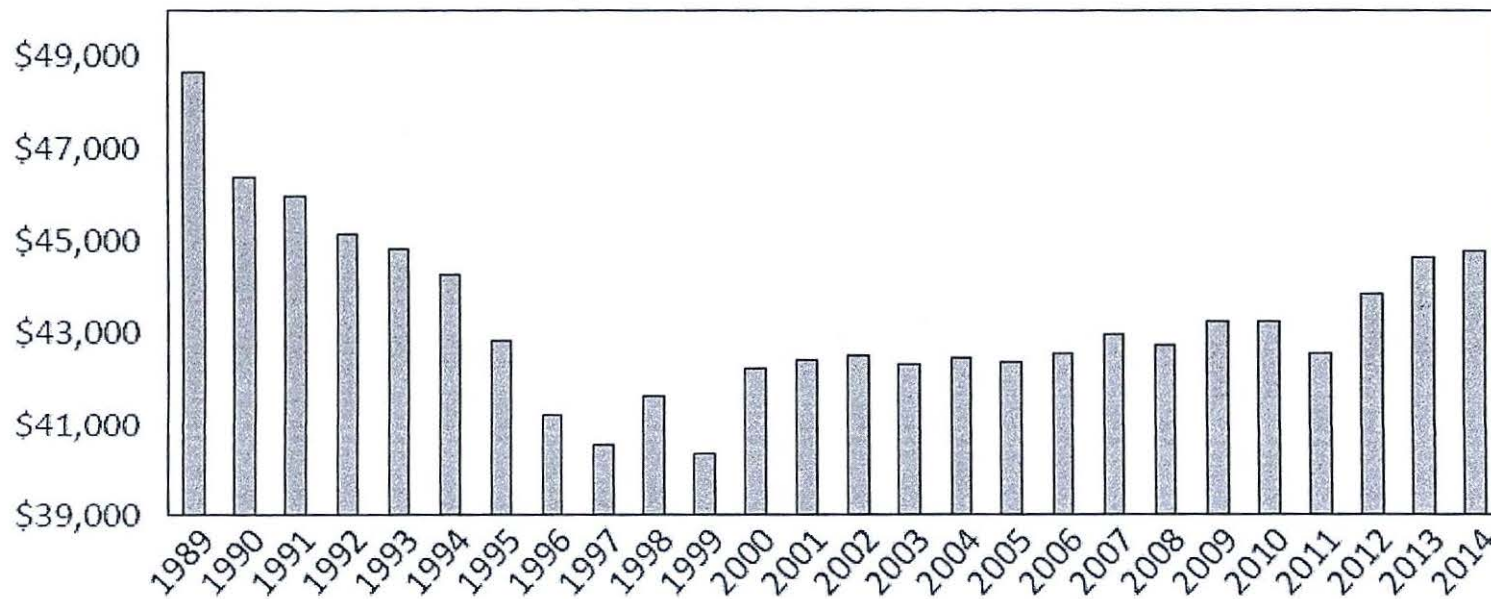


Part of the Exclusive Club

Ranking	State	Median Household Income-2014
1	Maryland	\$73,971
2	New Jersey	\$71,919
3	Alaska	\$71,583
4	Connecticut	\$70,048
5	Hawaii	\$69,592
	U.S.	53,657

Adjusted for Inflation, Median Wage is Down

ALASKA YEAR-ROUND WORKERS, 1989 TO 2014



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

The 1980's and Now

Similarities

- *Oil prices fall*
- *Oil revenues fall*
- *Economy remains very dependent on oil*

Differences-Good

- Not preceded by economic and population boom
- Different Demographics
- Problem is not a surprise
- Have savings this time
- Have more control this time
- More economic diversity, a larger service sector, Native Corps.
- Much lower interest rates
- Tax Reform Act of 1986?

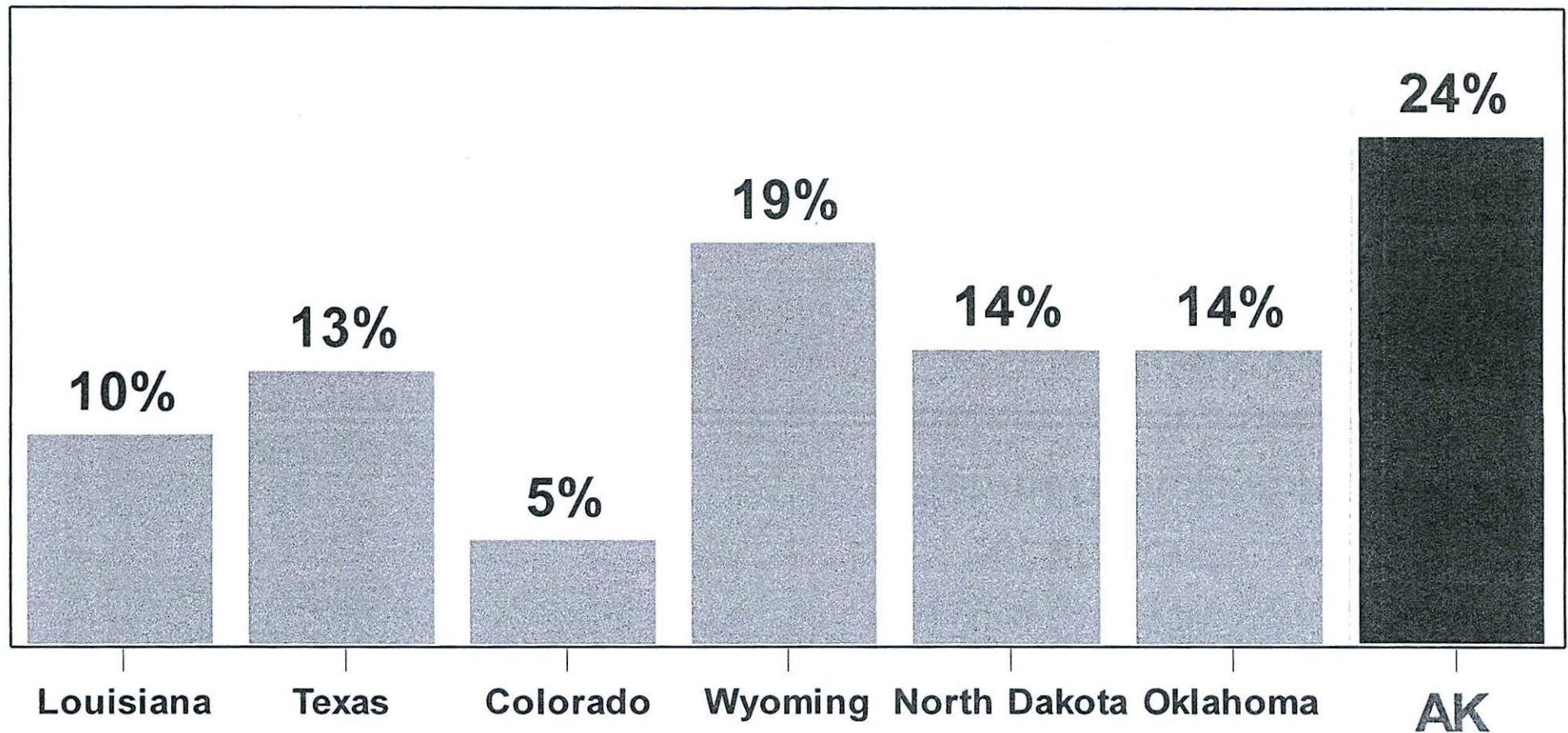
Differences-Bad

- Much less oil production

Still not sure if better, worse or just different? Too early to tell.

Our Wealth Tied To Oil Greater Than Probably Anywhere Else

Oil And Gas As A Percent of GDP



Source: U.S. Department of Commerce, BEA. 2013

The 1980's and Now

Similarities

- *Oil prices fall*
- *Oil revenues fall*
- *Economy remains very dependent on oil*

Differences-Good

- *Not preceded by economic and population boom*
- **Different Demographics**
- **Problem is not a surprise**
- **Have savings this time**
- **Have more control this time**
- **More economic diversity, a larger service sector, Native Corps.**
- **Much lower interest rates**
- **Tax Reform Act of 1986?**

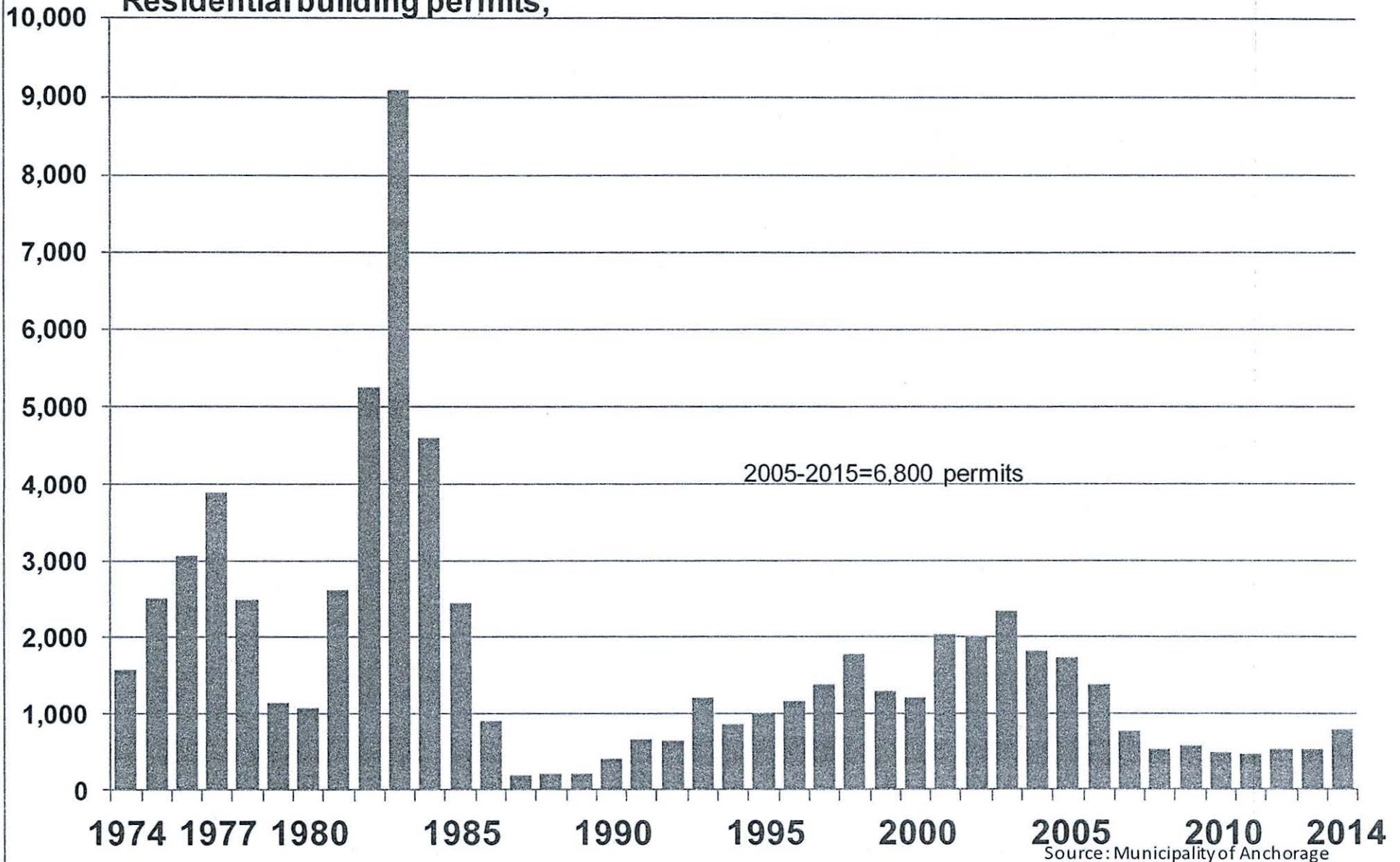
Differences-Bad

- **Much less oil production**

Still not sure if better, worse or just different? Too early to tell.

Housing Bubble?

Residential building permits,



Source: Municipality of Anchorage

The 1980's and Now

Similarities

- *Oil prices fall*
- *Oil revenues fall*
- *Economy remains very dependent on oil*

Differences-Good

- *Not preceded by economic and population boom*
- *Different Demographics*
- **Problem is not a surprise**
- **Have savings this time**
- **Have more control this time**
- **More economic diversity, a larger service sector, Native Corps.**
- **Much lower interest rates**
- **Tax Reform Act of 1986?**

Differences-Bad

- **Much less oil production**

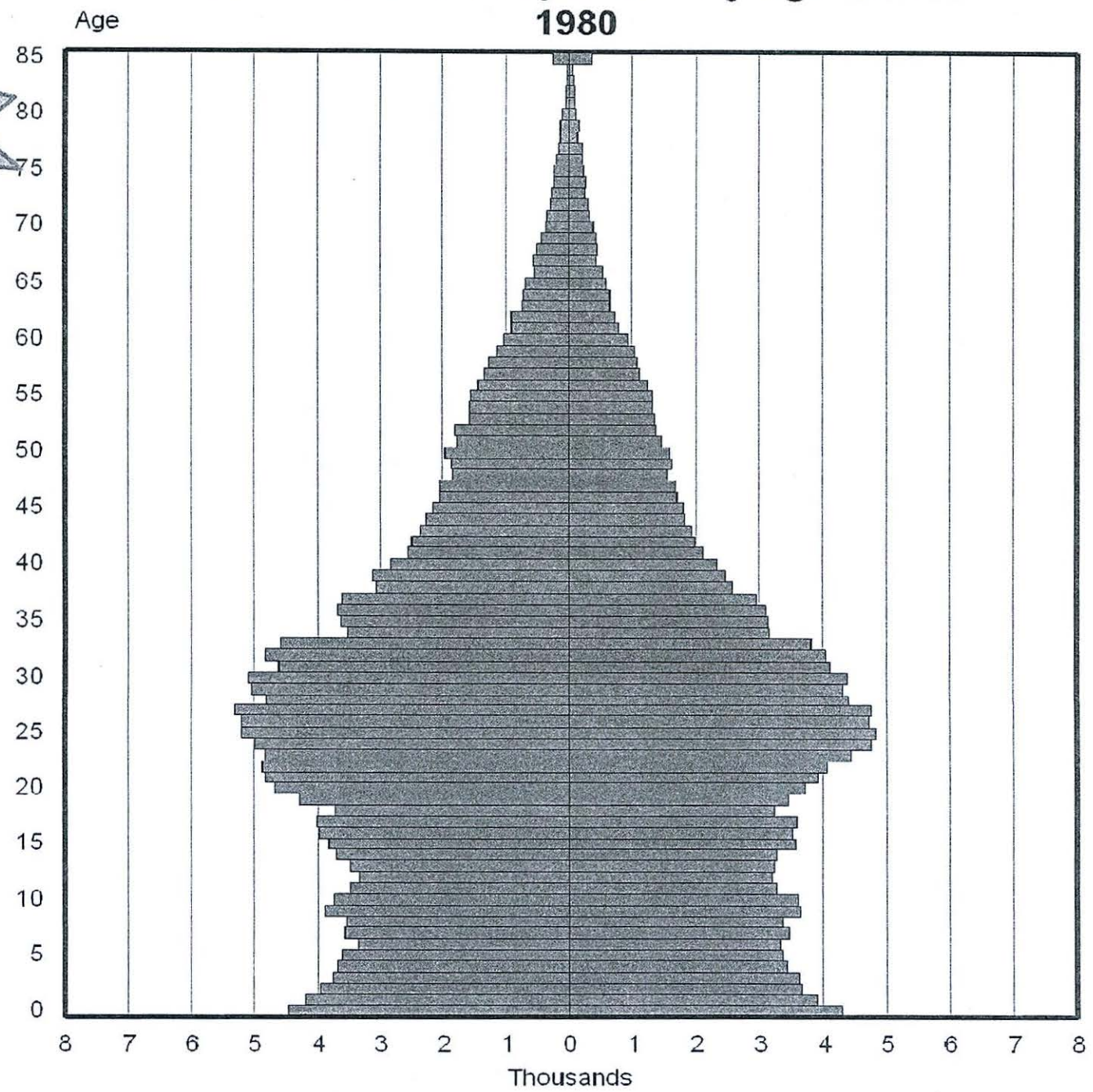
Still not sure if better, worse or just different? Too early to tell.

Estimated Alaska Population by Age and Sex

1980

1980

↑
A
G
E

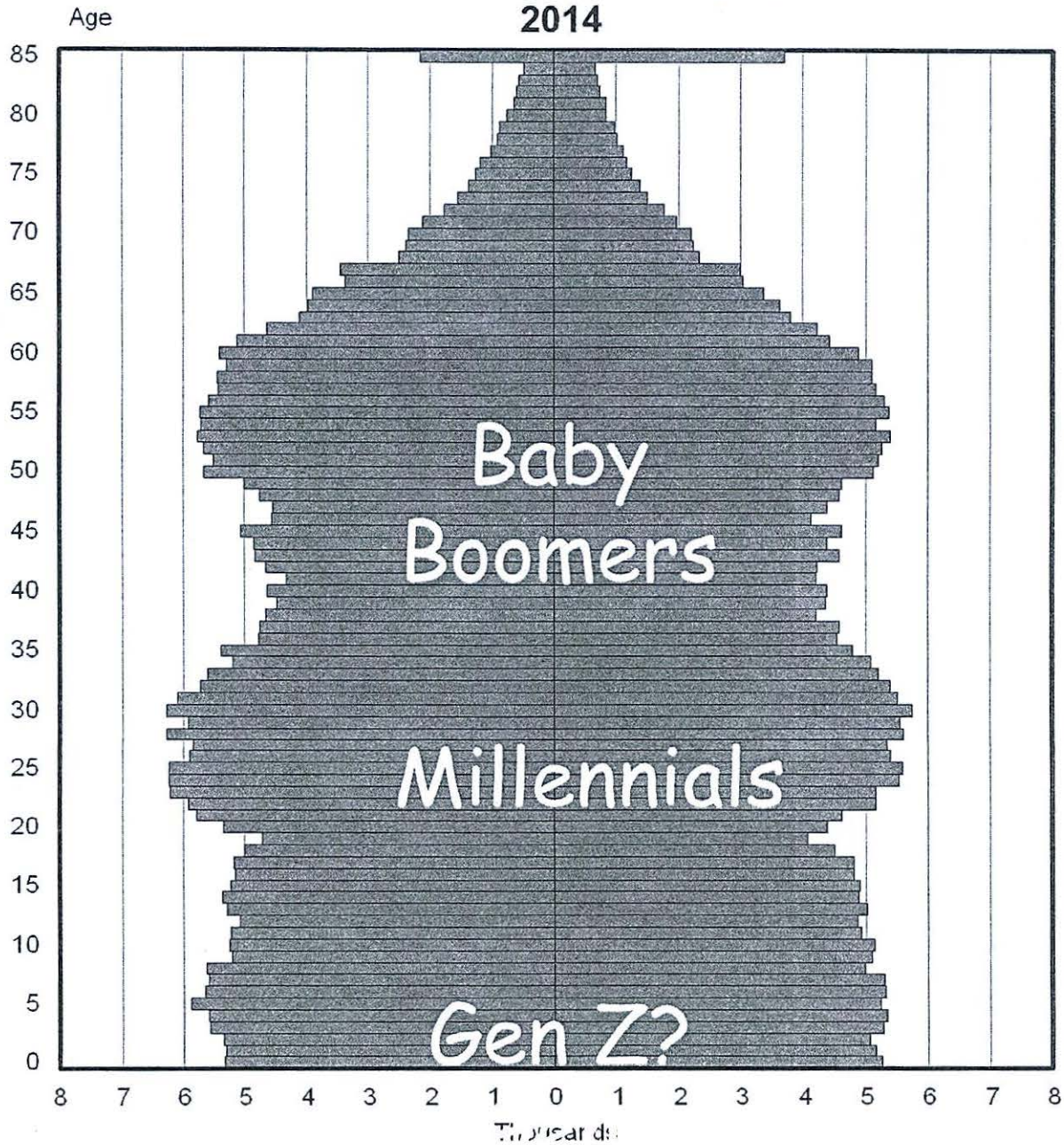


**Median age=26,
3%>65**

2014

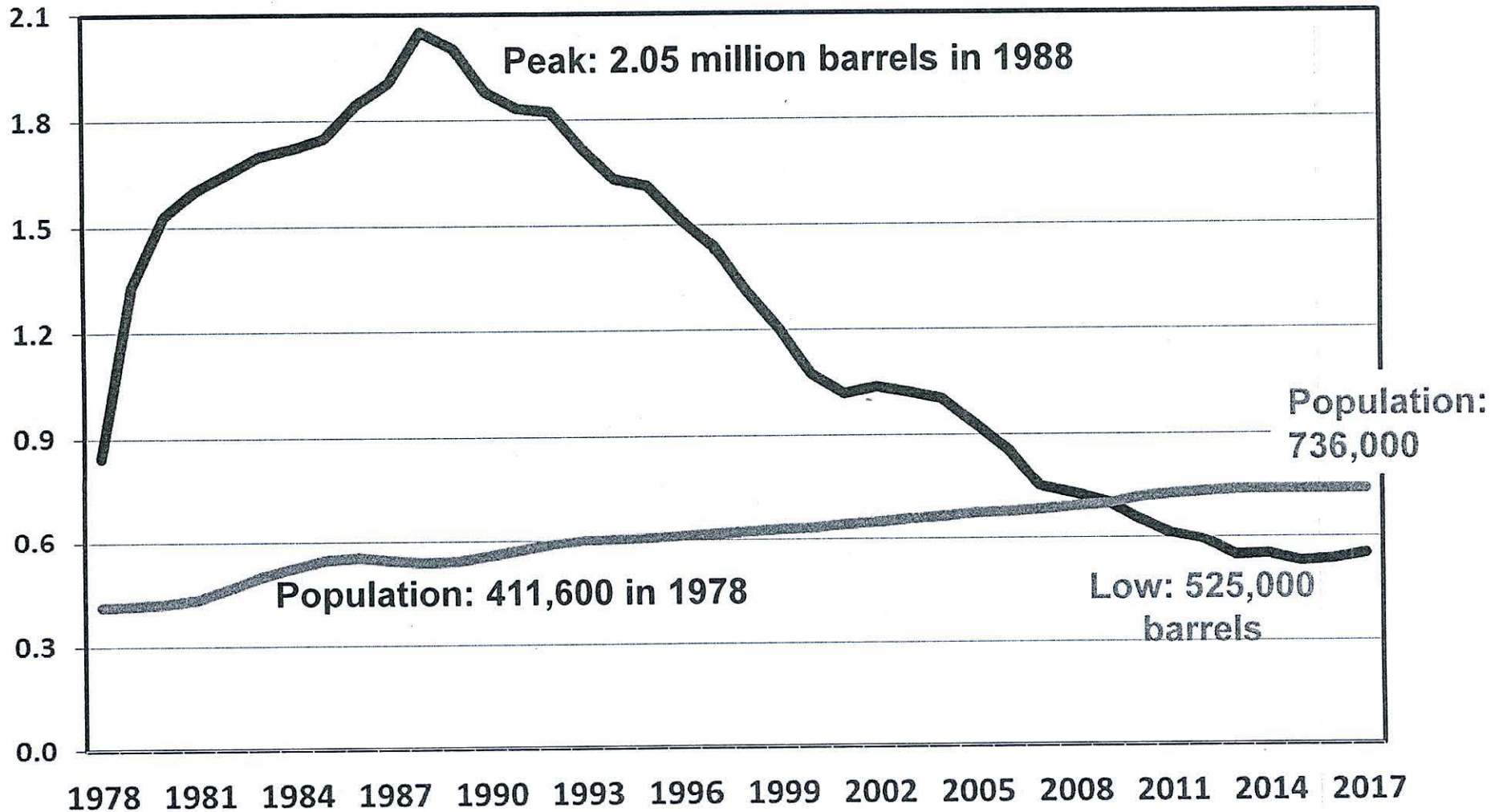
AGE

Estimated Alaska Population by Age and Sex 2014



Median
age=34,
10%>65

Alaska's Oil Production And Population 1978 - 2017

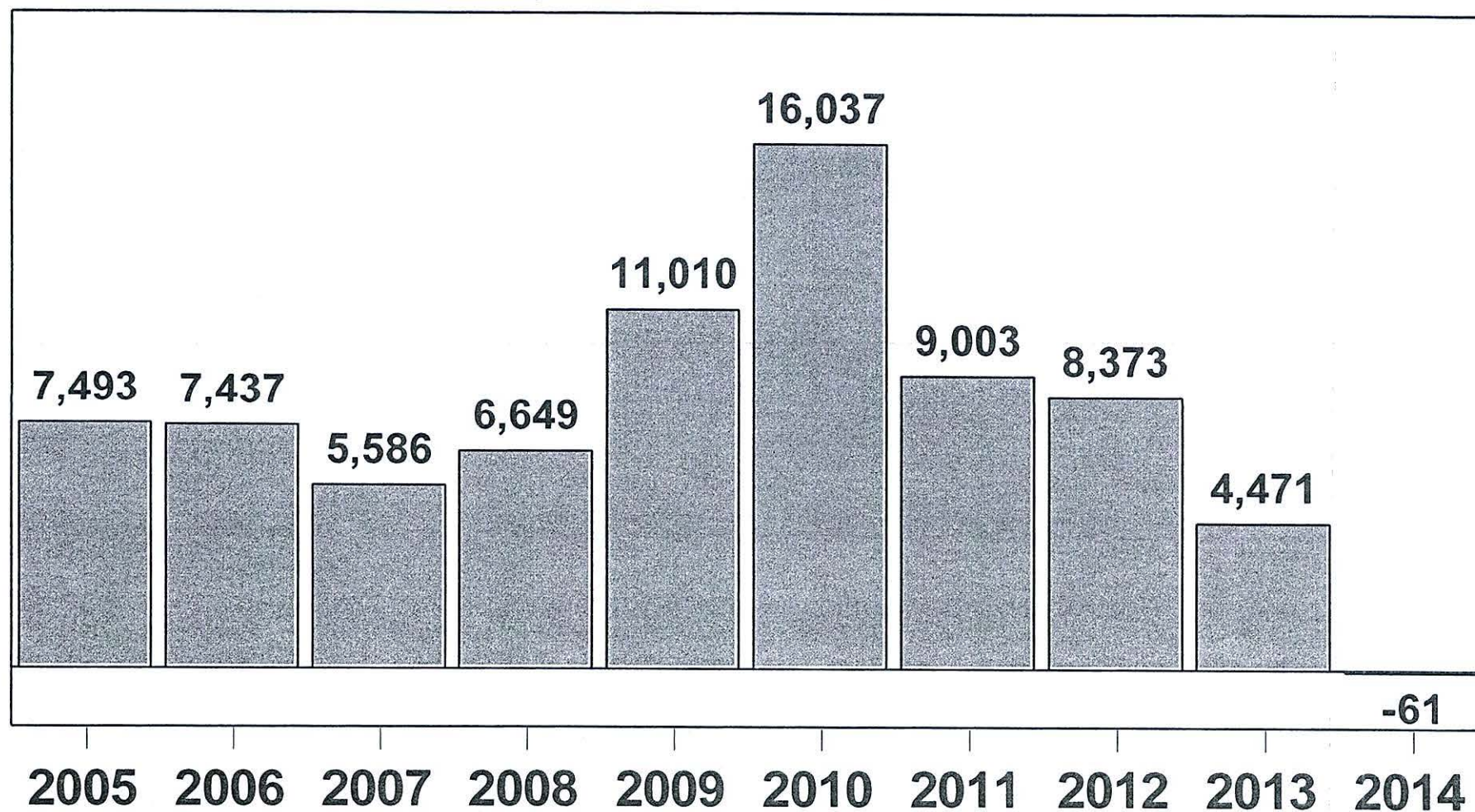


Brought to you by Mark Edwards from Northrim Bank

Alaska's Population Gains Grew With National Recession--But Now Slowing

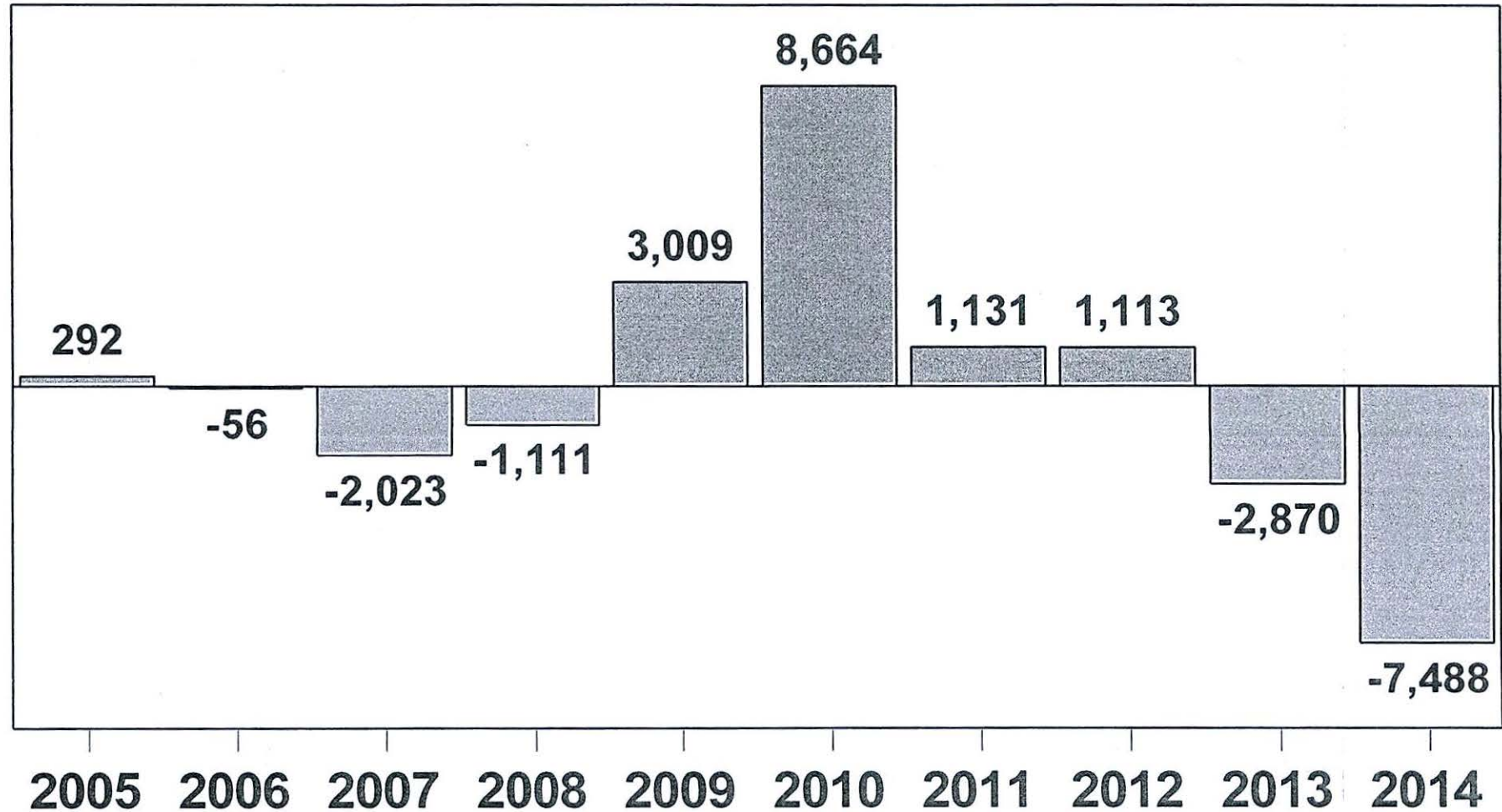
Alaska's total 2014 population count was 735,601

Total annual population gains and losses for Alaska

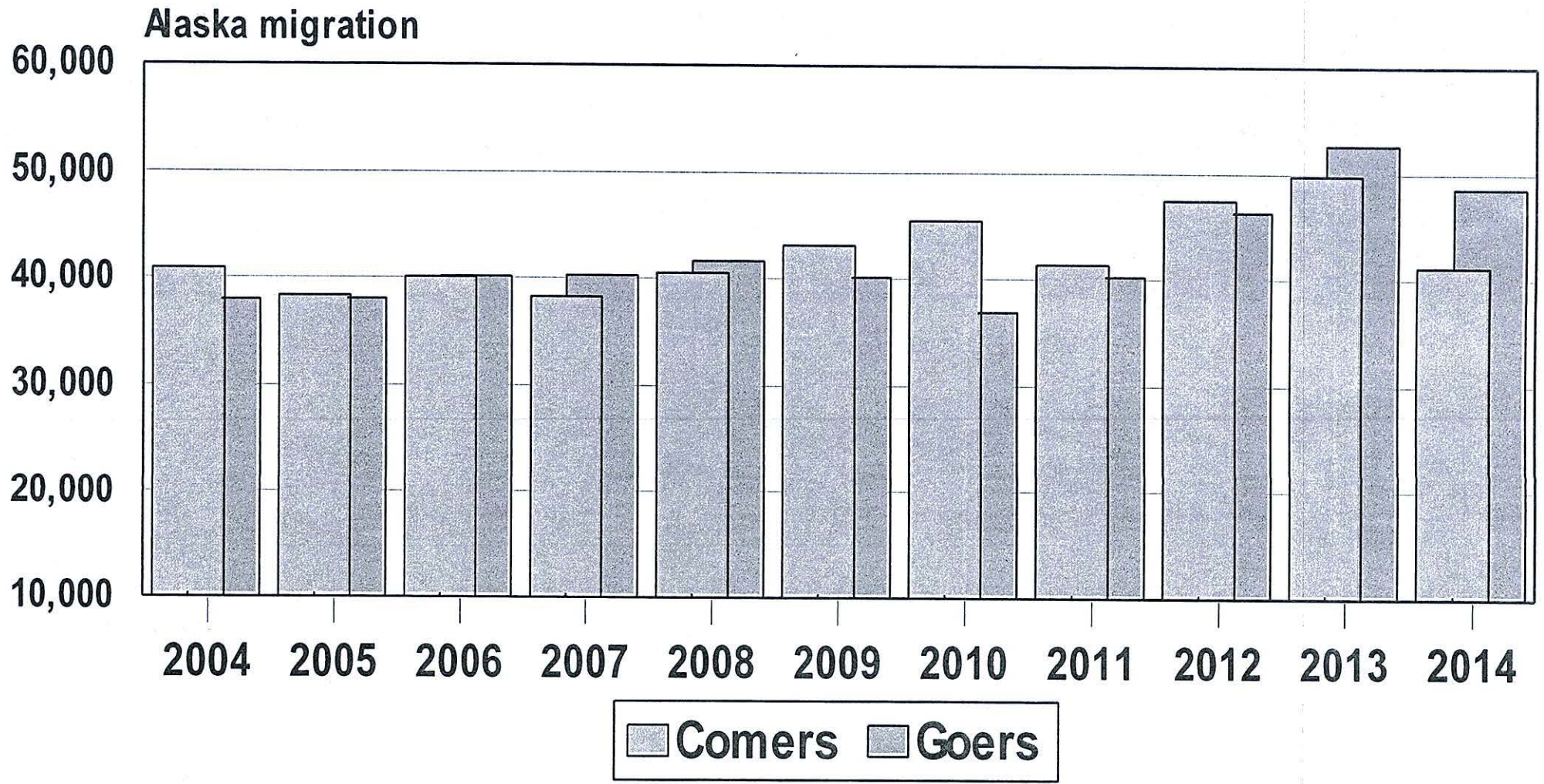


Alaska's Migration Tells A Different Story

Annual net migration, Alaska

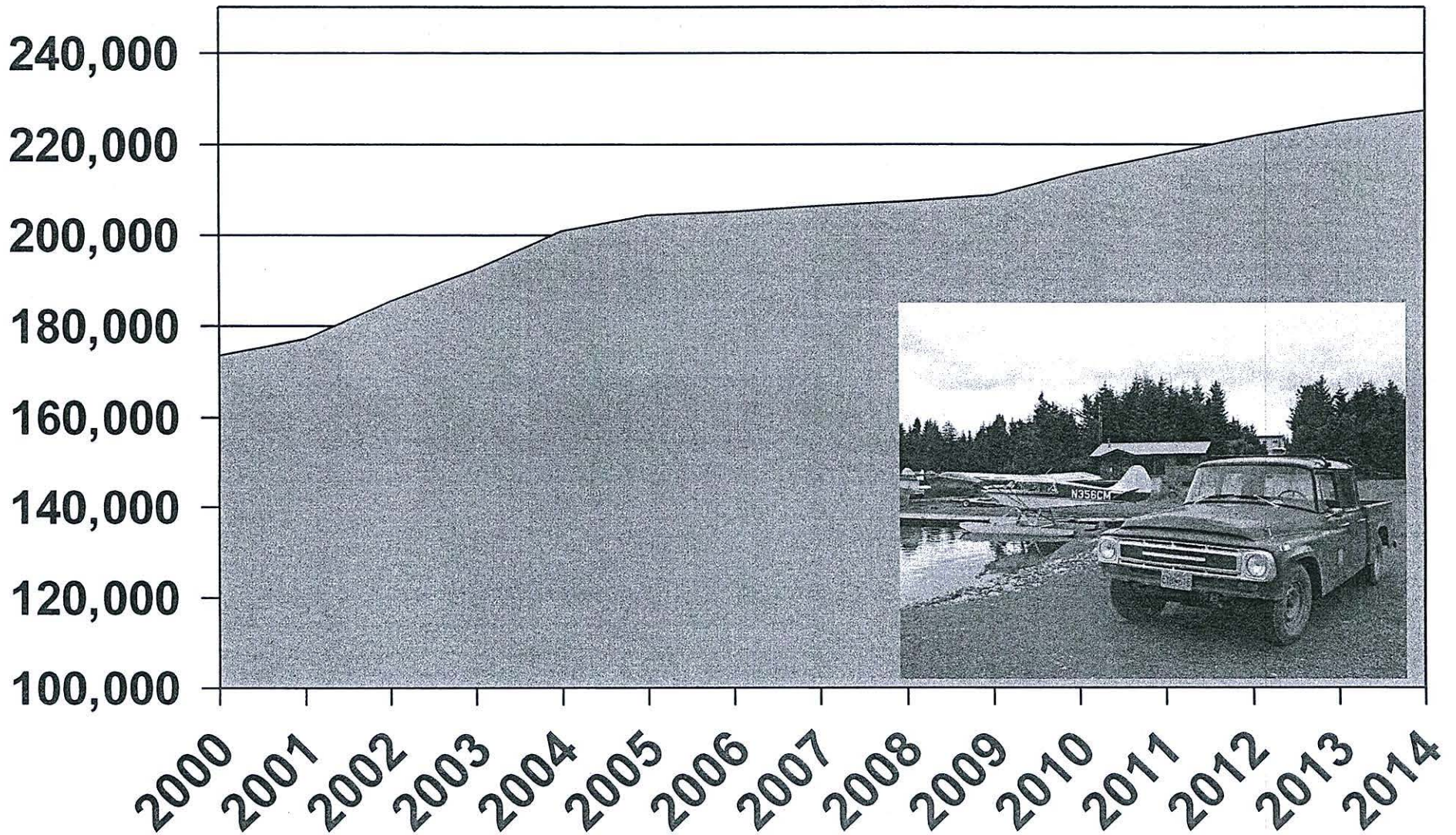


Alaska Churn--The Number Of Folks Moving In And Moving Out Of AK Each Year



We Remain Solidly AKers When It Comes To Our Pickups

Number of registered pickups in Alaska



49,530 snow machines, peaked at 55,249 in 2008

**State of Alaska Legislature
House Economic Development, Tourism and Arctic Policy Hearing**

**December 9, 2015 (Wednesday)
9:30 AM**

Testimony

by

**Martin Cary, Vice President and General Manager, Managed Broadband Services
General Communication, Inc. (GCI)**

Securing Alaska's Fiscal Future and Arctic Opportunity

Good afternoon, Representative Herron and other members of the committee.

My name is Martin Cary. I am the Vice President and General Manager of Managed Broadband Services for General Communication, Inc. (GCI). Previously, I worked for the North Slope Borough School District for 9 years, before becoming a small business owner in Barrow and Anchorage. My comments come from my perspective of over 30 years' experience working to provide opportunity to those living and working in rural Alaska.

Thank you for the opportunity to testify and discuss the most significant issue for the state's future – and one that we all face – Alaska's pressing fiscal challenge. I know each of you is in the midst of many important decisions, making tough choices about how best to create a sustainable budget for Alaska.

GCI is committed to Alaska, and our interests in responsibly addressing this issue, and ensuring shared opportunity to flourish and grow, are totally aligned. Alaska's future is GCI's future.

GCI has made an unparalleled commitment among service providers to the state, with the understanding that robust communications services are critical for full participation in the modern economy and helps bind individuals together socially and culturally. We have invested well over \$2 billion in capital in Alaska since 1979. And since 2008, GCI has invested over \$800 million in modern communications infrastructure in rural Alaska alone, serving over 200 locations in rural Alaska.

Along the way, we've become the leading Arctic telecommunications provider in the country, serving over 110 locations in the U.S. Arctic. Our services provide tangible benefits, increasing opportunity and providing jobs to Alaskans throughout the state.

We continually build, expand, and innovate. Based on my prior experience in rural Alaska, living and working for many years in Barrow, I have been the primary advocate within GCI to bring better connectivity to rural Alaska. GCI has worked to connect school districts, health

corporations, businesses and the people of Alaska to the outside world through telecommunications.

For example, GCI works directly with the school districts as they continue to use distance education. One of the nation's leaders in this area is right here in Alaska, Mr. Dan Walker, Superintendent of the Lower Kuskokwim School District.

Another area that has experienced significant innovation is rural health care. We continue to see advancements that are beneficial to patients. Medivac expenses have decreased, patient evaluations without travel have increased, and record storage and electronic patient records are being constantly upgraded.

All these, plus a host of other initiatives undertaken by rural school districts and health corporations, have led to lowering costs and allowing them to use their limited resources in other critically needed areas.

With all of this potential for advancement through technology, now is the time for us to analyze our resources with a critical eye, searching for ways to put us back on a sustainable path. Arctic development is an important component of the future economy of Alaska.

As the only Arctic state in our country, we are uniquely positioned. To best serve Alaskans, we must invest in critical Arctic infrastructure necessary to support the long-term needs of all residents and businesses of Alaska's arctic communities.

GCI's commitment to Alaska has never been stronger. And that's the very reason why we are incredibly focused on the state's path to fiscal security. We plan to spend \$70 million expanding our TERRA network in Northwest Alaska over the next two years. I can't in good faith continue to advocate for these investments if the State does not have a stable fiscal plan.

As you're all well aware, Alaska is facing a more than \$3 billion yearly budget deficit. We are currently outspending revenues at a rate of \$250 million per month. With no reasonable expectation for a miracle revenue infusion, the Constitutional Budget Reserve will be depleted in less than three years. At that point, we will have exhausted that valuable resource and on a quick path to fund directly from the Permanent Fund or shut down the government.

There's no debate that Alaska's economic health is in decline and there is no magic cure for the problem. As we look ahead, we must enable and promote the new economic and research opportunities presented by the changing Arctic. As Alaskans, we must identify how we can ensure an environment for growth, jobs, and investment.

There is some good news, though. While there's clear and present risk of adversity, there's also opportunity for our state's leaders to chart a stable path forward. We should use this moment to implement responsible solutions to address our budget challenges and build a solid financial foundation for the future, including a reconsideration of how we use Permanent Fund earnings. This is a necessary component of any solution that will deliver economic security for all Alaskans.

Make no mistake; the status quo will put many rural villages and communities at risk of disappearing, and adoption of proposals that would more readily eliminate key anchor institutions in rural communities make it worse.

A stable, sustainable budget is key to economic growth in the Arctic region of Alaska and the State as a whole. Knowing that we have communities that will survive into the future is critical for GCI to continue its incomparable record of investment in sustainable infrastructure throughout Alaska.

We appreciate the work ahead of you to develop and implement a responsible, commonsense solution to address these significant fiscal challenges. It's undoubtedly hard work, but it's deeply critical that it happens, and that it happen soon.

We look forward to working with you to securing Alaska's long-term sustainable fiscal future.

I would be happy to answer any questions you may have.

Committee on Economic Development, Tourism & Arctic Policy

12.9.15 Meeting – Alaska’s Economic Outlook

Presenter Bios

Mary Ann Pease

Mary Ann Pease is the President of the Board of Directors for Commonwealth North and has served as the Chair of Commonwealth North’s Energy Action Coalition for seven years.

She is the owner of MAP Consulting, focusing on business strategies, energy, oil, and gas consulting services, as well as strategically placed outreach and P/R Consulting; and the Alaska Vice President and General Manager of Resources Energy, Inc. She served as Vice President, Corporate Communications, Alaska Communications Systems; Vice President of Aurora Power Resources; Chief Fiscal Officer for Municipal Light & Power; and has developed expertise in financial management, and legislative and regulatory affairs in her nearly 30 years of experience in the utility, power, and technology industries.

She has a Bachelor of Arts in Economics from the all-women Albertus Magnus College and an MBA in Finance from Bridgeport University.

Cheryl Frasca

Cheryl Frasca is the President-Elect (incoming 2016 President) of the Board of Directors for Commonwealth North and has served as a Co-Chair of the Commonwealth North Fiscal Action Coalition for seven years. Cheryl Frasca has been involved in Alaska fiscal policy issues for over 30 years, which includes working as staff for 12 years for Alaska legislative leaders and director of the Office of Management and Budget for two governors and two Anchorage mayors. She was also appointed to the Anchorage Assembly in 2013. She is currently the Executive Director of Education Matters, Inc.

Cheryl has received several awards including the National Governors’ Association’s “Distinguished Service to State Government” recognition and the Ernest Gruening Award for “Outstanding Graduate Student” by the University of Alaska Southeast. She has a Master of Public Administration degree and a B.A. degree in Political Science.

OLIVER SCOTT GOLDSMITH

Professor Emeritus of Economics
Institute of Social and Economic Research
College of Business and Public Policy
University of Alaska Anchorage
907-786-7720



Professor Goldsmith was a faculty member of the Institute of Social and Economic Research (ISER) from 1975 to 2013 and Institute Director from 2001 to 2005. ISER is a public policy research institute within the College of Business and Public Policy of the University of Alaska Anchorage.

Professor Goldsmith's research interests include regional economics, Alaska fiscal policy, and energy demand. He has constructed several Alaska economic models which are regularly used at the Institute for a variety of policy analyses and projections. He currently directs the ongoing research program *Investing for Alaska's Future*, funded by a generous grant from Northrim Bank, which studies the implications of the dominance of petroleum for Alaska's economic future. Professor Goldsmith contributes the results of his research regularly to academic journals as well as to a more general audience through Institute publications and frequent speaking engagements.

Professor Goldsmith has been active in professional service to Alaska and the nation, having recently served on the Scientific Advisory Committee of the Minerals Management Service of the U.S. Department of the Interior. He was formerly chairman of the Anchorage Municipal Budget Advisory Commission, and served as a member of the Alaska Bypass Mail Post Office Task Force and the Child Support Enforcement Task Force.

In 2006 he was the recipient of the prestigious Edith R. Bullock Prize for Excellence, presented annually by the University of Alaska Foundation.

Professor Goldsmith is a native of Chicago, graduated from Princeton, and earned a PhD in Economics from the University of Wisconsin, Madison after serving for 2 years in the Peace Corps in Borneo. He is married and has two grown daughters who live in Alaska.

Now that he is "semi-retired", he hopes to spend more time on his bicycle, both in Alaska and in other exotic locales.

NEAL D. FRIED

EMPLOYMENT

Economist, State of Alaska, Department of Labor, Research & Analysis Section, 1978—Present.

His primary duty is to produce economic data and analysis on a variety of economic issues facing the Alaska.

A primary author of articles appearing in the monthly magazine *Alaska Economic Trends*, published by the Alaska Department of Labor. This publication is distributed to over 5,000 subscribers. His articles cover a wide variety of the State's economic issues. Some of the topics on which he has performed economic analysis and written articles include: annual economic forecasts, the cost of living, beer and coffee, construction, income and wage trends, the military, the health care industry, transportation, oil industry issues, labor needs, rural economic trends, economic impact of the Prince William Sound oil spill, the MatSu Valley's economy and other issues.

Served on the Governors Oil and Gas Policy Task Force, Anchorage Economic Development Committee, the Governors Technology Task Force, King Career Center's Business Industries Advisory Committee and others. Was on the Pacific Northwest Economic Conference board.

Her currently serves on the Alaska Public Media Board and the King Career Business Advisory Committee.

Governors Denali Peak Performance award.

Supervisor of Anchorage office (2 people, including myself), Department of Labor Research & Analysis Section

EDUCATION

Economics Degree,

University of Alaska-Fairbanks, 1978

PERSONAL

Born Washington, D.C., 1954

Raised in Vienna, Austria

Married, 2 children

Martin Cary

Vice President and General Manager, Managed Broadband Services, GCI

Martin Cary is responsible for all of GCI's telehealth and educational initiatives that are delivered over a broadband satellite and terrestrial infrastructure. He also manages GCI's strategic initiatives in Alaska, Washington, and New Mexico, including corporate mergers and acquisitions, and leads initiatives to evolve GCI's delivery infrastructure to optimally deliver education and health applications. Before joining GCI, Martin was Senior Partner of Astrolabe Systems, Inc., a technology-management consulting firm acquired by GCI in 1995, where he developed SchoolAccess. Prior to Astrolabe Systems, Martin served as the Director of Information Technology for the North Slope Borough School District for nearly a decade.