

Associated General Contractors of Alaska

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Associated General Contractors of Alaska

2018 Legislative Priority Statement

By JOHN MACKINNON, Executive Director

The fiscal situation that Alaska and Alaskans continue to face remains critical, and it is crucial that it be addressed in this 31st session of the Alaska Legislature. Since the collapse of oil prices several years ago, the Legislature has had the opportunity to develop a sustainable fiscal plan for the State, and it is now a must-do situation.

The Associated General Contractors of Alaska is a trade association representing over 650 general and specialty contractors, suppliers, manufacturers and businesses participating in one of Alaska's largest economic sectors. As recent as 2016, the construction industry was Alaska's third-largest industry, paying the second-highest wages and employing more than 18,000 workers with a payroll of over \$1 billion. Our industry accounted for 20 percent of and contributed nearly \$7 billion to Alaska's economy annually. Today the numbers paint a different picture. A downturn in the construction industry has meant a loss of several thousand jobs and billions of dollars to the overall state economy. The entire membership of our organization has a vested interest in the economic strength of our state, and we are committed to future development and prosperity for all of Alaska's residents. The need for capital spending is critical for construction workers as well as all other sectors of the Alaska economy.

AGC, like many other Alaska businesses, associations and industries, believes that Alaska needs a fiscal plan and we need it **NOW**. A successful fiscal plan must be fair, must not bring undue burden to any one group but must also

enlist all Alaskans to share in the solution. A fiscal plan for Alaska will require significant compromise by everyone. AGC of Alaska recognizes that a fiscal plan for Alaska will not be perfect — it will have something for everyone to like and something for everyone to dislike. **AGC's membership stands ready as willing and supportive**

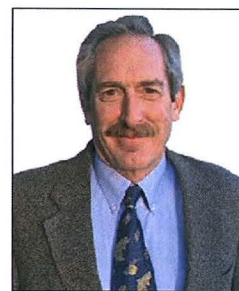
participants to a responsible fiscal plan for Alaska, in part which will contain a responsible, long-term capital budget. Investment in a capital budget, support of a broad range of long-term resource and infrastructure development projects, and an aggressive deferred maintenance program for state properties is the best course to promote and sustain a stable economy for Alaska and Alaskans.

AGC agrees it will take a combination of spending cuts, revenue measures and use of Permanent Fund earnings to provide the basis of a sustainable fiscal plan for Alaska. The Legislature must make measured cuts in government spending and implement a responsible revenue strategy in this Legislative session to maintain the optimistic, pioneering spirit that has developed the State of Alaska and will continue to allow for economic opportunity for future generations. These actions, with a phased implementation strategy and combined with the use of Permanent Fund earnings, will provide the basis for a sustainable fiscal plan for Alaska. 🧢

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Alaska must stop talking, start doing something about finances



JIM ST. GEORGE
President

This is my first letter as president of the Associated General Contractors of Alaska, so as a little review before I sat down to write, I read through 60-plus messages from my predecessors going all the way back to the 2000s and I noticed some recurring themes. There's one theme in particular that is especially important to AGC members, so I think it's worth trotting out one more time: We in Alaska need to get our finances in order.

People have been saying this for a long time. Back in 2002, AGC's then-president Marie Wilson wrote, "We seem to write about fiscal responsibility, talk about it often, but go on with our daily life without changing much." I remember similar talk back in the 1980s, when low oil prices sent the Alaska economy into a downward spiral not that much different from the one it's in today. The problem has been clear for decades.

The solution has also been clear. We need to raise revenues. If we want infrastructure, such as roads, bridges, schools and all the other things that we want, we need to find some way to get the money to pay for them. That might mean taxes. I don't like that dirty word any more than anyone else, but it has to be on the table. It might mean raising the gas tax or doing away with the permanent fund dividend, at least in years when the budget isn't balanced. Or maybe it means dipping into the fund itself.

So, if both the problem and the possible solutions have been clear for

decades, why haven't we done anything about it? The answer, of course, is that it was much easier to keep doing what we were doing already. After the downturn in the 1980s, oil revenues were good for decades, and our members of Congress could reliably

None of the solutions to Alaska's fiscal problems will be fun or easy, but the hangover is going to be a lot worse the longer we wait.

bring home the federal bacon. Having one-third of the state economy based on one commodity was obviously a risk, but it always seemed like there would be time to do something about it later. We were drunk on oil money, and what a drunk it was. But like any good drunk, at some point we have to sober up.

It's easy to blame our legislators for our current mess. After all, they're the ones guiding the ship, right? That's true, but we as constituents and voters should also take a look at ourselves. For a long time, we've been willing to accept politicians' assurances that we could keep spending without any

new ways of paying for it. Too many of us have been complacent. We elect our legislative representatives, send them to Juneau, and we think our work is done. I remember when I was growing up, my mom would send hand-written letters to her members of Congress, letting them know what she thought. She would advertise that they'd write her back. Our legislators need to hear from us.

That kind of engagement is where AGC has an important role to play in the direction of the state. For a number of years, I've gone with the AGC legislative fly-in to Juneau, and getting involved and talking about our issues with lawmakers is one of the most valuable things we do as an organization. We might not always agree, but we are part of the process. We have a loud voice in this state. Our 650 member organizations employ tens of thousands of people, and our payrolls are second only to that of the oil industry. The state's problems are our problems, and they won't get fixed with us standing on the sidelines.

None of the solutions to Alaska's fiscal problems will be fun or easy, but the hangover is going to be a lot worse the longer we wait. As my predecessor Dan Hall wrote just last year, "We all need to grab the yoke and start to pull because not making any of these hard decisions will be catastrophic for Alaska." Hopefully the next AGC president won't need to repeat this same old story. 🧢



DAN HALL
President

How does AGC work with Alaska to support a long-term fiscal plan?

As we stand and stare into the sky, our state economy is falling in a deep dive with very little time to pull up and save ourselves from a 1980-type recession. At AGC of Alaska we are well aware of the need to pull up, as the industries we represent were the first big area cut from state funding two years ago.

Construction is a leading economic indicator — as the state economy goes, so too goes construction. When construction is in a recession, so is our state. It's time to "Put Alaska First" and make changes that reverse our decline and put us back onto the road to prosperity. It will not be easy, but it's not easy to successfully manage a construction business either.

We all have ideas and approaches on how to get this done, but at the end of the day we need to look in the mirror and ask, "What do Alaskans really need to do?" Alaska does not have a wealth problem; we have a cash flow problem. With over \$50 billion in our Permanent Fund, we can develop a long-term fiscal solution that will provide a long-term foundation for the next 50 years.

Any long-term fiscal solution for Alaska requires a mix of the following:

- Cuts to state government
- Use of the Permanent Fund to support state government
- Increased revenues in the form of taxes without overtaxing our resource industries
- Reduction in payouts of Permanent Fund Dividends

We will all need to have skin in the game to achieve a fair and balanced outcome.

One thing is for sure: We all must come to the table and make sacrifices and find solutions. In today's world this is hard to do because most elected officials have a difficult time making these tough fiscal plan decisions that could affect their re-election.

I would like to offer a comparison to the construction industry on this topic. If our companies can't make tough decisions and we worry about our popularity, we go broke. The worst decision we can make is to not make a decision at all.


As a lifelong Alaskan who has enjoyed a vibrant economy driven by the petroleum industry, I can understand the decisions of the past, but today we are at a tipping point for failure and we must all come to the table and support Alaska by developing a viable long-term fiscal plan. Failure to act is a recipe for disaster.

Some in the Legislature think we can solve our fiscal problems simply by collecting more taxes from our resource industries. This is extremely dangerous — a serious threat to the goose that lays the golden egg — and would have catastrophic results. What we need is tax stability to encourage investment by our resource industries in production, exploration, development and construction. No prudent investor will risk investment in our state until we solve our fiscal issues and provide fiscal and tax stability.

It is not all gloom and doom. Alaska is a great state, full of opportunity and hard-working people. There are also some large projects that can help sustain our economy until oil and gas prices and investment improve. Several large mining projects such as Donlin that are close to making a go/no-go decision, new oil opportunities at Smith Bay and mega projects that leverage our federal dollars can help bridge the gap.

The road to King Cove may be reachable in the near future. We must look at each of these construction opportunities and find a way to make these projects commercially viable. This includes tax incentives, tax stability, environmental and regulatory reform and investing our savings in a way to get the projects constructed. A more stable economic climate will lead Alaska to renewed prosperity.

We all should put our thinking caps and our work gloves on and offer thoughts and support to our leaders in Juneau. We all need to grab the yoke and start to pull because not making any of these hard decisions will be catastrophic for Alaska. If we don't make the tough decisions, we will go broke.

Alaska can have a successful future if we develop a plan, sacrifice now and make the tough decisions. We all want a thriving, stable, sustainable Alaska. We want a great place to live and enjoy. Alaska will continue to be a great land if we work together to reset the state's fiscal plan. 



JOHN MACKINNON
Executive Director

Alaska needs fiscal plan to solve budget crisis

With the price of oil dropping into the low \$50s per barrel for the past year and the state budget running an annual deficit of almost \$4 billion, an accurate description of the situation should include the word "crisis." Anyone who does not believe the state is in a fiscal crisis is probably listening to a radio station broadcasting on a frequency undetectable by current technology. The situation facing us now has been predicted for years, and for most of those years, our leaders have been saying we need a fiscal plan.

For decades, state spending has been based on the price of a commodity: oil. A price that fluctuates with global supply and demand. The volatility of oil prices has been a sawtooth graph since the first OPEC oil embargo in 1974. Since then, it has bounced a couple of times between the low teens to over \$100 per barrel. The state is spending more money than it is taking in and is covering the shortfall with savings. At the current spend rate, savings will be gone in less than three years.

A fiscal plan is a means to provide a steady and predictable revenue stream and steady and predictable spending to fund all the necessary components and constitutional obligations of government — state and local. In this time of low oil prices, we need to stretch our available savings dollars to cover the needs until oil increases or we get revenue from our long-dreamt-about gas pipeline. Some people call it "lengthening the runway" so we can bring the economy in for a soft landing.

There are only so many tools available to address the problem, but they are sufficient to deal with it. In simple terms, they fall into four groups:

budget cuts, new revenue, use of earnings and savings. The situation facing the state will require a combination of cuts to the operating budget, some new revenue measures, using earnings from the Permanent Fund and some backfilling from the budget reserves.

Many people say that real operating budget cuts on the order of 10 percent to 15 percent are achievable. Making cuts in the operating budget is one of the most challenging and divisive tasks the Legislature has

The fiscal plan will not be perfect; it may go too far in some areas and not far enough in others.

had for years. Every program has a constituency, and with each of the cuts, there is going to be some impact to Alaskans.

Budget cuts need to be balanced with new revenue. Revenue measures can come in the form of a state sales tax or a personal income tax. Many people believe Alaskans need to get some skin in the game and start paying for something. There are also business taxes or taking away some of the available tax credits. Tax increases generally do not stimulate the economy.

Use of earnings from the Permanent Fund is the most politically challenging part of the equation. Since

creation of the fund, Alaska's business and political leaders have proposed using Permanent Fund earnings to help fund the state budget. The corpus of the fund is constitutionally protected, but the income from the fund, like nearly all state income, is available for legislative appropriation. It is an essential part of the equation.

Once the cuts are identified, revenue measures brought to the table, the formula for the use of earnings developed and the need from the savings established, it needs to be voted quickly and as a package. Fast action will reduce the amount of trading for political favors — logrolling — that so often dilutes legislation.

The fiscal plan will not be perfect; it may go too far in some areas and not far enough in others. It will have something in it for everyone to like and something for everyone to hate. That is usually the sign of successful legislation.

We don't need the partisan bickering and stalemate that caused the first two special sessions last summer. That kind of behavior is like the mechanic who couldn't fix the brakes on my car, so he made my horn louder. We need leadership, statesmanship and real solutions to the problems. We'll see who is willing to step up and make those hard decisions — decisions that may place the best interests of the state and the economy ahead of their own.

We are all going to have to give up something and be a part of the solution. Sacred cows will have to give a little milk. Above all, we need to support the elected officials who make the tough vote and balance the wants and needs with the state's ability to provide. 🍌

ALASKA'S CONSTRUCTION SPENDING FORECAST

2018



BY SCOTT GOLDSMITH AND LINDA LEASK
INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
UNIVERSITY OF ALASKA ANCHORAGE



DEAR ALASKANS,

The Construction Industry Progress Fund (CIPF) and the Associated General Contractors of Alaska (AGC), proudly offer the Alaska Construction Spending Forecast as a guideline to construction activity and its effect on the 49th State in the year ahead.

Under a special arrangement with the Institute of Social and Economic Research (ISER) at the University of Alaska Anchorage, Scott Goldsmith and Linda Leask have again compiled and written the Forecast. The forecast reviews construction activity, projects and spending by both the public and private sectors for 2018.

CIPF and AGC are proud to make this publication available annually and are confident it provides useful information for many of you.

We recognize in these times of economic uncertainty there is a likelihood of reduced construction activity, and some of this information contained herein may change.

The construction trade is Alaska's third largest industry, paying the third highest wages, employing over 15,000 workers and contributes \$6.6 billion to Alaska's economy. The construction industry reflects the pulse of the economy, and when it is vigorous so is the state's economy. Therefore, it is imperative to keep building and repairing necessary infrastructure laying the groundwork for the future.

AGC is a non-profit, full service construction association for commercial and industrial contractors, subcontractors and associates. CIPF is organized to advance the interests of the construction industry throughout the State of Alaska through a management and labor partnership.



Larry Bell
CIPF Chairman



2018 ALASKA CONSTRUCTION SPENDING

		Change
TOTAL	\$6,567,000,000	4%
TOTAL EXCLUDING PETROLEUM	\$4,012,000,000	-2%
PRIVATE	\$4,068,000,000	7%
Petroleum	\$2,555,000,000	15%
PRIVATE EXCLUDING PETROLEUM	\$1,513,000,000	-5%
Mining	\$ 239,000,000	6%
Other Basic	\$ 110,000,000	10%
Utilities*	\$ 539,000,000	4%
Hospitals/Health Care*	\$ 275,000,000	-14%
Other Commercial	\$ 125,000,000	-17%
Residential	\$ 225,000,000	-17%
PUBLIC	\$2,499,000,000	-1%
National Defense	\$ 630,000,000	11%
Highways and Roads	\$ 667,000,000	6%
Airports, Ports, and Harbors	\$ 387,000,000	3%
Education	\$ 235,000,000	-20%
Other Federal	\$ 270,000,000	-2%
Other State and Local	\$ 310,000,000	-16%

* Many projects in these categories are supported by public funds.
Source: Institute of Social and Economic Research, UAA.
Percent change based on revised 2017 estimates.

OVERVIEW

The total value of construction spending "on the street" in Alaska in 2018 will be \$6.6 billion, up 4% from 2017.^{1,2,3}

The increase is due to a recovery in **Petroleum** sector spending which will grow 15% to \$2.6 billion from its low of \$2.2 billion last year.

All other construction spending will be \$4.0 billion, a decline of 2% from \$4.1 billion last year.

Private spending, excluding petroleum, will be about \$1.5 billion, down 5% from \$1.6 billion last year—while **public spending** will decline 1% to \$2.5 billion.

Wage and salary employment in construction will decline 3% to 14.5 thousand.⁴

After falling by half in the last two years, spending by the petroleum industry will start to recover because of the rise in the price of oil, and more support for the industry from the federal and state governments.

¹ Our revised projection for 2017 was \$6.3 billion, lower than the original estimate of \$6.4. This revision is primarily the result of lower than anticipated oil and gas spending.

² We define construction spending broadly to include not only the construction industry as defined by the U.S. Department of Commerce and the Alaska Department of Labor, but also other activities. Specifically, our construction-spending figure encompasses all the spending associated with construction occupations (including repair and renovation), regardless of the type of business where the spending occurs. For example, we include the capital budget of the oil and gas and mining industries in our figure, except for large, identifiable equipment purchases such as new oil tankers. Furthermore, we account for construction activity in government (like the carpenter who works for the school district) and other private industries. The value of construction is the most comprehensive measure of construction activity across the entire economy.

³ "On the street" is a measure of the level of activity anticipated during the year. It differs from a measure of new contracts, because many projects span more than a single year.

⁴ Alaska Department of Labor



GCI TERRA RING CLOSURE, STG INC.

Civilian federal spending in Alaska, most of which funnels through state and local government, fluctuates little from year to year and thus tends to stabilize the size of the construction budget. Military-related spending is more variable, and in recent years has been growing, largely due to the Missile Defense program and most recently the assignment of two F-35 fighter plane squadrons to Eielson Air Force Base outside Fairbanks.

Local and state government spending—particularly state—will continue to contract. But since the state capital budget now consists almost entirely of the match required for the state to get federal transportation funds, it is close to bottoming out. The unexpended funds from prior year capital appropriations are almost entirely gone. By contrast, local government spending remains relatively stable.

The non-petroleum basic sectors of mining, tourism, seafood, and air cargo are expanding, thanks to the strength of the national economy, and that growth will be reflected in modest increases in construction spending in these sectors.

Construction in the rest of the private economy will suffer another year of contraction, because of the continued poor performance of the state economy. Alaska's population declined in 2017, and the current recession is expected to continue into 2018.

As in past years, some firms are reluctant to reveal their investment plans, because they don't want to alert competitors; also, some have not completed their 2018 planning. Large projects often span two or more years, so estimating "cash on the street" in any year is always difficult—because the construction pipeline never flows in a completely predictable fashion. Tracing the path of federal spending coming into Alaska without double counting is also a challenge, and because of the complexity of the state capital budget, it is always difficult to follow all the flows of state money into the economy.

We are confident in the overall pattern of the forecast—but as always, some surprises can be expected as the year progresses.

PRIVATELY FINANCED CONSTRUCTION

PETROLEUM: \$2,555 MILLION

The outlook for petroleum-related construction spending in 2018 is brighter than in the last two years. There will be an upturn toward the end of 2018, during the winter season, due to a number of factors. Those include favorable federal and state policy, recent discoveries, a large inventory of projects, price recovery, and cost-cutting.



KLATT ROAD ROUNDABOUT, FINISHING EDGE CONCRETE, QAP

Perhaps the most significant recent federal policy change affecting Alaska is the decision to open the 1002 region of the Arctic National Wildlife Refuge (ANWR) to exploration. That decision—along with the opening of federal offshore lands (OCS) to leasing—will not immediately lead to spending, but it does demonstrate a renewed federal interest in the petroleum industry in Alaska. Of more immediate effect is the possibility that the area within the National Petroleum Reserve-Alaska (NPR-A) open to exploration will increase. Production has already begun there, and a new report from the U.S. Geological Survey concludes there may be much more recoverable oil in NPR-A than previously thought.

Exploratory work is proceeding at three North Slope sites where potentially huge discoveries in the Nanushuk formation have recently been announced. If these prospects prove economic, they will result in billions of new capital investments in the coming years. The largest, but most challenging because of its remote location, is a discovery by Caelus at Smith Bay. Repsol, in partnership with Armstrong (and Oil Search), is investigating a large discovery at its Pikka unit. And ConocoPhillips will be studying a 2017 discovery called Willow, west of its existing projects in NPR-A.



RIVERVIEW AT THE BLUFFS-DENALI, KLEBS MECHANICAL

When the price of oil collapsed in 2014, a number of North Slope projects under development were postponed as producers waited for improved market conditions. Now that the oil price has increased, and costs in the oil patch have fallen—estimates for the North Slope range up to 40 percent for oil production—producers will be moving forward with some of these projects. (For example, ENI recently received a federal permit to drill offshore in the federal OCS at Nikaitchuk North, and Brooks Range Petroleum is moving forward to develop the Mustang field.)

In addition, in the last few years a number of firms, particularly those active in Cook Inlet, came to depend on receiving cash from the state government's tax credits. But the fiscal situation of the state slowed the payment of those credits, and some of these companies (Furie in the Kitchen Lites unit and Blue Crest Energy in the Cosmopolitan unit) were forced to suspend operations for lack of funds. The state has now proposed a bond sale to pay the \$900 million of outstanding credits this year. If that happens, it will provide a boost, particularly in Cook Inlet.

Finally, production has increased for the last three years (fiscal years) in a row. That may partly

be the result of the new state production tax. But cost-cutting and the introduction of new technologies—particularly at the legacy fields at Prudhoe Bay, Kuparuk, and Alpine—have also been important factors.

Of the three major leaseholders ConocoPhillips will continue to be the most active, both at Kuparuk and its new projects at Greater Mooses Tooth. British Petroleum is not exploring, but rather concentrating on operating efficiency to maintain production at Prudhoe Bay. Exxon will begin to expand its development at Point Thomson.

Hilcorp will be active at Northstar, Milne Point, and Endicott. In addition, it is working on a plan for developing the Liberty prospect.

Other smaller producers and operators on the North Slope include Accumulate Energy Alaska, Great Bear, Glacier-Savant, and the North Slope Borough.

Spending in Cook Inlet will be less this year, as explorers wait for the state's decision on paying tax credits. Expenditures will again be dominated by Hilcorp, which will be concentrating on new production wells, repairs, workovers, & replacing facilities.

Other lease owners and operators in Cook Inlet, like

the Municipality of Anchorage and ConocoPhillips, will continue to spend on investments to optimize production.

Elsewhere in the state, Doyon regional corporation will continue to explore for gas at its site near Nenana, and Ahtna regional corporation will be looking for gas for the local market at a site near Glennallen.

Pipeline-related expenditures will include maintenance

and upgrades by Alyeska, as well as construction of an oil pipeline across Cook Inlet by Hilcorp, to allow retirement of the Drift River Oil Terminal.

MINING: \$239 MILLION

Spending by the mining industry—on exploration and development⁵, as well as maintaining and upgrading existing mines—will be higher than last year, as the industry worldwide continues to rebound from several years of low activity.

Spending by the six major mines currently in operation will be about the same as last year, as producers make new investments to increase efficiency and to develop new

reserves to extend mine life. For example, Teck Cominco, buoyed by the rise in the price of zinc, is exploring a new deposit at the Red Dog mine, one of the world's largest zinc producers.

Spending for drilling and other site work will be higher this year at the several large prospects under various stages of development, including the upper Kobuk mineral prospect and the Bokan rare-metals prospect in Southeast. The three largest prospects are still in various stages of pre-construction work (Donlin Creek, Pebble, and Livengood).

Spending on other prospects will be higher this year, thanks to an improved outlook in the mining industry worldwide.

OTHER BASIC INDUSTRIES: \$110 MILLION

Alaska's other important basic industries—tourism, seafood, air cargo, and timber—are generally healthy and expanding. As a result, their spending on construction will be higher this year.

Spending on new hotels, including several in Anchorage, will be in response to the continued growth in the number of tourists visiting the state, although the boom in construction may be winding down.

⁵ Excluding exploration and development costs associated with environmental studies, community outreach, and engineering.



ST. PAUL BREAKWATER REPAIR AND MAINTENANCE DREDGING, KIEWIT INFRASTRUCTURE WEST CO.

At least two replacement or expansion seafood processing plants have been announced for this year for Southwest Alaska. Several infrastructure improvements will also be made, to deal with problems stemming from the unexpected huge salmon runs in 2017.

Alaska Airlines will continue its \$100-million program, upgrading its terminal facilities throughout the state and completing construction of its new hangar in Anchorage.

UTILITIES: \$539 MILLION⁶

Utility spending will be up slightly this year.

Although there are no new large projects anticipated for the major electric utilities, they continue to spend on maintenance and upgrades of existing facilities. GVEA (Golden Valley Electric Association) is finishing up work on its Healy 2 unit.

Utility spending on renewable-energy projects continues. Upgrades to the Terror Lake project in Kodiak and Bradley Lake are ongoing, but the expansion of the Fire Island wind farm near Anchorage is on hold. Other smaller projects around the state are still funded by the state Renewable Energy Fund, but no new money is being added to that program.

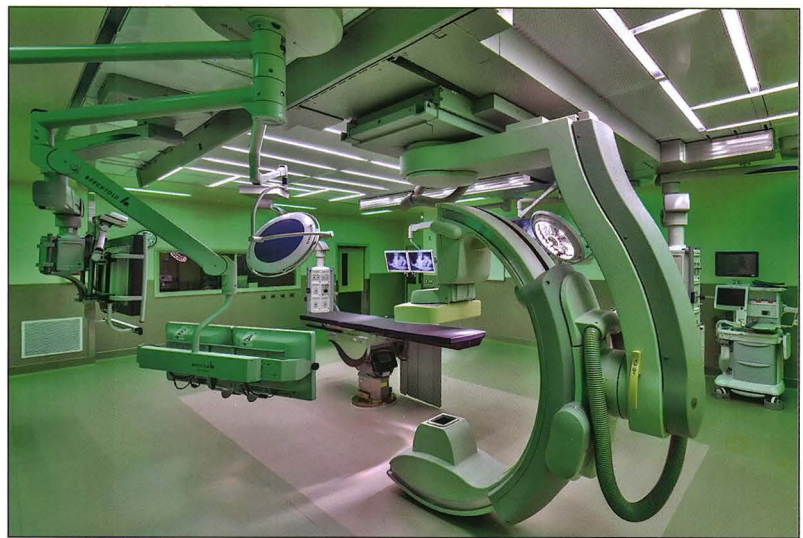
No significant expenditure related to gas utilities is projected, as development of the gas distribution system for Fairbanks awaits a final financing plan from AIDEA.

Telecommunications spending will be a little higher this year, as firms make expenditures to improve the quality of service. This sector's spending in Alaska benefits from funds generated by the Universal Service Funds, which channel revenues collected from services provided in other locations to help pay for needs in Alaska.

HOSPITALS & HEALTH CARE: \$275 MILLION

Hospitals and health-care facilities will continue to spend on expansions and upgrades this year, but at a slower rate as some large projects are completed. No new large projects have been announced for the large public or private hospitals in the state. Some hospitals are expanding facilities for drug-related health problems.

Work is also continuing on the new YKHC (Yukon Kuskokwim Health Corporation) hospital



FAIRBANKS MEMORIAL HOSPITAL SURGERY ROOM, GHEMM COMPANY

and outpatient clinic in Bethel, which have a total price tag of \$287 million.

Health-care facilities continue to proliferate, as the population ages and federal funds for health-care grow.

OTHER COMMERCIAL: \$125 MILLION

Commercial construction spending consists primarily of office buildings, retail space, and warehousing.⁷ The level of spending from year to year can be influenced by a few large projects, like an office tower or warehouse, as well as the current and projected health of the economy.

Market indicators like vacancy rates and turnover are relatively healthy, but the outlook is fragile.

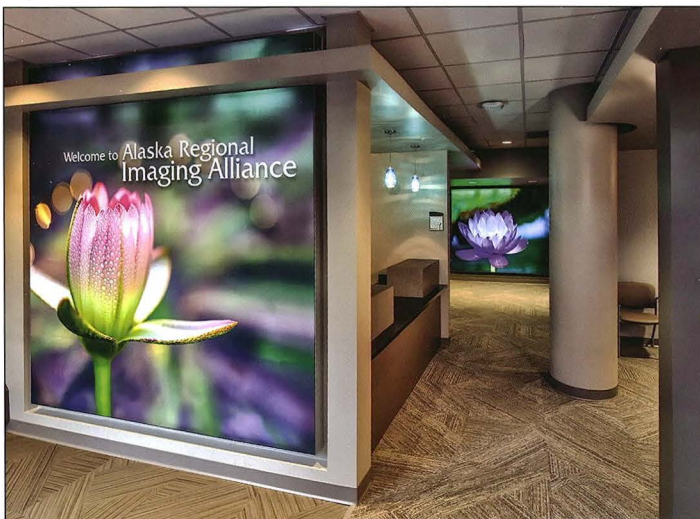
We expect the pace of commercial construction will slow again this year, primarily because of weakness in the economy. That weakness is reflected in the continued decline in employment (forecast at 0.5 percent for 2018), more people leaving Alaska than

moving in, and flat personal income. Also compounding the situation is uncertainty about the state government's ability to successfully deal with the deficit. One large project currently under development is a new \$40 million warehouse for Odom, near the airport in Anchorage.

RESIDENTIAL: \$225 MILLION

In spite of the Alaska recession, the residential market is relatively healthy, as measured by prices and loan activity. Part of that is because less new stock has been added to the market in the last several years. Due to the continued drop in employment and out-migration of population, we expect residential construction this year to again be lower than last year. Projects with public funding will be less sensitive to these economic trends.

The strongest market will continue to be the Mat-Su Borough, since it is the only area continuing to see population growth.



ALASKA REGIONAL HOSPITAL IMAGING SUITE IMPROVEMENT, F & W CONSTRUCTION CO.

⁶ Although we include utilities and hospitals/health care spending in private spending, there is a significant amount of public spending for some projects in these categories.

⁷ Our commercial construction figure is not comparable to the published value of commercial building permits reported by Anchorage and other communities. Municipal reports of the value of construction permits may include government-funded construction, which we capture elsewhere in this report. We have also excluded hospitals, utilities, and hotels, from commercial construction, so we can provide more detail about those types of spending.

An increase in population is anticipated for the Fairbanks area, associated with the deployment of two F-35 squadrons to Eielson Air Force Base, but deployment will not begin until the end of the year. In addition, potential private housing developers are adopting a cautious investment approach, in part due to recent Congressional attempts to close the base.

The changing composition of the population is affecting the demand for housing as well. Growth of both the senior and millennial populations is increasing the demand for smaller housing units.

PUBLICLY FINANCED CONSTRUCTION

NATIONAL DEFENSE: \$630 MILLION

Defense spending will again be higher in 2018, fueled by spending for infrastructure for the F-35 bed-down and the Missile Defense System.

Most of the Corps of Engineers budget for MILCON (military

spending for facilities on bases) will be allocated toward these two activities. The F-35 bed-down involves several large projects totaling about \$500 million, construction of many of which will get underway this year. With ongoing projects, this is likely to be the biggest year for work at Eielson Air Force Base near Fairbanks, where the F-35s will be located.

Missile defense work will be split between two sites at Fort Greely and Clear. Fort Greely is where the Mission Control Facility is under construction. Clear is where the Long-Range Discriminant Radar (LRDR) facility will be located. Congress recently approved the addition of another field of missile silos at Fort Greely, but that will not be under construction for several years.

MILCON spending also includes sustainment, restoration, and modernization (SRM) work at all the military bases.

Spending on the civilian and other interagency programs of the Corps of Engineers will be similar to that of past years. This spending typically funds Corps of Engineer projects for other federal agencies like NOAA, FAA, and the BLM, and projects



DALTON HIGHWAY/RECONSTRUCTION MP 401-414, BRICE INC.

done in cooperation with Alaska communities, such as harbor improvements.

The environmental program budget of the Corps of Engineers, including FUDS (Formerly Used Defense Sites), varies from year to year, but is expected to be somewhat higher this year. This program includes cleanup of hazardous substances and contaminants at former defense sites, as well as on current Army and Air Force installations.

TRANSPORTATION—HIGHWAYS AND ROADS: \$667 MILLION

A majority of funding for highways (including the Marine Highway System) comes as grants from the federal government under a program known as the Fixing America's Surface Transportation Act (FAST Act), which became law at the end of 2015. This law requires a state match for receipt of the federal funds. Some federal funds also go directly to Alaska Native tribal organization for transportation projects.

In addition, the state augments federal funds for highway and road construction with an annual capital appropriation to the

Department of Transportation and Public Facilities.

Also, in some years the state Department of Commerce, Community, and Economic Development (DCCED) distributes grants to local governments for road construction, but little has been appropriated for grants through DCCED since 2013.

Finally, the state also periodically sells general obligation bonds to support road construction as well as other infrastructure projects. The most recent bond package was approved in 2012.

It can take considerable time for transportation appropriations to become cash on the street, so state funds from past capital budgets and bond sales are still contributing to current spending. Consequently, the level of spending this year will be a little higher than last. Also contributing to the increase is the re-obligation and repurposing of some previously unexpended funds.

These funds will pay for major projects throughout the state on the Sterling, Seward, Parks, and Glenn highways, as well as many other projects.

Local governments also spend on road construction and maintenance. Anchorage has a small bond issue for road construction each year and other communities also bond for road improvements on a regular basis.



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TRANSPORTATION— AIRPORTS, PORTS, AND HARBORS, RAILROAD: \$387 MILLION

Federal funds, mainly from the Federal Aviation Administration's AIP (Airport Improvement Program), provide the bulk of funding for airport improvements both at the large international airports in Anchorage and Fairbanks and the many smaller state-owned airports across the state. This continues to be a stable source of funding that is augmented by revenue bonds and other local sources. A runway improvement project is scheduled for Anchorage and other smaller projects are scattered throughout the state.

Spending related to ports and harbors will also be about the same as last year. Work on the redevelopment of the Port of Anchorage will be slow, and there will be no money to continue development of the Point McKenzie rail extension.

Spending from a combination of federal funding, state general funds, the transportation bond package, tourist-related fees, and local sources will underwrite projects throughout the state, including significant activity at Dutch Harbor, Skagway, Valdez, Juneau, and Wrangell.



UNALAKLEET REVETMENT PHASE III, ORION MARINE GROUP

The Alaska Railroad's capital budget will be significantly higher this year, funded through a combination of federal grants, cash flow, and revenue bonds. The railroad is moving forward with the PTC (Positive Train Control) system, mandated by the federal government.

EDUCATION: \$235 MILLION

Spending for education comes mostly from state government, and it will again be lower this year.

Direct state funding of urban and rural schools will be about the same as last year, but consist of renovations and upgrades without any new schools under construction. A number of rural schools are still awaiting construction, but they are unlikely to move forward this year.

The legislature's moratorium continues on the decades-old practice of reimbursing municipalities for a share of the debt they incur to build new and repair existing schools. That has more than doubled the price of new schools for urban school districts. This extra cost, combined with the absence of population growth, has meant no urban districts are building new schools.

Funding for schools also comes from the proceeds of local bonds in urban areas like Anchorage, Mat-Su, and the North Slope Borough. This source of funds is relatively stable and pays mostly for renovations and upgrades to existing facilities.

There will be little University of Alaska construction spending on buildings on either main campus this year. The only large project will be completion of the new power plant in Fairbanks; the new engineering building there is now complete.

OTHER FEDERAL: \$270 MILLION

Although the largest categories of federal construction spending in Alaska are transportation grants (highways and airports) and national defense, there are several other sources of federal spending that contribute to construction activity. The largest of these is a series of

grants that support housing and safe water programs in the state—and because these grants have been stable over the years, other federal spending has tended to be constant from year to year, as will be the case in 2018.

Most of the funding for the state-administered Village Safe Water program for rural sanitation comes from federal sources, including the Environmental Protection Agency and the Indian Health Service. With the state contribution, it is expected to be constant this year. Other types of federal grants to the state fund armories and veterans' facilities, among other things.

The federal government also provides construction grants to Alaska tribes, non-profit organizations, and local governments across the state.⁸ Alaska Native non-profit corporations, housing authorities, and health-care providers receive most of this money. The largest of these programs in Alaska is NAHASDA (the Native American Housing Assistance and Self-Determination Act), which provides assistance for housing construction in Alaska Native communities, through grants to federally recognized tribes and Alaska Native housing authorities statewide.



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⁸ Federal spending on health care projects for the Alaska Native community funneled to Alaska Native organizations is included in the Hospital/Health Care section of this report.

Direct procurement by federal agencies like the Department of the Interior (National Park Service, U.S. Fish and Wildlife Service, and Bureau of Land Management), the Postal Service, the Department of Agriculture, and NOAA (the National Oceanic and Atmospheric Administration) also provides funding for construction each year.

The Denali Commission—a federal-state partnership Congress created in 1998 to more efficiently direct federal capital spending to rural infrastructure needs—continues to have a small annual budget.

OTHER STATE & LOCAL: \$310 MILLION

State and local government capital spending—excluding transportation (roads, airports, ports, and railroad), education, health, and energy—will again be lower this year. Many projects have been funded in recent years through grants from the Department of Commerce, Community, and Economic Development to local governments and non-profits throughout the state. These funds have mostly been expended.

The state capital budget now consists mainly of the match necessary for federal transportation funding for roads and airports. It also has a small amount for facilities

maintenance, but the backlog of deferred maintenance, roughly estimated at \$1.8 billion (primarily buildings and including the University of Alaska), continues to grow.

The governor has proposed to augment the regular capital budget for the next three years with a special appropriation funded by a temporary payroll tax (the Alaska Economic Recovery Act). It is estimated this tax would provide \$800 million over a three-year period that would leverage a total of \$1.4 billion in capital spending, to be used primarily for deferred maintenance. Because funding this program would require a new, although temporary tax, its implementation cannot be assured. And if it were implemented, the construction spending it produced would only begin to hit the street toward the end of this year.

Local government capital spending, from general funds and bonds as well as enterprise funds, direct federal grants, and foundations tends to be stable from year to year. A large share of this spending is for water and sewer facilities, which this year will include a

new water treatment facility at North Pole, but it also includes other construction, such as buildings, libraries, museums, recreational facilities, and solid waste facilities.

CONSTRUCTION IN THE OVERALL ECONOMY

Construction spending is one of the important contributors to overall economic activity in Alaska. Annual wage and salary employment in the construction industry in 2017 was about 15 thousand workers, with average annual pay of

\$75 thousand, exceeded only by petroleum and mining. But that figure doesn't include the "hidden" construction workers employed in other industries like oil and gas, mining, utilities, and government (force account workers). In addition, it does not account for the large number of self-employed construction workers—estimated to be about 9 thousand in 2011.

Construction spending generates activity in many industries that supply inputs to the construction process. These "backward linkages" include, for example, sand and gravel purchases (mining), equipment purchase and leasing (wholesale trade), design and administration (business services), and construction finance and management (finance).

The payrolls and profits from this construction activity support businesses in every community in the state. As this income is spent and circulates through local economies, it generates jobs in businesses as diverse as restaurants, dentist's offices, and furniture stores.



SPENARD ROAD RECONSTRUCTION PHASE II, QAP



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