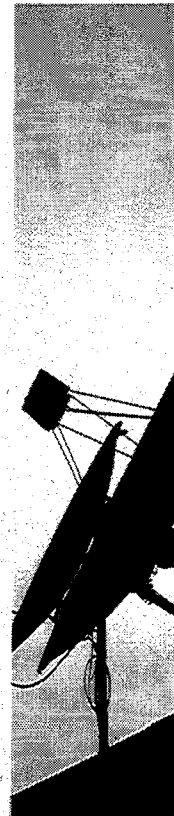
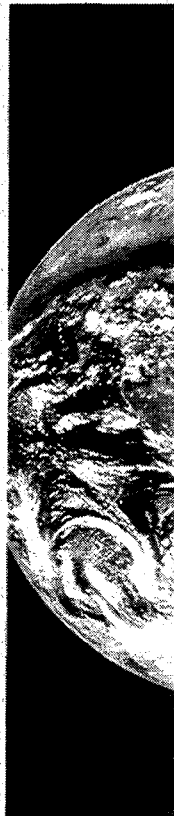


STUDY GROUP REPORT

ECONOMIC STABILITY IN THE 21ST CENTURY:
REALITIES AND ASPIRATIONS

COMMONWEALTH NORTH
JUNE 1997



Economic Stability in the Twenty-First Century:
Realities and Aspirations

**Commonwealth North
Economic Development Working Group**

Submitted by Chairpersons:
Joe Griffith, Executive Manager, Finance & Planning, Chugach Electric Association
and
Patricia M. DeMarco, President, Anchorage Economic Development Corporation

June 30, 1997

Acknowledgments

The following individuals participated directly in the Commonwealth North Economic Development Working Group.

Richard Barnes, Enstar
Tom Brennan, Brennan Communications
Karen Cameron, Alaska Management Consultants
Bob Cox, Petro Marine Services
Brian Davies
Mark Dawson, Swalling Construction
Patricia DeMarco, Anchorage Economic Development Corporation
Don Dietz, Port of Anchorage
Jim Gorski, Hughes, Thorsness, Powell, Huddleston & Bauman
Joe Griffith, Chugach Electric Association
Duane Heyman, Wedbush Morgan Securities
David Hudspeth, First National Bank
Barbara Huff-Tuckness, Teamsters Local 959
Tom Jensen, Port of Anchorage
John Kelsey, Valdez Dock Co.
James Kenworthy, Alaska Science and Technology Foundation
Gayle Knepper, Alaskan Federal Credit Union
Tina Lindgren, Alaska Visitor Association
Sue Linford, Linford of Alaska, Inc.
Darryl Logan, Human Affairs
Vicki Malone, Alaska Visitors Association
Sayoko Mimoto, Anchorage School District
Rich Monroe, Bank of America
Rebecca Parker, Commonwealth North
Malcolm Roberts, Office of the Mayor
Bonny Sosa, Anchorage Convention and Visitors Bureau
Dixie Stanfield, Calista Corporation
Nancy Usera, Alaska USA Federal Credit Union
Tom Wilson, Hughes, Thorsness, Powell, Huddleston & Bauman
Phoebe Wood, ARCO Alaska

Kirsty Gladkoff, Hartig Fellow for Commonwealth North

**A special thanks to ARCO Alaska
for providing the meeting space and breakfast for the working group.**

(Acknowledgments Continued)

Significant input and impetus came from the direct contributions of the Anchorage Chamber of Commerce Municipal Committee:

Joe Griffith, Chugach Electric Association, Chairman
Eric Britten, SEALAND
Patricia DeMarco, AEDC
Ernie Hall, Alaska Furniture Manufacturers
Heather Flynn, University of Alaska, Anchorage
Dennis McMillan, United Way of Anchorage
Bob Bailey, Alaska Distributors, Inc.
Duane Heyman, Wedbush Morgan Securities
Carol Heyman, Anchorage Chamber of Commerce
Rick Miller, ATU Telecommunications
Dr. Joyce Murphy, Alaska Animal Eye Clinic
Lisa Ladds Doche, Everen Securities
Fay von Gemmingen, Certified Public Accountant
John Ayers, e.Com, Ltd.
Larry Wiget, Anchorage School District
Tom Wilson, Hughes, Thorsness, Powell, Huddleston & Bauman
Steve Smirnoff, Municipality of Anchorage
Peg Tileston, Alaska Center for the Environment

The Anchorage Economic Development Corporation (AEDC) Executive Committee participated in preparation and review of this report.

Max Lowe, Regal Alaska Hotel
Mike Brady, Brady Construction
Mike Stone, KPMG Peat Marwick
Ernie Hall, Alaska Furniture Manufacturers
Mel Nichols, Dowl Engineering
Phil Thingstad, Carpenters Union
Tennys Owens, Artique, Ltd.
John Shipe, National Bank of Alaska

AEDC Staff provided the resources for drafting and compilation of this report.

Patricia M. DeMarco, President
Greg Wolf, Vice President
Rudy Tsukada, Director of Research
Tim Borgstrom, Special Projects Director
Michelle Kuiper, Director of Marketing
Lynelle Kukowski, Administrative Assistant
Dee Thomas, Office Manager

This report reflects the input of numerous people and organizations, as noted above. Sources have been referenced, and original resources are included in appendices if not readily available in published form. All questions and comments can be forwarded to AEDC for consideration.

Patricia M. DeMarco

Economic Stability in the Twenty First Century: *Realities and Aspirations*

Summary

This analysis examines Anchorage's role in the context of the Alaska economy as a whole. Its recommendations focus primarily on Anchorage.

Principal Assumptions:

1. **Develop opportunities under the *direct control of the community.***
2. **Develop *high value job opportunities* for current and future generations.**
3. **Use Alaska's *endowment of natural resources* to provide for Alaskans.**
4. **Direct Alaska's wealth toward *Alaska investments* for the future.**

Principal Findings:

Economic engines of Anchorage with global competitive edge potential are:

1. Increase Transactions in the following arenas:
Anchorage International Airport as a center of global distribution and logistics, packaging and assembly operations, value added processes in Foreign trade zones.

Tourism: Alaskan based tour operations as a YEAR ROUND growth industry.

Business Services: Promote outsourcing TO Alaskan businesses with nationally and internationally recognized expertise; promote service to Alaskans from Anchorage.
2. Generate Cargo:
Perform value added operations to Alaskan resources IN ALASKA: timber, seafood, minerals, petroleum.

Use Alaskan resources as feed stocks and equity leverage for production.

Coordinate Port of Anchorage/Alaska Railroad for cargo transfers and support.

Principles of Public Investment (Land or Capital):

Build Capability - Instead of Financing Projects

1. Public Benefit
2. Return on Investment
3. Share Risk & Reward
4. Leverage Public Funds

Principal Recommendations:

State of Alaska:

1. Alaska Resource Development Corporation: Form a quasi-public corporation whose mission is to develop public assets of land and capital in partnership with communities and private interests. Focus on investments in infrastructure and value added production operations.
2. Airport Authority: Provide for the long term stability of management for the Anchorage International Airport to the maximum benefit of globally competitive operations.
3. Expand Alaska International Trade Offices: Principal trading partners in Japan, Korea, Taiwan and Russia should have fully supported State of Alaska outreach offices to promote trade actively.

Municipality of Anchorage:

1. Recapture Ship Creek Waterfront through municipal investment in infrastructure to upgrade the Port and provide better intersection of operations between the Port and the Railroad as conduits for movement of material and personnel .
2. Establish Building Enterprise Zones on specific parcels of land to promote value added operations supported by promotional incentives.
3. Streamline and expedite the building permit approval process.
4. Develop capability to strengthen the fishing industry operation from Anchorage as recommended by the Anchorage Seafood Task Force Report.

Economic Stability in the Twenty First Century: *Realities and Aspirations*

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I. Introduction

The results of the Commonwealth North Economic Development Working Group presented in this report incorporate the efforts of many organizations and individuals in Anchorage. We came together to chart a course toward a vibrant and economically stable future for our city and state. While the specific focus of this effort is on Anchorage, we examined the issues against the backdrop of the economy of Alaska as a whole. The forces of change driving this analysis include:

- * The decline in production volumes from Alaska's oil fields;
- * National trends toward increased corporate efficiency with attendant "downsizing";
- * An increasingly global economy spurred by communications technology and transportation systems;
- * Greater remoteness of corporate managers from many workers;
- * Increasing demand for a high quality of life; and,
- * Declining financial support from government for social and development services.

Alaska has the resources and capability to play a significant role in the global economy in the coming century. Capturing full achievement of our potential requires a plan of action that addresses the critical elements necessary for economic development. In the context of the economy of Alaska, this plan proposes economic development priorities for Anchorage. **The goals of economic development in this planning effort are:**

- **to provide multi-generational high-quality job opportunities,**
- **to develop stakeholders in the future of Alaska with appropriate distribution of wealth,**
- **to provide diversity in the economy by developing initiatives that can be sustained over a long period of time.**

Alaska has significant stores of resources, particularly land and capital (real & financial assets) to turn to the task of achieving global pre-eminence in several arenas. Our most serious challenge is investing appropriately and sufficiently in infrastructure, education and institutions to secure our future. Without attention to long-term sustainability of our economy, Alaska could become one more tragic example of a resource rich economy that has burned out. Our principal enemies are individual greed and failure of the collective will to invest in the future. Our greatest strengths are Alaskan creativity and commitment to succeed in the face of adversity. The proposals presented here will take three to five years to implement fully. Now is the time to begin!

II. Concept: Alaska's Role in the Global Marketplace

The goals of economic development driving this effort were further defined by several principles to be used in establishing priorities and in selecting among numerous options considered during this study. A vision for Anchorage as it would be if the stated goals were achieved is also presented in this section.

A. Principles for Economic Development

Economic development, as distinguished from passive evolution of growth, involves a deliberate, proactive set of actions by a community to attract specific economic expansion businesses. Such expansion can come from developing new markets and opportunities for existing businesses, attracting new businesses to relocate to Alaska from outside the area, or developing new businesses from within the community. As part of this study process, the Working Group adopted the following principles to guide the selection of priorities for economic development:

1. Develop opportunities under the *direct control of the community.*

The economy of Alaska over the last three decades has been characterized by a series of growth spurts followed by steep declines closely related to oil development initiatives and oil-driven events. Most decisions related to such growth spikes have rested outside the Alaska community. Forces outside Alaskan control, such as world oil markets and prices, have more influence over the timing and direction of development than local initiatives. As part of a planning process, we need to focus on activities under the direct influence of Alaska with direct benefits to Alaska.

2. Develop *high value job opportunities for current and future generations.*

Many participants in the planning process have concerns about the job opportunities available for the children trained and schooled in Alaska who travel Outside for advanced education. A plan for economic development must focus on creating and retaining high value jobs. These are higher wage, technical content positions, jobs which create added value to resources extracted from Alaska. We must plan for jobs our children can and will come home to.

3. Use Alaska's *endowment of natural resources to provide for Alaskans.*

The Alaskan economy is principally based on the extraction and export of natural resources. Most resources leave the state in relatively untouched condition: fish, timber, petroleum, minerals. The companies and countries that purchase minimally-processed resources benefit from the addition of value and sale of more advanced products. More value-added processing of Alaska's resources must occur in Alaska.

4. Direct Alaska's wealth, including Permanent Fund investments, toward Alaskan investments for the future.

The Permanent Fund generates a stream of returns that results in dividends to state residents. However, the Permanent Fund investments are not necessarily directed toward Alaskan ventures, businesses or projects. The institutions, states and foreign countries that receive Alaska Permanent Fund investments in their companies and corporations

enjoy a ripple effect in the economy that multiplies the return on the Alaskan investment. The dividends flow to Alaskans, but the multiplier flows to other communities. In some cases, the multipliers are larger than the dividends Alaska receives directly. A vehicle must be crafted to ensure that the Permanent Fund benefits Alaskans to the greatest degree possible.

The Plan for Economic Development presented in this report is a point of departure and not a conclusion. The direction indicated does not rest on demographic analyses and econometric projections with mountains of documentary data. Rather, the proposals for development derive from the considered judgement of people with a vested interest in the long-term success and viability of this community. There are specific arenas where Anchorage and Alaska can be among the **BEST IN THE WORLD**. It is our objective to reach the heart of those arenas and be counted.

B. A Perspective for the Year 2005

Anchorage provides a good starting point for economic development for the State of Alaska. With nearly half of the State's population located within its boundaries, Anchorage enjoys a critical mass for business services and economic relationships. Anchorage is also connected by railroad, highway and navigable waterways to other parts of Alaska. Anchorage has an international airport with access to global markets. All of the major ingredients for economic success are available. A bright future awaits the state and this municipality.

The Economy in 2005 - A Vision

Anchorage thrives at the intersection of American, European and Asian cultures; nine hours from major centers of commerce and trade around the globe. The city hums with value-added processing of Alaska's abundant timber, mineral and seafood resources. Fuel and feed stocks for these operations come from locally available natural gas and petroleum. Packaging and assembly operations take materials and components from Pacific Rim suppliers into global distribution of finished customized products throughout the northern hemisphere. As a center of business and trade, Anchorage supplies oil and gas technology, financial, insurance and investment services to all of Alaska and growing economies in Eastern Europe and Asia. Visitors to all of Alaska converge on Anchorage from all over the world year round.

III. Critical Competencies: Realities of the Economy

Note: Unless otherwise stated, all labor data is courtesy of the Alaska Dept. Of Labor.

Moving to a higher plane of excellence requires a sound understanding of the components of the existing base. Anchorage is connected to both the overall economy of Alaska and the economy of the globe. From Anchorage, businesses have a point of intersection with Alaska bush communities and cities as well as with the business and cultural centers of Europe, Asia and North America.

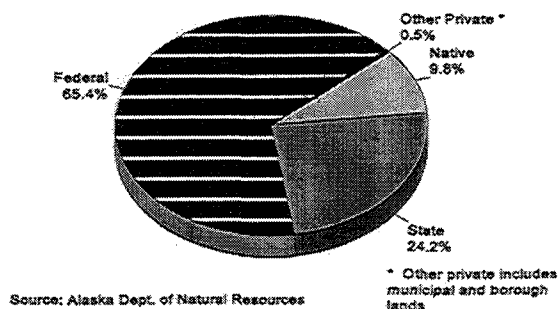
A. Overview of the Alaska Economy

Alaska, remote to the United States as a whole and still a new state, occupies the largest land mass of any of the states. However, in spite of its 586,412 square miles, less than 11% lies in private or native corporation hands. The bulk of Alaska comes under the control of the federal or state government.

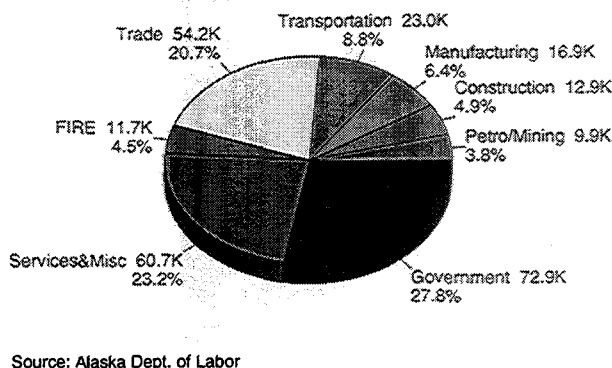
Thus, as an effective economic unit, Alaska maintains a population of 615,900 with a widely-dispersed land base. The total economy of the state has a value of \$24 billion, including the endowment of the Permanent Fund¹. The state is distinguished from all the others by its negative net tax system, and the lack of a direct link between everyday economic transactions and the coffers of the state government.

Alaska has approximately 40,000 businesses employing roughly 260,000 people², not including military personnel stationed in Alaska.

Land Ownership
Breakdown -1995



Employment Composition
Alaska - 1995



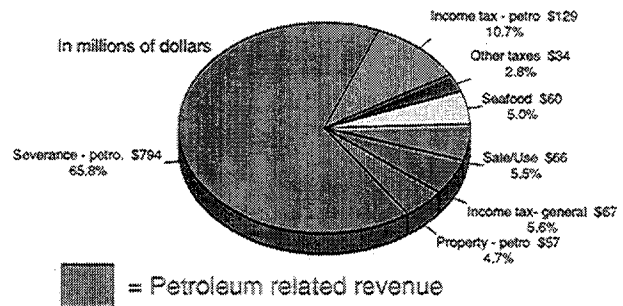
Note: F.I.R.E. = Finance, Insurance, Real Estate

In the Alaska economy, the three largest employers are government, not including military personnel (27.8%); services (23.2%); and trade (20.7%). Manufacturing accounts for 6.4% of total civilian employment and includes seafood and timber operations as well as printing and publishing. The mining sector comprises 3.8% of the total and includes oil, coal and mineral extraction activities. Approximately one in seven jobs in Alaska is in natural resource extraction, processing and manufacturing compared to about one job in four in similar industries in the lower-48 states³.

The revenue stream to the state is based principally on natural resource extraction. The largest sector for production of revenue is the petroleum industry. The flow of dollars from wages is not evenly distributed among the various resource-based sectors. In addition to flow of dollars to the state government for common services to the citizens and management of common resources, dollars flow within the economy and flow into the economy from outside the state. The base industries of Alaska generate real wealth that drives wages expended to obtain goods and services.

General Fund Revenues

Source of Funds - 1995
Total Revenue = \$1.2065 Billion

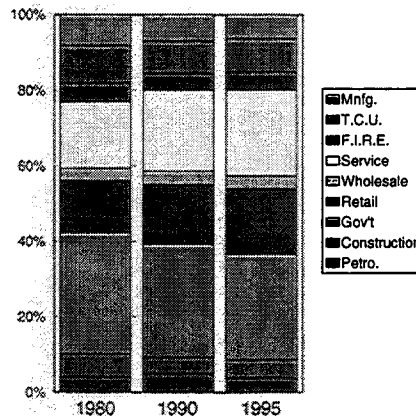


Source: Alaska Dept. of Revenue

Over the last twenty-five years from 1965 to 1990, the overall population has more than doubled from 272,000 in 1965 to 553,000 in 1990. During this period, the pattern of base industry contribution to the economy has shifted dramatically.

Employment Composition

Alaska



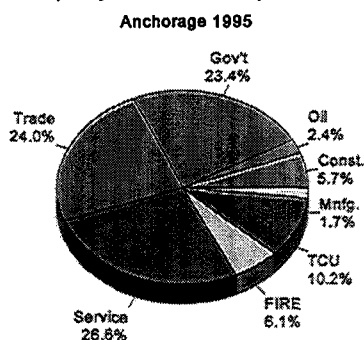
Notes: T.C.U. = Transportation, Communication and Utility; F.I.R.E. = Finance, Insurance and Real Estate
Source: Alaska Dept. Of Labor

It is evident that Alaska's base of industry employment has grown less dependent on the federal government for jobs. However, the private sector remains small and relatively homogeneous. The state remains highly dependent on oil for revenues, but the dependency is shifting from wealth derived directly from petroleum extraction to wealth derived from investing oil revenue previously earned. Seafood remains at about the same relative level of importance in the overall economy as twenty years ago.

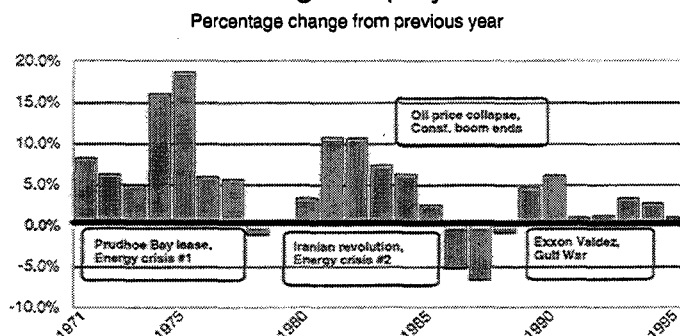
B. Overview of the Anchorage Economy

Anchorage is home to approximately 260,000 residents - half of the population of Alaska. The fortunes of the Anchorage economy have mirrored the surges in the oil industry development cycle, but have begun to stabilize with small but steady increments of growth over the last seven years.

Employment Composition



Anchorage Employment



The petroleum sector plays a major role in the relative health of Anchorage's economy. The oil industry funds over 78 percent of the state government's general fund and the wages are the highest of any sector. However, in terms of employment, the petroleum sector in Anchorage accounts for less than 3 percent of total employment. The service sector, government sector, and the trade sector (retail and wholesale) account for 3 out of every 4 jobs in Anchorage.

Although the rate of growth has been modest, the slower rate of growth has held unemployment and inflation levels in check. The current level of growth, unlike the booms during the 70's and early 80's, is sustainable.

The petroleum sector will remain vital to the health of the Anchorage economy in the foreseeable future. However, as the economy diversifies into other fields, fluctuating oil prices will have less of an impact on the overall economy.

During 1995/1996 the **service sector** added the greatest number of jobs. Increase in medical services, engineering/construction, and temporary services were the major areas of growth within the service sector.

In 1994, Anchorage experienced a significant increase in **retail activity**. While many feared the "big box" stores such as Wal-Mart would hurt the retail sector, the retail sector continues to add jobs. Even with the recent retail buildup, niche opportunities still exist in Anchorage.

The **construction sector** has remained healthy over the past several years. Both the residential and non-residential construction sectors have been strong. Although the construction sector will likely stabilize, maintaining current levels would be considered a positive economic indicator.

Sectors losing jobs recently include the **federal government, "transportation, communication, and utility" sector (TCU)**, and the **finance sector**. Recent cutbacks in the federal budget have caused the federal government sector to lose over 400 jobs in the past year. This trend is likely to continue.

While the **transportation, communication, and utility sector (TCU)** in general is relatively healthy, the demise of MarkAir and the layoffs at Alyeska Pipeline Service Company during 1995 are still reflected in the data. Pipeline employment will continue to decrease, but airlines are quickly filling the void left by the demise of MarkAir. Although the sector lost jobs in 1996, the future appears bright for the transportation sector over the next several years.

The **finance, insurance, and real estate sector (FIRE)** employment is currently in a state of decline. Higher interest rates as well as advances in technology are all contributing to the decrease in employment. Technology also offers new opportunities in these fields.

Petroleum sector employment in Anchorage decreased primarily due to the declining levels of production stemming from maturing oil fields and lack of exploration. As long as there are no dramatic changes in oil price or production, the petroleum sector should remain fairly stable.

A snapshot of the Anchorage economy's relative strength and weaknesses is included in **Appendix A, "Anchorage Indicator Review."**

C. Opportunities

Based on the overall economic situation and the trends in national and global economies that intersect Alaska, specific strategies have emerged from this study. The criteria established in the foregoing were applied to a wide array of options and possibilities reviewed by the working group. Part of the analysis included an evaluation of strengths, weaknesses, opportunities and threats (SWOT). These results are included in **Appendix B, "SWOT Analysis."** Each of these strategies draws on the intrinsic strengths of Anchorage and expands the role of Anchorage as a major participant in the global economy.

1. Add Value to Natural Resources

Using technology to advance the value of natural resources developed in Alaska offers wide areas of potential for economic expansion. The Alaska Science and Technology Foundation (ASTF) has undertaken initiatives addressing technology solutions for seafood processing improvements, timber operations and environmental control systems.

Such technology applications expand high quality job opportunities in Alaska, and add value to Alaska's resource-based products. By using technology to increase the value of natural-resource-based products, more of the value of the resource stays in Alaska. Thus, instead of exporting rough logs or wood chips, Alaska can first produce timber products and retain the higher value processing jobs in the Alaska economy. In the seafood processing industry, reaching markets with secondary-processed products rather than simple headed and gutted fish opens higher value jobs and higher value markets to Alaskan companies. The ASTF provides a vehicle to finance small and emerging technology-based firms. The financial capability, networking functions and technical assistance provided by ASTF are crucial to growth for this sector of the economy in Alaska. Products and services of technology businesses can make more traditional industries more globally competitive. **Appendix C** provides information about the Alaska Science and Technology Foundation technology programs and funded initiatives.

A recent study by the Puget Sound Chamber of Commerce indicated that 90,000 jobs per year are derived from Alaska resource processing, supplies and professional services. In each of the natural-resource-based industries, Alaska derives a minimum of the total economic value of the products exported. The higher value processing and support functions occur outside Alaska. There may have been traditional and historical dependencies which centered the processing and production end of Alaska commerce in Washington, but as Alaska's population and economy grows, there are fewer good reasons to perpetuate such practices. In particular, professional services and functions in support of natural resource industries in Alaska can and should be promoted from Anchorage. The natural resource opportunities in Anchorage derive from support to the petroleum industry, natural gas development, seafood industry support and timber.

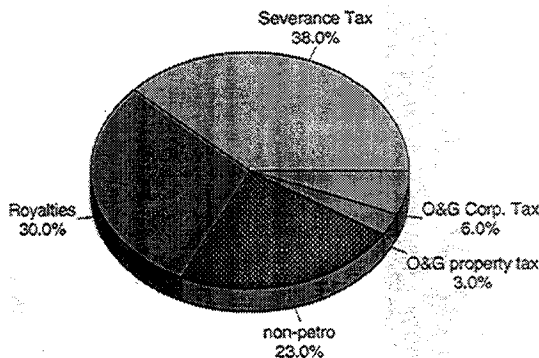
a. Petroleum/Mining

Opportunities in the petroleum industry have slowed compared to the peak production years of Prudhoe Bay. Although many Anchorage residents work directly on oil-producing fields, the city is better known as the headquarters city for the major oil businesses in Alaska. This distinction of being the administrative hub for the oil

industry in the past several years has, in some cases, hurt the Anchorage economy. Anchorage has borne a large share of the recent oil patch layoffs that occurred throughout the state as a result of declining production.

FY 1995 General Fund

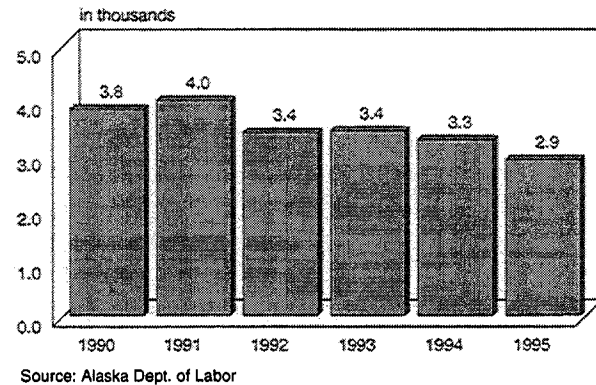
Unrestricted Revenues



Source: Revenue Source Book, Spring 1995, AK Dept. of Revenue

For FY 1995, 78 percent of the state government's unrestricted revenues in the general fund were derived from petroleum revenues⁴. The state government collects revenue from petroleum by means of a royalty, severance (production) tax, oil & gas corporate tax, and property taxes. Projections for FY 1996 through 1998 show the state's dependence on the petroleum industry will actually increase, ranging from 79 to 81, percent depending on the projected oil prices used in the estimates.

Petroleum Jobs Yearly Average-Anchorage



A lack of a personal income tax, and the increased burdens on infrastructure such as schools and roads, lead to a perception that new economic development projects in Alaska create more costs to the state and local government. However, an analysis conducted by local economists Pat Burden and Scott Hawkins suggest that this is untrue of the oil and gas industry. Burden and Hawkins concluded that even if all of the new positions were filled by out-of-state residents that moved to Alaska, there would still be a substantial overall net gain for Alaska. This is true even if the state were to offer substantial economic incentives to encourage development and exploration in Alaska.

The petroleum industry in Alaska is without a doubt the single most important industry, yet the resource is non-renewable. With production declining at a rate of approximately 5 percent per year and the state so heavily dependent on the industry's revenue, the future appears gloomy. The good news is that although production is declining, there is still time to adjust for the declining production from the current fields. Following is a list of advantages, disadvantages and opportunities in this sector.

Petroleum Industry Strengths:

- 1) Alaska has the most promising new location for exploration in the U.S.
- 2) Alaska is the world leader in cold-weather oil-extraction technology.
- 3) Transportation infrastructure for delivery of oil is in place from the remote northern region.
- 4) Vast reserves of natural gas exist in Alaska.
- 5) The export ban on Alaska crude has been lifted, thereby opening new market opportunities.

- 6) The state has an historical willingness to assist in economic development projects.
- 7) Alaska has proximity to Russia and China, that hold potentially vast reserves.

Petroleum Industry Weaknesses:

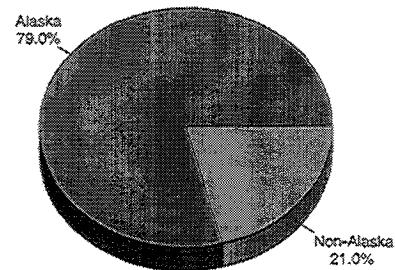
- 1) Alaska ranks in the bottom half of all worldwide oil and gas producing areas for capital investment attraction due to the political uncertainties regarding taxes on the industry.
- 2) Alaska's remoteness and harsh conditions add to the cost of exploration.
- 3) Stringent environmental concerns in the U.S.(in comparison with developing countries) add additional costs.
- 4) Developing countries are offering substantial incentives to oil companies making it more difficult to attract capital to Alaska.

Opportunities:

EXPLORATION:

In a World Bank study, Alaska's competitiveness for oil and gas investment ranked 148th out of 226 areas and 165th out of 226 areas for onshore and offshore projects respectively. For high risk and incremental field development projects, Alaska ranked 79th and 87th out of 123 areas for "high risk" exploration and incremental field development respectively.

Alaska's Share of Exploration Dollars



Source: Northern Economics

The state has shown a willingness to offer incentives to encourage further exploration and development by the oil companies. An example of the state's effort is the recent legislation passed to help BP develop the Northstar project. Further efforts could potentially spark activity in several other small to mid-size fields that are currently considered uneconomical to produce. A stable tax environment in the state is necessary to facilitate further exploration.

Alaska still has tremendous opportunities for discovering large reserves of crude oil. Although announcements such as the "Sunfish" prospect in Cook Inlet by ARCO were disappointments, much of Alaska remains unexplored. The ANWR (sometimes called the Arctic Oil Reserve (AOR)) may hold one of the largest deposits of oil in Alaska after Prudhoe Bay. It should be noted that the area is not yet categorized as a proven reserve. The National Petroleum Reserve, Alaska (NPRA) remains relatively

unexplored.

At the current time, the best estimates are that the ANWR area holds a much higher probability of oil discovery than other areas currently being explored in Alaska. There are no guarantees that ANWR holds economical quantities of oil. However, given Alaska's relatively small economic size, even a perceived increase in the possibility of opening up ANWR for exploration could buoy optimism and, subsequently, boost the Anchorage economy.

Increased exploration activity in Alaska has a significant impact on the Alaska economy. A study completed for the Alaska Oil & Gas Policy Council by Northern Economics found that for an exploration drilling program, 79 percent of those expenditures are made in-state. For Alaska to continue attracting further capital investment, the state must become more competitive in the world arena. This is a needed policy shift in state government.

Note on ANWR: First, the opening of the Alaska National Wildlife Refuge coastal plain (a mere 8% of the ANWR land mass) to exploration and development would generate 250,000 to 735,000 jobs nationwide. Only a 1.5 million acre tract of a 19 million acre area would be affected by the project. While over 75% of Alaskans, including local Inupiat Eskimos, favor development at ANWR, national opposition has prevented congressional authorization for opening the Coastal Plain to exploration and development. Political forces and the always present uncertainty of global petroleum flows are more likely determinants of development than any force of will by Alaskans. ANWR remains an untested and untapped giant. Broader education efforts and expanded public information about Alaska, its vast resources, and the positive experience of development in Prudhoe Bay may help alleviate general public opposition. **Appendix D** contains more details regarding ANWR development potential.

KNOWLEDGE EXPORT and OTHER INDUSTRY SUPPORT SERVICES:

The second opportunity for the petroleum industry is under the direct control of Alaskans. The human resource of expertise and experience in the industry should be honed and promoted for other markets. Over 300 companies in Alaska have provided specialized expertise to develop and produce petroleum in Prudhoe Bay. Their unique capabilities include remote staging for complex projects, arctic construction practices, and experience in operating under hazardous and extreme weather conditions. Such expertise is transferrable to other areas.

Both domestic and foreign development can benefit from using Alaska oil industry support businesses in complex projects. Three target markets are available: Alaska projects in oil and gas exploration, Alaska mining exploration and development operations, off-shore oil exploration and development, especially in Sakhalin, Russia and other cold-climate areas, and infrastructure development projects within the northern hemisphere. Entering such market niches will require organization of

Alaska companies to market and promote their expertise to new customers. The potential for such opportunities exceeds \$30 billion.

Alaska would also benefit greatly if more of the support services for the oil industry were located in Alaska. A study by Northern Economics indicated that if production modules were built in Alaska, Alaska's share of marginal oil field development expenditures would increase by 10 percent. BP has stated that it will make every effort to produce such modules in-state in consideration for concessions to help the Northstar Project. Once such capability is in place for these two initial modules, production of modules and other equipment for other projects in Russia and China especially, will be economically feasible from Anchorage.

Although, in-state production for in-state use has the benefits described above, creating a solid infrastructure to produce these production modules may lead to a new segment of the industry that could be sustained even after the demand in Alaska has subsided. Alaska-based companies fabricating production modules for the North Slope, could turn their marketing efforts to the Russian Far East and China.

VALUE ADDED:

Despite the tremendous volume of crude oil being pumped out of Alaska wells, much of the crude is transported in its raw state to refineries outside of Alaska. Like many of the other natural resources in Alaska, further value-added processing of the crude in Alaska would benefit both the Anchorage and Alaska economy.

Through the sale of royalty oil, the State of Alaska has allowed Mapco and Tesoro to have access to oil for refining capacity. The state could consider other methods to increase the amount of crude oil that can be processed into higher value products within the state.

The quality of crude extracted in Alaska is a disadvantage for the companies refining Alaska crude. The refining of the heavier, lower-quality Alaska crude places refiners in Alaska at a disadvantage; if state royalty oil was made available at appropriate prices, the Alaska refiner disadvantage could be mitigated; however, new technologies and methods may be able to overcome this disadvantage.

Alaska exports over 465 million barrels of crude oil each year. The value of petroleum as a refined product or as petrochemical feedstock has not been tapped in Alaska. While the capital investment for producing refined products is considerable, the opportunity to capture industrial development from use of petroleum as a feedstock should be explored. If the state royalty interest is taken in part as petroleum product, it could be offered as an incentive for development of petrochemical derivatives such as pharmaceutical, fiber, and plastics production. Such opportunities combined with a distribution support system for high-value, light-weight products may offer significant development potential for the next century. Investment strategy should be examined within the next five years to capture the benefits of changes in

federal export laws via the Jones Act amendments.

Hard Rock Mining

Over the past several years, Alaska has been experiencing a boom in mining. By the end of 1996, Green's Creek Mine, Red Dog Mine, and Fort Knox Mine should all be in operation and will represent the three largest mines in Alaska employing over 500 people in the three mining developments⁵.

More mines are being developed with existing mines expanding their workforce. The following is a list of major development projects listed on the State of Alaska's web page:

- Juneau Gold Mine - 350,000 ounces of gold per year project.
- Kensington Gold Mine- 200,000 ounces of gold per year project.
- Wishbone Hill Coal-100 million ton coal resource near Palmer.
- Northwest Arctic Coal: A billion ton resource in Northwest Arctic Alaska.
- Nixon Fork Gold Mine- High Grade skarn gold deposit near McGrath.
- Illinois Creek- Heap leach gold project in western Alaska.

The mines are very sensitive to the price of gold, silver, zinc, and lead. Barring major changes in the price of minerals, look for the mining sector to increase employment and make a larger contribution to the Alaska economy.

This sector holds tremendous potential due to the relative lack of exploration. New exploration techniques developed over the past 20 years have been applied to less than 5 percent of the State. The amount of state land open to mineral entry (95.9 million acres) is nearly the size of the state of California--49.6 million acres of Federal lands are open to mineral entry⁶. Private lands held by Native Corporations total over 44 million acres.

An update of the current mining situation is best summarized by the fact sheet produced by the Alaska Miners Association. The sheet was written by Steve Borell, Executive Director of the Association in May 1996.

Alaska Mining - The Sleeping Giant Begins to Move

Mineral exploration, development, and production in Alaska continue to grow. Significant increases in each of these areas are projected for 1996 and several major mines are either in construction or are in late-stage permitting.

After many years of preparation, two major gold mines, the Nixon Fork mine near McGrath and Fort Knox near Fairbanks, began construction in March of 1995. Construction at Nixon Fork was completed in September and on October 22, 1995 the first gold was poured at the mine. **Nixon Fork is the first primary gold hardrock mine to operate in Alaska since World War II.** There have been some minor projects that operated intermittently, but Nixon Fork is effectively the first major hardrock gold mine in Alaska in over 50 years. Nixon Fork is an underground mine and at full production it will produce 60,000 ounces of gold per year with a work force of 55.

By late summer of 1995 the work force at Fort Knox included more than 550 contractor employees and 80 mine employees. After a slowdown due to winter weather, Fort Knox is now adding contractors to complete installation of the mill equipment while mining increases to full production rates. First gold production at Fort Knox is slated for late 1996. At full production this surface mine will have 250 employees producing 350,000 ounces of gold per year.

In early May of 1996 USMX of Alaska announced that it has all permits in hand and is starting construction of the Illinois Creek Mine located 260 miles northwest of Anchorage. Illinois Creek is a surface gold/silver mine and will have up to 100 employees seasonally. This mine will be the northernmost heap leach gold mine in the world.

The Greens Creek Mine near Juneau, idle since April 1993, is now developing a new higher-grade orebody. This underground development, along with facility modifications, is in progress and the mine is scheduled to be back in production during the 4th quarter 1996. As of May 1996 the mine work force was up to 140 and will continue to increase until the full contingent of about 320 is reached by start.

A major expansion of the Red Dog Mine is under evaluation. A 1995 drilling program defined an adjacent orebody that added about 70% to the reserves of the mine. Red Dog already produces 7% of the world's zinc concentrate and with the expansion will be the world's largest and lowest-cost producer.

Other projects continue to move through the permitting process. Within the next 24 months it is likely that construction decisions will be made on at least two more major gold mines and that pre-feasibility studies will commence on several others.

Exploration in 1996 is expected to be even higher than in recent years. Major exploration drilling projects are planned in the Northwest Arctic, on the Seward Peninsula, in the middle Kuskokwim, in Southeast Alaska, in the Delta/Tok area, and at several places in the Fairbanks District. This very high level of exploration activity is a strong indication of the increased confidence the industry has for doing business in Alaska.

The State of Alaska and the Legislature continue their strong support for the mineral industry. Over the past six years the Legislature has made more than a dozen changes that have clarified laws, reduced unnecessary risk, and improved the general business climate for mining. In 1995 the Legislature established an exploration incentive program that allows for credit of up to \$20 million per project against future taxes and royalties.

The State has also funded an annual airborne geophysical mapping program for the past four years. This investment by the State has attracted significant private industry investment established at many times the cost of the mapping. Airborne geophysical mapping in the Fairbanks Mining District was a significant contributing factor to a major rush that occurred there in late 1994 and 1995. Over a one year period more than 100 square miles of mining claims were staked in the District. These were staked by individual prospectors and miners, junior companies, and major international mining companies.

The mining industry in Alaska continues along a steady and expanding course. Years of work are culminating in new mines that create new jobs and economic development. The Alaska members in the U.S. Congress, the Governor and his administration, the State Legislature, and the general public see the need for diversification of the Alaska economy and are supportive of the mining industry's contribution to this process.

[Steve Borell is a registered professional engineer in Alaska, Colorado, and North Dakota with more than 22 years experience in coal and metals in the United States, Canada, and South America. He is Executive Director of the Alaska Miners Association.]

b. Seafood

Seafood in Alaska is considered the largest private sector employer with more than 35,000 people involved in the industry. According to the Alaska Department of Commerce, Division of Trade and Commerce, more than one-fifth of Alaska employment can be attributed directly or indirectly to the seafood industry. The seafood industry is second only to the oil industry in its contribution to state government revenues. Seafood has been a stable contributor to Alaska's economy for decades. It can be a sustaining component of the economy through effective resource management.

The importance of Alaska's seafood industry is evident at the state level, as well as globally. In 1993, Alaska seafood represented over 55 percent⁷ of the total seafood harvested in the United States. If Alaska were an independent nation, it would rank among the top ten seafood producers in the world. Seafood production in 1994 in Alaska totaled more than \$2.5 billion. (Alaska Dept. of Commerce, Div. of Trade and Commerce)

While the fishing industry is obviously an important economic engine for coastal communities, few realize the importance of the seafood industry to Anchorage. The Alaska Fisheries Development Foundation Report, 1994, noted that:

*Nearly 840 fishing permit holders reside in Anchorage.

*Total gross income for Anchorage bowl fishermen ranged from \$49 to \$70 million during 1988-1992.

*In addition to permit holders, Anchorage is home to approximately 1,600 crew members.

*Fisheries management and administration groups (government & non-government) employ nearly 200 people with a payroll of approximately \$12 million per year.

*In 1993, over 36 million pounds of seafood flew into or out of Anchorage. This generated approximately \$16 million in freight and handling revenues.

*Seafood provided \$1 - \$1.5 million in freight revenues to local trucking companies that employed approximately 100 employees.

*Overall, commercial fishing is a \$100 million industry in Anchorage.⁸

Most of the secondary processing and value-added food manufacturing process is done

outside of Alaska. Historically, Seattle/Tacoma has been the base of not only the processing aspect but also a source of supplies, gear, and financial services. For example, in 1994, Alaska fisheries contributed \$386.6 million in direct earnings to the Puget Sound fishing fleet; an additional \$370.2 million in earnings came from indirect operations such as manufacturing, construction, transportation, utilities and communications trade, and professional services⁹. Like many of Alaska's other natural resources, Alaska continues to supply a commodity in raw material format with very little value added in-state.

The Japanese market, by far the largest consumer of Alaskan salmon, imports the majority of the salmon after primary processing (heading and gutting) in Alaska. However, further value-added processing such as smoking, filleting, and repackaging are all done in Japan. The Japanese government encourages the secondary processing to take place in Japan by levying heavy tariffs against salmon that has been processed outside of Japan.

The seafood industry in Alaska is at the center of controversy and turmoil, beset by competition from foreign sources, rivalries from neighbors in Washington and Canada and bountiful harvests that further depress prices. From the midst of crisis, strategic opportunities emerge. To achieve success among close competitors, the Alaska seafood industry requires a strategic perspective and an assessment of the best competitive edge. The task ahead is not easy. We face major upheavals in the industry due to forces beyond our borders. However, failure to act with courage and vision will lead to loss of the opportunity to sustain the bountiful endowment of Alaskan fisheries for the future benefit of Alaska's citizens.

At the request of Anchorage's Mayor Mystrom, the Anchorage Seafood Task Force met from November 1995 to August 1996 with the following mission:

"To promote and expand the seafood industry in Anchorage and increase its role as a provider of goods and services to the seafood industry in Alaska."

An assessment of the opportunities and challenges as perceived by the Task Force members indicate that Anchorage can provide tools and a platform for movement of the Alaska seafood industry into a key role in global markets in the near future. The fisheries that are the essential component of the industry are among the most stable and healthy in the world at this time. With appropriate care and management, the resource could support commercial, sport and subsistence fishing. This is one arena where Alaska has all the ingredients for potential global mastery.

The Task Force identified several specific problems and issues:

- * Uncertainty and crisis market conditions in the seafood industry
- * Traditional focus of the industry in Seattle
- * Decline in markets for Alaska fish and processed fish
- * Competition from farmed fish and fish products
- * Lack of awareness of goods and services in Anchorage

- * Lack of infrastructure support in Anchorage
- * Inadequate transportation from fisheries to Anchorage

- * Inadequate cold storage facilities
- * Lack of consumer education about Alaska seafood
- * Seasonal supply, year-round demand

Three basic areas of challenge were evaluated. There is a clear **need to promote Anchorage for some services and support to the seafood industry in Alaska.** Associations and service connections established through historical connections can be weaned toward Anchorage in cases where better service can be provided at a competitive price. Some services and suppliers are tightly linked to processors and operators entrenched in Seattle. Such components are unlikely to move.

There is a **need for infrastructure improvements in transportation, cold storage, and logistics.** Anchorage can provide access to new markets for Alaska seafood products by focussing on fresh seafood that moves by air. Attending to the logistics support needs of the industry will open new markets in Korea, Taiwan and China as well as expand markets in Japan. Infrastructure to add value in Alaska can also play a large role in providing access to new and expanded markets.

Finally, there is a **need to integrate the educational and strategic planning capabilities in Anchorage.** Such activities could include consolidating functions of the Alaska Fish Sciences Center, located in Seattle, with the University of Alaska in Anchorage. A center of policy development and strategic planning is one potential arena of excellence for Alaska. Such a center can include better education and outreach to the existing community, to tourists, and to the industry itself.

The industry must change, and the Municipality of Anchorage can facilitate this change by promoting a strategic planning process involving government and industry leaders. The process should focus on ways to capture more of the value of the resource before the product leaves the Alaska economy. The background assessments of the Department of Commerce and Economic Development as well as studies completed for the Alaska Science and Technology Foundation suggest a need for vertical integration of the industry, with cost efficiencies as the objective.

These challenges are explored more fully in the Seafood Task Force Report in **Appendix E** (Note: Part I & II only)

c. Timber

The timber industry has fallen on difficult times. Employment in this sector has fallen off dramatically after peaking in 1990. Southeast Alaska has lost over 1,450 jobs since 1990, and with the Ketchikan Pulp Company (KPC) announcing it is cutting 500 more jobs in 1997, the outlook looks bleak. Currently KPC is negotiating a contract with the federal government that may allow KPC to keep two sawmills open. This would save 500 jobs. At

this time, approximately 3,000 people are employed by the timber industry in Alaska. The following was excerpted from the Alaska Science and Technology Foundation's "Strategic Plan and Sector Analysis"¹⁰.

"There is little doubt that the Alaskan forestry industry as presently sized and structured will continue to shrink and die. Given the supply of timber in the state and the current stumpage value of much of that timber, both federal and nonfederal, there are no insurmountable economic reasons why Alaska cannot support a small but growing forestry industry. But it is a different industry from today."

There are no economic reasons why the boreal forest could not support a number of OSB or other engineered wood product operations or why Southcentral and Southeast cannot support integrated, computer-assisted mills providing the Alaskan and export market with quality dimensional lumber from spruce, hemlock, and other softwoods. With advances in electronics, these mini-mills could even be mobile and state of the art. There are no insurmountable economic barriers to having the Matanuska-Susitna (Mat-Su) region support a furniture and higher-valued wood products based on local birch and other fine-grained woods. A few entrepreneurs are already demonstrating that products can be made and marketed which the world will buy.

For this new industry to be created it will require Alaskans to move beyond the "us versus them" mentality which blames all lost opportunities on the federal management of the national forests, the influence of environmentalists, and long-term access to timber supplies at below-market rates. It will require industry, the state, and its citizens who have a stake in both the long-term economic and environmental viability of the state to enter into a process of brokered change outlined here. The plans and local consensus needed will be commitment to broad ongoing stakeholder participation, a willingness to find or grow the private firms capable of investing for the long term, and a state government committed to the rational coordination of its regulatory and economic development responsibilities in ways that make sense in different ecosystems and local economies.

There are a few immediate next steps that must be taken as Alaska considers building a revised and redefined forest products industry.

1. The state must complete its inventory, consider legislation adopting the grading and ASTM standards for Alaskan white spruce, and establish a Memorandum of Understanding between the Departments of Commerce and Economic Development and the Department of Natural Resources so the state is able to speak with a more consistent voice on the development of the industry.
2. Groups including local land owners, the local industry, interested citizens, and the state should be convened to understand the economic and environmental issues around developing local processing strategy for major forest areas of the state. If such representative groups organize themselves to consider, the state or the Alaska Science and Technology Foundation might be sources of support for

any needed economic or scientific research on data needed to develop a local strategy.

3. As a statewide project, Alaskans need a common understanding of the market and margins for processed Alaskan wood products. The state, the local industry, and the public are customers for this important homework for an industry strategy. The Manufacturing Extension Partnership program in the U.S. Commerce Department may be one vehicle to organize such knowledge and define next steps.

Can Alaska witness a revived forest industry? Should it? Other democratic governments of the world as different as Finland, Sweden, Chile, New Zealand, and Alberta, Canada have demonstrated the ability to organize themselves to do business in world markets with forest operations that maintain broad public support. The question of whether Alaska chooses to organize itself to make this adjustment is not of economics because how both the public and private sectors play their roles determines the economics and eventually the local politics of an industry. It is ultimately a political question. But for an Alaska whose economic base is perilously overdependent on the price of oil, the choice to determine the terms under which a wood products-based processing industry in the state can survive is a choice Alaskans would be wise to make.

d. Natural Gas

Two regions of the state have substantial known and measured volumes of natural gas. By far the greatest is the 30-plus trillion cubic feet known to be available on the North Slope. The second area is the Beluga, MacArthur River, Kenai Peninsula, Cook Inlet reserves. Cook Inlet area gas provides heat and electrical power for the area and sustains a liquification facility and fertilizer plant in North Kenai/Nikiski on the Kenai Peninsula. At the current and forecast price for Cook Inlet gas, there are not adequate incentives to additional exploration and field development. Cook Inlet reserves will play out in the 2010-2015 period without additional discovery. Efforts are underway to address this problem by extending a spur from the Trans-Alaska Gas System (TAGS) to the Cook Inlet area. Gas supplier companies in the region are working to increase the supply as well. Should gas prices measurably increase (probably on the order of \$.25 to \$.50 per thousand cubic feet) and if a market were to develop, it is likely that additional exploration would take place.

***Prudhoe Bay**

There are abundant, known gas resources on Alaska's North Slope with the Prudhoe Bay field at about 26 trillion standard cubic feet (TCF), the Point Thompson field estimated at 3 to 5 TCF, and perhaps 2 to 6 TCF at the Kuparuk, Lisburne, and Endicott fields, considered together. With particular respect to Prudhoe Bay, gas coexists and is produced with marketable liquids and, it has been returned to the reservoir where it has increased long term liquids production and been saved for future gas sales.

The major Prudhoe Bay leaseholders, and Northwest Alaska Pipeline Company and Yukon Pacific Corporation (CSX), have pursued, at a significant cost, a variety of options for major

gas sales. In recent years, liquefied natural gas (LNG), delivered to Far East countries (Japan, Korea, Taiwan and China) has developed into an option of substantial interest.

***This section added in editing by J. Griffith, K. Thompson, J. Branch, J. Lowenfels**

Buyers are representing to potential suppliers that a substantial energy/LNG demand is likely to exist starting in about 2005. To be competitive, an Alaska project must show economic viability with competitively-priced LNG.

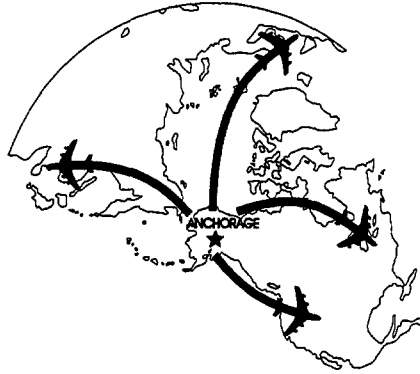
Unlike oil, there is no global spot market for LNG. Hence, new facilities constructed for production, transportation and use requires complex long-term (20 to 30 years) contractual relationships between gas owners, gas buyers, facility owners, financial institutions, and other participants. There is substantial competition to serve Asian markets for which Alaska competes.

Additional facilities will be required for the development of Alaska's North Slope gas resources for delivery to the Far East market. These facilities broadly include: a gas conditioning plant on the North Slope to remove CO₂ which would be appropriately handled; a gas transmission pipeline to tidewater from the conditioning plant; an (LNG) production plant and storage facilities at tidewater; a marine terminal; LNG ocean going tankers; and miscellaneous supporting infrastructure. The current estimated cost of these facilities is about \$15 billion, but with a range of uncertainty around this estimate. Not included in this cost are the costs of maintaining and operating wells and facilities in the gas field and the investments of the users to operate with the gas. Yukon Pacific has permits and environmental impact statements in place for rights-of way and infrastructure to facilitate the export of 14 million tons per year for 25 years. Other parties have ongoing evaluations to alternative routing and siting options.

Due to the significant up-front investment, and Alaskan North Slope LNG project will require a fast ramp-up to a minimum production level of approximately 2 billion cubic feet per day of gas or 14 million tons per annum of LNG.

The Alaskan Departments of Revenue and Natural Resources have recently completed a study that states, "at today's energy prices and projected construction costs, the economic feasibility of the proposed Alaska LNG project appears doubtful." This study indicates that a greater degree of market certainty, better definition of capital costs and higher assurity of a stable state fiscal and regulatory environment (including federal regulations) are needed to ensure the viability of the project. Based on several assumptions, Yukon Pacific studies indicate the project could be viable now. All parties--North Slope leaseholders, the State of Alaska and the project permit holders have pledged to work to move the project forward. The Alaska legislature has passed legislation calling for sales to commence by 2005 and has expressed grave concern that Alaska may not be viable in the market place.

2. Increase International Trade based on Location

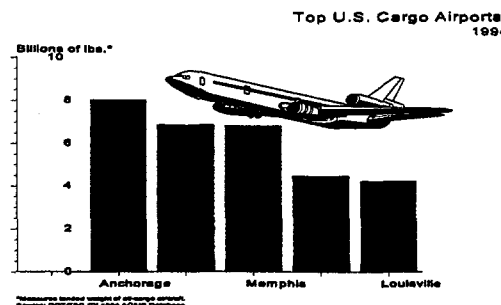


The geographic position of Anchorage offers significant opportunities for development in specific industry areas. By capturing such opportunities and marketing aggressively, Alaska can be a major factor in the global marketplace.

a. Logistics:

Global logistics is increasing in prominence as a crucial factor in the global marketplace. Expansion of electronic marketing, displacement of design and production and the computerized customization of products to customers' individual requirements militates for global distribution centers, packaging and assembly centers, and warehousing for just-in-time delivery of both products and components. Anchorage is ideally situated to respond to all of these logistical needs. In particular, Anchorage International Airport (AIA) offers unique advantages for expansion of such activities.

AIA has the largest cargo uplift in the United States (see graphic) and employs 11,000 people



with a total payroll of \$319 million annually. This airport offers access to markets in Asia, Europe and the United States within nine hours. With these assets and the climate and quality of life of Anchorage, the opportunities for development in cargo transfer, and value-added operations to cargo abound.

Attributes/Advantages

Several attributes of Anchorage offer opportunity for consolidation of warehouse and distribution operations while allowing reduction in inventory stocking levels and carrying costs. This unique and important capability enables reduced distribution cycle time, hence improving company cash flow. These attributes are:

- * Anchorage's unique geographic location, roughly equidistant to all major cities in the Northern Hemisphere,
- * Strong trans-Pacific and North American lift capabilities,
- * Presence of FedEx and UPS hubs,
- * More than adequate presence of the leading domestic and international freight forwarders,
- * Low energy and tax rates,
- * Relatively low land costs, and
- * "Just-in-time" air delivery from "global" warehouses.

By using Alaska's central location, several manufacturing and distribution activities can be accomplished in Anchorage. They include: final testing and assembly, kitting, repair & return, and final distribution. A variety of high-tech companies have expressed interest in using Anchorage for the reasons listed above. **Appendix F: The Anchorage Solution** provides more detailed information about global logistics opportunities.

b. Tourism

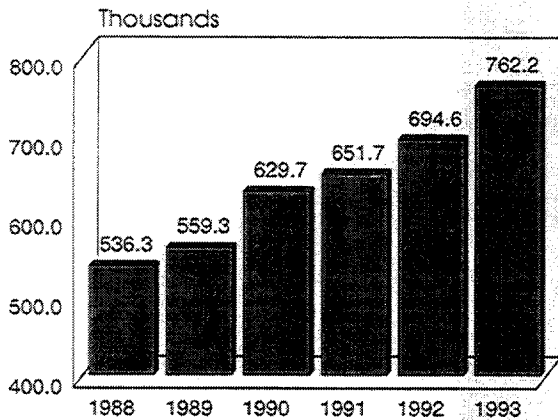
Alaska enjoys a stable pattern of growth in summer tourism. Over the past ten years expenditures by tourists has grown to a record \$1.3 billion. Of that \$1.3 billion, \$598 million (42%) was spent on goods and services in Alaska. The remaining \$831 million was spent on transportation to and from Alaska (not including in-state transportation services) (ref: McDowell Group, Alaska Visitor Statistic Program). The growth in spending by tourists continues each year. Additionally, Alaska benefits indirectly from visitor expenditures that take place before they arrive in Alaska. These expenditures affect employee wages, in-state operations costs and capital investments by transportation and tour companies.

Over 1 million visitors came to Alaska in 1993-94. Of the total, 836,000 came during the summer months (May-September) and 184,000 during the fall/winter season. While summer visitors are predominantly tourists, business visitors made up half of the fall/winter arrivals. Twenty-two percent of fall/winter visitors came to visit family and friends, and only 15% were in Alaska as vacation or pleasure travelers.

Of the approximately 1 million travelers to Alaska in the 1993-1994 tourism season, Anchorage had the most visitors of any city with approximately 690,000 visitors during the

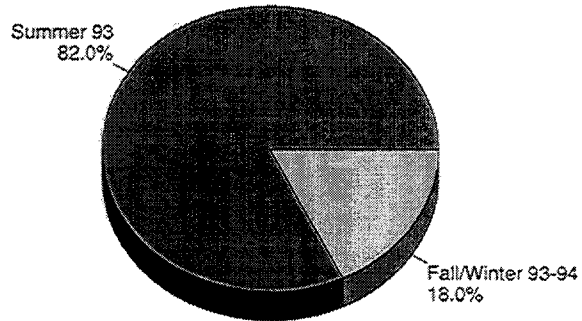
period from Summer 1993 to winter 1993/1994¹¹. The Anchorage Convention and Visitors Bureau (ACVB) reports that convention business remains strong with an annual growth of approximately 8 percent.

Total Summer Visitors



Source: McDowell Group, AVSP 93-94

Alaska Visitor Arrival By Season



Source: McDowell Group, AVSP 93-94

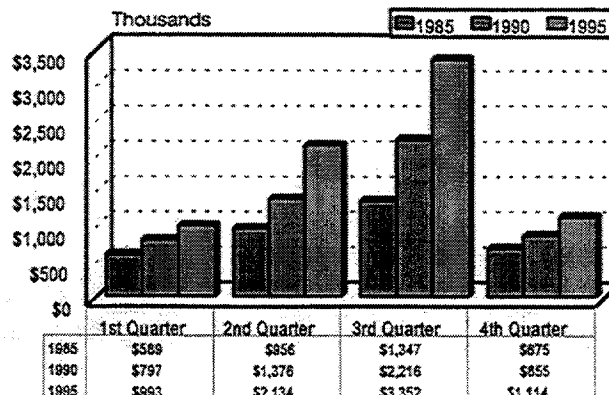
As in many tourist destinations around the world, the tourism season in Alaska is heavily seasonal. Efforts to increase tourism during non-summer months has resulted in more travelers to Alaska and Anchorage, yet the summer season still accounted for over 80 percent of the visitors to Alaska in 1993/1994.

An example of the seasonality and how it affects the value of tourism can be illustrated by the bed tax dollars collected by the Municipality of Anchorage.

The bed tax graph¹² is an indicator of the total revenues generated by the hotel rooms booked in Anchorage. While the value of the summer season has increased substantially, the first and fourth quarters remain relatively weak. Even allowing for lower room rates in winter, the potential for winter tourism has not been fully developed.

Clearly, the opportunity for

Bed Tax Revenue Totals By Quarter - Anchorage



growth in tourism lies in the fall/winter season. Effort to expand the summer season has resulted in greater activity during the spring and fall “shoulder seasons.” Alaska’s winter beauty and unique outdoor activities make the state a world-class destination for the adventurous visitor. Further development of winter attractions such as snowmobiling trails, dog sledding, and northern lights viewing would not only help the tourism sector become a year-round industry, but the increased revenues would allow for further development of the summer tourism infrastructure which is nearing full capacity. **Appendix G, Anchorage Snowmobile Access Plan**, provides an economic assessment of the potential for winter tourism development.

c. Technology:

While Alaska has always been heavily dependent on natural resource extraction, technology-based industries will play a much larger role in Alaska’s future. Advancements in telecommunication are rapidly changing the way business is done across the globe. Alaska will be able to benefit greatly from the improvements in both the Internet access as well as the telecommunication infrastructure. Alaska’s unique geographic location also makes it an ideal location for many types of high tech development.

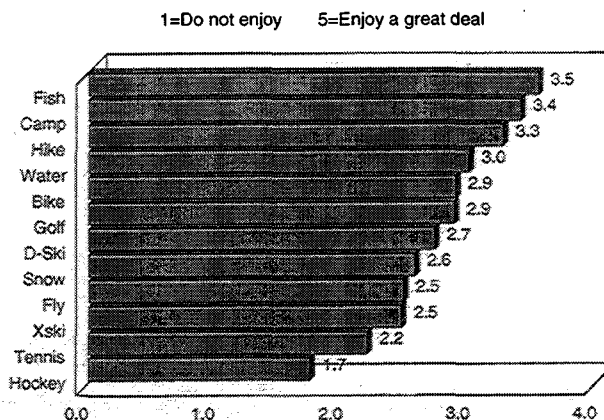
During the industrial revolution workers migrated to cities in search of jobs. The information age has had the opposite effect. Thanks to advances in telecommunication, people are now placing a higher emphasis on quality of life.

Prevalent use of computer-aided design/computer-aided manufacturing allows designers, software producers and engineers to be at locations separate from production operations. Indeed, marketing and management functions can operate over global corporate segments, as is the case for many industries. Prime examples include the technology-sector-driven boosts to the economies of Silicon Valley, Boston’s Route 128, Seattle, Boise, Colorado Springs, and Salt Lake City. In each instance, the intersection of educational institution support, community incentives, and technology allowed growth spurts to flourish.

Information-based businesses:

As geographic market boundaries disappear and business strategies encompass global concepts instead of local ones, location has become less important in many fields. Companies working in information can now operate from anywhere in the world, thanks to the Internet and advanced satellite communications, as long as they have access to a phone, a computer, and modem. These types of businesses include, but are not limited to, software programmers, authors, consultants, and data-management operations. Multiple satellite ground stations in Fairbanks and the Kodiak launch site for telecommunication satellites offer a

Activity Preference of Knowledge Intensive Executives



Source: AEDC survey of knowledge intensive company executives, 1995

growing prospect for development in these information-based industries.

Excellent quality of life, the lowest personal tax burden in the nation, work-day overlap with the East Coast of the U.S. and Asia, and relatively high education levels make Alaska an ideal location for high-tech, knowledge-based industries. People who responded to the Anchorage Economic Development Corporation's surveys of the knowledge intensive industries have a higher propensity to participate in recreational activities such as camping and fishing rather than golf or tennis. The Alaska High Tech Business Council was organized in early 1996 to support the growing high technology/information industry in Alaska. See **Appendix I** for survey results and more information.

Satellite Communications:

A large project using Alaska's geographic location is the Kodiak rocket launching facilities. Alaska's northern orientation makes it an ideal location to launch commercial satellites. Alaska's location is advantageous for several reasons. A launch from Alaska consumes much less fuel to place satellites in a polar orbit as compared to a launch from more southern latitudes. The lack of land to the south of Kodiak in the Pacific Ocean reduces the risk of an aborted launch hitting a populated area thereby reducing insurance costs.

Although the launching station is planned for Kodiak, Fairbanks should benefit from the research and tracking facilities for the satellites. Anchorage will most likely benefit from support services as well as headquarters operations. All of Alaska will benefit from the educational infrastructure and relationships being established around the Kodiak site. Staging for components and centers for marketing and promotion of satellite-based industries can also occur in Anchorage. **Appendix I** describes the Kodiak launch facilities in more detail.

D. Resources/Assets

The opportunities discussed above offer a panorama of potential as wide as the Alaska horizon on a clear day. Leadership and commitment of corporate will to allocate appropriate resources will be required to capture even a fraction of the potential for this great state. Alaska has the land, a significant stockpile of capital to use, and sufficient human resources are available. A focused allocation of resources in sufficient scale can shape changes that open opportunities for Alaska. To accomplish mastery of global significance for Alaska, we must focus our efforts.

1. Physical endowment

The land mass of Alaska offers untapped, large, and in some cases, unexplored areas. Private lands comprise only a tiny fraction of the available lands, less than 11%. The use of public lands as incentives to development should be explored. Offering land with conditions and limitations has precedent in Alaska through prior homesteading initiatives. Many areas have potential for development but lack infrastructure such as roads, communications and basic utilities. While there is value to maintaining public lands as parks only, some development of the vast acreage available in Alaska will provide productive means of sustaining a more diverse economy. Transportation infrastructure will be a high priority in this effort.

2. Capital Resources and Financing

Alaska Permanent Fund

The Alaska Permanent Fund is a savings account that belongs to the people of Alaska. It was created in 1976 by a voter-approved amendment to the Alaska Constitution. The Fund is established as an inviolate trust. This means that the principal of the fund is to be invested in perpetuity.

The Permanent Fund is made up of two parts: principal and income. The principal is invested permanently and cannot be spent without the vote of the people. Fund income can be spent and decisions about its use are made each year by the people's representatives: the legislature and the Governor. The Fund is managed by the Alaska Permanent Fund Corporation Board of Trustees; however, the Alaska Legislature is the Board of Directors.

The current value of the Permanent Fund is approximately \$20 billion.

Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA)(AS 44.88) is a public corporation that provides various means of financing for industrial, manufacturing, and other business enterprises to further the overall goal of developing and diversifying the state's economic base. The Authority encourages economic development by providing reasonable cost capital for Alaskan businesses. The Authority has historically accomplished its purpose by acting as a secondary market for financial institutions. It makes no direct loans, but rather purchases from financial institutions a major portion of a loan and funds the participation through the sale of bonds or internal assets. In an effort to assist in creating additional private sector employment, since 1986, the Authority has placed greater emphasis on infrastructure and resource development projects through the development finance (owner/operator) program.

Alaska Aerospace Development Corporation

The Alaska Aerospace Development Corporation (AS 14.40.821-.990) is a public corporation of the State of Alaska formed to promote aerospace-related economic growth and develop corresponding technologies and support services. Concurrent goals are to strengthen the Alaska technological infrastructure, assist in advancing science and engineering research and aerospace at the University of Alaska, attract aerospace-related businesses from outside the state to locate in Alaska, and stimulate public advocacy for the enterprise.

Alaska Science and Technology Foundation

The ASTF is well positioned to continue to help co-fund firms to develop new products or processes to expand the state's exports or substitute for current imports. After legislative earmarks to annual earnings from its \$100 million endowment, ASTF has more than \$3,000,000 per year to support projects which share commercial and technical risk of product development with technology-based firms. ASTF funds have been leveraged more than two to one to add value to Alaska's resources such as processing fish into food and trees into

forest products as well as to help entrepreneurs develop new technology products for power generation, environmental remediation, mineral exploration, and other Alaska opportunities. Funding projects at a research stage, an earlier stage than is appropriate for Alaska Industrial Development and Export Authority (AIDEA) or for full private sector financing, ASTF uses grants with repayments from revenues of commercial success. A fully funded ASTF remains the most important vehicle to grow Alaska's emerging technology sector and assist the state's economic development effort.

3. Existing Infrastructure (physical; we assume the educational and human resource issues will be addressed in other areas of the Commonwealth North Study.)

Port of Anchorage and other Alaskan ports and water transportation system

The Port of Anchorage is a facility that has been rated one of the most efficient container ports on the west coast. It is also the United States' most northern deep-draft port. It is open for business year round with full services. The Port's five terminals can handle every type of standard vessel: container, roll on-roll off, petroleum, dry bulk and specialized carriers.

The Port has excellent access to the airport as well as to rail and road. The Port's developed industrial park area includes 130 acres with 27,000 square feet of covered storage and 16.6 acres of public transit yard for storage. The port sponsors the Municipality of Anchorage's foreign trade zone that encompasses 1,300 acres on public and private sites throughout the community.

International Airports

Anchorage International Airport is the number one airport in the United States for sheer volume of international widebody freighter activity, with high annual growth rates. More than 50 freighters a day arrive and depart Anchorage for North American, Asian or European destinations. The airport also enjoys extremely high levels of passenger service, both in-state and intra-state. Passenger carriers provide scheduled nonstop international service to Russia, Korea, Taipei, and, in summer, to Germany and Switzerland.

Anchorage sees annually 4.3 million passengers, services 35 scheduled airlines and handles 1.6 billion pounds of freight.

Fairbanks International Airport is the key transportation and distribution link to Interior Alaska. Operating a full seven day, 24 hours schedule, Fairbanks offers numerous passenger/traveler conveniences in addition to U.S. customs and fuel services. In the past five years, Fairbanks has attracted regularly scheduled international all-cargo flights servicing North American, Asian and European destinations.

Annually, Fairbanks handles 0.75 million passengers, services eight scheduled airlines and handles 200 million pounds of freight.

Alaska Railroad

The Alaska Railroad Corporation (AS 42.40) operates and manages the Alaska Railroad, which

the federal government sold to the state in 1985. It is a public corporation with a legal existence independent of and separate from the state. It is governed by a board of directors consisting of the Commissioners of the Departments of Commerce and Economic Development and Transportation and Public Facilities, and five members appointed by the Governor.

The railroad extends from Fairbanks to Anchorage to Seward. The railroad is a vital component of the tourism industry. Passengers are shuttled from Seward to Anchorage and Anchorage to Denali Park and Fairbanks. The railroad also is a vital link from the interior regions that produce petroleum products, coal, and timber to the ports of Seward and Anchorage.

State Highway System

The state highway system can be divided into three major regions: the central, the northern, and the southeast regions.

The Central region comprises of the Municipality of Anchorage, the Kenai Peninsula Borough, Mat-Su Borough, Kodiak Island Borough, Lake and Peninsula Borough, Aleutians East Borough, and Bristol Bay. The Central region includes 65 percent of the state's population and 64 percent of the vehicle miles. There are 4,530 lane miles of roads; almost one-third of the state's roadway system. Approximately 40 percent are paved, 57 percent are urban miles, 31 percent are rural roads, and 12 percent are on the Alaska Marine Highway system.

The northern region comprises the area from the Canadian border to Nome and Valdez to Barrow. It also includes the communities of Cordova, Valdez, Glenallen, Delta Junction, Eagle, Fairbanks, Kotzebue, and Ft. Yukon among others. The northern region covers 382,000 square miles, or 65 percent of the land mass. In this region resides 24 percent of the state's population. The northern region contains 8,150 lane-miles of state-maintained roads, equal to 60 percent of Alaska's highway mileage.

The southeast region covers 42,000 square miles, more than 7.5 percent of the land area of Alaska. It extends from the Canadian boundary in Dixon on the south, the Yakutat Bay on the north, with the Pacific Ocean and the Gulf of Alaska to the west. The region is responsible for 504 miles of roads scattered throughout the region.

E. Challenges

Several difficult hurdles limit Alaska's world class competency. The major limiting factor is the form and processes of state government. Government has not stepped up to its responsibility to manage Alaska's assets. Instead, it has slipped into principally a regulatory role as is traditional for other states of the United States. Alaska cannot thrive under this circumstance because the state controls the bulk of Alaska's land and capital. The small private sector will never be able to reach its potential without nurturing from the principal owner - the state. A different way of doing business must be crafted. Perhaps the example already exists in our nation's history. The West was settled because of incentives (land grants to private persons and corporations) that the federal government put in place over 150 years ago. It is time for Alaskan leaders to take such dramatic steps. But first, the state government must get its own house in order. Until the so-called budget gap is resolved, governmental energies will be diverted to this debate rather than

being placed on the greater and more important task of diversifying and developing the economy. Other limits appear relatively insignificant in juxtaposition with this challenge.

Some of these other challenges are the climate, a small population, inadequate transportation infrastructure, business and governmental inertia (unwillingness to change), the general unfriendly regulatory environment, sanctification of the permanent fund dividend, lack of a link between government spending and the citizen's pocket, poor understanding of the problem by the populace, and a somewhat transitory population.

All of the forgoing can be managed or overcome if the will is there.

1. Institute of Social and Economic Research, Univ. Of Alaska. "Alaska's Gross State Product 1994"
2. Alaska Dept. Of Labor, 1994 Data
3. Alaska Science and Technology Foundation, "Strategic Plan Draft" 4/5/96
4. Alaska Dept. Of Revenue
5. Alaska Dept. of Labor, Trends, May 1996
6. Alaska Miners Association, inc. Fact sheet "Alaska-America's Sleeping Giant for Minerals"
7. State of Alaska, Internet Home Page.
8. Alaska Fisheries Development Foundation, "Surprise, Commercial Fishing is Big Business in Anchorage" 1995
9. Tacoma-Pierce County & Greater Seattle Chamber of Commerces, "Jobs Today, Jobs Tomorrow" Feb. 1996.
10. Alaska Science and Technology Foundation, "Strategic Plan and Sector Analysis. April 5, 1996
11. McDowell Group, "Alaska Visitors Statistics Program", Summer 1993 data
12. Municipality of Anchorage

IV. Connections: Alaska's Domestic and Global Partners

A. Significant trading partners

1. Other Alaska communities:

Alaskan communities have not been appropriately recognized as principal trading partners for Anchorage; however, 80% of the goods that flow from the lower-48 states and from other countries into Alaska flow through the Anchorage port or airport. Much of the freight travels from Anchorage on trucks or rails. Anchorage can and should be the business center catering to the needs of the rural communities. The closest of Anchorage's trading partners are really quite nearby. A focus on providing professional services to Alaska from Alaska can contribute significantly to Anchorage's economy while saving money and time for Alaska's bush populations.

2. Other domestic trade opportunities:

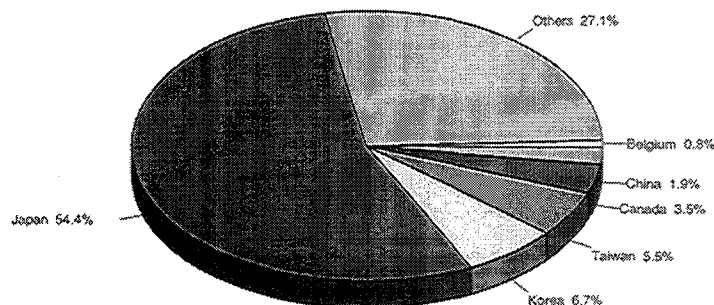
Alaska's position on the great circle navigation route to the orient makes it a natural en-route "coaling station". Under the right situation, Anchorage could provide business and industrial services to lower-48 business entities. Of particular interest are high-tech business and so-called "clean" industries such as banking and finance. With the impending demise of Hong Kong as a regional business center in 1997, great opportunities will likely emerge for Anchorage to fill a portion of the role of a Pacific-Rim business center. Capturing such opportunities will require a change in state statutes regarding banking regulation. As an offshore banking and financial center, Alaska could market such services to the lower-48 as well as to other countries.

3. International Trading Partners:

In 1993, Alaska exported \$4.6 billion in goods. Trade flow to Asia in 1993 was \$ 4.4 billion; to Europe \$124 million; and to North America, \$97 million. Alaska's largest trading partner by far is Japan, with Korea and Taiwan following. Smaller trade volumes flow to Europe and other Asian countries. In terms of value of exports, Alaskan exports of fish, timber, minerals, petroleum products (excluding crude oil) and air freight are illustrated in the figure below. **Appendix J** provides a more detailed discussion of individual trade sectors.

Export Value by Country

1994 data



Source: UAA Alaska Center for International Business

B. Competitors

One only needs view a polar projection map to see the competitors Alaska and Anchorage face. First, and most likely to remain, is Alaska's original trading partner, the Seattle area (including Tacoma and Portland). The diversity, business and logistic strength of the area coupled with a 100 year history of doing business in the Seattle area make this region Alaska's major competitor.

On the other side of the North Pacific/Bering Sea are growing Russian cities envious of the business opportunities apparent in growing trade with Europe and Asia. On the Western shore are Japan and Korea, giant trading experts already fully capable of competing with all comers on a world-class scale. To succeed in the face of such competition Alaska and Anchorage must find their niche and become world class in selected opportunity areas.

C. Partnerships/Joint Ventures/Collaborations

Competition is not all conflict. It is likely that there are opportunities for partnerships, joint ventures and other means of business collaboration readily available in the competitive regions and cities mentioned above. Today business can be done anywhere. Anchorage must strategically market its strengths and actively seek collaboration to turn its competitors into partners. Future partners could be:

1. Seattle
2. Portland
3. Novosibirsk, Russia (International Airport)
4. Canada
5. Sakhalin, Russia
6. Other providers of similar natural resource based products (varies by industry sector.)

Alaska has a globally significant resource base in the following industries:

1. Tourism - sport fishing and winter activities.
2. Oil exploration, development, production.
3. Seafood industry based on strength of fisheries.
4. Support industries for seafood processing for global markets.

The Alaska Regional Development Organizations (ARDORs) span the entire state and meet regularly. By strengthening the collaborative interaction among regional development groups, Alaska can capture a better global competition position. The ARDORs provide a forum for strategic focus, such as the current initiative on rural tourism development.

V. Conclusions: Globally Significant Opportunities

Three strategies for moving to prominence in the global marketplace emerge from this study. First, Alaska has the resources, scenic value and diversity for a globally significant tourism industry in all seasons. Second, Alaska's natural resources in seafood, timber, minerals, natural gas and petroleum offer globally significant opportunities for value-added processing and export industries. Third, Anchorage has a globally significant location advantage at the air crossroads of the world with worldwide capabilities in logistics and cargo-transfer operations. Collaboration between the public sector and the private sector is essential to bringing these opportunities to full fruition. Relatively low energy prices are a major factor in Alaska's strengths and must be maintained.

The support and cross fertilization of the business community and a university system strong in appropriate related disciplines are key elements. Maintaining a high quality of life and sensitivity to the scenic and wilderness values of Alaska are also important. These issues are addressed in other segments of this Commonwealth North study process. The most important conclusion of this study is that the assets of the state must be invested strategically in Alaska. Principles to guide such investment and an institutional mechanism to implement this investment strategy are proposed as recommendations.

A. Alaska's Endowment as Equity

The participation of the private sector will determine the success or failure of any plan for development. Private initiative is the lifeblood of development. The opportunities espoused in this plan represent millions of dollars worth of potential profits for private enterprise. The state's assets can be leveraged with private sector capital for virtually any development effort. Unlike public development projects of the past, the proposals set forth herein depend on the private business decision-making process. Mechanisms must be crafted to bridge the gulf between the public endowment of the state and the private use of resources within the public interest. The regulatory and ownership functions of state government must be appropriately separated so that each may serve its unique role. Development should not be held hostage to preservation without full consideration of the impact. Balancing development priorities with conservation of environmental and scenic values must be a part of the process. The program proposed herein offers a balanced approach to open the wealth of the state to addition of value and expansion of trade for the benefit of the citizens of Alaska. The current status of resource extraction and export, if continued, will squander Alaska's resource endowment. Only by adding value to the resources of Alaska in Alaska will this economy benefit and grow into a sustainable, stable economy to the benefit of Alaskans.

In preparation for broad discussions about how to use natural resources as equity, three issues were developed as background: 1) mechanisms for equity investment, 2) implementation and accountability, and 3) proposed criteria for public investment. Each is discussed below.

1. Equity Investment for Economic Development and Income

Existing Mechanisms

Three types of equity investment are often used interchangeably when referring to

economic development efforts in Alaska. The first is privatization. The second is capital investment. The third is investing in profitable enterprises to derive the benefit of ownership. The three approaches have very different objectives in terms of economic outcomes.

Privatization redirects state funds to and through the private sector to provide government services. The goal is to stimulate private sector enterprise and employment, while simultaneously providing either mandated or desired government services. An example of this is contracting for state road maintenance.

Capital investment provides financial underwriting and/or funds for enterprises which, because of their speculative nature and/or direct or indirect public benefit, are not commercially viable. The goal is to provide development funding for projects that serve an indirect public good, like job creation. The "public" provides the funds; the "private enterprise" develops and operates for the benefit of the private enterprise's owners or shareholders. The State's investment is repaid and income is generated from interest on the use of the funds. The best example of this method is the function of AIDEA.

In some instances the capital investment can result in equity participation, with a share of the profits from on-going operation returning to the investor (the state). AIDEA has several examples of this model in play. The returns, however, are generated primarily for the purpose of reinvestment in other projects, rather than as a revenue source for the institution's parent, the State of Alaska.

Using Land and Capital Resources as Equity also has a potential vehicle in place. It is the Alaska Permanent Fund. The Fund was established as a money-making machine to provide earnings to the state to be allocated according to a statutory scheme. This model could be applied to guide the investment of Alaska's other real assets such as designated real estate, land, and natural resources.

The primary criteria for investing Alaska's assets under this last model is profits. By entering into partnerships for the development and operation of commercially viable enterprises, Alaska could generate a source of income that could be directed to the general fund through dividends. Corporate governance based on a set of guiding principles would insure that the state's culture and moral code are not compromised.

This third mechanism is the most likely model upon which to base an adaptation to apply to use of state resources as equity. The Department of Natural Resources currently owns all the state's assets, including its natural resources. It generates revenue from these by taxing, selling or leasing them. It is, however, constrained from maximizing the income potential because it is not managed to maximize the business sector return. It is certainly in the public interest to generate on-going, sustainable, revenue streams for the state through the effective investment of all of its assets.

Instead of investing money in stocks (equity ownership of businesses) to return a profit to the state, as the Permanent Fund does through dividends and capital appreciation, Alaska would be brokering its resources, such as land and other assets, in return for ownership interest in their use, development and commercial value. Assets designated for market would be transferred to an inventory available for investment. Others would be retained by the DNR for preservation of wilderness or other values or to hold in tenancy, until a potential market was available that warranted a transfer for negotiation and possible investment by the private sector. The asset would be actively brokered by a public/private corporation.

The assets could be invested for export or development. The economic development factor would lie in the returns generated for the state's general fund and increased annual dividends to residents. The net effect would be to transfer land or resources from the control of government to a public/private entity whose returns would flow to the state and with consequent expansion of the economic base of the state.

2. Implementation and Accountability

Each of the investment strategies and models noted above has played a role in the state's development in the past. Now, as Alaska explores ways to diversify and expand the economy in sustainable ways, priority should be given to establishing and maximizing on-going revenue sources that capitalize on Alaska's resources and assets.

As owners and stewards of the state's resources, including her people, Alaska must operate with all of the tools available. Government is well-suited to provide for the many through a democratic system of political prioritization. However, to achieve economic independence, it must be recognized that profitability and income generation serve an equal benefit. These are best implemented through a corporate system of implementation and accountability.

Building capability instead of just financing projects

One purpose of some development financing programs is to grow private sector capability to finance development. Some states have consciously designed programs (loan loss reserve programs with banks, BIDCOs, public-private venture funds, etc.) with the explicit intent to use public funds to help capitalize institutions in the private sector which will have ongoing capability and sustainability without further public funds.

Similarly, state funding to communities has a goal beyond financing a particular project. This goal is to increase the capability of the community to sustain its economy and make appropriate investments in building and operating infrastructure.

More programs are limited by the lack of truly viable projects to fund than the lack of funds. For business-related finance projects, the lack of technical and business assistance infrastructure has limited growth more than the absence of capital. This is particularly true for rural economic development projects which

need both technical expertise and an individual “sparkplug” with the drive and competence to succeed in an environment with thinner local resources for suppliers, marketing assistance and training.

3. Public Investment Criteria

The purpose of financing development programs is to increase the general economic welfare of the state by building viable businesses and community. Projects should have a measurable, direct benefit to the people of the state. These benefits may be economic or quality-of-life-related depending on the project purpose. The programs that are created and their level of funding establishes the overall priorities of the state. Funding decisions must consider the following elements:

a. Public Benefit

The expected public benefit is the most important criteria in public investment funding and must be clearly defined and articulated. The investment may purchase a public good in the form of jobs, safety, health, or an actual cash return to the state.

A program must define and measure what public benefit will be obtained and then evaluate the appropriate amount and form of the investment. Benefits such as improved health and safety will likely be harder to measure than the creation of jobs. Job creation may be harder to define and determine than an actual monetary return. Returns that are easier to count are not necessarily more important than less quantifiable returns.

b. Return

Prior to making the investment, the recipient of the return must be determined. Public agencies can receive both a monetary return and a return in the form of a general public good. Dependent on the form of benefit expected and the expected beneficiaries, the investment may take the form of a grant or loan. By speaking of grants or loans, we do not exclude the concept of a state equity role in fundamentally private undertakings.

Purchasing a public good involves different motivation and expectation of return than does making a business investment. In making a business investment, a project manager looks for a quantifiable return on that investment. In purchasing a public good, the state is less likely to see a need for a quantifiable return.

c. Appropriate Share of Risk/Reward

The balance between expected public benefit and likely return should be an appropriate share of risk and reward in the project. Risk and reward must be appropriate for the product or business' stage of development and the amount of private investment in the undertaking.

Business financing programs where the state takes the full downside and the private sector has the full upside - for example, the federal savings and loan bailout program - generally lead to poor results. Most successful state financing programs have included incentives and payback to avoid this problem.

On the one hand is the need to avoid the "creaming," i.e., using public funds to subsidize programs or projects that would have happened anyway. This can be done by pricing the transaction above market rates or doing earlier stage deals for which private capital is not available or both. On the other hand, programs should avoid funding projects without any appropriate market test; i.e., offering free funds or below market rates with no risk or payback required. If public-financed programs fund projects or proposals which the private sector markets will not, it is not surprising that the public portfolio ends up with higher losses and lower returns than the private market would tolerate. There must be a middle ground where the state's desire to obtain public good or foster business development can help mitigate the reticence of the private sector to participate in riskier undertakings.

d. Leverage

The closer a project is to commercialization and private sector competition, the more cost sharing or leverage should be expected. Public funds, federal and state, support basic research because it is impossible to identify specific beneficiaries at this earliest stage (except society as a whole). As projects get closer to the market, more leverage or payback protection can be expected from the private sector.

B. Economic Engines of Anchorage

1. Increase trade

Anchorage is the transportation hub of Alaska for both surface and air connections to the rest of America and the entire globe. Four areas of opportunity are evident from Anchorage's strategic location and existing infrastructure. They include areas of expertise in which sufficient participants exist to maintain a cutting-edge capability and who have sufficiently unique character to be noted in the global presence. Anchorage connects Alaska to the rest of the world, and brings the rest of the world to all of Alaska.

a. Anchorage International Airport (AIA)

AIA is already nationally and internationally prominent in cargo transactions. To maintain and expand this capability into the future requires active development and enhancement of activities that cannot easily be displaced by simple technology. AIA, for example, has the potential to convert a simple technical process - refueling - to cargo hub operations. Other such operations include:

- * Global product warehousing and distribution
- * Repair and return operations
- * Parts banking

- * Product “staging”
- * In-transit merging and/or reconfiguration
- * “Kitting”

The use of AIA as support for new and additional product development creates significant new opportunities. Such activities need not be placed directly at the airport, but exhibit greatly enhanced competitive value compared to other cities by virtue of having AIA cargo operations close by. Such global logistics-based products and/or activities might include:

- * High-value, low weight, time-sensitive items/material
- * Electronic parts, components, and finished goods
- * Semiconductor manufacturing processes
- * Pharmaceuticals manufacture
- * High-end fashion/garments manufacture or assembly

Global logistics operations and associated products are magnified in economic impact by use of the foreign trade zones to attract value-added operations. To maximize the entrepreneurial and business capability of the AIA requires that operation under traditional state regulatory agencies be changed. A recent review by a mayor appointed task force recommended placing the AIA in an airport authority.

b. Port of Anchorage/Ship Creek Waterfront

In the last twenty years cities all over the globe have recaptured waterfront areas that have fallen into disuse and decay. Anchorage enjoys an unspoiled waterfront that has the potential to be a thriving center of commerce through integration of the assets of the Port of Anchorage and the Alaska Railroad and to other surface transportation means. The Ship Creek Waterfront can support tourism, trade and recreational needs. The Municipality would be enhanced both aesthetically and commercially by such efforts.

c. Tourism

Visitors bring millions of dollars to Alaska each season. By attending to winter destination and activity development, tourism can become a year-round growth industry. Alaska holds a mystique for Americans and for international visitors. Alaska is truly a unique destination in all seasons. In addition to developing infrastructure, attention must be placed on promoting for the benefit of Alaskan tourism and visitor industry businesses. When broad national media attention falls on Alaska, visits increase. The integration of Anchorage with efforts in neighboring areas to package and promote destinations together can significantly expand and stabilize the visitor industry throughout the state. Cooperation among visitor bureau and development organizations on an unprecedented level is already yielding exciting opportunities. Collaboration between cities and rural areas is also growing. Both initiatives are likely to increase the global prominence of Alaska as a visitor destination.

Tourism opportunities of globally significant prominence include winter activities such as snowmobile touring, dog sledding and skijoring as well as cross country and downhill skiing. Less popular but of high quality experience are photography and ecotourism for which Alaska offers opportunities unique in the world. In the summer tourism arena, the global quality of sport fishing options in Alaska have broad interest world-wide. People come to fish in pure Alaska waters with scenery and experiences beyond comparison. The sport fishing industry and winter tourism both offer Alaska-based business opportunities with dollar flow principally to the Alaska economy.

d. Services

Business Services:

Banking, financial, insurance and real estate businesses in Anchorage have grown significantly over the last fifteen years. However, many Alaskans, especially those outside of the cities, rely on firms outside of Alaska for basic business and financial services. Because of advances in telecommunications technology, Alaskans have the opportunity to reach and serve all areas of the state from Anchorage. An analysis of the Puget Sound Study, Jobs Today, Jobs Tomorrow indicates that more than half of the 90,000 jobs based on Alaska resources fall into the category of professional support services. A significant fraction of such opportunities could and should be based in Anchorage. The extensive capabilities of the financial and banking community in Anchorage should be documented and promoted within Alaska. The BUY ALASKA program should be expanded in concept and in implementation to include the priorities of investments by the Permanent Fund. Economic incentives for businesses and citizens to "Buy Alaska" should be developed and promoted to fully capture the capabilities of the business services sector. The full report of the Business Services Working Group is attached as **Appendix K**.

Oil Industry Support Services:

In addition to business services, the capabilities of the oil industry support companies can be exported and promoted to other areas where development is underway. The major difference between Alaska and other oil exploration areas is that Alaskans have done exploration, development and production in the far north recently and successfully. Such capabilities should be actively promoted on an international basis.

2. Generate Cargo

Anchorage has the transportation infrastructure to support significant processing opportunities. The movement of Alaska's resources out of our economy in a primary (unprocessed) state adds a minimum of the product value to the Alaskan economy. Moving the resource-derived materials further down the processing chain allows a larger fraction of the value to remain in the Alaskan economy. The following areas offer significant opportunities for generating cargo for export from Anchorage.

a. Seafood

With consumer interest focused on ready to serve/prepared foods and with less interest in processing food by the consumer, Alaska has opportunities to enter a new market niche. With careful coordination of shipping and air freight scheduling, fresh seafood can reach markets in Asia and the lower-48 states. Infrastructure support in the form of cold storage capability both in Anchorage and in the fishing grounds will enhance production of higher-quality, higher-value products.

In addition, there are significant markets for higher value processed foods sold in smaller volumes. Opportunities in production of further processed seafood products from primary processors in Alaska will be created with the operation of The Alaska Seafood Center, currently under negotiation with AIDEA.

b. Packaging and Assembly

High-value-light weight products can be assembled and packaged for global distribution in Anchorage. One such operation has already reached the stage of facility construction at the AIA - the Alaska Power Systems operation. In such manufacturing processes, components enter Anchorage from a variety of sources in the Pacific Rim and Europe, are assembled with components and intellectual property in Anchorage, and shipped to destinations in Alaska, the lower-48 states and other destinations around the globe.

Such packaging and assembly operations may include final testing for electronics equipment, customer-tailored equipment packaging with connectors, directions and software in the language of the appropriate destination, and operations that package and assemble kits. Anchorage is a natural for this type activity because of its location and ready access to both air cargo and high seas shipping.

c. Manufacturing in foreign trade zones

Foreign Trade Zones at both the Port of Anchorage and in the AIA offer the potential for value-added processing using materials from foreign sources with domestic or foreign destinations. This capability assumes global significance when the value of Alaska natural resources is added to the equation. See the Alaska Power Systems example in the foregoing paragraph. While this is principally a domestic activity, nothing would preclude a similar activity using foreign products in the FTZs.

VI. Recommendations

Implementation of these recommendations is essential if Alaska is to avoid the fate of many resource-rich economies. Invest in the future while resources are in abundance, or risk the death spiral of resource depletion.

A. State of Alaska

1. The Alaska Corporation

The State of Alaska should form a public/private corporation with a mission to develop public resources and assets in partnership with private interests. The authority would use Alaska's resources and assets as equity for worthwhile, promising economic development projects. It would adopt such criteria as are necessary to develop the natural resources of the state of Alaska in a manner that can be sustained and that protects the environmental integrity of the resource base. The focus of the Alaska Corporation would be to add value to the resources of the state thereby providing jobs and products for the enrichment of the state and its citizens. Technology applications to upgrade and streamline processes should fall under the purview of this entity in collaboration with the Alaska Science and Technology Foundation. The Alaska Corporation should have jurisdiction over quality control and quality standards for processes and products for which the state resources form an equity asset. This public/private corporation would work in close partnership with the AkRR, AHFC, AIDEA, ASTF, municipal/city/borough corporations, native corporations and the private sector in general. The governing body would be a board of directors with both public and private sector members. Equity interests would be determined by resources contribution.

2. Airport Authority

In 1994 a task force was appointed by Mayor Mystrom to objectively evaluate existing Alaska International Airport Systems (AIAS) structure, determine any areas in need of change, discuss alternatives and make recommendations to state and local officials to ensure that the AIAS continues to play a key, strategic role in the development and well-being of Alaska. The task force concluded that the AIAS is not effectively capitalizing on the potential of the two airports (Anchorage and Fairbanks) principally due to factors related to state government control of the airports. These factors are:

- An inconsistency in management caused by frequent, politically-motivated changes in airport management creating a lack of organizational stability needed in the business environment.
- Airport management decisions politically influenced and motivated thereby not necessarily reflecting the best courses of action to maximize the airports' economic potential and satisfaction of their customers.
- No clear, concise line of authority/responsibility contributed to by the several state agencies who have management or support responsibilities under government processes/procedures for certain aspects of airport functions.

- The airport system is not operated in a businesslike fashion because it is fitted into a bureaucratic state government system not designed to operate in the business environment.
- A belief by many customers/users of the airport system that state bureaucracies do not hold their interests in high stead.

To rectify the aforementioned ills, the task force recommended that both Anchorage and Fairbanks airports be placed in an airport authority and privatized. The Anchorage Chamber of Commerce endorsed the airport authority concept for Anchorage International Airport. Fairbanks opposed the concept.

3. Alaska International Offices

The State Of Alaska should expand and strengthen the international trade offices in principal markets of Japan, Korea, Taiwan, and Russia, especially Sakhalin Island. The Alaska Offices should carry the full weight of the government and have as their principal mission the active promotion and marketing of Alaska businesses, goods and services to potential trading partners. The offices should be tied closely to the resources of the Buy Alaska data base to make referrals and recruitment of opportunities in foreign destinations efficient and effective. Public and private funding should be designated for fully supporting such operations. After creation of The Alaska Corporation, this function should become part of The Alaska Corporation.

B. Municipality of Anchorage

1. Recapture Ship Creek Waterfront

The waterfront of Ship Creek offers significant opportunities for the Municipality of Anchorage ranging from high-quality residential use to commercial/tourist attraction to a center of commerce and trade. The full potential of this area requires an infusion of capital, an aggressive vision for integrating the Ship Creek Waterfront into the city as an enhancement and an asset and positive leadership from municipal government such as that exhibited in the Project 80's effort. The Municipality of Anchorage should appropriate funds for the improvement of port infrastructure. The Mayor of Anchorage and the AkRRR should collaborate on the implementation of an integrated plan of development with full participation of the Mayor's Waterfront Redevelopment Task Force. This effort should consider moving certain railroad industrial functions to Eagle River.

2. Establish Business Enterprise Zones

Specific parcels of land should be zoned for commercial and industrial enterprise areas. Such areas would have a promotional package of incentives for development in target industry areas such as value-added processing, packaging and assembly, supply/parts depots for international distribution, centers for trade warehousing, inter alia. These Enterprise Zones should be established for ten-year terms, with special incentives relaxed

on a sliding scale thereafter. Municipal and state incentives may be included. The enterprise zones should be designed to amplify and improve the success profile of neighborhood development initiatives.

3. Streamline and Expedite the Building Permit Process

The existing municipal process for approving building plans, permitting and inspecting both residential and commercial construction poses impediments to development. The process entails numerous steps, that are not well integrated for scheduling. The construction season causes bulges in the flow of work that are not well accommodated in the existing procedures. The Municipality is implementing a new automated plan and permitting process system, which is causing some transition problems. The Municipality efforts to streamline and expedite this process should continue to receive top priority attention.

4. Heed the Recommendations of the Anchorage Seafood Industry Task Force

There are several action items in the recommendations of the Anchorage Seafood Industry Task Force that target secondary processing and high-value products, not necessarily just high volumes.

- a. Coordinate efforts of the airport and the seafood industry to upgrade transportation infrastructure from the fishing grounds to Anchorage, and improve facilities at Port of Anchorage.
- b. Develop cold storage facilities both in Anchorage and at strategic locations in the fishing grounds to improve delivery of quality products.
- c. Pursue the development of the Anchorage Fisheries Center to co-locate seafood-related businesses, assist in promoting tourism interest and support the relocation of portions of the Alaska Fish Science Center to Anchorage from Seattle.

To begin the process, a new partnership order of government, business, universities, organized labor, schools, environmental groups and ordinary citizens must:

1. Become familiar with the mission, goals and objectives of this report.
2. Communicate the necessity for these objectives to all Alaskans and insure they understand the crucial aspect of the effort.
3. In a cooperative venture, develop a plan with measurable and stated milestones and identify responsible entities to achieve these objectives.

This new partnership must be a non-partisan undertaking of state and local governments fully supported by all other participants. The effort should not be funded by government only.