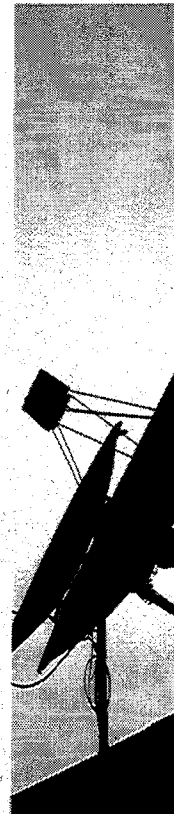
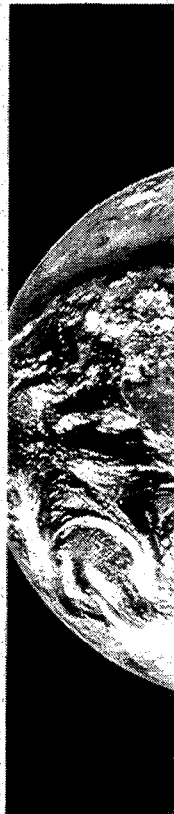


STUDY GROUP REPORT

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:
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June 30, 1997

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

(Acknowledgments Continued)

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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*

Table of Contents

Acknowledgments

Summary

I. Introduction:

II. Concept: a Vision for 2005

- A. Develop opportunities under the direct control of the community
- B. Develop high value job opportunities for current and future generations
- C. Use Alaska's endowment of natural resources to benefit Alaskans
- D. Direct Alaska's wealth toward Alaskan investments for the future
- E. A Perspective for the Year 2005

III. Competencies

- A. Alaska Economic Profile
- B. Overview of Economy
- C. Opportunities
- D. Resources/Assets
- E. Challenges

IV. Connections: Alaska's Domestic and Global Trading Partners

- A. Significant Trading Partners
- B. Competitors
- C. Partnerships/Joint Ventures/Collaborations

V. Conclusions

- A. Globally Significant Opportunities
- B. Alaska's Endowment as Equity

VI. Recommendations

- A. State of Alaska
- B. Municipality of Anchorage

Resources and Appendices (Available upon request)

- Appendix A: Anchorage Indicator Review
- Appendix B: SWOT Analysis
- Appendix C: ASTF Programs
- Appendix D: ANWR
- Appendix E: Seafood Task Force Report
- Appendix F: Global Logistics: The Anchorage Solution
- Appendix G: Anchorage Snowmobile Access Plan
- Appendix H: AHBC Survey Results
- Appendix I: Kodiak Launch Facility
- Appendix J: Trade Sector Analysis
- Appendix K: Business Services Working Group Report

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.

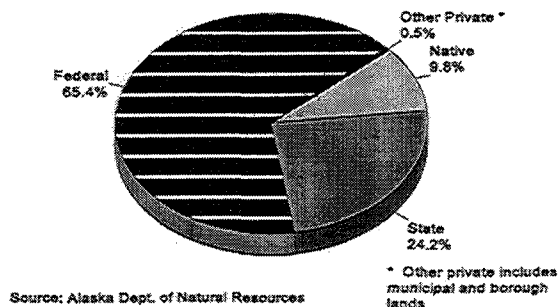
A. Overview of the Alaska Economy

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.

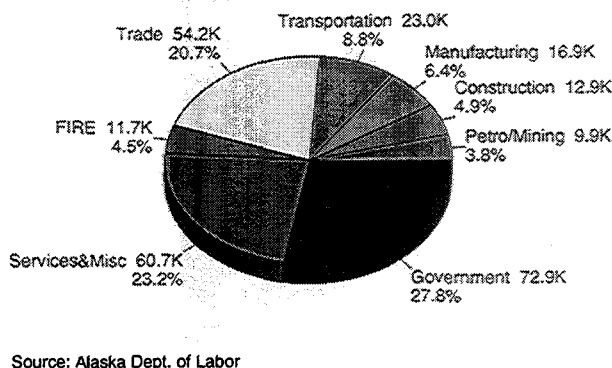
Thus, as an effective economic unit, Alaska maintains a population of 615,900 with a widely-dispersed land base. The total economy of the state has a value of \$24 billion, including the endowment of the Permanent Fund¹. The state is distinguished from all the others by its negative net tax system, and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



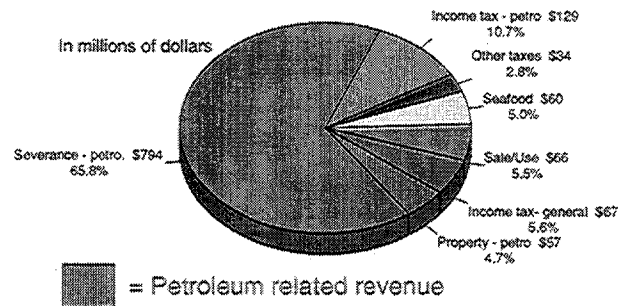
Note: F.I.R.E. = Finance, Insurance, Real Estate

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

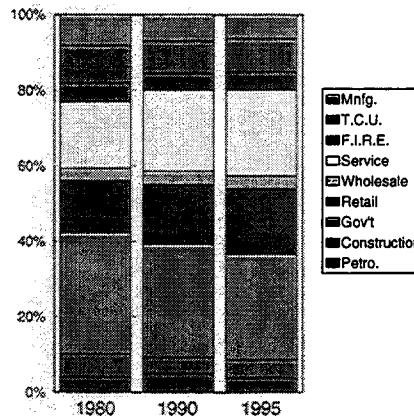


Source: Alaska Dept. of Revenue

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



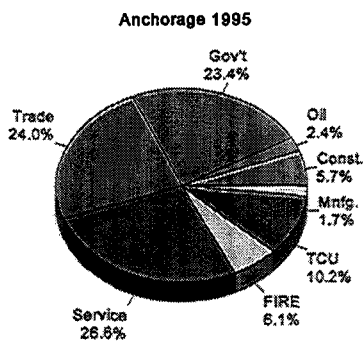
Notes: T.C.U. = Transportation, Communication and Utility; F.I.R.E. = Finance, Insurance and Real Estate
Source: Alaska Dept. Of Labor

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.

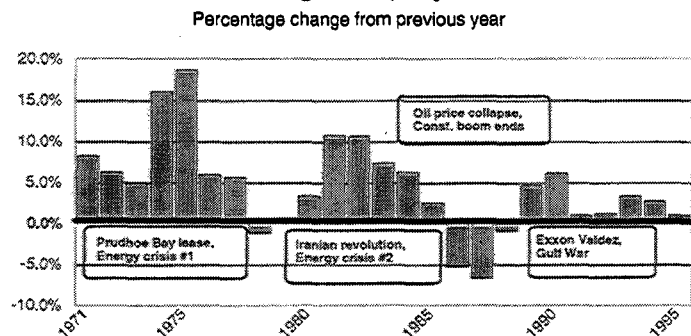
B. Overview of the Anchorage Economy

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.