

# Alaska Economic Report

*Tracking resource, business, industry  
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## *Easing of restrictions, streamlining applications*

### **State business grants now move faster**

Money is moving faster through the state's small business grant program after rules that blocked many applications were eased Monday, Aug. 31. Also, a new Internet-based portal at the Alaska Industrial Development and Export Authority, the agency administering the program, is getting applications processed more quickly. Eight hundred applications came in Aug. 31, the first day rule changes went into effect, Alan Weizner, AIDEA's director, said in an Sept. 2 briefing. Applicants who had received federal Payroll Protection Act or Small Business Administration emergency disaster loans were previously rejected, as were commercial fish harvesters. These are now accepted. The new Internet-based system is also

speeding things: \$62 million in grants have been approved as of Tuesday, Sept. 1, up from \$28.8 million two weeks ago, Weizner said.

Twenty-five percent of the grants approved are to small businesses in rural communities of 5,000 or less, Weizner said. Also, 42 percent of the 3,200 applications filed through the new Internet portal are from harvesters and fisheries-related firms, and another 27 percent are from the hospitality and tourism sector hit hard by cancellation of the summer cruise season.

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***Primary election analysis  
Governor in driver's seat?  
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### **ANWR puzzle: Is oil there? Is industry really interested?**

Oil and gas leasing in the Arctic National Wildlife Refuge is now a real possibility, unless Democrats take the White House. Aside from that, key questions are whether oil is really there (no doubt some will be found) and most important, the level of interest by industry amid continued economic downturn, controversy and litigation. The next step is a call for nominations by the U.S. Bureau of Land Manage-

ment for specific tracts of interest by industry, after which the first lease sale can be scheduled possibly in December. Conservation groups have filed lawsuits, so a lease sale could be delayed by a court or it go forward while the case is decided. In this case the risk for bidders, in that companies' interest in specific areas will be exposed in a sale (internal priorities for bidding on tracts is confidential).

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## **Primary election analysis – Conservatives rout moderates**

### **Full PFD again: New pressure on Permanent Fund?**

The Aug. 18 primary election was an upset for many incumbents but one winner was Gov. Mike Dunleavy. Because many of the Legislature's moderate Republicans were defeated in the primary the governor, a conservative Republican, will have much more influence. The ouster of moderates is mainly a result of the closed primary where only registered Republicans and registered nonpartisan voters cast ballots. When this is combined with the low 22.7 percent voter turnout, which is typical in Alaska primary elections, a small group of motivated voters, in this case conservatives, will have a very large effect. And it did.

*Moderate and experienced leaders like Senate President Cathy Giessel of Anchorage and Sen. John Coghill, of Fairbanks, were defeated. Coghill apparently lost by just 16 votes, although a recount will be done.*

The process in a closed primary can often be stealthy. Networks of motivated voters have ideological commonality and contact their followers via phone networks and social media and without a lot of open public debate. Targeted lawmakers can have difficulty defending themselves. Alaska almost lost U.S. Sen. Lisa Murkowski in 2016 when a relative unknown, Joe Miller an ideological conservative, defeated her in the primary. Murkowski prevailed in an unprecedented general election write-in, which is fortunate for Alaska because of her clout in the U.S. Senate.

#### **Some Senate moderate Republicans survive, but by narrow margins**

Two experienced moderate Republican senators, Sens. Natasha von Imhof of Anchorage and Gary Stevens of Kodiak, narrowly survived the conservative onslaught. Sen. Bert Stedman, R-Sitka, another Republican veteran and a moderate, was reelected but was not seriously challenged. Sen. David Wilson, a Mat-Su Republican, who is more moderate than others of the regional delegation, was reelected, but narrowly, and mainly because he had two strong opponents who split the vote against him.

Republican moderates also lost big in the state House with the defeat of Anchorage Reps. Jennifer Johnston and Chuck Kopp, and the death of Rep. Gary Knopp of Kenai. This could put conservative Republicans in a clear majority in the House, with the Mat-Su delegation having the muscle. Surprisingly, Rep. Mark Neuman, a Mat-Su conservative, was not reelected. This was probably a result of local issues and the general anti-incumbent mood. One House Republican moderate, Rep. Steve Thompson in Fairbanks, was reelected by 39 votes.

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## **Election analysis: New pressure on the Permanent Fund? (Cont.)**

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A question here is on what basis the remaining moderate Republicans are invited into the conservative Republican caucus. They could join the caucus, for example, but with no commitments except to support the leadership only on procedural motions and perhaps to support the budget, but not on other issues. This is complex and, depending on how agreements are made, it can increase uncertainty on where votes are, and it will affect how efficiently the House and Senate majorities will function in passing major legislation. The best that Democrats can do in the House would be 20. There are 17 in the current state House. A 20-20 split in the 40-member House is unworkable because it takes 21 votes to pass a bill, including the budget. Also, Rep. David Eastman, the Mat-Su Republican who votes “no” on everything as a practice, the majority must net an extra “yes” vote to ensure the 21 votes for a bill to pass.

### **November general election will be different**

The general election in November will be different, with a much larger turnout due to the presidential election, the oil tax initiative on the ballot, and a second initiative on ranked voting. It is unlikely that any of the Senate leaders would have been defeated under ranked voting. A lot of money will flow into a campaign against the oil tax initiative.

We will also see spirited races for congressional seats held by Cong. Don Young and Sen. Dan Sullivan. The results will reflect more of the majority population opinions, but there will still be surprises. Democratic U.S. Senate Challenger Al Gross did quite well in the primary, as did independent U.S. House candidate Alyce Galvin, who is running against Republican U.S. Rep. Don Young in the general election. Galvin secured 53,194 votes, out-polling Young’s 51,872.

The primary election will still cause major changes in the Legislature no matter what happens in November. Conservatives will likely lead both the House and Senate. We see Rep. Lance Pruitt, Republican of Anchorage and now House Minority Leader, as a candidate for Speaker, although Pruitt faces very strong Democratic competitor, Liz Snyder, in November. Although Pruitt is from Anchorage the real muscle among House Republicans is in the Mat-Su delegation.

### **There could be surprises, including another coalition, in November**

There is always the possibility of an upset of some kind in November that improves chances for a coalition between Democrats and Republicans. This is more likely in the Senate this year. There are seven Democrats currently in the Senate and three moderate Republicans who are part of the current Senate leadership. If these senators dislike the idea of being led by Mat-Su conservatives (with the governor behind the scenes) they could join with Democrats (Stedman and Stevens have joined with Democrats previously). If Von Imhof joins a coalition, only one other senator would be needed to form a majority of 11 for a coalition to again organize the Senate. *– Continued on Page 8*

# Business Intelligence

## Latest job figures not encouraging; seasonal “bump” is down

The latest job figures are not encouraging. They reflect the continued toll of COVID-19 on the state’s economy. On a bit of an upbeat note there is a 3,700 gain in employment between June and July and 4,000 between May and June. This is the normal seasonal increase in jobs. But it is a lot weaker than in past years. The total job year-over-year decrease, July 2020 compared with July 2019, is 39,900, a 11.2 percent drop in total employment. The decrease is slightly more than in June, when year-over-year was 10.8 percent down, but still better than May, when the job drop was 12.2 percent. Looking at specific industries in July over June, oil and gas showed a normal summer drop (the industry peaks in winter) and construction was modestly up as was professional and business services, which includes engineering. Health care, retail and leisure and hospitality were also up modestly. What’s significant is that the usual summer surge in jobs is missing, no doubt a consequence of the lost tourist season and tightening of work in oil and gas. Anchorage’s recent re-tightening of bar and restaurant services put a dampening on July employment, no doubt. But those businesses are now being allowed a limited reopening, so some jobs will be restored.

### **Fall university enrollment is down, but not as far as expected**

Fall enrollment in the University of Alaska system is down but not as far as was projected earlier. At the University of Alaska Anchorage (UAA) enrollment is down 9 percent according to university data, better than the 15 percent anticipated from early enrollment in the spring. University of Alaska Fairbanks (UAF) is down 4.4 percent, basically in line with earlier expectations. University of Alaska Southeast (UAS) is down 4.8 percent, again in line with expectations. System-wide, the university is down 7.4 percent from the fall 2019 enrollment.

Within the UA system, five academic units showed gains: The rural college network is up 4 percent; Ketchikan is up 5 percent; Sitka is up 14 percent, and University of Alaska Fairbanks’s School of Management is up 7 percent. Academic units showing losses include University of Alaska Anchorage’s College of Arts and Sciences, down 10 percent; Kenai down 23 percent; UAF’s Community and Technical College down 16 percent; UAA’s Community and Technical College down 17 percent. Mat-Su College, which is part of UAA, is down 13 percent.

More encouraging university data: Applications to the university for new students is down less than full enrollment (of all students) at 7.5 percent down for UAA; down 2.7 percent for UAF and with an increase of 4.6 percent for UAS. Also, the university’s “scholars” program, which offers free tuition for students at the top of their high school graduation classes, has grown, with

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97 percent of eligible students applying somewhere in the UA system, up from 66 percent indicating their intention to do so last May. This is encouraging in that high school graduates eligible for UA's Scholars Program are among top performers who usually go out of state, so this is an increase in retention of talent. But what it also shows is that with many out-of-state universities offering most course on-line (at the same tuition) more Alaska students are opting to stay home.

**New effort underway to get university more of its land entitlement**

The university is taking a new stab at getting more of its long-delayed land grant promised at its establishment as a land grant agricultural and technical college in 1917. For various reasons efforts to get more lands have been thwarted over the years, but a new effort is in the works to get federal legislation establishing a program where lands can be transferred directly by the federal government with the acreage subtracted from the state of Alaska's remaining 5 million acres of its original 103 million acres of land entitlement. The university hopes to gain 350,000 acres with hopes that most of that will be lands with mineral potential. Efforts are underway with the state's congressional delegation to get this done before the end of the year, as Alaska Sen. Lisa Murkowski's term as chair of Senate Energy and Natural Resource committee will end.

**Petroleum: Prudhoe Bay production drops in August**

Hilcorp Energy held Prudhoe Bay production about even in July, its first month as operator after taking the big field over from BP on June 30. Prudhoe output averaged 286,200 barrels per day in June and 287,341 in July. In August, however, average output for the field dropped to 274,290 barrels per day. Prudhoe is watched closely because Hilcorp is the new operator and because it supplies more than half of total production from the North Slope.

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## **Petroleum:**

### **ANWR analysis – oil is likely, but industry appetite is uncertain**

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For years government geologists have spoken of the refuge's coastal plain, in its far northern section, as having the greatest potential for very large oil discoveries on any undeveloped U.S. onshore area. That view is due to the region's basic geology, which is similar to oil-bearing regions to the west, and oil seeps that confirm the presence of oil generating systems in the underground rocks.

A multi-company seismic survey allowed by the federal government in the 1980s showed the presence of large geologic formations that could hold oil. Only one exploration well has been drilled in the area, a test jointly done by Chevron and BP on a 91,000-acres holding in the coastal plain owned by Kaktovik Inupiat Corp and Arctic Slope Regional Corp. The results of that are still confidential. Hilcorp Energy now has the rights to BP's share of the data after Hilcorp acquired much of BP's Alaska assets on July 1. An Alaska-based seismic company has been attempting to do another survey, this time using more advanced technology, but has not proceeded with the project. One problem was that there were problems with the infrared technology to be used to spot denning polar bears (which are protected) but there were also reports that SA Exploration, the company, was having difficulty getting clients for the survey.

#### **Barrow Arch" missing in ANWR**

There are some mixed views among geologists over ANWR's prospects. Some see it as highly prospective while others are uncertain, noting the absence of the "Barrow Arch," the broad west-east geologic formation that parallels the north Alaska coast and that created the very large reservoir traps in which the Prudhoe Bay and Kuparuk River fields were found. There are still potential formations in the coastal plain seen in the 1980s seismic data but these might be smaller.

It is still likely that some oil will be found, particularly in the western part of the coastal plain that is adjacent to state-owned lands across the Canning River boundary where oil and gas have been discovered. The large Point Thomson gas and condensate field is just west of this and "Sourdough," a discovery by BP now being explored further by independent Jade Energy, is virtually on the ANWR border. Since the geology is similar on both sides of the Canning River boundary it's reasonable to expect discoveries in this western part of the coastal plain. These may not be Prudhoe Bay-type supergiants, but there could be several of them.

*The real question is what impact the political radioactivity of ANWR will have in depressing bidding. Large public companies will likely shy away but midsized privately-held firms may see this as an opportunity to get in on the ground floor ahead of competition from super-majors.*

## **Minerals:**

### **Pebble preparing mitigation plan**

Things are uncertain for Pebble Ltd. Partnership, or PLP, the company proposing to develop the big Pebble copper/gold/molybdenum deposit near Iliamna. The Corps of Engineers' Alaska district sent PLP a letter outlining the environmental impact mitigation requirements for the Record of Decision. These are that mitigation must be done in the watershed where the mine is located. The corps' general policy is that mitigation (restoration of damaged habitat, or protection of habitat) must be done within the watershed if possible but the agency sometimes approves mitigation in other locations. This is being done with the Alaska LNG Project, for example. *With Pebble, the corps seems to be allowing no option of going outside the watershed.* Since there are no damaged wetlands to restore the only realistic option seems to be permanent protection. Presumably this could involved putting an amount of acreage into protected status. These are state lands, so the state would have to agree to a permanent conservation easement or a similar approach.

### **Corps wants proposal in 90 days**

The corps is requiring the proposal within 90 days. PLP says it is working on an in-watershed mitigation proposal and will complete field work in early September. Meanwhile, several members of Congress are asking the U.S. Environmental Protection Agency to exercise authority it has to intervene and void permits issued by the corps. *In the final analysis whether the project moves forward will depend on the November elections and whether President Donald Trump is returned to office.*

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## **Fisheries:**

### **Salmon season is winding down**

Salmon fishing is winding down with the harvest at 107 million fish as of late August. This is 81 percent for the year so far compared with 132.6 million that had been projected, according to Alaska Seafood Marketing Institute. All species except pink salmon were down, with sockeyes down 18 percent statewide; cohos down 53 percent; ketas (chum) down 69 percent and chinooks (king salmon) down 27 percent. Pink salmon were up 41 percent statewide thanks to big catches along the Alaska Peninsula, Aleutians, Kodiak and Cook Inlet. Prince William Sound, traditionally a strong area for pink salmon, was down 9 percent. Bristol Bay sockeye harvests were down 9 percent from last year but most other areas fared worse, with Cook Inlet down 63 percent and Kodiak down 33 percent.

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### **State business grants (Cont.)**

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Applications now total \$301 million, with \$185.6 million requested through the portal and \$115.7 million in applications to Credit Union 1 under the previous system before the portal was established. Weitzner said this exceeds the \$295 million in funding made available, but not all of the amounts requested will be approved, so people should still apply, he said. State commerce commissioner Julie Anderson said that the \$62.8 million now approved leaves \$215 million still to be paid out as applications are approved. Anderson also said 28 municipalities that have received funding in a separate CARES act grant program are also doing grants to small business and nonprofits.

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## Elections results, outlook for Legislature (Cont.)

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The all-important organization of both bodies – who gets what in leading influential committees, is always complex. Even with Republican control of the Senate, which we see as likely, the conservative majority must still deal with a group of moderates who remain. Compromises will have to be made.

There are two aspects to Republican control of both the House and Senate that are important, one being that the governor will have much more influence than he had in the last two years facing a Democrat-led coalition with Republicans that controlled the House, and Republican moderates controlling the Senate. If the governor continues initiatives, which he promoted and which faltered, like a “full” Permanent Fund dividend, he will face a friendlier Legislature.

### **Rise of full PFD has implications for state finances**

The rise of the full PFD again may be one of the bigger consequences of the primary result because of the loss of moderates who opposed it. “Full” payment implies funding the dividend following a formula set in statute in 1980 when the state was flush with oil revenues. The statute is just a guideline because the Legislature has the constitutional responsibility to make spending decisions, including the amounts, so matter what statutes say. In recent years oil revenues have declined and the Legislature has appropriated funds for the PFD according to what could be afforded given other priorities, such as schools and public safety.

If the full PFD is really pressed, and we think this likely, there are serious fiscal impacts. Basically, unless cuts of several hundred million dollars are made to the FY 2022 budget no PFD can be paid next year without increasing the scheduled 5 percent draw from Permanent Fund earnings. If the 5 percent draw is exceeded there will be sharp reactions from financial rating agencies, and ratings for state and municipal bonds will slip further. However, big reductions in spending to avoid increasing the 5 percent draw can’t be made without major impacts on programs for schools, the university, transportation and health services.

*This will be a dilemma for the Legislature, but it also fits the governor’s priorities in sharply cutting spending, which have been partly successful. Now he will have the full PFD as a lever.*

*– Analysis by Mike and Tim Bradner*

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