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Some Principles in Selecting Development Projects for State Government Funding

by

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Many Alaskans agree that state government should fund capital projects such as ports, roads, and energy projects to provide the necessary infrastructure for economic development of Alaskan resources. These projects could lower the costs of resource development, providing jobs for Alaskans and revenues for the state. However, there is less agreement about which infrastructure projects to build, how to fund them, and what process or criterion to use in making these decisions. In this paper I suggest several basic principles which should underly the state's infrastructure decisions:

1. The state's revenues are limited. We cannot afford all the capital projects, nor all the other state programs, which might be desirable if we had unlimited wealth.

Recent declines in the international price of oil have underscored the vulnerability of our state revenues to international economic forces. Moreover, currently planned production from Alaska oil fields will decline significantly in the 1990's. While it is always possible that major new oil fields will be discovered, or international oil prices will rise dramatically, or other resources will begin to contribute dramatically to state revenues, we cannot count on it.

2. Since the state's revenues are limited, we cannot build all the infrastructure projects which would aid development. Instead, we must choose the infrastructure projects which would most aid development.

For example, an improved airport in Unalaska, a port in Nome, a road to the Red Dog mine, a road to Whittier, an extension of the Alaska railroad, the Susitna dam project, and many other projects like these could all contribute significantly to resource development. But we cannot afford to build all of these projects; we will have to choose among them. Even projects that pay for themselves over time still reduce funds available for other projects during the payback period (or the amount the state can borrow during this period). In short, we must recognize that in analyzing a project, the question is not only whether the project would aid development, but whether it would aid development more than other projects which we could fund instead.
3. Since the state's revenues are limited, we must also balance the benefits of infrastructure projects with those of other state government programs.

Building a road or port means that we will have less money to fund education, police and fire departments, and city streets. Thus in analyzing a project, we should consider not only how much it would contribute to development, but whether these benefits are preferable to the benefits which could be provided by other state government programs.

4. We should be realistic about the development benefits provided by infrastructure projects.

Lack of infrastructure is certainly an obstacle to Alaskan resource development. However, there are many other factors which have also slowed resource development, such as climate, labor costs, depressed world market prices, and the high value of the dollar in foreign exchange markets. Recently, Canadian mines have shut down due to depressed mineral prices. Thus, we cannot expect infrastructure development alone to automatically lead to resource development. We should distinguish between those projects which have a realistic chance at bringing about development and those which do not. In addition, we should not provide unnecessary subsidies for development projects which would proceed even without state aid.

5. In order to make wise choices among infrastructure projects, an impartial analysis of expected costs and benefits should be required for every infrastructure project proposed for funding by the state.

This analysis should develop specific projections for all costs of a project, including future operating and maintenance costs, interest costs on loans, and effects on the state's borrowing ability. It should also include an analysis of the benefits to be provided by the project, including the number of jobs which will be created by the project itself and resulting resource development, the state and local revenues which might be generated by the project and resulting resource development, and other less specific benefits of the project. While analyses of this sort may not be able to quantify precisely all the benefits and costs of a project, they can provide the basis for an informed public discussion of the project and help to identify the uncertainties associated with the project. In addition, they will help in weighing the relative costs and benefits of different projects.
6. The decisions about which infrastructure projects to fund should be political decisions, based on sound information about the choices available to Alaskans.

"Experts" can and should identify possible infrastructure projects, and their possible costs and benefits. However, "experts" cannot tell us which projects should be built. The costs and benefits of infrastructure projects will not be the same for all Alaskans. The project that provides one man's mining job may harm another man's fishing. An economic boom which brings prosperity for some may end the way of life prized by others. Not all Alaskans will agree on the proper balance between the number of teachers in our schools and the infrastructure facilities we provide as a spur to development. We must balance the diverse opinions and aspirations of Alaskans through the political process. However, we should make these choices based on as full an understanding as possible of the choices facing us, and the tradeoffs that they involve.