

# Alaska's Construction Spending

*2009 Forecast*



*Annual Report for the  
Construction Industry  
Progress Fund  
and the  
Associated General Contractors  
of Alaska*

*By Scott Goldsmith  
and Mary Killorin  
Institute of Social and Economic Research  
University of Alaska Anchorage*



Dear Alaskans,

The Construction Industry Progress Fund (CIPF) and the Associated General Contractors of Alaska (AGC) are pleased to provide you with the sixth edition of "Alaska's Construction Spending Forecast."



This publication provides an informative review and estimate of construction activity in Alaska for 2009.

Compiled and written by Scott Goldsmith and Mary Killorin of ISER at the University of Alaska, Anchorage, the "Forecast" looks at construction activity, projects and spending by both the public and private sectors for 2009.

Construction is the third largest industry in the state, pays the state's second highest wages, employs nearly 21,000 workers with a payroll over \$1 billion, accounts for 20 percent of Alaska's economy and currently contributes approximately \$7 billion to the state's economy.

I hope this publication is of value to you. When the construction industry is vigorous, so is the state's economy.

Sincerely,

Jim Fergusson  
CIPF President

## Overview

The total value of construction spending "on the street" in Alaska in 2009 will be \$7.1 billion, down 3% from 2008.<sup>1,2,3</sup>

Lower construction spending, combined with higher material and labor costs, will result in a modest reduction in the level of construction employment in 2009. Although this will be the fourth year of decline, the level remains considerably above the long-term average.

Excluding the oil and gas sector—which accounts for 43% of the total—construction spending will be \$4.1 billion—down 1% from 2008.

Private-sector construction spending will follow the

slowdown in the Alaska economy. Excluding oil and gas, we expect private spending to be \$1.3 billion in 2009, a decline of 24% from 2008. But strength in the oil and gas sector will keep the overall private sector decline to only 12%. Mining, utilities, and commercial spending will be down, mostly because a number of large projects have been completed. However, commercial—as well as residential—spending will be weaker, in response to the slowdown in the U.S. economy.

Public construction spending will be up 16%, to \$2.7 billion, offsetting much of the decline in private spending. That growth will mainly

<sup>1</sup> Our projection for 2008 was \$7.0 billion. The year-end revised figure was \$7.3 billion due to unexpected strength in the oil and gas sector.

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

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

be due to the large FY 2009 state capital budget. But strong federal spending—both military and civilian—and the federal stimulus package will also contribute to the increase.

Uncertainty in this year's forecast comes from several sources. Volatility in commodity prices has affected construction spending in two important ways. The lower petroleum and metals prices in early 2009 have made investment in some prospects less attractive. Also, companies that finance construction activities out of their current cash flow are dealing with shrinking capital budgets.

The national economy continues to deteriorate as we enter 2009. Consumers are cutting back on expenditures, and businesses are reducing their capital spending. Credit has become more difficult—if not impossible—to obtain, and the unemployment rate continues to rise. Economists

anticipate a long and deep recession at least through 2009 and perhaps beyond.

The federal government has stepped in to try to loosen credit markets, so far with only limited success, and we anticipate that early in the year Congress will pass a large stimulus package, perhaps reaching \$1 trillion.

The Alaska economy has felt few ill effects from the recession ravaging the rest of the nation, but as the recession continues and deepens, Alaska is expected to begin to suffer as well. Resource industries may cut back on their development activities, and businesses may postpone new investments. Consumers may reduce spending. Credit may remain difficult to get, for both the private and public sectors.

Many companies have delayed announcing their capital investment plans for this year, and a number have already revised plans

## Alaska Construction Spending 2009 Forecast

	Level	Change
<b>TOTAL</b>	<b>\$ 7,072,000,000</b>	<b>-3%</b>
<b>Total without Oil and Gas</b>	<b>\$ 4,058,000,000</b>	<b>-1%</b>
<b>PRIVATE</b>	<b>\$ 4,350,000,000</b>	<b>-12%</b>
Oil and Gas	3,014,000,000	-6%
Mining	265,000,000	-25%
Other Rural Basic Industry	55,000,000	-15%
Utilities	392,000,000	-31%
Hospitals	141,000,000	+41%
Other Commercial	220,000,000	-30%
Residential	263,000,000	-27%
<b>Private without Oil and Gas</b>	<b>\$ 1,336,000,000</b>	<b>-24%</b>
<b>PUBLIC</b>	<b>\$ 2,722,000,000</b>	<b>+16%</b>
National Defense	501,000,000	+1%
Highways	663,000,000	+60%
Airports and Ports	400,000,000	+7%
Alaska Railroad	65,000,000	0%
Denali Commission	90,000,000	0%
Education	280,000,000	0%
Other Federal	324,000,000	+8%
<b>Other State and Local</b>	<b>399,000,000</b>	<b>+19%</b>

Source: Institute of Social and Economic Research. Percent change based on revised 2008 estimates.

announced earlier. Our projection is based on currently anticipated spending, taking into account a modest increment from the federal stimulus package, which will target transportation infrastructure projects that are “shovel-ready.”

In spite of the greater degree of uncertainty this year, there is little downside risk to the forecast. Private construction spending will be dominated by a petroleum industry that invests strategically and is not overly influenced by the current recession. Public construction spending will be driven by money hitting the street from the large state capital budgets of the last several years. Federal spending, driven by military and civilian agency spending, will also provide stability.

Public construction spending estimates are perennially complicated by consistent delays in passage of the budget for the federal fiscal year (October through September).

As in past years, some firms are reluctant to reveal their investment plans, because they don't want to alert competitors, and some have not completed their 2009 planning. Large projects often span two or more years, so estimating cash on the street in any year is always difficult—because the construction “pipeline” never flows in a completely pre-

dictable fashion. Tracing the path of federal spending coming to Alaska without double counting is also a challenge.

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

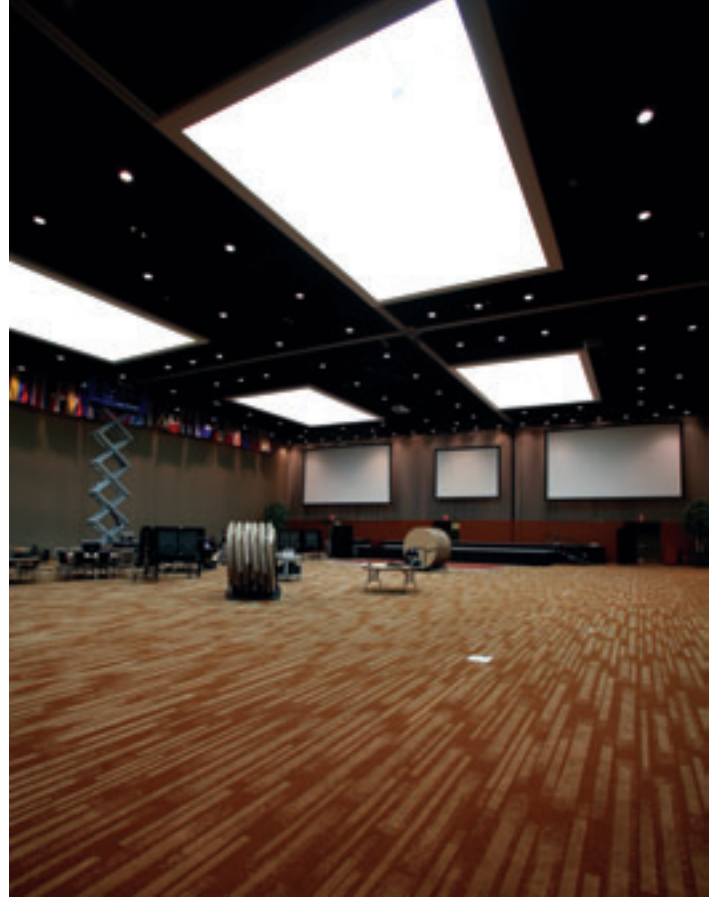
## **PRIVATELY FINANCED CONSTRUCTION<sup>4</sup>**

The private sector will spend \$4.4 billion on construction-related activities in Alaska in 2009. That is 62% of total construction spending and a decline of 12%, compared with 2008.

## **Oil and Gas: \$3.014 Million**

Oil and gas industry spending, which will account for 43% of all construction spending in 2009, is expected to be down only slightly from what it was last year. Fewer projects now look economically attractive in the present environment of low oil prices. Lower-than-anticipated cash flows and the drying up of credit have also hurt the investment plans of some firms.

BP, one of the major companies operating in Alaska, is



***Dena'ina Civic and Convention Center, Anchorage***

not exploring for new oil but has announced an expanded capital budget for the year based on developing the Liberty field, maintaining infrastructure, and investing in existing fields, as well as work associated with the Denali gas project and heavy oil. However, BP has postponed several other large-scale projects. (The new state production tax on oil and

gas, introduced in late 2007, may benefit some projects but be detrimental for others.)

Conoco Phillips, another major producer, just revised its worldwide capital expenditure budget down for the year, but we anticipate it will continue with plans to drill several exploration wells in NPR-A and elsewhere. Shell has been forced to postpone its OCS exploration plans for



***Morris Thompson Cultural Center, Fairbanks***

<sup>4</sup> We try to include in this category all spending that is financed primarily from private sources. Although this is relatively straightforward for oil and gas, mining, fishing, timber, manufacturing, and tourism, it is not so easy for hospitals, utilities, and commercial construction in general. We include spending from all sources in our hospital and utilities categories. However, in some years most hospital spending is financed by the federal government, and the state provides some of the funding for electric utility investment. Construction activity reported by local governments as residential or commercial often includes projects financed in whole or in part by public sources.



**Glenn Square Development, Anchorage**

at least a year, due to a court challenge. We assume Exxon will not be successful in its efforts to move forward this year with development plans for Point Thomson.

Development of two new fields on the North Slope—Oooguruk and Nikaitchuq—by two other firms, Pioneer and ENI, will continue as planned. Anadarko is partnering with Conoco to explore in NPR-A, and other independents will also be active, although the plans of

smaller firms are likely to be hurt by the current low price of oil.

Marathon, Chevron, and Conoco will all be active in Cook Inlet, and a few smaller firms may also be exploring. Exploratory drilling for gas will also take place in the Nenana basin this year.

No significant new construction is anticipated at the instate refineries and other petroleum-manufacturing facilities. Planning for a gasline to carry North Slope

gas to market will move forward, but construction remains years in the future.

### **Mining: \$265 Million**

Spending by the mining industry—on exploration, development, and upgrading existing mines—will be down 25% this year. That's partly because of the affects of the recession on metal prices, but also because a number of large projects that boosted construction spend-

ing in recent years are now complete. Furthermore, the largest potential mining projects, at Pebble and Donlin Creek, have not yet moved into development.

The largest current project is the extension of the site at the Fort Knox mine, including expansion of the leaching capability. Smaller projects can be expected at the Kensington mine, if the issue of how to deal with disposal of tailings—now before the U.S. Supreme Court—can be resolved; and at the Rock Creek site, which shut down last fall, with developers citing technical problems.

The Red Dog mine is moving forward with plans both for expansion (Aqqaluk) and future construction of a large-diameter wastewater pipeline. The other large operating mines, including Pogo, Greens Creek, and Usibelli, will have more modest construction budgets this year. A number of prospects are in various stages of exploration, which may lead to more construction in the coming years.

### **Other Basic Industries in Rural Alaska: \$55 Million**

Investments in facilities to support tourism, the seafood industry, timber processing, and other natural resource industries often occur in rural parts of the state, “hidden” from view. The largest current project in this category is the continued development of the dock and cold storage complex at Dutch Harbor. A number of small fish processing plants are also under construction. No large new tourism facilities have been announced for rural Alaska this year.



**APU Glenn Olds Hall, Anchorage**

## Utilities: \$392 Million

Spending in this category will be down about 30% this year, because several large projects have been completed.

A number of large-scale electric utility projects are under discussion, stimulated by last year's high oil prices and a state government appropriation to fund energy projects. Several other projects are moving forward, including the new gas-fired generating plant for Anchorage and the Fire Island wind farm, but none are yet in the construction stage. Other spending will be for smaller upgrades and maintenance.

Gas utility spending will be modest. A proposed North Slope gasification plant to provide gas to Fairbanks has been shelved.

## Hospitals: \$141 Million

Hospital spending will be considerably higher than it was last year, with new facilities at the Providence complex in Anchorage leading the way. Many smaller projects will also occur statewide.

The total could be much larger, if funding for either of the proposed new hospitals at Nome or Barrow is included in the federal stimulus package. Our total does not include either.

<sup>5</sup> Our commercial construction figure is not comparable to the published value of commercial building permits reported by Anchorage and other communities. Municipal reports of the value of construction permits may include government-funded construction, which we capture elsewhere in this report. We have also excluded hospitals and utilities from commercial construction to provide more detail about the composition of private spending (even though some hospital and utility spending is funded from public sources).

## Other Private Commercial: \$220 Million

Private commercial construction spending consists of a wide range of building types, including retail, office, medical, hotel, and warehouse space.<sup>5</sup> The level of spending from year-to-year can be influenced by a few large projects—which is one reason we project spending will be down this year. Several large projects in Anchorage were finished in 2008 or are nearly complete, including the new convention center, a number of large office towers, a parking garage, and the museum expansion.

But spending will also be constrained by uncertainty about the near-term prospects for the national and Alaska economies. A number of retail projects have recently been postponed, partially for that reason, while others continue to move forward. The stability of the Railbelt economy (Anchorage to Fairbanks) will support more modest commercial construction this year, while other parts of the state with softer economic conditions will not fare as well.



***E Street Improvements, Anchorage***

## Residential: \$263 Million

Although Alaska has been largely insulated from the national housing market crash, residential construction will decline again this year, continuing a trend that began in 2007. The decline results from slower economic growth, reduced affordability

(price growth outpacing income growth), and perceptions about national housing markets and the national recession affecting Alaska markets.

The housing market is basically sound, because the economy is strong—but it needs to slow until demand can grow to absorb the available supply.



***Hicks Creek, Glenn Highway MP 92-97***



**188 West Northern Lights, Anchorage**

## **PUBLICLY FINANCED CONSTRUCTION**

Publicly financed construction<sup>6</sup> spending in 2009 is expected to be \$2.7 billion, 16% higher than last year, due to increases in both federal and state spending.

Historically, the majority of funding for public construction has come from the federal government, and much of it flows through state government as grants, thus showing up in the state budget. Once in the state budget, these federal funds are often combined with state appropriations.

Federal funds also flow directly to non-profit organizations, like the Alaska Native health organizations, and to a modest extent directly to local governments. Federal agencies, both military and civilian, also have their own capital budgets.

Non-federal funds for state capital spending have historically come primarily from the state General Fund and bond sales. With the growth in complexity of the state budget, an increasing share of

state-financed construction is coming out of other funds.

An important source of local government spending is grants from the state. For the larger communities, current revenues and bond proceeds also contribute to construction spending.

Finally, state and local enterprises generate funds for capital expenditures from current revenues and the sale of revenue bonds.

There are numerous ways to categorize public construction spending. We present them by function.

## **National Defense: \$501 Million**

Spending will be roughly the same as last year. The number of active duty military assigned to the state continues to grow and require new construction, including facilities to accommodate the F22 fighter jets. Also generating spending are continued development of the missile defense system and the movement of Kulis Air National Guard Base to Elmendorf Air Force Base. Alaska continues to benefit because it has a number of major military bases.

The Corps of Engineers provides funds for environmental remediation (FUDS) and civil works, such as flood control. We include these corps activities, totaling about \$70 million, in the national defense total. The corps also manages most military spending in Alaska (except for programs like missile defense, the Kulis move, and lend-lease housing construction).

This year construction will be concentrated in housing and operations structures primarily at Elmendorf and Fort Wainwright. Smaller amounts

will be allocated to the other major bases at Fort Richardson and Eielson Air Force Base, as well as remote locations. Construction spending related to missile defense will be concentrated at Fort Greely.

## **Transportation—Highways: \$663 Million**

Spending for highways and roads will be 60% higher than last year, due to growth in state spending over the last two budget cycles. Although the federal highway fund has historically been the source for the majority of spending for highways, this year a large state bond package and appropriations from a large state capital budget will augment these federal dollars.

In addition, we anticipate that the federal stimulus package will pump close to \$100 million into the state this year for transportation projects. That will include the upgrade of roads and bridges in anticipation of construction of a gas pipeline.

Locally funded highway projects will be funded at a level similar to past years.



**Anchorage Museum at Rasmuson Center Addition, Anchorage**

<sup>6</sup> This category includes all spending financed by federal, state, and local government sources, except hospitals and electric utilities. Public dollars often fund the investments of private and non-profit organizations. This spending is included here. Funding for some projects comes from multiple public sources or from a combination of public and private sources. We try to account for these multiple funding sources in this analysis.



**Airport Terminal Addition, Fairbanks**

**Transportation—  
Airports, Ports  
and Harbors:  
\$400 Million**

The budget for airports, ports, and harbors will be somewhat higher than in past years because of funding of projects from the FY2009 state capital budget.

Airport spending—dominated by grants from the Federal Aviation Administration and supplemented by state funds—will be slightly lower because of less construction activity at the Ted Stevens Anchorage International Airport. The improvements in the B and C concourses are nearing completion, and the new terminal connector project has been scaled back to reduce its cost. Upgrades at the Fairbanks International Airport are also nearing completion.

Spending for publicly funded port and harbor upgrades will be considerably higher than in previous years because of the large state capital budget appropriation. Expansion of the Anchorage port continues, funded through a variety of sources. Expenditures this year are estimated at \$70 million.

**Alaska Railroad:  
\$65 Million**

The capital construction program for modernizing and upgrading the Alaska Railroad will continue this year at about the same level as last year. Project funding comes from a variety of federal sources as well as retained earnings. The focus of the program continues to be track rehabilitation, siding extensions as well as upgrades, bridge replacement, passenger equipment, and a collision-avoidance system.

**Denali  
Commission:  
\$90 Million**

The Denali Commission, created by Senator Ted Stevens to more efficiently direct federal capital spending to rural infrastructure needs, will spend around \$90 million for construction—about the same as last year.

The commission supports a broad range of projects, including transportation, health, and energy-related infrastructure, with funds provided by other federal agencies.

**Education:  
\$280 Million**

Education funding will be similar to last year. Primary and secondary school construction and upgrades are financed by a combination of direct state appropriations for the rural school districts and debt finance for the urban districts. The state continues to reimburse urban districts for most of the interest on school bonds.

University of Alaska construction projects will total \$70 million, concentrated in Anchorage, where work on the new health sciences building will commence

and the integrated science building will be completed. Other capital spending will be spread among the campuses in Fairbanks, Juneau, and elsewhere.

**Other Federal:  
\$324 Million**

The categories we just discussed—national defense, transportation, and the Denali Commission—make up the largest and most visible part of federal construction spending in Alaska. We forecast an additional \$324 million of federal capital spending in Alaska for other types of projects—8% higher than last year.<sup>7</sup>

Excluding transportation, the largest category of federally funded grant projects is rural sanitation. These funds come from a number of agencies, including the Environmental Protection Agency and the Indian Health Service. This initiative will again contribute \$100 million to state construction spending—the same as in 2008—for the Village Safe Water program.

<sup>7</sup> It is difficult to track all the federal dollars that find their way into construction spending in the state because there are so many pathways, and they change every year. The possibility of double counting funds as they pass from agency to agency, or become part of a larger project, also creates difficulties for the analyst.



**UAF Biological Research and Diagnostics Facility, Fairbanks**

Other state departments with significant federal funding for capital projects—including Commerce, Natural Resources, Veterans Affairs, and Public Safety—will spend roughly \$50 million.

The federal government also provides grants and other construction funding to Alaska tribes, non-profit organizations, and local governments across the state. The most important recipients of these grants are Alaska Native non-profit corporations, housing authorities, and health care providers. The largest of these programs is the Native American Housing Self Determination Act (NAHSDA), which provides funds for housing construction in Native communities through many Native housing authorities statewide. We expect

spending for NAHSDA programs to be about \$100 million again this year.

We anticipate the level of direct construction spending by other federal departments to be about the same as in 2008. This includes spending by the Department of the Interior (National Park Service, U.S. Fish and Wildlife Service, and Bureau of Land Management), the Postal Service, the Department of Agriculture, and the National Oceanic and Atmospheric Administration (NOAA).

### **Other State and Local: \$399 Million**

State and local government capital spending, excluding transportation, education, and energy (electric utilities)



**Clark Middle School, Anchorage**

will be about 19% higher than last year due to the large state capital budgets of the last two years. A significant construction project beginning this year will be the new Goose Creek prison in the Mat-Su Borough.

Spending will also be boosted by substantial state appropriations for grants to local governments and non-profit organizations, funded through the Alaska Department of Commerce, Community, and Economic Development.

Local government capital spending, from general funds as well as enterprise funds, will be about the same as last year, as no significant new projects are anticipated.

### **WHAT'S DRIVING SPENDING?**

Construction activity—measured by total spending, jobs, payroll, or gross product—has experienced strong growth for more than a decade, driven largely by growing federal capital grants to Alaska, large federal agency capital budgets, oil and gas spending, and more recently, large state capital budgets.

These large external sources of construction funds not only fuel public spending and oil patch spending but also give a general boost to the economy—and thus add to the aggregate demand for new residential, commercial, and private infrastructure spending.

### **CONSTRUCTION IN THE OVERALL ECONOMY**

Construction spending is one of the important contributors to overall economic activity in Alaska. Annual employment in construction in 2008 was about 17 thousand workers, with average annual earnings of \$60 thousand per worker. Missing from this total are the “hidden” construction workers employed in other industries like oil and gas, mining, and government. In addition, this total does not account for the large number of construction workers who are self-employed—an estimated 8.6 thousand in 2007.

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

The payrolls and profits from this construction activity support businesses in every community in the state. As this income is spent and circulates through local economies, it generates jobs in businesses and professional areas such as restaurants, medical offices, and retail stores.



**Linný Pacillo Parking Garage, Anchorage**

Cover:  
**Mt. McKinley Bank, Fairbanks**  
All photos by Danny Daniels Photography.