2004
ALASKA CONSTRUCTION
SPENDING FORECAST

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PREPARED FOR
ASSOCIATED GENERAL CONTRACTORS OF ALASKA

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Overview

We estimate total construction spending in Alaska in 2004 will be $5.315 billion, about the same as last year.\(^1\) Private spending will be $3.250 billion, or 61 percent of the total. Public spending will contribute $2.065 billion, or 39 percent.\(^2\)

Figure 1. 2004 Alaska Construction Spending ($5, 315 Million)

Our estimate is subject to error because some industries are reluctant to reveal their investment plans for fear of alerting their competitors, and some have not completed their planning for the year. A number of large projects span two or more years, and estimating the share of expenditures that will occur in each construction season is difficult.

\(^1\) We define total 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 other activities as well. Specifically, our construction spending figure encompasses all the spending associated with construction occupations, 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. Furthermore, we account for construction activity in government and other industries, such as the carpenter that works for the Anchorage School District. The reason we do this is to get a figure that recognizes the total occupational demand construction activity places on the work force.

\(^2\) Not all of the total $5.315 billion will be projects that go out to bid.

We’ll miss some projects in an exercise of this nature, and some announced projects won’t materialize. We hope these inevitable problems will not undermine the value of this exercise.

<table>
<thead>
<tr>
<th>Table 1. 2004 Alaska Construction Spending</th>
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<tbody>
<tr>
<td>(In $Millions)</td>
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<tr>
<td>TOTAL                               $5,315</td>
</tr>
<tr>
<td>PRIVATE                             $3,250</td>
</tr>
<tr>
<td>Oil and Gas                         1,500</td>
</tr>
<tr>
<td>Mining                              300</td>
</tr>
<tr>
<td>Other Basic Industry                100</td>
</tr>
<tr>
<td>Residential                         700</td>
</tr>
<tr>
<td>Commercial                          400</td>
</tr>
<tr>
<td>Infrastructure                       250</td>
</tr>
<tr>
<td>PUBLIC                              $2,065</td>
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<tr>
<td>Defense                             550</td>
</tr>
<tr>
<td>Highways                            350</td>
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<tr>
<td>Other Transport                      300</td>
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<tr>
<td>Denali Commission                   100</td>
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<tr>
<td>Other Federal                       300</td>
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<tr>
<td>Alaska Railroad                     65</td>
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<tr>
<td>Schools                             300</td>
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<td>Other State &amp; Local                 100</td>
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PRIVATE CONSTRUCTION

The larger piece of the construction pie is funded by private sources using both imported and local capital.

Figure 2. Privately Financed Alaska Construction Spending, By Type ($3,250 Million)
Oil and Gas: $1,500 Million
Spending in 2004 will be about the same as in 2003 but down from earlier years, because no new large fields on the North Slope are under development. There is considerable activity in Cook Inlet.

The North Slope majors—BP, Conoco Phillips, and Exxon—expect to spend $1.2 billion to optimize production from existing fields, including new wells and facilities to handle water and gas produced with oil, and on exploration wells in NPRA. The independents on the North Slope intend to spend about $75 million on exploration.

In Cook Inlet, exploration and development spending by Unocal, Aurora, Marathon, Forest, Pelican Hill, and others is estimated to be $125 million for the year.

A project to reconfigure the Alyeska pipeline may be given the go-ahead early this year. We estimate that various transportation-related projects, as well as investments associated with refining and processing, will add $100 million to the total spending of the oil and gas sector.

The oil and gas spending level in 2005 and beyond will depend largely on whether any new fields, such as Liberty, are given the go-ahead for development.

Mining: $300 Million
Spending by the mining industry, on exploration, development of new mines, and upgrading existing mines will be strong this year compared with the trend.

The Pogo mine, outside Fairbanks, is under development at an estimated cost of $250 million, to be spent over the next two years.

The smaller Rock Creek project at Nome is also under development this year, but most of its construction impact is expected next year.

Developers are moving toward a decision about two other large prospects. If a decision to go forward with the Kensington mine in Southeast, outside of Juneau, is made early this year, there may be some impact, but most would come in future years. Work on the Donlin Creek mine in Southwest Alaska is also moving forward, with construction of an access road beginning this year. A schedule for developing the mine itself has not yet been announced.

No major new projects are expected at the existing large mines around the state—Red Dog, Ft. Knox, True North, Greens Creek, and Usibelli. However, normal mine operations require annual construction spending for repairing, rehabilitating, and upgrading existing facilities.

Finally, there continues to be interest and exploration spending at other potential mining sites scattered throughout the state.

Given the number of prospects and interest, we expect the high levels of construction spending in the mining sector to continue through at least the next year.

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3 This estimate includes support for Alyeska pipeline projects.
Other Basic Industries: $100 Million

Construction spending by the seafood, tourism, timber, and manufacturing sectors is hard to track because of its diversity and distribution throughout the state, particularly in rural locations. An example of current year activity in this category is the upgrade of the Denali Princess Lodge in Interior Alaska.

We expect this category to make similar contributions to construction spending in future years as the tourism industry continues to grow and opportunities in other sectors, particularly seafood, arise. For example, initial planning is underway on a large private cruise ship dock for Ketchikan.

Residential: $700 Million

Economic growth driving an increase in population and income, as well as continued low interest rates, will combine to generate another good year for construction spending in the residential market.

Last year the Anchorage residential market had its best year since the 1980s. We expect 2004 to slow a little as interest rates begin to creep up. The Mat-Su Borough also had a very strong year in 2003, and it will be hard to maintain that pace in 2004.

Fairbanks should have a strong year in 2004, driven by activities surrounding the deployment of the new Stryker Brigade to Fort Wainwright, the missile defense system deployment at Fort Greeley, and the development of mines in the region.

Activities in the rest of the state will be more mixed, depending on local economic conditions, but low interest rates should give spending a boost everywhere.

In 2005 and beyond we see rising interest rates leading to a decline in this category.

Commercial: $400 Million

Commercial construction spending is driven by both the size of the economy and growth in the economy. A good economy this year will contribute to a large number of projects in this category throughout the state.

In Anchorage we expect new office, health, and retail space, as well as other projects in support of the growing economy. The largest project in the Mat-Su is the new hospital, which will take four years to complete and will only get underway this year.

As with residential construction, Fairbanks will see strong commercial construction, driven by development of the Bentley Trust property.

Activities in the rest of the state will be more mixed, depending on local economic conditions, but low interest rates should give spending a boost everywhere.

In 2005 and beyond we see rising interest rates leading to a decline in this category.
**Infrastructure: $250 Million**

Communications, private transportation, electric power, and other private utilities have annual construction budgets driven partially by population growth that generates new housing and businesses. In addition, they need to make large new investments from time to time to increase capacity and enhance their business activities.

Communications is currently the most dynamic infrastructure industry, and because it is very competitive, it is difficult to ascertain its anticipated construction spending. We estimate about $150 million for this sector for new and expanded facilities. The largest project is the laying of a fiber optic cable from Seward to Oregon. Of course, only a portion of this construction budget will affect Alaska.

A new electric generating plant in Fairbanks is close to a decision, and if it is approved, it would add $65 million to spending in this sector.

Other electric and gas utility generation, transmission, and distribution projects should bring the total to $250 million.

**Public Construction**

Most public construction money comes from the federal government and pays for a large variety of projects. There are numerous ways to categorize these projects. For ease of collecting information about them, we have put them into the eight categories shown in the pie in Figure 3.

**Defense: $550 Million**

For several years, construction spending for defense has been twice the long-term Alaska average. A number of big-ticket items will continue to boost spending this year.

The most significant is the deployment of the new Stryker Brigade to Fort Wainwright at Fairbanks. Construction will be underway to prepare for the full force, much of which will temporarily be housed at Fort Richardson in Anchorage. Another project currently underway in Fairbanks is the new Bassett military hospital.

Spending on the missile defense system at Fort Greeley and Shemya is winding down this year, and is expected to be $50 million.

All the major bases in Anchorage and Fairbanks will see large new projects this year, such as construction of new housing, hangars, and other facilities, as well as runway improvements.

Furthermore, the Coast Guard and the National Guard will be undertaking new construction projects throughout Alaska.
Projects “in the pipeline” guarantee another good defense construction spending budget next year, but we currently expect to see tapering off from that level in 2006.

Highways: $350 Million
The federal highway budget in Alaska has been trending upward and got a large boost a couple of years ago. This budget funds highway construction throughout the state, with the largest projects typically located in the Anchorage area and along the rest of the railbelt. Highway construction spending is also coming from the proceeds of the state general obligation bonds passed in 2002.

Examples of big-ticket items for this year include the Kenai River bridge on the Kenai Peninsula, C Street Extension in Anchorage, the Tok Cutoff, and Valdez road reconstruction.

Highway funding in future years depends on the outcome of discussions currently underway in Washington D.C. about the size of the future transportation budget for the entire nation.

Other Transport: $300 Million
In Alaska other publicly funded transportation spending is for airports and to a lesser extent harbors and docks.

Activity at Ted Stevens International Airport in Anchorage will be winding down with the completion of Concourse C this summer, but we expect about $50 million in spending on runway enhancements, a field maintenance facility, and other projects.

Much of the rest of the budget is going to fund airport construction projects in the $5 to $10 million range throughout the state, in places as diverse as Cold Bay, New Stuyahok, Sand Point, and Newtok.

Money is also going to Alaska state ferry terminal improvement projects.

A large project on the horizon is a major expansion at the Anchorage port. If that happens, it will be a big boost to this category in the coming years.

Denali Commission: $100 Million
The Denali Commission, created by Senator Ted Stevens to more efficiently direct federal capital spending to rural Alaska infrastructure needs, has been operating with a budget of about $100 million and this year will be similar. Most but not all of the commission’s spending—some of which comes through other federal agencies—is for capital projects in rural Alaska.

Currently about one-third of the commission’s budget funds energy-related needs, including bulk fuel upgrades and electric power projects. About one-third funds health facilities, and the rest goes for a variety of types of projects, including electric interties and housing for teachers.

About $50 million for the Denali Commission is pending in the energy bill that is stalled in Congress. But even if the bill now passes with this appropriation included, it will not add to this year’s construction spending.

The Denali Commission’s inventory of project needs is quite long, and we can expect a continuation at least at the current level as long as there is federal support for this program.
Other Federal: $300 Million
Although national defense, transportation spending, and the Denali Commission make up a large part of federal construction spending in Alaska, there are a number of other types of spending that add to the total.\(^4\)

Federal agencies other than the Department of Defense that have capital spending include the Department of the Interior (with the National Park Service, U.S. Fish and Wildlife Service, and Bureau of Land Management), the Postal Service, Department of Agriculture, and others. The new Department of Homeland Security also adds to the total.

Most of the state capital budget is funded by federal grants. An important category is rural sanitation projects, funded with grants to the state from IHS, HUD, EPA, and other federal agencies. This initiative is contributing $100 million to state construction spending.

Federal agencies provide grants to local governments, both directly and through the state capital budget. An example is the state’s municipal water, sewer, and wastewater matching grants program.

Federal agencies also provide grants and other construction funding to Alaska tribes and other quasi-governmental agencies for housing, health facilities, and other infrastructure. An example is the Native American Housing Self Determination Act (NAHSDA) that provides funds for housing construction in Native communities through a large number of Native housing authorities throughout the state.

The future level of federal construction spending for these activities is secure for the next couple of years, but after that it depends on the continued important role played by our Congressional delegation.

Alaska Railroad: $65 Million
The Alaska Railroad’s construction spending has been in the current range for several years, as the railroad works to improve the quality of the operation and keep transportation costs along the railbelt as low as possible.

Important projects include not only track improvements, but new buildings in Fairbanks and Anchorage and initial work on the Ship Creek intermodal facility in Anchorage.

Most of the railroad’s funding comes from the federal government, and the future level of spending also depends on the continued important role played by our Congressional delegation.

Schools: $300 Million
The large amount of 2004 construction spending for schools is being funded by the state general obligation bonds voters approved in 2002, as well as the statutorily authorized $500 million in state debt reimbursement for locally bonded projects.

The state general obligation bonds are being used to finance projects mostly outside urban areas.

\(^4\) 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, is also a concern.
The large ticket items in urban Alaska include the new Eagle River high school in Anchorage and a new high school in Juneau. Both are $50 million projects. (The Juneau high school is currently under review, and construction may not begin this year.) Projects are also planned for Anchorage, Kenai, Fairbanks, Mat-Su, and other boroughs.

School construction spending should remain strong through next year, but will probably taper off after that.

University of Alaska construction projects are scheduled for campuses statewide, based on a budget of $45 million. Two large projects—the museum expansion in Fairbanks and the library expansion in Anchorage—will be completed this year, and no projects of comparable size are expected to be underway this year.

Other State and Local: $100 Million
State and local governments fund non-education construction projects such as roads, drainage, trails, parks, and police stations. For example, Anchorage expects to spend close to $50 million on such projects, and we estimate an equal amount of such spending across the rest of the state.

This spending will fall in future years, as local governments deal with continued reductions in state financial aid.

What’s Driving Spending?
Construction tends to be the most cyclical industry in the economy, expanding and contracting over the course of the business cycle much more dramatically than any other sector. Construction activity—measured by jobs, payroll, gross product, or total sales—has been booming in recent years, driven largely by growing federal capital grants to Alaska, as well as by large federal agency capital budgets.

These grants not only fuel public spending by state, local, and quasi-government entities, but they also give a general boost to the economy—and thus add to the aggregate demand for new residential, commercial, and private infrastructure spending. So federal spending has a multiplier effect on other components of construction spending.

The boom in construction spending is evident in the pattern of construction industry payroll shown in Figure 4. Corrected for inflation, it has been increasing for several years. However, in contrast to earlier periods of economic boom during Alyeska pipeline construction and the early 1980s, the expansion has not been precipitous.

Figure 4. Construction Industry Payroll (In Millions of 2003 Dollars)
CONSTRUCTION IN THE
OVERALL ECONOMY

Construction spending is one of the important contributors to overall economic activity in Alaska. It supports firms not only in the construction industry itself, but also construction activity “hidden” in other sectors of the economy such as oil and gas and mining.

In addition construction spending generates activity in a number of industries that provide 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).

When the “hidden” construction activity and the “backward linkages” are included, the contribution of construction spending to the economy is considerably greater than reflected in Alaska Gross State Product (GSP).

Measured by Gross State Product, the construction sector only makes up 5 percent of the economy (Figure 5.). But this consists mostly of the payroll of construction firms and does not reflect either construction “hidden” in other sectors or “backward linkages” to other industries. Although these factors are considerable, calculating their size was beyond the scope of this analysis.

Figure 5. Alaska Gross Product, 2001
(In Billions of Dollars)