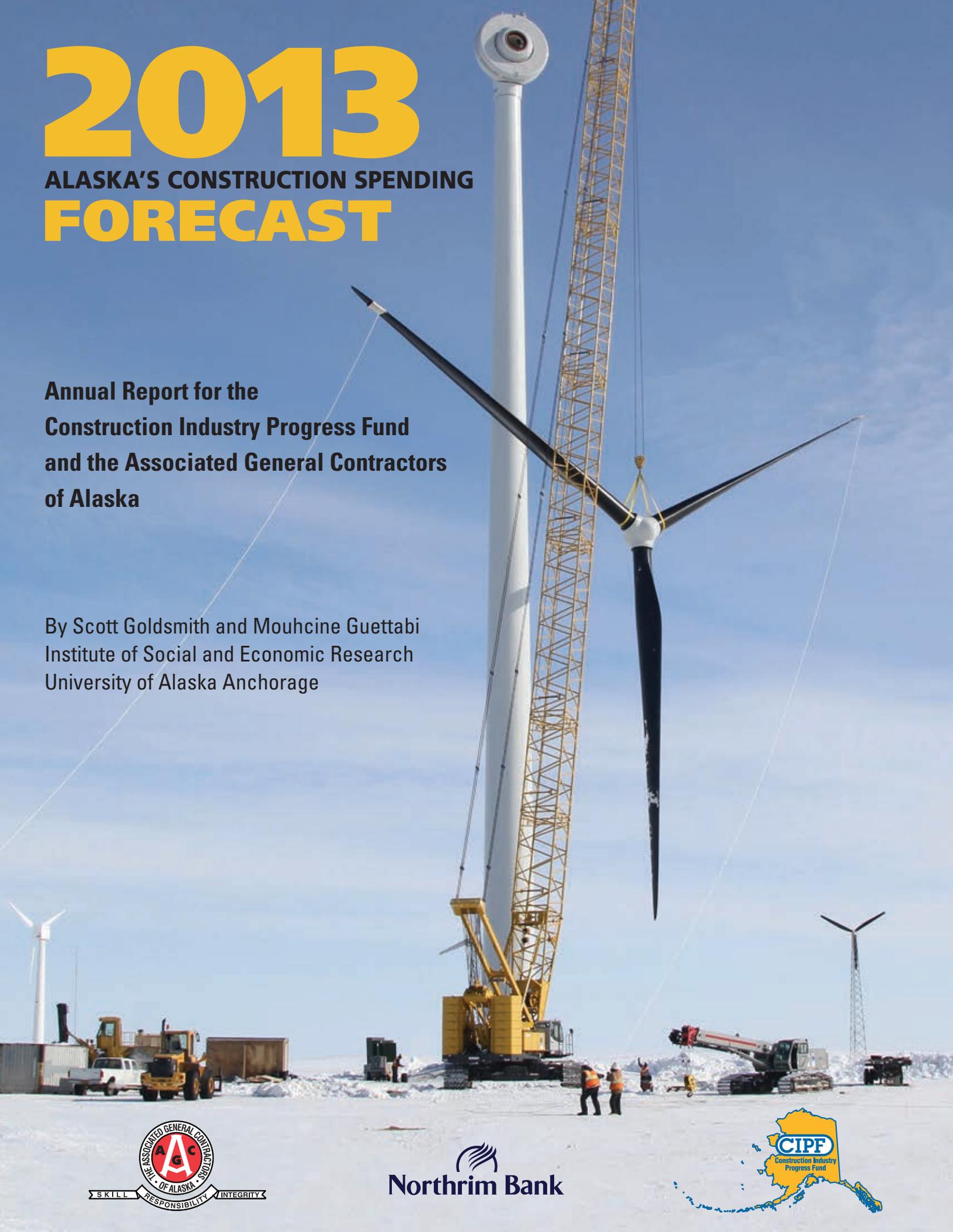


2013

ALASKA'S CONSTRUCTION SPENDING FORECAST

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

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Dear Alaskans,

The Construction Industry Progress Fund (CIPF) and the Associated General Contractors (AGC) of Alaska are pleased to have produced another edition of "Alaska's Construction Spending Forecast."

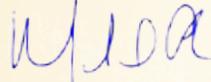
Compiled and written by Scott Goldsmith and Mouhcine Guettabi of the University of Alaska's Institute of Social and Economic Research (ISER), the "Forecast" reviews construction activity, projects and spending by both the private and public sectors for the year ahead.

The construction trade is Alaska's third largest industry, paying the second highest wages, employing nearly 16,000 workers with a payroll over \$1 billion. It accounts for 20 percent of Alaska's

total economy and currently contributes approximately \$8 billion to the state's economy. The construction industry reflects the pulse of the economy. When it is vigorous, so is the state's economy.

Both CIPF and AGC are proud to make this publication available annually and hope it provides useful information for you.

AGC is a non-profit, full service construction association for commercial and industrial contractors, subcontractors and associates. CIPF is organized to advance the interests of the construction industry throughout the state of Alaska through a management and labor partnership.


Mike Shaw, CIPF Chairman



The 2013 Forecast is generously underwritten by Northrim Bank

OVERVIEW

The total value of construction spending "on the street" in Alaska in 2013 will be \$8.4 billion, up 8% from 2012.^{1,2,3}

Wage and salary employment in the construction industry, which increased about 4% last year, to 16,500, should remain stable for the coming year.⁴

The oil and gas sector will account for most of the growth this year. It will total \$3.6 billion, up from \$3.2 billion last year.

Other spending will be \$4.7 billion, up from \$4.6 billion last year.

Private spending, excluding oil and gas, will be about the same as last year—\$2.0 billion—and public spending

will increase from \$2.6 to \$2.7 billion.

There is some downside risk to the forecast this year, not only in the oil and gas sector and those sectors most sensitive to federal funding, but also for spending funded by the state.

We assume that the oil and gas companies will be largely successful in carrying out the plans they have announced for the year.⁵ But plans can and do change due to many factors associated with weather, logistics, availability of supplies, evaluation of work completed, regulatory and environmental challenges, prices of oil and gas, and many other operational and strategic concerns. The continued uncertainty about

the future direction of state petroleum tax policy, possible new energy policy initiatives put forward by the second Obama administration, and the prospects for construction of a gas pipeline to commercialize

North Slope gas add a cautionary note not only to industry planning, but to the entire economy.

The national recovery remains weak, but that is probably benefiting Alaska and the

¹ Our revised projection for 2012 was \$7.8 billion, slightly higher than originally estimated. The revision is based primarily on higher than anticipated oil and gas spending.

² 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. Furthermore, we account for construction activity in government (like the carpenter who works for the school district) and other private industries. The value of construction is the most comprehensive measure of construction activity across the entire economy.

³ "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.

⁴ Alaska Department of Labor.

⁵ Some companies new to Alaska have tended to be overly optimistic in the last couple of years.

2013 Alaska Construction Spending

	Level	Change
TOTAL	\$ 8,378,000,000	+8%
Total Excluding Oil & Gas	\$ 4,740,000,000	+4%
Private	\$ 5,637,000,000	+9%
Oil and Gas	\$ 3,638,000,000	+13%
Mining	\$ 330,000,000	-4%
Rural Other Basic	\$ 20,000,000	0%
Utilities*	\$ 830,000,000	+5%
Hospitals/Health Care*	\$ 229,000,000	-17%
Other Commercial	\$ 150,000,000	+15%
Residential	\$ 440,000,000	+7%
Public	\$ 2,741,000,000	+6%
National Defense	\$ 209,000,000	-55%
Highways	\$ 824,000,000	+41%
Airports, Ports, and Harbors	\$ 479,000,000	+28%
Alaska Railroad	\$ 24,000,000	-57%
Denali Commission	\$ 13,000,000	-35%
Education	\$ 497,000,000	+31%
Other Federal	\$ 245,000,000	-1%
Other State and Local	\$ 450,000,000	-5%

* Many projects in these categories are supported by public funds.

Source: Institute of Social and Economic Research, UAA. Percent change based on revised 2012 estimates.

construction industry—because the interest rate remains low and outside capital looks to Alaska as an attractive place to invest. But the Congressional attempt to deal with the issue of the continuing federal government deficit through “sequestration” could postpone or eliminate some spending funded by federal dollars.

If sequestration were to occur, it could also directly slow the growth of the Alaska economy, which has been projected to grow at just over 1% this year. This should be the fourth year of employment gains after the modest pause created by the national recession. This continued growth is contributing to a positive outlook for the near term. With economic growth has come a strong increase in Alaska’s population, driven by in-migration from regions still in recession.

The state capital budget continues to be a driver for construction spending. Each year more funding is pumped into the construction “pipeline” and some must wait a year or two to come out the other end. We assume that some of the FY2013 capital budget will not be hitting the street for another year or more because of a limited capacity for the agencies to absorb these increases.

Furthermore, many construction projects now receive only partial funding in a single budget cycle. This adds to the



PHOTO COURTESY NEESER CONSTRUCTION & KEN GRAHAM PHOTOGRAPHY

Goose Creek Correctional Center, Point MacKenzie, Neeser Construction

difficulty of estimating when work will actually begin on certain large projects.

As in past years, some firms are reluctant to reveal their investment plans, because they don’t want to alert competitors. Also, some have not completed their 2013 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 predictable fashion. Tracing the path of federal spending coming into Alaska without double counting is also a challenge. As the state capital budget grows it becomes more time consuming to follow all the flows of state money into the economy.

We are confident in the over-

all pattern of the forecast—but as always, we can expect some surprises as the year progresses.

PRIVATELY FINANCED CONSTRUCTION

Oil and Gas: \$3,638 Million

The biggest sector, and the one expected to increase the most this year, is oil and gas. We expect that if actual spending matches the announced plans and past experience in the industry, spending will be up 13% from last year.⁶

The growth is being driven by the continuing high prices of oil and gas, the increase in the cost of inputs to all phases of oil and gas operations, the growing need to maintain the aging infrastructure and facilities on the North Slope and in Cook Inlet, and last but not least, the tax credits available to companies as part of ACES (Alaska’s Clear and Equitable Share) production tax.

The most significant activities of the majors operating on the North Slope (BP, Conoco, and Exxon) will be spending to increase production from existing fields in the short term. BP

has shelved both its CHOPS (cold heavy oil production with sand) program and the development of the Liberty field. Exxon will be concentrating on the development of the Point Thomson field. Only Conoco will be allocating a part of its spending to exploratory wells in the NPRA (National Petroleum Reserve Alaska) Bear Tooth and Moose’s Tooth prospects. Most of its budget will be devoted to developing a CD-5 satellite at the Alpine field, modest development in legacy fields (Prudhoe Bay and Kuparak), and maintenance and repair.

Conoco will also be preparing to drill offshore in the Beaufort Sea on the OCS (Outer Continental Shelf) in 2014. Statoil is waiting to see how Shell does before it commits to drilling its leases in the OCS. And Shell is hoping to come back and complete the wells it started to drill last year in the Beaufort and Chukchi seas, but its rigs are currently on their way to an Asian port for repairs.

Also on the North Slope, ENI will continue to drill in the Nikaitchuq field, Pioneer will be evaluating a potential large expansion of the Ooguruk field with an additional production pad, and Savant will continue development of Badami.

Most exploration drilling for conventional oil and gas will be

⁶ The 2012 estimate was revised upward to \$3,222 million.



PHOTO COURTESY CORNERSTONE CONSTRUCTION

Providence Emergency Power Supply System, Anchorage, Cornerstone Construction



Anchorage Neighborhood Health Center, Anchorage, Roger Hickel Contracting

done by Brooks Range Petroleum, Repsol, and Linc Petroleum. Great Bear is evaluating the results of its investigation of the shale oil deposits south of Prudhoe Bay and may move forward with a development plan this summer.

A number of other companies, including Chevron and Anadarko, have interests in various fields on the North Slope but are not operators. Their expenditures are also included in the total.

Work continues to maintain the TAPS (Trans Alaska Pipeline System) oil pipeline and to modify it to meet the challenges of reduced flow.

Spending will be higher in Cook Inlet, led by Hilcorp, a newcomer to Alaska that

recently purchased the assets of both Chevron and Unocal. Hilcorp plans to concentrate both on new developments and refurbishing old assets in its portfolio.

Two jackup rigs should be in operation in Cook Inlet this year. *Buccaneer* will be using the *Endeavor* to explore in the Cosmopolitan unit. (It is also developing and operating fields on shore.) *Furie* will be using the other rig to further explore its Kitchen Lites prospect.

Other companies active in exploration in Cook Inlet this year are Apache, which is drilling its first well on the west side of Cook Inlet, Cook Inlet Energy, and Nordaq. In addition, Linc Energy is exploring for coal gas prospects.

Finally, several companies are continuing to develop and maintain existing facilities, including Armstrong, Aurora, Conoco, and Anchorage Municipal Light and Power.

In other parts of the state, the most significant activity is near Nenana, where Doyon continues to search for gas.

Mining: \$330 Million

Spending by the mining industry—on exploration and development,⁷ as well as maintaining and upgrading existing mines—will be down marginally this year. Investment will be up at Greens Creek to extend the life of the mine, but upgrades were completed last year at three of the other large mines in the state—Pogo, Fort Knox, and Kensington.

Meanwhile, drilling and other site work continues to move three world-scale mine projects to development (Donlin Creek, Pebble, and Livengood) as well as several smaller prospects (including Niblack, Bokan, and Wishbone Hill).

High world metal prices have stimulated considerable interest in exploration, as well as development of numerous smaller prospects throughout the state, from Prince of Wales Island to the Northwest Arctic.

Other Basic Industries in Rural Alaska: \$20 Million

Investments in facilities to support tourism, the seafood and timber industries, and other natural resource industries often occur in rural areas, hidden from view. The most significant project identified for this year is the expansion of a seafood processing plant at False Pass.

Utilities: \$830 Million*

Utility spending—electric power generation, transmission, and distribution, telecommunications, and natural gas transmission and distribution—will be marginally higher this year.

The new gas-fired electric generation plant near Anchorage International Airport is nearing completion, and construction of two other large plants is scheduled to begin soon. One is an MEA (Matanuska Electric Association) plant at Eklutna and the other is an AML&P (Anchorage Municipal Light and Power) replacement for its plant in northeast Anchorage.

Other smaller generation projects are moving forward throughout the state (among them some hydroelectric projects that are turning out to be much more expensive than initially thought). These projects are getting a boost from partial state financing through continuing assistance from programs like the Renewable Energy and Energy Projects appropriations in the state capital budget.



Alaska USA Building, Anchorage, Criterion General, Inc.

⁷ Excluding exploration and development costs associated with environmental studies, community outreach, and engineering.

⁸ Although we include utilities and hospitals/health care spending in private spending, there is also a significant amount of public spending for some projects in these categories.

Telecommunications spending will also be higher this year, driven by new firms moving into the market (Verizon), as well as continued expansion and upgrading of facilities by existing companies like GCI and Alaska Communications. Telecommunications spending in Alaska benefits from funds generated by the Universal Service Funds, which channel revenues collected from services provided in other locations to help pay for needs in Alaska.

Hospitals and Health Care⁹: \$229 million

The new hospital in Nome and the Chief Isaac Medical Center in Fairbanks are complete, and construction of the hospital in Barrow is nearing completion. That will reduce spending on hospitals and other health care institutions in 2013. Work will continue on the Providence Generations Project expansion in Anchorage, but Providence's new extended care facility was completed last year. Work on a replacement hospital in Wrangell may begin by late 2013, and a new hospital in Ketchikan is in the development stage.

Smaller projects are moving forward in many communities, such as the facility expansion at the Central Peninsula Hospital in Kenai. As the Alaska population continues to grow and age, the demand for new facilities will continue to grow. One new trend is the growth in facilities for seniors.

No large projects have been identified for military hospitals this year.

Other Commercial: \$150 Million

Commercial construction spending consists primarily of office buildings, retail space, warehousing and wholesale



Valley Primary Care, Wasilla, Neeser Construction

space, banks, private medical offices, and outpatient clinics.¹⁰ The level of spending from year to year can be influenced by a few projects, and we project it will be moderately higher this year. There are no new large projects—like new high-rise office towers or shopping centers—planned for this year. But projects announced for Anchorage include one or more big boxes—Cabelas, Bass

Pro, Walmart, and a new Sam's Club—as well as some smaller retail stores like Walgreen's and the Natural Pantry.

The growth of the economy, combined with a slight downward trend in vacancy rates for office and warehouse space, suggests some upward trend in commercial spending to take advantage of higher rental rates and low interest rates.

Residential: \$440 Million

Alaska has been largely insulated from the national housing market crash—both in prices and foreclosures. The market has been stable for several years, but in 2012 it began to tighten a little as prices moved higher, vacancy rates fell, and the number of new residential building permits in Anchorage increased for the first time in three years. We expect that the upward movement in the number of units and their value will continue in 2013, as the low interest rate more than offsets

¹⁰ 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, so we can provide more detail about those types of spending.



Chief Andrew Isaac Health Center, Fairbanks, Ghemm Company

⁹ Formerly called Health Spending



PHOTO COURTESY KIEWIT BUILDING GROUP

Fort Wainwright 336B Barracks, Kiewit Building Group

concern that federal regulations regarding mortgages might constrain the market.

PUBLICLY FINANCED CONSTRUCTION

National Defense: \$209 Million

National defense spending will take a big hit this year as the budget for MILCON (military spending for facilities on bases) drops from \$300 million to less than \$50 million. New firing ranges and utility upgrades are the only projects currently scheduled.

The other parts of defense spending will be similar to last year. This includes both civilian programs and environmental programs, including FUDS (Formerly Used Defense Sites) of the Corps of Engineers. Civilian programs include harbor improvements and water supplies for communities across the state, as well as dredging of the Anchorage port. Environmental programs include cleanup at formerly used defense sites as well as cleanup of hazardous substances and contaminants on current Army and Air Force installations.

Spending also includes two smaller categories—interagency programs and MDA (Missile Defense Agency). The budget this year for MDA is limited to some work to upgrade the radar capabilities at Clear Air Force Base and Ft. Greely.

Transportation—Highways: \$824 Million

Growth in spending for highways and roads, driven by the large state capital budget and transportation bond packages, will offset the decline in military spending.

The MAP21 Federal Transportation Reauthorization Act that passed the Congress last year appropriated \$460 million for Alaska for transportation projects (including the ferry system), as well as funding for the Tribal Transportation Program. That’s about the same amount as under the former law—the Safe, Accountable, Flexible, Efficient Transportation Equity Act-A Legacy for Users (known as SAFETEA-LU) grant program. A number of other smaller federal programs also provide funding for highways and roads in the state.

In addition to the state match for the MAP21 funds, the 2013 capital budget contained a number of fund

categories dedicated to highways. These include the roads to resources program, grants to municipalities, specifically identified projects, and deferred maintenance.

In addition, the \$453 million state general obligation bond package for transportation that passed in 2012 included \$227 million for highways and \$35 million for bridges (The rest was allocated to ports.) This was divided between state highway construction and grants to local communities. Some of this package targets projects that are not yet “shovel ready,” so it will take some time before this money hits the street. Also, many of the projects will need additional appropriations by the

legislature to be fully funded and out to bid.

Work continues on the Tanana River bridge at Salcha, the first phase of the Alaska Railroad’s Northern Rail Extension project to extend the railroad to Delta Junction. Access across the river for military vehicles is projected to be a reality by 2014. Other phases of the project have not yet received funding.

Transportation—Airports, Ports, and Harbors: \$479 Million

Spending for airports, ports, and harbors will be higher this year because of increases in state general fund spending and the general obligation bond package for transportation, which includes nearly \$200 million for ports—including projects at Haines, Kodiak, Seward, and Sitka. The Anchorage port received a combined \$100 million from the general fund and the bond package. However, work on port expansion has been put on hold indefinitely while engineers review the current design.

Federal funds, mainly from the AIP (Federal Aviation Administration Airport Improvement Program), at the same level as last year, will provide the bulk of funding for airport improvements both at the large



Kendall Auto Dealership, Anchorage, Brady Construction

international airports in Anchorage and Fairbanks and the smaller airports across the state.

The state has so far appropriated about half the funds needed to extend the railroad to the port at Point MacKenzie, to complete development of that port. Court challenges by environmental groups in 2012 have been overcome, and work is resuming in 2013.

Alaska Railroad: \$24 Million

The capital construction program for modernizing and upgrading the Alaska Railroad will be down this year (excluding spending for the Tanana River bridge and the Port McKenzie rail extension), mainly because of a drop in railroad revenues. Less freight, particularly fuel oil and coal, moved over the railroad in 2012. In addition, the railroad has now spent funds from a previous bond sale. A big project is ongoing work on a federally mandated collision-avoidance system.

Denali Commission: \$13 Million

The Denali Commission—an innovative federal-state partnership Congress created in 1998 to more efficiently direct federal capital spending to rural infrastructure needs—will again take a large budgetary hit this year. Most of its capital budget will be for energy-related projects.

Education: \$497 Million

Funding for education will increase this year, driven up by a large University of Alaska budget, the funding of two new rural schools, and some locally funded schools finally under construction.

Construction of the Seawolf Arena in Anchorage is continuing and two new engineering buildings—one for Anchorage and one for the Fairbanks campus—are expected to start



Seward Highway Improvement, Anchorage, QAP

construction this year. Neither received full funding in the FY 2011 bond package and the state capital budget for 2013, but the hope is that additional funding will become available in the 2014 budget. Other projects are underway at the other campuses, including a career and tech center and dormitories in Kenai. Money has also been appropriated for deferred maintenance.

Two new schools will be under construction in western Alaska at Emmonak and Koli-ganak, as part of the settlement of the Kasayulie case. These are funded through the state general fund. The general fund also contains numerous education-related grants for local school districts throughout the state.

New schools will be under construction in Valdez, Kodiak, and likely the Mat-Su Borough, funded by local bonds that are largely reimbursed by the state. Local school bonds in Anchorage, Fairbanks, the Mat-Su Borough, and elsewhere are also funding a large number of upgrades and renovations for other educational facilities.

Other Federal: \$245 Million

Federal spending not already discussed will be about the same

as last year.

In addition to funding a large share of spending on transportation infrastructure—highways, airports, and ports through grants to the state—the federal government has many other smaller grant programs that funnel money through the state capital budget.¹¹

The largest of these capital programs is the Village Safe Water program for rural sanitation. These funds actually come from a number of sources, including the Environmental

Protection Agency and the Indian Health Service. Funding from these agencies for sanitation projects has been slowly trending downward but is expected to be about the same this year as last year.

The federal government also provides grants and construction funds to Alaska tribes, non-profit organizations, and local governments across the state.¹² Alaska Native non-profit corporations, housing authorities, and health-care providers receive most of this money. The largest

¹¹ 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.

¹² Federal spending on health care projects for the Alaska Native community funneled to Alaska Native organizations is included in the Hospital/Health Care section of this report.



Lake Hood Bank Stabilization, Anchorage, Granite Construction



Providence Extended Care Facility, Anchorage, Davis Constructors and Engineers, Inc.

of these programs in Alaska is NAHASDA (the Native American Housing Assistance and Self-Determination Act), which provides funds for housing construction in Alaska Native communities, through grants to federally recognized tribes and Alaska Native housing authorities statewide. Funding for NAHASDA is expected to be about the same level as last year.

We expect the level of direct construction spending by other federal departments also to be about the same as last year. 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 NOAA (the National Oceanic and Atmospheric Administration).

Other State and Local: \$450 Million

State and local government capital spending—excluding transportation (roads, airports, and ports), education, health, and utilities—is down from last year, but not because of smaller budgets. Some of the grants in the state Designated Legislative Grant Program that were in

Cover Photo: Kotzebue Wind Farm Expansion, STG, Inc.

PHOTO COURTESY STG, INC.

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this category in past years have been moved this year into the categories of utilities, hospitals/health care, and transportation.

What remains in the state capital budget is the SLAM (state library archive museum) building in Juneau, as well as a number of other smaller buildings and libraries in other locations, deferred maintenance, Alaska Housing Finance Corporation energy rebate and weatherization programs, and miscellaneous grants to local governments for things like water and sewer upgrades and housing.

Local government capital spending, from general funds as well as enterprise funds and direct federal grants, will be about the same as last year. A large share of this spending is for water and sewer facilities, but it also includes buildings, some local roads, and other facilities.

WHAT'S DRIVING SPENDING?

The three primary drivers of construction spending are private basic sector investment (mainly petroleum and mining), federal spending (military and grants to state and local governments and non-profit organizations), and state capital spending (which ultimately depends on petroleum revenues) through the general fund and bond sales.

These large external sources of construction funds also give a general boost to the economy—and thus add to the aggregate

demand for new residential, commercial, and private infrastructure spending.

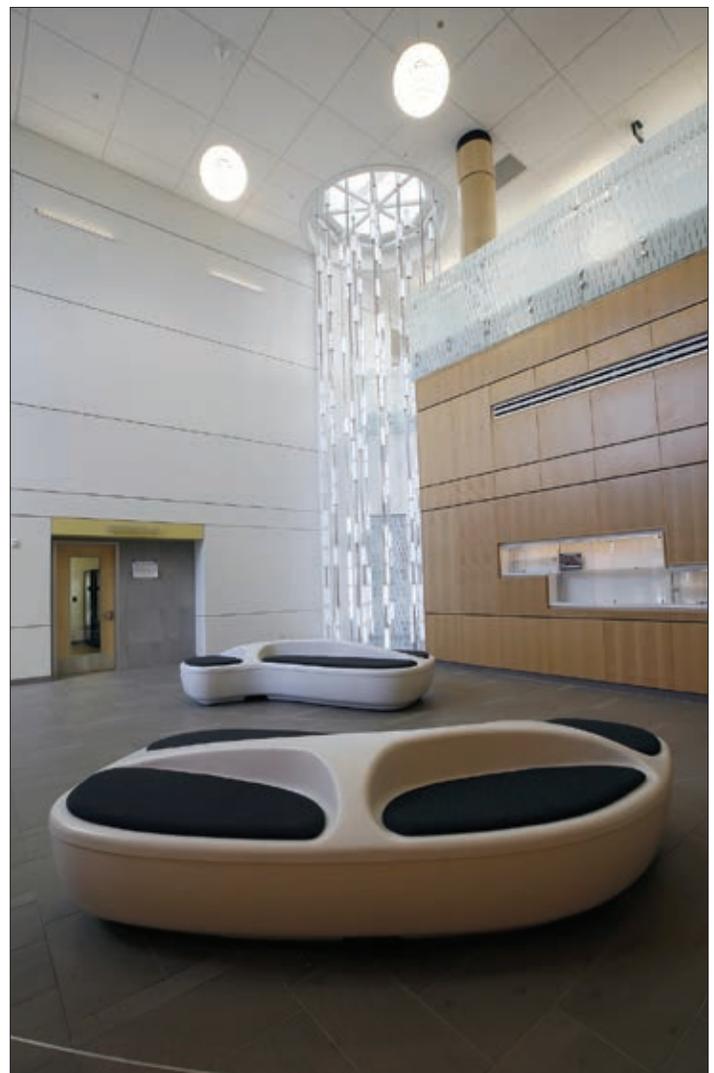
CONSTRUCTION IN THE OVERALL ECONOMY

Construction spending is one of the important contributors to overall economic activity in Alaska. Annual wage and salary employment in the construction industry in 2012 was about 16,500 workers, with an average annual payroll of \$70 thousand per worker, second only to mining (including petroleum). But that figure doesn't include the "hidden" construction workers employed in other industries like oil and gas, mining, utilities, and government (force account workers). In addition,

it does not account for the large number of self-employed construction workers—estimated to be about 9,000 in 2011.

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 as diverse as restaurants, dentists' offices, and furniture stores.



Alaska State Crime Lab, Anchorage, Neeser Construction