STUDY TITLE: Economic and Social Effects of the Oil Industry in Alaska, 1975 to 1995.

REPORT TITLE: Economic and Social Effects of the Oil Industry in Alaska, 1975 to 1995.

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BACKGROUND: Since construction of the Trans-Alaska Pipeline in the mid-1970s, the oil industry has been a cornerstone of Alaska's economy, affecting statewide, regional, and virtually every local economy in Alaska. Oil industry activity during and after construction of the pipeline generated thousands of jobs in Alaska and, more important, funneled billions of dollars into state and local government coffers. By 1980, oil accounted for 90 percent and, since then, has accounted for at least 75 percent of state annual unrestricted general fund revenue. This oil money affected many aspects of life in Alaska: employment opportunities, housing costs, utilities costs, the availability and quality of education, health care, public safety, and even recreational and entertainment opportunities.

OBJECTIVES: Though a critical part of the Alaska economy, the socioeconomic effects of oil production on Alaska communities have not been adequately documented. The purpose of this study is to document the economic and social impacts of oil industry activity in Alaska in the 1975-95 period. In addition to statewide analyses, local-level impacts are measured for the Municipality of Anchorage, Kenai Peninsula Borough, Northwest Arctic Borough (NAB), and within the NAB, Kotzebue, Kiana and Noorvik. The second purpose is, based on analysis of the state's economic history, to formulate options that MMS and relevant public bodies could implement to mitigate the effects of similar economic fluctuations.

DESCRIPTION: The study included six research tasks. First, the study team identified how the State of Alaska spent the petroleum revenues it took in between 1975 and 1995. This analysis focused primarily on state general fund capital expenditures. It also included analysis of other state spending of oil revenues, such as spending on education, housing subsidies, Permanent Fund dividends, pass-through funds to local governments, and other expenditures. The impact of revenue on state institutions and infrastructure, such as education, public utilities, housing and transportation, was also addressed. Oil industry contributions to non-profit organizations and activities were measured, accompanied by an assessment of the impact of those contributions. The employment and population impacts of oil industry activity in Alaska were addressed. The individual and household-level effects of oil industry activity were addressed. Finally, the study team formulated options to mitigate economic fluctuations associated with oil industry activity in Alaska.

SIGNIFICANT CONCLUSIONS: Between 1975 and 1995 the State of Alaska took in $62 billion in petroleum revenues (1995 dollars). Of that total, $48 million was spent and $14 billion was saved in the Permanent Fund or the Constitutional Budget Reserve account. Eleven billion was spent on capital projects. Another $10 billion was spent on education. Two billion was spent on revenue sharing and municipal assistance. Most of the balance was spent on day-to-day state government operations. This spending, along with key events in the oil industry, such as pipeline construction, the post-pipeline construction downturn, oil price swings (especially in 1986), the *Exxon Valdez* oil spill and, most recently, the decline in North Slope oil production, have been the dominant forces in Alaska economy over the 20-year study period. At its peak, oil accounted for over half of Alaska's Gross State product. By 1980, oil accounted for 90 percent, and since then has accounted for at least 75 percent of state annual unrestricted general fund revenue. This oil money affected many aspects of life in Alaska; employment opportunities, housing costs, utilities costs, the availability and quality of education, health care, public safety, and even recreational and entertainment opportunities.

Alaska households have reaped economic benefits from oil production, including Permanent Fund dividends and Longevity Bonus payments and, in the absence of state sales or income taxes, essentially free state government services and facilities. The oil industry contributed directly and indirectly to the quality of life for Alaskans through millions of dollars in philanthropic contributions. In the 1990's, as North Slope oil production began declining, Alaska has begun adjusting to a reduced role for the oil industry in the economy. Revenues to the state have declined (as have pass-through funds to local governments), oil industry employment around the state has declined, and philanthropic contributions have declined. Weaning itself from its dependence on the oil industry is perhaps the greatest challenge facing Alaska as it enters the next millennium.

While oil industry activity has had important direct effects on Alaska's economy, the main economic instability associated with petroleum development has been due to the spending of government oil revenues. Smoothing out oil production, oil-related revenues to governments, or expenditures of those revenues could mitigate oil-related booms and busts. However, stabilizing either production or revenues could upset the efficiency of finding, developing and producing the nation's oil supply. Measures that smooth out expenditure of government oil revenues best perform the task of mitigation. Measures to mitigate the direct economic impacts of oil development are important. But stabilizing state and local government spending will reduce the problems associated with oil development in Alaska.

STUDY RESULTS: The study results are documented in six reports within two volumes. This includes: Volume 1 Part 1: State Oil Revenues and Local Governments; Volume 1 Part 2: Capital Projects Data Base Summary; Volume 2, Part 1: Institutional Profile Analysis of Local Governments and Economies;

Volume 2, Part 2: Oil Industry Philanthropy in Alaska; Volume 2, Part 3: Employment and Earnings; Volume 2, Part 4: Effects on Individuals and Households; Volume 2, Part 4: Mitigation Options.

STUDY PRODUCTS: McDowell Group, Inc. 1999. Economic and Social Effects of the Oil Industry in Alaska, 1975 to 1995, Volumes 1 and 2. Prepared for the U.S. Department of the Interior, Minerals Management Service Alaska OCS Region, Anchorage, Alaska. Technical Report No. 162. Contract No. 1435-01-97-CT-30844.