

The Role of the Oil and Gas Industry in Alaska's Economy Frequently Asked Questions (FAQ)

1. *Do the economic impacts pertain to impacts in Alaska only?*

Yes, the economic impact analysis is based on spending in Alaska by the 17 Primary Companies. In terms of employment, only Alaska resident employees of the 17 Primary Companies and oil field services firms are included in the analysis. The study does not include any economic activity occurring outside of the Alaska economy.

2. *What year of impacts was analyzed?*

The study is focused on impacts during calendar year 2018, however, some data presented are for state fiscal year 2019 (July 2018-June 2019).

3. *How is an Alaska resident employee defined?*

McDowell Group basis for determining residency of Primary Company employees was the employee's address as reported on W2 tax forms. The residency of oil field services firm employees is based on the Alaska Department of Labor and Workforce Development's definition of Alaska resident.

4. *Can this version of the study be compared to previous versions of the study?*

Each generation of McDowell Group's series of reports on the economic impact of the oil and gas industry is based on the most current, best available data. While methodologies have evolved over time, and data quality and availability may vary, comparisons can be made with previous editions of the report, particularly at the statewide level.

5. *Previous studies have indicated the oil and gas industry accounts for one-third of all jobs in Alaska. What are the main contributing factors impacting the lower employment and income impact results from this study compared to the previous study?*

There are two main reasons for the reduction in the number of jobs in Alaska attributable to the oil and gas industry. The first is the decline in oil industry spending and employment that accompanied a sharp drop in oil prices, which fell from around \$110 per barrel in 2014 to near \$30 per barrel briefly in 2016. That drop in oil prices, with a parallel drop in oil revenues to state government, pushed Alaska into recession. Alaska's economy lost 11,700 jobs between 2015 and 2018, including 4,800 direct oil and gas industry jobs.

The more significant source of change in the measure of oil and gas industry related employment in Alaska is related to how state government is now funded. In FY2019, the Percent of Market Value (POMV) methodology was used for withdrawal of funds from the Permanent Fund Earnings Reserve Account. The POMV draw totaled \$2.7 billion in FY2019, including \$1.7 billion to fund state government services. While the Permanent Fund and its earnings are a legacy of the oil industry, the jobs supported in state government

and elsewhere by spending of Permanent Fund earnings are not credited to the oil industry. In McDowell Group's previous economic impact studies, when direct oil revenues were a much greater share of total state revenues, a higher proportion on state government-related employment was attributed to the oil and gas industry.

6. *How are funds from the Constitutional Budget Reserve Fund treated in the study?*

Economic impacts related to expenditure of funds transferred from the Constitutional Budget Reserve Fund (CBRF) to the General Fund are included in the oil and gas industry's economic impact. The CBRF is composed of oil tax settlements and related earnings. The CBRF had a balance of \$2.16 billion as of December 31, 2019.

7. *Does this mean the oil industry's importance to our economy is waning?*

No, the oil and gas industry remains Alaska's single most important source of employment and wages, including all direct, indirect, and induced effects, associated with industry spending and expenditure of the taxes and royalties paid the state and local government. Further, among all industries in Alaska, the oil industry remains, by far, the most important source of revenue to support state government services.