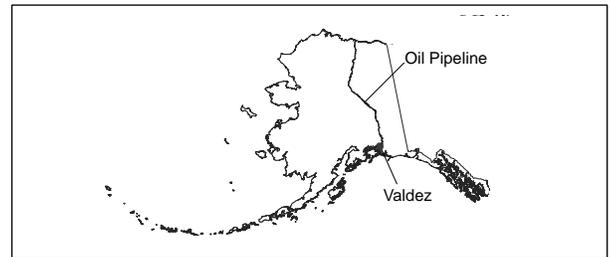


## A story that mirrors Alaska's

**T**he city of Valdez, like the state of Alaska, was transformed by oil. The area has a rich and colorful pre-oil history, similar in many ways to the history of other coastal Alaska communities, but billions of barrels of oil, hundreds of high paying oil-related jobs, and hundreds of millions of dollars in tax revenue have made Valdez unique.

### One of many Alaska cities created by gold

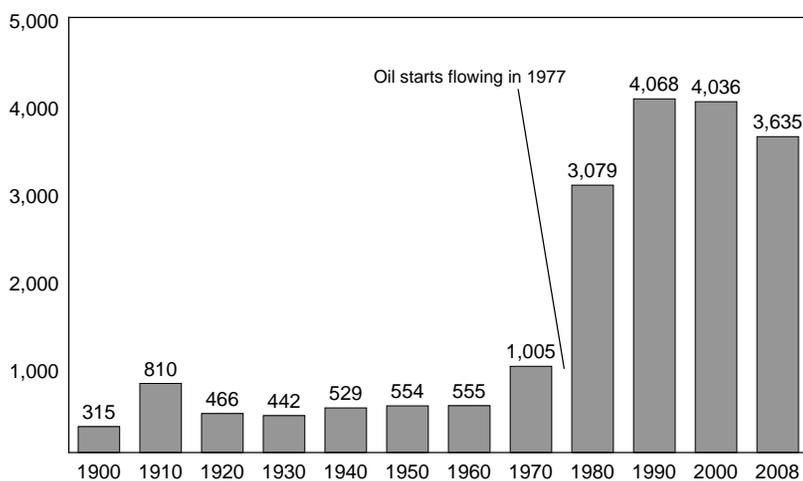
Valdez is located in Prince William Sound, where Chugach Eskimos had hunted, fished and traded for thousands of years before European powers began arriving in the 1700s. An estimated Native population of 500 to 700 people inhabited the area when the Russian, English and Spanish explorers first visited.



The region's bounty of furs, fish and minerals, in addition to its strategic location and natural beauty, attracted varying degrees of interest over the next two centuries until gold seekers created a tent city in the winter of 1897-1898 on their way to the Yukon and Interior Alaska. Three years later Valdez residents voted to incorporate and the city was born.

Valdez prospered during the next two decades as a point of departure for prospectors headed north and also as the center of lucrative gold, copper and silver mining activity in and around Prince William Sound itself. The U.S. Army built a military trail and mail route between Valdez and Fairbanks that eventually became the Richardson Highway in 1919. That connection between Valdez and the Interior established a vital transportation link for the early development of Alaska and an important economic driver for the city.

## 1 The Impact of an Oil Pipeline Valdez population, 1900 to 2008



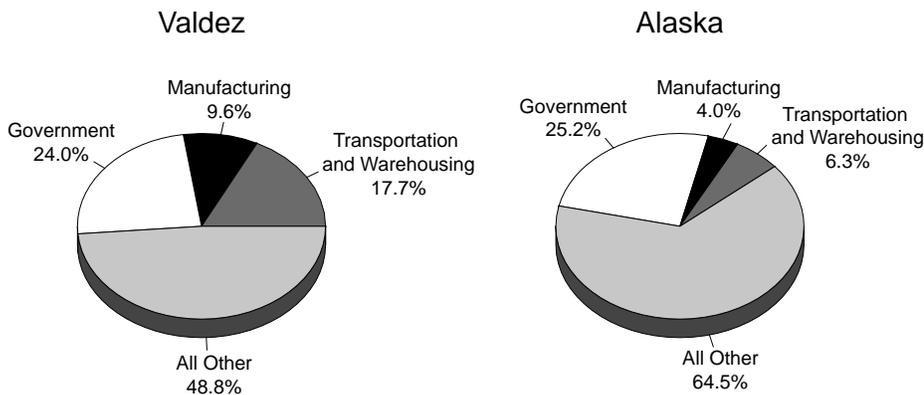
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

### Location, location, location

As the state's northernmost year-round ice-free port, Valdez was the largest, most important town in Southcentral Alaska during the early 1900s, but a narrow miss for greater growth occurred when a campaign was unsuccessfully waged to build a railroad from Valdez to the Interior. The push for an "All-American" rail route would be echoed a century later by advo-

## 2 An Extra Dose of Transportation Jobs

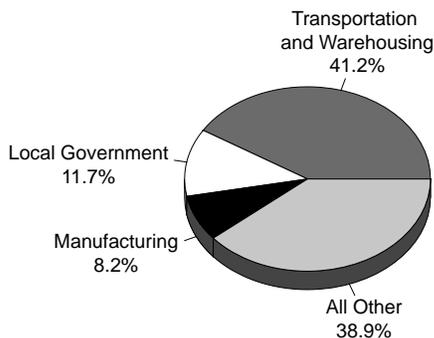
### Employment by selected categories, 2008



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## 3 Transportation Wages Dominate

### Valdez wages, 2008



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

cates of an “All American” gas line to Valdez as an alternative to a natural gas pipeline through Canada.

Seward, rather than Valdez or its Prince William Sound neighbor Cordova, was chosen as the railhead for the Alaska Railroad to Fairbanks. That decision would eventually result in Anchorage displacing the two Prince William Sound communities as the commercial center of South-central Alaska.

### Wars, fishing and the 1964 earthquake

World War I created a temporary mining boom for Valdez and the Prince William Sound mines, but then a fall in demand after the war and an increased supply from new mines de-

pressed prices and began a gradual decline in area mining. A thriving fishing industry picked up the slack during the 1920s and 1930s, generating most of the area’s cash economy before fish stocks crashed in the late 1940s and 1950s.

World War II and the Japanese invasion of Alaska’s Aleutian Islands in 1942 shook the nation’s sense of security and resulted in an increase of Alaska’s troop strength from 1,000 in 1942 to 152,000 in 1943. Federal funds poured into the state for everything from military bases to roads, bridges and airfields. Valdez was an

important staging area for construction of the Alaska Highway and was home to about 1,000 new military personnel during the war.

In 1964, Valdez was rocked by the Good Friday earthquake that killed 33 people and damaged many of the town’s buildings beyond repair. It was rebuilt on a different site, about 5 miles to the west, and millions of dollars in federal disaster aid created a temporary construction boom.

### Then came oil

Despite all the drama of gold rushes, wars and earthquakes, Valdez’s population in the decennial census showed only modest variation over the city’s first 70 years. (See Exhibit 1.) There were a number of temporary spikes in population – during the short-lived gold rush and the buildup of forces during World War II, to give two examples – but over the longer term, the town supported around 500 people for most of those years.

That all changed when Valdez was selected as the terminus of the 800-mile trans-Alaska oil pipeline system in the early 1970s. A fee that the city charged the oil company owners of the pipeline, in exchange for letting the companies use the city’s bonding authority to issue tax-exempt bonds, created a \$13.5 million windfall. The money was used to create the Valdez permanent fund, whose principal is protected from

use but whose earnings help fund local government.

What's more, Valdez's population swelled with construction of the marine terminal and the city suddenly had an enormously large property tax base. Post-construction, the city's population settled down to levels six to eight times what it had generally been before the pipeline came to town.

### Current mix of employment

Almost four decades later, Valdez's heavy reliance on the pipeline terminal is still very obvious in its job counts. About 18 percent of the city's jobs are in the transportation and warehousing sector. Statewide, the share of transportation jobs is just a third that size. (See Exhibit 2.)

The other notable difference between Valdez's mix of jobs and the state's is manufacturing. One of Peter Pan Seafoods' four main seafood processing facilities is in Valdez. As a result, Valdez has a significantly higher share of manufacturing jobs than the state.

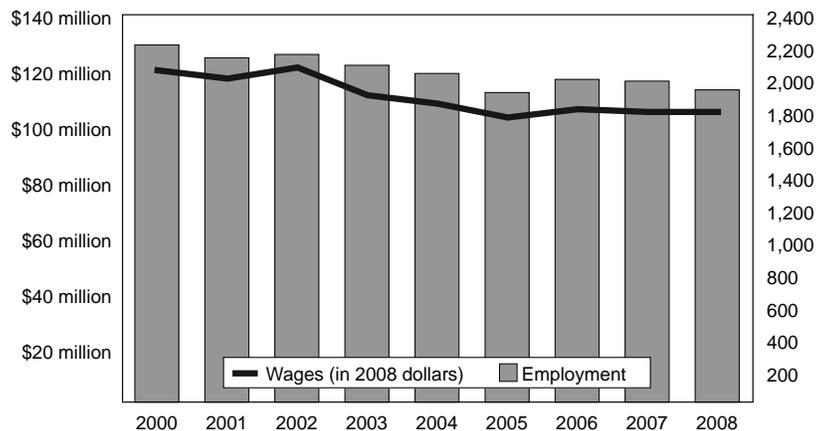
Before the fish can be processed, they must be caught, of course, and fishing is an important source of employment in the area. Those jobs aren't counted in the Alaska Department of Labor and Workforce Development's main data sets, however, so it's harder to quantify the importance of fishing definitively. In 2008, 341 fishermen who lived in the Valdez-Cordova Census Area fished commercial fishing permits and hundreds more likely worked as crew members.

### Pipeline jobs are high-wage jobs

Oil-related transportation jobs are particularly high-paying, like most jobs associated with the oil industry. So, while a large percentage of jobs are connected to the transport of oil, an even higher percentage of total wages come from the transportation sector. A dominant 41.2 percent of all Valdez wages come from transportation. (See Exhibit 3.) Statewide the comparable share is just 7.5 percent.

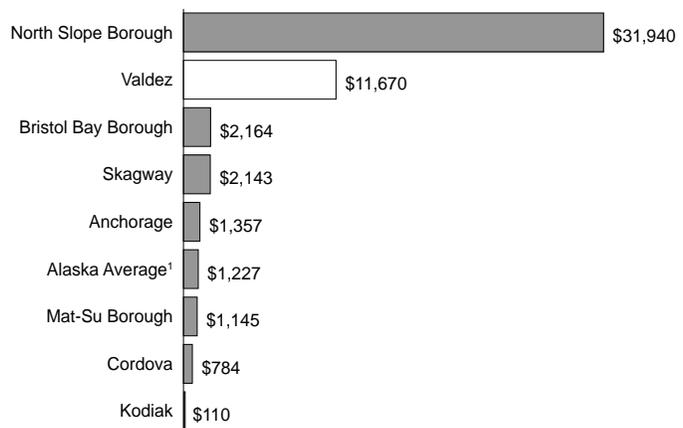
One interesting note is that despite the large tax base the pipeline and marine terminal provide

## Small Declines in Jobs and Wages 4 Employment and wages, 2000 to 2008



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Only the North Slope Gets More 5 Per capita property tax revenue, 2008



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

to Valdez, the city's local government hasn't grown disproportionately large. The share of wages that go to city workers is just slightly higher, at 11.7 percent, than for the state as a whole.

### Oil prices' volatile recent history haven't shown up in employment and wage trends

Both employment and wages show a very modest declining trend since 2000. (See Exhibit 4.) Until 2006, oil property tax revenues had gradually declined as oil production consistently fell and the marine terminal and related pipeline facilities depreciated.

# 6 How is Valdez Different?

## Selected demographic characteristics, 2000

2000 Census		
	Valdez	Alaska
Median age	35.4	32.4
Race		
White	83.6%	69.3%
Black or African American	0.4%	3.5%
American Indian and Alaska Native	7.2%	15.6%
Asian	2.2%	4.0%
Median household income	\$66,532	\$51,571
Percent of housing units that are mobile homes	34.3%	6.8%
Percent of housing units built from 1970 to 1979	47.6%	28.8%
Percent of housing units heated with oil	81.7%	35.8%

Source: U.S. Census Bureau

Then the dramatic surge in oil prices pushed the assessed value of oil property way up again from 2006 to 2008. The increases have been a boon in terms of revenue, but they haven't translated into more jobs or more total wages being paid.

### Only in Alaska

Just as the state has a tax base and per-capita revenues that put it in a class by itself among states, Valdez stands out among Alaska cities for similar reasons. (See Exhibit 5.) The city of less than 4,000 people has a 2009 budget of about \$40 million. Compare that to Anchorage, with a population 80 times as big and a city budget just 10 times as big. Only the North Slope Borough has higher per-capita property tax revenue.

### Unfavorable tanker tax ruling and a pending decision on the pipeline's value

There are more questions than answers, however, about the future of Valdez's tax base as a result of a recent U.S. Supreme Court decision that invalidated a city tax on oil tankers. Millions of dollars in revenue already collected will have to be returned and an important revenue stream – \$8 million was budgeted in 2009 – appears to have dried up for good.

Another important dispute that will soon be tried in state court is the value of the roughly 30-year-old pipeline system. The state assessed the value at \$9 billion, but the oil companies

argue that it should be valued at less than \$1 billion. About one-fifth of the value of the entire pipeline is within Valdez city limits so the city has a lot at stake in the dispute.

### How is the Valdez population different?

In many ways, Valdez's demographics mirror those of the state's. Among the differences, the median age of Valdez residents is slightly higher than for the state. Racially, about 84 percent of the population is white, compared to 69 percent of Alaska's population. Valdez also has about half the share of Alaska Natives and Asians.

High-paying oil jobs push the median household income noticeably higher than for the state. The effects of pipeline construction are also visible in the high percentage of houses that were built from 1970 to 1979 and perhaps in the especially high percentage of housing units that are mobile homes.

It seems only fitting that oil is also the source of heat for a much higher percentage of houses in Valdez than for the state, although that's explained more by the availability of natural gas to Anchorage and Southcentral Alaska than to any special availability of heating oil to Valdez.

### You want snow?

And finally, no discussion of Valdez would be complete without mentioning the city's prodigious snowfall. In an average year, the city gets 326 inches and nearby Thompson Pass gets 600 inches. Those 50 feet of snow turn the area into a winter paradise for snowmachiners, skiers and snowboarders, not to mention extreme snow sport filmmakers. In a state full of extremes – cold, rich and beautiful – Valdez both stands out and fits right in.