Base Realignment and Closure

Eielson is an important ingredient in Fairbanks' Economy

n May 2005 the Department of Defense recommended to the Base Realignment and Closure Commission (BRAC) the virtual closure of Eielson Air Force Base, located 26 miles southeast of Fairbanks. The Defense Department recommended the withdrawal of 2,821 uniformed personnel and a transfer of the aircraft inventory of the 354th Fighter Wing to Nevada, Georgia and Louisiana. According to military sources, high operational and infrastructure costs put Eielson AFB on their realignment list. The base has a more than 60-year presence in the Fairbanks area and has been a solid foundation in the local economy.

A base realignment is not the same as a base closure. A realignment is basically a reorganization, similar to a corporate restructuring where parts are taken away or added. A closure often means that once any necessary remediation is done, the base could be used for something else, such as for private industry. In Eielson's case, the realignment means a skeleton military crew and contractors would maintain the base and keep it secure. Air Force officials have said they would use Eielson for periodic training exercises. There is some chance a portion of Eielson AFB would be available for alternative uses; however, the availability of any facilities will not be known until after a final decision is reached.

4

The impact of the realignment could be larger than initially predicted

Department of Defense analysts assessed that direct and indirect civilian job losses could reach 1,900. Combined with the military reductions, the total impact could amount to an 8.6-percent job loss. This would be the fourth-largest percentage of all economies impacted by the base realignment. The projected population loss in the Fairbanks North Star Borough is estimated by the Defense Department to be more than 6,000, which represents a 7-percent reduction.

Alaska Department of Labor and Workforce Development (DOLWD) analysts estimate employment reductions of well over 10 percent.

BRAC Time Line

• May 13, 2005, Defense Secretary Donald H. Rumsfeld forwarded the Defense Department's recommendations to the Base Realignment and Closure Commission.

• The commission will then forward its report on the recommendations to President Bush by Sept. 8, 2005.

• The president will have until Sept. 23, 2005, to accept or reject the recommendations in their entirety.

• If accepted, Congress will have 45 legislative days to reject the recommendations in their entirety or they become binding on the department.

Source: Department of Defense (www.defenselink.mil/brac/)

The Department of Labor not only anticipates higher job losses but assesses the Fairbanks' employment base as being smaller than do BRAC analysts. Most local economists agree that Fairbanks' economy would suffer greatly if the realignment becomes a reality.

Visualizing some of the effects

Fairbanks' economy is far more isolated than most other economies affected by BRAC. It is more than 350 miles away from a large population center and has not had much population growth in the last decade. The military and its dependents represent roughly 20 percent of the Fairbanks area's population and is the area's second-largest employer of civilians, including Fort Wainwright. Aside from civilian payrolls associated with the base, active-duty military pay on Eielson AFB was \$133.2 million in 2004, which translates to

¹ For example, the current cost-of-living adjustment for staff sergeants with six years of service is \$375 to \$564 a month, depending on the number of dependents.

over 3,600 average-paying jobs in the Fairbanks area. According to the Air Force, active-duty military earnings averaged \$46,283 per soldier in Fairbanks, which is 25 percent above the average civilian pay.

While base pay for lower-ranking military personnel appears to be low (see Exhibit 1), induced benefits augment military paychecks. Those include free housing on base or a housing allowance if off base (see Exhibit 2), health care, cost-of-living adjustments,¹ as well as subsidized recreational services, grocery and travel costs, and a number of other benefits unavailable to civilians.² All these benefits expand a soldier's purchasing power. As consumers, Eielson's military personnel and their dependents represent an affluent group.

² Other benefits include extra pay for uniforms, food for the Air Force member, hazardous duty, among others.

An Excerpt from the Military Monthly Pay Schedule Base Pay 2005

		Years of Service											
	Pay Grade	< 2 yrs	2 yrs	3 yrs	4 yrs	6 yrs	8 yrs	10 yrs	12 yrs	14 yrs	16 yrs	18 yrs	20 yrs
	Enlisted Personnel												
Airman	E-1	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10
Airman	E-2	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50
Airman 1 st	E-3	1,456.20	1,547.70	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00	1,641.00
Sr Airman	E-4	1,612.80	1,695.60	1,787.10	1,877.70	1,957.80	1,957.80	1,957.80	1,957.80	1,957.80	1,957.80	1,957.80	1,957.80
Staff Sgt	E-5	1,759.50	1,877.10	1,967.70	2,060.70	2,205.30	2,329.80	2,421.60	2,421.60	2,421.60	2,421.60	2,421.60	2,421.60
Tech Sgt	E-6	1,920.30	2,112.60	2,205.90	2,296.50	2,391.00	2,604.30	2,687.10	2,779.20	2,859.90	2,888.70	2,908.20	2,908.20
Master Sgt	E-7	2,220.00	2,423.10	2,515.80	2,638.80	2,734.50	2,899.50	2,992.20	3,084.60	3,249.60	3,332.40	3,410.70	3,458.70
Sr Mstr Sgt	E-8	-	-	-	-	-	3,193.50	3,334.80	3,422.10	3,527.10	3,640.50	3,845.40	3,949.20
Chf Mstr Sgt	E-9	-	-	-	-	-	-	3,901.20	3,989.70	4,101.00	4,232.40	4,364.10	4,575.90
Commissioned Officers													
2 nd Lt	O-1	2,343.60	2,439.00	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10	2,948.10
1 st Lt	O-2	2,699.40	3,074.70	3,541.20	3,660.90	3,736.20	3,736.20	3,736.20	3,736.20	3,736.20	3,736.20	3,736.20	3,736.20
Captain	O-3	3,124.50	3,542.10	3,823.20	4,168.20	4,367.70	4,586.70	4,728.60	4,962.00	5,083.20	5,083.20	5,083.20	5,083.20
Major	O-4	3,553.80	4,113.90	4,388.40	4,449.60	4,704.30	4,977.60	5,317.50	5,582.70	5,766.60	5,872.20	5,933.70	5,933.70
Lt Col	O-5	4,118.70	4,639.80	4,961.10	5,021.40	5,221.50	5,341.80	5,605.50	5,799.00	6,048.60	6,431.10	6,613.20	6,793.20
Colonel	O-6	4,940.70	5,42.90	5,784.00	5,784.00	5,805.90	6,054.90	6,087.90	6,087.90	6,433.80	7,045.50	7,404.60	7,763.40
Brig Gen	0-7	6,666.00	6,975.60	7,119.00	7,233.00	7,439.10	7,642.50	7,878.30	8,113.50	8,349.00	9,089.40	9,714.60	9,714.60
Major Gen	O-8	8,022.30	8,285.10	8,459.40	8,508.30	8,725.50	9,089.40	9,173.70	9,519.00	9,618.00	9,915.30	10,345.50	10,742.40
Lt Gen	O-9	-	-	-	-	-	-	-	-	-	-	-	11,337.90

Note: The cost-of-living adjustment and extra pay, such as for uniforms or hazardous duty, are not included. Source: Military Advantage (www.military.com)

ALASKA ECONOMIC TRENDS

AUGUST 2005

5

P Allowances for off-base housing Fairbanks 2005

	Pay Grade	Without Dependents	With Dependents		Pay Grade	Without Dependents	With Dependents
Airman	E-1	\$747.00	\$1,153.00	2 nd Lt	0-1	\$947.00	\$1,433.00
Airman	E-2	747.00	1,153.00	1 st Lt	0-2	1,117.00	1,489.00
Airman 1 st	E-3	747.00	1,153.00	Captain	O-3	1,328.00	1,611.00
Sr Airman	E-4	747.00	1,153.00	Major	0-4	1,500.00	1,788.00
Staff Sgt	E-5	881.00	1,426.00	Lt Col	O-5	1,545.00	1,913.00
Tech Sgt	E-6	961.00	1,491.00	Colonel	O-6	1,613.00	1,929.00
Master Sgt	E-7	1,057.00	1,535.00	Brig Gen	O-7	1,629.00	1,951.00
Sr Mstr Sgt	E-8	1,207.00	1,583.00	Major Gen	O-8	n/a	n/a
Chf Mstr Sgt	E-9	1,292.00	1,661.00	Lt Gen	O-9	n/a	n/a

Source: Military Advantage (www.military.com)

The military is a unique economic force

Historically and even today the presence of military installations has been an important economic ingredient in Alaska's development. Their presence in communities such as Fairbanks and Anchorage has supported economic growth in both locations and has represented stability. Their insulation from local economic cycles has helped these communities weather several storms that swept through Alaska's economy. The installations can be viewed as basic sector industries that introduce money from non-Alaskan sources, which circulates in local economies.

Aside from military payroll, contracted services come in strong

In 2004, the Department of Defense recorded Eielson AFB's expenditures as \$374 million. Active-duty military payroll represented nearly 36 percent of the total. Other civilian payrolls added 9 percent while contract activity contributed 33 percent. An additional 10 percent was attributed to secondary or indirect jobs that support the Air Force contingent. The Alaskan Air National Guard, which is stationed on Eielson AFB but excluded from the realignment, claimed 13 percent of the base's total pay impact. (See Exhibit 3.)

6

Construction – a contracted service that provides a steady work flow

Construction represents a major part of Air Force expenditures. Although amounts fluctuate from year to year, they support a constant flow of work for Fairbanks' construction crews. During the past five years, construction expenditures on Eielson AFB ranged between a low of \$21 million in 2000 to a high of nearly \$95 million in 2004.

The military is an important customer

In 2004, Eielson AFB had about 90 contractor, service or vendor relationships in Fairbanks and elsewhere. While it is difficult to discern the base's entire procurement activity, it is clear that many local businesses count on the military as a reliable and important customer base. The proposed realignment would dampen the business climate and indirectly affect employment in many industry sectors. The public sector might lose the nearly \$10 million the Department of Defense pays in lieu of property taxes. Half of this payment is retained by the state and half goes directly to the local school district. Moreover, the education funding for the district would change because of the loss of roughly 1,300 students. Revenue from other consumer taxes and fees would decrease as well due to the steep decline in population.

The economy behind Eielson's gates – a mixture of direct and indirect services

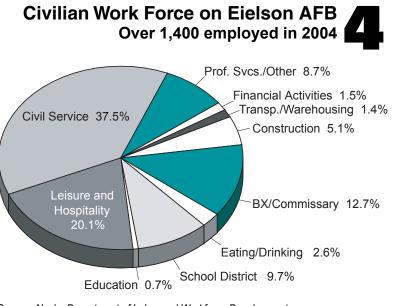
Although uniformed personnel played the lead role on Eielson, a permanent civilian work force of more than 1,400 supported base functions in 2004. All these jobs are part of the Fairbanksarea job base and in most cases they represent year-round employment.

Nearly 70 percent of the civilian employees on base work for the federal government, representing the typical entourage that accompanies the military. Federal civilian employees perform a broad scope of services that include power generation, maintenance, administrative and social service functions. For example, they work at the family center, where they help soldiers with budgeting, job transitions and provide other services. Other federal civilian employees work at the commissary, the baseexchange store, recreational facilities, hotel and clubs. The other 30 percent of civilian employees work for the Fairbanks North Star Borough School District, which operates three schools on Eielson with a staff of 137, and for the 30 private sector companies that have Air Force contracts and designated work sites on base. Their functions vary from building maintenance to personal services. (See Exhibit 4.)

Population, housing and utilities

In 2004, 7,872 residents lived in the Fairbanks North Star Borough's southeast communities of North Pole, Moose Creek, Eielson AFB and Harding-Birch Lakes. These residents represented 9.3 percent of the borough's population. Eielson AFB, with 4,587 residents, was the most populated. All of Eielson's residents are uniformed personnel and their dependents who live in family housing units, or, when single, in dormitories. The Air Force's population, however, is much larger and many live in community housing off base.





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

7

Eielson AFB's housing office said that, as of May 2005, uniformed personnel and their dependents, totaling roughly 3,070, lived in community housing off base. That included nearly 300 families with dependents and nearly 900 single soldiers. These military personnel form a large renter group. A precise enumeration of housing units rented to military personnel cannot be established because living arrangements of single soldiers vary and many have roommates. One can, however, assume dependent households occupy one unit. Some Air Force families also own homes. The exodus of this large population could adversely affect local property values. In all, the military's influence on the local housing market is significant.

Community housing not only affects local real estate, but also Fairbanks' utility markets. A troop withdrawal from Eielson would decrease the customer base. It would affect electricity, water and sewer, natural gas and telecommunication providers. Heating-oil distribution firms would also suffer a drop in sales volume.

At Eielson, heat and electricity are generated on base. The Usibelli Coal Mine ships coal via rail to the Eielson power plant. Therefore, the electrical utility company provides only limited services to the base. In contrast, communication services, such as all types of voice telecommunications, Internet, satellite and cable services, are fully provided by local carriers.

Military consumer spending

8

Military consumer spending differs from that of civilians because the military maintains its own economic network. Typically, commissaries and the base-exchange stores are the principal retailers on the installations. Limited social, personal, educational, housing and leisure services are available on base for the exclusive use of the military, their families and related personnel. Although the variety of consumer goods and services is limited, they represent additional privileges to the military and their families. The Defense Department subsidizes this unique consumer infrastructure.

In spite of their access to on-base shopping, the military and their families are active consumers in adjacent economies and a sizeable portion of Eielson's payroll flows to the Fairbanks area. How much, exactly, is hard to pinpoint. The greater variety offered by off-base retail outlets attracts these customers. Entertainment establishments, such as dance clubs, movie theaters and other leisure industries, also benefit from the military presence. Restaurants, in particular, frequently cater to this culturally diverse group.

Restaurants in North Pole depend on military patronage. Several restaurant owners have stated that most of their business comes from the military and their families. Other recreational firms and organizations also rely on their business. Many off-duty soldiers take part in boating, hunting, fishing, camping, sports and other recreational activities. Stores and services outfitting these activities count heavily on the military as clientele. The visitor industry most likely also reaps benefits. Although data related to family induced tourism do not exist, there is anecdotal evidence that many visitors come to Fairbanks to visit with their military relatives.

The Air Force's presence in the Fairbanks area is an important economic force. Its influence filters down to all local industry sectors. While it is difficult to delineate, it is clear that the proposed realignment would have a significant negative impact. Fairbanks would suffer a substantial loss of economic stability that would be difficult to replace with private sector economic activity.