

Federal Spending in Alaska

Funding and employment a major part of state economy

The federal government has been Alaska's largest employer since the days before statehood, generating approximately a third of all jobs in the state. That means Alaska has a lot to lose as proposed federal budget cuts over the next 10 years could top \$1.5 trillion — the largest spending cuts since the end of World War II.

There aren't yet enough data to determine what these federal cuts will mean for Alaska, but a picture of the U.S. government's role in our economy will make it easier to measure the effects in the future.

Importance waxes and wanes

Although the federal government has always been a dominant economic player in the state, its influence has waxed and waned over the decades. During the 1970s and 1980s, many other pieces of Alaska's economy grew faster than the federal sector — for example, the oil industry, fishing, tourism, and the service sector — diminishing federal influence on the state's economy.

That decline accelerated in the 1990s with the closures of military bases and downsizing of base and

Origin of federal spending data

The U.S. Census Bureau's Consolidated Federal Funds Report is the most comprehensive annual report published on federal expenditures for all 50 states, boroughs, census areas, counties, and other geographic areas.

The most recent edition, for 2010, was published in September 2011. It covers all dollars spent, from a small \$1,011 for tribal courts to \$887 million for medical assistance.

Without the Consolidated Federal Funds Report, we wouldn't be able to measure the federal influence on Alaska's economy. In addition to the report's usefulness when comparing geographic areas, it's a good source for trends analysis because it has been produced since 1983.

civilian staff. In 1994 and 1995, total federal expenditures fell in Alaska. The University of Alaska Anchorage estimates that the federal government was responsible for a third of the state's gross product in 1965, but by 1998, that had fallen to 13 percent. The downward trajectory appeared permanent a decade ago, but to everyone's surprise, things changed.

The federal government booms

The 2000s brought big increases in federal spending — accelerated by the attacks of Sept. 11, 2001 — and Alaska's well-positioned congressional delegation took advantage of that growth. According to the annual Consolidated Federal Funds Report, the U.S. government spent \$17,762 for every man, woman, and child in Alaska in 2010, putting the state at No. 1 for per capita federal expenditures — 69.8 percent above the national average. (See Exhibit 1.)

These per capita figures are noteworthy, but so is the total dollar amount. In 2010, the U.S. spent \$12.6 billion in Alaska — a \$6.6 billion increase over the year 2000 (see Exhibit 2), or 110 percent

1 Alaska is No. 1 Among States

Per-capita federal funds, 2010

Rank	State	2010	Rank	State	2010
1	Alaska	\$17,762	13	Louisiana	\$11,738
2	Virginia	\$17,008	14	South Dakota	\$11,676
3	Maryland	\$16,673	15	West Virginia	\$11,609
4	Connecticut	\$15,662	16	Pennsylvania	\$11,489
5	Hawaii	\$15,331	17	Rhode Island	\$11,172
6	New Mexico	\$13,578	18	Maine	\$11,024
7	Kentucky	\$13,198	19	Wyoming	\$11,019
8	North Dakota	\$12,930	20	Montana	\$10,873
9	Massachusetts	\$12,593	21	Tennessee	\$10,852
10	Vermont	\$11,834	22	Mississippi	\$10,588
11	Alabama	\$11,820	23	Washington	\$10,475
12	Missouri	\$11,746		U.S. Average	\$10,460

Source: U.S. Census Bureau, Consolidated Federal Funds Report

more. In contrast, federal spending grew by 83 percent in the 1990s. Overall, Alaska represented 0.2 percent of the nation's population in 2010, and 0.4 percent of all federal expenditures.

Wages, salaries topped spending categories

The most dramatic rise in federal expenditures in Alaska has been in salaries and wages — the largest spending category — which doubled over the past decade. (See Exhibits 3 and 4.) In 2010, Alaska ranked second for per capita federal wages and salaries at \$5,710 — five times the national average. (See Exhibit 5.)

Average salaries also increased, and the typical civilian federal worker earned \$68,484 in 2010 — considerably more than the \$47,724 earned by the average Alaska worker.

Much of the growth in wages and salaries is attributable to the military's expansion, and the U.S. Census Bureau also assembled a large temporary workforce to conduct the decennial census. However, none of these changes fully explain the rise.

Growth in other funding categories

Although grants grew more slowly than all other categories, they were the second-largest federal expenditure category in Alaska. Alaska ranks first among states for per capita grant spending — twice the national average — and federal grant money in the state budget went from \$1.9 billion in 2001 to a peak of \$3.5 billion in 2009. (See Exhibits 5 and 6.)

Alaska ranks fourth in procurement, the other big federal spending category, with most of it tied to the military. The remaining categories also grew rapidly, but are much smaller and play lesser roles in Alaska than elsewhere in the nation.

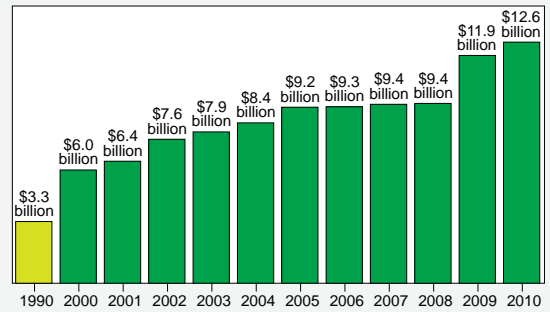
It's important to remember that not all federal spending is equal. For example, the economic effect of a Social Security check or salary tends to be significantly higher than dollars spent on procurement. A Social Security check is typically spent immediately in the state, whereas a large share of procurement money goes to equipment manufactured and purchased outside Alaska.

Defense is the largest federal employer

In 2010, 40,000 Alaskans were on the federal payroll. The Department of Defense is the largest employer, with 29,714 combined uniformed and civilian workers in the state.

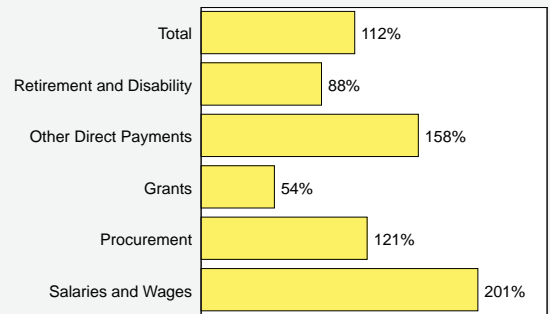
In 2010, there were 7,313 civilian jobs on bases or other military property, ranging from highly specialized professionals working for the Corps of Engineers to retail personnel working for the commissaries and base exchanges.

2 Federal Funds on the Rise Alaska, 1990 to 2010



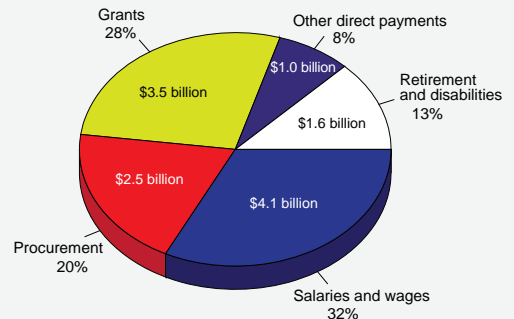
Source: U.S. Census Bureau, Consolidated Federal Funds Report

3 Categories in Alaska Federal fund growth, 2000 to 2010



Source: U.S. Census Bureau, Consolidated Federal Funds Report

4 Expenditure Categories Federal dollars to Alaska, 2010



Source: U.S. Census Bureau, Consolidated Federal Funds Report

5 Alaska's Rank Per-capita federal funds

	2010 rank
Total Expenditures	1
Salaries and Wages	2
Grants	1
Procurement	4
Other Direct Payments	50
Retirement and Disability	49

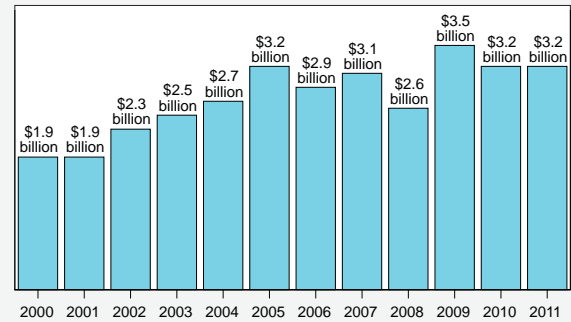
Source: U.S. Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2010

The total federal civilian workforce (including civilians working for the Department of Defense) was 17,544 in 2010, with a payroll of \$1.2 billion. (See Exhibits 7 and 8.)

The largest all-civilian agency

When the Department of Defense is excluded, the next top five agencies in Alaska employ more than three-quarters (76 percent) of all civilian federal workers. (See Exhibit 7.) The largest civilian agencies are the Department of the Interior, the United States Postal Service, and the departments of Transportation, Homeland Security, Agriculture,

The State's Budget Federal money, 2000 to 2011



Sources: State of Alaska, Legislative Finance Division, State Fiscal Years 2000 to 2011

Commerce, Veterans Affairs, and Health and Human Services.

Considering the Department of the Interior is the state's largest property owner, it's not surprising that its presence is second only to the Department of Defense. The Department of the Interior controls over 50 percent of the state's landmass, and most of its mission is to manage these federal lands and their resources. The big branches within the Department of the Interior are the National Park Service, the Bureau of Land Management, and the Fish and Wildlife Service.

The other major agencies

The U.S. Postal Service is the second-largest federal civilian employer in Alaska, although it's typically the largest elsewhere in the nation. Alaska has a special relationship with the USPS, which injects additional federal funds into Alaska's economy by paying air carriers to move goods such as groceries to roadless areas. This unique system is called "by-pass mail," and in 2010 its federal subsidy was \$70 million.

Carrying mail is the largest piece of business for many of the state's air carriers that operate in rural areas. Without U.S. mail, Alaska's air transportation system would be very different and much smaller than it is today.

The state's geographic distances also dictate the size of the Department of

7 Federal Civilian Jobs and Payroll Alaska, by agency, 2010

	Employment	Total payroll
U.S. Department of Defense, civilian only	7,313	\$433,039,395
U.S. Department of Interior	2,710	\$189,248,483
U.S. Postal Service	1,562	\$102,925,325
U.S. Department of Transportation	1,309	\$131,765,745
U.S. Department of Homeland Security	1,118	\$80,812,698
U.S. Department of Agriculture	1,089	\$77,688,131
U.S. Department of Commerce	944	\$68,412,838
U.S. Department of Veterans Affairs	627	\$41,822,502
U.S. Department of Health and Human Services	292	\$21,730,053
U.S. Department of Justice	207	\$22,107,409
U.S. Court System	121	\$7,907,401
Social Security Administration	72	\$4,617,724
General Service Administration	51	\$633,337
U.S. Department of Housing and Urban Development	39	\$3,916,234
Environmental Protection Agency	37	\$3,509,894
U.S. Department of Labor	22	\$1,664,240
All other agencies	31	\$2,601,092
Total	17,544	\$1,194,402,501

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

Transportation, the third-largest civilian agency. The Federal Aviation Administration is its dominant player, as air transportation in Alaska is more intensive than anywhere else in the country.

Although the Department of Homeland Security is a relatively new agency, it ranks fourth in size. It was born in 2003 through the consolidation of other agencies and creation of the Transportation Security Administration. The U.S. Coast Guard is traditionally part of Homeland Security, but in time of war, the Coast Guard becomes militarized — in this article, Coast Guard personnel are part of the uniformed defense workforce.

Although agriculture is a small industry in the state, the Department of Agriculture is the fifth-largest federal civilian agency. This is because the Forest Service dominates this department in the state and controls approximately 22 million acres, largely made up of the Chugach and Tongass national forests.

The Department of Health and Human Services was historically one of the largest agencies in Alaska, but it now ranks eighth behind the departments of Commerce and Veterans Affairs. Prior to 2000, it had more than 1,000 employees — most of these worked for the Indian Health Service, specifically at the Alaska Native Medical Center in Anchorage. In 1998, the federal government turned the medical center over to the Alaska Native Health Consortium, made up of the Alaska Native Tribal Health Consortium and the Southcentral Foundation, and most of the center's 1,400 federal employees became part of the private-sector workforce. By 2010, these two organizations combined employed nearly 3,000 private-sector employees along with a small contingent of federal workers. In this case, privatization reduced the size of the federal workforce, but federal funding increased.

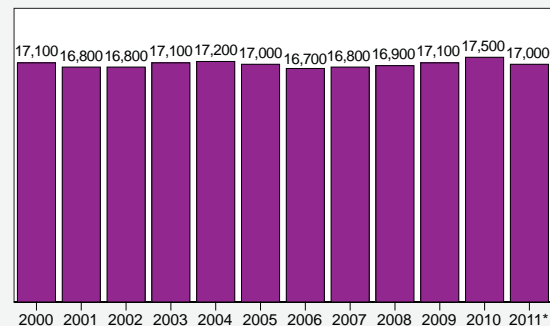
The shifts in Alaska's military

The Army represents over half of the state's armed forces. (See Exhibit 9.) It's followed by the Air Force and then the Coast Guard, which is the smallest group nationally but with a disproportionately large presence in Alaska. Total military personnel and their families make up 8 percent of the state's population, and most live in Anchorage, Fairbanks, and Kodiak.

Alaska's military population fell significantly during the 1970s through the 1990s. The drop in troop levels between 1970 and 1980 marked the end of the Vietnam War, but it also represented the transition from mandatory military service to an all-volunteer army. In addition, the realignment campaign of the 1990s resized military strength to match modern warfare. The ensuing base closures and reorganization of military units in the 1990s meant Alaska lost nearly 24 percent of its military population, which hit rock bottom in 2001.

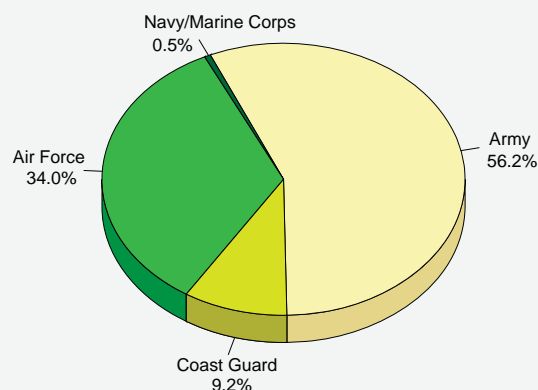
The trend reversed in 2003 after the attacks of Sept. 11, 2001, and the military regained its status as one of the state's dynamic economic forces. By 2007, the active duty count had climbed to 23,141: a 36 percent increase over 2001, or 6,099 additional troops. (See

8 Federal Civilian Jobs Alaska, 2000 to 2011



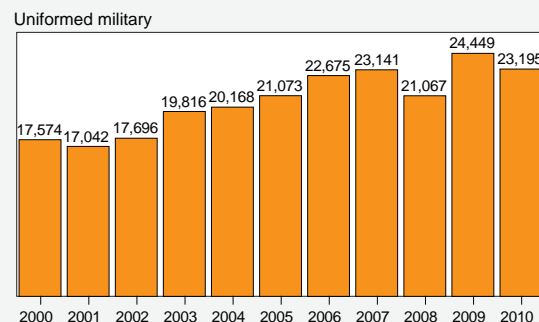
*Estimated based on first three quarters of 2011
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

9 The Army Dominates Alaska armed services, 2010



Sources: The Defense Manpower Data Center, Jan. 31, 2011

10 Military Grew in Alaska 2000 to 2010



Sources: ALCOM; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

Exhibit 10.) All of these increases were in the Army — since 2000, its numbers have more than doubled. By 2010, 23,195 uniformed personnel lived in the state and worked for all branches of the armed forces, and defense represented 41 percent of all federal spending in the state.

The increases in construction money that followed were even more pronounced. The University of Alaska Anchorage estimated defense construction added up to more than \$1 billion in 2010 and 2011. According to these same reports, defense spending hit \$730 million in 2006, its biggest year, and never fell below half a billion dollars in any year since UAA began reporting data in 2004. These defense dollars became the bread and butter for a large segment of the state's construction industry.

Military outsourcing has grown

Outsourcing has grown over the years and as a result, private contractors play a big role at military installations. Civil functions on bases, ranging from janitorial services to highly specialized technical support, are often contracted to private companies. No reliable numbers are available, but total defense contract awards in Alaska totaled \$2.1 billion in 2008. Some of the large beneficiaries are listed in Exhibit 12.

Top Military Contractors **12** Alaska, 2009

Contractor	Contract value
Arctic Slope Regional Corporation	\$150,765,000
Lakeshore Engineering Services	\$129,481,000
Lynden Incorporated	\$107,799,000
API	\$62,471,000
Davis Watterson JV	\$59,273,000
Tatitlek Support Services	\$58,796,000
Tyco International	\$57,212,000
Doyon Utilities	\$56,732,000
Chugach Alaska	\$50,350,000
Pepsico Holdings	\$49,935,000

Source: U.S. Department of Defense, Atlas/Data Abstract for the U.S. and Selected Areas, Fiscal Year 2009

Guard and retirees also key

In 2009, 4,747 Alaskans were in the Reserves and the National Guard with a payroll of nearly \$91 million. And according to the Census Bureau, 15 percent of the state's adult population were veterans — the highest concentration of veterans in the nation. In 2009, military retirees received \$170 million in benefits.

Impact around the state

The federal government is a strong presence in every corner of the state through direct employment, funding, or both. Per capita expenditures and employment vary dramatically by area, and with the exception of Juneau, the areas with the highest rates tend to be rural. Most do not have a large military or strong federal employment — instead, most money flows into these areas as grants to local health care and social services organizations, tribal governments, and housing authorities. Transfer payments — such as retirement, welfare, housing assistance, and medical — are also important sources of federal money.

Military and federal civilian workforces play a larger role in urban areas such as Juneau, Kodiak, Fairbanks, and Anchorage. Federal employment is high in the Denali Borough because of Denali National Park and Clear Air Station. And for the Matanuska-Susitna Borough, which ranks last in per capita expenditures, the figures are somewhat misleading. A significant number of Mat-Su residents work for the federal government or are active duty in Anchorage, so these expenditures are counted in Anchorage.

11 Active Duty Military in Alaska By borough or census area, 2000 and 2010

Area	July 1, 2010	July 1, 2000	Percent of population in 2010
Alaska	23,195	17,574	3.3%
Aleutians West Census Area	4	40	0.1%
Anchorage, Municipality of	12,787	8,630	4.4%
Denali Borough	99	132	5.4%
Fairbanks North Star Borough	8,166	6,861	8.4%
Juneau, City and Borough of	267	192	0.9%
Kenai Peninsula Borough	93	97	0.2%
Ketchikan Gateway Borough	241	222	1.8%
Kodiak Island Borough	950	913	7.0%
Nome Census Area	1	23	0.0%
Petersburg Census Area	28	20	0.7%
Sitka, City and Borough of	187	183	2.1%
Southeast Fairbanks Census Area	209	166	3.0%
Valdez-Cordova Census Area	163	95	1.7%

Note: These numbers are based on the assignment location and not the place of residence.

Sources: U.S. Census Bureau; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

The Insured Unemployment Rate

What it says about Alaska's seasonal workforce

The standard monthly unemployment rate receives a lot of media attention, but there is another little-talked-about rate that measures only those who file for unemployment insurance benefits. This weekly rate — the insured unemployment rate or IUR — is a more frequent gauge of current unemployment, specifically for the industries most affected by the seasonal swings that tend to drive it.

The standard unemployment rate is a survey-based estimate of the entire unemployed population, whether or not they apply for benefits. The IUR, although more limited in scope, measures the population covered under the UI system who file claims for benefits.

IUR is the claims barometer

In Alaska, 98 percent of all wage and salary workers are covered under the unemployment insurance system.¹ The Alaska Department of Labor and Workforce Development divides covered employment by an average of the 13 most recent weeks of benefit claims to get the IUR.

Alaska has a notoriously seasonal economy, so the IUR tends to fluctuate by more than a few percentage points throughout any given year. (See Exhibit 1.) Because the rate is a 13-week moving average, there's a lag between the seasonal increase in claims and the change in the rate.

Although overall unemployment is lowest in the summer when fishing and tourism are in full swing, the IUR doesn't hit its lowest yearly level until late September or early October. When seasonal employment ends in the fall and benefit claims increase, the IUR begins to climb through the last months of the year and hits its high point around the beginning of March.

For example, the high in 2011 was 7.08 percent

The insured unemployment rate, or IUR, is the "other" unemployment rate. It measures only the unemployed workers who actually apply for benefits.

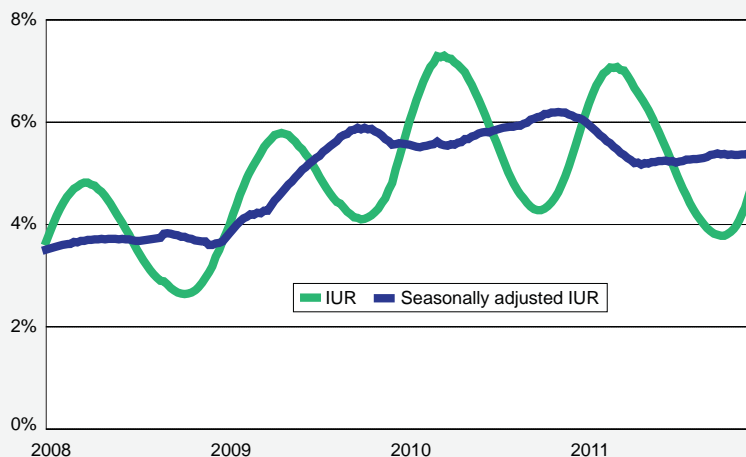
in March and the low was 3.78 percent in October. The resulting fluctuation in the rate for 2011 was 3.30 percentage points, which is well within the normal annual range. The average yearly fluctuation since 1981 has been 3.45 percentage points.

Seasonal adjustment of the IUR

One drawback of the IUR is that the seasonal swing in claims has the tendency to obscure underlying changes in the demand for benefits. To better understand these trends, the department developed a seasonally adjusted IUR in 2009, which smoothes out the seasonal fluctuation to make underlying trends more visible.

Seasonal Adjustment Shows Trends

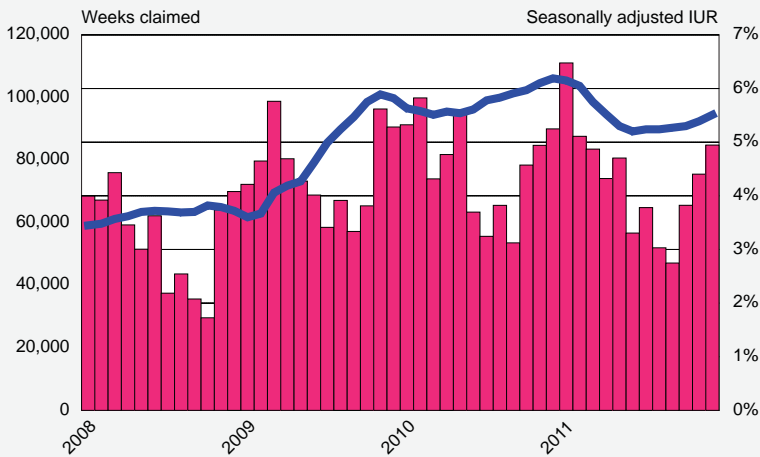
Alaska IUR, 2008 to week 50 of 2011



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

2 Adjusted IUR and Weeks Claimed

Alaska, January 2008 to December 2011



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

This seasonally adjusted rate remained below 4 percent between 2006 and late 2008. Throughout 2008, modest increases in claims and payments across all industries elevated the adjusted IUR only slightly, from 3.5 percent in January to around 3.6 percent by the year's end.

However, in early 2009, the aftershocks from the U.S. recession began to affect Alaska. The state witnessed its first real spike in claims in March when the rate leaped from 3.6 percent to 4.0 percent, largely led by the heavily seasonal construction industry as well as trade, food and lodging, mining, manufacturing, public administration, transportation, and health care.

Although the U.S. recession officially ended in June of 2009, this jump showed its effects had only begun to take hold in Alaska, with more increases to come. Claims continued to climb as the year went on, and the adjusted rate reached 5.89 percent. (See Exhibit 2.)

Claims in Alaska after recession

The recession's after-effects continued to echo in Alaska throughout 2010 and into 2011. A brief recovery in early 2010 lowered the rate, but claims spiked again in March 2010 beyond the expected seasonal level. That summer, claims fell seasonally to the still-elevated levels of the previous year, and then resurged through the end

of the year, reaching a seasonally adjusted recession-related high of 6.2 percent.

In 2011, industry composition changed notably as roughly a third of the difference in payments from pre-recession levels came from industries other than the traditional filers. This was an indication that the downturn affected industries across the board and not just those with regular seasonal layoffs.

Starting in early 2011, the rate fell significantly to around 5.20 percent by week 15 — early April — but then remained flat and rose slightly in the second half of the year.

Most of the recent uptick was due to a resurgence in manufacturing claims, mostly from seafood processing. While claims from other industries began fluctuating closer to their normal levels, seafood processing claims topped their expected seasonal level and continued to climb in late 2011.

Despite recent improvements in most industries, the underlying rate is still more than a percentage point higher than its pre-recession levels, and benefit payments are still running about 20 percent higher than 2007.

Overall, this shows that while Alaska has recovered some lost ground, the national recession still affects Alaska's labor market. While the recession hasn't affected total employment in Alaska the way it has in other states, it has had a significant influence on tourism-related spending and future expectations. Unemployment claims show this has dampened short-term demand for nonessential goods and services, which has affected industries that depend on seasonal and discretionary spending.

Notes

¹Workers who are considered self-employed aren't covered under the unemployment insurance system. These workers include most commercial fishermen, other agricultural workers, and private household workers.