

# The Federal Government in Alaska

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## Its role in the state's economy is a major one

**E**ver since the purchase of Alaska from Russia in 1867, the federal government has been a heavyweight on Alaska's economic scene, and this is still true today. Huge defense assets, ownership of over 64 percent of the state's acreage, a special relationship with Alaska's indigenous people, protection of the state's 6,640 mile coastline, and a big federal role in Alaska's extensive air transportation system ensure this outcome. The fact that the state was still a U.S. territory less than 50 years ago also helps explain the federal government's lasting economic influence.

While the federal government has for 50 years been one of the state's biggest economic players, its economic influence has been on the wane over the past two and a half decades. Much of the rest of the state's economy, including such players as the oil industry, fishing, tourism, and the service sector grew considerably faster than the federal sector, effectively diminishing the federal government's influence. The decline of federal influence accelerated in the 1990s with the closing of military bases and the downsizing of civilian employment. The shrinkage is well documented in gross state product figures compiled by the University of Alaska. In 1965, the federal government was responsible for a third of the state's gross state product, but by 1998 this share had fallen to 13 percent. This long term trend combined with the absolute declines in the 1990s made the federal government's role in Alaska's economy appear to be on a permanent downward trajectory. But a few years later, this trend began to change.

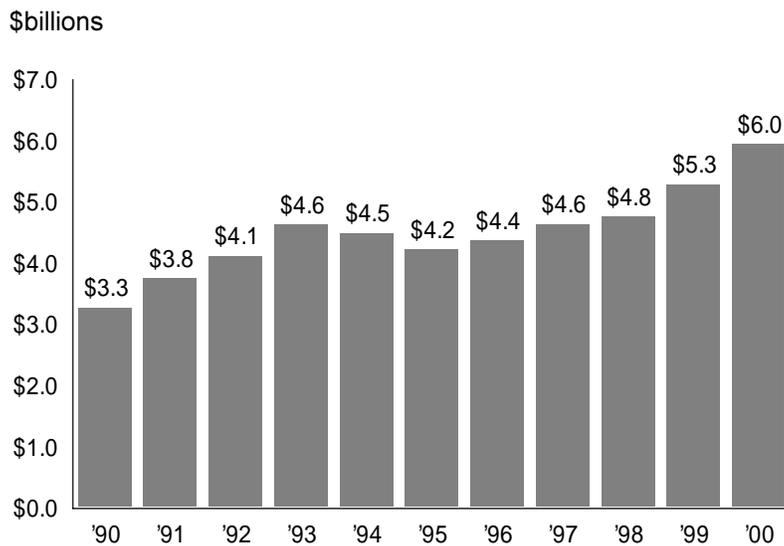
This article will explore the federal government's impact on Alaska's labor force and economy. It will be divided into three parts—a broad overview of the federal government, and then a detailed account of the status and trends on both the civilian and defense sides of the federal government.

## Alaska Ranks First In per capita federal expenditures

1	Alaska	\$9,496	26	Arizona	\$5,700
2	Virginia	\$8,859	27	Nebraska	\$5,617
3	Maryland	\$8,513	28	South Carolina	\$5,557
4	North Dakota	\$8,166	29	Arkansas	\$5,546
5	New Mexico	\$7,954	30	Vermont	\$5,523
6	Hawaii	\$7,441	31	Idaho	\$5,417
7	South Dakota	\$6,807	32	Colorado	\$5,328
8	Alabama	\$6,570	33	Kansas	\$5,304
9	Rhode Island	\$6,559	34	California	\$5,189
10	Montana	\$6,558	35	Georgia	\$5,187
11	Wyoming	\$6,521	36	New Jersey	\$5,166
12	West Virginia	\$6,491	37	North Carolina	\$5,139
13	Mississippi	\$6,454	38	Texas	\$5,107
14	Massachusetts	\$6,430	39	Ohio	\$5,052
15	Missouri	\$6,378	40	Delaware	\$5,053
16	Maine	\$6,157	41	Iowa	\$5,041
17	Kentucky	\$6,048	42	Oregon	\$4,838
18	Pennsylvania	\$6,002	43	Illinois	\$4,832
19	Oklahoma	\$5,974	44	Indiana	\$4,724
20	Tennessee	\$5,899	45	Michigan	\$4,711
21	New York	\$5,814	46	New Hampshire	\$4,695
22	Louisiana	\$5,808	47	Minnesota	\$4,674
23	Florida	\$5,805	48	Wisconsin	\$4,531
24	Washington	\$5,751	49	Utah	\$4,494
	<b>U.S. Average</b>	<b>\$5,740</b>	50	Nevada	\$4,317
25	Connecticut	\$5,731			

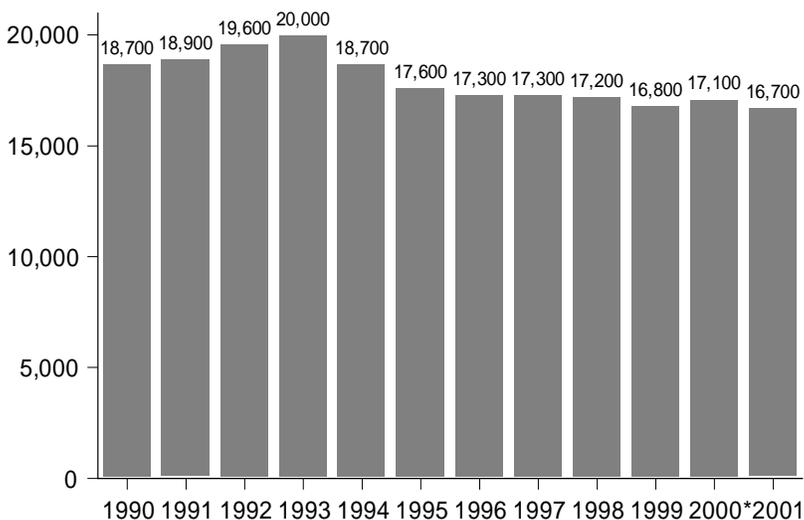
Source: U.S. Census Bureau, Consolidated Federal Funds Report FY 2000

## 2 Federal Government Expenditures In Alaska



Source: U.S. Census Bureau, Consolidated Federal Funds Report FY 2000

## 3 Federal Civilian Employment Fell During 1990s



\*preliminary data for 2001

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

## The federal government brings new vigor to the state's economy

After decades of declining influence on the state's economy, the federal government is again becoming an economic force to reckon with. This growing influence is an increasingly popular piece of conversation in Alaska circles. Federal surpluses and generous appropriations are reasons for its comeback. Recent federal expenditure data document this dramatic growth.

In 2000, the federal government spent \$9,496 for every man, woman and child in Alaska—putting Alaska at the top of the list for per capita federal expenditures. (See Exhibit 1.) Alaska has always ranked high in per capita expenditures, but it still ranked only fifth in the nation as recently as 1998. Although these per capita figures are noteworthy, the total dollar amount spent is even more astounding. In 2000, the federal government spent nearly \$6 billion in the state, which was a more than \$1.7 billion increase above the 1995 level. (See Exhibit 2.) In nominal dollars this represents a 40 percent increase, and in inflation-adjusted dollars an impressive 28 percent boost. During the same time frame Permanent Fund disbursements increased by \$607 million. In fact, economic researchers at the University of Alaska attribute most of the growth in Alaska's personal income in the 1990s to increases in federal expenditures and Permanent Fund disbursements.

Possibly more interesting than the overall federal increases are the sources of their growth. This all happened during the past decade while the federal payroll in the state fell as a result of reductions in the civilian federal workforce and uniformed military. (See Exhibits 3 and 12.) In other words, growth did not come from the "traditional" federal expenditures such as the military or the civilian federal workforce. Neither of these has grown over the past decade. Instead, retirement disbursements, other direct payments, procurement, and grants fueled the increase. (See Exhibit 4.) These include social security and federal retirements, Medicare, unemployment, housing assistance, and food stamps.

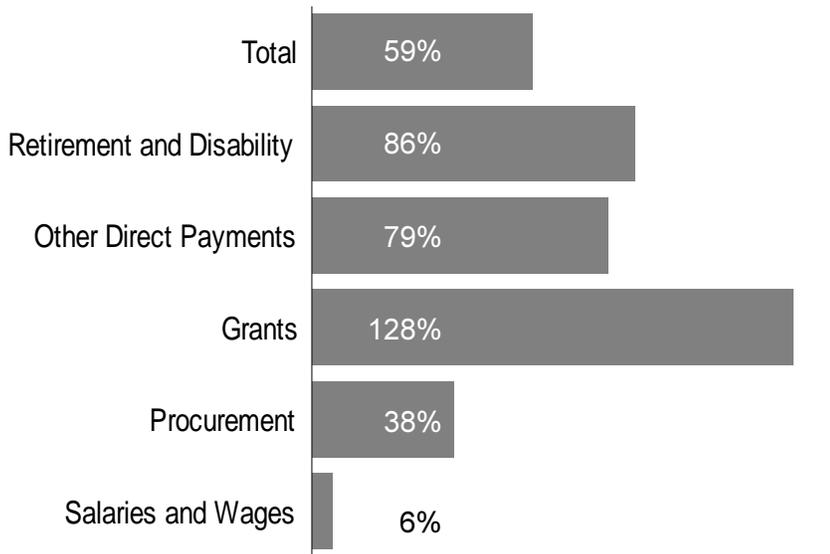
The growth in federal grants was by all measures the most dramatic. Between 1995 and 2000, federal grants to the state nearly doubled from \$1.2 billion in 1995 to \$2.2 billion in 2000. Such grants go mostly to state and local governments, universities, non-profit organizations, and sometimes individuals. Alaska received more than 400 separate grants in 2000. Major grant categories include \$362 million for highways, \$312 million for Indian Health Services and \$282 million for Medicaid. On a per capita basis, Alaska ranks number one among the states in federal grants. (See Exhibit 5.)

One result of this run-up in federal grant monies is a very clear but not often discussed effect on the state budget. In 1990 state government received \$548 million in federal grants. In fiscal 2000 grants had climbed to over \$1.5 billion. This flow of federal dollars has gone a long way toward filling many of the gaps in the state budget caused by falling oil revenues. (See Exhibit 6.)

### The impact is felt around the state

The strong federal presence is felt throughout the state either through employment, the flow of funds, or both. On a per capita basis, expenditures and employment vary dramatically. (See Exhibit 7.) In general, rural areas tend to have high per capita expenditures. The top five were Lake and Peninsula Borough, the Yukon-Koyukuk area, the Bristol Bay, Northwest Arctic, and Juneau boroughs. None of the top four has either a large military or a strong federal presence. Instead most of the expenditures flow into these areas via grants to local health care and social services organizations, housing authorities, and other organizations. Transfer payments, such as retirement, welfare, housing assistance, and medical payments are also important sources of federal monies. In urban areas such as Juneau, Fairbanks, and Anchorage, the direct presence of a large military establishment and federal civilian workforce plays a bigger role. But there are plenty of exceptions to this rule of thumb. The rural

## Growth Engine is Federal Grants 4 Growth 1991-2000



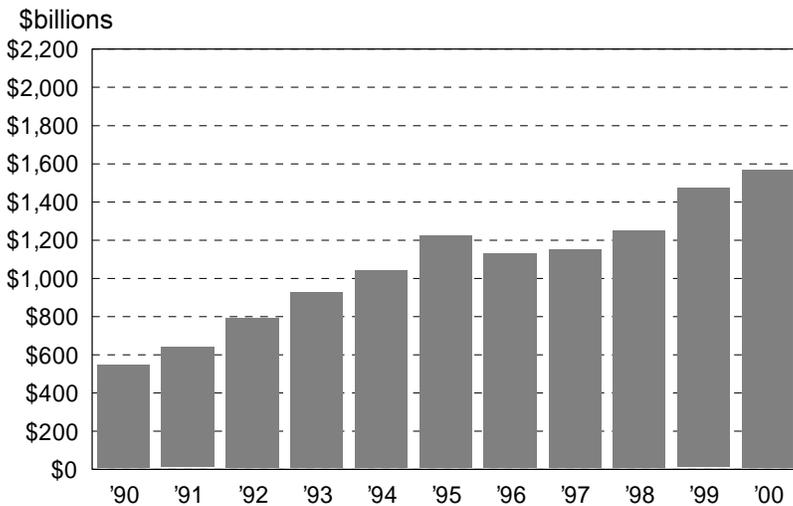
Source: U.S. Census Bureau, Consolidated Federal Funds Report FY 2000

## Alaska's Rank among States 5 Per capita federal expenditures—2000

Category	Ranking
Salaries and Wages	1
Grants	1
Procurement	4
Other Direct Payments	49
Retirement and Disability	50

Source: U.S. Census Bureau, Consolidated Federal Funds Report FY 2000

## 6 State Budget Experiences Growth in federal funds component



Source: State of Alaska Legislative Finance Division

Denali Borough, for example, does have a significant direct presence because of Denali National Park and Clear Air Force Station. The rural Yakutat Borough is among the areas with the lowest per capita expenditures. The Mat-Su Borough's last place rank in per capita expenditures is somewhat misleading. A significant number of Mat-Su residents work for the federal government in Anchorage in both military and civilian agencies, but these expenditures are counted in Anchorage.

### The federal government remains the single largest employer

## 7 Federal Expenditures by Region Fiscal Year 2000—Alaska

Ever since World War II, the federal government in Alaska has been the state's single largest employer (when uniformed military are included). As recently as 1970, the federal government was responsible for a fifth of the state's workforce. Although that percentage declined to one tenth in 2000, the federal government employs more than 35,000 people. The military is responsible for 49 percent of federal uniformed and civilian employment. The total civilian workforce (including civilians working for the defense department) employed 17,100 with a payroll of \$830 million. (Exhibit 3.) This represents 6 percent of the wage and salary workforce and 8.5 percent of its payroll. The average annual federal civilian wage in 2000 was \$48,419 compared to \$34,705 for the overall wage and salary workforce in Alaska. One important note is that the federal payroll includes a 25 percent tax-free cost-of-living allowance for most civilian employees, adding significantly to their disposable income.

	Total Expenditures	Percent Share	Population	Capita Spending
Statewide	\$5,953,454,000	100.0%	626,932	\$ 9,496
Aleutians West CA	64,654,000	1.1%	5,465	11,831
Aleutians East Borough	21,214,000	0.4%	2,697	7,866
Anchorage, Municipality	2,260,176,000	38.0%	260,283	8,684
Bethel Census Area	212,414,000	3.6%	16,006	13,271
Bristol Bay Borough	24,735,000	0.4%	1,258	19,662
Denali Borough	30,265,000	0.5%	1,893	15,988
Dillingham Census Area	49,559,000	0.8%	4,922	10,069
Fairbanks North Star Bor.	913,786,000	15.3%	82,840	11,031
Haines Borough	21,087,000	0.4%	2,392	8,816
Juneau Borough	504,361,000	8.5%	30,711	16,423
Kenai Peninsula Borough	196,512,000	3.3%	49,691	3,955
Ketchikan-Gateway Borough	99,666,000	1.7%	14,070	7,084
Lake and Peninsula Borough	11,816,000	0.2%	1,823	6,482
Northwest Arctic Borough	70,151,000	1.2%	7,208	9,732
Kodiak Island Borough	138,226,000	2.3%	13,913	9,935
Matanuska-Susitna Borough	177,336,000	3.0%	59,322	2,989
Nome Census Borough	78,190,000	1.3%	9,196	8,503
North Slope Borough	45,471,000	0.8%	7,385	6,157
Prince of Wales Area	36,455,000	0.6%	6,146	5,932
Sitka Borough	89,296,000	1.5%	8,835	10,107
Skagway-Hoonah-Angoon	20,519,000	0.3%	3,436	5,972
Southeast Fairbanks Area	62,022,000	1.0%	6,174	10,046
Valdez-Cordova Area	117,770,000	2.0%	10,195	11,552
Wade Hampton CA	55,756,000	0.9%	7,028	7,933
Wrangell-Petersburg CA	56,834,000	1.0%	6,684	8,503
Yakutat Borough	2,477,000	0.0%	808	3,066
Yukon Koyukuk Area	151,386,000	2.5%	6,551	23,109
State undistributed	441,320,000	7.4%		

The next part of this article will examine federal agency civilian employment in Alaska.

### Interior remains the largest agency

The top five agencies in Alaska employ nearly 80 percent of the civilian federal agency workforce. (Exhibit 9.) The largest agencies are the Department of the Interior, the Postal Service, Transportation, Agriculture, and Health and Human Services. In

Source: U.S. Census Bureau, Consolidated Federal Funds Report FY 2000

## Sources of Federal Payroll

### In Alaska—2000

2000, Commerce's employment temporarily exceeded that of Health and Human Services because of the 2000 Census. The prominence of these particular agencies reflects some of the unique activities of the federal government in Alaska.

Given the fact that the Department of the Interior is Alaska's largest landlord, it is not surprising that its presence in the state is second only to Defense. Interior controls approximately 57 percent of the state's landmass. Most of its mission is to manage these federal lands and their resources. The major branches within the Interior Department are the Bureau of Land Management, the Fish and Wildlife Service, the National Park Service, the Bureau of Indian Affairs, U.S. Geological Survey and Mineral Management Services. The Bureau of Indian Affairs is the one branch that has little to do with managing lands.

The number of Interior employees shows little change when 1990 and 2000 are compared. But employment did grow through 1995, reaching 2,637, and later falling back to 1990 levels. Given the dramatic growth in the visitor industry and the increase in national park visits from 1.2 million in 1990 to 2 million in 2000, it is remarkable how little the agency's workforce has changed. Employment may possibly grow again at the Department of Interior because of the recent federal takeover of subsistence.

During the mid-1990s, the federal government underwent a national performance review which asked federal agencies to find ways of delivering their services more efficiently. This ultimately meant that most agencies spun off staff. Most of the downsizing occurred through attrition but there were also some layoffs. Several functions formerly performed by the public sector were privatized.

### Post Office plays a special role in Alaska

Although it is not often grouped with other federal agencies, the U.S. Postal Service (USPS) is the

Total	\$1,348,980,000
Department of Defense:	733,933,000
Active Military	534,786,000
Inactive Military	24,819,000
Civilian-Defense	174,328,000
Civilian Non-Defense	615,047,000

Source: U.S. Census Bureau, Consolidated Federal Funds Report, FY 2000

## Federal Payroll in Alaska

### By department—1990-2000

Federal Employment by Dept.*	1990	1995	2000	2000	2000
				Total Payroll	Ann.Avg. Pay
Interior	2,371	2,637	2,325	\$128,572,003	\$55,300
Postal Service	2,136	2,139	2,185	87,110,482	39,867
Transportation	1,704	1,659	1,615	125,242,481	77,550
Agriculture	1,233	1,283	1,139	56,089,137	49,244
Health & Human Services	1,127	1,122	957	44,513,077	46,513
Dep't. of Commerce	732	452	961	46,746,601	48,644
Veterans Administration	196	337	440	27,079,778	61,545
Treasury Department	367	313	234	14,903,351	63,690
Dep't. of Justice	135	160	215	14,384,158	66,903
US Courts	81	115	140	7,923,823	56,599
General Services Admin.	115	89	71	3,962,790	55,814
Housing & Urban Development	70	51	34	2,396,768	70,493
Energy	34	30	-	-	-
Environmental Protection	-	27	33	2,347,555	71,138
Small Business Administration	27	25	21	1,499,110	71,386
Labor	18	14	14	651,515	46,537
Federal Communication Comm.	13	11	2	177,278	88,639
Corp. for National & Community Svc.	-	11	-	-	-
Office of Personnel Management	20	9	4	8,037	2,009
Federal Emergency Mgmt Ag'cy	-	6	5	194,926	38,985
National Labor Relations Board	4	3	-	-	-
Smithsonian	-	1	1	71,446	71,446
Interstate Commerce Commission	-	-	-	-	-
Federal Deposit Insurance Corp.	143	-	-	-	-
General Accounting Office	-	-	-	-	-
Total	10,526	10,494	10,396	\$563,874,316	\$54,240

\* Defense Department and Coast Guard employees not included

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

second largest federal civilian employer in the state. In most states USPS is the largest civilian federal employer. Alaska has a very special relationship with the Postal Service because of the state's far-flung geography. Unlike elsewhere in the country, the Postal Service in Alaska pays air carriers to move all kinds of goods, including groceries and other staples, to roadless areas in the state. Nearly all of the state's rural residents and businesses use the Postal Service for most of their everyday freight needs. Without U.S. mail, Alaska's intra-state air transportation system would be very different and much smaller than it now is. Although the number of state residents has grown by nearly 77,000 over the past decade, employment has changed little for the Post Office.

### **....and so does the FAA**

The Department of Transportation is another agency whose size is dictated by the geographic distances in the state. Nowhere else in the country is air transportation used more intensively. The Federal Aviation Administration (FAA) is the dominant player within the department. The FAA provides air traffic controllers, conducts airplane inspections and certifies the fitness of all aircraft. It also designs and maintains most of the state's air navigation aids. As in most federal agencies, FAA employment has drifted down slightly over the past decade, even though air transportation in the state has experienced significant growth. With the terrorist events of September 11 and the FAA's crucial role at airports, its employment has a good possibility of increasing in the near future. One other group counted in the Transportation Department is the Coast Guard's civilian employees—a relatively small number. Technically, the Coast Guard belongs to the Department of Transportation. Only during times of war does the Coast Guard become "militarized." But Coast Guard personnel are counted as part of the uniformed defense workforce, which will be discussed in a following section of this article.

### **Forest Service is also big**

Agriculture is a tiny industry in the state but the Department of Agriculture is one of the largest departments. This is because the Forest Service dominates this department in Alaska. The Forest Service controls approximately 22.8 million acres in this state, made up largely of the Chugach and Tongass National Forests. Approximately 85 percent of Forest Service personnel are located in Southeast Alaska because of the Tongass National Forest. Forest Service employment has drifted downwards as a result of the steep decline in timber industry activity. Employment in that industry is currently a mere shadow of what it was just a decade ago.

### **Big privatization at the Indian Health Service**

The Department of Health and Human Services is the other large federal agency in the state; the Public Health Service (PHS) dominates it. The largest public health care provider among the public health care divisions is the Indian Health Service (IHS). IHS administers to the health care needs of Alaska Natives, who represent 17.8% of the state's population. The single largest group of IHS employees works at the Alaska Native Medical Center in Anchorage, and the PHS also provides employees to numerous Native hospitals around the state. Employment in the department has fallen in recent years and this trend is not likely to change any time soon. Privatization is taking place at the Alaska Native Medical Center. As federal positions at the medical center turn over, they are often replaced with private sector employees who work for the Southcentral Foundation and the Alaska Native Health Consortium. Since 1998 federal hospital employment in Anchorage has fallen by 300 but these losses have been more than made up by new private sector employees. This is a clear case where federal employment may be falling but its impact on the economy merely shifts to another sector. One of the largest federal grants received in Alaska was for the Indian Health Service.

Besides these five large agencies, there are a number of others that make up the balance in federal employment. The largest among the smaller agencies is the Department of Commerce. To Commerce belongs the National Oceanic and Atmospheric Administration (NOAA), and the National Weather Service is in turn a major component of NOAA. The National Marine Fisheries Service is another part of NOAA; its main objective is the management of ocean fisheries. In 2000 the Department of Commerce workforce was temporarily boosted when the U.S. Census Bureau, a sub-agency, hired thousands of workers to conduct the 2000 decennial census. By year-end, with their work done, this huge workforce was disbanded. The Department of Veterans Affairs (VA) is the seventh largest federal agency and is one of the few that has experienced significant growth in recent years. New services and a growing veteran population have caused VA employment to expand.

Most other federal agencies have a relatively small presence. The Department of the Treasury is represented mainly by the Internal Revenue Service, but it also contains the Secret Service. The U.S. Department of Justice is relatively small but has grown significantly in recent years. Law enforcement agencies such as the Drug Enforcement Agency, the Federal Bureau of Investigation, the Immigration and Naturalization Service, and other agencies with the department have beefed up their presence.

### The military

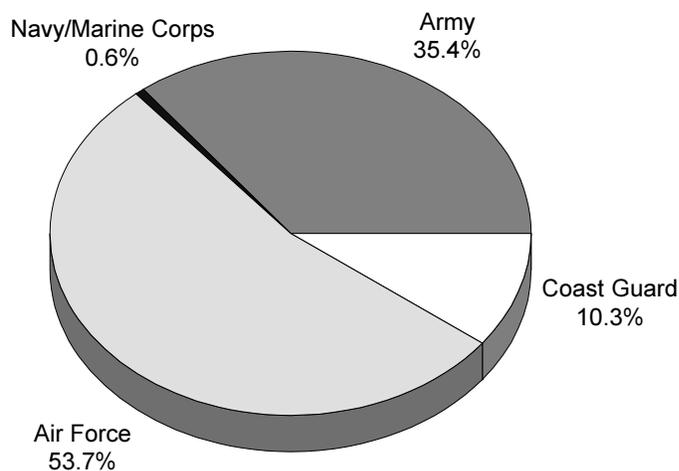
Alaska's proximity to Asia and Europe makes it an important logistics center for military operations. The state's vast territory, small population and challenging climate create an ideal training ground for staging military warfare. Therefore, unsurprisingly, the Department of Defense maintains a large military contingent in the state. In 2000, Alaska's armed forces (mostly Army and Air Force) represented 1.6% of total U.S. domestic military strength. In station strength, Alaska ranked in 18<sup>th</sup> place among the 50 states. The Coast

Guard's presence is exceptionally large. More than five percent of its uniformed personnel are stationed in Alaska. Alaska has the highest ratio of military/dependent to civilian population. The military's influence on Alaska's economy remains significant.

Within the vast federal land holdings in Alaska, 2,812 square miles of land are reserved for the military. Although military lands represent less than one half of a percent of the state's total acreage, if combined, the various parcels would amass to an area larger than the state of Delaware. Area wise, the largest military bases are located close to Anchorage and Fairbanks. Another vast land holding surrounds Fort Greely, a currently dormant Army base near Delta Junction. Clear Air Base, near Anderson, is the only remaining air force station still staffed with permanent personnel. All other remote air stations in the state are either on caretaker status or have been converted to other uses.

Anchorage has the largest Air Force base in the state and Fairbanks hosts the most Army personnel. Navy and Marine Corps presence in the state is

## Air Force has Largest Presence Armed services personnel—2000



Source: U.S. Department of Defense, Atlas/Data Abstract FY 2000

small. The Navy's only base in Alaska, on Adak, was decommissioned six years ago and subsequently was leased to the private sector. Although Juneau is the command center for the Coast Guard, its largest base is on Kodiak Island. The Guard also operates several other small stations and moors its vessels in various ports along Alaska's coast.

### Active duty personnel and their dependents are the core group

In 2000, more than 17,600 men and women in uniform resided in the state, working for all branches of the armed forces. The Air Force represents nearly 54 percent of the armed forces in the state. The next largest military force is the Army, with a 35 percent share. The Coast Guard, nationally the smallest of the military forces, has a disproportionately large presence in Alaska. Its branch represents more than 10 percent of all defense personnel in the state. (See Exhibit 10.) Family members of active duty personnel number

more than 24,000 individuals. Most military families reside in Anchorage, Fairbanks and Kodiak.

### Retrenchment marked the 1990s

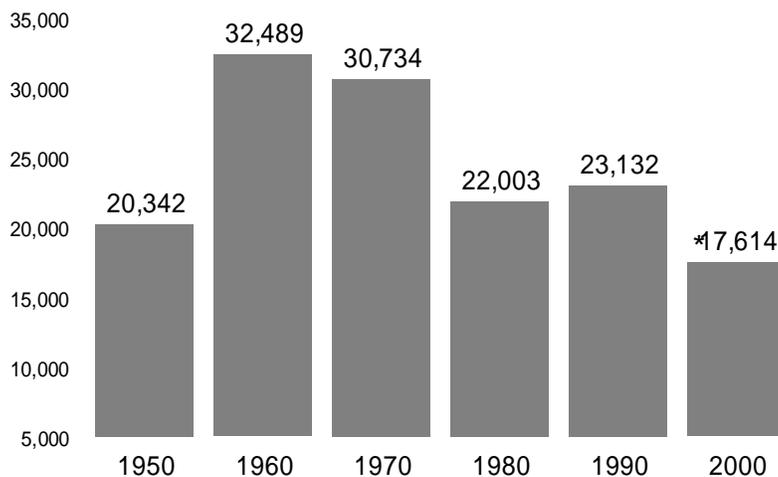
The military population in Alaska has dropped significantly in the past three decades. It has waxed and waned in response to international crises during the past 30 years, and major organizational changes also led to personnel adjustments. The drop in troop levels from 1970 to 1980, for example, not only marked the end of the Vietnam War but also the transition from mandatory military service to an all-volunteer military. Budgetary strategy initiated the realignment campaign of the 1990s that resized military strength to suit modern warfare. The ensuing base closures and the reorganization of military units in the 1990s caused a nationwide decline of over 32 percent in military strength (excluding Coast Guard).

Alaska lost nearly 24 percent of its military population between 1990 and 2000, some through troop reduction but mainly through base closures. (See Exhibit 11.) Several Air Force stations such as Galena, King Salmon, and Eareckson were closed in the early 1990s. The naval base on Adak, with a 2,500 uniformed contingent in 1990, was decommissioned in 1996. Fort Greely, near Delta Junction, finished its shutdown process in July 2001 and is now in caretaker status. After the flood of closures and reorganization of the 1990s, the military population is now expected to hold steady. In light of the current international crisis it may even gain strength.

### Active duty personnel and dependents influence Alaska's population growth

Realignment left a big mark on Alaska's population growth; the dependent population declined in proportion to the reductions in troop size. In 2000, just 24,314 dependent family members lived in the state, a drop of over 7,800 from the 1990 level. The withdrawal of military personnel and their families from Alaska amounted to a combined population loss of 13,358 people,

## 11 Alaska's Military Population Has become smaller



\*Estimated uniformed military personnel as of 7/1/2000

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

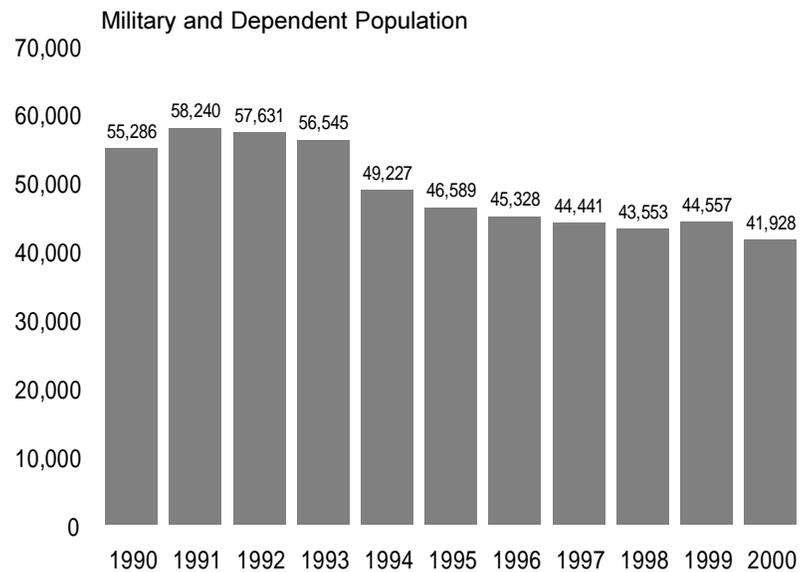
slowing statewide growth by about 2.5 percent in the past decade. (See Exhibit 12.) In 1990, military and their dependents represented 10.1% of the state's population, but by 2000 this share had thinned to 6.6%.

Although the Adak base closure accounted for about 30 percent of the total loss, it impacted Alaska's economy only marginally because the base was isolated and self contained with few links to the local economy. The effects from realignment were felt more strongly in Delta Junction, where 11 years ago, military and their families made up over 60 percent of the local population. This population has plummeted to about six percent, with only a skeleton staff remaining on Fort Greely. But this may change. If Fort Greely becomes a missile defense site, Delta Junction may again become a military town. The downsizing effect was also large in Fairbanks and Anchorage. In 1990, 24 percent of Fairbanks' population was made up of active duty personnel and their families. This portion shrank to 19 percent in 2000, a loss of more than 2,800 active duty personnel and dependents. In Anchorage, the military presence fell from 11.5% to a 7.9% current share of total population.

### Armed forces personnel and their dependents vitalize local demographics

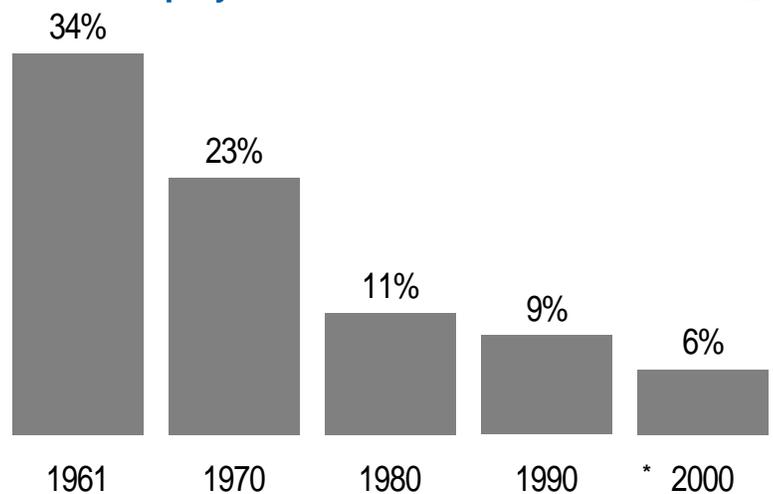
For many years the military has influenced Alaska's demographics and helped to accentuate their uniqueness. One reason for Alaska's young median age is that military personnel typically are young, accompanied by young families. And because military service is still a male dominated career field, it boosts Alaska's famed male/female ratio. Nationwide, in 1998 only 14.1% of active duty personnel (excluding Coast Guard) were women. Members of the armed forces form a multi-racial and multi-ethnic group, which blends diversity into the local population. In addition, the military's active rotation pattern accelerates movement in and out of state, reinforcing the transient character of Alaska's population.

## Base Closures and Troop Cuts have reduced military numbers 12



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

## Uniformed Military's Share of Employed labor force has waned 13

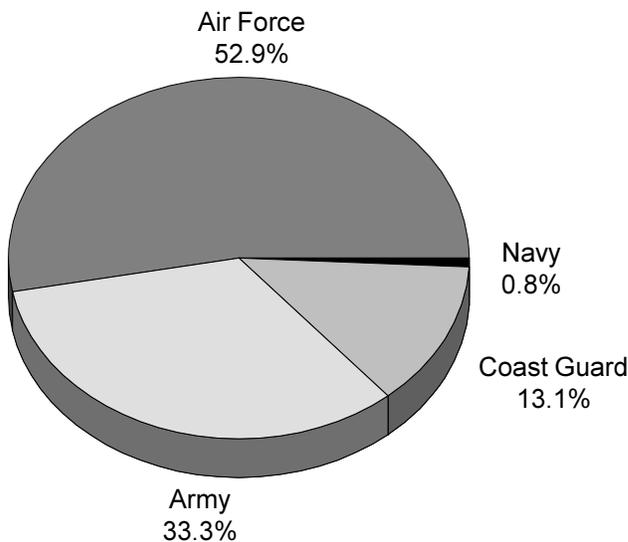


\*based on estimates for military population and size of labor force

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

# 14 Military and Coast Guard Payrolls

Top \$615 million in 2000



Source: U.S. Census Bureau, Consolidated Federal Funds Report, FY 2000

## Uniformed personnel in Alaska's job market

The role of active duty personnel in Alaska's job market has become significantly smaller. At the beginning of statehood roughly one of every three jobs was military service employment. In 2000, this ratio became approximately one in eighteen. Said differently, uniformed personnel on average made up only six percent of Alaska's Year 2000 employed labor force compared to roughly 33 percent in 1960. (See Exhibit 13.) Both the growth of the civilian employed labor force in Alaska and the downsizing of the military presence contributed to its smaller role in the labor force. Growth of Alaska's employed civilian labor force was the stronger reason for the dwindling influence. Since statehood, civilian employment more than tripled.

The influence the military wields in Alaska's economy is reduced, but remains strong. The active duty payroll, for example, amounted to about \$615 million in 2000. If the active duty national defense payroll were a stand-alone industry, it would have ranked in sixth place among the eight private sector industry payrolls in the state. Because of its sheer size, the Air Force claimed the largest slice of this payroll. (See Exhibit 14.) Although the military houses a near self-sufficient economy on the bases, the various defense branches and their families are active consumers in the local economy. Real estate, retail, and services industries benefit from Alaska's military contingent and their families. And the military itself is a giant consumer. Alaska's military spent nearly \$189.3 million last year on supply and equipment contracts. Much of it flowed into the pockets of local vendors. (See Exhibit 15.) In addition, the military is also a large employer of civilians, and this group leaves a big imprint on the economy.

## The military's entourage is large and has many functions

A large civilian workforce works for the military. In 2000, there were 6,652 civilian jobs on the bases

# 15 State's Top Military Contractors

In 2000

	Value of Contracts
The Williams Companies Inc.	\$77,390,000
Arctic Slope Regional Corporation	65,186,000
Alaska Mechanical Inc.	46,961,000
Arctec Services JV	40,486,000
Jacobs Engineering Group, Inc.	33,760,000
Chugach Alaska Corporation	29,324,000
American Mechanical Inc.	27,075,000
Watterson Construction Company	25,732,000
Lynden Inc.	22,635,000
Arctec Alaska JV	21,912,000

Source: Department of Defense, Directorate for Information, Operations and Reports

or on other military property. (See Exhibit 16.) This workforce serves a variety of functions. Base support is its largest mission. Combined, the civilian workforce earned nearly \$261 million in 2000. The Department of Defense employed 4,415 civilians in 2000 in Alaska, ranging from highly specialized professionals working for the Corps of Engineers to retail personnel working for the commissaries. The post and base exchanges (variety stores) employed an additional 945 people. The remaining 1,292 jobs on the bases were not directly sponsored by the military but they are part of base infrastructure. These jobs exist to serve active military and retired personnel including all their dependents. The military, however, owns all workplaces on the bases such as the dining facilities, recreational and sports clubs, lodges, hobby shops, repair and storage facilities and much more. Their operations often run on a self-support basis. User fees and club memberships are major sources of revenue.

The civilian workforce, much like the uniformed contingent, has waned in size over the past ten years, but only part of the decline can be explained by the drop in active duty personnel levels. Outsourcing has had a big effect on the civilian workforce. Civil functions on bases, ranging from janitorial services to highly specialized technical support, have often become contracted services with private sector companies. The service contract awards in 2000 in Alaska amounted to over \$364.5 million. Last year, the largest service provider on the bases was Arctec Services JV. (See Exhibit 15.) The privatization trend continues. Currently, a private company is building a 372-unit military family housing complex on Elmendorf Air Force Base. It will own, manage, and maintain the properties following completion.

### Retired military and reserve forces

As with most active duty defense personnel and the civilian workforce, military retirees and the reserves including the National Guard are under the Department of Defense's administration. Although the exact number of retired military personnel, those having served between 15 and

20 years, was not available, annual military pension and disability payments amounted to \$117.2 million in 2000, according to the Consolidated Federal Funds Report. This figure excludes Coast Guard pensions. The Department of Veterans Affairs (VA) estimated that it served 67,671 veterans in 2000. Among them are military retirees and residents who were in military service during times of conflict and remained eligible for VA compensation and benefits. Payments for military service-connected disability and other benefits amounted to nearly \$75 million.

In addition to the active duty personnel, 5,696 reservists and National Guard personnel were in the state in 2000. Weekend military training and annual exercises are mandatory for these part-time soldiers. In times of conflict the military can call on the National Guard and the reservists to perform active duty. In 2000, the annual compensation for this military force amounted to \$24.8 million. Currently, National Guard personnel have been mobilized to reinforce security in Alaska's airports, following the events of September 11.

In all, armed forces payments to individuals, including VA disbursements, add significantly to

## Defense Related Civilian Employment—2000 **16**

	Year 2000	Payroll Year 2000
Services (SVS/SVF)	963	\$10,352,544
Army/Airforce Exchange	945	16,183,584
Non-Appropriated Fund Personnel	30	386,282
Civilian Department of Defense	4,415	227,911,937
Installation Morale, Welfare, and Recreation Fund Personnel (IMWRF)	299	5,969,194
<b>Total</b>	<b>6,652</b>	<b>\$260,803,541</b>

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

income earned in the state. Residents of Alaska received \$832 million for current or past military service in 2000. Civilian payrolls, supply and service contracts with private sector firms, as discussed earlier, are large as well. An additional beneficiary of the large military presence in Alaska is the local construction industry.

### Military projects boost construction industry

In past years, the military has continuously sponsored large construction projects in the state. During the 1990s, Air Force, Army and Navy projects averaged \$176 million per year—a large impact on the construction industry. In fiscal year 2000 the military construction contract awards rose to about \$229 million. (See Exhibit 17.) Barracks renovation, the Clear Air Force Base technical upgrades, runway construction on Eielson Air Force Base, new and renovated family housing, various military facilities, and utility/power plant upgrades were the large ticket items on the 2000 construction docket. Alaska Mechanical Incorporated was awarded the largest construction contract in 2000. (See Exhibit 15.) The military’s engineering and construction team, the Corps of

Engineers, oversees not only military construction but all federally sponsored projects. In recent years, the hike in federally sponsored construction made it the only defense related civilian workforce that did not suffer employment losses.

### Federal sector is economic heavyweight

Although there was never any doubt that the federal government’s role in Alaska’s economy would remain significant, long term forces were in play that made it appear that its influence would continue to diminish. For a long time the federal government’s presence was slowly being eroded by other industries, but more importantly, in the 1990s military bases were closed and downsized and the civilian agencies went through a period of retrenchment. Between 1993 and 1995 federal dollars spent in the state actually declined.

But this trend changed and the flow of federal dollars began to grow. In fact, over the past three or four years, federal spending may be more responsible for the state economy’s expansion than any other single sector. And this growth is not coming from the “traditional” federal sectors. Neither military force levels nor civilian employee numbers have recovered, although they appear to have stabilized. Instead, federal grants to local and state governments and other sources of federal monies have grown dramatically—enough to restore Alaska to the number one spot in the nation for federal dollars spent per capita.

Will this trend continue? That question is difficult to answer. As a result of September 11 events, competition for federal dollars around the country is mounting, while federal budget surpluses have dried up. Those factors make this recent growth more difficult to sustain. On the other hand, if part of a missile defense system is located in Alaska, a surge of new federal dollars will flow into the state. Regardless of how this plays out, the federal government will remain one of the state’s largest sources of economic activity for many years.

## 17 Military Construction Expenditures 1980 to 2000



Coast Guard expenditures are not included.

Source: U.S. Army Corps of Engineers, Department of Defense, Data Atlas