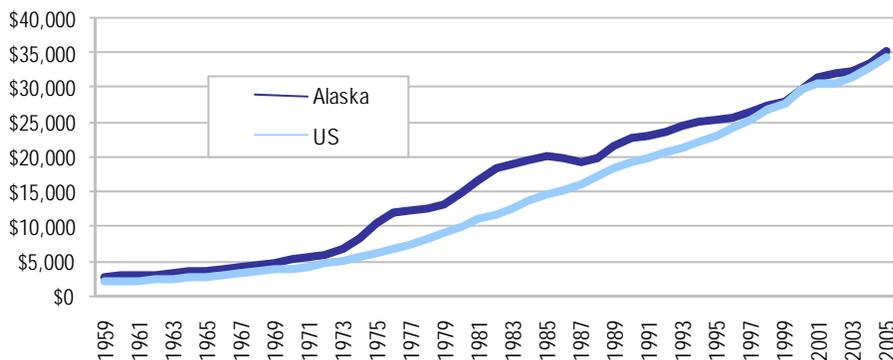


10. Income

Total personal income is the most comprehensive measure of income. It includes net earnings (mostly wages and salaries), rental income, transfer payments, dividends and interest income.

Per capita personal income is the result of dividing total personal income by the entire resident population of an area. It is considered a good measurement of economic well being because of the inclusiveness of its definition.

Per capita personal income in Alaska, 1959—2005:



Source: US Bureau of Economic Analysis

SOURCE: Abridged from "Alaska: An Interesting Income Picture" by Neal Fried & Brigitta Windisch-Cole, Alaska Economic Trends, November 2005.

Trends in per capita income

Alaskans earned a combined \$22.6 billion in 2004, an increase of slightly more than \$1 billion from 2003. Dividing that number by the number of residents – every man, woman and child – means that Alaska's per capita income was \$34,454. Per capita income is considered a good measure of economic wellbeing because it includes income generated through work and investments as well as transfer payments (essentially government payments).

Alaska's 2005 per capita income of \$35,433 puts Alaska in 15th place among all 50 states. This ranking has changed little in the past five years. Alaska reached its peak in 1975 as No. 1 in the United States and held the distinction for over a decade. At the onset of the state's most severe economic recession in 1986 total personal income actually fell two consecutive years. As a result the state's per capita income picture changed dramatically relative to the country's, shrinking the gap from 38% above the national average in 1985 to 15% three years later.

In the 1990s Alaska's relative position fell again as its economy grew a bit slower than the national economy. The state experienced strong growth in the lower-wage industries such as retail and other services and weaker growth – and in some cases actual losses – in its high wage industries such as oil, timber and fishing. The low point was in 2000 when Alaska's per capita income fell to a near-identical

level with the U.S. average.

The national economy went into a recession in 2001, which Alaska managed to avoid. This meant some above average years in personal income growth relative to the rest of the country. But inflation-adjusted per capita income has changed little from 2000 to 2005 and since 1990 it has grown by only a half percent per year.

Urban/rural differences

In most of the state's rural areas per capita income is below both state-wide and national averages. When the cost-of-living is considered these disparities grow even larger. High unemployment and a general lack of economic opportunities in Alaska's rural areas help explain these differences. The fact that families in rural areas tend to be larger and the population tends to be younger further depresses rural income.

Other measures of income

All kinds of income measures exist to help assess Alaskans' economic well-being and they all tell a different story. Alaskans' per capita income is now 5% higher than the U.S. average, but that's a far cry from the 38% above the U.S. average in 1985. The annual wage story is similar. The median household income estimate tells a very different story: Alaska now ranks as the fourth highest in the nation – a full 28% above the national average. And when it comes to income Alaska's is the most equally distributed in the country. Yet income disparities do exist as proven by local-area per capita comparisons. Usually, but not always, these income gaps fall along urban/rural lines.

Alaska's 2005 per capita income of \$35,433 puts Alaska in 15th place among states.

More information

Alaska Department of Labor and Workforce Development: www.almis.labor.state.ak.us

Alaska Economic Trends: www.labor.state.ak.us/trends

US Bureau of Economic Analysis state personal income data: www.bea.gov/regional/spi/default.cfm?satable=SA30

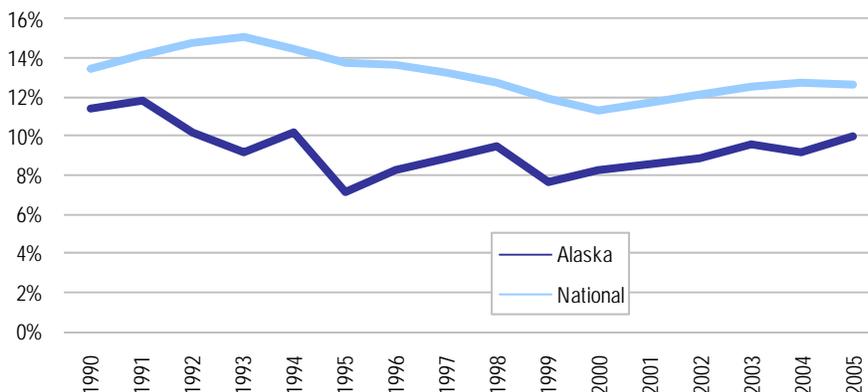
11. Poverty

Adults and children in poverty are the first and most severely affected by such consequences as hunger and poor health.

All members of society pay in the end, both to support remedial programs to address these problems and because the unavoidable costs of poverty include a less educated workforce, reduced tax revenues, and costly antisocial behavior.

Many state and federal programs use poverty guidelines to determine eligibility for assistance programs.

The poverty rate for Alaskans remains significantly lower than the US:



Source: US Census Bureau

SOURCE: Abridged from “2007 HHS Poverty Guidelines” by the US Department of Health & Human Services, 2007.

Measuring poverty

There are two slightly different versions of the federal poverty measure: poverty thresholds and poverty guidelines.

The poverty thresholds are the original version of the federal poverty measure. The thresholds are used mainly for statistical purposes— for instance, preparing estimates of the number of Americans in poverty each year. All official poverty population figures are calculated using the poverty thresholds, not the guidelines. For an example of how the Census Bureau applies the thresholds to a family’s income to determine its poverty status see “How the Census Bureau Measures Poverty” on the Census Bureau’s web site.

The poverty guidelines are issued each year in the Federal Register by the Department of Health and Human Services for administrative purposes — for instance, determining financial eligibility for certain federal programs.

The poverty guidelines are sometimes loosely referred to as the “federal poverty level” or FPL but that phrase is ambiguous and should be avoided.

Separate guidelines for Alaska

The separate poverty guidelines for Alaska and Hawaii reflect Office of Economic Opportunity administrative practice beginning in the 1966-1970 period. Note that the poverty

thresholds — the original version of the poverty measure — have never had separate figures for Alaska and Hawaii.

Eligibility guidelines

Programs using the guidelines in determining eligibility include Head Start, the Food Stamp Program, the National School Lunch Program, the Low-Income Home Energy Assistance Program, and the Children’s Health Insurance Program.

In general cash public assistance programs (Temporary Assistance for Needy Families and Supplemental Security Income) do not use the poverty guidelines in determining eligibility. The Earned Income Tax Credit program also does not use the poverty guidelines to determine eligibility.

Alaska 20/20 notes

In 2007 the poverty guidelines for Alaska were \$12,770 for a single person household versus \$10,210 for the lower 48, and \$25,820 for a family of four versus \$20,650.

Programs using the guidelines to determine eligibility include Head Start, the Food Stamp Program and the Low Income Home Energy Assistance Program.

The percentage of Alaskans in severe poverty—earning less than half the federal poverty threshold—grew 47% from 2000 to 2005, the fourth fastest growth rate in the nation. This is part of a nationwide trend and reflects the growing divide between rich and poor.

Other measures of poverty include Social Services (#39), food bank usage, Medicaid, Temporary Assistance to Needy Families, number of working poor and children living in poverty.

More information

Center for Budget & Policy Priorities: www.cbpp.org/pubs/povinc.htm

Institute for Research on Poverty: www.ssc.wisc.edu/irp/

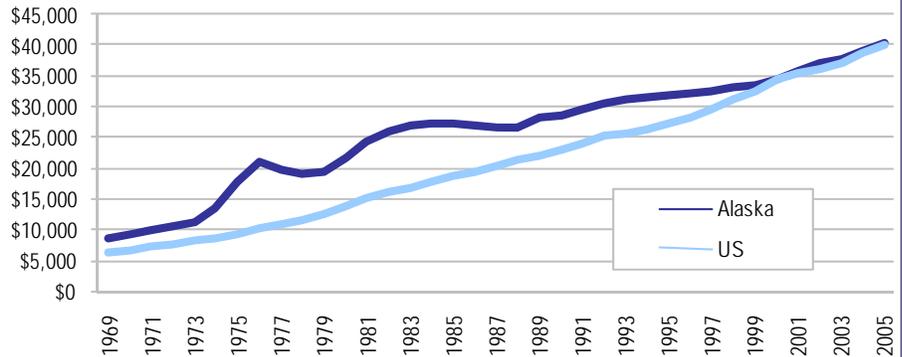
US Census Bureau poverty guidelines: www.aspe.hhs.gov/poverty/index.shtml

12. Employment & Wages

Jobs are the primary means of earning a living for most people. The security of employment at a livable wage is part of the bedrock of our society, both for personal needs and for funding public services.

Total average monthly employment in Alaska is approximately 300,000 people or half the total population, with most of the remainder being children dependent on working parents or seniors enjoying the benefits of retirement from a lifetime of work.

The average wage per job in Alaska has converged with the US average:



Source: US Bureau of Economic Analysis

SOURCE: Abridged from "Employment Forecast for 2007 and 2008" by Dan Robinson, Alaska Economic Trends, January 2007.

Statewide forecast

For the 19th consecutive year Alaska added jobs to its economy in 2006. Growth should continue, but at a slower rate than the last few years.

Major sectors

High oil prices, and the growing consensus that they're likely to stay high, have invigorated exploration activity and boosted industry employment. The state added about 1,000 oil and gas jobs in 2006 and the total number rose to levels not seen since the early 1990s. More growth is expected in 2007 and 2008.

If anything could challenge the oil and gas industry it would be federal spending. Since the mid-1990s federal spending in Alaska has nearly doubled. The actual number of federal government employees has declined over the last decade. Instead, the growth has been spread throughout the economy with construction, social services, health care, and state and local government all receiving substantial benefits. The forecast for slightly slower growth in 2008 is due in large part to uncertainty about continued federal largesse.

Overall, the economic health of the fisheries has improved slightly from a low point in 2002, although the challenge of competing with farmed salmon still remains. After consistent declines throughout the 1990s and into the early 2000s, the state's fisheries ought to contribute economic stability over the next two years, if not strong growth.

Throughout the 1990s, when many of the state's resource-based industries were declining or stagnant, the visitor industry was one of the economic bright spots. Absent a shock to the national or international economies visitor dollars will continue to be an important contributor to Alaska's economic health in 2007 and 2008.

High prices for precious and base metals have invigorated Alaska's mining industry, and Alaska is one of the richest depositories of mineral wealth in the world. Over the next two years, mining's contribution to Alaska's economy will almost certainly grow.

Alaska has had a net job increase every year since 1988.

Other sectors

While Alaska's major economic drivers are the ones discussed above, there are a number of other industries that bring money into Alaska's economy. The air cargo business is a growing industry in Anchorage, and timber harvesting is still an important part of the economy in some Southeast communities.

The construction industry has recorded strong growth for most of the last decade. As large publicly funded projects are completed, the job count will naturally taper off unless new large projects replace them.

As the population has grown an increasing percentage of needs and wants are being met locally. During the 1990s, when little growth was being generated by the oil, fishing or timber industries, employment gains came primarily from increased ability to capture local demand.

More information

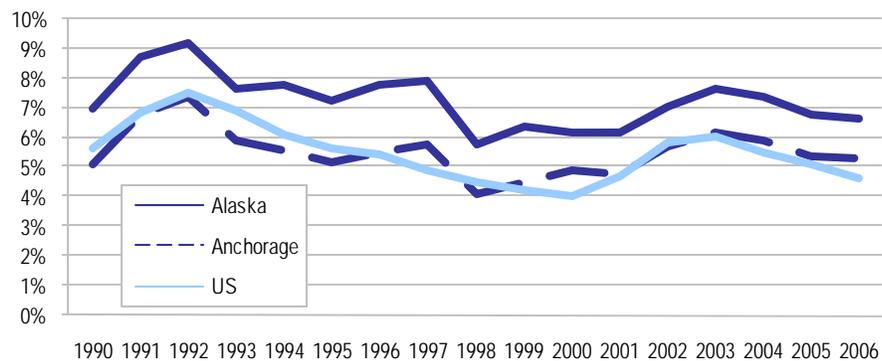
Alaska Department of Labor and Workforce Development: www.almis.labor.state.ak.us
Alaska Economic Trends: www.labor.state.ak.us/trends

13. Unemployment

Unemployment in Alaska is naturally higher than the rest of the nation due to our seasonal industries and the location of many jobs away from population centers (seafood processing and oil and gas extraction).

When individuals lose their livelihood businesses lose revenue as the unemployed cut back on spending. Unemployment insurance (UI) cushions these effects on both individuals and businesses and helps prevent recessions. Alaska is one of only two states that taxes employees for UI.

The unemployment rate for Anchorage closely tracks the national average, but the rate for Alaska as a whole is significantly higher:



Source: US Bureau of Labor Statistics, Alaska Department of Labor & Workforce Development

SOURCE: Abridged from "Alaska Employment Scene" by Dan Robinson, Alaska Economic Trends, March 2005.

Alaska unemployment

Unemployment rates can be ambiguous measures of economic health. Alaska's higher rates relative to the rest of the nation say more about the nature of the state's economy than they do about relative economic health.

Some unemployment is considered normal and healthy for free-market economies since people between jobs are unemployed but not in any long-term sense. This short-term "frictional unemployment" is a result of the time it takes for workers and employers to find each other. In the United States, an unemployment rate of 2% is often referred to as the "base rate," or the rate that equates to full employment.

Very low unemployment rates tend to cause higher prices because workers are able to demand higher wages from their employers, who then tend to pass on their increased costs to consumers. Policy makers generally have been willing to accept less than full employment in exchange for keeping inflation under control.

As opposed to frictional unemployment, "structural unemployment" results when there is a mismatch between workers and jobs because the available workforce does not have the skills necessary for the available job openings in the area, and/or when the available jobs are in a different geographical location than the available workers.

Alaska tends to have higher frictional and structural unemployment than the nation as a whole. The high degree of seasonality in many Alaska industries creates frictional unemployment as a large number of workers move in and out of jobs that last only part of the year.

Higher rates of structural unemployment are mostly due to geographic mismatches between employment opportunities and available workers in Alaska's seasonal economy, for example the seafood processing industry. The technical nature of many jobs in Alaska's oil and gas extraction industry also tends to generate more than the typical amount of structural unemployment because of the specialized skills required for those jobs and the isolated, sparsely populated work locations. It is no coincidence that these are also the industries with the highest percentage of nonresident workers.

It is uncertain what Alaska's optimal unemployment rate might be, but it is at some level higher than the optimal rate for the nation.

Alaska 20/20 notes

For a detailed breakdown of unemployment insurance issues see the February 2007 Alaska Economic Trends.

Unemployment statistics only count people actively looking for work and not those who have given up. This population is disproportionately in rural areas where jobs are limited. Also missed are the underemployed, including a significant increase in self-employment over the past few years.

Alaska tends to have higher frictional and structural unemployment than the nation.

More information

Alaska Department of Labor and Workforce Development: www.almis.labor.state.ak.us

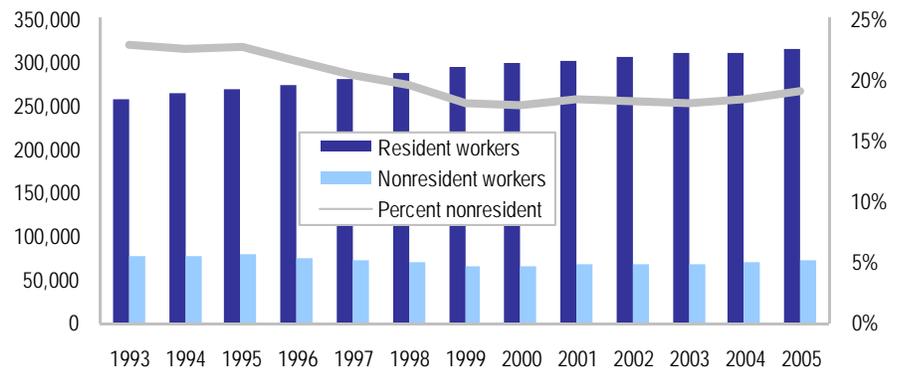
Current unemployment rates mapped by state: data.bls.gov/servlet/map.servlet.MapToolServlet?survey=la

14. Workforce Development

Maximizing the employment of Alaskans ensures that maximum benefit accrues to the state from economic development activity, and also reduces demands upon state “safety net” programs such as unemployment insurance and public assistance.

On average, nonresidents take a significant portion of their earnings to their home state, depriving Alaska of the full economic benefits of the employment created in the Alaska economy.

Alaskan resident and nonresident workers and % nonresident 1991-2003:



Source: Alaska Department of Labor & Workforce Development

SOURCE: “Nonresidents Working in Alaska 2005” by Jeff Hadland, Andy Wink and Amy Soden, Alaska Department of Labor & Workforce Development, January 2007.

Alaska’s jobs for Alaska’s people

The number and percentage of nonresidents working in Alaska in 2005 increased due to strong growth in the construction, accommodations and food services, and oil and gas industries. The nonresident hire rate rose from 18.4% in 2004 to 19.1% in 2005. Nonresident hire grew faster in 2005. The number of nonresident wage and salary workers employed in Alaska increased by 5.5% (3,899). The resident wage and salary workforce increased by just 0.7% (2,317) from 2004 to 2005.

Total wage and salary earnings in private sector, state and local government jobs totaled \$11.1 billion in 2005. Nonresidents earned about 12.2% of the total (or \$1.4 billion), an increase from the 11.8% of total wages paid to nonresidents in 2004. Resident earnings increased 4.2%, or \$388.4 million, from 2004 to 2005. Nonresident earnings increased 8.7%, or \$108.8 million, from 2004. Despite the higher growth, average earnings for residents grew by \$1,014 in 2005, while average earnings for nonresidents grew by just \$535.

Nonresidents accounted for 29.6% of the oil industry’s workforce in 2005. This was more than 1.5% higher than 2004. The industry added 275 nonresident workers and 60 resident workers. Many of the new nonresident workers were short-term hires who worked two quarters or less. Earnings paid to nonresidents working in the oil industry increased

from \$226.6 million in 2004 to \$242.9 million in 2005. The nonresident share of earnings in the oil industry rose from 26.7% in 2004 to 27.2% in 2005, a figure higher than the statewide private sector average of 14.7%.

The number of nonresident workers employed in the construction industry increased by 13.1%, or 729 workers; resident hire increased by just 5.0%. As a result, the percentage of nonresidents working in construction increased from 19.0% in 2004, to 20.2% in 2005.

Alaska’s construction industry paid \$924.2 million to residents in 2005, an increase of \$108.8 million from 2004. Nonresidents were paid \$148.0 million, up about \$29.9 million from the 2004 nonresident earnings of \$118.1 million. Nonresidents’ share of the construction earnings increased from 12.7% in

2004 to 13.8% in 2004. Construction accounted for a third of all private sector wage growth in 2005.

Alaska’s seafood processing industry employed the highest percentage of nonresident workers of any industry sector in 2005. More than 73% of workers in that industry were nonresidents.

Alaska industries affected by visitor expenditures have relatively high nonresident hire rates. The accommodations industry showed an increase in its percentage of nonresident workers, climbing to 37.8% in 2005 from 36.9% in 2004. This marks the sixth year in a row that the nonresident hire rate has increased in this industry. The scenic and sightseeing transportation sector had a nonresident hire rate of 45.1%, more than twice the private sector average.

Nonresidents accounted for 29.6% of the oil industry’s workforce in 2005.

More information

Alaska Department of Labor and Workforce Development study: almis.labor.state.ak.us/?PAGEID=67&SUBID=181
Commonwealth North study: commonwealthnorth.org/workforce/index.html

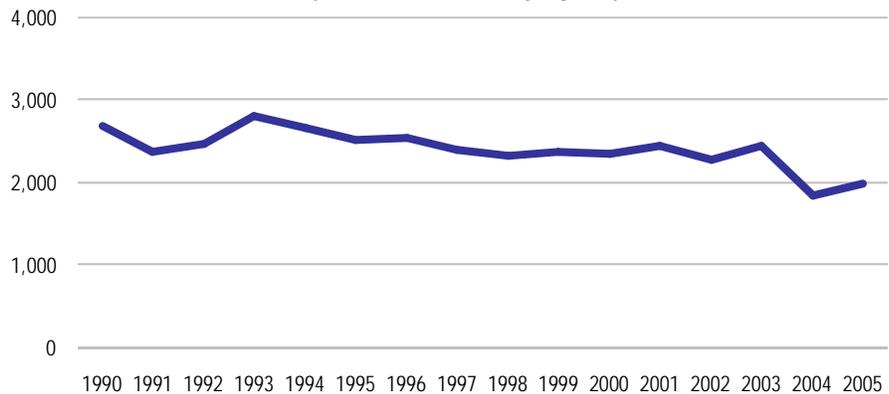
15. Small Business

Small businesses form the heart of the Alaska economy. In 2005 small businesses (fewer than 500 workers) employed almost two out of every three workers.

Most of these workers were employed in health care, the fastest growing sector in the state. Most new jobs in Alaska are created by small businesses.

The number of new small businesses is an indicator of economic opportunity and the availability of investment capital.

New small businesses (fewer than 500 employees) in Alaska 1990-2005:



Source: US Small Business Administration

SOURCE: Abridged from "2005 State Small Business Profile: Alaska," US Small Business Administration, 2005.

Number of businesses

The state had an estimated total of 66,600 small businesses based on the most recent data. Firms with employees numbered 16,921 in 2005, of which an estimated 97% or 16,413 were small firms (fewer than 500 employees). Self-employment (including incorporated) increased by 3.5% from 42,533 in 2004 to 44,013 in 2005. In 2004, non-employer firms increased by 2.6% and numbered 50,138.

Women-owned firms

Firms owned by women decreased 2% between 1997 and 2002, from 16,633 to 16,309; they represented 26.2% of the state's total businesses in 2002. These firms (with and without paid employees) generated \$2.4 billion in revenues in 2002. Of the total number of women-owned firms, 18% or 2,935 firms were employer firms. In 2005, self-employed women totaled 17,009, an increase of 8.6% from 2004, and they represented 38.6% of self-employed persons in the state.

Minority-owned firms

In 2002, Asian-owned firms totaled 1,908 and generated \$421 million in receipts; Black-owned firms numbered 926 and generated \$80 million in receipts; and Hispanic-owned businesses totaled 1,241 and created \$171 million in receipts. American Indian- and Alaska Native-owned firms numbered 5,151, and they generated \$2.9 billion in receipts; the number of Native Hawaiian- and other Pacific Islander-owned firms was 152, and they generated \$10 million in

receipts in 2002.

Business turnover

New employer businesses in 2005 were estimated at 1,982, 7.3% more than the previous year. Business bankruptcies increased by 29.7% to 83 in 2005, while business terminations decreased by 13.4% to 2,294 during the same period.

New employer businesses in 2005 were estimated at 1,982, 7.3% more than in 2004.

Employment

There were 15,824 employer firms with fewer than 500 employees in 2003; they provided 129,729 jobs in the state. These firms represented 97.0% of the employer businesses in the state and employed 59.8% of the state's non-farm private sector

workforce. Between 2002 and 2003, total small business net new jobs amounted to 6,245.

Small business income & finance

Non-farm proprietors' income, which is a partial measure of small business income, increased by 9.5% to \$2.5 billion in 2005. Two important sources of small business financing are commercial banks and savings and loan institutions, which owners rely on for their financial needs. The total number of operating bank and savings bank branches in the state increased in 2005.

Alaska 20/20 notes

Possible improvements include adjusting data to show net new businesses (births minus deaths), adjusting the "new small business" indicator to a per capita basis, adding data on business bankruptcies and breaking out data by sector.

More information

National Federation of Independent Business: www.nfib.com/page/home
 US Bankruptcy Court: www.uscourts.gov/bnkrpctystats/statistics.htm
 US Small Business Administration: www.sba.gov

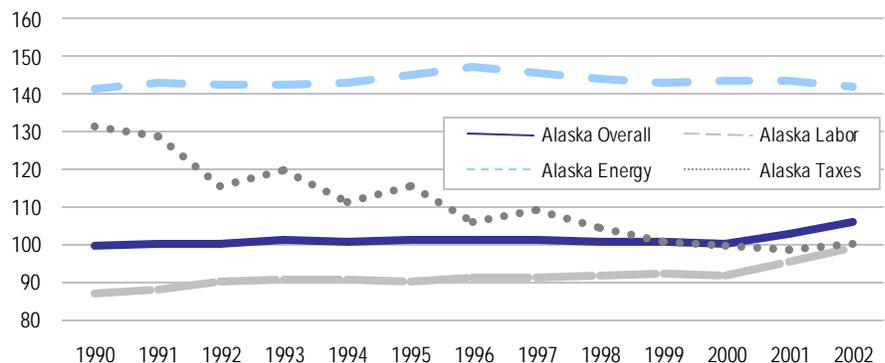
16. Costs of Business

High costs of business will deter new firms from starting up and existing firms from expanding, as well as providing incentives for businesses to stay out or move out of Alaska.

We all pay the costs of business as they are passed through in the prices of goods and services that we consume.

Insurance and taxes are the top two issues consistently cited by small business owners nationwide.

Costs of business index 1990-2002 (US average = 100). Labor costs (weighted at 75% of the total index) have increased steeply since 2000:



Source: : Economy.com

Cost of doing business high in Alaska

Alaska has the 11th highest cost of doing business as measured on an index produced by Economy.com. In their November 2003 edition of the *North American Business Cost Review* Alaska scored a 105.7 on the index, where the national average is equal to 100. The highest index score is Massachusetts at 121.6 and the lowest is Wyoming at 79.7.

The Economy.com index is closely related to long term economic growth, explaining about one-fifth of all U.S. employment gains in the period 1987 through 2002. It is a weighted index that includes the unit cost of labor (75%), energy costs (15%), and taxes (10%).

Regional comparisons

Looking at other regions in the context of the index, the Northeast is consistently the highest cost region in the nation with seven of the ten highest ranking states. The South is the lowest cost region, with few southern states exceeding the national average.

The Midwest is mixed with higher costs in the manufacturing belt, especially heavily unionized states like Michigan and Illinois.

The West is likewise mixed with high costs in Hawaii and California. In the Pacific Northwest Washington ranks high (17th with a 103.1 index score) and Idaho (38th, 92.8) and Oregon (43rd, 91.0) rank low.

Labor, energy & taxes

Unit labor costs are the largest component of the index,

weighted at 75%. In 2003 Alaska ranked 27th on labor costs, scoring 99.2 or slightly below average.

Unit labor costs are defined as the average wages and salaries earned per dollar of gross state product (GSP). Note that GSP is revised regularly by the federal Bureau of Economic Analysis and these revisions can have a significant impact on this ratio.

The energy cost component of the index is weighted at 15%. It compares the average commercial and industrial electricity costs, in cents per kilowatt-hour, to the national average. Alaska ranked 7th in the nation with a score of 142.2.

Tax burden is the total combined state and local tax burden including personal, property and corporate taxes and charges as well as business contributions to unemployment and workers' compensation programs. The index expresses this total as a percent of total personal income, indexed to the national effective tax rate.

Alaska ranks 21st on the state and local tax index with a score of 100, equal to the national average.

Alaska 20/20 notes

Because of difficulties in obtaining this data there is a need for an alternate indicator of progress on this measure. One possibility is the "Single Most Important Problem" survey by the National Federation of Independent Businesses. This measure consistently reports **insurance costs** as the leading concern for business owners nationwide.

Alaska in 2003 had the 11th highest cost of doing business as measured on an index produced by Economy.com.

More information

Bureau of Economic Analysis: www.bea.gov

Economy.com: www.economy.com

National Federation of Independent Businesses: www.nfib.com/page/home

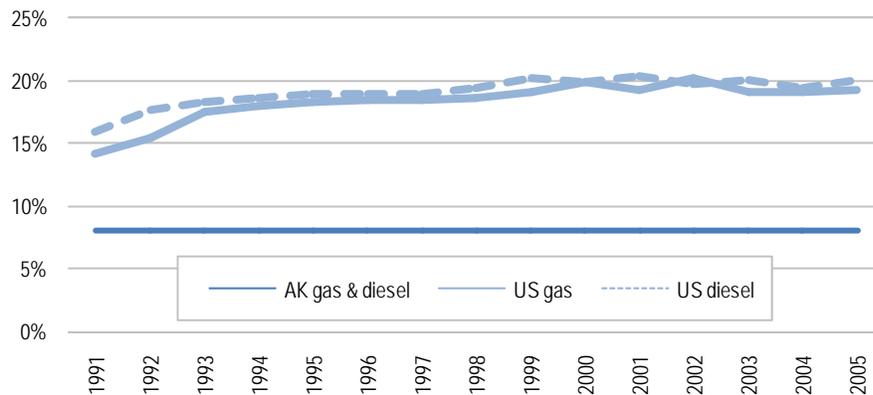
17. Transportation

Businesses rely on transportation infrastructure to ship and receive goods and to provide access to natural resources for tourism and development.

Communities rely on sea, air and surface links for mobility and economic development. Access to remote communities is frequently by a single mode, driving up costs.

Transportation policy deserves attention because of its role in shaping communities, as the Alaska Railroad has done with the railbelt.

Motor fuel taxes link costs to usage. Alaska's motor fuel tax rate has not changed since 1988 while the US average is 2.6 times the Alaska rate:



Source: Federal Highway Administration "Highway Statistics 2003"

SOURCE: Abridged from "Alaska Statewide Transportation Policy Plan, Section II" by the Alaska Department of Transportation and Public Facilities, November 2002.

Federal funding

Federal funds provide almost all support for transportation improvements of highways, transit, ferries, railroad, ports, harbors and airports. These funds are designated for capital improvements and preventive maintenance; the funding cannot be used for routine maintenance and operations. Alaska is one of only two states that has no state-funded capital transportation improvement program; the state funds routine maintenance and operations, referred to as M&O.

Motor fuel taxes

Federal motor fuel taxes are deposited into the Highway Trust Fund, the source of federal funding for surface transportation capital improvements, including highways, transit, ferries, and bicycle/ pedestrian facilities. Federal taxes on airline tickets, cargo, and fuel are deposited into the Federal Aviation Trust Fund, the source of funding for capital improvements for airports. There is no comparable federal trust fund for ports and harbors or railroads.

TEA-21

The Transportation Equity Act for the 21st Century (TEA-21) authorized funding for highways, transit, ferries, and bicycle/ pedestrian facilities for 1998-2003. The new legislation formally tied the level of funding available for distribution to actual federal gas tax receipts and guaranteed a minimum level of Federal funds for surface transportation.

Alaska is unique

Federal funding, by coming to the states only by specific mode, severely limits the range of solutions to transportation needs in Alaska. This occurs because many of our transportation needs are intermodal in character, and many are unique to Alaska. The state's geography makes it impractical to develop roads and rail over large areas. Without these forms of transportation Alaska relies more on marine and aviation systems.

Spending on maintenance and operations has remained flat since 1983.

There is a greater need for planning that gives balanced consideration to all modes, not just to the mode that provides the greatest level of federal funding, which for many years has been highways. Since Alaska does not have a state-funded capital transportation improvement program,

it has not been possible to purely evaluate a transportation need and the appropriate modal solution without considering which modal funding we're likely to actually receive from the federal government.

The Alaska transportation system requires a more comprehensive approach to infrastructure improvements if it is to be efficient, safe, and environmentally sound.

Alaska 20/20 notes

The American Society of Civil Engineers notes that "33% of Alaska's roads are in poor or mediocre condition" and "30% of Alaska's bridges are structurally deficient or functionally obsolete." The deferred maintenance backlog for all state Department of Transportation responsibilities was estimated at over \$360 million in 2006. Spending on M&O has remained flat since 1983.

More information

Alaska Department of Transportation and Public Facilities: www.dot.state.ak.us
Bureau of Transportation Statistics: www.bts.gov

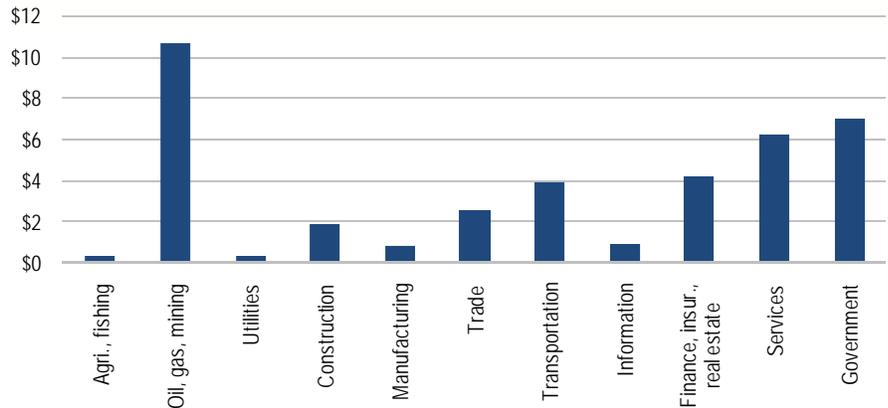
18. Diversification

A diversified economy means having many healthy sectors instead of just one.

As in an investment portfolio, diversification helps manage risk: if one sector is underperforming the other sectors should compensate.

Relying too much on one sector, as Alaska does with oil and gas, exposes the economy to shocks like low oil prices, declining production and competition from other oil and gas producing regions.

Alaska's gross state product (in billions) in 2005 shows our reliance on oil:



Source: US Bureau of Economic Statistics

SOURCE: Abridged from "Alaska Economic Performance Report 2005" by the Alaska Department of Community and Economic Development, June 2006.

Gross state product

Gross State Product (GSP) is one of the best overall measures of economic performance. GSP is the value added to all the goods and services produced in Alaska. Value is added as products move from one processing stage to the next. For example, ore is mined; the recovered minerals are converted to alloys, which in turn are used in the manufacturing of airplane parts, thus value is added at each stage.

In 2004, the most current data available, Alaska's Gross State product was \$34 billion, up 7.3% from last year's level of \$31.7 billion, and up more than 23% from \$27.5 billion in the year 2000. Real GSP, which is the GSP adjusted for inflation, shows a year to year gain of 3.4% and the gain from 2000 to 2004 of 5.3%.

Economic diversity

Alaska's GSP figures not only reflect the overall growth in the economy, it mirrors economic diversity around the state. Economic data reflect that oil and gas production, as a single sector, still dominates Alaska's economic base and presents significant long-term potential.

However, other industries are also growing and becoming integral components of the economic base. For example, retail trade and services in the private support sector continues to expand. Finance, insurance, and real estate sectors combined (FIRE) comprise a steady 13% of Alaska's GSP

that includes the impressive contributions by Alaska Native Corporations.

Other services, including such sectors as food service and hotel accommodations remained unchanged from the previous year, but are expected to increase over the coming year as data from new tourism related activities becomes available. Alaska's commercial fishing industry continues on a path of recovery begun in 1998.

Oil and gas continue to dominate the economic scene.

Health care has also shown a modest increase from 2002; State and federal sectors each comprise about 10% of Alaska's GSP. Combined, the output from these industry sectors continues to increase the GSP and diversify the state's

economic base.

Alaska Native Corporations

Native firms continue to experience positive growth in revenues, dividends paid to shareholders, and total assets. While total corporation employment (Native and non-Native) declined slightly, the percent of Native employees grew. Each year a growing number of Native corporations can be found among the top 49 employers in the state.

A 2005 Association of ANCSA Regional Corporations report lists assets totaling \$2.8 billion for the 13 regional and 28 village corporations during 2003 (most recent data).

According to Alaska Business Monthly, the 13 Native Corporations' combined 2004 revenues of \$3.9 billion made up 57% of total revenue for Alaska's top 49 companies.

More information

Alaska Department of Community and Economic Development: www.dced.state.ak.us

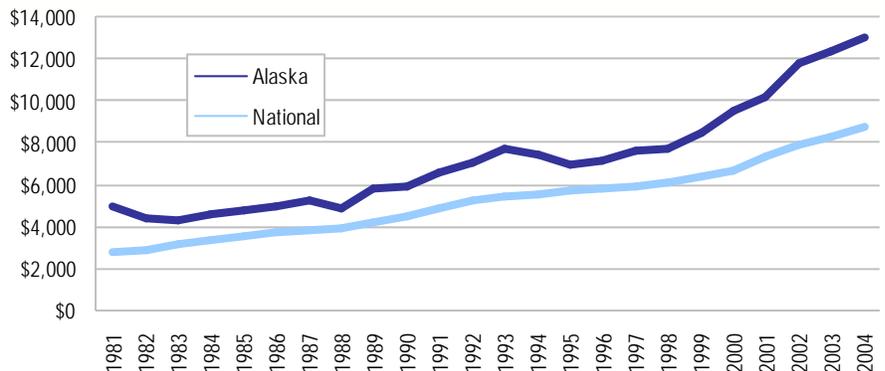
19. Federal Spending

Federal money has become increasingly important to Alaska's economy in the past decade. One in three jobs in Alaska, about 96,000, depend on current federal spending.

Anywhere from \$400 million to \$2 billion of the current \$7.6 billion in spending might be vulnerable to cuts as the federal government faces its own budget problems.

National interests and other factors guarantee that federal spending will remain a big contributor to Alaska's economy.

Federal spending per person, Alaska and the national average, 1981-2004:



Source: The Tax Foundation

Abridged from "What Does \$7.6 Billion in Federal Money Mean to Alaska?" by Scott Goldsmith and Eric Larson, Institute of Social and Economic Research, November 2003.

Federal spending in Alaska

Federal spending in Alaska more than doubled in the past 20 years, even after we take out the effects of inflation. Nationwide real federal spending increased about 50 percent.

Grants grew the fastest, jumping from \$1.3 billion to \$3.1 billion from 1996 to 2002. Grants now just about equal federal spending for military and civilian operations combined.

Medicaid was the largest grant program in 2002—\$500 million—followed by grants for Native health care (\$480 million) and road construction (\$400 million).

Social Security and other payments to individuals nearly tripled since the 1980s, largely because Alaskans are getting older: the population over 65 tripled in the past 20 years.

Companies based in Alaska won about 70 percent of the largest federal purchase contracts in 2002—30 percent to Native corporations and 40 percent to other Alaska companies.

All regions benefit about equally from federal spending of more than \$13,000 per person, but urban Alaskans benefit more from wages and rural Alaskans more from grants.

Vulnerability

Many Alaskans wonder how long this level of federal spending can last with the federal government itself facing a big deficit and with Senator Stevens having stepped down as chair of the senate appropriations committee in 2004.

Another way of estimating Alaska's vulnerability is looking at how much faster federal spending has grown here than it has nationwide since the early 1980s. If Alaska spending were at the same level—relative to the national average—as it was in the early 1980s, spending here would be about \$2 billion lower.

In 2004 for every \$1 the federal government collected in taxes in Alaska it spent \$1.87, the second highest in the U.S.

Conclusion

Even if some spending disappears, much will remain. It's in the national interest to continue military operations and land management in Alaska. Federal obligations toward Alaska Natives will continue. A growing older population will mean more growth in Social Security, federal pensions, and Medicare. Federal aid programs for everything from road construction to medical care for the poor are not going to disappear, although they could become smaller.

Alaska 20/20 notes

Between 2002 and 2004, Alaska's ranking moved from third to second in the U.S. in terms of per capita federal spending versus federal tax collections. In 2004, for every \$1 the federal government collected in taxes in Alaska, it spent \$1.87, more than all but one other state.

More information

University of Alaska Institute of Social and Economic Research: www.iser.uaa.alaska.edu
Tax Foundation federal spending study: www.taxfoundation.org/taxingspending.html