

2020 Alaska Progress Report

The essential reference for policy makers.



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About the cover: With budget pressures, three straight years of population decline, depressed oil revenue and downgraded credit ratings Alaska faces challenges like never before.

2020 ALASKA PROGRESS REPORT

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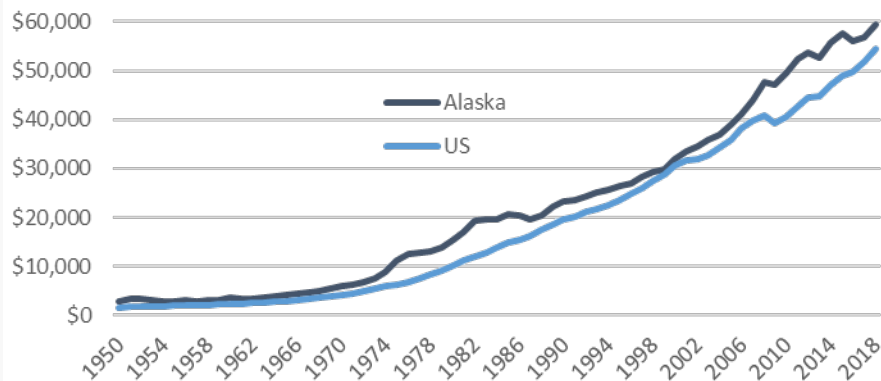
10. Income

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, 1950—2018. In 2018 Alaskans had the 10th highest in the nation at \$59,420, versus \$54,446 nationally:



Source: US Bureau of Economic Analysis

SOURCE: Abridged from “Alaska’s Personal Income,” Neal Fried, Alaska Economic Trends, March 2019.

Overview

Alaska residents brought in \$42.3 billion in personal income in 2017. Dividing that total by the number of residents — adults and children alike — puts 2017’s per capita income at \$57,179.

Because personal income takes all income sources and all residents into account, it’s considered the most comprehensive measure of what residents take in and is a useful barometer of an area’s overall economic well-being.

Although personal income has been somewhat erratic over the years, total personal income was up about \$840 million in 2017 from the year before, which was the first full year of the state recession. Preliminary data show growth continued into 2018, even as the state continued to shed jobs. While this could be a sign of economic recovery, it likely means other sources of income besides work earnings boosted the numbers.

Where it comes from

Of the \$42.3 billion Alaskans received in 2017, about \$27.5 billion — 65 percent — came from working. The nationwide share was about the same. Also similar to the U.S., close to 19 percent of personal income was from investments, characterized as “dividends, interest, or rent.” This amounted to more than \$7.8 billion in Alaska.

Transfer payments contributed the remaining 16 percent of Alaskans’ income, and they too represent a similar share

nationally. Transfer payments can come from private sources, but most come from government. Examples include retirement and disability payments, supplemental benefits for low income people, and unemployment and veterans’ benefits. In Alaska, they also include Permanent Fund Dividends.

Income equality

Alaska’s income distribution is the second most equal in the nation as of 2017, according to the Gini Index. Several factors contribute. Alaska isn’t home to a significant number of extremely wealthy people. Alaska is also a young state, as is Utah, and Permanent Fund Dividends narrow the gap by supplementing the income of all Alaska residents.

Although Alaska’s income distribution is one of the nation’s most equal, per capita income varies widely between urban and rural Alaska areas. Many rural areas have per capita incomes well below the state and national numbers. This disparity would be even larger if adjusted for the high rural cost of living.

Lower rural incomes are due partly to relatively fewer job opportunities and lower labor force participation rates. Families in rural Alaska also tend to be larger and younger, which further lowers per capita income. In rural areas, transfer payments make up a larger share of personal income.

Editor’s note

In 2019 Alaskans had the lowest overall tax burden of any state at 5.1 percent versus an average 8.6 percent. This is roughly offset by Alaska’s higher cost of living, particularly in rural areas of the state.

Wages are the biggest share of total personal income. In 2017 Alaska’s average annual wage was \$53,714, the sixteenth highest in the US.

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: apps.bea.gov/iTable/index_regional.cfm

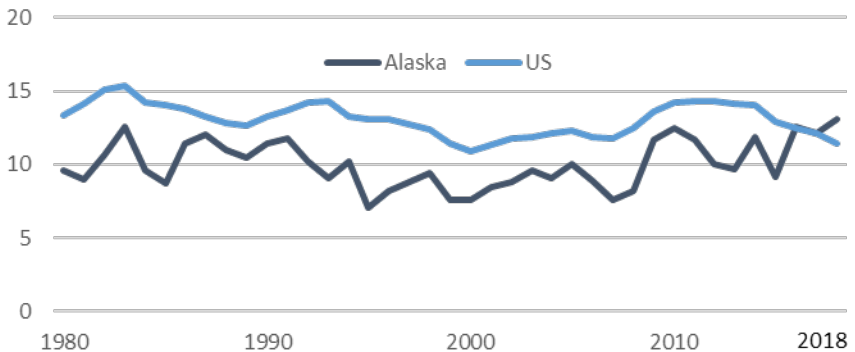
11. Poverty

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 1980-2018. In 2016 it passed the US rate for the first time, and in 2018 it was 13.1 percent compared to 11.5 percent for the US:



Source: US Census Bureau

SOURCE: Abridged from “HHS Poverty Guidelines for 2020,” US Department of Health & Human Services.

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. They are updated each year by the Census Bureau. The thresholds are used mainly for statistical purposes — for instance, preparing estimates of the number of Americans in poverty each year. In other words, 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. The guidelines are a simplification of the poverty thresholds for use 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” (FPL), but that phrase is ambiguous and should be avoided, especially in situations (e.g., legislative or administrative) where precision is important.

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 Supplemental Nutrition Assistance Program, the National School Lunch Program, the Low-Income Home Energy Assistance Program, and the Children’s Health Insurance Program.

Editor’s note

In 2020 the poverty guidelines for Alaska are \$15,950 for a single person household versus \$12,760 for the lower 48, and \$32,750 for a family of four versus \$26,200. For each additional person in a household it increases \$5,600 in Alaska and \$4,480 in the lower 48.

Programs using the guidelines to determine eligibility include Head Start, the Supplemental Nutrition Assistance Program, the National School Lunch Program, the Low Income Home Energy Assistance Program and the Children’s Health Insurance Program.

The percentage of Alaskans in deep poverty—earning less than half the federal poverty threshold—was 4.6 percent in 2017 compared to 6.5 percent nationwide.

The 2018 child poverty rate—children under 18 in related families with incomes below the poverty threshold—in Alaska was 14.3 percent, the 19th highest rate in the US.

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

More information

PovertyUSA: www.povertyusa.org

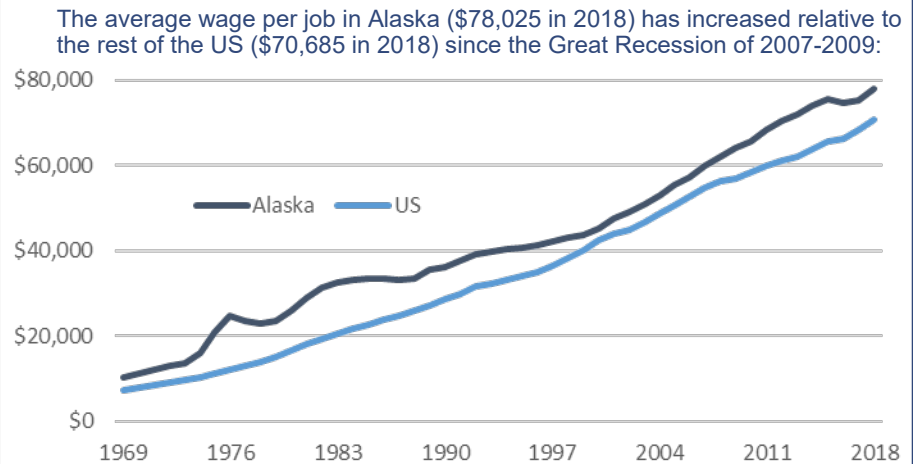
US Census Bureau: census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html

US Department of Health and Human Services: aspe.hhs.gov/poverty-guidelines

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.



Source: US Bureau of Economic Analysis

SOURCE: Abridged from "Statewide Forecast for 2020," Karinne Wiebold, Alaska Economic Trends, January 2020.

Overview

Alaska added about 1,600 jobs in 2019 after losing more than 11,000 during the recession of the prior three years. We forecast that trend will continue this year, but at a slower rate of 0.3 percent, or about 1,100 new jobs.

Absent a major shock, Alaska will keep adding jobs in 2020, but a few conditions will keep recovery sluggish. First, some of last year's job growth was due to temporary factors rather than true economic improvements. The biggest was the federal government injecting nearly half a billion dollars into the state to house two new squadrons of F-35 fighter planes at Eielson.

Second, Alaska's economic recovery continues to face headwinds. Ongoing population loss dampens job growth, and state government is still grappling with balancing spending and revenue.

What will drive job growth

2020 is expected to break another tourism record with an anticipated 6 percent jump in cruise ship passengers. According to McDowell Group, nearly half of Alaska's visitors arrive on cruise ships, 47 percent fly, and 4 percent come by land or ferry.

The military is another positive driver. Nearly 2,500 troops from Fort Wainwright in Fairbanks deployed to Iraq in September and will begin returning in May. Eielson Air Force Base will welcome the first installment of F-35 personnel and their families early this year, infusing the Fairbanks

North Star Borough with new residents — a major boost for a borough that has lost 3,500 people since its population peaked in 2012 at slightly more than 100,000 people.

Oil and gas will add jobs in 2020, although the sale of BP's assets to Hilcorp will likely result in at least temporary job loss, as is customary when companies restructure. In late 2019, BP reported that about half of its nearly 1,600 Alaska employees had taken jobs with Hilcorp. Despite a dip in oil prices (averaging \$65 per barrel in 2019 versus \$71 the year before), we expect the oil industry will continue growing, adding 400 jobs in 2020 after gaining 300 last year

State government's financial situation remains the primary drag on Alaska's economy.

What will slow the economy

State government's financial situation remains the primary drag on Alaska's economy. Even after several years of deep budget cuts, Alaska still spends more than it brings in. Savings have bought the state time and mitigated cuts, but drawing from savings remains controversial and a short-term solution.

Government employment will decline considerably again in 2020. State government will take the biggest hit, shedding a forecasted 700 jobs over the year. We forecast a loss of 400 for local government. Federal government will add 200 jobs, mostly through temporary positions conducting the decennial census.

Population loss remains an ongoing issue. After growing for nearly 30 years, Alaska's total population declined for a second year in a row in 2018 when natural increase (births minus deaths) was no longer able to offset net migration losses. Fewer Alaskans means less demand for schools, stores, homes, and services.

More information

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

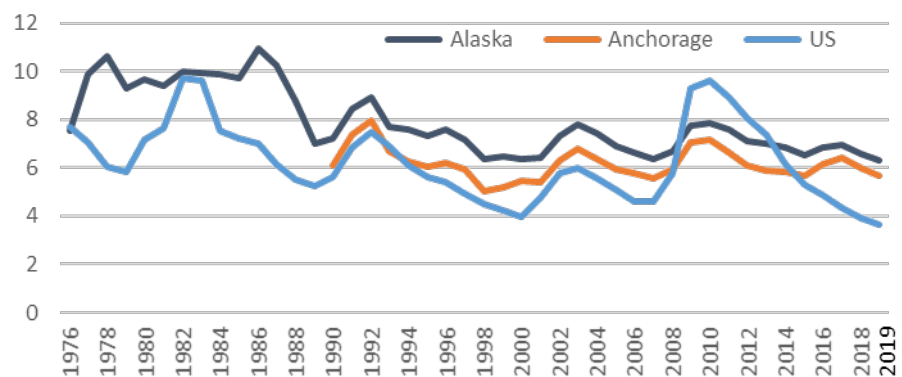
US Bureau of Economic Analysis: apps.bea.gov/iTable/index_regional.cfm

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.

Seasonally adjusted unemployment rate for Alaska, Anchorage and the US:



Source: US Bureau of Labor Statistics

SOURCE: Abridged from “Unemployment Claims from 2008 -2018” Jenna Luhrs, Alaska Economic Trends, February 2020.

Overview

Alaska’s unemployment insurance (UI) replaces a portion of wages for temporarily unemployed workers with payments from the UI Trust Fund. Its main source of revenue is employer and employee state taxes. While the share of Alaskans collecting benefits at any given time is small, unemployment insurance is one of the first lines of defense to keep money circulating in the economy when a downturn hits.

Decline in claims

Claims increased in 2015 with the state recession, but that was the only year-over-year increase in Alaska since 2011, after the US recession ended. Except in 2015 and 2016 total claims have decreased every year since 2011. About 34,000 claims were filed in 2018, down from 38,000 the year before.

Similarly the \$132 million in benefits the state disbursed in 2018 was down nearly 20% from the year before and well below the 10-year average of \$238 million. In terms of the percentage of unemployed workers collecting benefits, 36% participated in 2018, down markedly from 53% in 2008. Collecting benefits has been on a long-term decline nationally as well, with average U.S. participation falling from 37% to 26% over that period. While the full explanation isn’t clear, possible factors include fewer people participating in the labor force in general.

How Alaska compares

Alaska typically ranks among the top states for the proportion of unemployed workers receiving benefits, although our national ranking dropped from fourth in 2008 to 15th in 2018. Alaska has low barriers to UI compensation, being one of just 16 states that allow seasonal workers to collect benefits and one of 10 that don’t disqualify filers who have quit work or been fired. Alaska ranks last for the percentage of average wages replaced, however. In 2018, Alaska’s wage replacement rate of 32% was far below the U.S. average of 46%.

Total claims were down for most industries in 2018 compared to 2008, and the five industries with the highest numbers have been fairly consistent since 2008. Construction, food manufacturing, retail trade, public administration, and private health care and social assistance accounted for 55-58% of claims annually. The share of claimants filing from out of state rose from 17% in 2008 to 21% 2018, and 42% of interstate claimants worked in seafood processing, where the workforce is seasonal and 74% nonresident.

Editor’s note

In 2019 a seasonally adjusted average of about 22,000 Alaskans were unemployed each month. The unemployment rate is much higher outside of urban areas. Unemployment statistics only count people actively looking for work and not “discouraged workers,” those who have given up. A recent analysis by Mouhcine Guettabi showed Alaska’s “labor force participation rate” steadily fell from 73.5% in 1999 to 65% in 2018. From 2010 to 2018 it was the third highest decrease among states, and accounts for more than half the decrease in the unemployment rate.

Alaska ranks 13th in the US for the percentage of unemployed workers receiving benefits, but 50th for wage replacement.

More information

Alaska Economic Trends: labor.alaska.gov/trends

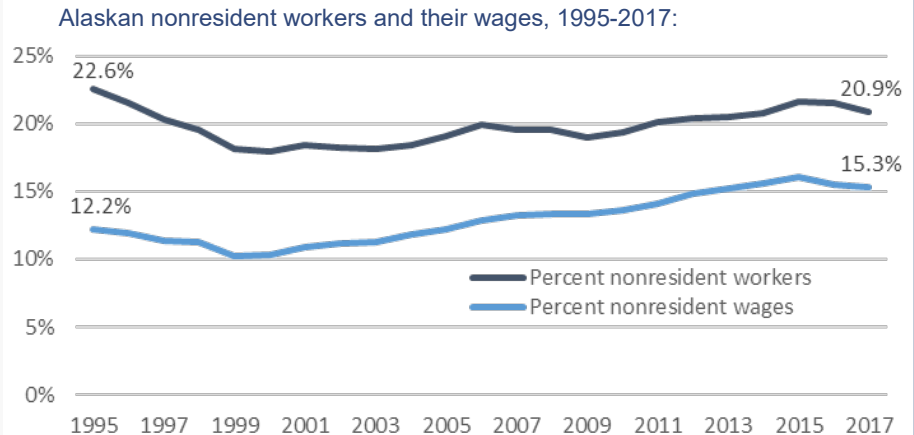
Alaska Unemployment Insurance Actuarial Report: live.laborstats.alaska.gov/uiprog/UI_Actuarial_Study.pdf

US Bureau of Labor Statistics: www.bls.gov/bls/unemployment.htm

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.



Source: Alaska Department of Labor & Workforce Development

SOURCE: Abridged from “Nonresidents Working in Alaska: 2017,” Dan Robinson et al, Alaska Department of Labor and Workforce Development, January 2019.

Introduction

This report has two main findings: (1) a large percentage of Alaska’s nonresident workforce is employed in the state’s most seasonal industries, with seafood processing at the top of that list; (2) high-paying, year-round jobs with high percentages of nonresidents are most concentrated in the oil and gas industry, where remote work sites are a major factor. It’s easier for North Slope oil workers, who usually work schedules such as two weeks on and two weeks off, to live elsewhere than it is for those with a weekday schedule and a daily commute.

Fewer workers in 2017

The total number of wage and salary workers in Alaska fell to 407,255 in 2017 — a drop of 9,204, or just over 2 percent, from 2016. The total worker count hasn’t been this low since 2009.

The numbers of residents and nonresidents both fell in 2017. The resident worker total fell by 4,917, or 1.5 percent, to 322,134. The nonresident count also dropped, and at more than twice the rate of residents: a 4.8 percent decline (-4,298 nonresidents) to 85,121.

Total wages fell 1 percent, to \$16.1 billion. Nonresidents earned 15.3 percent of that total, down from 15.5 percent in 2016.

Total resident wages fell by \$99 million (less than 1 percent)

to \$13.6 billion while total nonresident wages fell \$71 million (-2.8 percent) to \$2.5 billion.

Nonresidents typically didn’t work all four quarters of the year. Many nonresidents worked short-term or seasonal jobs, including those in seafood processing and tourism.

Resident workers earned an average of \$42,327 a year, while nonresidents earned \$28,834.

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Nonresidents by industry

The private sector has the highest percentages of nonresident workers. In 2017, 24 percent of private sector workers were not residents, although the percentages varied significantly by industry.

The seafood processing industry is the largest employer of nonresidents, employing nearly one in five (21 percent). Nonresident numbers were also high in the leisure and hospitality and trade, transportation, and utilities industries. The nonresident workforce for these three industries combined represented more than half of all nonresident workers in 2017.

Other industries with high percentages of nonresidents included oil and gas, construction, metal mining, and other visitor-related industries. These industries have at least one of the following: high seasonality, a need for specialized skills, or remote work sites.

Geographic distribution

Nonresidents were 12.8 percent of the Anchorage workforce, 11.6 percent of Mat-Su, 17.2 percent of Fairbanks, 36.4 percent of Rural Interior, 35.1 percent of Northern Region, and 27 percent of Southeast Region.

More information

Alaska Department of Labor and Workforce Development: live.laborstats.alaska.gov/reshire
Alaska Economic Trends: labor.alaska.gov/trends

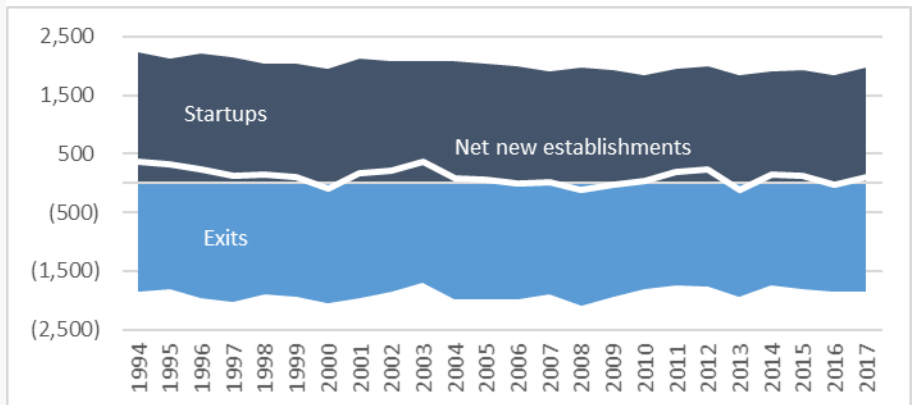
15. Small Business

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.

Business startups and exits in Alaska 1994-2017:



Source: US Bureau of Labor Statistics, Business Employment Dynamics

SOURCE: Abridged from "2019 Small Business Profile: Alaska," US Small Business Administration, 2019.

Overall Alaska economy

In the third quarter of 2018, Alaska grew at an annual rate of 1.0%, which was slower than the overall US growth rate of 3.4%. Alaska's 2017 growth rate of -0.5% was up from the 2016 rate of -2.0%.

In February 2019, the unemployment rate was 6.5%, down from 6.7% in February 2018. This was above the February 2019 national unemployment rate of 3.8%.

Employment

Alaska small businesses employed 141,147 people, 53 percent of the private workforce in 2016. Firms with fewer than 100 employees have the largest share of small business employment.

Private-sector employment decreased 0.5% during the 12-month period ending in February 2019. This was above the decrease of 0.9% during the prior 12-month period. The number of proprietors increased in 2017 by 1.5% relative to the previous year.

Small businesses lost 794 net jobs in 2016. Firms employing fewer than 20 employees experienced the largest gains, adding 1,915 net jobs. The largest losses were in firms employing 100 to 499 employees, which lost 2,020 net jobs.

Income and finance

The number of banks was unchanged at 5 between June 2016 and June 2017. In 2017, 13,535 loans under \$100,000

valued at \$221.2 million were issued by Alaska lending institutions reporting under the Community Reinvestment Act.

The median income for individuals self-employed at their own incorporated businesses was \$60,106 in 2017. For individuals self-employed at their own unincorporated firms, this figure was \$30,832. Both are the fourth-highest in the nation.

Turnover

In 2017 in Alaska 1,967 establishments started up, generating 6,882 new jobs. Startups are counted when business establishments hire at least one employee for the first time.

In the same period, 1,860 establishments exited resulting in 5,355 jobs lost, for a net gain of 107 establishments and 1,527 jobs. Exits occur when establishments go from having at least one employee to having none, and then remain closed for at least one year

International trade

A total of 746 companies exported goods from Alaska in 2016. Of these, 544, or 72.9%, were small firms; they generated 55.5% of Alaska's \$4.2 billion in total exports.

Employment by industry and geography

Some of the industries with the highest small business employment in 2016 were health care and social assistance (28,051), accommodation and food services (21,022), retail trade (14,552), construction (12,787) and professional, scientific and technical services (11,634)

Self-employment in 2017 was highest in Southcentral and Southeast, and lowest in Northern and Southwest Alaska.

99.1 Percent of Alaska businesses are small businesses, and they employ 53 percent of all Alaska employees.

More information

Alaska Small Business Development Center: aksbdc.org
US Small Business Administration: advocacy.sba.gov

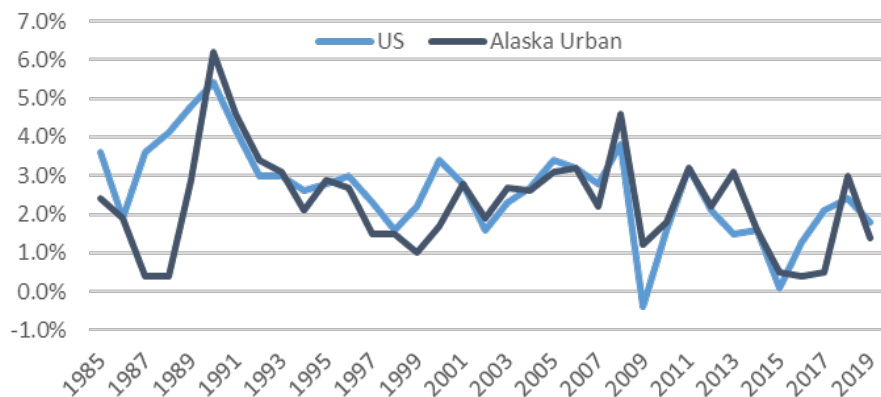
16. Costs of Business

Business costs include labor, insurance (especially health insurance), taxes, energy, and regulations and permitting.

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

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.

The consumer price index affects businesses through pressure on consumer spending, cost of materials, wages, prices and foreign exchange . CPI



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

Costs of doing business high in Alaska

Ranking states on their cost of doing business is more than a cottage industry. Financial services firms, media companies and various nonprofits all take a swing at it on an annual basis. They all look at similar factors when awarding an overall rank, but some take a more narrow view while others cast a wider net.

In general Alaska gets low overall rankings due to high business costs—including labor and energy-and uncertain regulatory and economic climates, including our over-reliance on the oil sector.

Forbes rank: 50

In December 2019 Forbes ranked Alaska 50th overall for the second year in a row: #42 in business costs, #45 in labor supply, #31 in regulatory environment, #50 in economic climate, #43 in growth prospects and #50 in quality of life.

Their assessment is grim: “Alaska’s economy shrunk faster than any other state’s over the past five years (down 0.6% per year) because of the fall in energy prices. Net migration out of the state also ranks as the worst in the nation. Finally, Alaska’s employment outlook is the second-worst in the country, according to Moody’s and labor data firm Emsi.” Just to drive their point home they note, “Alaska’s is one of just two state economies that shrunk over the past five years (the other is Wyoming).”

CNBC rank: 47

In July 2019 CNBC ranked Alaska #47 overall, up from #50 in 2018, with the statement, “The Last Frontier is rugged territory with high costs and poor infrastructure. But there is no other place like it.”

CNBC ranked states on ten measures: workforce (Alaska ranked #27), economy (#38), infrastructure (#46), cost of doing business (#48), quality of life (#23), education (#49), technology and innovation (#41), business friendliness (#20), access to capital (#50) and cost of living (#44).

Tax Foundation: 3

In their 2020 State Business Tax Climate Index the Tax Foundation ranks states on how well they structure their tax systems. They find “the absence of a major tax is a common factor among many of the top 10 states...Alaska has no individual income or state-level sales tax...”

Alaska has ranked #3 or #4 overall since 2014 on their list. On individual components: corporate tax (#26), individual income tax (#1), sales tax (#5), property tax (#25) and unemployment insurance tax (#46).

Alaska is one of just two state economies that shrank over the past five years.

Wallethub rank: 50

In September 2019 personal finance site Wallethub ranked Alaska dead last in... happiness? While obviously not strictly a business estimate, they used three buckets of indicators: emotional and physical well-being (Alaska ranked #34), work environment (#49) and community and environment (#50). The work environment bucket includes various measures of employment, wages and job satisfaction.

It’s worth noting that in survey-based measures of happiness, such as Gallup’s National Health and Well-Being Index (Alaska’s 2018 rank: #3) where people are directly asked about their happiness, Alaskans report feeling much better.

More information

CNBC: [cnbc.com/2019/07/10/americas-top-states-for-business-2019.html](https://www.cnbc.com/2019/07/10/americas-top-states-for-business-2019.html)

Forbes: [forbes.com/sites/samanthasharf/2019/12/19/how-we-rank-the-best-states-for-business-2019](https://www.forbes.com/sites/samanthasharf/2019/12/19/how-we-rank-the-best-states-for-business-2019)

Tax Foundation: [taxfoundation.org/publications/state-business-tax-climate-index](https://www.taxfoundation.org/publications/state-business-tax-climate-index)

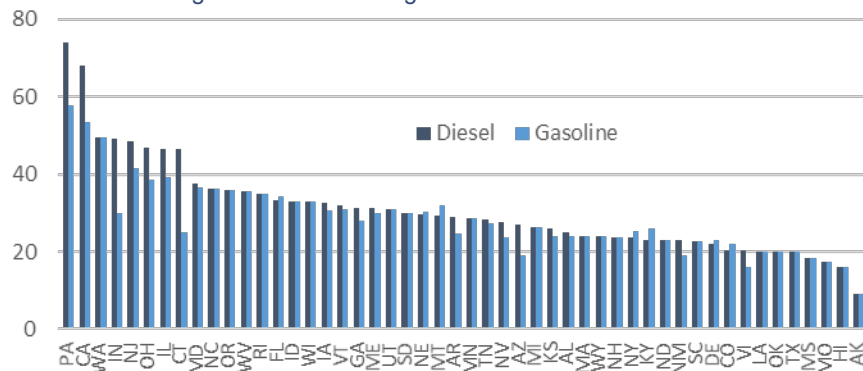
17. Transportation

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.

Alaska's base motor fuel tax rate of 8 cents per gallon hasn't changed since Richard Nixon was president. It is the lowest in the nation and well below the national average of 30.9 cents for gasoline and 28.5 cents for diesel:



Source: Federal Highway Administration

SOURCE: Abridged from "Let's Keep Moving 2036" by the Alaska Department of Transportation and Public Facilities, December 2016.

Alaska's transportation system today

Alaska is geographically the largest state in the country, while 48th in population. The current and future economic and social wellbeing of Alaskans is critically dependent on a reliable transportation system, but delivering reliable transportation in Alaska is a complex undertaking.

The State of Alaska owns and operates an extensive multimodal transportation system that includes airports, highways, ferries, railroads and harbors. The State has the responsibility of preserving the value of this system, the State's largest capital investment. However the State of Alaska is facing budget shortfalls and DOT&PF must balance its responsibility of maintaining the current transportation system and providing basic services against new expansion. Without additional revenue this funding shortfall will become larger. Additionally for many years the cost of doing business has increased at a greater rate than funding.

In the past Alaska has prepared many transportation plans with ambitions that have greatly exceeded the ability to fund them. Transportation plans for Alaska have always had to balance two key facts: 1) that the majority of Alaska's population is concentrated in its urban areas, yet there is a rural population with mobility needs dispersed over a vast area, and 2) the State's economy is heavily tied to natural resource extraction in remote areas. The population concentration disparity is expected to become more acute in the future. This increases the importance of an efficient inter-

modal transportation system that provides a basic level of connectivity to all parts of the State.

Risks to transportation system

The plan targets attention on managing nine risks with moderate to major impact and likely to almost certain probability: (1) higher demand for specialized transportation options such as human service transportation, public transit, and other alternatives; (2) increasing travel demand concentrated in urban areas; (3) higher cost of providing transportation services in remote communities with decreasing population; (4) increased user expectation; (5) increased federal requirements; (6) changing climate patterns; (7) increase in resource development; (8) unstable state funds; and (9) policy environment is not receptive to transportation revenue increase.

Alaska has prepared many transportation plans with ambitions that have greatly exceeded the ability to fund them.

Performance measures

The federal-aid program is focused on the following seven national goal areas: (1) safety; (2) infrastructure condition; (3) congestion reduction; (4) system reliability and performance; (5) freight movement and economic vitality; (6) environmental sustainability; and (7) reduced project delivery delays.

Editor's note

The American Society of Civil Engineers' 2017 Infrastructure Report Card gives Alaska an overall C- grade and notes that 22 percent of Alaska's roads are in poor condition and 10.5 percent of Alaska's bridges are structurally deficient. In 2019 Governor Dunleavy cut the Alaska Marine Highway System budget by 44 percent, leading to reduced schedules and periods of no service to many communities.

More information

Alaska Department of Transportation and Public Facilities: dot.state.ak.us/stwdplng/areaplans

American Society of Civil Engineers 2017 Infrastructure Report Card: infrastructurereportcard.org

Institute on Taxation and Economic Policy: itep.org/alaskas-motor-fuel-tax-a-national-and-historical-outlier

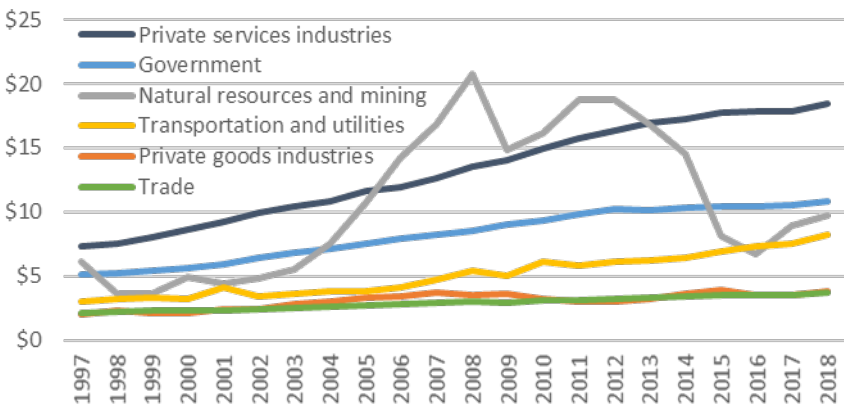
18. Diversification

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) shows increasing diversification and a relative decrease in contributions from natural resource extraction:



Source: US Bureau of Economic Analysis

Gross state product

Gross state product (GSP) measures the total value of goods and services produced in a state. GSP is very similar to gross domestic product (GDP) at the national level, and is sometimes called state GDP. GSP rises as individuals, businesses and government spend money in the state, and GSP rises whenever value is added during the process of production.

Because GSP is tracked by sector and by state, it is useful for comparing how fast Alaska is growing relative to other states and the national average. GSP also shows us where value is being produced in the economy, what the relative contributions of different sectors are to the economy as a whole and whether a sector is growing or shrinking.

Alaska's GSP has been negative for 12 of the years in the period 1998-2018, including the last six years when it declined an average of 1.4 percent per year. This was worse than the national average and is primarily a function of the price of oil, which declined by over \$30 a barrel in that time while production held roughly steady.

Economic diversity

Although oil and gas are still the 800 pound gorilla in Alaska's economy, other sectors—or more accurately groups of sectors—have been increasing in terms of their absolute contributions to Alaska's GSP.

In 2018 oil, gas and mining were 17 percent of Alaska's \$55 billion total GSP, but the combined government sector—federal, state and local—surpassed that with 20 percent of GSP.

The third highest contribution to GSP came from transportation and warehousing, helped no doubt by the fact that Ted Stevens International Airport handled the second highest amount of cargo tonnage, trailing only the FedEx hub of Memphis, Tennessee.

Finance, insurance, real estate, rentals and leasing were fourth, contributing 12 percent of GSP, and educational services, health care and social assistance rounded out the top five with 8 percent of GSP.

All other service and production sectors made up the remaining 29 percent. This illustrates how hard it is to replace oil and gas in Alaska's economy: even doubling or tripling any of the individual sectors—

tourism, mining or fishing for example—within the groups listed above will likely only result in single-digit percentage increases in GSP.

Alaska's future

In the first three quarters of 2019 Alaska's GSP grew at 3.9, 4.1 and 2.4 percent respectively, putting Alaska in the top ten states for growth in each of those quarters. Alaska's unemployment rate is nearing record territory, and at the end of 2019 we officially emerged from three years of recession. All of these factors are cause for optimism.

On the other side of the ledger are the facts that job growth has been mostly confined to the oil patch, and some of the decrease in the unemployment rate could be due to people leaving the state, resulting in a net population decline each year of the recession. A final wild card threatening recovery in 2020 is the effect of state budget cuts, particularly on government and university jobs.

Although oil and gas are still dominant, Alaska's economy is slowly diversifying.

More information

Alaska Department of Community and Economic Development: www.dced.state.ak.us
US Bureau of Economic Analysis: bea.gov/data/gdp/gdp-state

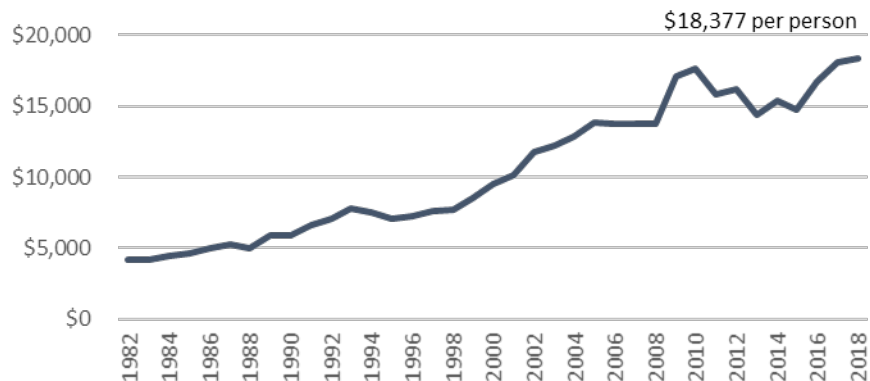
19. Federal Spending

Federal money has become increasingly important to Alaska's economy in the past decade. In 2016 federal aid was 37.3 percent of Alaska's general revenue.

Alaska's percentage of federal aid has historically been very high on a per capita basis and compared to the federal taxes Alaskans pay out.

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

For 2017 and 2018 Alaska was ranked third in the nation for per-person federal spending, which is now at historically high levels:



Source: Various, see editor's note below

Historical federal spending in Alaska

Federal spending has always had outsize importance in Alaska for a number of reasons: transportation, defense, national parks and the special contracting status of Alaska Native corporations among them.

Federal spending in Alaska historically grew much faster than the national average. Scott Goldsmith from the University of Alaska Institute of Social and Economic Research estimated in 2003 that had federal spending grown at the same rate as the national average from the early 1980s to the early 2000s, it would have been about \$2 billion lower at the end of that period.

In 2016 the Tax Foundation studied which states rely the most on federal aid, and Alaska was ranked the 9th highest with federal aid making up 37.3 percent of general revenue.

Per capita federal spending and receipts

According to a report by the Rockefeller Institute using federal fiscal year 2018 data, per capita federal expenditures in Alaska were \$18,293, well above the US average of \$11,631, while per capita federal receipts were \$9,383, just below the US average of \$9,568, for a net federal transfer to Alaskans of \$8,909 per person, more than four times the US average of \$2,063. This was the third highest rate in the nation, and Alaska's second year at that rank.

The largest component of the \$18,293 in federal expenditures per Alaskan was direct payments at \$6,281, followed by grants (\$4,583), contracts (\$3,965) and wages (\$3,503).

Direct payments include Social Security and Medicare,

linked to an aging population. Although Alaska is the second youngest state in the US, it is aging at the fastest rate so these payments will grow. At the same Alaska has lost population for three years in row, which will reduce payments in some areas. See measure #1, Demographics.

In 2018 for every \$1 the federal government collected in taxes in Alaska it spent \$1.95, the seventh highest in the U.S.

Grants include Medicaid, which Alaska expanded in 2015, federal highway spending, food stamps and education loans. Federal wages in Alaska are predominantly military.

The largest component of the \$9,383 in federal receipts per Alaskan was individual income tax at \$4,665, followed by social insurance

taxes (\$3,794), corporate income taxes (\$645) and excise taxes (\$280).

Editor's note

Calculating federal spending in the states used to be a fairly straightforward matter. Every year the federal government released the Consolidated Federal Funds Report (CFFR) which detailed federal spending in ways that allowed analysis over time and comparisons between states. In 2012 under the Obama administration the CFFR program was terminated. Historical reports are still available from the Census Bureau online, with the most recent being the 2011 CFFR which uses 2010 data.

Various organizations have tried to pick up the burden of tabulating federal spending in the states. Data for the chart for this measure was compiled from the Census Bureau, the Tax Foundation, the Rockefeller Institute and the Pew Charitable Trusts. The datasets do not match exactly so they should be taken as a fairly but not perfectly accurate representation of year-over-year trends.

More information

Census Bureau: [census.gov/library/publications/time-series/cffr.html](https://www.census.gov/library/publications/time-series/cffr.html)

Rockefeller Institute: rockinst.org/issue-areas/fiscal-analysis/balance-of-payments-portal

Tax Foundation: taxfoundation.org/federal-aid-reliance-rankings/