

The Capital Economy, 2008

Prepared for:
The Alaska Committee



Research-Based Consulting

Juneau
Anchorage

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Executive Summary

The possibility of a move of the state capital from Juneau is one of the most critical issues facing the Southeast region, particularly in light of Juneau’s stagnant economy, as well as the recent increase in the movement of state jobs to Anchorage. The Alaska Committee commissioned McDowell Group, a research and consulting company based in Juneau, to conduct the third in a series of studies on the impacts of a capital move on Juneau. This report illustrates the importance of state and federal government in the Juneau economy; examines the potential impacts of a capital move in terms of employment, income, population, and cost-of-living; and discusses “capital creep,” or the migration of state government jobs from Juneau to Anchorage. Following are key findings from the study.

Economic Impacts of a Capital Move on Juneau

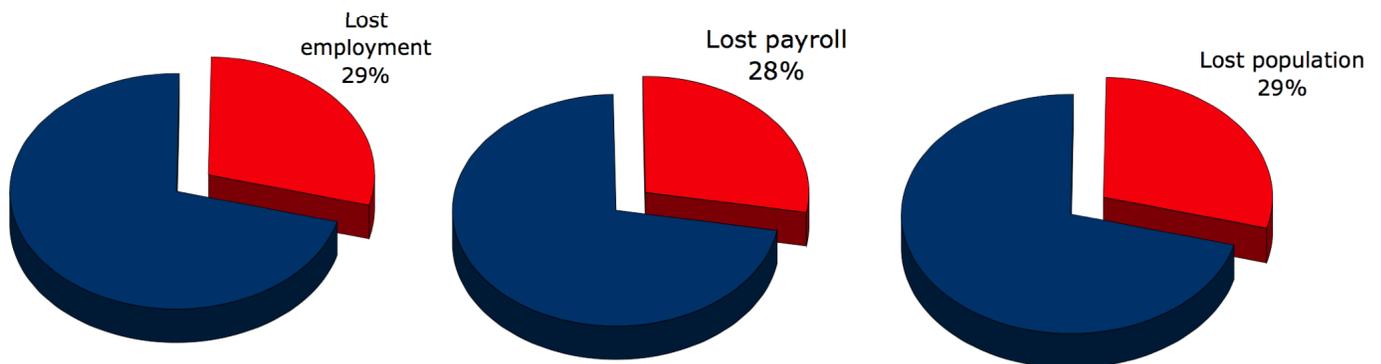
If the capital were to move from Juneau, the following direct impacts are possible.

- Juneau would directly lose 2,890 state government jobs (16 percent of Juneau’s total employment) and \$134 million in state government payroll (18 percent of Juneau’s total payroll).
- When federal jobs are taken into account, total direct job losses grow slightly to 2,905 and payroll losses to \$136 million.¹ These figures represent 16 and 19 percent of Juneau’s total employment and payroll, respectively. Total direct population losses are estimated at 4,896 people, or 16 percent of Juneau’s total.

Impacts would be felt throughout Juneau’s support sector as lost payroll and population result in decreased spending. These “ripple” effects are known as indirect impacts.

- When indirect impacts are taken into account, total employment losses are estimated at between 4,358 jobs (low case) and 5,810 jobs (high case). The mid case estimate is 5,229 jobs, or 29 percent of Juneau’s 2007 total.
- Total payroll losses are estimated at between \$177 million (low case) and \$231 million (high case). The mid case estimate is \$204 million, or 28 percent of Juneau’s 2007 total.
- Total population losses are estimated at between 7,344 people (low case) and 9,792 people (high case). The mid case estimate is 8,812 people, or 29 percent of Juneau’s 2007 total.

Total Direct and Indirect Impacts of a Capital Move on Juneau’s Employment, Payroll, and Population (Mid Case Scenario)



¹ These federal losses assume that all NOAA jobs would remain in Juneau, which is uncertain. If fisheries management staff and attorneys were transferred elsewhere, it would represent additional losses of 100 jobs and \$7 million in payroll.

Impacts on Costs and Availability of Goods and Services

The loss in population, employment, and spending resulting from a capital move would have far-reaching consequences on all Juneau households, not only those with direct links to state government. Juneau will be a smaller, poorer, less efficient, and less remunerative market to serve, leading to cost increases throughout the economy.

- Travel costs would increase, while service levels would decline. Total commercial air enplanements are expected to drop by approximately 40 percent, resulting in fewer flights and higher fares. Likewise, commuter air and ferry service would decrease in frequency while increasing in cost to make up for the market loss.
- Utility costs would increase for all Juneau households and businesses. Since infrastructure and operating costs for utilities are largely fixed, they will have to be shared among the remaining population.
- Health care will become more expensive, and some services will cease to be offered in Juneau. Since state workers typically have excellent health insurance coverage, their loss will have dramatic impacts on health care costs for those who remain in Juneau.
- Retail costs and availability will be significantly affected. At least two of Juneau's chain retailers are expected to close, faced with a major drop in their market base as well as decreased spending power among those who remain. Among businesses that remain, inventory will necessarily be more limited and prices higher.
- Social services and other non-profit organizations will suffer from a drop in their client base as well as lower contribution levels, resulting from decreased spending power. Service levels will necessarily decline, and some organizations will be forced to close. At the same time, need for these services will be growing among the remaining population, who will be dealing with the challenges of job and income loss.
- Residential property values would drop dramatically. The exodus of population would devastate the value of the major financial asset of the two-thirds of Juneau families who own their own homes, a loss of over \$1 billion to Juneau homeowners. Foreclosures would increase, and current homeowners (including state employees moving with the capital) would be unable to sell their houses. One mitigating factor would be a drop in home and rental prices for non-homeowners remaining in Juneau, but the rental market would be devastated resulting in foreclosures of many rental properties.
- Credit markets – the financial lifeline for all business and real estate activity – for Juneau would essentially disappear (think the current national credit crisis times ten on the local level). The level of foreclosures, troubled business loans, and the severe loss in value of assets (buildings, land, homes, etc.) held for collateral mean regional, statewide and national bank portfolios could no longer support Juneau lending.
- Other areas of the economy that will be impacted by the capital move, discussed in the body of the report, include the tourism and seafood industries.

Impacts on Southeast Alaska

A capital move would have significant impacts throughout the Southeast region. Juneau represents 43 percent of the regional population and 53 percent of regional wage and salary income. The capital city is the retail, service, financial, transportation, professional service, supply, medical, and government center for

much of the region. If Juneau's economy were significantly reduced, then the complex network of trade, service and other economic functions would affect the entire region. For example, Juneau is the hub for air, ferry and waterborne freight services in the region. Were these to be reduced due a shrinking of Juneau, the level of service to other regional communities would be reduced and cost increased. Likewise, a regional hospital is located in Juneau and the loss of business would mean less service and higher costs to a substantial number of residents of other communities receiving health care at the facility. Smaller communities, particularly in the northern portion of the region, rely on Juneau in its current economic size and diversity as their source of many goods and services. In general, a smaller, poorer Juneau means higher costs, a decline in service frequency, and fewer goods and services available to surrounding communities.

Another important impact not only on Southeast Alaska, but the rest of the state, is the shift in political power: Southeast will lose representation, while the Anchorage/Mat-Su region will gain representation, reflecting the inevitable shift in population. The probable result will provide Anchorage/Mat-Su with a majority of legislators, turning the rest of Alaska into a political minority. Even former Railbelt coalition participants Fairbanks and the Kenai Peninsula are likely to lose pieces of the budget pie. But the more distant, and less economically and culturally connected, Southeast and rural reaches of the state will certainly suffer the most in budget allocation shortfalls.

Migration of State Positions from Juneau

An issue related to the capital move that has been a growing concern among Juneau business and government leaders is the movement of state positions from Juneau to other communities, primarily Anchorage. Under normal circumstances, a moderate number of state positions are transferred among locations. However, in recent years, the accelerated transfer of positions away from Juneau – especially high-ranking management and executive positions – has created a significant net loss to the Juneau economy and erosion in Juneau's role as Alaska's capital city.

- Over the 28-month period of May 2006 to August 2008, Juneau experienced a net loss of 87 state positions. Of these positions, 76 went to Anchorage. (Data on transfers earlier than May 2006 was not available from the State of Alaska.)
- Most positions relocated to or from Juneau during the study period were considered vacant at the time they were moved, including 85 percent of the jobs that moved to Juneau from Anchorage and 78 percent of positions being moved to Anchorage from Juneau.
- Position transfers from Juneau to Anchorage accelerated starting in December of 2006. In the prior seven-month period of May-November of 2006, 27 Juneau positions went to Anchorage, increasing to 46 and then 40 over the next two comparable time periods.
- Transfers from Juneau to Anchorage tended to be higher-ranking management, executive and policy-making positions, including six department commissioners. Anchorage received 20 positions at the top pay ranges of 27 and 28, compared to only five moving in the opposite direction from Anchorage to Juneau.

Introduction

The possibility of a move of the state capital from Juneau is one of the most critical issues facing the Southeast region. Although the topic has surfaced repeatedly since the first capital move vote in 1960, its relevance has increased in light of Juneau's stagnant economy, as well as the recent increase in the movement of state jobs to Anchorage. It is necessary to again evaluate what such an event will cost the community of Juneau and the Southeast region. In addition to illustrating the importance of state and federal government in the Juneau economy, this report includes an examination of potential impacts in terms of employment, income, population, and cost-of-living were the capital to move from the community and region. The report also includes a discussion of "capital creep," or the migration of state government jobs from Juneau to Anchorage.

This examination of the potential impacts of a capital move is the third such study undertaken by the McDowell Group for the Alaska Committee; the last study was completed in 2002.

Methodology

Population, employment and payroll data was compiled from Department of Labor and Workforce Development reports. Additional data used to illustrate the local and regional economy was drawn from a variety of sources, including the Bureau of Economic Analysis, City and Borough of Juneau, Commercial Fisheries Entry Commission, the Department of Administration, Cruise Line Agencies of Alaska, and previous McDowell Group reports on the local economy, mining and tourism.

A number of sources were consulted in the course of the study, including representatives of the Alaska Departments of Administration and Transportation and Public Facilities; the US Forest Service, Coast Guard, Environmental Protection Agency, National Oceanic and Atmospheric Administration, and Federal Highway Administration; Alaska Airlines; and Bartlett Regional Hospital, among other contacts.

The main tables in the "capital creep" chapter were generated using information provided by the Alaska Department of Administration. Division of Personnel (DOP) staff generated an Online Position Description (OPD) system report detailing all positions that have moved either to or from Juneau from May 2006 to August of 2008. The OPD system is used to submit, approve, track, view, and report on submissions for classified and partially exempt positions. DOP staff also provided data on the movement of exempt employee positions. The OPD system does not currently contain information prior to July of 2006, although work is currently underway on a data warehousing system that would eventually provide access to older data sets. The DOP report contained the following columns: PCN, Class Title, Department, Division, Effective Date, Moved From, Moved To, BU (Bargaining Unit), Pay Range, Step, and Vacant/Filled (if the position was filled or vacant when it moved).

The section on job migration contains additional tables generated using employment data from the Alaska Department of Labor (DOL), based on preliminary data compiled by the McDowell Group. DOL represents employment as a count of jobs as opposed to individual workers, and the figures presented do not differentiate between full-time and part-time employees.

Role of State Government in the Economy

Introduction

This chapter presents an overview of Juneau’s economic conditions, looking at trends in employment, payroll, personal income, average wages, business sales and other economic indicators. The information helps demonstrate the role of state government in the context of the local economy.

Juneau’s economy is a complex, interdependent collection of business, non-profit organizations and government agencies, and is thus difficult to define. One simple way to describe the economy is the “export base model,” which splits the economy into two components: the basic sector and the support sector.

The basic sector includes businesses and organizations that provide a product or service to an outside market and draw new money into the community. In Juneau, examples of basic industries and businesses in the private sector include the seafood industry, the tourism industry (the product is the Alaska experience, the market includes visitors from all over the world), the Greens Creek Mine and the Alaskan Brewing Company. Juneau’s basic industries also include state and federal government. State government workers in Juneau provide government services to all Alaskans and draw money (mostly oil money) into the community, primarily in the form of paychecks. Many of Juneau’s federal government workers conduct activity that is in the national interest – for example, the Forest Service’s responsibility for managing the Tongass National Forest or the Coast Guard’s role in providing search, rescue and law enforcement in the North Pacific.

The support sector re-circulates the money that these basic industries draw into the local economy. Grocery, clothing, hardware and other stores, banks, gas stations, the City and Borough of Juneau, and the school district are all part of the support sector. The support sector is a critical part of the economy – it accounts for about half of all jobs in Juneau. Over the long term, however, the support sector is dependent on and reactive to the basic sector. Changes in the basic sector will have an impact – a “ripple effect” – on the support sector, both in the short-term and long-term.

State Government Employment

Employment in Juneau

The State of Alaska employed 4,249 workers in Juneau in 2007, accounting for \$198 million in total payroll. Within state government, the Department of Transportation and Public Facilities (DOTPF) is the largest employer, with an average of 709 employees in 2007. Health and Social Services (HSS) and Administration are the second and third-largest state employers in Juneau, with 550 and 480 employees, respectively.

State government employment in Juneau dropped by 2 percent between 2004 and 2007, from 4,348 to 4,249. The department that lost the largest number of employees between 2004 and 2007 is Labor and Workforce Development (down 38 positions). Some of the decreases are due to positions moving to other locations in Alaska. This issue is covered in more detail in the final chapter in this report.

Table 1
State Government Employment in Juneau, 2004 and 2007, by Department

Department	2004	2007	Change 2004-2007
Administration	460	480	+20
Commerce, Community and Economic Development	177	164	-13
Corrections	122	114	-8
Court System	38	38	0
Education	246	230	-16
Environmental Conservation	135	118	-17
Fish and Game	312	322	+10
Health and Social Services	530	550	+20
Labor and Workforce Development	318	280	-38
Law	88	87	-1
Legislative Affairs Agency	253	256	+3
Legislative Audit	27	28	+1
Military & Veterans Affairs	6	7	+1
Natural Resources	61	61	0
Office of the Governor	107	90	-17
Public Safety	47	44	-3
Revenue	173	189	+16
Transportation and Public Facilities	736	709	-27
University of Alaska Southeast	473	438	-35
Alaska Housing Finance Corp.	8	13	+5
Unknown/Terminated	31	31	0
Total State Employment	4,348	4,249	-99

Source: Employment for each department is from the Alaska Department of Labor and Workforce Development, based on preliminary data compiled by the McDowell Group. UA numbers include part time student staff.

Employment in Southeast

The following table shows state employment in the Southeast region, totaling nearly 5,500 jobs in 2007. Over three-quarters of the region's state government employment is based in Juneau.

Table 2
State Government Employment in Southeast Alaska by Department, 2007

Department	2007 Employment	% Jobs in Juneau
Administration	494	97%
Commerce, Community and Economic Development	165	99%
Corrections	152	75%
Court System	83	46%
Education	298	77%
Environmental Conservation	121	98%
Fish and Game	430	75%
Health and Social Services	793	69%
Labor and Workforce Development	296	95%
Law	98	89%
Legislative Affairs Agency	269	95%
Legislative Audit	28	100%
Military & Veterans Affairs	8	88%
Natural Resources	79	77%
Office of the Governor	90	100%
Public Safety	110	40%
Revenue	189	100%
Transportation and Public Facilities	1,142	62%
University of Alaska Southeast	572	77%
Alaska Housing Finance Corp.	23	57%
Unknown/Terminated	35	89%
Total State Employment	5,475	78%

Source: Employment for each department is from the Alaska Department of Labor and Workforce Development, based on preliminary data compiled by the McDowell Group. UA numbers include part time student staff.

Role of State Government in Juneau

State government is by far Juneau's most important source of jobs and income. In 2007, it *directly* accounted for 24 percent of all wage and salary employment in Juneau and 27 percent of all wage and salary income in Juneau. It is important to note that these employment figures do not include any of the indirect employment and payroll effects of state government (such as jobs and income created by state contracting and other vendor purchases in Juneau) or the induced effects (local spending of state employee payroll).

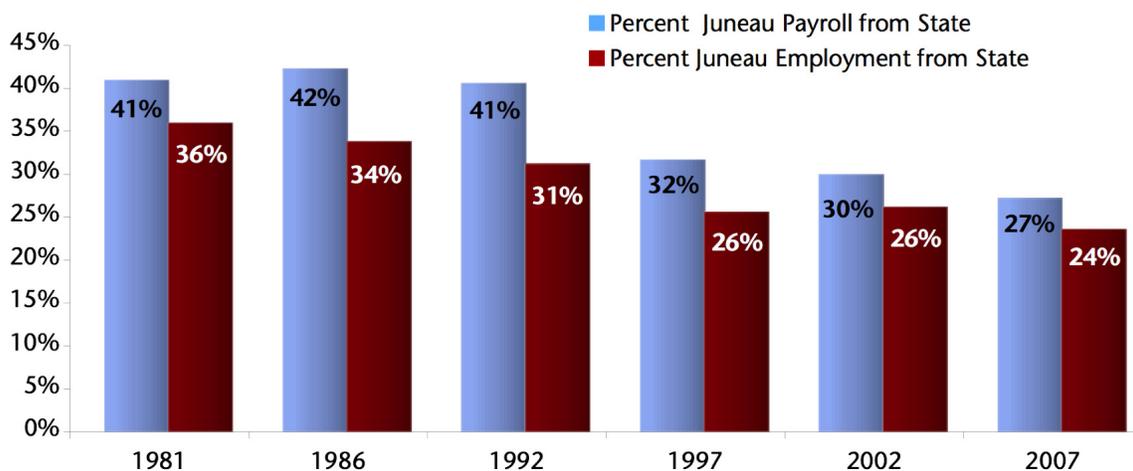
Table 3
State Government and Juneau Employment and Payroll, 2007

	State Government	Total Juneau	State % of Total
Juneau employment	4,249	17,978	24%
Juneau payroll	\$198 million	\$726 million	27%

Source: Alaska Department of Labor, Employment and Earnings Reports.

While state government continues to be the dominant force in the economy, Juneau's dependence on state government has declined somewhat over the past decade. In 1981, state government accounted for 36 percent of employment and 41 percent of payroll. In 1992, 31 percent of Juneau's employment was in state government, though state payroll still accounted for 41 percent of all local payroll. Through the 1990s and 2000s, with growth in tourism as well as Juneau's retail and service sectors, state government's role has slipped to (and apparently leveled off at) approximately one-quarter of employment and payroll.

Figure 1
State Workers and State Payroll as a Percentage of the Total Juneau Workforce and Payroll 1981-2007



Source: Alaska Department of Labor, Employment and Earnings Reports.

The State of Alaska also plays an important role in regional employment and payroll, accounting for 10 percent of total Southeast employment and 18 percent of Southeast payroll in 2007.

Table 4
State Government Employment and Payroll in Southeast Region, 2007

	State Government	Total Southeast	% of Southeast Total
Southeast employment	5,450	56,950	10%
Southeast payroll	\$251,063	\$725,939	18%

Source: Alaska Department of Labor, Employment and Earnings Reports.

Other Economic Impacts of State Government

LOCAL PURCHASES OF GOODS AND SERVICES

Other data also demonstrates Juneau's economic dependence on state government. Development of an economy's support sector depends on several factors, including the type and value of local purchases of goods and services in support of local basic industry, the residency of the basic industry labor force, and the average wages paid to those employees.

According to data provided by the State of Alaska, the state spent \$191 million with Juneau vendors and organizations in fiscal 2008. This spending included grants, lease fees for office rental, utilities payments, payments for professional services, office supplies, and a broad range of other goods and services. This total does not include state workers' payroll or Permanent Fund dividends.

SEASONAL STABILITY

Juneau's state government labor force is made up almost entirely of year-round residents. A resident workforce means that less payroll money leaks out of the economy than would be the case with a non-resident workforce. The fact that the business of state government is a year-round activity (with the exception of the legislature) plays a key role in building and maintaining a stable economy. A stable, year-round economy is a much more attractive business investment environment than one with seasonal fluctuation in employment and income. Employment in Juneau ranges only 5.3 percent above the annual average in the summer and 6.2 percent below the average in the winter – a level of stability made possible almost entirely by the presence of state and federal government employment. Non-governmental employment, for example, ranges from 12.2 percent below annual average in January to 15.5 percent above annual average in July. State government employment stays fairly steady throughout the year.

Table 5
Juneau Employment, Seasonal Variance, 2007
(Percentage above/below annual average)

	All Employment	State Gov't	Other Gov't	Private
January	-6.2%	-0.7%	+6.8%	-12.2%
July	+5.3%	-3.3%	-18.6%	+15.5%

Source: McDowell Group calculations based on data from Alaska Department of Labor and Workforce Development.

AVERAGE WAGE RATES

In terms of average wages, state government pays significantly higher wages than other employers in Juneau. The average annual salary for Juneau's State workers was \$46,500 in 2007, about 21 percent higher than the average paid by all other employers of \$38,500, and 33 percent above the private sector average of about \$35,100.

It is important to note that State wages have been increasing at a slower rate than other wages, up 16 percent since 2000 compared to 25 percent for other employers and 28 percent for the private sector.

Table 6
Average Annual Salaries, State Government Compared to
all other Juneau Employers, 2000 and 2007

	Average Salary 2000	Average Salary 2007	Percent Change 2000-2007
Average State salary	\$39,981	\$46,500	+16%
Average all other employers	\$30,731	\$38,500	+25%
% difference state vs. all other	+30%	+21%	
Average private sector	\$27,432	\$35,100	+28%
% difference state vs. private sector	+46%	+33%	

Source: McDowell Group estimates based on ADOL data.

Note: These figures are not adjusted for inflation.

TOP EMPLOYERS

The importance of state government in Juneau’s economy is further demonstrated by a listing of Juneau’s top employers, including private sector employers and individual state, federal and local government agencies. The following table shows Juneau’s top 25 employers, ranked by average annual employment. Overall, departments of state government (including UAS) occupy five of the top ten positions and ten of the top 25. More important, from a basic industry perspective, state departments represent the five largest employers in Juneau. The Juneau School District and the City and Borough (numbers 1 and 3) play strictly support sector roles in the local economy. (Number 7 Bartlett Regional Hospital has a basic industry component because it serves residents of outlying communities, but performs a predominantly support sector function.)

Table 7
Top 25 Employers in Juneau, 2007
Ranked By Annual Average Employment

Rank	Employer	2007 Annual Average
1	Juneau School District	738
2	Alaska Dept. of Transportation & Public Facilities	709
3	City and Borough of Juneau	681
4	Alaska Dept. of Health & Social Services	550
5	Alaska Dept. of Administration	480
6	University of Alaska	438
7	Bartlett Regional Hospital	435
8	Alaska Dept. of Fish & Game	322
9	Greens Creek Mining Co.	308
10	Fred Meyer, Inc.	283
11	Alaska Dept. of Labor & Workforce Development	280
12	Alaska Legislative Affairs Agency	256
13	USDA Forest Service	238
14	Alaska Dept. of Education	230
15	NOAA/NMFS	219
16	Central Council Tlingit & Haida	213
17	REACH Inc.	196
18	Alaska Dept. of Revenue	189
19	Juneau Youth Services	173
20	SEARHC	172
21	Alaska Dept. of Commerce, Community & Economic Development	164
22	Alaska Airlines, Inc.	148
23	U.S. Department of Transportation	146
24	Wal-Mart Associates	133
25	JRC Athletic Clubs	133

Source: Alaska Department of Labor and Workforce Development, preliminary data. No differentiation is made between full time and part time employees.

A list of top employers in Southeast also demonstrates the important role state government plays in the region. Eight out of the top 25 Southeast employers are state departments, including the number 1 employer (DOTPF).

Table 8
Top 25 Employers in Southeast Alaska, 2007
Ranked By Annual Average Employment

Rank	Employer	2007 Annual Average
1	Alaska Dept. of Transportation & Public Facilities	1,142
2	Southeast Alaska Regional Health Consortium	802
3	Alaska Dept. of Health & Social Services	793
4	USDA Forest Service	745
5	Juneau School District	738
6	City and Borough of Juneau	681
7	University of Alaska	572
8	Alaska Dept. of Administration	494
9	Bartlett Regional Hospital	435
10	Alaska Dept. of Fish & Game	430
11	US. Department of Transportation	382
12	Ketchikan General Hospital	377
13	City of Ketchikan	357
14	Ocean Beauty Seafoods LLC	352
15	Ketchikan Gateway School District	351
16	Greens Creek Mining Co.	308
17	Alaska Airlines, Inc.	298
18	Alaska Dept. of Education	298
19	Alaska Dept. of Labor and Workforce Development	296
20	Fred Meyer, Inc.	283
21	Wal-Mart Associates	279
22	Alaska Legislative Affairs Agency	269
23	Alaska Dept. of Commerce, Community & Economic Development	259
24	Metlakatla Indian Community	247
25	Safeway Inc.	235

Source: Alaska Department of Labor and Workforce Development, preliminary data.

Other Key Industries In Juneau

To place the role of state government in Juneau's economy in its appropriate context, it is important to identify other key sources of employment and income. These other basic industries include tourism, federal government, the seafood industry (including commercial fishing and seafood processing), and mining.

Tourism

The tourism industry plays an important role in Juneau's economy, one that has increased over the last decade along with the growth in visitor traffic. Cruise passenger volume reached the 1 million mark in 2007 (and again in 2008), nearly double the volume from a decade earlier.² According to a McDowell Group report for the Alaska Cruise Association, cruise passengers spent \$144 million in Juneau in 2007 (not including tour commissions to cruise lines).³ Including cruise line and crew spending, total cruise industry

² Cruise Line Agencies of Alaska.

³ *Economic Impacts of the Cruise Industry in Alaska, 2007*, prepared by McDowell Group for Alaska Cruise Association, 2008.

spending reached \$177 million in 2007. Independent visitors, estimated at approximately 100,000 in summer 2007, represent an additional impact on the economy.

Cruise volume to Juneau in 2008 was similar to 2007 traffic, and will likely remain flat in 2009. Independent traffic has stayed fairly steady over the last several years; little change is expected in that market as well.

Federal Government

Federal government employment accounted for 869 jobs in Juneau in 2007, representing 5 percent of all Juneau employment. Federal payroll plays a larger role; at \$65 million, it represents 9 percent of all Juneau payroll. Federal government salaries are, as a group, the highest in Juneau (after mining jobs). According to ADOL data (which excludes active duty Coast Guard personnel), federal employees earned an average of \$75,300 in 2007, 62 percent above the state government average and more than twice the private sector average of \$35,100. Federal employees in Alaska continue to enjoy a 23 percent cost-of-living adjustment to their base salaries.

Table 9
Federal Government and Juneau Employment and Payroll, 2007

	Federal Government	Total Juneau	Federal % of Juneau Total
Juneau employment	869	17,978	5%
Juneau payroll	\$65 million	\$726 million	9%

Source: Alaska Department of Labor, Employment and Earnings Reports.

Twenty-seven agencies or divisions of the federal government reside in Juneau. The US Forest Service has the largest employment presence in Juneau, with 232 employees. The National Oceanic and Atmospheric Administration ranked second with 219 jobs, followed by the US Postal Service, with 87 jobs.

See table next page.

Table 10
Federal Government Employment in Juneau, 2007
by Department and Agency

U.S. Department	Annual Average
Department of Agriculture	238
Forest Service	232
Office of the General Counsel	6
Department of Commerce	220
National Oceanic & Atmospheric Administration	219
Bureau of the Census	1
Department of Transportation	209
Coast Guard (civilian employees)	67
Transportation Security Administration	66
Federal Aviation Administration	63
Federal Highway Administration	13
Postal Service	87
Department of the Interior	82
Bureau of Indian Affairs	48
Fish & Wildlife Service	18
Geological Survey	9
Bureau of Land Management	6
National Park Service	3
Department of Defense	9
Social Security Administration	5
Department Of Justice	4
Federal Bureau of Investigation	3
Marshals Service	1
General Services Administration	3
Homeland Security	3
Environmental Protection Agency	3
Court System	2
Department of Labor	2
Department of Health & Human Services	2
Veterans Affairs	1
Small Business Administration	1
Selective Service System	1
Total Federal Government Employment	869

Source: Alaska Department of Labor and Workforce Development, preliminary data compiled by the McDowell Group.

Note: Active duty Coast Guard employment is not reported by DOL and is not presented in the above figures. In 2007, there were 196 active duty Coast Guard employees in Juneau.⁴

Between 1992 and 2007, federal government employment in Juneau declined by 226 jobs. Much of the decline occurred in the 1990s, particularly in the Bureau of Indian Affairs and the Forest Service departments. The role of federal employment in Juneau's total employment likewise shows a decrease, from 8.8 percent in 1981, to 7.5 percent in 1992, down to 4.8 percent in 2007. In terms of payroll, the percentage of total Juneau wages represented by federal government has also dropped, albeit less dramatically: from 10.9 percent in 1981 to 9.0 percent in 2007.

⁴ Personal communication, Coast Guard personnel.

Table 11
Federal Government Employment and Payroll in Juneau, 1981-2007

	1981	1986	1992	1997	2002	2007
Employment						
Federal emp. in Juneau	1,010	1,057	1,095	868	891	869
Total emp. In Juneau	11,496	12,825	14,518	16,518	17,331	17,978
Federal emp. as % of total	8.8%	8.2%	7.5%	5.3%	5.1%	4.8%
Payroll (\$millions)						
Federal payroll in Juneau	\$26.7	\$35.3	\$49.4	\$46.7	\$54.5	\$65.4
Total payroll in Juneau	\$245.6	\$374.7	\$456.8	\$520.6	\$597.8	\$725.9
Federal payroll as % of total	10.9%	9.4%	10.8%	9.0%	9.1%	9.0%

Source: Alaska Department of Labor, Employment and Earnings Reports.

The federal government also plays an important role in the Southeast economy, accounting for nearly 1,900 jobs in 2007, or 3 percent of the regional total. The table below shows the number of jobs by department in the region.

Table 12
Federal Government Employment in Southeast Alaska, 2007
by Department and Agency

U.S. Department	Annual Average
Department of Agriculture	745
Department of Transportation	382
Department of Commerce	259
Department of the Interior	216
Postal Service	197
Homeland Security	41
Department of Health & Human Services	10
Department of Defense	9
Social Security Administration	6
Department Of Justice	4
Court System	4
General Services Administration	3
Environmental Protection Agency	3
Department of Labor	2
Veterans Affairs	1
Small Business Administration	1
Selective Service System	1
Total Federal Government Employment	1,884

Source: Alaska Department of Labor and Workforce Development, preliminary data compiled by the McDowell Group.

Note: Active duty Coast Guard employment is not reported by DOL and is not presented in the above figures. In 2007, there were 687 active duty Coast Guard employees in Southeast Alaska.⁵

⁵ Personal communication, Coast Guard personnel.

Seafood Industry

The seafood industry in Juneau includes commercial fishing, seafood processors and hatchery production. Juneau's commercial fishing fleet harvests a wide variety of seafood including salmon, halibut, blackcod, rockfish, shrimp, crab, herring and groundfish. Most permit-holders fish in Southeast Alaska, but many also fish elsewhere in the state. The processing sector includes several smokeries and fresh fish buyers. Juneau grocery stores and restaurants also buy a substantial volume of seafood from local fishermen. Direct sales from fishermen to consumers are common as well. Because complete harvest data for 2007 are not yet available, 2006 data is used.

A total of 289 Juneau residents fished 441 commercial fishing permits in 2006; an additional 389 Juneau residents held crewmember licenses, according to the Commercial Fisheries Entry Commission (CFEC), for a total of nearly 700 Juneau residents earning income from seafood harvesting in 2006. These Juneau fishermen harvested 19.8 million pounds of seafood with an ex-vessel value of \$21.6 million (ex-vessel is the amount fishermen are paid for their fish by processors). Gross earnings per permit fished averaged \$49,000, and earnings per active permit holder averaged \$75,000 in 2006.

Accounting for the seasonality of most fisheries, McDowell Group estimates this participation at about 300 year-around equivalent jobs. In terms of a payroll equivalent (gross fishing income less business expenses) Juneau resident fishermen earned an estimated \$13 million in "take home pay" in 2006, or about \$43,000 per annual equivalent fishing job.

Table 13
Juneau and Southeast Resident Commercial Fishing Activity, 2006

	Juneau	Southeast
Permits issued	803	5,710
Permits fished	441	3,540
Permit holders	442	3,005
Fishermen who fished	289	2,163
Crew members	389	2,435
Pounds landed	20 million	158 million
Gross earnings (est.)	\$22 million	\$160 million

Source: Commercial Fisheries Entry Commission
Note: 2007 data is not yet available.

In 2007, Juneau seafood product preparation and packaging employment totaled an estimated 125 jobs, with \$3.3 million in associated payroll. Taku Smokeries and Alaska Glacier Seafoods account for about 75 percent of Juneau's seafood processing employment. The Douglas Island Pink and Chum (DIPAC) hatchery is also an important part of Juneau's seafood industry. In 2007, DIPAC employed an average of 41 workers, with peak employment at 62 and an estimated payroll of \$1.1 million (assuming the processing average for earnings).

In total, combining harvesting (2006), processing and hatchery production (2007) employment and payroll, Juneau's seafood industry accounts for an estimated 470 annual average jobs and a payroll of about \$17 million.

Mining

The mining industry employed an average of 424 workers in Juneau in 2007. The Greens Creek Mine, with about 344 employees, accounts for most of the mining employment in Juneau. The Greens Creeks Mine, recently purchased by the Hecla Mining Company for \$750 million, is the largest silver producer in North America and the fifth largest silver producer in the world. There were an additional 80 workers located at the Kensington Mine.⁶ While construction of most Kensington Mine facilities is complete, production is postponed until late 2009 or early 2010, pending permitting and construction of a redesigned tailings disposal facility. Once opened, the mine will provide 200 direct jobs with \$14 million in annual payroll. Total mining industry payroll in Juneau was approximately \$38.6 million in 2007.

Gold and silver prices, though down from recent peak prices, are still relatively high. On average, mining workers in Juneau earned slightly more than \$90,000 each in 2007 (or more than twice the average Juneau wage of \$40,400).

Other Sources of Basic Sector Employment and Earnings

State government, federal government, tourism, the seafood industry and mining are well recognized as components of Juneau's economic base. But there are other important sources of basic sector employment and income in Juneau. Any business that sells a product or service to non-local markets is a part of Juneau's basic economy. This includes a broad range of businesses in the services and "infrastructure" sectors. Many health care and social services organizations provide services to residents of outlying communities. The larger organizations include Central Council Tlingit Haida Indian Tribes of Alaska (213 employees in 2007), Reach Inc. (196), Juneau Youth Services (172), and Southeast Alaska Regional Health Consortium (172).

Professional services firms (engineering, architectural, accounting, etc.) also provide services to non-local clients. Similarly, construction companies, freight haulers, communications companies and others that provide local and regional infrastructure have basic industry components. In manufacturing, Alaskan Brewing with 57 employees (2007) is a part of Juneau's basic sector.

It is important to note that, while these businesses are, in part, serving a basic industry function in Juneau, their survival largely depends on the health of Juneau's economy. Many of these businesses would be significantly impacted by a major shock to Juneau's economy, such as a capital move. This linkage is discussed in more detail in the following chapters of this report.

Components of Total Personal Income in Juneau

The basic industries described above are Juneau's key sources of employment-related income.⁷ In Juneau, employment-related income accounts for about 70 percent of all personal income, according to Bureau of Economic Analysis data. Other important sources of income in Juneau include transfer payments and a broad category of income called "dividends, interest and rent." Transfer payments include transfers of money from governments to individuals, where no current services are performed. The Permanent Fund Dividend (PFD) is major source of transfer payment income in Juneau (and all of Alaska). Transfer payments to Juneau residents

⁶ Coeur Alaska announced in October 2008 that they would be laying off 41 out of 82 employees. A spokesperson stated that they were still committed to hiring more people and starting production in late 2009 or early 2010. (*Juneau Empire*, "Kensington Workforce to be Cut in Half," October 5, 2008.)

⁷ Employment-related income includes wage and salary disbursements, supplements to wages and salaries, proprietors' income, and a place of residence adjustment; minus contributions for government social insurance.

totaled \$159 million in 2007, including about \$41 million from the PFD. The PFD accounted for about 3 percent of Juneau's total personal income in 2007.

Transfer payments also include Medicare and public assistance medical payments (\$55 million), government retirement income (\$35 million), income maintenance payments such as social security and food stamps (\$15 million), and unemployment insurance payments (\$4 million).⁸

The category of income "dividends, interest and rent" is investment income. Juneau residents' investment income totaled \$235 million in 2006.

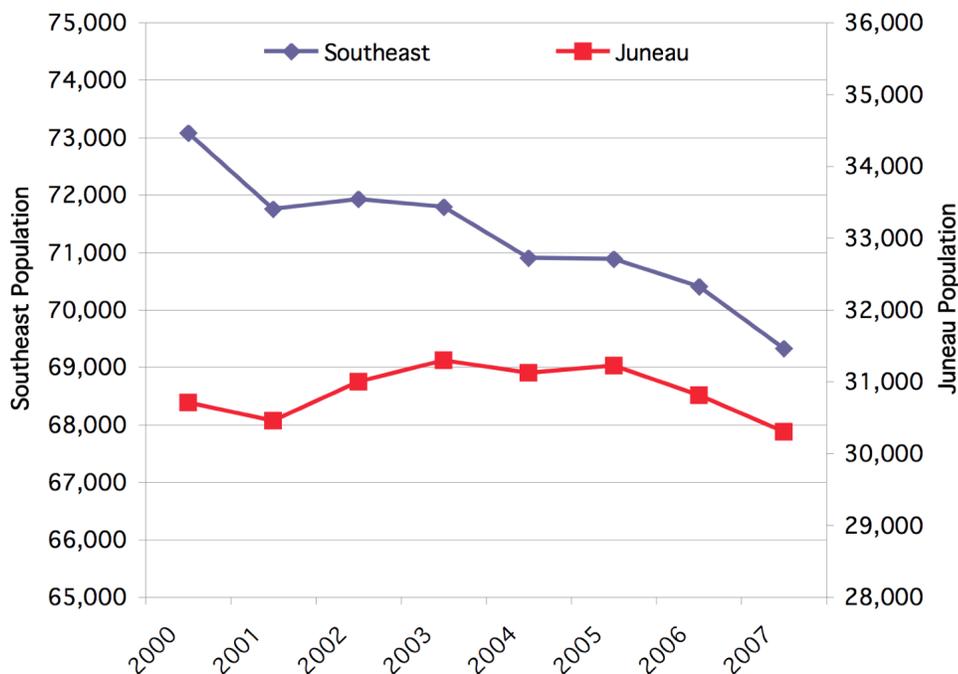
⁸ Bureau of Economic Analysis, Regional Accounts data, local area personal income.

Juneau Economic Indicators

One critical factor to consider when predicting the economic impacts of a change in one aspect of a community's basic economy is the condition of other components of the economy. In other words, is there growth elsewhere in Juneau's economy that can offset some of the decline associated with the loss of state government jobs? In Juneau's case, the answer is generally no.

The community's population has decreased four of the last seven years, to its 2007 population of approximately 30,300. (Southeast Alaska's population is also down, by 5.1 percent since 2000.) A related trend is the change in population by age group: in 1980, Juneau residents aged 15 to 34 accounted for 41 percent of Juneau's population; however, by 2007 that age group accounted for just a quarter of local residents. Juneau public school enrollment declined to 5,042 students in fall 2007, down 119 students from Fall 2006. Since peaking in the 1998-1999 school year, Juneau public school enrollment has declined by more than 12 percent (698 students). (As of October 2008, enrollment stood at 4,856 students, a further decline from fall 2007.) Considering Juneau's demographic age distribution, as well as the number of Juneau births, this downward trend is likely to continue.

Juneau and Southeast Alaska Population, 2000-2007



Source: McDowell Group graph based on Alaska Department of Labor and Workforce Development.

Total wage and salary employment in Juneau has stayed fairly steady over the last six years, with annual increases and decreases in the 1 to 2 percent range. Total employment decreased slightly between 2006 and 2007. After adjusting for inflation, total payroll increased by 7 percent between 2001 and 2007. However, average wages increased by only 3.1 percent during that same time period (again, after inflation adjustments). Per capital personal income increased by 5.1 percent between 2001 and 2006.

The number of new residential dwelling units constructed in Juneau decreased from 158 units in 2006 to 87 units in 2007. This level of construction activity is well below the 1996 peak, when more than 400 residential dwelling units were permitted for construction.

One indicator showing positive signs is gross business sales, which grew 12 percent between 2005 and 2006, and 32 percent between 2000 and 2006 (after adjusting for inflation).

Overall, the data suggests that Juneau's economy is in a period of stagnation, with a few indicators showing slow growth (payroll, income, business sales) and several others showing decline (employment, population, school enrollment, housing construction). Given this economic environment, the consequences of a capital move, or even a legislative move, are potentially severe.

Table 14
Juneau Economic Indicators, 2001-2007

	2001	2002	2003	2004	2005	2006	2007
Population	30,453	30,997	31,294	31,122	31,225	30,811	30,305
Wage and Salary Employment	17,288	17,332	17,464	17,255	17,644	18,028	17,982
State government employment (annual average)	4,444	4,541	4,547	4,348	4,314	4,356	4,249
Unemployment	4.6%	5.3%	5.7%	5.8%	5.3%	4.9%	4.4%
Payroll (nominal) ¹	\$579.9	\$597.8	\$632.4	\$619.7	\$662.4	\$703.1	\$725.9
Payroll (real) ^{1,2}	\$677.2	\$684.9	\$705.3	\$673.7	\$698.8	\$718.7	\$725.9
Average Wages (nominal)	\$33,540	\$34,488	\$36,216	\$35,916	\$37,536	\$38,998	\$40,380
Average Wages (real) ²	\$39,167	\$39,510	\$40,392	\$39,048	\$39,598	\$39,864	\$40,380
Per Capita Personal Income (nominal)	\$35,479	\$34,726	\$35,427	\$36,644	\$39,932	\$42,640	NA
Per Capita Personal Income (real) ²	\$41,431	\$39,783	\$39,512	\$39,840	\$42,125	\$43,587	NA
Total Personal Income (nominal) ¹	\$1,082	\$1,069	\$1,099	\$1,140	\$1,238	\$1,316	NA
Total Personal Income (real) ^{1,2}	\$1,264	\$1,225	\$1,226	\$1,239	\$1,306	\$1,345	NA
Gross Business Sales (nominal) ¹	\$1,236	\$1,255	\$1,374	\$1,458	\$1,611	\$1,867	NA
Gross Business Sales (real) ^{1,2}	\$1,443	\$1,438	\$1,532	\$1,585	\$1,699	\$1,908	NA
Residential Construction (# of new units)	131	127	142	136	110	158	87
Southeast Population	73,082	71,760	71,925	71,796	70,910	70,891	70,405
Southeast Wage and Salary Employment	35,950	35,800	36,350	35,950	36,700	36,900	36,950

Sources: Population, wage and salary employment, payroll, wages, and unemployment are from ADOL. Per capita and total personal income data are from BEA. Construction and business sales data are from the City and Borough of Juneau.

¹ Expressed in millions of dollars.

² Real dollars are adjusted for inflation to 2007 dollars using the Anchorage Consumer Price Index.

Economic Impacts of a Capital Move on Juneau

Introduction

In considering the economic impact of a capital move, it is important to recognize that not all state government jobs would move with the capital. In general, state government employees are performing functions that are either local, regional, or statewide in scope. State employees in Juneau who are providing services just to Juneau residents, such as DOTP&F road maintenance crews, employees in DOL's Juneau Employment Center, and employees at the Juneau Public Health Center, would not leave Juneau with a capital move. Similarly, a number of state jobs in Juneau fulfill a regional function and would not move with the capital. These include the Southeast Regional offices of ADF&G and DOT&PF, for example. Other state enterprises would also stay, such as the Lemon Creek Correctional Center and the Juneau Pioneer's Home.

An assessment of exactly how many jobs would move from Juneau in the event of a capital move would require a comprehensive job-by-job inventory of all state government jobs in Juneau. Throughout the 1980s the McDowell Group conducted this kind of inventory annually, with the last in 1988. That study identified, out of 3,984 state government jobs, 1,273 positions (32 percent of all state jobs) that fulfilled a local or regional function. No more recent inventory is available. However, existing data allows for estimates of the number of jobs performing local and regional functions. The estimates of state government job losses provided in the following analysis are based on data provided by the Department of Administration. That data included employment counts for 239 different "sections" within divisions and departments in state government in Juneau. Based on the function of each of these sections, it was determined if the jobs would move with the capital or not. The results are consistent with the earlier, more detailed research.

Loss of State and Federal Government Employment, Payroll and Spending

State Government Employment and Payroll

Among the 4,249 state government jobs in Juneau, approximately 2,890 would move with the capital; 32 percent, or 1,360 jobs would remain. The loss of 2,890 jobs, and approximately \$134 million in annual payroll, represents a direct loss of 16 percent of Juneau's wage and salary employment and 18 percent of all wage and salary payroll in Juneau. That is the direct loss only; it does not include losses in closely linked sectors (lobbyists, for example) or indirect losses in the local service and supply sectors.

Table 2
Loss of State Government Employment and Payroll
Resulting from a Capital Move

	State Losses	Juneau Total 2007	% Loss from Total
Employment	2,890 jobs	17,982 jobs	16%
Payroll	\$134 million	\$726 million	18%

State Government Spending

In addition to this loss of employment and payroll, Juneau would also suffer from a loss in state spending locally in support of day-to-day government operations. In FY 2008, state government spent \$191 million with businesses and individuals residing in Juneau, not including state employee payroll (approximately \$198 million) or Permanent Fund Dividends (approximately \$41 million). The \$191 million includes grants to social services agencies, spending on construction projects, employee travel reimbursements (much of which is spent outside of Juneau), as well as supply purchases. There are over 5,000 vendors on the list (about half them state employees receiving reimbursements for various expenses).

Table 3
State Government Spending in Juneau, Fiscal Year 2008
Excluding Employee Payroll and PFD Dividends

Classification	Spending
Grants to Local Organizations/Agencies	\$87 million
Capital Outlays	\$52 million
Other Services and Charges	\$39 million
Travel Reimbursement	\$6 million
Supplies	\$6 million
Total	\$191 million
Estimated Loss	\$43 million

Source: Alaska Department of Administration. Loss is estimated by study team.
Note: Column may not add to total due to rounding.

Spending in all of these categories would decline in the event of a capital move, either as a reduction in spending on day-to-day governmental operations (office space leases, utilities, office supplies, office equipment, etc.), or a result of population decline in Juneau. Capital (construction) outlays are driven partly by Juneau's role as capital, but mostly by other indirect factors. Supply purchases would be expected to decline at a rate about equal to the decline in state employment. In the event of a capital move, Juneau professional services providers (architects, engineers, accountants, consultants) could continue to compete for state contracts, but a presence in the capital city is a clear advantage in many cases. Some loss of sales would be expected for these businesses.

Overall, based on previous review of state expenditure data, it is estimated that state spending in Juneau would decline by about \$43 million as a result of a capital move. This is the decline in direct state spending only. It does not include the long-term decline that is likely with a significant population decline.

Federal Government Employment and Payroll

Federal government functions in much the same way as state government in terms of its local, regional and statewide responsibilities. However, the link between function and likelihood of moving with the capital is less clear. Local functions such as post office jobs would not directly be affected by the capital move, but would instead be expected to decline roughly in proportion with population loss resulting from a capital move. Those agencies serving a national function (management of a national resource), such as the Forest Service's management of the Tongass National Forest, may not move with the capital.

A NOAA staff member stated that they would consider moving some staff if the capital were to move, but was not able to say whether a relocation were likely or unlikely; it would require a thorough evaluation.⁹ Due to the uncertainty, no NOAA jobs are assumed to move with the capital for the purposes of the economic impact analysis.

For the Forest Service, the Juneau Region 10 office of 90 to 100 employees would not be expected to move, nor would Juneau Ranger District or Forestry Sciences Lab staff (according to Forest Service staff).¹⁰ However, travel costs would increase significantly to attend legislative hearings and meetings with state employees. The Anchorage USFS would probably have to add a staff person to assist with day-to-day communications with the legislature and commissioners. Over the very long term (10 to 15 years) there could be some pressure to move the regional office. However, because management of the Tongass is the primary responsibility of the Forest Service in Alaska, there would be resistance to a move.

Juneau’s other largest federal employer, the Coast Guard, would also not be expected to move personnel if the capital moves, at least in the near term. Again, as with the Forest Service, there is the possibility that 17th District headquarters could be relocated to a Southcentral location, but with significant established resources in Juneau such a move seems unlikely. According to Coast Guard personnel, “the Coast Guard presence in Juneau is not tied to the state capital location in any manner.”¹¹

While employment with these federal agencies is assumed to remain in Juneau in the event of a capital move, it is likely that other agencies and/or positions within agencies would leave Juneau. These include the Environmental Protection Agency, the Federal Highway Administration, and several individual jobs within other agencies. In summary, it is estimated (conservatively) that approximately 25 federal jobs, and an associated \$2 million in payroll, would move with the capital in the near term. These employment and payroll losses do not include indirect job losses that may result from a population decline, such as with the Post Office. In addition, these impacts would be quadrupled if NOAA were to move its fisheries management staff and attorneys.

Table 4
Loss of Federal Government Employment and Payroll
Resulting from a Capital Move

	Federal Losses
Employment	25 jobs
Payroll	\$2 million

Note: If NOAA were to move its fisheries management staff and attorneys from Juneau, the employment impacts would reach 125 jobs and payroll impacts would reach \$9 million.

As discussed above, over the long term, further federal job losses are possible. This is particularly true if the rate of population growth elsewhere in Alaska outpaces Juneau and Southeast Alaska. If this is case, the incentive to move Forest Service and Coast Guard, for example, will increase.

⁹ Jon Kurland, NOAA, personal communication, October 2008.

¹⁰ Denny Bschor, USDA Forest Service, personal communication, October 2008.

¹¹ Correspondence with Coast Guard personnel, October 2008.

Total Direct Employment and Payroll Losses

Adding losses in state and federal government together, the employment impacts of a capital move totals a direct loss of 2,905 jobs and \$136 million in annual payroll. Not counting any indirect impacts, this represents 16 percent of Juneau’s wage and salary employment and 19 percent of total payroll.

Table 5
Direct Employment and Payroll Losses in Juneau
Resulting from a Capital Move

	Direct Losses	Juneau Total 2007	% Loss from Total
Employment	2,905 jobs	17,982 jobs	16%
Payroll	\$136 million	\$726 million	19%

Multiplier (Direct and Indirect) Economic Impacts of a Capital Move

Direct state and federal government job losses do not tell the whole story of the possible impacts of a capital move. Jobs would be lost throughout the support sector, including in local government, in large and small stores, with health care providers, in the construction sector – virtually every sector of the economy would be affected.

The table below shows the potential losses in employment, payroll, and population, including both direct and indirect losses, in the case of a capital move. Three scenarios are presented. The mid case scenario shows a loss of 5,229 jobs, \$204 million in payroll, and 8,812 residents; respectively, these figures represent 29 percent, 28 percent, and 29 percent of Juneau’s total. The low case scenario predicts losses at 24 percent of Juneau’s total, while the high case scenario predicts losses at 32 percent.

Table 6
Employment, Payroll and Population Losses in Juneau
Resulting from a Capital Move (Direct and Indirect)

	Direct Losses ¹	Indirect Losses	Total Losses	% Loss from Total
Mid Case				
Employment	2,905 jobs	2,324 jobs	5,229 jobs	29%
Payroll	\$136 million	\$68 million	\$204 million	28%
Population ²	4,896 people	3,917 people	8,812 people	29%
Low Case				
Employment	2,905 jobs	1,453 jobs	4,358 jobs	24%
Payroll	\$136 million	\$41 million	\$177 million	24%
Population	4,896 people	2,448 people	7,344 people	24%
High Case				
Employment	2,905 jobs	2,905 jobs	5,810 jobs	32%
Payroll	\$136 million	\$95 million	\$231 million	32%
Population	4,896 people	4,896 people	9,792 people	32%

¹ Direct losses reflect state and federal government jobs and payroll expected to be transferred out of Juneau.

² Population losses reflect Juneau’s average per-capita job rate in 2007 of 1.7 people per job.

Juneau's economy has never been modeled to the level of detail needed to measure indirect impacts precisely. Bearing in mind the fact that it is not possible to precisely predict the indirect impacts, it is the opinion of the study team that multipliers of between 1.5 and 2.0 for employment and 1.3 to 1.7 for payroll reasonably predict the economic effects of a capital move. An employment multiplier of 1.8, for example, means that for every state job lost, 0.8 additional jobs would be lost in the support sector. Similarly, with a 1.5 payroll multiplier for every state payroll dollar lost, another half dollar would be lost in the support sector. These multipliers were determined using previous studies of Juneau's economy and testing with the IMPLAN multiplier model.

Indirect employment and payroll losses will result from the following:

- Decline of local spending of state and federal government worker payroll (\$136 million, though not all of this is spent locally), affecting all sectors of the economy.
- Decline of local spending (in addition to local payroll dollars) by the State of Alaska in support of day-to-day government operations (state government purchases of goods and services from Juneau businesses).
- Decline in local spending in hotels, restaurants and elsewhere by business travelers visiting Juneau to conduct state government business.
- Decrease in demand for virtually all basic services as a result of population loss, including schools, the hospital and other health care providers, professional services firms, etc.
- Decline in the local sales and property tax revenues, affecting the City's ability to provide basic services, such as road maintenance, recreation, public safety and EMS services – essentially all aspects of local government services would be affected.

With the loss of nearly 30 percent of population and wages, many support businesses could drop below a threshold that allows them to remain in business. For example, suppose a large retailer, one that employs 100 workers, experiences a 10 percent decline in sales. As a cost-saving measure it could reduce its employment by 10 or 15 employees, for example, and stay in business. However, if the same retailer experiences a 25 percent decline in sales, no amount of layoffs would allow it to stay in business, and all 100 employees are out of work. These and other types of impacts are explored further in the following section.

Impacts on Costs and Availability of Goods and Services

Transportation

Transportation costs for people and freight will almost certainly increase – an impact of particular gravity in Alaska, where transportation is a major factor in the cost of living. The economics are simple. Significantly less volume to and from Juneau means higher unit operating costs for transportation service providers. This in turn translates to higher rates and less service because Juneau will be a less lucrative and less efficient market.

The discussion below focuses on Juneau-related impacts; region-wide transportation impacts are addressed in the following chapter.

COMMERCIAL AIR SERVICE

Government in Alaska is generally travel-intensive, with frequent use of commercial air service. Most state and federal agencies serve populations beyond the local area. This is true whether the state and federal offices are located in Juneau, Fairbanks, Anchorage or Kodiak. Comparing Juneau to Sitka, for example, Sitka averages about 8.6 enplanements per resident, or 74,500 departures for 8,600 people in 2007.¹² The Ketchikan International Airport reported 111,000 enplanements for 2007, for a per capita rate of 7.9. Juneau, by contrast, averages 9.8 enplanements per capita.

Accounting for the loss of population, higher paying government jobs that allow more disposable travel income, and travel-intensive government as the primary industry, the study team estimates a decline of about 40 percent in Juneau mainline enplanements as a result of a capital move. An estimated 30 percent of this loss would be the result of the losses of population and higher-paying government jobs. An additional 10 percent would be due to the loss of travel-intensive government as the primary industry. The remaining Juneau population and economy would have a per capita enplanement rate similar to that of Sitka and Ketchikan. This means Juneau mainline traffic would drop from the current 300,000 annual mainline enplanements to about 180,000.

Alaska Airlines would have to adjust to the lost demand by decreasing service frequency and increasing fares. The airline has many fixed costs in the region; with a substantial revenue loss, the only alternative is increased airfares. While the airline's position at the time of the study is a wait-and-see in regard to changes in service or fares, it will be a business imperative to significantly decrease service and increase fares for the whole region when facing a loss of tens of millions of dollars in revenue.

Specific financial data is not available for the value of the Juneau market to the mainline carrier. However, some simple assumptions provide an approximate estimate of airline revenue loss due to a capital move. Alaska Airlines revenue from Juneau alone is estimated by the study team at about \$125 million.¹³ If the loss in passenger load (40 percent) translates directly to a similar loss in revenue, it suggests a potential revenue loss of \$50 million.

In summary, impacts on commercial air service in Juneau would likely include:

- Fewer flights
- Higher airfares
- Loss of revenue to Alaska Airlines

COMMUTER AIR SERVICE AND AIR FREIGHT

Juneau offers commuter air service to Haines, Skagway, Gustavus, Hoonah, Elfin Cove, Pelican, Angoon, Tenakee and Kake. All of Juneau's commuter air carriers would be impacted by a capital move:

- Residents of surrounding communities would have less reason to travel to Juneau, both for state-related purposes and for shopping trips, as large retailers are likely are close (see following section).

¹² US Bureau of Transportation Statistics.

¹³ This assumes each of the 280,600 mainline, revenue-generating enplanements represents a \$450 airfare. This fare reflects average published fares to Seattle and Anchorage (which respectively represent 54 and 29 percent of Juneau departures according to 2007 Bureau of Transportation Statistics data).

- As with commercial air service, the loss of population would translate into less frequent and more costly service.

Likewise, air freight would be impacted by the loss of population and associated loss of flight service and cost increases.

FERRY SERVICE

Juneau is the hub of Alaska Marine Highway operations and is by far the largest volume port. Juneau departures accounted for 29 percent (72,876 passengers in 2007) of the entire Southeast system passenger volume of 249,310 in 2007.¹⁴ This is twice the volume of the second and third leading ports (Ketchikan and Haines, which received 14 and 13 percent of Southeast traffic, respectively). A loss in Juneau's population will translate into decreased usage of the ferry system, in turn leading to a loss of service and increased fares for passengers, vehicles and freight.

The AMHS will be forced to raise rates for passengers, vehicles and freight, and decrease service frequency. The scale of the service reductions and fare increases that would result from a capital move can only be estimated at this time. Assuming a 29 percent loss in Juneau's population and a 28 percent loss in the community's wage and salary income, AMHS revenue could decline by approximately 8 percent, since Juneau traffic is 29 percent of the regional total. However, decreased service and increased cost will have a compounding effect over time as current customers either leave the region (Juneau residents being transferred or losing their jobs) or reduce or eliminate their use of the system because of cost and service issues.

BARGE SERVICE

Barge service brings the bulk of Juneau's retail, automotive, building material and other essentials of business and household life. According to personnel at one of Juneau's two barge services, service frequency could potentially be cut in half in the event of a capital move, and rates would almost certainly raise to make up for the loss in volume. The increase in rates would in turn have an inflationary effect on Juneau's retail prices, including items such as vehicles, clothing, and groceries.

Utilities and Energy

Utilities are largely fixed-cost enterprises. A significant loss of revenue resulting from losing 29 percent (mid case scenario) of the household and commercial customers for electricity, fuel oil, water and sewer, refuse, phone service and cable TV utilities must be spread among the remaining population. The US Department of Agriculture uses a "standard utility figure" of \$400 monthly for Southeast Alaska (not including cable TV).¹⁵ (This figure likely understates the current average due to recent fuel price increases.) Monthly utility expenses can be expected to increase substantially. The infrastructure for these utilities, and the costs of operating and maintaining it, cannot be shrunk to compensate for revenue loss. Again, the remaining household and business population will have a lower ability to pay their current rates, much less the increased rates that will result.

¹⁴ *Alaska Marine Highway Annual Traffic Volume Report 2007* published by the Alaska Marine Highway System for the Alaska Department of Transportation and Public Facilities.

¹⁵ <http://www.fns.usda.gov/FSP/rules/Memo/SUAAalpha.htm>

Health Care

Health care services are one of the fastest growing and most important parts of today's society and economy. The current Juneau health care industry – anchored by Bartlett Regional Hospital – is economically scaled to accommodate the current population of 30,300 that is characterized by excellent health insurance coverage due to government benefits policies. The loss of population, income and insurance coverage that would result from a capital move would have many negative impacts. Health care impacts would include:

- Significant increases in the cost of medical services of all kinds, especially hospital services.
- The increased cost, risk and time for going “outside” to secure medical services no longer available in Juneau.
- Loss of many specialized medical services that are scaled to an insured population of 30,300, not to a less insured population of 20,000 or less.
- Closing of the single local alcohol and drug rehabilitation facility, and increasing cost for treatment by having to go outside Juneau.
- Possible closing, or at least the increased cost, of Juneau's acute care facility for the disabled.

Retail

The scale of Juneau's retail operations is substantial, including 2,100 jobs (2007, DOLWD) and \$320 million in gross sales (2006, CBJ). Beginning in the 1990s, Juneau's cost of living was lowered by the entry of major retail chains including Costco, K-Mart and Fred Meyer. In the last several years Home Depot also opened, and the closing of K-Mart was offset by the arrival of Wal-Mart. Further, the growth in the Juneau market size has increased competition as well as the selection of goods and services available through the retail sector.

With significant population loss and even greater loss in disposable income due to a capital move, the Juneau retail sector will react by raising prices, decreasing inventory and, in some cases, ceasing operations. It is likely that two, and possibly three, of the four major chain retailers will close. Further, remaining retailers will have to compensate for increased freight rates, decreased frequency, and lower demand by raising prices and decreasing selection.

Closure of retail stores and higher prices will lead to remaining residents spending more of their retail dollars outside of Juneau, through online retailers or when traveling. Juneau will also lose a significant amount of revenue associated with retail shopping by residents of outlying communities. With fewer retail options in Juneau, other Southeast residents will instead shop in their home communities or outside of the region altogether. (Impacts on outlying communities are addressed in the following chapter.)

Impacts on Basic Industries

The basic sector of Juneau's economy includes businesses and organizations that provide a product or service to an outside market and draw new money into the community (seafood, tourism, mining, and manufacturing, for example). The support sector re-circulates the money that these basic industries draw into the local economy (grocery, clothing, hardware and other stores, banks, gas stations, the City and Borough

of Juneau, and the school district, for example). Changes in the basic sector will have an impact – a “ripple effect” – on the support sector, both in the short-term and long-term.

The following discussion addresses impacts of a capital move on Juneau’s basic industries of tourism, federal government, and mining. See the “Role of State Government” chapter for a more detailed discussion of Juneau’s basic and support sectors.

Visitor Industry

A capital move would negatively impact the visitor industry in several ways.

- Lodging establishments would lose a substantial amount of business resulting from the legislative session and other state-related activity. Without this important source of off-season revenue, many would be forced to close.
- The loss in lodging would have a downward influence on the independent summer visitor market, as occupancy is currently very high; capacity will no longer meet the demand, and visitors will go elsewhere.
- Similarly, some rental car companies, restaurants, and other hospitality services that rely on out-of-town state workers and legislative-related visitors will be forced to close as state-related business is lost. The independent visitor market will have fewer options and reduced service levels.
- Another downward influence on the summer visitor market will be increased airfare prices (discussed above), resulting from a loss in population and decreased travel among residents.

Seafood

A capital move could negatively impact the seafood industry in several ways.

- If air and barge traffic were significantly reduced by a capital move, access to cost-effective seafood freight transportation would decline. Frequency and cost of fresh and frozen seafood transportation is a critical factor in the current economic success of Juneau processors. This is especially the case of the several million pounds of high-value fresh seafood currently flown from Juneau annually.
- The moderate cost of Juneau’s electrical power generated primarily by hydro electric means is also critical to the feasible operation of Juneau’s major processors. An increase in electrical costs (likely stemming from population loss) could endanger the continued operation of processors in this low-margin industry.
- Infrastructure costs, particularly harbor fees which are currently the region’s highest, would also increase significantly with a population loss and the reduction in both pleasure and commercial fleets.
- Many seafood families also benefit from capital-related employment opportunities for spouses and other family members. Were these supplemental income sources lost, it is likely that many harvesting families would need to re-locate.

Mining

A capital move would not directly impact operations at the mine, although costs for goods from Juneau to supply the mine could increase if prices in Juneau increase due to a loss of economy of scale. The future promise of reduced electric power, once linked to Juneau's grid, would be gone.

The supplemental income of capital-related employment opportunities has been shown to be important to mining households in previous McDowell Group studies of mining industry impacts.

Other Economic and Quality of Life Impacts

Real Estate

A capital move would have immediate and severe impacts on the value of residential and commercial property in Juneau. According to the Department of Administration, the State of Alaska leases 427,000 square feet of office space in Juneau. With a capital move, many office buildings in Juneau would be left empty and virtually valueless.

Residential property values would drop dramatically. With a population loss of 8,800 residents in the mid-case scenario, there would be a flood of around 3,400 homes and rental units into the market (based on the 2000 Census average household size of 2.6). The exodus of population would devastate the value of the major financial asset of the 64 percent of Juneau families who own their own homes (based on 2000 Census housing data). Mortgage payments remain the same regardless of market value of the housing. Current homeowners, including state employees moving with the capital, would be unable to sell their houses.

During the 1987-88 recession, Juneau property owners lost \$250 million in assessed valuation, a 20 percent decline overall. That recession included the loss of about 10 percent of Juneau's labor force and about 6 percent of its population. With a capital move, Juneau property owners could lose well over a billion dollars in housing value out of a total 2007 valuation of \$2.4 billion (CBJ).

Renters would experience lower housing costs. However, when an economy declines, people living in rental housing are most affected because they tend to have lower incomes, less secure employment, and jobs most affected by economic decline.

Banking Industry

Juneau is the region's most important banking center and is estimated to account for nearly one-half of Southeast Alaska's banking activity. The loss of a major portion of the Juneau deposit base – which drives all banking activity – and the destabilization of the loan portfolio in the region's largest market would have dramatic effects on the banking system. The portfolios of the two regional banks would be most affected. Likewise, the statewide and national banks in the community (holding over one-half of the city's deposits and loans) would essentially cease credit activity. Credit markets – the financial lifeline of all of Juneau's business and real estate activity – would disappear.

The value of assets held by banks for collateral – buildings, land, equipment, inventory and homes – would be devastated, causing crippling losses to smaller banks and severely damaging the balance sheets of even the major institutions. Likewise, the loss of the ability of businesses and households to make loan payments would create an unacceptable level of defaults and resulting foreclosures for which there will be no aftermarket.

There would be a lockdown on lending while the banks cope with the destabilization of their portfolios. (Federal regulations are strict about the proportion of a bank's loan portfolio that can be classified as troubled. The anticipated destabilization of the Juneau portfolios would far exceed any allowable loan loss rate.) Either fewer loans would be available, or the banks would have to find new, probably more expensive, sources of money for lending.

This analysis does not include the impacts of the current national economic crisis and its significant negative impacts on even the most successful national, statewide and regional banks. Recovery of the American banking system is likely to involve a period of years rather than months. A significant reduction in state employment in the Juneau economy, much less a capital move, could have critical impacts during this period of vulnerability in the financial sector of the economy.

Cost of Living

Several factors will conspire to increase the cost of living and to devalue major personal and business assets in the event of a capital move. Were the Juneau population to decline by 29 percent and payroll by 28 percent, the resulting loss of income for all parts of the economy will have largely negative effects for the remaining community in regard to cost of living. These include transportation, housing, utilities, retail, health care, social and non-profit services and quality of life issues such as funding for the arts. They will all increase simply because Juneau will be a smaller, poorer, less efficient, and less remunerative market to serve.

Further, Juneau represents 43 percent of the regional population and 49 percent of regional employment (2007). A 29 percent decline in Juneau's population (mid case scenario) will have significant cost-of-living implications throughout the region. For example, increases in the cost of transportation of all kinds will occur, accompanied by a loss in service frequency.

Finally, because the jobs that will be lost will be stable, year-round government jobs, the average income of the remaining households will be significantly lower than Juneau's current level. This means the remaining population will have less financial ability to cope with the increased costs of living that will result in the event of a capital move. As Juneau's primary industry, government provides ample employment opportunities for both adults in a typical household. As a result, Juneau has the highest labor force participation rate in the state. With the loss of government jobs, fewer households will have two incomes, resulting in less ability to deal with their current obligations, plus the increased cost of living that will result.

Non-Profit Organizations and Services

Juneau is an exceptional community when it comes to the number, variety and impacts of its non-profit sector. This sector has become a major part of the economy, attracting tens of millions of dollars in contributions and grants and providing income for hundreds of households through employment and contracting. A few examples are, Hospice and Home Care, American Red Cross, Boy and Girl Scouts, United Way, Catholic Community Services, Wildflower Court, The Glory Hole, St. Vincent DePaul, Salvation Army, Perseverance Theatre, Juneau Arts and Humanities Council, REACH, and Alaska Folk Festival. The list goes on to well over one hundred organizations that care for the people of Juneau and Southeast Alaska, making their lives better in many ways.

These organizations are dependent primarily on two factors – the generosity of the Juneau population in a stable government-based economy, and the Juneau market for their service. Millions of dollars are raised for

these charitable services from Juneau households and businesses. In the event of the losses associated with a capital move, many of these organizations would lose their charitable support and reduce or eliminate services as a result of income losses.

Per capita charitable contributions would fall because the remaining population would have less financial ability to contribute than the current population. Compounding this, the need for charitable services would increase as the remaining population deals with the severe economic and social dislocation associated with the loss of 29 percent of the community's population (mid case scenario).

Political Impacts

One consequence of a capital move is further reduction in political influence for the Southeast region, and especially for Juneau. The region is expected to lose 13 percent and Juneau 29 percent of their populations in the event of a capital move (mid case scenario). Constitutional guidelines require that House and Senate districts reflect approximately equal population groups throughout the state. Because other areas of Alaska – especially the Anchorage and Matanuska-Susitna areas – have grown more rapidly than the Southeast region, this region is gradually losing relative political strength. A capital move will accelerate that loss of political power.

If Juneau (and the region) were to lose 8,800 people due to a capital move (mid case scenario), the political cost is clear: assuming the Anchorage/Mat-Su region gained the population that Juneau lost, Juneau and the region could lose one house district and the Anchorage/Matanuska-Susitna region would gain one. In addition, the Southeast region may lose one Senate seat as well, depending on population trends in Alaska by the time of the 2010 U.S. Census.

Political Impacts on All of Alaska

A second political impact of a capital move and the population shift it would create is significant and far-reaching, not only for Juneau and Southeast Alaska but for all other regions of the state as well. With the 2000 U.S. Census and subsequent redistricting, Anchorage now has 17 districts (up from 16) and the Matanuska-Susitna area retains three districts, for a regional total of 20, or exactly one-half of all house seats. The certain shifting of one house seat and probable shifting of one Senate seat to the Anchorage/Matanuska-Susitna region as a result of a capital move provides this region with a majority of legislators. Thus, a capital move turns all the rest of Alaska into a political minority. This implies a very significant shift in political power beyond the simple impact of actual numbers.

This shift in turning the rest of the state into a political minority reduces and theoretically even eliminates the need for geographic coalitions in the Alaska legislature. A major method for political minorities to gain some budget allocation power to the benefit of their districts is to participate in coalitions. The most common in recent years, of course, has been coalitions of members of opposing political parties, but even these are really geographic coalitions. In less recent history Southeast Alaska joined rural Alaska to create a majority geographic coalition and gained influence in budget allocations for the rural regions of the state. The Railbelt coalition of recent years became the flip side of that Southeast/rural coalition and this Railbelt coalition now allows primary urban interests to dominate the budget allocation process.

With an Anchorage/Mat-Su majority, former Railbelt coalition participants Fairbanks and the Kenai Peninsula, as well as Southeast and rural reaches of the state, could suffer budget allocation shortfalls.

Summary of Impacts on Juneau Households

Although each Juneau household would feel the impact of a capital move differently and to varying degrees, following is a summary of the ways households could be affected by a capital move.

Employment and Income

- Loss of job opportunities, both with the State of Alaska and with support sector employers
- Substantial loss of household income due to job losses
- Decrease in average wages in basic and support sectors
- Decrease in business owners' income due to higher costs and population loss

Costs

- Increased cost of air tickets
- Increased cost of ferry tickets
- Increased cost of barge service
- Increased cost of retail items, including groceries, clothing, furniture, vehicles, and building materials
- Increased utility costs (electricity, water, phone, cable, oil, refuse, etc)
- Increased health care costs, including travel costs for seeking health care outside of Juneau due to fewer professionals and increased service costs due to lower levels of insurance
- Increased cost of recreational activities and facilities
- Increased burden of supporting churches and other privately supported social institutions

Service

- Less frequent air, ferry and barge service
- Decline in health care service: loss of facilities, fewer professionals
- Decline in retail variety and availability due to closing of major retail chains as well locally owned small businesses
- Decline in educational opportunities due to fewer teachers and smaller budgets
- Decline in social services, including fewer programs and lower quality of service

Social Support

- Loss of friends and family (as part of population loss)
- Loss of churches, recreational programs, and social networking clubs

Family Finance

- Loss in ability to meet basic household finance needs of mortgage payment, rent payment, groceries, etc.
- Devastating loss in home values for all Juneau homeowners
- Increase in foreclosures and bankruptcies for households losing state or support sector employment
- Loss of credit markets for households and for business families

Public Sector Support

- Decrease in level of representation in Alaska Legislature
- Shrinking of local government share of state budget.

Impacts of a Capital Move on Southeast Alaska

Introduction

While the focus of this study is on the community of Juneau, significant impacts would be felt throughout the region. To put the capital city's role in the region in perspective, Juneau accounts for:

- 43 percent of regional population
- 47 percent of regional personal income
- 49 percent of regional wage and salary employment
- 53 percent of regional wage and salary earnings.¹⁶

The capital city is the retail, service, transportation, professional service, supply, medical, and government center for much of the region. Smaller communities, particularly in the northern portion of the region, rely on Juneau in its current economic size and diversity as their source of many goods and services. Ketchikan plays a similar role in southern Southeast Alaska.

In general, the closer the community geographically, the more important Juneau is economically. However, in transportation and government matters, Juneau is important even to the more distant ones. Study results in this document plus findings of numerous other McDowell Group studies in the region show significant economic ties with Skagway, Haines, Gustavus, Hoonah, Elfin Cove, Pelican, Angoon, Tenakee and Kake. Petersburg and Sitka also have some economic relations with the capital city. In the southern portion of the region, Ketchikan is more significant as a regional center, especially to Wrangell, Metlakatla, and Prince of Wales Island communities.

In general, a smaller, poorer Juneau means higher costs, a decline in service frequency, and fewer goods and services available to much of the Southeast region.

Impacts on Regional Transportation

Mainline Air Service

Mainline air transportation service frequency and cost for Ketchikan, Wrangell, Petersburg, Sitka, Gustavus and Yakutat (and Cordova though it is not considered part of the region) are heavily predicated on Juneau service requirements. Nearly every Alaska Airlines flight – both northbound and southbound – stopping at these six communities transits Juneau.¹⁷ This is so the flights can benefit from the substantial passenger and flight volume generated by the Juneau economy and population, allowing higher frequency of service to locations that, by themselves, do not warrant the current level of service. In short, it is more economically attractive to pick up an additional 30 passengers in Sitka with a 737-400 aircraft if the plane already carries 80 Juneau passengers bound for Seattle.

¹⁶ Population, employment and earnings figures derived from Alaska Department of Labor and Workforce Development data for 2007; personal income figures from Bureau of Economic Analysis data for 2006.

¹⁷ There is one exception to this rule: Ketchikan has a stand-alone flight in the summer season.

In 2007, Juneau International Airport enplanements accounted for 63 percent of total traffic in the seven regional communities served by Alaska Airlines.¹⁸ The community with the second-highest traffic (Ketchikan) accounted for only 17 percent.¹⁹ The estimated loss in Juneau traffic (120,000 mainline enplanements, discussed in the previous chapter) would translate into a 20 percent loss in regional enplanements. If only modest secondary impacts are added to the direct impacts on Juneau volume, a capital move could easily drop total regional mainline air traffic and revenue by one-third. In addition, this drop in traffic could shift more of the cost of airport maintenance to local taxpayers.

The possible exception to service loss could be Wrangell, Petersburg and Yakutat, which have Essential Air Service designations (a subsidy is paid to allow for daily service to these small markets that is not justified by traffic volumes). However, these communities would still be subject to fare increases. As in the rest of the region, even this service is Juneau-dependent as all flights are routed through Juneau to pick up essential revenue from that market.

The impact of a capital move on air service in the region is especially an issue with fresh seafood and the independent visitor industry. A capital move would mean less en route airfreight capacity for the seafood industry in all seven mainline communities. Ketchikan, Wrangell, Petersburg, Sitka, Juneau and Yakutat all have significant volumes of seafood air shipments totaling in excess of 15 million pounds annually, according to Alaska Airlines in a 2007 study for Southeast Conference. Even with current levels of service, airfreight capacity is especially limited in summer.

The primary source of the independent visitor market in Southeast Alaska (which totals nearly 200,000 visitors spending tens of millions of dollars) is air travel. Even at current levels of service, visitors have some trouble booking their preferred dates due to high load factors to en route communities such as Sitka. Given the decrease in service frequency and the increase in airfares in the region, independent tourism will be negatively affected. Service frequency, ease of booking, and access cost all play a large part in the success of independent tourism in Alaska.

In summary, impacts of a capital move on mainline air service to the balance of the region – Ketchikan, Petersburg, Wrangell, Sitka, Gustavus and Yakutat – will include:

- Higher air fares and air freight rates
- Decreased service frequency
- Increase in the cost of living due to airfreight cost increases
- Decreased availability of goods flown in by air
- Decreased capacity and increased cost for tourism to these communities
- Decreased air freight capacity for outgoing products such as seafood

Commuter Air Service

The major commuter air carriers in northern Southeast Alaska base their operations in Juneau. The demand from Juneau residents, regional residents transiting or traveling to Juneau, and visitors is centralized at Juneau.

¹⁸ US Bureau of Transportation Statistics.

¹⁹ Alaska Department of Transportation and Public Facilities.

Haines, Skagway, Gustavus, Hoonah, Elfin Cove, Pelican, Angoon, Tenakee and Kake are the communities serviced by commuter air via Juneau.

The overall result of a capital move will be increased cost and decreased service for all of these communities. A smaller, poorer Juneau will lower demand for travel to these locations.

Impacts on other regional communities as a result of the capital move will be:

- Decreased commuter air service
- Increased cost of passenger fares and air freight rates
- Decreased availability of goods flown from Juneau by air

Marine Transportation

Juneau is the Alaska Marine Highway System hub for the region as well as the largest-volume destination for barge service in Southeast Alaska. In the case of both AMHS and barge service, the volume destined for Juneau and transiting Juneau subsidizes and enhances service to lower volume ports. These ports would otherwise not justify either their current service frequency or rate structure. If business volume and revenue generated by Juneau was significantly reduced as the result of a capital move, AMHS and barge operators would consider adjusting service frequency and rates to compensate. The AMHS would be economically and politically mandated to do so and barge operators would need to respond economically.

ALASKA MARINE HIGHWAY SYSTEM IMPACTS

As discussed in the previous chapter, Juneau acts as the regional hub for the Alaska Marine Highway, accounting for 29 percent of traffic in the region. The AMHS has four modes of operation where Juneau plays an important role:

- Mainline service, where larger vessels stop at all major Southeast Alaska ports (Ketchikan, Wrangell, Petersburg, Juneau, and Sitka, as well as the smaller community of Kake), completing circuits of the region from Prince Rupert and Bellingham in the south to Skagway and Haines in the north. Juneau is the largest volume port both northbound and southbound.
- Day-boat service in summer connecting Juneau with Haines and Skagway to the north and Sitka to the west. The purpose of this service is to enhance seasonal access to Juneau and Sitka for visitors and residents.
- Rural, home-port service for smaller communities in the northern Southeast Region, connecting Juneau with Hoonah, Pelican, Angoon, and Tenakee.
- Cross-Gulf service, operated in the summer, in which the Kennicott travels from Prince Rupert to Juneau and then across the Gulf of Alaska to Whittier in Prince William Sound with occasional stops in Yakutat.

In each case Juneau is the largest generator of traffic and revenue for the AMHS. Unfortunately, the AMHS is already under severe budget and political pressure to enhance revenues and reduce costs. If revenue falls, which it certainly would in the event of a capital move, the AMHS has no alternative but to reduce or eliminate service to smaller volume ports and raise rates to compensate for the revenue loss. Smaller volume ports means every port of call in the regional system.

A smaller and poorer Juneau, with less frequent and more expensive AMHS service, would be felt particularly by the rural communities in the region. Juneau's retail and service sectors will shrink significantly in the event of a capital move, offering fewer alternatives at less attractive prices to rural residents already plagued with high living costs and poor local availability. This factor, plus the increased cost and decreased service by the AMHS, means fewer trips to Juneau by rural residents, thus compounding the revenue loss to the system. The rural communities already generate the least revenue relative to service expense and are targets for service reductions. However, the rural communities are the most dependent on the AMHS as their economic lifeline for freight and travel for business, personal, medical, educational and household purposes. The consequences of less service and higher rates are significant to these communities.

The AMHS plays a key role in the regional tourism industry, carrying a significant portion of the region's valued "independent" visitors (especially those in RVs, other personal vehicles and independent motorcoaches) to, from and within the region. While all communities have some dependence on the AMHS for their local tourism industries, Haines, Skagway and Ketchikan are especially vulnerable because of the high volumes and important dollars brought to these communities by the AMHS. In the event of a capital move, AMHS will likely be mandated to reduce service frequency, change some service routings, and increase fares. All of these will have a significant negative effect on the AMHS-related independent visitor market in all the region's communities. In the Alaska visitor market, ease, frequency and cost of access is the primary determinant of visitor volume to each regional community.

In summary, the probable impacts of a capital move on regional Alaska Marine Highway service include:

- Reduced service frequency at all ports
- Altered routings
- Increased passenger, vehicle and freight rates
- Negative impacts on independent visitor market
- Reduced service or terminated service at low volume ports
- Reduced or terminated service during low volume/low revenue months (October through April)

BARGE SERVICE IMPACTS

Juneau is the largest-volume and highest revenue port for barge service in the region. As in the case of both air service and AMHS service, Juneau business is a major economic motive behind the service frequency and rate structure the balance of the region experiences. Frequency of service to surrounding communities could be cut in half with a capital move, according to a local barge operator. Rates would also be likely to increase.

Impacts on Retail Trade and Services Provided to the Region

Retail

Juneau is the retail center for the northern Southeast region. Interviews with major chain retailers show residents of other regional communities utilize Juneau's retail community both through shopping while visiting Juneau and by calling in orders for shipping to outlying areas. This accounts for 10 to 15 percent of their volume.

Major retail managers interviewed report 85 to 90 percent of their volume is Juneau-based. An estimated 30 percent loss in population and payroll (mid case scenario) will have dramatic and perhaps fatal impacts on both major and smaller retailers. Costco, Wal-Mart and Home Depot, in the opinion of the study team, are certain to close, and the largest volume retailer, Fred Meyer, would most likely reduce staff and inventory. The closing of major stores, reduction of inventory selection in others, and the inevitable raising of prices to compensate for lost volume will have the following effects on the balance of the northern portion of the region. Residents of Skagway, Haines, Hoonah, Gustavus, Elfin Cove, Pelican, Angoon, Kake, Petersburg and even Sitka (which doesn't have major chain retailers) will experience negative impacts.

- Higher prices for both household and business purchases in Juneau stores
- Decreased selection
- Decreased competition

Wholesale trade is also affected. Wholesalers and major retailers in Juneau ship goods to businesses, non-profit and government entities throughout the northern half of the region. Higher prices and less selection will increase the cost of living in the smaller communities and result in seeking alternative sources for some goods, probably from as far away as Seattle.

Services

Medical and professional services currently available in Juneau to other residents of the region will be affected. A number of improved services – such as medical specialties, new medical technology, and substance abuse treatment – will not be supported in their current form by a smaller, poorer Juneau. Regional residents who now utilize these services will be affected by their loss and be required to go to medical facilities in Anchorage and Seattle, at greater inconvenience and expense.

Juneau is the professional service center for the northern half of the region. Legal, accounting, consulting, engineering, architecture and other professions based in Juneau provide services for businesses, individuals, non-profit and government entities in many regional communities. While these services will still be available to some degree, the variety of services, specialization and range of choices will be reduced for the region.

Impacts on Social Services to the Region

As Southeast's largest population center, Juneau serves not only as the region's business hub, but also its social services hub. A drastic decrease in Juneau's population and economy would have serious effects on the levels of social services in other Southeast communities, particularly those in northern Southeast. Several factors contribute to this potential downturn. One is, many organizations have Juneau-based staff that occasionally travel to outlying communities to deliver services. With reduced staffing levels in Juneau due to population decreases, these services would likely shrink or stop altogether. In addition, many local groups count personal and corporate donations as a major source of income. With fewer people and businesses contributing to their budgets, groups will have to cut services to *all* of the communities they serve.

The most important reason for a potential downturn in services is the funding imbalance among communities. In the case of some non-profit service agencies, over 90 percent of their charitable contributions for the entire region are generated in Juneau alone. For many agencies and organizations, funds

raised in Juneau from both personal and corporate contributions are used to service both Juneau *and* outlying communities. It would be difficult for these groups to raise enough money in other towns, particularly those with suffering economies, to pay for the services provided to them. A downturn in Juneau's population and economy would translate directly into a downturn in services to these smaller communities. Examples of services that would be reduced or eliminated are adult education services, health care expense assistance, emergency relief and shelter, youth environmental education, and youth outreach services such as Boy Scouts.

Regional Banking Industry Impacts

Juneau is estimated to account for nearly one-half of Southeast Alaska's banking activity; any impacts on Juneau's banking industry will certainly reverberate throughout the region. The local-level impacts discussed in the previous chapter will apply to the surrounding communities, although to a lesser extent. Juneau's deposit base subsidizes loans in other communities – either fewer loans would be available, or the banks will have to find new, probably more expensive, sources of money for lending. Banks with portfolios concentrated in the region would be weakened more than their larger national and statewide competitors. However, all financial institutions currently operating in the region – whether national, statewide or regional – would tighten credit availability in the region, further restricting total regional economic activity in the event of a capital move.

Migration of State Positions from Juneau

Introduction

Under normal circumstances, a moderate number of state positions are transferred among locations as departments and agencies adjust to shifts in work demands and in statutory responsibilities resulting from legislative initiatives. Historically for Juneau, these transfers have tended to balance out as documented in the decade-long study series ending in 1988, *State and Federal Government in Juneau*. However, in recent years, as this chapter documents in detail, the accelerated transfer of positions away from Juneau – especially high-ranking management and executive positions – has created a significant net loss to the Juneau economy and an apparent unofficial erosion in the role of the Capital City.

Methodology

The Alaska Department of Administration, Division of Personnel, provided the study team with detailed information on positions transferred to and from Juneau during the 28-month period from May 2006 to August 2008. For analysis, the data are divided into four equal 7-month periods. The time period was determined by internal State of Alaska reporting limitations that allow only for examination of transferred positions from May 2006 forward.

A second data source used in this chapter is Alaska Department of Labor & Workforce Development (ADOLWD) annual average State employment covering the period 2002 (the date of the previous *Capital Economy* study) and 2007. Readers should understand that ADOLWD data measures actual employment in filled positions and does not capture vacant budgeted positions. In other words, the loss of temporarily vacant positions is not detected in official Juneau State employment data. The loss of vacant positions is *in addition* to the official ADOLWD employment records.

Note: Exempt employees serve at the discretion of the Governor and are not subject to regulations that apply to Classified employees.

Key Findings

- Over the 28-month period of May 2006 to August 2008, Juneau experienced a net loss of 87 state positions. Of these positions, 76 went to Anchorage. (Data on transfers earlier than May 2006 was not available from the State of Alaska.)
- Most positions relocated to or from Juneau during the study period were considered vacant at the time they were moved, including 85 percent of the jobs that moved to Juneau from Anchorage and 78 percent of positions being moved to Anchorage from Juneau.
- Classified service position transfers from Juneau to Anchorage were much more likely to be vacant at the time of transfer (85 percent were vacant) than exempt positions (33 percent were vacant).
- Position transfers from Juneau to Anchorage appear to have accelerated since December of 2006. In the prior seven-month period of May-November of 2006, 27 Juneau positions went to Anchorage, increasing to 46 and then 40 over the next two comparable time periods starting in December 2006.
- Transfers from Juneau to Anchorage tended to be higher-ranking management, executive and policy-making positions, including six department commissioners. Anchorage received 20 positions at the top pay ranges of 27 and 28, compared to only five moving in the opposite direction from Anchorage to Juneau. Likewise, 13 range 8-to-11 lower support-level positions were moved to Anchorage in exchange for only two similar Anchorage-to-Juneau transfers. Transfers to Juneau from Anchorage tended to be more in mid-level classified service positions.

State Positions Relocated From and To Juneau

From May of 2006 through August of 2008, 198 State positions were relocated away from Juneau and 111 State positions were moved to Juneau, for a net loss of 87 State positions from Juneau over that 28-month period. Anchorage gained most of these former Juneau positions. State position exchange specifically between Juneau and Anchorage included 143 positions that moved from Juneau to Anchorage and 67 positions moved from Anchorage to Juneau for a net loss of 76 Juneau State positions to Anchorage.

Within Southeast Alaska, 28 positions moved from Juneau to other communities in the region, and 21 positions moved from other Southeast communities to Juneau, for a net loss of six positions for Juneau within the Southeast region.

State Positions Relocated From and To Juneau May 2006 - August 2008

	Number of Positions Moved From Juneau	Number of Positions Moved To Juneau	Net Change to Juneau
Anchorage	143	67	-76
Fairbanks	16	13	-3
Ketchikan	9	4	-5
Haines	7	6	-1
Sitka	6	8	+2
Petersburg	2	0	-2
King Salmon	2	1	-1
Kenai	2	0	-2
Yakutat	1	1	0
Craig	1	0	-1
Kodiak	1	1	0
Nome	1	0	-1
Palmer	1	0	-1
Barrow	1	0	-1
Seward	1	0	-1
Gustavus	1	1	0
Wasilla	1	0	-1
Wrangell	1	0	-1
Homer	1	0	-1
Cold Bay	0	1	+1
Bethel	0	1	+1
Klawock	0	1	+1
Chitina	0	1	+1
Cordova	0	1	+1
Soldotna	0	1	+1
Seattle	0	3	+3
Total Positions Relocated	198	111	-87

Source: Alaska Department of Administration, Division of Personnel.

Positions Relocated Between Juneau and Anchorage by Vacancy Status

Most positions relocated to or from Juneau during the study period were considered vacant at the time they were moved, including 85 percent of the jobs that moved to Juneau from Anchorage and 78 percent of positions being moved to Anchorage from Juneau.

The losses (and gains) of vacant positions are not detected in the official Juneau state government employment data from the ADOLWD because the official employment data includes only positions currently occupied by a state employee. Ultimately, the Juneau economy will suffer from this net attrition of vacant positions because those positions are no longer located in Juneau when they are filled in the normal process of employee recruitment.

State Positions Relocated To and From Juneau May 2006 - August 2008 Vacant Status at Relocation

	All Positions Relocated From Juneau	All Positions Relocated To Juneau	Positions Relocated From Juneau to Anchorage	Positions Relocated To Juneau From Anchorage
Vacant	149	85	111	57
Filled	49	26	32	10
Percent Vacant at Move	75%	77%	78%	85%
Total Positions Relocated	198	111	143	67

Source: Alaska Department of Administration, Division of Personnel.

Positions Relocated Between Juneau and Anchorage by Department

From May of 2006 through August of 2008, the State department with the most net position loss for Juneau was the Alaska Department of Health and Social Services, with a net loss of 21 positions to Anchorage.

State Positions Relocated Between Juneau and Anchorage May 2006 to August 2008

Department	Positions Moved From Juneau to Anchorage	Positions Moved From Anchorage to Juneau	Net Loss: Juneau to Anchorage
Health & Social Services	29	8	-21
Administration	20	9	-11
Office of the Governor	11	3	-8
Law	16	8	-8
Revenue	8	2	-6
Labor & Workforce Development	14	10	-4
Public Safety	7	3	-4
Environmental Conservation	12	9	-3
Commerce, Community & Economic Development	6	3	-3
Corrections	4	1	-3
Fish & Game	10	9	-1
Natural Resources	3	1	-2
Transportation & Public Facilities	2	0	-2
Education & Early Development	1	1	0
Total Positions Relocated	143	67	-76

Source: Alaska Department of Administration, Division of Personnel.

Positions Relocated Between Juneau and Anchorage by Range

The average range for positions moved from Juneau to Anchorage (20.4) and positions moved from Anchorage to Juneau (19.6) are roughly similar. However, their distribution along the salary scale is significantly different. More Juneau-to-Anchorage positions were higher and lower range positions, while positions moved from Anchorage to Juneau were more likely to be mid-range positions. More than half of the net Juneau State position loss to Anchorage (55 percent) consisted of positions range 22 and higher.

The assumption is that positions moved from the capital to Anchorage in the past two years tended to be higher-ranking executive positions accompanied by lower-level support staff. Conversely, Anchorage positions transferred to Juneau tended to be classified service positions in the middle ranges typical of operational functions.

Positions Relocated Between Anchorage and Juneau by Range May 2006 to August 2008

	Positions Moved From Juneau to Anchorage	Positions Moved From Juneau to Anchorage by %	Positions Moved From Anchorage to Juneau	Positions Moved From Anchorage to Juneau by %	Net Loss: Juneau to Anchorage
Range 10 or lower	11	8%	2	3%	-9
Range 11 to 15	12	8%	6	9%	-6
Range 16 to 20	45	31%	32	48%	-13
Range 21 to 25	50	35%	21	31%	-29
Range 26 to 30	25	17%	6	9%	-19
Total Positions Relocated	143	100%	67	100%	-76
Percent Range 22 or Higher	45%	--	33%	--	55%
Median Range	21	--	20	--	22
Average Range	20.4	--	19.6	--	21.1

Source: Alaska Department of Administration, Division of Personnel.

Positions Relocated Between Juneau and Anchorage by Position Description

In examining position movement by position title, the category with the largest net loss to Juneau in higher-level commissioner, director, and management level positions. In the 28-month period from May 2006 to August 2008, 48 of these positions moved from Juneau to Anchorage while 17 moved from Anchorage to Juneau, for a net loss of 31 upper management level positions, or 41 percent of the total net job loss. Even more pointed is the exchange of range 27 and 28 positions with 20 of them being moved from Juneau to Anchorage compared to only five moving in the opposite direction from Anchorage to Juneau. Likewise, 13 range 8-to-11 lower-level positions were moved to Anchorage in exchange for only two similar Anchorage-to-Juneau transfers.

State Positions Relocated Between Juneau and Anchorage May 2006 - August 2008

Position Description	Positions Moved From Juneau to Anchorage	Positions Moved From Anchorage to Juneau	Net Loss: Juneau to Anchorage
Commissioner/Director/Management	48	17	-31
Commissioners	6	0	-6
Deputy Commissioners	7	1	-6
Division Directors	7	2	-5
Assistant/Deputy Directors	1	1	0
Other Directors	1	1	0
Program/Project Coordinators	8	3	-5
Program Managers	7	3	-4
Other Managers	7	5	-2
Administrators	4	1	-3
Other Appointed Executive Staff	15	4	-11
Special Assistant to the Commissioner	5	1	-4
Office of Governor Executive Staff	10	3	-7
Other Support Staff	15	1	-14
Secretary/Admin Assist/Admin Clerk	13	1	-12
Other Assistants	2	0	-2
Analyst/Programmer/IT	18	11	-7
Attorneys	10	7	-3
Other Positions	37	27	-10
Other (non-IT) Analysts	3	2	-1
Environmental Engineer/Specialists	6	5	-1
Other Specialists	5	5	0
Technicians	3	4	1
Officers	5	0	-5
Securities Examiners	2	1	-1
Scientists	2	3	1
Auditors	2	0	-2
Engineers	1	0	-1
Appeals Referees	1	1	0
Counselors	1	1	0
Other	6	5	-1
Total Positions Relocated	143	67	-76

Source: Alaska Department of Administration, Division of Personnel.

Note: "Other" for positions moved from Juneau to Anchorage includes: Paralegal, Investigator, Associate Coordinator, Industrial Hygienist, Board Member, and Customer Services Representative. "Other" for positions moved from Anchorage to Juneau includes: Education Associate, Field Operations Chief, Librarian, Licensing Supervisor, and Physician.

Of the positions that moved from Juneau, 24 were exempt, including 21 that moved to Anchorage. The exempt positions that moved away from Juneau included the following Commissioners:²⁰

- Corrections
- Environmental Conservation
- Labor and Workforce Development
- Public Safety
- Law
- Health and Social Services
- Natural Resources (moved to Fairbanks)

Of the exempt positions moved to Anchorage, 67 percent (14) were filled, resulting in immediate economic loss to the Juneau economy of some of the best-paying state positions.

**Exempt State Positions Relocated From Juneau
May 2006 to August 2008**

	Positions Moved From Juneau to Anchorage	Positions Moved From Anchorage to Juneau	Net Loss: Juneau to Anchorage
Office of the Governor	11	3	-8
Commissioners	6	0	-6
Other Exempt Positions	4	5	+1
Total Positions Relocated	21	8	-13

Source: Alaska Department of Administration, Division of Personnel.

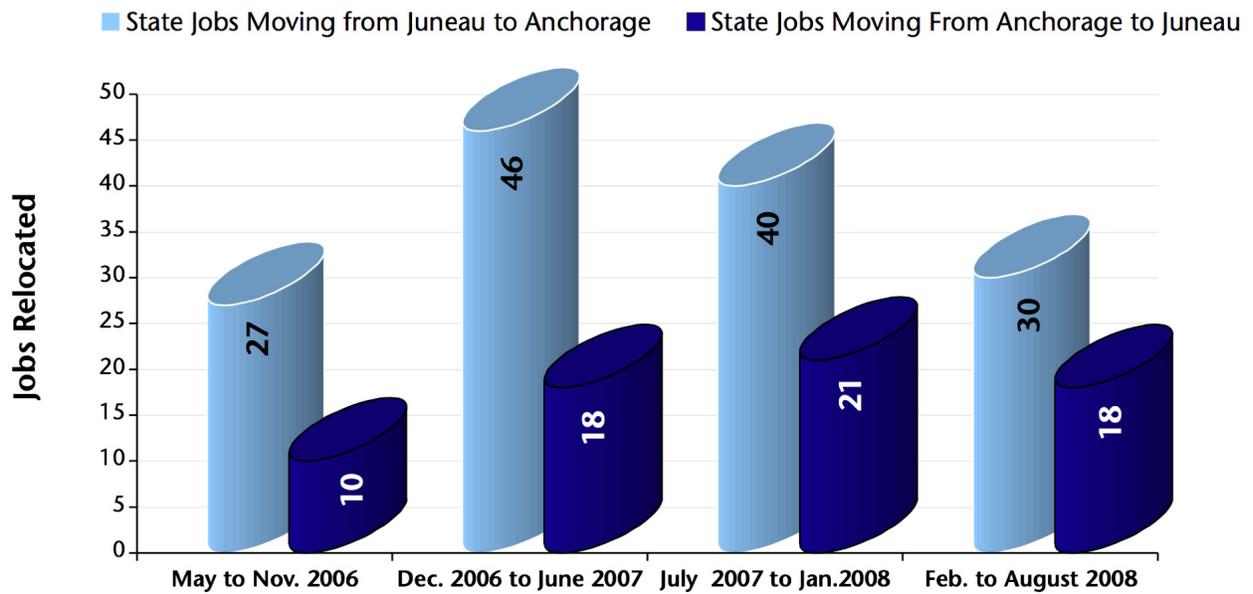
²⁰ Currently, only the Commissioner of Administration remains located in Juneau.

Positions Relocated Between Juneau and Anchorage by Date

During the study period (May 2006 to August 2008), an average of 5.1 positions were relocated from Juneau to Anchorage each month, while 2.4 Anchorage positions moved to Juneau. Therefore, the average net loss of Juneau State positions to Anchorage was 2.7 jobs per month.

The acceleration of transfers from Juneau during the calendar year of 2007 appears to be associated with the change of state administrations beginning in December of 2006.

State Positions Relocated Between Juneau and Anchorage May 2006 to August 2008 In Seven-Month Increments



Source: Alaska Department of Administration, Division of Personnel.