

January 2016

The Capital Economy

*The Economic Impact of
State Government in Juneau*

Prepared for
THE
ALASKA
COMMITTEE



Prepared by
McDowell
GROUP

The Capital Economy

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Executive Summary

The purpose of this report is to profile the role of state government employment and spending in Juneau's economy and consider the potential economic impacts of state budget cuts. The report also quantifies the role of state government in the Southeast regional economy, and analyzes state job migration to and from Juneau.

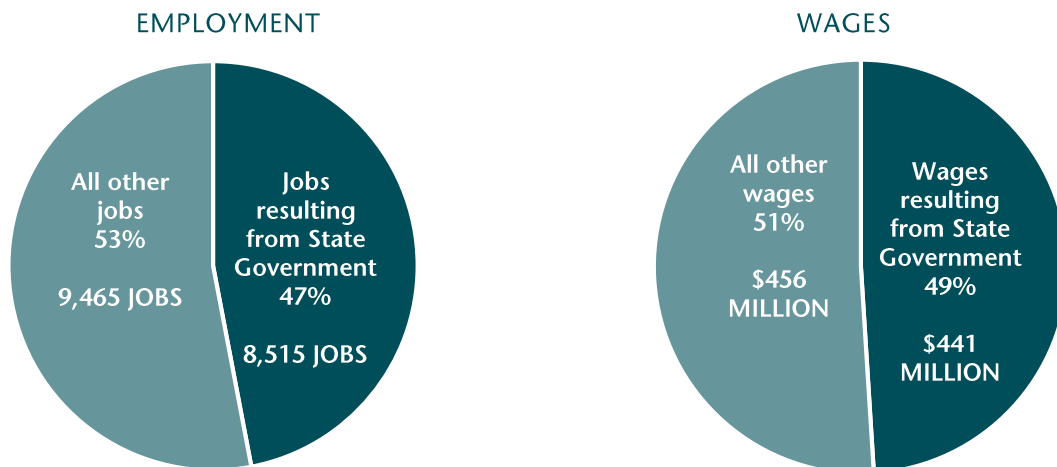


Key findings are summarized below.

Role of State Government in the Juneau Economy

- In 2014, state government accounted for approximately 8,515 jobs and \$441 million in annual wages in the Juneau economy, including direct, indirect, and induced (multiplier) effects.
- Including all multiplier effects, the state accounted for 47 percent of wage and salary employment and 49 percent of total wages in Juneau.

Role of State Government in Juneau Employment and Wages, 2014



Sources of State Government-Related Economic Activity in Juneau

- The State of Alaska directly employed 4,269 workers in Juneau in 2014, who earned a total of \$247 million in wages. As state workers and their dependents purchase goods and services in Juneau, additional jobs and income are created.
- Based on State of Alaska records, businesses and organizations located in Juneau received a total of \$179 million in payments from state government in 2014. This includes funding for K-12 education, capital construction projects, grants, purchases of goods and services, and other spending. This spending creates jobs throughout the local economy.

- State capital project funding is not fully captured in the \$179 million total spending described above (because some payments go to companies working in Juneau but based elsewhere). The capital budget for Juneau has averaged \$56 million annually over the past five years. This spending is a critical source of jobs in the construction sector. Federal funds have accounted for about 58 percent of Juneau capital project funding over the FY2012 to FY2016 period.

Indirect and Induced Employment and Wages

- As state employees spend their wages in Juneau, and as state payments to local organizations and businesses circulate through the economy, additional jobs and income are created. These multiplier effects are estimated to have totaled 4,246 jobs and \$194 million in annual wages in 2014.

Employment and Wage Impacts of State Government in Juneau, 2014

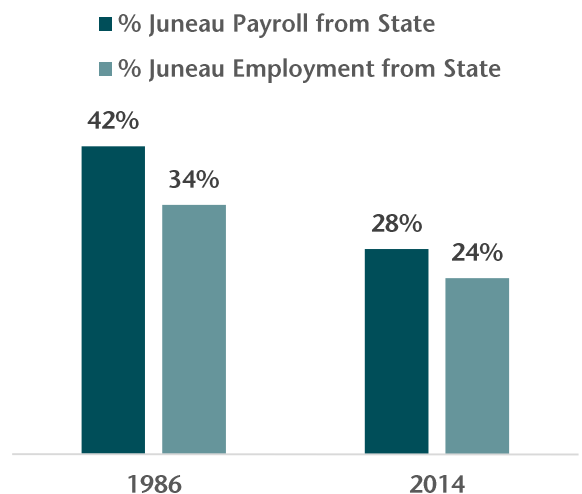
	Employment	Wages (\$millions)
Direct	4,269	\$247
Indirect/Induced	4,246	\$194
Total	8,515	\$441

- State government has high multiplier effects in Juneau relative to other industries, because state jobs are year-round, jobs are held almost entirely by local residents, wages and benefits are above the economy-wide average, and the state is the source of substantial local spending in support of state operations and programs.

Long-Term Trends

- Juneau’s economy remains very dependent on state government, but less so than in the past. Twenty years ago state government directly accounted for 34 percent of all employment and 42 percent of all wages in Juneau. In 2014, state government directly accounted for 24 percent of all wage and salary employment in Juneau, and 28 percent of all wages.
- State government wages have been increasing at a slower rate than in the private sector. After adjusting for inflation, average state wages are about equal to what they were in 2000. Today, state wages in Juneau are about equal to the average annual wage paid in Juneau’s Professional and Business Services sector.

State Government Employment and Payroll as Percent of Total Juneau, 1986 and 2014



Economic Impact of State Budget Cuts

As Alaska addresses its state budget deficit of \$3.5 billion, employment and spending reductions will impact local economies across the state. As capital city, and the community most economically dependent on state government activity, Juneau can expect direct and indirect effects from the array of measures potentially used to balance the budget.

- State employment in Juneau started trending down in 2015. In June 2015, Juneau had 3,953 state jobs. That was 157 jobs below the June 2014 level of 4,110 jobs.
- The FY2016 budget includes a statewide net reduction in state employment of 636 positions, including 587 permanent full-time positions. It is unclear at this time how many of these positions are in Juneau. In Southeast, state employment is down about 400 jobs through the first five months of the fiscal year. It is reasonable to assume that about 75 percent of those jobs came from Juneau.
- The Governor's proposed FY2017 budget includes the elimination of another 181 state agency positions statewide. This may be the best-case scenario for state job cuts in next year's state operating budget.
- The capital budget for Juneau will be formulated over the next few months. Statewide, the Governor's proposed capital budget for FY2017 is \$1.226 billion, \$251 million less than the FY2016 budget of \$1.477 billion and \$1 billion below the FY2015 capital budget of \$2.24 billion. In Juneau, a total of eight to ten jobs are at stake with each million dollars of local construction spending.
- Cuts in non-personnel-related state spending in Juneau will cost the local economy between 8 and 12 jobs per million dollars of decreased funding, with the impact unfolding over a several year period as businesses and organizations adjust to less program support or less business from the state.
- Cuts to K-12 education and grant supported programs would cost the Juneau economy from 12 to 15 jobs per million dollars in funding, including all multiplier effects.



Source: JCVB.

Economic Impact of State Revenue Enhancing Measures

- As currently proposed, a state income tax would be expected to generate about \$200 million in annual revenue. The tax might collectively cost Juneau tax payers about \$8 million to \$10 million annually. However, the short-term economic impact of a statewide income tax might be positive for Juneau's economy, to the extent tax revenues are used to mitigate state job cuts.

- The same is true for increases in motor fuel, alcohol, and tobacco taxes, which together would generate a total of \$112 million in revenue (as proposed). Juneau’s share of that taxation would be about \$5 million. These taxes would have the same effect as an income tax, in terms of acting as a transfer payment from households to state government, with potentially more money flowing into the local economy than flowing out.
- The longer-term, indirect economic impacts of income and other taxes are more difficult to quantify. Impacts of taxes on the cost of living and the competitiveness of Alaska businesses are a legitimate concern. Juneau would face the same challenges as other Alaska communities in that regard.
- The Governor’s plan would also reduce the Permanent Fund Dividend (PFD) by about half next year, in effect moving \$350 million from dividend funding to funding for state operations. A 50 percent reduction in the PFD would cost Juneau residents approximately \$30 million a year initially, with less predictable effects over the long-term. Much like an income tax, with respect to impacts on Juneau’s economy overall, the direct cost of reduced PFD’s to Juneau residents would have to be weighed against the indirect benefit of redirecting Permanent Fund earnings to mitigate state job cuts and spending reductions in Juneau.

Trends and Conditions in Juneau’s Other Key Industries

- The trajectory of Juneau’s economy over the next few years will depend largely on the local impact of measures to balance the state budget. However, trends in other sectors will also have an impact on how Juneau’s economy responds to state government-related challenges.
- In summary, by most measures, Juneau enters this period of state budget adjustments with a flat or slightly declining economy. Employment was down about 350 jobs between 2012 and 2014, with that slow decline continuing into 2015. Real (inflation-adjusted) wages, per capita personal income, total personal income, and gross business sales were all down slightly in 2014 compared to 2013. The size of the resident labor force has been declining since 2012, and employment of Juneau residents is down by about 600 over the same period.
- Conditions in Juneau’s other key basic industries vary. Federal government employment continues to decline, but at a slower pace than over much of the last decade. The local seafood industry has grown in recent years, with increased processing activity. Low prices and unfavorable exchange rates are currently challenging the industry. In recent years mining has been a source of employment growth in Juneau, but that sector has likely leveled off. Only the visitor industry is on a growth trajectory, with a 3 percent increase in cruise passenger volume in 2015 and another 2 percent increase expected in 2016. Air passenger traffic has also increased in each of the last two years.



Source: JCVB.

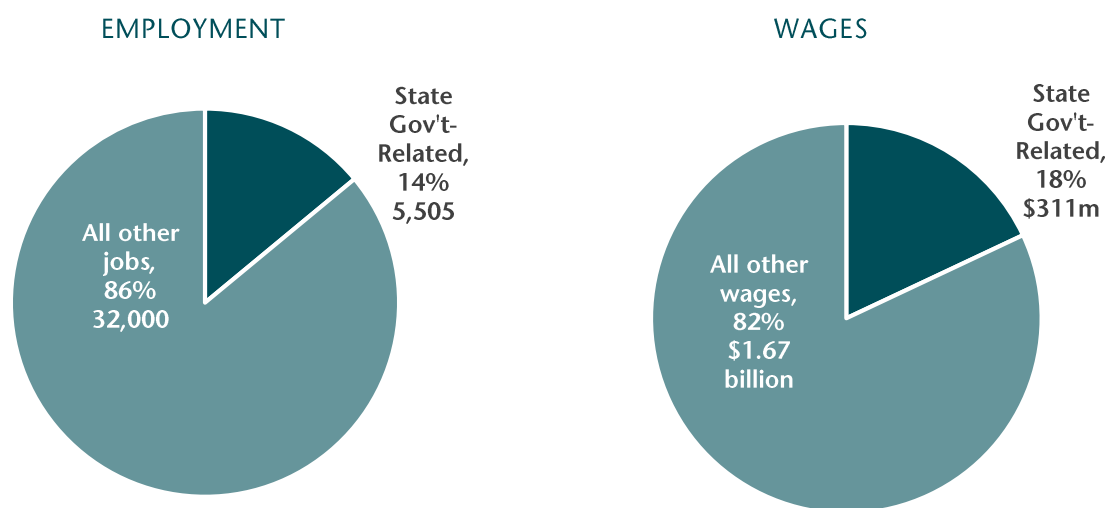
Statewide Trends in State Employment

- Juneau’s share of state employment in Alaska has been steadily declining. There has been essentially no change in state employment in Juneau since 1999. Meanwhile state employment statewide has climbed steadily, adding 4,735 jobs over the 15-year period from 1999 to 2014, a 22 percent increase.
- About half of state employment growth has been in Anchorage, which added 2,218 jobs, a 26 percent increase. As of 2014, there was 10,766 state jobs in Anchorage, and a total of 12,299 jobs in the Anchorage/Mat-Su area.
- In 1999, Juneau hosted 20 percent of all state employment in Alaska. In 2014, 16 percent of state employment was in Juneau.
- Population growth explains some of the shift. Since 1999, Anchorage’s population has increased by 16 percent, compared to the 26 percent increase in state employment in the city. Juneau’s population increased 9 percent between 1999 and 2014, while state employment was flat. Statewide, Alaska’s population increased 18 percent over the 15-year period, while state employment was up 22 percent.

The Role of State Government in Southeast Alaska’s Economy

- State government directly accounted for 5,505 jobs in Southeast Alaska in 2014, and \$311 million in wages. That is 14 percent of total regional wage and salary employment and 18 percent of total wages.

Role of State Government in Southeast Employment and Wages, 2014



- Total non-payroll spending by the state of close to \$500 million created additional employment in the region. Capital budgets for the region overall averaged \$188 million annually for the two-year period of FY2014 and FY2015.
- State government’s indirect and induced economic impacts in Southeast outside of Juneau are estimated at approximately 2,400 jobs, bringing the state government-related regional impact to over 12,100 jobs, one-third of all wage and salary employment in the region.

Employment Impact of State Government in Southeast Alaska, 2014

	Juneau Employment	Other Southeast	Total Southeast
Direct	4,269	1,236	5,505
Indirect/Induced	4,246	2,400	6,646
Total	8,515	3,636	12,151

Source: Direct employment from ADOLWD; indirect/induced are McDowell Group estimates.

State Job Migration Analysis

- There was a period of time when Juneau was experiencing a net loss in state jobs and an apparent unofficial erosion in the role of the Capital City. For example, 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.
- The most recent available data indicates the trend in job out-migration from Juneau has abated. For the 18-month period from January 1, 2014 to June 30, 2015, 42 positions were relocated from Juneau to Anchorage, while 48 positions were moved from Anchorage to Juneau.
- The number of positions range 20 and above moved between Juneau and Anchorage was nearly equal, with Juneau seeing a net loss on one position over the 18-month period. Juneau had a net gain of seven positions range 19 and below.

The Alaska Committee asked McDowell Group to update and expand an earlier report, *The Capital Economy, 2008*. That study addressed the role of state government in Juneau's economy and considered the local and regional impacts of a capital move. The 2008 report also included an analysis of state job migration from Juneau to Anchorage.

This 2016 report also provides an assessment of the role of state government in Juneau's economy along with a less detailed analysis of the regional economic impacts of state government. Other areas of investigation in this study include an assessment of the potential economic impacts of the various measures proposed to fill Alaska's growing budget gap. A dramatic drop in oil prices coupled with a long-term decline in oil production have left Alaska with a \$3.5 billion budget gap.

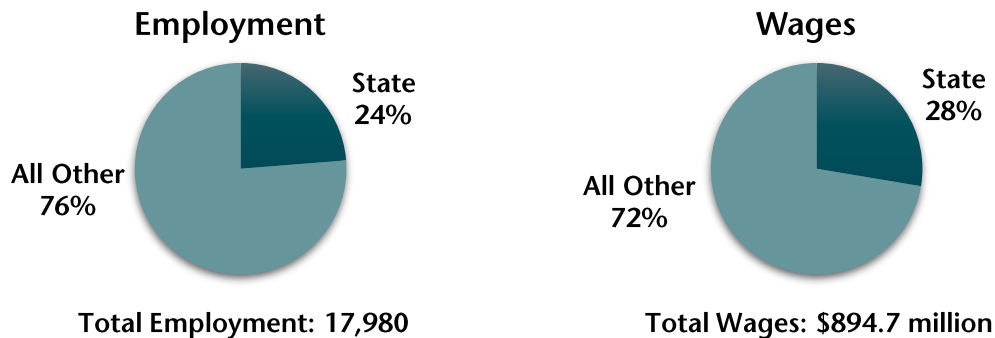
This report also examines statewide trends in state government employment and Juneau's shifting share of that employment. Finally, an analysis of state position transfers to and from Juneau over a recent 18-month period is provided.

Key data sources for this analysis include the Alaska Department of Labor and Workforce Development (DOLWD) Research and Analysis Section. DOLWD is a critical source of employment, wage and labor force data that are essential for tracking conditions in Alaska's local, regional and statewide economies. The federal Bureau of Economic Analysis (BEA) also provides a variety of local and statewide employment and income data. The Alaska Department of Administration, Division of Personnel, provided detailed information concerning state government employment in Juneau, including position transfer data. Information from a variety of other sources was also used, as noted throughout the report.

Role of State Government in Juneau's Economy

In 2014, state government directly accounted for an annual average of 4,269 jobs in Juneau and \$247 million in total annual wages. State government directly accounted for 24 percent of wage and salary employment in Juneau and 28 percent of total annual wages.

Figure 1. State Government Employment and Wages, 2014
Share of Total Juneau Wage and Salary Employment



Source: ADOLWD QCEW.

In terms of direct employment and wages, state government is a critical component of Juneau's economy. However, these figures do not fully capture the local economic impact of state government. Direct employment and wage figures do not include the indirect or induced economic effects of state government. Indirect effects include jobs and income created by state contracting and other state purchases of goods and services in Juneau. Induced effects are those created by state worker spending in Juneau. As those wages are spent in Juneau, additional jobs and wages are created. Together, indirect and induced economic impacts are termed "multiplier effects."

The multiplier effects of state government in Juneau are high because of substantial local spending in support of state government operations and other state spending, the residency of the labor force, the year-round nature of state government operations, and the relatively high average wages paid to state employees. These factors are described in more detail below.

State Government Non-Payroll Spending in Juneau

Data from the Alaska Department of Administration's Division of Finance shows the state funneled \$184 million to Juneau area businesses and organizations in FY2015. This is a measure of all payments to governmental agencies, grants, lease fees for office rental, utilities payments, payments for construction services, 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. Based on this data, state spending declined 15 percent between FY2014 and FY2015.

Figure 2. Juneau Area-wide (Auke Bay, Douglas, Juneau) State Government Spending, in \$millions, FY2008, FY2014, and FY2015



Note: Not adjusted for inflation.

Source: Alaska Department of Administration, Division of Finance.

A detailed analysis of calendar year 2014 state spending was conducted for purposes of this economic impact analysis. Warrants issued to businesses and organizations with Juneau, Douglas, and Auke Bay addresses totaled \$179.2 million in CY2014. The state's payment ledger includes just over 70,000 entries for that period, including payments to 3,000 different recipients in 260 detailed account categories.

The state spending data was further aggregated (by the study team) into ten broad categories, described below.

- Education: primarily includes payments from the Department of Education and Early Development to the City and Borough of Juneau for K-12 education.
- Construction: payments to local construction contractors for local capital projects and potentially for capital projects elsewhere in the region. Does not include all state capital project spending in Juneau.
- Professional and Technical Services: includes a broad range of services, including IT consulting, management consulting, program management, accounting, architecture/engineering services, and others.
- Health and Social Services: includes funding for various social assistance programs, residential and nonresidential treatment and care programs, prevention programs, medical-care related services and programs, and others.
- Supplies and Materials: includes business supplies, fuel, electricity, water and sewer services, office equipment and furniture, building materials, tools and vehicles, miscellaneous parts and supplies, and an assortment of other purchases.
- Transportation, Lodging, and Food Services: includes payments to a range of local transportation providers. Also includes reimbursements to state employees for travel expenses (these payments have been excluded from the economic impact analysis as they are primarily non-local expenditures).
- Government Transfers: includes payment of the Commercial Passenger Vessel tax to the CBJ, Revenue Sharing, Motor Vehicle Tax, fish taxes, etc.
- All Other Spending: a wide variety of other expenditures in generally small amounts and too varied to efficiently categorize.

Table 1. State Government Payments in the Juneau Area, CY2014

Category	Amount
Education	\$59,796,206
Construction	33,712,642
Health and Social Services	23,600,712
Government Transfers	14,175,275
Professional and Technical Services	12,106,128
Wage Equivalents	10,600,001
Transportation, Lodging, and Food Service	5,105,903
Supplies and Materials	5,081,117
Other Miscellaneous Services	4,229,673
All Other Spending	10,796,584
Total Spending	\$179,204,242

Source: Alaska Office of Management and Budget. Compiled by McDowell Group.

While substantial in scope and scale, these measures of spending provide an incomplete picture of state money flowing through the Juneau economy. It includes only businesses and organizations with Juneau, Douglas or Auke Bay addresses. Therefore businesses headquartered elsewhere, but doing business in Juneau, are excluded if payments were sent to a non-local address.

An important aspect of state spending not captured in this data concerns payments to health insurance companies. A portion of these payments flow back into the Juneau economy in the form of payments to local health care providers. Juneau's health care sector, which includes approximately \$75 million in annual wages, including out-patient service providers and Bartlett Regional Hospital, is substantially built on the foundation of health insurance coverage provided to Juneau's 4,200-plus state government employees. No specific data is available concerning the billable value of health care services provided by local providers to state employees and their families; however, estimates made for purposes of this study indicate total expenditures of approximately \$45 million annually (based on 2014 data).¹

Capital Project Spending

Also notably under-reported in the state spending data for Juneau is capital project-related spending. The state spending data described above for FY2015 includes \$34 million in construction spending, because payments are made to non-local contractors. That is less than actual construction spending in Juneau. The following table provides an eight-year accounting of Juneau capital projects, by state department. The eight-year average is \$56 million, with a range of \$8 million to \$70 million. Actual expenditure of capital project funding typically occurs over a several year period following its appearance in the state budget. However, in general, the average annual capital budget over the past few years is a reasonable representation of actual construction spending.

¹ Based on the assumption that spending on health care in Juneau (not including long-term residential care) totaled approximately \$160 million in 2014 and that state employees and their dependents accounted for just under 30 percent of that spending.

Notable capital projects that have generated economic activity in Juneau over the past few years include the State Library, Archives, and Museum (SLAM) project (approximately \$100 million project), the Douglas Island office refurbishment (\$9 million in General Funds), the Mendenhall Public Library (\$7 million in General Funds), Walter Soboleff Building (\$7 million in General Funds), and the Capitol Seismic Retrofit and Exterior Restoration Project (\$7.25 million).

The largest share of the state capital project spending is through the Department of Transportation and Public Facilities (DOTPF). A significant share of DOTPF project funding is from the federal government, in support of a wide variety of highway improvement-related projects. This includes recent Juneau Access funding, much of which is unspent.

Over the past five fiscal years, federal funds have accounted for 58 percent of total state capital project funding, ranging from \$15 million to \$59 million annually. Meanwhile state unrestricted General Funds (GF) account for about 38 percent, ranging widely from \$3 million to \$36 million.

Table 2. Juneau Capital Project Funding, by Funding Source, FY2012-2016

Fiscal Year	Unrestricted GF	Designated GF	Other	Federal	Total
2012	\$30,213,194	\$2,000,000	\$3,810,500	\$34,027,920	\$70,051,614
2013	\$28,936,872	\$0	\$0	\$15,326,994	\$44,263,866
2014	\$36,213,563	\$3,650,000	\$0	\$19,600,000	\$59,463,563
2015	\$9,429,378	\$0	\$2,000,000	\$59,050,000	\$70,479,378
2016	\$3,090,000	\$0	\$0	\$34,700,000	\$37,790,000
Total	\$107,883,007	\$5,650,000	\$5,810,500	\$162,704,914	\$282,048,421

Source: Alaska Office of Management and Budget. Compiled by McDowell Group.

Table 3. Juneau Capital Projects, by Department, FY2009-2016 (from enacted budgets for each year)

Department	2009	2010	2011	2012	2013	2014	2015	2016
Alaska Court System	\$216,000						\$592,300	
Administration			\$2,000,000	\$5,015,000	\$12,200,000	\$9,767,000		
DCCED	\$3,309,500	\$1,900,000	\$12,962,400	\$20,767,600	\$11,282,200	\$4,290,863	\$2,941,550	
Corrections	\$72,000			\$135,000	\$319,200	\$775,000	\$900,000	
DEED	\$24,816,000		\$18,500,000	\$5,000,000		\$20,000,000		
Env. Conservation	\$3,069,259	\$3,687,695					\$1,030,000	\$3,090,000
Fish and Game			\$35,000					
DHSS	\$825,300		\$9,880,000	\$977,514	\$2,730,666	\$342,000	\$809,328	
DMVA				\$20,000	\$514,500			
Natural Resources			\$100,000	\$414,200			\$36,200	
DOT&PF	\$19,444,230	\$3,000,000	\$10,880,000	\$34,000,000	\$17,000,000	\$24,200,000	\$64,050,000	\$34,700,000
University of Alaska	\$10,200,000		\$400,000	\$3,014,500	\$190,000	\$88,700	\$120,000	
Total	\$61,952,289	\$8,587,695	\$54,757,400	\$69,343,814	\$44,236,566	\$59,463,563	\$70,479,378	\$37,790,000

Note: Totals will not equal corresponding fiscal year House District Totals in enacted budgets due to non-Juneau projects being removed from the Juneau Areawide House District for each fiscal year. Source: Office of Management and Budget.

For purposes of measuring the economic impact of state government in Juneau, the eight-year annual average capital budget is used. This captures the significant variability in the state capital budget (including the very low year of FY2010).

Workforce Residency

All other things being equal, a resident worker has a larger multiplier effect than a nonresident worker. Resident workers are likely to have a year-round presence in the economy and spend more of their wages locally, and more likely to invest in property, have dependents reside locally, attend school, join the local labor force, and otherwise be much more connected with the local economy. These factors result in a higher multiplier effect, meaning greater job and income creation in the local support sector.

Juneau's economy is very dependent on non-resident workers, who play a critical role in meeting the community's labor force needs. In 2013 (the most recent available data), 25 percent of the people employed in Juneau were non-residents, including workers from outside Alaska and workers from elsewhere in the state.² Juneau's labor force included 5,400 non-local residents: 3,800 workers from out-of-state and 1,600 workers from elsewhere in Alaska. Non-local residents accounted for 33 percent of Juneau's private sector labor force and 31 percent of private sector wages in 2013. Non-residents earned a total of \$155 million in wages in 2013, including \$127 million in private sector wages.

Juneau's state government workforce was 95 percent Juneau residents in 2013. Juneau residents earned 97 percent of all wages paid by state government in Juneau in 2013.

State Employee Wages

On average, state government employees earn higher wages than other workers in Juneau. This creates greater per-worker spending in Juneau economy, as workers buy goods and services in support of their households. The average annual wage for Juneau's state government employees was just under \$58,000 in 2014, 23 percent higher than all other employers (\$47,214) and 35 percent above the private sector average (\$42,924).

It is important to note that state wages have been increasing at a slower rate than other wages, up 45 percent since 2000 compared to 54 percent for other employers and 56 percent for the private sector. After adjusting for inflation, average state wages are about equal to what they were in 2000 (the 2000 average state wage of \$39,876 is equal to approximately \$57,000 in today's dollars).

² *Nonresidents Working in Alaska, 2013*. Alaska Department of Labor and Workforce Development. Workers are considered residents if they applied for a PFD in either of the two most recent years. ADOLWD's non-resident workforce analysis does not include federal government workers, for which data is not available.

Table 4. Average Annual Salaries of State Government Compared to All Other Juneau Employers and Private Sector Employers, 2000, 2007, and 2014

	2000 Average Salary	2007 Average Salary	2014 Average Salary	Percent Change 2000-2014	Percent Change 2007-2014
Average state salary	\$39,876	\$46,536	\$57,936	45%	24%
Average all other employers	\$30,732	\$38,468	\$47,214	54%	23%
% difference state vs. all other	+30%	+21%	+23%	-	-
Average private sector	\$27,432	\$35,064	\$42,924	56%	22%
% difference state vs. private sector	+45%	+33%	+35%	-	-

Note: These figures are not adjusted for inflation.

Source: McDowell Group calculations based on ADOLWD QCEW.

Average state wages in Juneau are about equal to the average annual wage paid in Juneau’s Professional and Business Services sector, where wages averaged \$57,576 in 2014.

Seasonal Stability

With the exception of the 90-day legislative session, state government business in Juneau occurs year-round, and as such is key in supporting a stable economy. A year-round economy is a much more attractive business investment environment than one with seasonal fluctuation in employment and business activity. Employment in Juneau in 2014 ranged between 5 percent above the annual average in the summer (July) and 7 percent below the average in the winter (January). The level of stability is made possible almost entirely by the presence of state and federal government employment. Private sector employment ranged between 13 percent below annual average in January to 16 percent above annual average in July. In other words, in July 2014 there were 3,100 more private sector jobs in Juneau than in January of the same year.

In comparison, state government employment is fairly steady throughout the year, ranging from 2.7 percent above the annual average in January, and 4.5 percent below the annual average in July.

Table 5. Juneau Total, State Government, Other Government, and Private Sector Employment, Seasonal Variance (Percentage above/below annual average), 2014

	All Employment	State Gov’t	Private
January	-6.7%	2.7%	-12.9%
July	+4.9%	-4.5%	+15.6%

Source: McDowell Group calculations based on data from ADOLWD QCEW.

Multiplier Analysis

The factors described above (state spending, average wages, workforce residency, seasonality) all have a bearing on the economic multiplier effect of state government in Juneau. The multiplier effect also depends upon which sector of the economy the state money is flowing to. For example, construction-related spending has a different multiplier effect than health care related spending. Economic impact models, such as IMPLAN, provide guidance on the scale of these multiplier effects. IMPLAN is a predictive input-output model of local and state economies, and is widely used in Alaska and across the country to measure the economic impact of industrial and commercial activity, including government activity. While IMPLAN nearly always requires some

degree of modification to reflect local conditions, experience has shown that the model with appropriate modifications generally produces reasonable multipliers for Alaska’s key industries in larger communities.

The results of multiplier analysis of state employment and spending in Juneau are summarized in the following table. Including all direct, indirect, and induced effects, state government accounted for approximately 8,515 jobs in Juneau in 2014 and \$441 million in total wages.

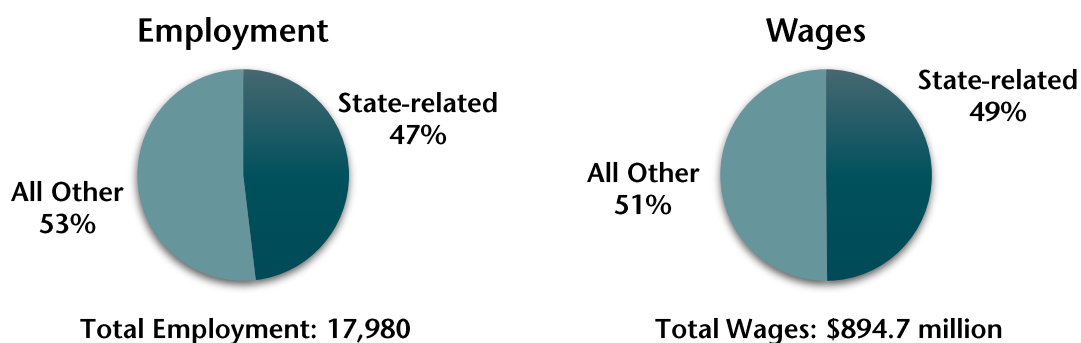
Table 6. Economic Impact of State Government in Juneau, 2014

	Employment	Wages (millions\$)
Direct	4,269	\$247
Indirect/Induced	4,246	\$194
Total	8,515	\$441

Source: Direct employment and wages from ADOLWD; indirect/induced are McDowell Group estimates.

By any comparative measure, state government accounts for a large share of Juneau’s economy. For example employment of 8,515 and total annual wages of \$441 million account for 47 percent wage and salary jobs and 49 percent of total wages.

Figure 3. State Government-Related Employment and Wages, 2014
Including Direct, Indirect, and Induced Impacts
Share of Total Juneau Wage and Salary Employment



Source: ADOLWD QCEW.

The Bureau of Economic Analysis (BEA) reports a slightly broader measure of employment and wages, including fishermen and military personnel. BEA reported employment of 18,755 in Juneau in 2014 and total wages and salaries of \$1.01 billion. Based on those measures, state government accounted for 45 percent of employment and wages in Juneau in 2014.

A more complete picture yet includes proprietors and their income. BEA reports 1,862 proprietors in Juneau in 2014, with total income of \$40.5 million. Including these workers brings total Juneau employment to 20,617 and total wages to \$1.05 billion. The state government-related share of these measures is 42 percent of both employment and wages.

This analysis of state government’s role in the Juneau economy is based on a comprehensive assessment of the various ways the state effects the community economically, including direct employment and wages, health

care-related spending impacts, spending in support of routine government operations, capital projects, formula-driven funding such as that for schools, and other spending. However, it is still conservative in that certain aspects of state government operations are not fully captured. This includes economic impacts related to the legislative session. The session draws to Juneau numerous lobbyists and other business travelers who spend money in local hotels and restaurants. In a previous McDowell Group study, it was estimated that Legislature-related travel accounted for about 16,000 room nights in Juneau hotels.³

Another aspect of state government not captured in this analysis includes the local economic impact of Permanent Fund Dividends (PFD). Local expenditure of the PFD has significant impact on local businesses. Juneau resident income from the PFD totaled over \$60 million in 2015.

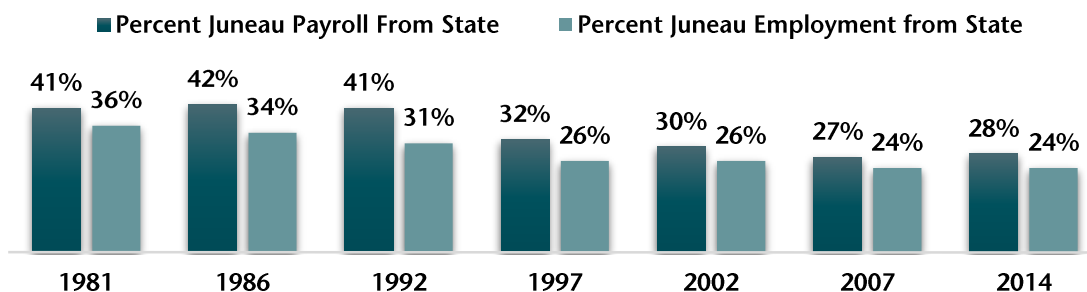
State government retirees residing in Juneau are another form of state government-related economic activity. Retirement income and savings spent by these and other retirees represents a growing “senior economy” in Juneau.

The scale of state government in Juneau provides a range of structural economic benefits. These structural effects benefit businesses and households in a variety of ways. The economies of scale made possible by state government and its workforce in Juneau, in freight and passenger transportation, public utilities, retail development, and in other areas, have cost of living and service-quality benefits for everyone in Juneau. The quality of health care, arts, recreation, and entertainment opportunities are all enhanced because of the economies of scale made possible by Juneau’s role as Capital City.

Long-term Trend in State Government’s Role in the Local Economy

While state government continues to be the dominant force in the economy, Juneau’s dependence on state government has declined. In 1981, state government accounted for 36 percent of wage and salary employment and 41 percent of payroll in Juneau. In 1992, 31 percent of Juneau’s employment was in state government, though state payroll still accounted for 41 percent of payroll. Through the 1990s and 2000s, with growth in tourism and mining, as well as Juneau’s other private sectors, the role of state government has leveled off at approximately one-quarter of employment and payroll.

Figure 4. State Government Employment and Payroll as Percent of Total Juneau, 1981-2014



³ “The Capital Economy: An Assessment of the Economic Impact of a Capital Move on Southeast Alaska.” Prepared for Alaska Committee by McDowell Group, 2002.

Economic Impact of State Budget Cuts

It is clear that state government has a profound impact on Juneau's economy. As Alaska addresses its state government budget deficit of \$3.5 billion, employment and spending reductions will impact local economies across the state, but especially Juneau. As the Capital City, and the community most economically dependent on state government activity, Juneau can expect to be most affected by the array of measures potentially used to balance the budget.

How Juneau fares economically through the budget balancing process will depend on the tools employed by the state to reduce spending and increase revenues. Those could include:

- Reductions in state employment
- Reduction in non-personnel operating expenditures
- Reductions in capital project funding
- Reductions in K-12 education funding and other grant programs
- Reduction in the Permanent Fund Dividend
- Imposition of a personal income tax and user taxes.

Each of these measures will have different impacts on the local economy (and statewide economy). It is beyond the scope of this project to quantify in detail these potential economic impacts, but it is useful to consider those likely to have the greatest impact on Juneau.

Economic Impact of Reduced State Employment in Juneau

Though only preliminary data is available, state government employment in Juneau started declining in 2015. State employment in Juneau in June 2015 totaled 3,953 jobs. That was 157 jobs below the Juneau 2014 level of 4,110 jobs. State job losses likely accelerated after the turn of the fiscal year, July 1, 2015, in response to cuts to the operating budget. The FY2015 budget included 22,112 permanent full-time (FT) positions statewide, 2,124 permanent part-time (PT) positions, and 660 non-permanent positions. The FY2016 "management plan" budget includes 21,525 permanent FT positions, 2,080 permanent PT positions, and 601 non-permanent positions. The net change is a decline in 587 permanent FT positions, 44 permanent PT positions, and 59 non-permanent, for a total decline of 636 positions.

Non-formula agency operations funding in the Governor's proposed FY2017 budget is \$68 million below the FY2016 budget. The proposed budget includes 21,416 permanent FT positions, 2,050 permanent PT positions, and 559 non-permanent positions, a total decline of 181 positions from FY2016.

State government job cuts in Juneau result in less wage income circulating in the economy, less spending related to benefits such as health care, and a range of associated gradual induced effects. The immediate impact would be on the households with state workers that lose jobs. Beyond that, gradually, over a period of two to three years (depending on the condition of the economy overall), a range of induced effects could unfold, as less money circulates through the local economy.

The loss of state jobs and associated wages and benefits would have a secondary impact equal to about one-third of direct jobs lost. In other words, for every three state jobs lost, over time Juneau's economy could lose an additional job, unless new economic activity elsewhere in the economy offsets the loss of state jobs and wages. The job loss in the support sector would occur over a several-year period. This is a measure of induced impacts only; it does not reflect the effects of reductions in state non-personnel spending, or other spending declines that might accompany state job cuts.

Reduction in Non-Personnel Operating Expenditures

State non-personnel-related spending spans a wide spectrum of goods and services. It is difficult to generalize about the economic impact of reduced spending in Juneau; however, a reasonable expectation would be approximately 10 jobs for every million in spending. Spending on professional and business services has the greatest impact on support sector employment, as a large percentage of that spending goes directly to wages and salaries. Depending on the specific service being procured, employment ranging from 10 to as much as 20 jobs may be connected with each million dollars in spending.

Spending on supplies, materials, equipment, and other goods has a lower multiplier as a substantial portion of the amount spent quickly leaks from the local economy to where the goods are manufactured. Depending on the items purchased, local employment impacts can range from just a few jobs per million dollars of spending to 10 jobs per million.

In summary, a reduction of \$10 million in non-personnel operating expenditures in Juneau could cost the economy about 80 to 120 jobs, including all multiplier effects.

Reductions in K-12 Education Funding and Other Grant Programs

School Foundation Formula funding is the principal pathway for money flowing from state government to the Juneau economy. Personnel costs account for the lion's share of the school district budget. The FY2016 Juneau School District budget of approximately \$70 million includes \$39 million in State Foundation funding. Over the last several years the district has been reducing staffing in response to budget pressures. Further budget reductions would result in additional classified and certified staff reductions, with a total impact of approximately 12 to 15 jobs per million dollars.

Economic Impact of Reduced State Capital Spending in Juneau

The Governor's proposed Capital budget for FY2017 is \$1.226 billion, \$251 million less than the FY2016 budget of \$1.477 billion and a billion dollars below the FY2015 capital budget of \$2.24 billion.

It is too early to know how Juneau will fare in the FY2017 capital budget. In any case, every million dollars of capital spending creates six jobs in Juneau's construction industry and another three jobs in the local support sector. Therefore a total of eight to ten jobs and approximately \$600,000 in wages are at stake for each million dollars in the capital budget.

Imposition of a Personal Income Tax and Other Taxes

A state income tax would be expected to generate about \$200 million in annual revenue, as currently proposed. The tax might collectively cost Juneau tax payers about \$8 million to \$10 million annually. However, the

economic impact of a statewide income tax would generally be positive for Juneau's economy, to the extent tax revenues are used to stem a decline in state employment. In other words, Juneau could expect more income tax revenue flowing into the local economy than is paid out by local residents. In any case, to the extent that tax payments made by Juneau residents stay in the local economy (to support government operations and programs), the income tax would have no direct negative impacts on the economy; it would essentially be a transfer payment from households to state government, with less household-related spending and more state government spending than would be the case in the absence of an income tax.

The Governor's proposed budget also includes increased motor fuel, alcohol, and tobacco taxes. These tax increases would generate a total of \$112 million in revenue (as proposed). Juneau's share of that, based on per capita distribution, would be about \$5 million. These taxes would have the same effect as an income tax, in terms of acting as a transfer payment from households to state government, with no direct net negative impact.

The longer-term indirect economic impacts of income and other taxes are more difficult to quantify. Impacts on the cost of living and the competitiveness of Alaska businesses are a legitimate concern. Juneau would be in the same boat as other Alaska communities in that regard.

Reduction in the Permanent Fund Dividend

The Governor's plan would also reduce the Permanent Fund Dividend (PFD) by about half next year, in effect moving \$350 million from dividend funding to funding for state operations.

In terms of household income, a reduction in the PFD would directly affect Juneau households in the same way as other communities. A statewide survey conducted by McDowell Group in 2008 showed that 62 percent of Alaskans used a portion of their PFD to pay for household expenses (such as maintenance, rent, utility bills), 58 percent saved or invested a portion of their PFD (including college funds), 40 percent used it to pay debt (such as credit card debt, garnishment, child support payments), 33 percent used it for vacation, 31 percent donated a portion to a charity, and 19 percent used it to make a major purchase of more than \$500 (such as snow machines, TVs, four-wheelers).⁴

Other previous McDowell Group research indicated that the statewide economic impact of the PFD is about 3,300 jobs and \$140 million in annual wages, including all multiplier effects. That estimate was based on an average total annual payout of about \$600 million. Juneau's share of the PFD-related in-state spending impact would be about 140 to 150 jobs. The Governor's proposal to cut the dividend in half, with all other things being equal, would affect 70 to 75 jobs in Juneau. However, the net economic effect in Juneau of a reduction in the PFD is uncertain, and dependent on the extent to which redirected Permanent Fund earnings are used to stem a decline in state employment and state-supported programs.

Trends and Conditions in Other Key Industries

The trajectory of Juneau's economy over the next few years will depend largely on the local impact of state budget balancing measures. However, positive trends in other sectors of the economy could in some measure

⁴ McDowell Group, *A Statewide Household Survey of Alaskan Giving*, prepared for The Alaska Giving Coalition, March 2008.

offset some of the likely decline in Juneau's immediate future. These other basic industries include tourism, federal government, the seafood industry (including commercial fishing and seafood processing), and mining.

Tourism

Over the last several decades, Juneau's visitor industry has grown to become one of the community's major economic engines, drawing outside money into the economy and supporting a wide variety of jobs.

According to Cruise Line Agencies of Alaska (CLAA), a total of 982,500 cruise passengers visited Juneau in summer 2015. While below the 2008 peak of 1,032,300, the 2015 volume represents a 3 percent increase over the 2014 total of 953,100. An additional 2 percent growth in cruise passenger traffic is projected for summer 2016.

The non-cruise market (those traveling by air and ferry) is more challenging to track. The most recent estimates show over 76,000 non-Alaska residents visited Juneau by air or ferry during the May 2011 to April 2012 period.⁵ Since 2011, air traffic to Juneau has increased substantially, helped in part by a second air carrier (Delta) and cheaper airfares. Although air traffic volume includes both residents and visitors, the increase was likely felt in both markets. A growth in bed tax revenues over the same time period supports this assumption.

Visitors to Juneau in summer 2011 spent an average of \$197 per person while in the community. This figure differs significantly by market. Cruise passengers reported the lowest average spending at \$179 per person due to their shorter average stay in Juneau. Highway/ferry visitors spent an average of \$345 per person, while air visitors spent an average of \$543 per person. Visitors who traveled to Juneau during fall/winter 2011-12 spent an average of \$345 per person.

The economic impacts of Juneau's visitor industry were last measured in 2007-08, when a McDowell Group report estimated a total of 2,750 jobs and \$95 million in labor income were attributable to Juneau's out-of-state visitors (including both direct and indirect impacts).⁶

Regionally, the visitor industry accounted for an annual average of 10,800 jobs in Southeast in 2014 and \$405 million in total labor income.

In summary, Juneau can expect the visitor industry to be a source of increasing economic activity. This activity differs from state government in terms of seasonality of business opportunities, employment and average wages. However, the visitor industry is a critical source of sales tax revenues, which otherwise will face downward pressure as Juneau's primary economic engine (state government) declines.

Federal Government

Federal government employment accounted for 708 jobs in Juneau in 2014, representing (directly) 4 percent of all Juneau employment, while the earnings of \$65 million compose 7 percent of all Juneau earnings. Federal government salaries are, as a group, the highest in Juneau after mining jobs. On average federal employees earn an annual average of \$91,750, 58 percent above the state government average and over twice the private

⁵ *Juneau Visitor Profiles, 2011*, conducted by McDowell Group for Juneau Convention and Visitors Bureau.

⁶ *Economic Impacts of the Visitor Industry in Juneau, 2007-08*, conducted by McDowell Group for Juneau Convention and Visitors Bureau.

sector annual earnings. Note the federal employment and earnings do not include active duty Coast Guard personnel.

Federal employment has trended down over the past decade in Juneau and elsewhere in Alaska. There were 869 civilian federal government workers in Juneau in 2007 compared to 708 in 2014, a 19 percent drop. In nominal dollars, payroll has held steady at \$65 million, but after adjusting for inflation federal payroll is down 20 percent since 2007.

Table 7. Federal Government Employment and Payroll in Juneau, 2007 and 2014

	2007 Federal Government	2014 Federal Government	2007 Total Juneau	2014 Total Juneau	Federal Percent of Juneau Total
Average monthly employment	869	708	17,978	17,980	4%
Total earnings	\$65 million	\$65 million	\$726 million	\$895 million	7%

Source: ADOLWD QCEW.

Many federal agencies or divisions reside in Juneau. In 2014, National Oceanic and Atmospheric Administration (NOAA) had the largest employment presence in Juneau with 192 employees (down from 219 in 2007). The U.S. Department of Agriculture, made up mostly of the Forest Service, ranked second with 182 jobs (down from 232 jobs in 2007), followed by the U.S. Department of Transportation and Homeland Security with 134 jobs (down from 212 jobs in 2007).

Table 8. Federal Government Annual Monthly Average Employment in Juneau, by Department and Agency, 2007, 2012, and 2014

U.S. Department	2007	2012	2014
National Oceanic & Atmospheric Administration	219	226	192
U.S. Department of Agriculture (mostly Forest Service)	238	200	182
U.S. Department of Transportation and Homeland Security	145	174	134
U.S. Coast Guard – active duty	196	320	249
U.S. Coast Guard (civilian) and Department of Defense	76	89	77
U.S. Postal Service	87	71	66
Bureau of Indian Affairs	48	21	10
U.S. Fish & Wildlife Service	18	16	10
Other agencies	38	33	38
Total federal government employment (no active duty USCG)	869	829	708
Total federal government employment with USCG active duty	1,065	1,149	957

Source: ADOLWD Research and Analysis Section, unpublished data.

Between 1992 (peak employment) and 2014, federal government employment in Juneau declined by 387 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 overall employment likewise shows a decrease: 8.8 percent in 1981, 7.5 percent in 1992, 4.8 percent in 2007, and 3.9 percent in 2014. In terms of nominal payroll, the percentage of total Juneau wages represented by federal government has also dropped, albeit less dramatically: 10.9 percent in 1981 to 7.3 percent in 2014.

Table 9. Federal Government Employment and Payroll in Juneau, 1981-2014

	1981	1986	1992	1997	2002	2007	2012	2014
Employment								
Federal employment	1,010	1,057	1,095	868	891	869	829	708
Total employment	11,496	12,825	14,518	16,518	17,331	17,978	18,327	17,980
Federal % of total	8.8%	8.2%	7.5%	5.3%	5.1%	4.8%	4.5%	3.9%
Payroll (\$millions)								
Federal payroll	\$26.7	\$35.3	\$49.4	\$46.7	\$54.5	\$65.4	\$72.0	\$64.9
Total payroll	\$245.6	\$374.7	\$456.8	\$520.6	\$597.8	\$725.9	\$865.4	\$894.7
Federal % of total	10.9%	9.4%	10.8%	9.0%	9.1%	9.0%	8.3%	7.3%

Source: ADOLWD QCEW.

The federal government also plays an important role in the Southeast economy overall, accounting for nearly 1,500 jobs in 2014, or 4 percent of the regional total (including Juneau). The table below shows the number of jobs by department in the region.

Table 10. Federal Government Annual Monthly Average Employment in Southeast Alaska, by Department and Agency, 2007 and 2014

U.S. Department	2007	2014
Department of Agriculture	745	521
Department of Transportation	382	102
Department of Commerce	259	214
Department of the Interior	216	172
Postal Service	197	152
Homeland Security	41	286
Other departments and agencies	44	36
Total federal government employment (no active duty USCG)	1,884	1,483
Total federal government employment with USCG active duty	2,571	NA

Note: Active duty Coast Guard employment is not reported by ADOLWD. In 2007, there were 687 active duty Coast Guard employees in Southeast Alaska. Due to a recent employment tracking system upgrade, and confidentiality reasons, the USCG was unable to supply active duty estimates for 2014.

Source ADOLWD Research and Analysis Section, unpublished data.

In summary, there are indications that the slide in federal government employment in Juneau may be slowing. Employment as of June 2015 was at 710 workers, down just slightly from the June 2014 level of 719. In any case, stable federal government employment over the next few years is best viewed as the best-case scenario.

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, black cod, rockfish, shrimp, crab, herring, and groundfish. Most Juneau-based permit-holders fish in Southeast Alaska waters, 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.

According to the Commercial Fisheries Entry Commission (CFEC), in 2014, a total of 280 Juneau residents fished 418 commercial fishing permits; and an additional 408 Juneau residents held crewmember licenses (2013 counts). Overall, a total of nearly 700 Juneau residents earn income from seafood harvesting. These Juneau fishermen harvested 17.9 million pounds of seafood with an ex-vessel value of \$21.9 million. Ex-vessel is the amount fishermen are paid for their fish by processors. Gross earnings per permit fished averaged \$52,500, and earnings per active permit holder averaged \$78,300.

Table 11. Juneau and Southeast Resident Commercial Fishing Activity, 2006 and 2014

	Juneau 2006	Southeast 2006	Juneau 2014	Southeast 2014
Permits issued	803	5,710	643	5,087
Permits fished	441	3,540	418	3,383
Permit holders	442	3,005	401	2,789
Fishermen who fished	289	2,163	280	2,115
Crew members	389	2,435	497	2,745
Pounds landed	20 million	158 million	18 million	199 million
Gross earnings (estimate)	\$22 million	\$160 million	\$22 million	\$194 million

Source: CFEC.

The food manufacturing sector (composed almost entirely of seafood processors) employed 382 workers during the peak of the 2014 processing season, and had an average monthly employment of 188. Wages and salaries reached \$6.0 million in 2014. Other local employment in the seafood industry includes the Douglas Island Pink and Chum (DIPAC) hatchery, with an estimated 80 employees at peak season.

Alaska's seafood industry in general has been struggling with low salmon prices, brought on by large harvest, high carry-over inventories, and unfavorable monetary exchange rates. In 2015, sockeye prices averaged about \$0.70 per pound compared to \$1.37 in 2014. Coho prices dropped from \$1.15 to \$0.65 over the same period. Pink prices slipped from \$0.30 to \$0.20 and chum from \$0.60 to about \$0.48 per pound. King prices dropped to about \$3 per pound in 2015 from \$4 in 2014.

In terms of exchange rates, the Euro has dropped 18 percent relative to the dollar, the yen 19 percent. Europe and Japan are important markets for Alaska seafood. A strong dollar means Alaska fish are less affordable in these foreign markets. Meanwhile the ruble is down 50 percent relative to the dollar and the kroner is down 28 percent. Russia and Norway are important competitors. Seafood products from those nations are much more affordable than Alaska products in the current exchange rate environment.

Mining

Though published data is not available due to confidentiality restrictions, Juneau's mining employs approximately 750 workers in Juneau, mainly at the Greens Creek and Kensington mines. In terms of average annual wages, mining jobs are the best in Juneau, averaging close to \$100,000 a year. The most recent published data available is for 2012, when the industry employed an annual average of 676 workers in Juneau

and had \$65.3 million in total wages, with average annual earnings of slightly less than \$96,600. This was more than twice the average Juneau wage of \$47,200 in 2012.

Hecla's Greens Creek produces approximately 2,200 tons of ore per day and is among the top ten largest silver producers in the world. In 2013 the mine produced 7.4 million ounces of silver, along with 57,000 ounces of gold, 58,000 tons of zinc and 20,000 tons of lead.⁷ Green Creek mine employs approximately 400 workers with total annual wages of approximately \$38 million. Greens Creek is the largest private sector employer in Southeast Alaska, in terms of annual wages. Approximately two-thirds of the mine's workforce resides in Juneau. Greens Creek Mine was Juneau's largest property tax payer in 2014, paying an estimated \$1.6 million, including real and business personal property taxes. Greens Creek has substantial reserves to support future production, with current proven and probable silver reserves of 92.5 million ounces, along with gold, lead, and zinc proven and probable reserves.⁸

Coeur Alaska's Kensington mine produces approximately 1,800 tons of ore per day. Kensington currently employs approximately 300 workers and, along with Greens Creek, is one of the largest private sector employers in the region. Coeur paid a total of \$1.5 million in CBJ property taxes in 2014, including real and business personal property taxes.⁹ Kensington also has substantial resources to support future operations. The mine currently has proven and probable reserves of 900,000 ounces of gold, measured and indicated resources of approximately 566,000 ounces and inferred resources of 263,000 ounces.¹⁰

Though silver and gold prices have been trending down over the past several years, Greens Creek, Kensington, and mining in general are expected to be a stable presence in the Juneau economy over the next few years. There is some limited potential for industry growth, including a small-scale operation focused on a high-grade gold deposit located near Herbert Glacier. In addition, Constantine Minerals is examining the potential for mine development at the Palmer Prospect near Haines. Though at least several years away, the project could have economic benefits in Juneau.

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. However, there are other 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 providers and social services organizations provide services to residents of outlying communities. The larger organizations include Bartlett Regional Hospital, SEARHC, CCTHITA, Reach Inc., and Juneau Youth Services.

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 Company is a part of Juneau's basic sector. It is important to note while these businesses are, in part, serving a basic industry function in Juneau, their survival largely depends on the health of Juneau's economy.

⁷ Source: Hecla Mining Company Annual Report, 2013.

⁸ Source: www.hecla-mining.com.

⁹ Property tax figures are McDowell Group estimates based on data provided by CBJ.

¹⁰ Source: www.coeur.com/mines-projects/mines/kensington

Components of Total Personal Income in Juneau

According to the Bureau of Economic Analysis (BEA), in 2014, Juneau resident personal income totaled \$1.85 billion, with wages and salaries accounting for 67 percent of all personal income in Juneau.

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 (this includes the PFD). Total personal transfer payments to Juneau residents totaled \$242 million in 2014. The category of income “dividends, interest and rent” is investment income. Juneau residents’ investment income totaled \$365 million in 2014.¹¹

In general, personal income in Juneau has been flat over the last several years, totaling \$1.82 billion in 2012, \$1.79 billion in 2013, and \$1.85 billion in 2014. Similarly, per capita personal income has varied from \$56,162 in 2012, to \$54,855 in 2013, and \$57,033 in 2014, according to BEA data.

The following table provides a variety of metrics that indicate trends in the Juneau economy. By most measures, Juneau entered 2015 with its economy flat or slightly trending down.

Table 12. Juneau Economic Indicators, 2000-2014

	2000	2005	2010	2013	2014	% change since 2013
Juneau Population	30,711	31,340	31,275	33,030	33,026	0.0%
Wage and Salary Employment	17,047	17,644	17,932	18,086	17,980	-0.6%
State Government Employment (annual average)	4,288	4,314	4,276	4,273	4,269	-0.1%
Unemployment (not seasonally adjusted)	4.5%	5.3%	5.9%	5.0%	5.1%	0.1%
Payroll (millions, nominal) ¹	\$563.1	\$662.4	\$790.3	\$881.5	\$894.7	1.5%
Payroll (millions, real) ^{1,2}	\$805.3	\$832.1	\$874.0	\$895.6	\$894.7	-0.1%
Average Wages (nominal)	\$33,036	\$37,536	\$44,076	\$48,744	\$49,764	2.1%
Average Wages (real) ²	\$47,245	\$47,151	\$48,743	\$49,532	\$49,764	0.5%
Per Capita Personal Income (nominal)	\$37,793	\$41,709	\$50,897	\$54,855	\$57,033	4.0%
Per Capita Personal Income (real) ²	\$54,048	\$52,392	\$56,286	\$57,970	\$57,033	-1.6%
Total Personal Income (millions, nominal) ^{1*}	\$1,159.0	\$1,293.1	\$1,597.4	\$1,789.7	\$1,848.2	3.3%
Total Personal Income (millions, real) ^{1,2}	\$1,657.5	\$1,624.3	\$1,766.5	\$1,893.3	\$1,848.2	-2.4%
Gross Business Sales (millions, nominal) ¹	\$1,244.0	\$1,610.5	\$2,027.6	\$2,407.7	\$2,417.8	0.4%
Gross Business Sales (millions, real) ^{1,2}	\$1,779.0	\$2,024.0	\$2,230.4	\$2,446.2	\$2,417.8	-1.2%

Sources: ADOLWD: population, wage and salary employment, payroll, wages, and unemployment. Bureau of Economic Analysis: per capita and total personal income data. Juneau Economic and Development Council (JEDC): construction and business sales data.

¹ Expressed in millions of dollars.

² Real dollars are adjusted for inflation to 2014 dollars using the 2014 annual average of the Anchorage Consumer Price Index.

¹¹ Bureau of Economic Analysis, Regional Accounts data, local area personal income.

Trends in State Government Employment

It is important to consider state government employment in Juneau in the context of state employment in other communities and statewide.

Over the past 15 years, state government employment in Juneau has ranged between a low of 4,211 and a high of 4,547, as measured in terms of annual average employment. However, from 1999 to 2014 there was essentially no change in employment (just two less jobs in 2014 than in 1999). Meanwhile state employment statewide has climbed steadily, adding 4,735 jobs over the 15-year period from 1999 to 2014, a 22 percent increase. About half of that growth was in Anchorage, which added 2,218 jobs, a 26 percent increase. As of 2014, there was 10,766 state jobs in Anchorage, and a total of 12,299 jobs in the Anchorage/Mat-Su area.

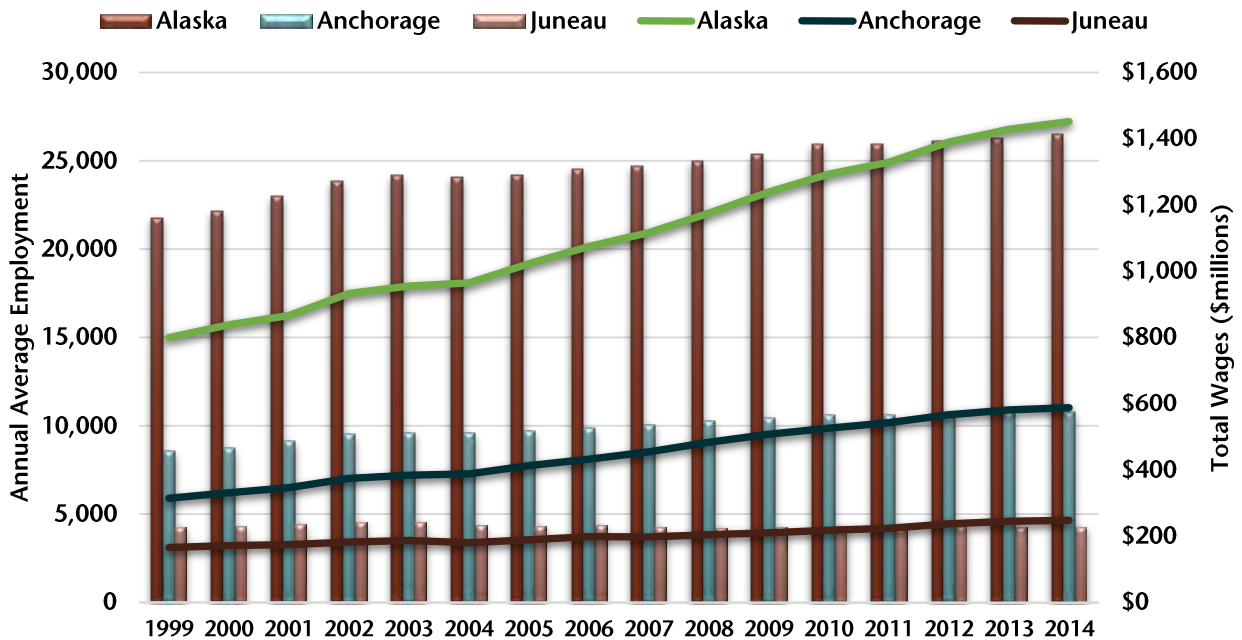
State government wages have followed a similar trend. Nominal wages (not adjusted for inflation) paid to state workers in Alaska increased 82 percent from 1999 to 2014, including an 87 percent increase in Anchorage. Measured in terms of 2014 dollars, state government wages statewide increase 25 percent over the past 15 years, and 29 percent in Anchorage. After adjusting for inflation, total state government wages in Juneau in 2014 were about 3 percent above total 1999 wages.

Table 13. State Government Employment and Wages in Alaska, Municipality of Anchorage, and City and Borough of Juneau, 1999-2014

Year	Annual Average Employment			Total Earnings (\$millions)		
	Alaska	Anchorage	Juneau	Alaska	Anchorage	Juneau
1999	21,766	8,558	4,271	\$799.5	\$314.4	\$165.5
2000	22,136	8,712	4,288	\$837.7	\$331.0	\$171.0
2001	22,961	9,111	4,444	\$866.4	\$345.9	\$174.6
2002	23,847	9,509	4,541	\$933.3	\$374.3	\$181.7
2003	24,156	9,592	4,547	\$955.2	\$384.3	\$186.6
2004	24,059	9,562	4,348	\$964.9	\$388.0	\$180.4
2005	24,193	9,692	4,314	\$1,023.1	\$413.4	\$188.4
2006	24,522	9,853	4,356	\$1,074.9	\$432.4	\$198.6
2007	24,674	10,034	4,249	\$1,116.0	\$454.9	\$197.7
2008	24,965	10,229	4,211	\$1,175.7	\$483.2	\$204.5
2009	25,357	10,430	4,221	\$1,238.9	\$507.9	\$210.4
2010	25,916	10,570	4,276	\$1,293.4	\$526.0	\$217.7
2011	25,961	10,598	4,272	\$1,329.3	\$542.6	\$223.5
2012	26,114	10,692	4,304	\$1,389.6	\$566.9	\$237.0
2013	26,276	10,740	4,273	\$1,428.7	\$581.3	\$245.0
2014	26,501	10,776	4,269	\$1,451.9	\$588.0	\$247.3
Percent change 1999-2014	22%	26%	NC	82%	87%	49%

Source: ADOLWD QCEW.

Figure 5. State Government Employment and Wages in Alaska, Municipality of Anchorage, and City and Borough of Juneau, 1999-2014



Source: ADOLWD QCEW.

Flat state employment in Juneau accompanied by growth in state employment elsewhere in Alaska means that Juneau has a declining share of state government jobs. In 1999, Juneau hosted 20 percent of all state government positions in Alaska. In 2014, 16 percent of state jobs were in Juneau. Anchorage’s share of state jobs increased from 39 percent to 41 percent over the 1999 to 2014 period. Wages followed the same trend, with Juneau’s share declining from 21 percent to 17 percent and Anchorage’s share increasing from 39 percent to 41 percent.

Table 14. State Government Employment and Wages in Alaska, Municipality of Anchorage, and City and Borough of Juneau, 1999-2014

Year	Share of State Jobs		Share of State Wages	
	Anchorage	Juneau	Anchorage	Juneau
1999	39%	20%	39%	21%
2004	40%	18%	40%	19%
2009	41%	17%	41%	17%
2014	41%	16%	41%	17%

Source: ADOLWD QCEW.

The location of many state jobs depends on the location of the population served. Since 1999, Anchorage’s population has increased by 16 percent, explaining some of the 26 percent increase in state employment. Juneau’s population increased 9 percent between 1999 and 2014, while state employment was flat. Statewide, Alaska’s population increase 18 percent over the 15-year period, while state employment was up 22 percent.

The Role of Juneau and State Government in the Southeast Economy

While the focus of this study is on the role of state government in the Juneau economy, state government is also an important part the regional economy. Further, Juneau’s economic well-being, which is closely tied with state government, has important implications for the economic health of the entire region.

State Employment in Southeast

The State of Alaska also plays an important role in regional employment and payroll, directly accounting for 14 percent of employment and 18 percent of payroll in the Southeast region.

Table 15. State Government Employment and Payroll in Southeast Region, 2014

	2014 State Government	2014 Total Southeast	Percent of Southeast Total
Average monthly employment	5,505	37,402	14%
Total earnings	\$311 million	\$1.7 billion	18%

Source: ADOLWD QCEW.

State employment and employment overall in Southeast have varied little over the past 15 years. State government employment has ranged from a low of 5,300 to a high of 5,650. Meanwhile employment in all other sectors combined has ranged from 30,200 to 31,700.

Table 16. Southeast Economic Region Annual Average Employment, 1999-2014

Year	State Government	All Other	Total
1999	5,300	30,550	35,850
2000	5,300	30,950	36,250
2001	5,450	30,500	35,950
2002	5,600	30,200	35,800
2003	5,650	30,700	36,350
2004	5,450	30,500	35,950
2005	5,450	31,100	36,550
2006	5,550	31,350	36,900
2007	5,450	31,400	36,850
2008	5,450	31,400	36,850
2009	5,500	30,600	36,100
2010	5,550	30,650	36,200
2011	5,650	30,950	36,600
2012	5,650	31,650	37,300
2013	5,500	31,700	37,200
2014	5,500	31,400	36,900

Source: ADOLWD Monthly Regional Employment Statistics.

State Spending in Southeast Alaska

Analysis of state payment data indicates that a total of \$438 million was paid to organizations and businesses with an address somewhere in Southeast Alaska, including funding for K-12 education, capital construction projects, grants, purchase of goods and services, and other spending. Education-related spending accounted for \$157 million, 36 percent of total. Construction-related spending totaled \$62 million. For the same reasons described in the analysis of Juneau construction spending, this understates actual construction spending. Capital budgets for the region overall averaged \$188 million for the two-year period of FY2014 and FY2015.

Table 17. Southeast Region Capital Project Funding, FY2014 and FY2015

House District	FY2014	FY2015
HD 31-32	\$91,709,884	\$75,971,304
HD 33	\$17,622,168	\$48,730,301
HD 34	\$55,448,057	\$67,959,039
HD 31-34	\$6,052,000	\$12,665,000
Total	\$205,325,644	\$170,832,109

Source: Alaska Office of Management and Budget.

Total Impact of State Government in the Southeast Economy

As described in the analysis of state government's economic impact in Juneau, state employment and spending create a range of secondary economic impacts. The regional multiplier effects of state government were not modeled in the same level of detail as in Juneau; however, the effects would be similar in terms of scope and scale. State spending outside of Juneau totaled approximately \$259 million in 2014, not including construction payments to firms headquartered outside the region.

Analysis of state spending in Southeast outside of Juneau indicates a total employment impact of approximately 2,400 indirect and induced jobs. This brings the regional total impact of approximately 12,100 jobs, approximately one-third of all wage and salary employment in the region.

Table 18. Employment Impact of State Government in Southeast Alaska, 2014

	Juneau Employment	Other Southeast	Total Southeast
Direct	4,269	1,236	5,505
Indirect/Induced	4,246	2,400	6,646
Total	8,515	3,636	12,151

Source: Direct employment and wages from ADOLWD; indirect/induced are McDowell Group estimates.

Juneau's Place in the Regional Economy

To put the Capital City's role in the region in perspective, Juneau accounts for:

- 44 percent of the region's population (33,026 out of 74,280)
- 43 percent of regional personal income (\$1.85 billion out of \$4.31 billion)

- 48 percent of regional wage and salary employment (17,980 out of 37,402)
- 53 percent of regional wage and salary earnings (\$895 million out of \$1.70 billion)

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 as a source of many goods and services.

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. 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.

Juneau’s impact on mainline air service to the balance of the region – Ketchikan, Petersburg, Wrangell, Sitka, Gustavus, and Yakutat – includes:

- Lower air fares and air freight rates
- Increased service frequency
- Lower cost of living due to lower airfreight cost
- Increased availability of goods flown in by air
- Increased capacity and decreased cost for tourism to these communities
- Increased 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. Haines, Skagway, Gustavus, Hoonah, Elfin Cove, Pelican, Angoon, Tenakee, and Kake are the communities serviced by commuter air via Juneau.

Because the relatively large scale of Juneau’s state government-dependent economy, other communities in northern Southeast enjoy:

- Increased commuter air service
- Decreased cost of passenger fares and air freight rates
- Increased 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. Without the business volume and revenue generated by Juneau, AMHS and barge operators would offer lower service frequency and charge higher rates.

Impacts on Retail Trade and Services Provided to the Region

RETAIL

Juneau is the retail center for the northern Southeast region. 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.

Residents of Skagway, Haines, Hoonah, Gustavus, Elfin Cove, Pelican, Angoon, Kake, Petersburg, and even Sitka (which does not have major chain retailers), depend on Juneau to provide:

- Lower prices for both household and business purchases in Juneau stores
- Increased selection
- Increased competition.

Wholesale trade is also affected. Wholesalers and major retailers in Juneau ship goods to businesses, nonprofits, and government entities throughout the northern half of the region. Outlying buyers experience lower prices and greater selection due to the economies of scale provided by Juneau.

SERVICES

The scale and quality of medical and professional services available in Juneau and provided to residents from across the region are directly related to the size and strength of the local Juneau market. A range of services – such as medical specialties, new medical technology, and substance abuse treatment – would not be supported in their current form if not for the relatively large customer base in Juneau.

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, nonprofits, and government entities in many regional communities. These services are available from elsewhere, but Juneau-based professional services firms can offer services at a cost and quality likely not available from outside the region.

Juneau is estimated to account for nearly one-half of Southeast Alaska's banking activity; the health of Juneau's banking industry reverberates throughout the region. Juneau's deposit base subsidizes loans in other communities. Strength or weakness in Juneau's local banking market can result in either more or fewer loans available in other Southeast communities, and lower or higher interest rates.

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. Juneau's population and economy provide a foundation for social services in other Southeast communities, particularly those in northern Southeast. Several factors contribute to this. For example, many organizations have Juneau-based staff that occasionally travel to outlying communities to deliver services. In addition, many local groups rely on personal and corporate donations as a major source of income. These contributions benefit Juneau and neighboring communities. In the case of some nonprofit service agencies, over 90 percent of their charitable contributions for the entire region are generated in Juneau. For many agencies and organizations, funds raised in Juneau from both personal and corporate contributions are used to service both Juneau *and* outlying communities. Examples of services benefiting from Juneau's capacity to raise funds and provide services include adult education services, health care expense assistance, emergency relief and shelter, youth environmental education, and youth outreach services such as Boy Scouts.

State Job Migration Analysis

Introduction

Under normal circumstances, state positions are transferred among locations as departments and agencies adjust to shifts in work demands and in statutory responsibilities resulting from legislative initiatives. However, there was a period of time when Juneau was experiencing a net loss in state jobs and an apparent unofficial erosion in the role of the Capital City (sometimes termed “capital creep”). For example, 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.

The most recent available data indicates the trend in net job out-migration from Juneau to Anchorage has abated. For the 18-month period from January 1, 2014 to June 30, 2015, 42 positions were relocated from Juneau to Anchorage, while 48 positions were moved from Anchorage to Juneau.

The net shift to Juneau includes seven Classified positions. One more Exempt and Partially Exempt position was relocated to Anchorage from Juneau than was relocated from Anchorage to Juneau. (Exempt employees serve at the discretion of the Governor and are not subject to job security regulations that apply to Classified employees.)

The number of positions range 20 and above moved between Juneau and Anchorage was nearly equal, with Juneau seeing a net loss of one position over the 18-month period. Juneau had a net gain of seven positions range 19 and below.

Table 19. Position Movement between Juneau and Anchorage, Jan. 1, 2014 – June 30, 2015
By Position Type

Position Type	From Juneau to Anchorage	From Anchorage to Juneau	Juneau Net Change
Exempt/Partially Exempt	23	22	-1
Classified	19	26	7
Total	42	48	6

Source: Alaska Department of Administration, Division of Personnel.

Table 20. Position Movement between Juneau and Anchorage, Jan. 1, 2014 – June 30, 2015
By Salary Range

Position Type	From Juneau to Anchorage	From Anchorage to Juneau	Juneau Net Change
Range 19 and below	17	24	7
Range 20 and above	25	24	-1
Total	42	48	6

Alaska Department of Administration, Division of Personnel.

The total number of positions transferred to and from Juneau included 59 positions moved out and 63 positions moved in, for a net increase of 4 jobs in Juneau. The largest number of transfers other than to Anchorage was to Fairbanks (5 positions), but an equal number were shifted from Fairbanks to Juneau.

Table 21. Positions to and from Juneau, by Community, Jan. 1, 2014 – June 30, 2015

Community	From Juneau to:	To Juneau From:	Juneau Net Change:
Anchorage	42	48	6
Dillingham	1	0	-1
Elfin Cove	0	1	1
Fairbanks	5	5	0
Haines	1	1	0
Kenai	1	0	-1
Ketchikan	1	3	2
Manley Hot Springs	1	0	-1
Palmer	1	0	-1
Petersburg	1	0	-1
Seattle	0	1	1
Sitka	1	2	1
Vancouver, WA	1	0	-1
Wasilla	1	0	-1
Wrangell	2	2	0
Total	59	63	4

Source: Alaska Department of Administration, Division of Personnel.