

ALASKA ECONOMIC **TRENDS**

SEPTEMBER 2007

Alaska's Non-Oil Tax Revenue

WHAT'S INSIDE

State Government

Still a heavyweight – but leaner than it used to be

Alaska's Economy Transformed

Thirty years of the trans-Alaska oil pipeline



ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT

Sarah Palin, Governor
Commissioner Click Bishop

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& WORKFORCE DEVELOPMENT

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Cover: Underground in the Greens Creek Mine south of Juneau, driller Jasper Gleason (right) adds a rod after changing a core bit on an underground drill, while driller Ryan Hatter (left) operates the drill controls. The drill bits usually have to be changed after drilling 400 feet to 500 feet, said Chris Morris of Connors Drilling, the company Gleason and Hatter work for that manufactured the drill. He said the two are drilling for a 2-inch core sample, which will come up through the rods. Connors Drilling is a subcontractor to Greens Creek Mining Company, the company that operates the mine. (Photo courtesy of Greens Creek Mining Company)

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Alaska's Non-Oil Tax Revenue	4
An overview with an outlook for future growth	
State Government	9
Still a heavyweight – but leaner than it used to be	
Alaska's Economy Transformed	15
Thirty years of the trans-Alaska oil pipeline	
Employment Scene	17
July's report: steady as she goes	



Alaska's Tax System – Another Reason It's A Great Place to Live

By Governor Sarah Palin

A recent issue of *Money* magazine started with the question, "Fed up with your tax bill? Maybe you should consider moving to Alaska." That's because for the 17th year in a row Alaska has the lowest state and local tax burden as a percentage of personal income. Add in the Permanent Fund Dividend, and Alaska is even more attractive as a place to live and work.

The reason our individual tax rates are so low is the bounty of Alaska's natural resources, particularly our oil, but also our minerals and fisheries. Before the trans-Alaska oil pipeline system began delivering our oil to the Lower 48, Alaska had the sixth highest individual tax burden. Thanks to that oil, Alaska was able to eliminate its individual income tax and other taxes, and use the income from our oil wealth to cover the cost of public services and create the Permanent Fund to save for the future.

As we look toward the next decade, we are facing a more uncertain horizon. Oil production on the North Slope continues its decline, and we will become more reliant on other sources of income for public services. The excellent *Trends* article by Dan Stickel, an economist with the Alaska Department of Revenue, predicts the share of the total tax burden of non-oil business taxes will grow from 18 percent in 2006 to 24 percent in 2011. This prediction is largely a result of the expected decline in oil revenue. Without additional sources of revenue, non-oil business tax as a percentage of total state revenue will continue to grow.

As Governor of Alaska, I have looked to the future, and our future is bright – thanks largely to the vast ocean of natural gas below the North Slope's surface. The Alaska Gasline Inducement Act (AGIA) is now in the proposal development process, and I am optimistic a qualified licensee will be selected and submitted to the Alaska Legislature for approval in the spring of 2008. The AGIA process continues to progress toward the goal of an Alaska gas pipeline project that is in the best interest of Alaska and the nation.

Other economic bright spots include our growing minerals exploration and development, healthy fisheries and further exploration for oil throughout the state.

Commissioner Click Bishop of the Alaska Department of Labor and Workforce Development has been given the task of preparing our workers for future jobs. He and his team are hard at work today developing a training program for the Alaska gasline. Even though construction of the gasline is at least five years away, it is not too early to ensure Alaska has the appropriate facilities and training programs to prepare Alaskans for pipeline jobs. The Alaska Legislature took a major step in 2007 by funding significant investments in workforce development, including funding toward construction of a Fairbanks-based training center for pipeline workers, and construction academies for youth and adults throughout the state. It will take continued strategic investments in programs like these to ensure we have a workforce prepared for Alaska's future.

An overview with an outlook for future growth

Alaska's tax revenue grew at an average annual rate of 12 percent from fiscal year 2001¹ through fiscal year 2006. (See Exhibit 1.) This growth came from both oil taxes and non-oil taxes. From 2006 to 2011, however, oil tax revenue is projected to decline at an average rate of 2 percent a year, while non-oil tax revenue is projected to increase at an average rate of 4 percent.

This divergence means that Alaska's non-oil taxes will become a more important contributor to state revenue as time passes. Unlike most states, Alaska does not have a state sales tax or

personal income tax, so what are the non-oil taxes that generate revenue in Alaska?

This article answers that question by surveying Alaska's non-oil taxes.² It also compares the revenue those taxes generated over the 2001 to 2006 period and revenue projections for the 2006 to 2011 period.

The importance of non-oil taxes should not be underestimated: by 2011, they are projected to generate \$515 million, which will be more than 24 percent of Alaska's projected total tax revenue that year. (See Exhibit 2.)

The corporate income tax

The largest source of non-oil tax revenue is, and is expected to remain, the non-oil corporate income tax. (See Exhibits 3 and 4.) Alaska has two separate corporate income taxes: one specific to oil and gas corporations, and one that applies to all other corporations. Revenue from the non-oil corporate income tax grew at an average rate of 18 percent a year from 2001 through 2006 and totaled \$138 million in 2006.

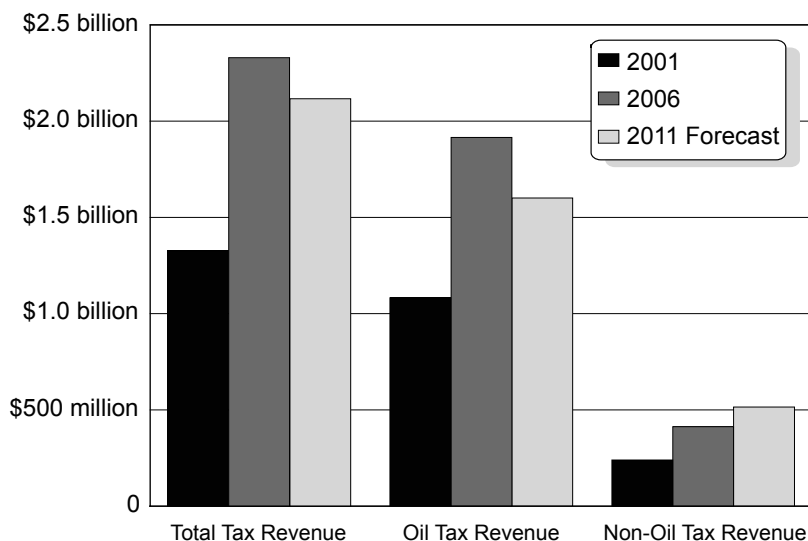
Despite being a non-oil corporate income tax, high oil prices were still responsible for some of this increase, as a strong oil industry and a healthy state budget benefits many sectors of the economy. However, much of the growth in non-oil corporate income taxes came from improved profitability in other basic industries, such as mining, fishing and tourism.

² Information in this article is based on the Alaska Department of Revenue's spring 2007 revenue forecast. Fiscal year 2007 data were not released when this article went to print. The Department of Revenue's *Revenue Sources Book - Fall 2007*, which is set to be released in early December, will include fiscal year 2007 data and revised revenue forecasts.

¹ All references to years in this article, including in the exhibits, are to the state fiscal year, which runs from July 1 to June 30. The 2006 fiscal year is from July 1, 2005, to June 30, 2006.

1 Alaska's Tax Revenue Future declines projected¹

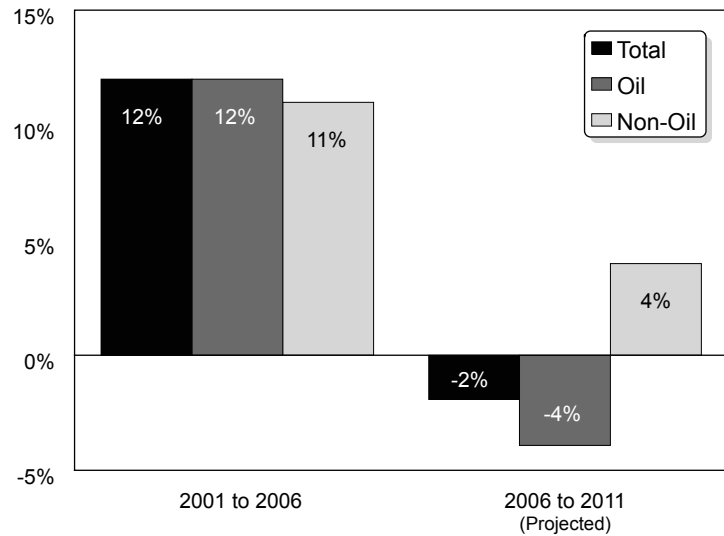
Alaska's Tax Revenue



¹ All references to years in this article, including in the exhibits, are to the state fiscal year, which runs from July 1 to June 30. The 2006 fiscal year is from July 1, 2005, to June 30, 2006. Source: Alaska Department of Revenue

Non-Oil Revenue Expected to Grow Oil revenue projected to decline

Average Annual Change



Source: Alaska Department of Revenue

A statewide ballot measure approved by voters in August 2006 expanded the corporate income tax to include the operations of large commercial passenger vessels. As a result, an increase in tourism industry tax revenue is expected. Overall, collections from this tax are projected to peak in 2007 and then decline, with the result being little change in revenue during the 2006 through 2011 period.

Non-oil corporate income tax is available for general appropriation by the Alaska Legislature, unlike some tax revenue that is restricted in how it can be used by either law or customary practice.

The tobacco products tax

The second largest source of tax revenue was from cigarettes and other tobacco products, totaling \$65.5 million in 2006.

The largest share comes from cigarette taxes, which generated \$57.9 million in 2006 and grew at an average annual rate of 7 percent from 2001 through 2006. The increase was largely due to a 2005 tax rate increase: in January 2005, the rate jumped from \$1 a pack to \$1.60 a pack. Rates were raised again in July 2006 to \$1.80 a pack and then in July 2007 to \$2 a pack.

While tax rates went up, consumption fell from 41 million packs in 2001 to 36 million packs in 2006. Over the 2006 through 2011 period, further consumption declines will likely offset the 2006 and 2007 rate increases. As a result, the 2011 revenue projections are slightly lower than the \$57.9 million collected in 2006.

Customary appropriation dedicates a portion of the cigarette tax revenue to cessation and education programs, and constitutional mandate earmarks a separate portion of the tax revenue for school construction and maintenance.

Alaska also taxes other tobacco products such as cigars, chewing tobacco and loose-leaf tobacco. The tax rate on these products is 75 percent of the wholesale value. In recent years, the

wholesale value has increased because of higher prices instituted by the major manufacturers.

Revenue from tobacco products other than cigarettes rose at an average annual rate of 7 percent from 2001 through 2006 and totaled \$7.6 million in 2006. The revenue is projected to grow at an average of 5 percent a year from 2006 through 2011. Tax revenue from tobacco products other than cigarettes is available for general appropriation.

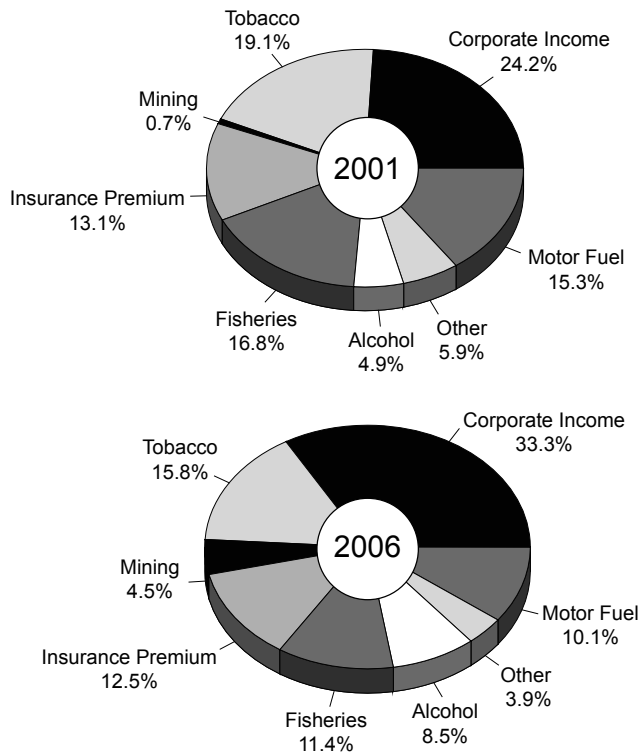
The alcohol tax

From 2001 through 2006, alcohol tax revenue rose from \$12 million to \$35.2 million, mostly due to substantial increases in tax rates. State lawmakers raised the tax rates on all three categories of alcohol in 2002. The liquor tax rate went from \$5.60 a gallon to \$12.80 a gallon, the wine tax rate went from 85 cents a gallon to \$2.50 a gallon and the beer tax rate went from 35 cents a gallon to \$1.07 a gallon.

Increasing levels of consumption also contributed to higher revenue during the 2001 to 2006 period, with gains seen in all three categories. Unlike cigarette tax revenue, which is projected to be flat due to higher tax rates but decreased consumption, alcohol tax revenue is expected

3 Non-Oil Tax Revenue, 2001 and 2006

Corporate and mining tax revenues grow



Source: Alaska Department of Revenue

to increase due to continued growth in consumption. Alaska is following the national trend in both cases – lower rates of cigarette smoking and higher rates of alcohol consumption.

Projections are for average annual revenue growth of 2 percent from 2006 through 2011. Customary appropriation dedicates half the alcohol tax revenue to prevention and treatment of alcohol and drug abuse.

The insurance premium tax

Many insurance companies pay the insurance premium tax in lieu of corporate income tax. This tax is a percentage levied on insurance policies sold in Alaska. Revenue totaled \$51.9 million in 2006 and increased at a 10 percent average annual rate from 2001 through 2006. Revenue is projected to grow an average of 2 percent a year from 2006 through 2011.

Most insurance premium tax revenue is available for general appropriation, although customary appropriation dedicates revenue

from workers' compensation insurance taxes and services fees to workers' safety and compensation programs.

The motor fuel tax

Motor fuel taxes contributed \$42.1 million in tax revenue to the state budget in 2006, after increasing at an average of 2 percent a year since 2001. Alaska's motor fuel tax rate of 8 cents a gallon is the lowest in the nation and is well below the national average of 21.6 cents a gallon.

Alaska also taxes marine motor fuel at 5 cents a gallon, aviation gasoline at 4.7 cents a gallon and jet fuel at 3.2 cents a gallon. From 2006 through 2011, projected annual growth for the motor fuel tax is 1 percent. By custom, the Legislature shares 60 percent of the revenue from taxes on aviation gasoline with the municipalities where it was sold.

Fisheries taxes and assessments

The fisheries business tax is a levy of 1 percent to 5 percent of the value of fish or seafood processed in Alaska. This tax generated \$32.5 million in revenue in 2006. The revenue increased at a 1 percent average annual rate from 2001 through 2006. Fishery values have been improving and revenue is projected to grow at an average annual rate of 3 percent from 2006 through 2011. By custom, the Legislature shares half the revenue from the fisheries business tax with the municipalities where the catch was processed.

The value of fish landed in Alaska but processed outside the state is assessed a 1 percent or 3 percent fishery resource landing tax. This tax generated revenue of \$10.4 million in 2006 and grew at an average annual rate of 7 percent from 2001 through 2006. Revenue from this tax is expected to grow at an average annual rate of 3 percent from 2006 to 2011. By custom, the Legislature sets aside half the fishery resource landing tax revenue for the municipalities where the catch was landed.

Alaska also collects various elective assessments on behalf of the fishing industry. The Legislature

appropriates revenue from these assessments for management, marketing and fishery development programs.

One of these assessments, the salmon enhancement tax, generated \$4.4 million in 2006. The salmon enhancement tax grew an average of 4 percent a year from 2001 to 2006 and is expected to grow an average of 3 percent from 2006 to 2011. There are other assessments not included here that brought total assessment revenue to \$11.2 million in 2006.

The mining license tax

The mining license tax, levied on the net income of mining operations in the state, was the fastest growing source of tax revenue from 2001 through 2006. Revenue increased from only \$1.7 million in 2001 to \$18.6 million in 2006. This increase amounted to an average growth rate of 61 percent per year.

Rising mineral prices have led to higher profits for Alaska's mining industry, which in turn fosters growth in collections. Continued high mineral prices mean this tax should contribute even more to the state treasury, with average annual growth of 24 percent projected from 2006 through 2011. Mining license tax revenue is available for general appropriation.

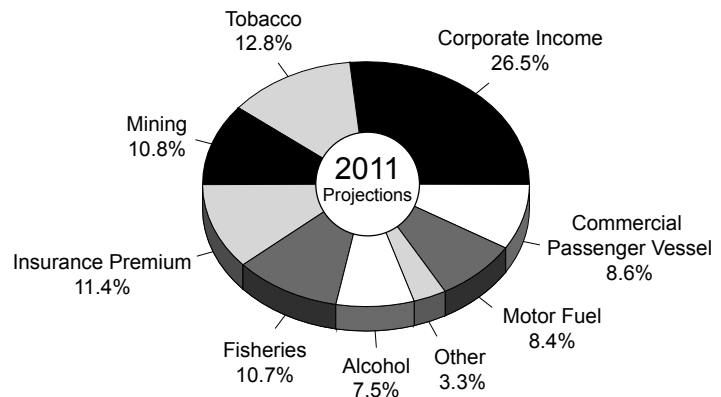
Other taxes

The vehicle rental tax took effect in 2003 with a tax rate of 10 percent of the value of passenger vehicle rentals and 3 percent of the value of recreational vehicle rentals. The vehicle rental tax generated \$7.7 million in revenue in 2006 and projections are for 2 percent average annual growth over the next five years. Vehicle rental tax revenue is available for general appropriation.

The tire fee includes a tax of \$2.50 on each new tire and an additional surcharge of \$5 per tire for studded tires or installation of studs. The \$2.50 tax and \$5 surcharge were implemented in 2003 and 2004, respectively. The tire fee generated revenue of \$1.6 million

Corporate Tax to Remain Largest Slice **4**

Non-oil tax revenue projections for 2011



Source: Alaska Department of Revenue

Most Non-Oil Revenue is Unrestricted **5**

Non-oil tax revenue, 2006

Tax Type	Unrestricted, in millions	Restricted, in millions	Total, in millions
Corporate income	\$138.0	\$0.0	\$138.0
Tobacco - cigarette	\$27.8	\$30.1	\$57.9
Tobacco - other non-cigarette products	\$7.6	\$0.0	\$7.6
Alcohol	\$17.6	\$17.6	\$35.2
Insurance premium	\$44.3	\$7.6	\$51.9
Motor fuel	\$42.0	\$0.1	\$42.1
Fisheries business	\$15.4	\$17.1	\$32.5
Fisheries landing	\$4.7	\$5.7	\$10.4
Salmon enhancement	\$0.0	\$4.4	\$4.4
Mining	\$18.6	\$0.0	\$18.6
Vehicle rental	\$7.7	\$0.0	\$7.7
Tire fee	\$1.6	\$0.0	\$1.6
Charitable gaming	\$2.4	\$0.0	\$2.4
Electric and telephone cooperative	\$0.2	\$3.7	\$3.9
Estate	\$0.6	\$0.0	\$0.6
Total, in millions	\$328.5	\$86.3	\$414.8

Source: Alaska Department of Revenue

in 2006 and projections call for revenues to remain at about that level from 2006 through 2011. Tire fee revenue is available for general appropriation.

Charitable gaming taxes include a 3 percent pull-tab tax, a 1 percent fee on gaming net proceeds, and revenue from licenses and permits for charitable gaming. From 2001 through 2006, revenue was unchanged at \$2.4 million. Projections are for no change in revenue through 2011. Charitable gaming tax revenue is available for general appropriation.

6 Non-Oil Tax Revenue

2001, 2006 and projections for 2011

Tax Type	2001 Revenue, in millions	2006 Revenue, in millions	2011 Projection, in millions	Historic Growth Rate	Projected Growth Rate
Corporate income	\$59.5	\$138.0	\$136.6	18%	-0%
Tobacco - cigarette	\$41.6	\$57.9	\$56.3	7%	-1%
Tobacco - other non-cigarette products	\$5.4	\$7.6	\$9.5	7%	5%
Alcohol	\$12.0	\$35.2	\$38.6	24%	2%
Insurance premium	\$32.2	\$51.9	\$58.6	10%	2%
Motor fuel	\$37.7	\$42.1	\$43.4	2%	1%
Fisheries business	\$30.5	\$32.5	\$38.2	1%	3%
Fisheries landing	\$7.3	\$10.4	\$12.0	7%	3%
Salmon enhancement	\$3.6	\$4.4	\$5.1	4%	3%
Mining	\$1.7	\$18.6	\$55.4	61%	24%
Vehicle rental	\$0.0	\$7.7	\$8.6	NA	2%
Tire fee	\$0.0	\$1.6	\$1.6	NA	0%
Charitable gaming	\$2.4	\$2.4	\$2.4	0%	0%
Electric and telephone cooperative	\$3.3	\$3.9	\$4.5	3%	3%
Estate	\$2.7	\$0.6	\$0.0	-26%	NA
Commercial passenger vessel	\$0.0	\$0.0	\$44.1	NA	NA
Other assessments	\$6.0	\$0.0	\$0.0	NA	NA
Total, in millions	\$245.9	\$414.8	\$514.9	11%	4%

Source: Alaska Department of Revenue

Electric and telephone cooperatives pay special taxes in lieu of the corporate income tax. The electric cooperative tax levy is 0.025 cents to 0.05 cents per kilowatt-hour of electricity furnished. The telephone cooperative tax levy is 1 percent or 2 percent of revenue. Revenue from these taxes increased at a 3 percent average annual rate to \$3.9 million from 2001 through 2006. The projected average annual growth from 2006 through 2011 is 3 percent. By custom, the Legislature appropriates all revenue from cooperatives to the municipalities where they are located.

Alaska's estate tax is equal to the maximum state credit allowable under federal law. Changes in federal estate tax law phased out this credit, effectively eliminating Alaska's estate tax in 2005. However, the tax continues to generate revenue because of late filings of returns for years prior to 2005.

From 2001 through 2006, estate tax revenue declined at an average rate of 26 percent a year and generated \$600,000 in 2006. Projections

show no revenue collections from the estate tax from 2006 through 2011. Since the changes in federal law are temporary, Alaska will begin to receive revenue again in 2012 if Congress does not revise the tax law before then.

As mentioned, Alaska voters approved a ballot measure in August 2006 that imposed new taxes on large commercial passenger vessels. In addition to corporate income taxes, the ballot measure also imposed a tax of \$46 per passenger and a tax of 33 percent on income from onboard gambling activity. Total revenue from the per-passenger tax is projected to be \$44.1 million in 2011. Because regulations have not yet been finalized, there are currently no estimates for revenue from the gambling tax and corporate income tax.

The same ballot measure also imposed a fee of \$4 per berth to support the Ocean Ranger program, which is a fee for services and not a tax. Tax revenue from the ballot measure, except for corporate income tax collections, is restricted in use.

An increasing reliance on non-oil tax revenue

Alaska's non-oil taxes generated \$414.8 million in 2006, and \$328.5 million of that amount was available for general appropriation by the Legislature. (See Exhibit 5.) Non-oil taxes made up 18 percent of total tax revenue in 2006, but that percentage is projected to grow to 24 percent by 2011.

From 2006 through 2011, revenue from non-oil taxes should increase, while projections call for a decline in oil tax collections. (See Exhibits 1 and 6.) If these projections are correct, non-oil taxes will play a growing role in the future of Alaska's state revenue. In light of the current forecast predicting a decline in oil prices and falling oil output, it is worthwhile for policymakers and the public to become familiar with the non-oil taxes that already contribute significantly to the state.

Still a heavyweight – but leaner than it used to be

State government is one of Alaska's largest employers. With about 24,500 jobs in 2006 and over a billion dollars in wages, it provided almost 8 percent of all payroll jobs and 9 percent of all wages.

Looking at state government employment from 1980 to 2006 (see Exhibit 1), two broad themes emerge. The first is the relationship between state government employment and overall employment. (See Exhibit 2.) Generally, when the economy has shed jobs state government has followed suit, and the opposite has occurred when the economy added jobs.

The second theme is a qualification of the first: while both state government employment and total payroll employment have grown since 1980, state government has grown noticeably less. From 1990 to 1999 in particular, state government's share of total employment and wages gradually declined.

The roller-coaster 1980s

From 1980 to 1984 total payroll employment¹ grew at a robust average rate of 7 percent a year and total nominal wages grew at 8 percent a year. Oil

¹ The payroll numbers are from the Quarterly Census of Employment and Wages program and are derived from reports submitted by every employer subject to state and federal unemployment insurance laws. Among those not covered by unemployment insurance laws, and therefore not counted here, are the uniformed military, self-employed workers and fishermen.

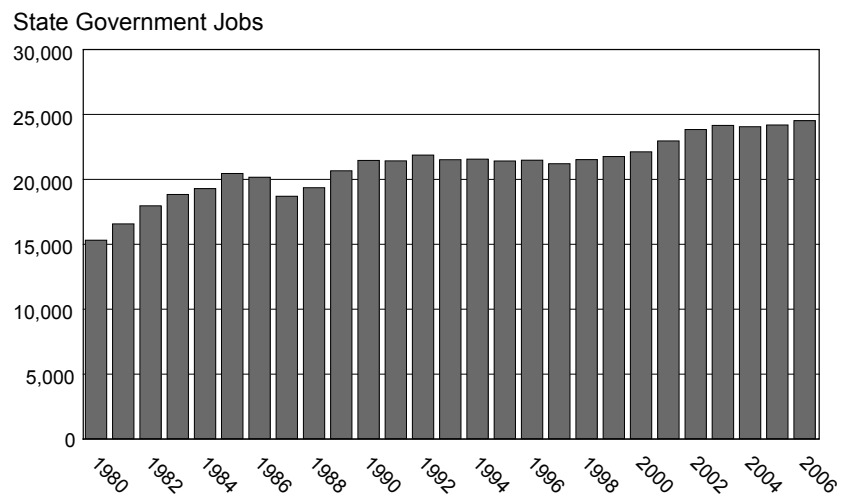
prices were high and North Slope production doubled from 1978 to 1980 then continued to grow incrementally. The state's coffers were full and state government employment and wages grew right along with the rest of the economy, though at a slightly lower rate of 6 percent for both.

Job growth for the broader economy slowed considerably in 1985 before shedding over 20,000 jobs in 1986 and 1987, a number that equated to an 8.8 percent loss. State government followed suit and cut 1,700 jobs over the next two years, or 8.5 percent of its 1985 number.

The recovery began for both groups in 1988 and by 1990 both had reached job counts well above 1986 levels. Over the next de-

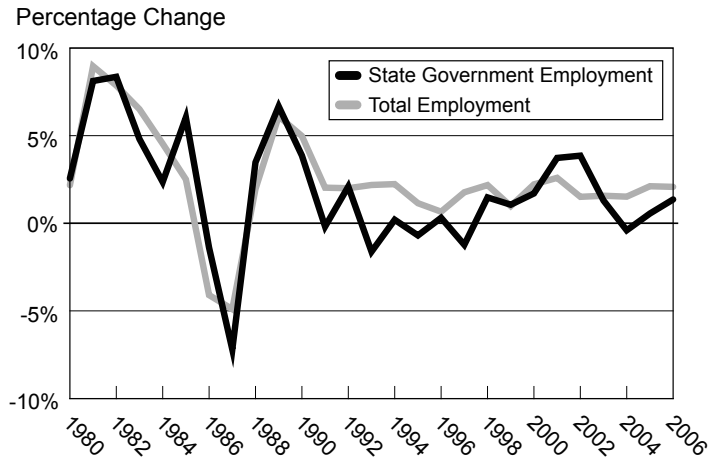
Limited Growth Since 1990

State government employment, 1980 to 2006



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

2 Similar Trends State government and total employment



cade, however, the trend lines diverged slightly.

Little state government growth in the 1990s

State government employment grew very little during the 1990s, a decade of budget tightening and concern about actual and expected fiscal gaps resulting from declining oil production and relatively low oil prices. From 1990 to 1999, state government added less than 300 jobs and grew at an average annual rate of less than two-tenths of a percentage point. Over that same time, the state's total job count grew by an average rate of 1.7 percent a year and added more than 38,000 jobs.

As a result, state government's share of the broader economy gradually shrunk from 9.1 percent of all payroll jobs in 1990 to 7.9 percent in 1999. (See Exhibit 3.) Total wages paid for state government jobs followed a similar trajectory although a change in what was included as wages in 1996 created a break in that series. (See Exhibit 4.) Both before and after 1996, however, state government wages' declining share of total wages is apparent.

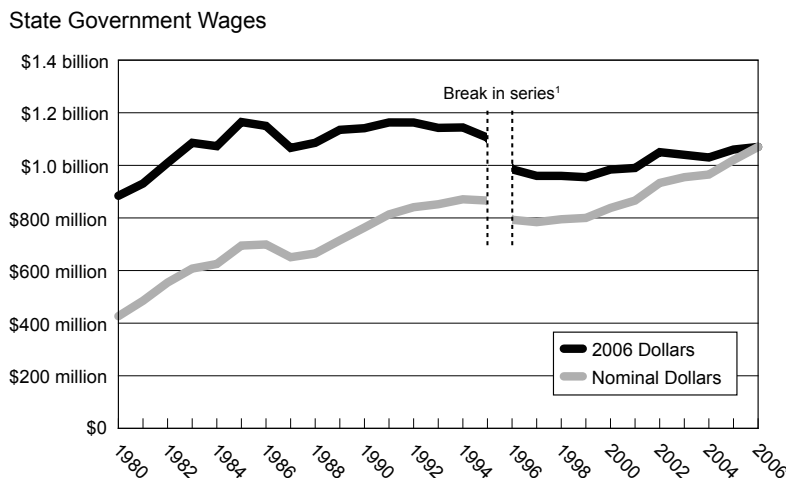
Roughly equal growth from 2000 to 2006

From 2000 to 2006, state government employment and wages grew at an average rate that more closely resembled the broader economy. Average growth of 1.7 percent a year for state government jobs was just slightly behind the 1.9 percent average rate for total payroll employment. As a result, state government's share of total employment fell only very slightly from 7.9 percent in 2000 to 7.8 percent in 2006.

3 A Declining Percentage Share of total employment and wages



4 A Different Pattern Every Decade State government wages



Note for Exhibits 3 and 4:

¹A change in what was included in wages created a series break in 1996; wage data from earlier years are not directly comparable with data from 1996 forward.

Sources for Exhibits 2, 3 and 4: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

Still large by national standards

Although the 1990s shrunk state government employment and wages relative to the state's broader job market, it still plays a larger than average role when compared to the United States as a whole. (See Exhibit 5.) One reason for the difference is that state government in Alaska pays for a larger share of education, corrections and the court system, among other things. Special programs such as the Alaska Permanent Fund are also unique sources of employment in Alaska.

Alaska's relatively small population and enormous land mass are yet another reason why state government has historically provided a larger share of total employment and will likely continue to do so. For perspective, Delaware's state government, which oversees a slightly larger population than Alaska's and a land mass more than 200 times smaller, provides 6.7 percent of the state's total job count, not too far removed from Alaska's 7.8 percent.

About 30 percent in state education

About 7,100 of the 24,500 state government jobs in 2006 were associated with the University of Alaska system or Mount Edgecumbe High School, a state-operated boarding school in Sitka. Altogether, state education jobs made up 29 percent of total state employment in 2006.

Nationally, 45.2 percent of 2006 state government employment was in education, but the difference should not be misinterpreted to mean Alaska has a smaller percentage of state education jobs than the nation. In fact, Alaska's state education jobs make up 2.2 percent of total employment compared to 1.7 percent nationally. In other words, Alaska provides a larger share of state education jobs than the national average, but education jobs make up a smaller share of total state government employment.

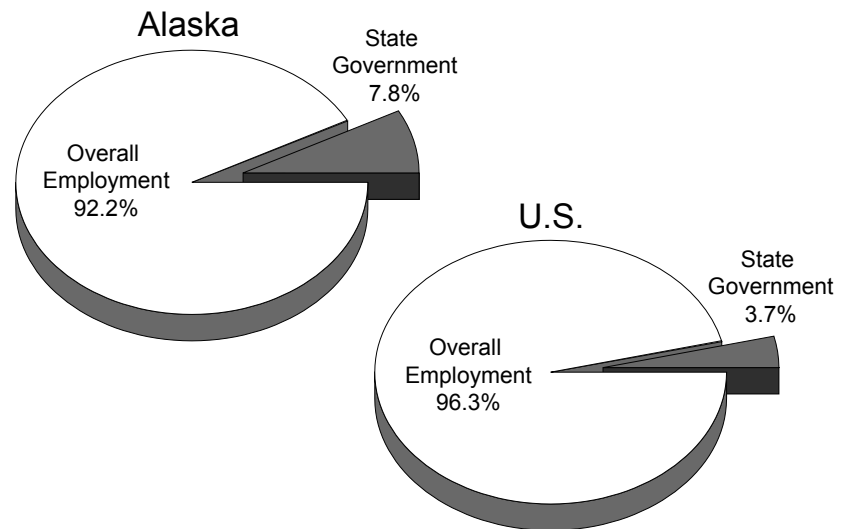
Anchorage, Fairbanks and Juneau have most of the jobs

Nearly 80 percent of state government jobs are located in Anchorage, Fairbanks and Juneau.

Still Twice the National Share

Share of total employment, 2006

5



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

Anchorage Has Largest Share

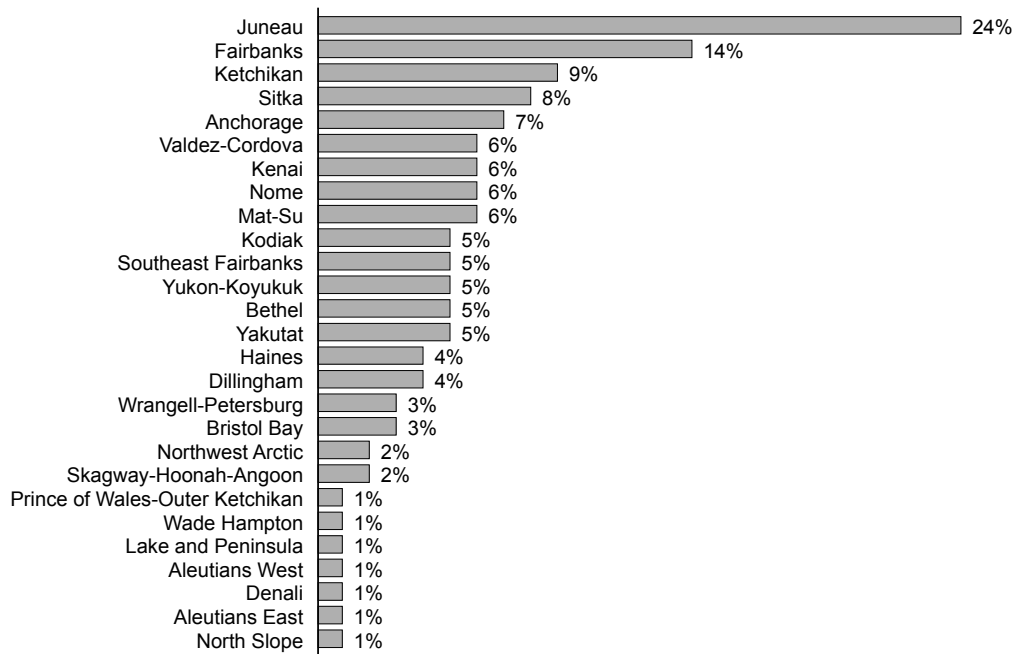
State government employment, 2006

6

	Average Monthly Employment	Percentage of Total State Government Employment
Anchorage, Municipality of	9,853	40.2%
Fairbanks North Star Borough	5,214	21.3%
Juneau Borough	4,356	17.8%
Kenai Peninsula Borough	1,158	4.7%
Mat-Su Borough	1,006	4.1%
Ketchikan Gateway Borough	672	2.7%
Sitka Borough	346	1.4%
Bethel Census Area	315	1.3%
Valdez-Cordova Census Area	302	1.2%
Kodiak Island Borough	273	1.1%
Nome Census Area	228	0.9%
Southeast Fairbanks Census Area	119	0.5%
Yukon-Koyukuk Census Area	102	0.4%
Dillingham Census Area	93	0.4%
Wrangell-Petersburg Census Area	77	0.3%
Northwest Arctic Borough	67	0.3%
North Slope Borough	65	0.3%
Aleutians West Census Area	42	0.2%
Haines Borough	41	0.2%
Bristol Bay Borough	33	0.1%
Wade Hampton Census Area	29	0.1%
Prince of Wales-Outer Ketchikan Census Area	27	0.1%
Skagway-Hoonah-Angoon Census Area	26	0.1%
Denali Borough	23	0.1%
Aleutians East Borough	17	0.1%
Yakutat Borough	15	0.1%
Lake and Peninsula Borough	8	0.0%

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

7 State Government a Heavyweight in Juneau Share of area's total jobs, 2006



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

(See Exhibit 6). The mix of employment is quite different for the three, though, with education jobs making up about a fourth of the total in Anchorage, two-thirds in Fairbanks, and just one-tenth in Juneau. If the education component is removed from the totals, Anchorage would still have the largest number of state government jobs, but Juneau would move past Fairbanks into second place.

State government dominates Juneau job market

Although Juneau has fewer total state government jobs than either Anchorage or Fairbanks, state government employment makes up a substantially larger percentage of Juneau's total employment. (See Exhibit 7.) Nearly one out of every four Juneau payroll jobs in 2006 was in state government.

As dominant as that percentage is, it's similar to other state capitals that are not their respective states' population centers. For example, state government jobs make up 21 percent of all payroll employment in Carson

City, Nev., and 24 percent in Olympia, Wash.

Not surprisingly, in states where the capital is also the largest city, state government jobs are significantly less noticeable in the local economy. In Denver County, Colo., state government jobs make up just 5 percent of total payroll employment.

Because of the education component, state government also provides a significant portion of total payroll jobs in Fairbanks and Sitka. State government has grown in importance for Ketchikan as a result of the Alaska Marine Highway's headquarters being moved there from Juneau in 2004.

Many cubicle jobs and many in the great outdoors

The largest group of state government jobs is in the occupational category of office and administrative support. (See Exhibit 8.) The group includes all kinds of office occupations ranging from first-line supervisors to billing clerks and secretaries. Not far behind is the protective services occupational group, which includes firefighters, state troopers and correctional officers, among others.

A tally of specific occupations shows that there were more firefighters than any other occupation in 2006. (See Exhibit 9.) Nearly all those jobs were focused on fighting the forest fires that are a regular summer occurrence in Alaska; local governments generally employ the firefighters who respond to fires and other emergencies in incorporated areas.

Clerks, secretaries and administrative assistants are also well represented occupations, as are correctional officers and jailers. Education-related occupations show up in the

470 postsecondary business teacher jobs.

A large, interdependent piece of the economy

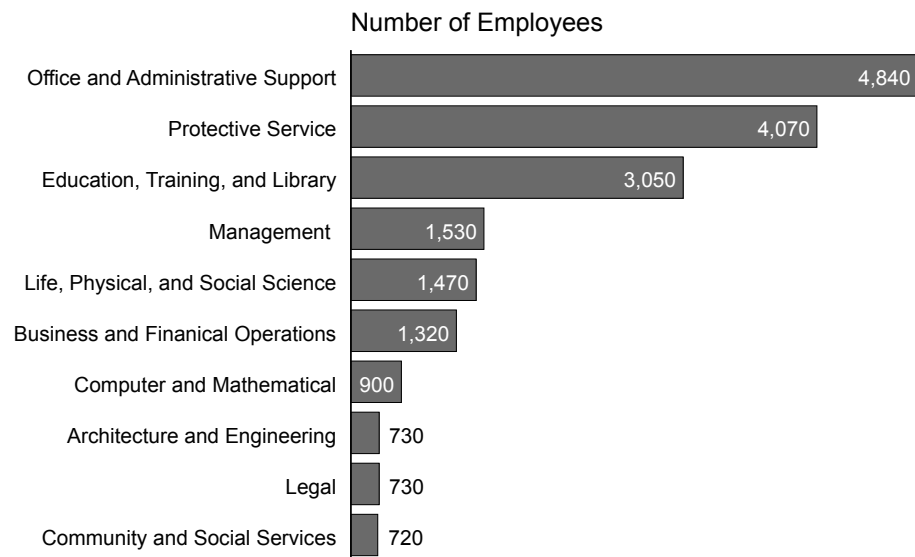
When considered as a unit, Alaska's state government provides more than twice as many direct jobs as the oil and gas industry, 35 percent more than the construction industry and almost as many as the health care industry – which is not to say that it's more or less important than any of them to the state's economy. The question of relative importance can be endlessly and fruitlessly debated, but there's no question that state government's size makes it an important piece of the puzzle.

Judging by numbers alone, state government plays a more significant role in Alaska's economy than for the nation as a whole. This is true for a variety of reasons, not the least of which are the state's vast area, relatively small population and rich storehouse of natural resources.

Over the last three decades, three distinct patterns can be seen in state government employment and wages. During the 1980s they rose and fell sharply, then rose again, in a decade of boom and bust. Then, having been influenced by that bumpy ride, spending was restrained in the 1990s and state government grew progressively leaner as a share of total payroll employment and wages. Most recently, in the period from 2000 to 2006, state government has grown at roughly the same rate as the broader economy.

A Lot of Office Jobs Top 10 major occupational groups, 2006

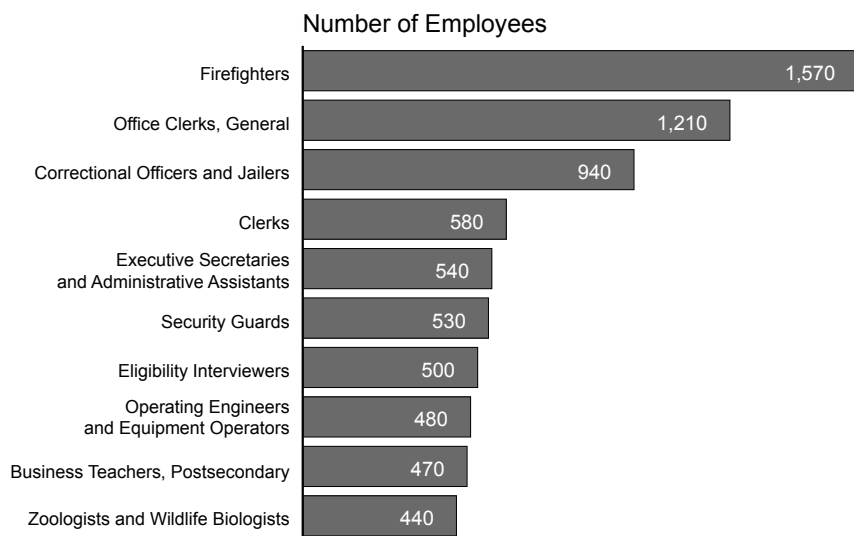
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Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

Firefighter Jobs Lead Occupation Count Top 10 occupations, 2006

9



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

When the entire period from 1980 to 2006 is viewed as a whole, two themes emerge: first, state government has generally followed the broader economy's trends; and second, state government has gradually shrunk as a percentage of the total employment and wage base.

Thirty years of the trans-Alaska oil pipeline

The final weld was completed on the trans-Alaska oil pipeline on May 31, 1977, and for the next 30 years Alaska's economy would go through a transformation few could imagine. What was to follow was unprecedented – the state had never experienced anything like it before and may never see the likes of it again.

It is also true that plenty of people realized this final weld meant that hundreds of millions of dollars would flow into the state treasury, but billions? Who could know? Who could have guessed that, during many of the peak production years of North Slope oil, the world would experience some of the highest oil prices ever registered?

Oil should not get all the credit, though. There are other industries that had nothing to do with oil that have been part of the economic make-over. Alaska's visitor industry would have flourished with or without Prudhoe Bay. The huge harvests of king crab and the Americanization of the state's ground fishery had nothing to do with Prudhoe Bay, nor did it have anything to do with the development of the state's international air cargo trade. The renaissance of the state's mining industry is another development independent of oil.

But then again, there is little doubt that without the discovery of oil on the North Slope, Alaska's economy would be vastly different today. With as much as a third of the state's current economic activity somehow tied to oil, it certainly deserves a special place on the state's economic mantel. As the Alaska historian Terrance Cole wrote, "The wealth generated by Prudhoe Bay and the other fields on the North Slope since 1977 is worth more than all the fish ever caught,

all the furs ever trapped, all the trees chopped down; throw in all the copper, whalebone, natural gas, tin, silver, platinum, and anything else ever extracted from Alaska too. The balance sheet of Alaskan history is simple: One Prudhoe Bay is worth more in real dollars than everything that has been dug out, cut down, caught or killed in Alaska since the beginning of time."

Here are a few transformational statistics to illustrate the change: Alaska's work force of today is nearly three times as large as it was in 1977. Payroll going to workers climbed from \$3.5 billion to \$13 billion and the gross state product grew from \$8 billion to \$39 billion. In 1977, Alaskans generated \$5 billion in personal income and today we generate five times that figure (\$25 billion). In 1977, 412,000 Alaskans lived in the state and today, 670,000 people live here – an increase that is the equivalent of adding Anchorage's current-day population to the state.

Alaska's per-capita income in 1977 was 68 percent higher than the nation's, but by 2006 that advantage completely disappeared. On the other hand, the cost of living in the more urban parts of the state shrank from 25-40 percent higher to 10-15 percent higher. And with the revocation of the state income tax in 1980 and oil wealth paying for a larger share of local government, Alaska now enjoys the lowest state and local tax burden in the nation. With all this said, how did we get here?

The 1980s' boom and bust

The 1980s brought both heady and humbling times for the state. It would go through three phases: the unprecedented boom that came as a result of the new-found oil wealth, followed

by a classic economic bust and then a period of recovery and slow, and not as easily explained, steady expansion that continues today.

Nearly every aspect of the state's economy grew at breakneck speed during the first five years of the 1980s. The biggest boom Alaska would experience began around the same time the billionth barrel of oil came out of the ground in January 1980. With it, the price of oil doubled that year and then increased another \$10 a barrel in 1981. In today's dollars, at its peak it amounted to \$66 per barrel, and oil production that year was more than twice what it is today. The state's budget doubled in one year – going from \$1.6 billion in 1980 to \$3.4 billion in 1981.

The spending spree would go on unabated for the next four years, peaking in 1985. It created a demand for goods and services that acted as the catalyst for the most dynamic expansion of any five-year period in Alaska's history. Between 1980 and 1985, the state's population grew by more than 120,000 – a record for a five-year period, never to be repeated again. In fact, it would take another 22 years before the state would add that many people again. During that same time period, the work force grew by 60,000 – last year alone employment grew by 4,700. The effects of this largess were not limited to one area of the state; they were felt statewide.

This period of hypergrowth would be short-lived and its aftermath continues to haunt Alaska's economic psyche. It all happened so quickly. The price of oil fell and, as a result, the state government cut more than \$1 billion dollars from its budget in a year. Other huge cuts followed. Also contributing to these losses was what the private sector went through, including real estate developers and others who got out way ahead of demand and then demand took a U-turn. The construction and real estate industries collapsed. Part of the aftermath of the bust was the loss or consolidation of 15 banks and other financial institutions that had been doing business in Alaska. In 1986 and 1987, Alaska lost more than 20,000 jobs. Between 1985 and 1989, 44,000 more people left Alaska than arrived.

Most was not lost in the bust

But not all was lost. In fact, after all was said and done, Alaska's economy was considerably larger in 1988 than it had been in 1980. In 1988, when employment levels reached their lowest point, the levels were still 39,000 higher than they had been in 1980 and the state's population was still 100,000 larger. Two years later, the state's population and work force would hit new record highs.

Slow steady growth

The era that ensued that we are still experiencing was much different than any previous period in Alaska's history. Starting in 1988, the economy did begin to recover and it has grown each year since – it is currently in its 20th year of economic expansion. This represents the longest period of uninterrupted growth in the state's history – albeit significantly slower than previous periods. From 1959 to 1987, employment in Alaska grew by nearly 6 percent per year versus 2 percent during the most recent expansionary period. And population growth slowed to about 1 percent versus 3 percent per year.

The fact that the economy grew at all is in some ways remarkable. We have to remember that the first year of the economic recovery was also marked by the year of peak North Slope production. Then, in nearly every year thereafter, production declined to where it is today – at less than half that level. Also, the price of a barrel of oil remained below \$15 throughout most of the 1990s. Therefore, oil was not an economic growth factor during most of the 20-year period.

The period from 1988 to 2007 can probably be divided into the recovery period and the large expansion of the state's consumer sector – or said differently, a “learning-to-do-our-own-wash” development, or what some economists call import-substitution. The other major force was the dramatic rise in federal expenditures. It is, of course, more complicated and muddled than that. During the same period, some of the state's traditional industries grew, including the visitor, mining and international air cargo industries, and the military. But alone they could not

have sustained this stretch of growth. Other economic aids included tapping the Constitutional Budget Reserve Fund. By doing this, the Alaska Legislature prevented wide swings in state expenditures and the Permanent Fund poured \$13 billion in dividends into the state's economy – both legacies of oil.

By the early to mid-1990s, most of the growth was sustained by a mixture of industries in the state's service sector. Examples include the major expansion of the state's retail sector and an amazing explosion in the delivery of health care and social services. In a sense, Alaska was figuring out how to provide many of its own services locally instead of buying them elsewhere or simply doing without them. For example, Alaska joined the rest of the country in riding the huge retail wave of the 1990s. There are now 10,000 more jobs in retail than there were at the beginning of the expansion. Some called it catching up with national norms.

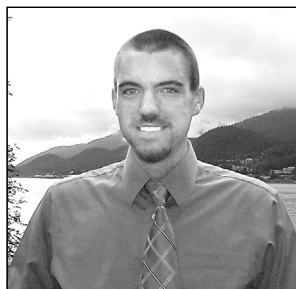
The same can probably be said for health care. An increasing share of Alaska's health care needs that Alaskans used to have to go out of state for were being met locally. As

more choices became locally available, it led to additional expansion. Although no good measure of this "import-substitution" effect exists, there is little doubt that a dollar spent in Alaska's economy today remains in the economy longer. This may be one of the big legacies of the 1990s.

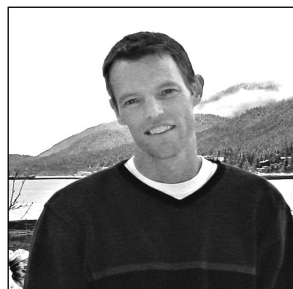
Low interest rates certainly did not hurt Alaska's situation and by the late 1990s the rise and eventual doubling of federal expenditures kicked in to help sustain the growth streak. Some believe that without that giant fiscal stimulus, Alaska's economy could have easily moved into negative territory.

But we know we cannot depend on consumption alone, or large amounts of federal dollars, to carry Alaska's economy into the future. Federal expenditures have already peaked and consumption only goes so far. Last year employment grew by a moderate 1.5 percent. By 2008, it is forecasted to slow to 1 percent. Will incremental growth from our smaller industries help sustain the current growth streak? Or are we in need of another weld – this time the first weld beaded on the trans-Alaska gas pipeline?

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July's report: steady as she goes

Alaska's seasonally adjusted unemployment rate rose two-tenths of a percentage point in July to 6.1 percent and payroll employment saw a typically large seasonal increase due to the beginning of the salmon harvest.

Although several of the state's high-profile industries have changed trends over the last year, the state is poised to add a 20th consecutive year of employment growth in 2007 and unemployment remains low by historical standards.

Unemployment rate hovering around 6 percent

The state's unemployment rate hasn't been more than two-tenths of a percentage point above or below 6 percent since February. (See Exhibit 1.) So far, the 2007 numbers show a moderate decline from 2006's average rate of 6.7 percent.

The Bristol Bay Borough had the state's lowest unemployment rate in July at 1.5 percent¹ and the Wade Hampton Census Area had the highest at 24.5 percent. (See Exhibit 3.) Nearly all the state's boroughs and census areas had lower July unemployment rates than they did in 2006, the one exception being the Yukon-Koyukuk Census Area.

Job count reaches high point in July

Payroll employment rose by 5,900 in July, led by a large seasonal increase in seafood processing jobs. (See Exhibit 2.) July tends to be the peak month for jobs in Alaska as the state's most seasonal industries –

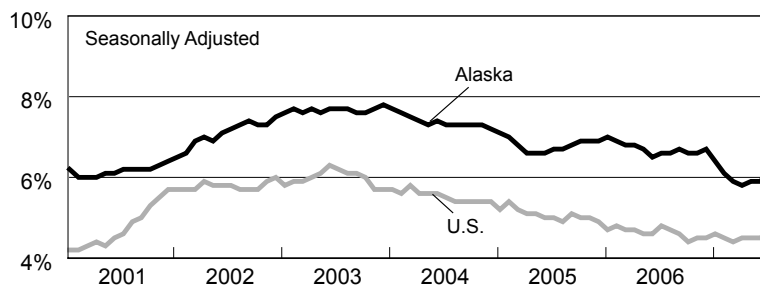
construction, seafood processing and tourism – are all near their highest activity levels of the year.

Three industries with developing story lines are oil and gas, construction and health care. Oil and gas jobs shot up in 2006, but have leveled off in 2007 and could fall a little when current large maintenance and repair projects are completed.

After nearly a decade of strong growth, construction employment fell off in 2006 and had continued to show over-the-year losses in 2007. July's estimate of 21,500 jobs was up 100 from July 2006, which may indicate that the downward trend is flattening out, although resumed growth is unlikely in the near future. This summer's large number of public projects and a relatively healthy level of commercial construction may be temporarily offsetting the weak residential market.

July's estimate of 27,100 jobs for the health care industry was up just 200 from July 2006. The industry has consistently provided strong job gains over the last decade, but that growth has moderated in 2007. Health care employment in the state has steadily climbed as a share of total payroll jobs, but at 8.4 percent it's still below the national level of 9.2 percent.

Unemployment Rates, Alaska and U.S. January 2001 to July 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics

¹ Unemployment rates for boroughs and census areas are not seasonally adjusted.

2 Nonfarm Wage and Salary Employment

	Preliminary	Revised	Revised	Changes from:	
	7/07	6/07	7/06	6/07	7/06
Alaska					
Total Nonfarm Wage and Salary¹	341,500	335,600	337,600	5,900	3,900
Goods-Producing ²	57,600	50,800	56,600	6,800	1,000
Service-Providing ³	283,900	284,800	281,000	-900	2,900
Natural Resources and Mining	13,900	13,700	12,900	200	1,000
Logging	300	400	500	-100	-200
Mining	13,600	13,400	12,400	200	1,200
Oil and Gas	11,400	11,200	10,400	200	1,000
Construction	21,500	20,700	21,400	800	100
Manufacturing	22,200	16,400	22,300	5,800	-100
Wood Product Manufacturing	300	300	400	0	-100
Seafood Processing	18,100	12,300	18,200	5,800	-100
Trade, Transportation, Utilities	69,700	68,800	68,900	900	800
Wholesale Trade	7,200	6,900	7,000	300	200
Retail Trade	38,100	37,900	37,600	200	500
Food and Beverage Stores	6,700	6,600	6,800	100	-100
General Merchandise Stores	9,300	9,200	9,100	100	200
Transportation, Warehousing, Utilities	24,400	24,000	24,300	400	100
Air Transportation	6,900	6,800	6,900	100	0
Truck Transportation	3,500	3,500	3,500	0	0
Information	7,000	7,000	7,000	0	0
Telecommunications	4,200	4,200	4,200	0	0
Financial Activities	15,300	15,300	15,400	0	-100
Professional and Business Services	27,000	27,000	25,900	0	1,100
Educational⁴ and Health Services	37,700	37,900	37,200	-200	500
Health Care	27,100	27,100	26,900	0	200
Leisure and Hospitality	39,600	38,500	38,700	1,100	900
Accommodations	11,600	10,900	11,700	700	-100
Food Services and Drinking Places	22,600	22,300	21,700	300	900
Other Services	11,600	11,600	11,500	0	100
Government	76,000	78,700	76,400	-2,700	-400
Federal Government ⁵	17,300	17,300	17,500	0	-200
State Government	23,900	23,600	23,800	300	100
State Government Education ⁶	5,600	5,600	5,600	0	0
Local Government	34,800	37,800	35,100	-3,000	-300
Local Government Education ⁷	16,300	19,300	16,700	-3,000	-400
Tribal Government	3,600	3,400	3,700	200	-100

Notes for all exhibits on this page:

¹ Excludes the self-employed, fishermen and other agricultural workers, and private household workers; for estimates of fish harvesting employment, and other fisheries data, go to labor.alaska.gov/research/seafood/seafood.htm

² Goods-producing sectors include natural resources and mining, construction and manufacturing.

³ Service-providing sectors include all others not listed as goods-producing sectors.

⁴ Private education only

⁵ Excludes uniformed military

⁶ Includes the University of Alaska

⁷ Includes public school systems

⁸ Fairbanks North Star Borough

Sources for all exhibits on this page: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Bureau of Labor Statistics

4 Nonfarm Wage and Salary Employment By region

	Preliminary	Revised	Revised	Changes from:		Percent Change:	
	7/07	6/07	7/06	6/07	7/06	6/07	7/06
Anch/Mat-Su	172,400	171,900	170,900	500	1,500	0.3%	0.9%
Anchorage	153,700	153,300	151,900	400	1,800	0.3%	1.2%
Gulf Coast	33,900	33,450	33,400	450	500	1.3%	1.5%
Interior	49,600	49,200	49,000	400	600	0.8%	1.2%
Fairbanks ⁸	40,300	39,900	39,700	400	600	1.0%	1.5%
Northern	18,550	18,650	17,250	-100	1,300	-0.5%	7.5%
Southeast	43,000	40,800	42,750	2,200	250	5.4%	0.6%
Southwest	24,300	21,750	24,350	2,550	-50	11.7%	-0.2%

3 Unemployment Rates By borough and census area

	Prelim.	Revised	Revised
	7/07	6/07	7/06
SEASONALLY ADJUSTED			
United States	4.6	4.5	4.8
Alaska Statewide	6.1	5.9	6.6
NOT SEASONALLY ADJUSTED			
United States	4.9	4.7	5.0
Alaska Statewide	5.4	6.1	6.1
Anchorage/Mat-Su	5.0	5.5	5.7
Municipality of Anchorage	4.6	5.1	5.3
Mat-Su Borough	6.5	7.1	7.4
Gulf Coast Region	5.7	6.6	6.3
Kenai Peninsula Borough	5.9	6.7	6.5
Kodiak Island Borough	5.5	6.2	5.9
Valdez-Cordova Census Area	5.3	6.0	5.5
Interior Region	5.1	5.9	5.9
Denali Borough	2.1	2.3	2.3
Fairbanks North Star Borough	4.6	5.4	5.5
Southeast Fairbanks Census Area	8.5	9.0	10.3
Yukon-Koyukuk Census Area	12.4	13.8	12.3
Northern Region	9.4	9.5	11.0
Nome Census Area	12.6	12.1	14.2
North Slope Borough	5.9	6.1	7.3
Northwest Arctic Borough	10.8	11.5	12.1
Southeast Region	4.5	5.3	5.1
Haines Borough	3.2	5.1	4.0
Juneau Borough	3.8	4.4	4.5
Ketchikan Gateway Borough	3.9	4.9	4.5
Prince of Wales-Outer Ketchikan CA	10.6	11.3	11.4
Sitka Borough	4.3	4.5	4.5
Skagway-Hoonah-Angoon CA	5.9	7.0	6.6
Wrangell-Petersburg Census Area	5.6	7.9	6.2
Yakutat Borough	4.0	5.5	5.8
Southwest Region	9.2	10.9	10.0
Aleutians East Borough	5.0	7.8	5.9
Aleutians West Census Area	3.6	5.9	4.1
Bethel Census Area	13.1	13.1	14.0
Bristol Bay Borough	1.5	3.1	1.7
Dillingham Census Area	7.1	9.3	8.0
Lake and Peninsula Borough	3.3	4.9	4.3
Wade Hampton Census Area	24.5	22.8	25.6

For more current state and regional employment and unemployment data, visit our Web site.

almis.labor.state.ak.us

Employer Resources

Workers' Compensation Requirements

The Alaska Workers' Compensation Act requires all employers with one or more employees in Alaska to have workers' compensation insurance, unless the employer has at least 100 employees and has been approved as a self-insurer by the Alaska Department of Labor and Workforce Development's Workers' Compensation Division.

The purpose of the Workers' Compensation Division is to ensure that Alaska workers who are injured on the job receive medical care and cash wage benefits through their employers or their employers' insurance companies. The division is the administrative arm of the Workers' Compensation Board.

Employers purchase workers' compensation insurance from commercial insurance carriers. Once employers have insurance, they're required to post in their workplaces an Employer's Notice of Insurance, a notice they obtain from their insurance companies. Employers must also submit proof of insurance to the Workers' Compensation Division.

Executive officers of for-profit corporations are required to have workers' compensation insurance unless they choose to waive coverage by filing a waiver with the division.

If employers are unable to obtain insurance coverage from a commercial carrier, they can purchase insurance through a state assigned-risk pool. And if employers feel their insurance premium is too high, they can request arbitration.

For more information or forms, call the Workers' Compensation Division at (907) 465-2790 or visit the division's Web site at labor.state.ak.us/wc/home.htm. Under "Quick Links" on the right, the "Employer Information" and "Forms" links are particularly helpful.

A Safety Minute

Showing Management's Commitment to Safety

It's common that when workplace injuries occur, employees are doing something unsafe that they had been trained to avoid. Accident investigations often reveal that employees believed their supervisor or manager appreciated the time that they saved by performing the job unsafely. Often, management simply failed to communicate.

Showing management's commitment to safety stresses to employees that a safe workplace isn't just the law – it's also truly supported and required by management. An accident-free workplace saves money and increases productivity.

Show your company's or agency's management commitment to safety by:

- Involving management on the safety committee.
- Having management frequently attend and participate in safety meetings.
- Providing adequate personal protective equipment, or PPE.
- Making sure managers and supervisors set an example by always using their personal protective equipment.
- Establishing appropriate rewards and discipline to promote safety performance.

For more information, contact the Alaska Department of Labor and Workforce Development's Labor Standards and Safety Division at (907) 269-4940 in Anchorage and (907) 465-4855 in Juneau.