

Military plans will soften some Fairbanks loss

By **ALYSSA RODRIGUES**

The Fairbanks North Star Borough's employment levels have been up and down over the past decade. Since the 2012 peak, though, the trend has been mostly down, with the exception of a scant 0.3 percent gain in 2015.

In 2016, employment fell by 1.9 percent, bringing Fairbanks back to 2006 levels. A similar loss of 2.0 percent is forecasted for 2017. (See exhibits 1 and 2.)

Like the rest of the state, Fairbanks' job losses are related to the decline in oil prices. The borough has a few opportunities for growth in 2017, though, including a massive investment in Eielson Air Force Base as it prepares to house two long-awaited F-35s.

Military to gain altitude

Growth is still the long term outlook for Fairbanks' military bases. Preparation for the F-35s at Eielson will require more than \$500 million and 38 new buildings, beginning in 2017 with \$150 million in design and construction contracts awarded in time for the summer 2017 construction season. The remaining \$350 million will be awarded for the 2018 and 2019 construction seasons, with most of the construction planned for 2018.

Fort Wainwright will also gain a \$47 million hangar for its drones, a project slated to begin this year. Drone hangars are typically equipped with cranes, maintenance and shop areas, and flight planning facilities.

Although active duty military numbers aren't included in this forecast's data, they're expected to increase in the near future after the borough's military population dropped from 9,200 in 2012 to 8,300 in 2015. The F-35s' arrival will bring in about 2,765 new active duty personnel, civilian workers, and their families, which will broadly stimulate Fairbanks' economy.

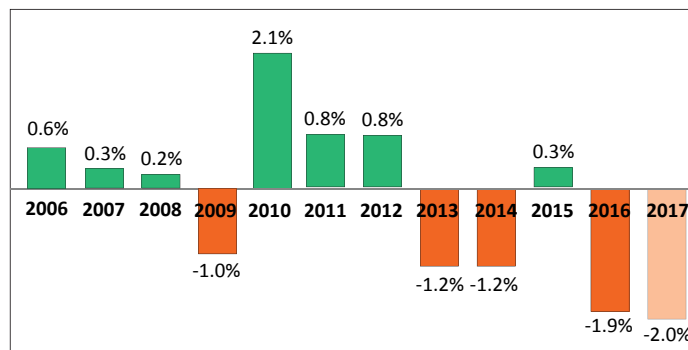
Oil cuts seep into construction

Although the Fairbanks economy's foundation is in

1

Slightly Larger Loss Likely This Year

FAIRBANKS, PERCENT CHANGE, 2006 TO 2017



Note: The 2016 number is preliminary, and 2017 is forecasted.

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

state government and the military, the steep drop in the price of oil has hurt the private sector and Fairbanks' ties to the oil industry. Job losses on the North Slope affect Fairbanks both directly, as 1,150 Fairbanks residents work there, and indirectly as those jobs generate activity in secondary industries such as retail, leisure and hospitality, and utilities — all of which are losing jobs.



Likewise, the borough's construction industry has been hurt directly and indirectly by low oil prices. Continued cuts to the state's capital budget have put a damper on projects, and decreased oil patch activity has reduced employment for construction companies with North Slope project contracts.

The borough had 14 road and highway construction projects in 2016, a slight increase from the prior year, although they made up just 6 percent of the area's construction employment and the gains were offset by sizable losses in pipeline-related construction.

Additional losses are forecasted for 2017 as oil-related industries and the economy as a whole continue to struggle. Small gains in military construction projects will mitigate some of the loss, but not enough to push construction employment growth back into the black.

University to lose more ground

Some of the borough's largest employment losses in

2 Fairbanks Job Forecast by Industry

WAGE AND SALARY EMPLOYMENT, 2015 TO 2017

	2015 Monthly Average ¹	2016 Monthly Average ¹	Change 2015 to 2016	Percent Change 2015-16	2017 Monthly Average	Change 2016 to 2017	Percent Change 2016-17
Total Nonfarm Wage and Salary ²	38,700	37,950	-750	-1.9%	37,450	-750	-2.0%
Construction	3,200	3,000	-200	-6.3%	2,800	-200	-6.7%
Trade, Transportation, and Utilities	7,950	7,900	-50	-0.6%	7,800	-100	-1.3%
Retail Trade	4,900	4,850	-50	-1.0%	4,750	-100	-2.1%
Transportation, Warehousing, Utilities	2,350	2,350	0	0%	2,350	0	0%
Information	500	500	0	0%	500	0	0%
Financial Activities	1,350	1,300	-50	-3.7%	1,300	0	0%
Professional and Business Services	2,250	2,150	-100	-4.4%	2,050	-100	-4.7%
Educational ³ and Health Services	5,200	5,300	100	1.9%	5,350	50	0.9%
Health Care	3,950	3,950	0	0%	3,950	0	0%
Social Services	1,050	1,150	100	9.5%	1,200	50	4.3%
Leisure and Hospitality	4,250	4,150	-100	-2.4%	4,050	-100	-2.4%
Other Services	1,150	1,050	-100	-8.7%	1,000	-50	-4.8%
Government	11,450	11,200	-250	-2.2%	10,950	-250	-2.2%
Federal ⁴	2,950	3,000	50	1.7%	3,000	0	0%
State ⁵	5,350	5,050	-300	-5.6%	4,850	-200	-4.0%
Local ⁶	3,150	3,150	0	0%	3,100	-50	-1.6%

¹Preliminary and adjusted estimates

²Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers

³Private education only

⁴Excludes uniformed military

⁵Includes the University of Alaska

⁶Includes public school systems

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

2016 came from the University of Alaska Fairbanks, and more are expected in 2017. Allocations to the UAF campuses in the Fairbanks area from the state general fund peaked in state fiscal year 2015 at \$162.5 million and fell in fiscal years 2016 and 2017. (See Exhibit 3.) That decline of \$18 million since fiscal year 2015 pushed allocations below 2012 funding levels.

At the same time, fixed operating costs have risen, including utilities, fuel, health care benefits, and building maintenance. Increased costs amid shrinking budgets mean decreased employment. UAF has lost more than 200 jobs since its peak in 2013 and will continue to cut jobs in 2017.

Nonuniversity state employment has decreased as well. Fairbanks' losses have been modest compared to other areas of the state but will deepen in 2017. Combined, state government will shrink by another 200 jobs this year.

Secondary effects on professional services

The professional and business services industry consists of management and administrative companies

and companies that engage in scientific testing, architecture, and engineering. Many of these companies are strongly tied to the oil industry, and decreased investment there means less need for engineers and chemical testers. Likewise, fewer new buildings means job loss for architects and logistics coordinators.

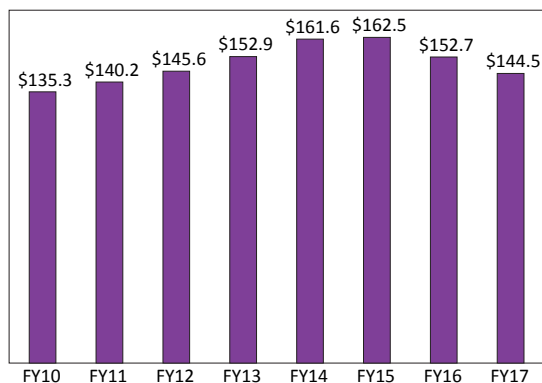
Dramatic reductions in the oil industry and the capital budget took a toll on professional and business services in 2016, resulting in the loss of 100 jobs. More of the same is expected in 2017 as capital budgets remain small and low oil prices persist.

Construction on Eielson Air Force Base and Fort Wainwright will require some of these services, but these opportunities aren't likely to offset all of the losses from oil and construction cuts.

Visitors up but local consumption down

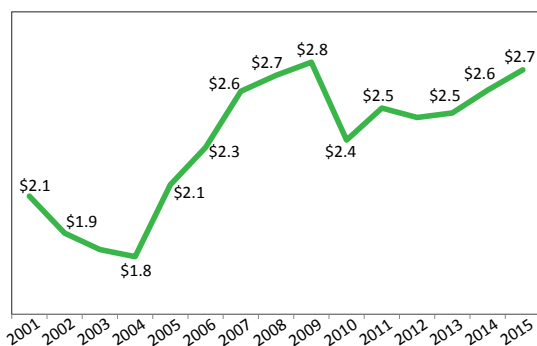
Bed tax collection increased by 10 percent from 2012 to 2015 (the most recent data available), suggesting tourism is growing in the Golden Heart City. (See Exhibit 4.) However, growth in bed tax in the first half of 2016 did not correlate with employment, as the indus-

3 Allocations to UAF Down FROM STATE GENERAL FUND, FY10 TO FY17



Note: Includes funds only for the Fairbanks campus, Fairbanks Organized Research, Cooperative Extension Service, and UAF Community and Technical College.
Source: University of Alaska Fairbanks, Office of Management and Budget

4 Tourism An Ongoing Source of Growth for Fairbanks BED TAX REVENUE, IN MILLIONS, 2001-15



Source: Fairbanks North Star Borough

try lost about 100 jobs.

While the visitor industry has gained steam since 2012, local demand appears to be flagging — and in Fairbanks it's mainly local consumption, not tourism, that drives the leisure and hospitality industry. Leisure and hospitality is forecasted to lose another 100 jobs in 2017, as residents are spending less after job losses in other industries.

Less demand to dampen retail

Stores in the borough cut 50 jobs in 2016 as less employment in base industries, such as state government and the university, reduced consumer spending. People also tend to limit their spending to essential purchases during tough economic times.

While most industries' losses are expected to be about the same as in 2016 or begin to abate, borough retail is expected to take a harder hit this year. Increased activity on the military bases could help somewhat, but it won't be enough to maintain current levels of retail employment.

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STATEWIDE

Continued from page 7

increased slightly in 2016, mostly from school district growth.

Local governments may be expected to foot the bill for more of the services they offer as the state withdraws funding, which could lead to further cuts in the near future. But because budgets are set through the first half of 2017, fiscal year 2018 losses

won't have a large annual impact.

Federal employment, which is the smallest category, is expected to be flat in 2017 after a slight recovery in 2016. Federal employment was a source of job loss for years following the national recession, but those losses began to turn around last year. However, the incoming administration has announced plans to freeze hiring.

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