

What Does \$7.6 Billion in Federal Money Mean to Alaska?

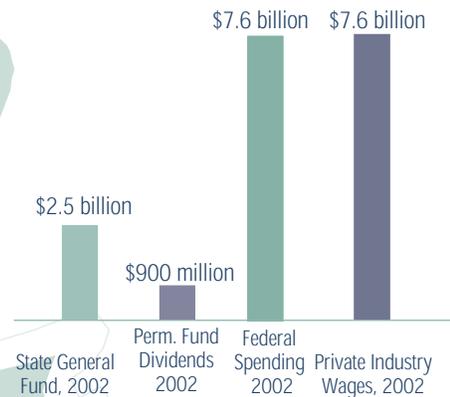
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The federal government spent \$7.6 billion in Alaska in 2002. To get an idea of how big that is, look at the graph to the right, comparing it with some other sources of money in Alaska. This summary—based on a new ISER study (see back page)—reports how the federal government spends money in Alaska and how much the state's economy depends on that spending. The short answer: a lot.



- ★ One in three jobs in Alaska—about 96,000—depend on current federal spending.
- ★ Federal spending in Alaska more than doubled in the past 20 years, even after we take out the effects of inflation. Nationwide, real federal spending increased about 50 percent.
- ★ Grants grew the fastest, jumping from \$1.3 billion to \$3.1 billion just from 1996 to 2002. Grants now just about equal federal spending for military and civilian operations combined.
- ★ Medicaid was the largest grant program in 2002—\$500 million—followed by grants for the Native health care system (about \$480 million) and road construction (\$400 million).
- ★ Social Security and other payments to individuals nearly tripled since the 1980s, largely because Alaskans are getting older: the population over 65 tripled in the past 20 years.
- ★ Companies based in Alaska won about 70 percent of the largest federal purchase contracts in 2002—30 percent to Native corporations and 40 percent to other Alaska companies.
- ★ All regions benefit about equally from federal spending of more than \$11,000 per person, but urban Alaskans benefit more from wages and rural Alaskans more from grants.
- ★ Annual federal spending here is about twice as big per capita as federal tax collections from Alaska. Only New Mexico and North Dakota do better in spending-tax comparisons.
- ★ Analyses suggest that anywhere from \$400 million to \$2 billion of the current \$7.6 billion in spending might be vulnerable to cuts, as the federal government faces its own budget problems. Still, national interests and other factors guarantee that federal spending will remain a big contributor to Alaska's economy.

WHAT BRINGS FEDERAL MONEY TO ALASKA?

Why does the federal government spend \$7.6 billion a year in a state with only about 650,000 people? To begin with, things cost more here—although the difference is less than it used to be. Alaska’s huge size, distance from other states, harsh climate, and vast roadless areas still push costs up. Construction in remote places is particularly expensive.

Military activities also boost federal spending in Alaska, which General Billy Mitchell once called “the most important strategic place in the world” because of its proximity to Europe and Asia. But only about half as many military personnel are stationed here now as in the 1960s. Land and resource management are also big expenses. The federal government owns 240 million acres in Alaska, most of it in parks and other protected areas.

Federal obligations to indigenous people also add to spending in Alaska, where close to 20 percent of the people are Alaska Natives eligible for special health care and other programs. Nationwide, about 1 percent of Americans are indigenous people.

Another thing that increases federal spending here is that Alaska joined the union only in 1959; it is still building roads, airports, water and sewer systems, and other infrastructure. Federal money pays a lot of the costs of building that infrastructure.

Individual people also bring Social Security, pensions, and other federal payments into Alaska; such payments have grown as Alaska’s older population grows. Still, the share of older people here remains below the U.S. average.

Finally, one of Alaska’s U.S. senators, Ted Stevens, has since 1997 chaired the senate appropriations committee, giving him considerable power to bring project money to Alaska. And grants have in fact been the fastest-growing federal expense in Alaska since the late 1990s.

WHY IS FEDERAL SPENDING SO IMPORTANT?

Federal spending is so important to Alaska because only the federal government and a handful of private industries—oil, tourism, commercial fishing, mining, logging—bring in the new money that makes the economy grow.

And because only about 20 percent of federal spend-

Table 1. Jobs Supported by Federal Spending, 2002

Federal (military and civilian) jobs:	38,000
State government jobs:	3,000
Other jobs:	55,000
(Private industry, non-profits, local government)	

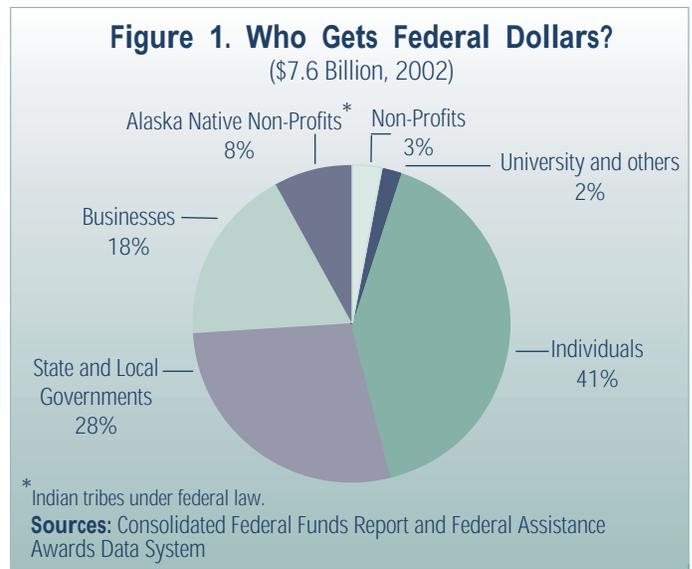
TOTAL FEDERALLY-SUPPORTED JOBS: 96,000
TOTAL ALASKA JOBS: 292,000

ing is for payroll, just looking at direct federal jobs misses a big part of its economic contribution: federal grants, purchases, and other spending reach throughout the economy to support tens of thousands more jobs. We estimate that federal spending supports 38,000 military and federal civilian jobs and 58,000 more jobs in private industry and state and local government.

WHO GETS FEDERAL DOLLARS?

Everybody in Alaska benefits in one way or another from federal money, but Figure 1 shows how it is first distributed, before it percolates through the economy.

- Individual people get 4 of every 10 dollars of federal money. These include people who get federal paychecks and people who collect Social Security or other federal payments.
- State and local governments get almost 3 of every 10 dollars, mostly in grant money for programs from road construction to medical care for the poor.
- Businesses get almost 2 of every 10 dollars, when federal departments buy construction or other services—



like building maintenance—or supplies and equipment.

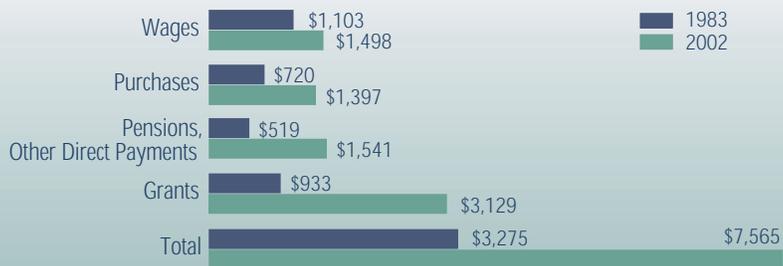
- Native non-profit organizations collect nearly 1 in 10 federal dollars, mostly for providing health and other services Alaska Natives are entitled to as indigenous people.
- The remaining federal money—about 50 cents of every 10 dollars—goes to various other non-profits, the University of Alaska, private colleges, and school districts.

WHAT ARE MAJOR KINDS OF FEDERAL SPENDING?

Federal money comes into Alaska in many forms. Figure 2 shows the major kinds of federal spending and their growth since the 1980s. All the numbers are in 2002 dollars—that is, we’ve taken out the effects of

Figure 2. Federal Spending in Alaska, 1983 and 2002

(In Millions of 2002 Dollars)



Source: Consolidated Federal Funds Report

Alaska, but that's no longer true. Alaska lost 6,000 military and 2,000 federal civilian jobs in the 1990s. The 2002 federal payroll of \$1.5 billion was about half the size of federal grants—and only 30 percent bigger than in 1983 (Figure 2).

- Businesses collected nearly \$1.4 billion from federal purchases in 2002, mostly for providing construction and other services to military and civilian agencies (top, Figure 3). Purchases nearly doubled in the past 20 years, partly because federal agencies contracted out some work federal employees used to do.

- Those federal purchase contracts are a big source of revenue for Alaska businesses. Native corporations got 30 percent of the largest federal contracts in 2002 and other Alaska-based companies 40 percent (bottom, Figure 3).

inflation, so we can see real changes and not just effects of higher prices.

Keep in mind that in the 1990s the federal government began contracting directly with Alaska Native non-profits to operate hospitals and other facilities that the Indian Health Service had been operating itself. Costs for IHS facilities then shifted from operations to grants—and that change alone made grants bigger. Operating costs for IHS facilities have gone up in the past few years. But remember that some of the current grant spending used to be included under operations spending.

- Wages used to be the biggest source of federal spending in

- Social Security and other direct payments to Alaskans—excluding wages—nearly tripled from 1983 to 2002. Most direct payments go to older Alaskans; the number of Alaskans over 65 tripled between 1980 and 2000.

- Federal grants in Alaska reached \$3.1 billion in 2002—more than triple what they had been in 1983 and making up 40 percent of all federal spending. Most of that growth was in recent years, with grants more than doubling just between 1996 and 2002. Both formula and project grants grew, but in different ways and for different reasons. Formula grants typically pay for continuing programs—like Medicaid—that grow with changes in numbers of recipients or other measures. Project grants are usually for a specific time and a specific project. However, the line between the two types of grants is not always clear.

- Just three big programs made up close to half of all grants in 2002, as Figure 4 shows: (1) grants for the federal share of Medicaid; (2) grants for Native non-profits to operate health care programs for Natives; and (3) grants for highway construction.

Figure 3. Federal Purchases in Alaska, 2002

What Does the Money Buy?



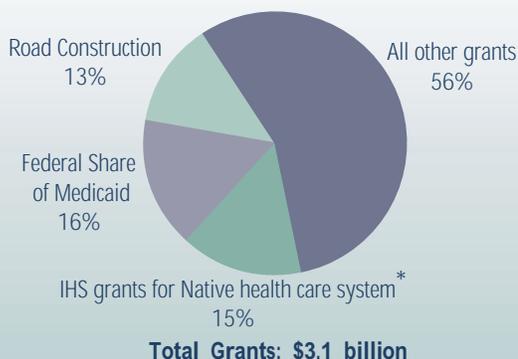
Who Gets the Purchase Contracts?

(Distribution among 50 Largest Contractors, 2002)



Sources: Federal Assistance Awards Data System; Federal Procurement Data System

Figure 4. Composition of Federal Grants, 2002



* In FY 2002 the federal Indian Health Service paid Alaska Native non-profit organizations \$479 million for providing Native health care services in Alaska. That total includes \$23 million for construction of rural sanitation systems and \$34 million in Medicaid and Medicare reimbursements. (That was the last year Medicare and Medicaid reimbursements came through the IHS; they now go directly to the service providers.) These figures for IHS's 2002 Native health care grants are from the Alaska Area Native Health Service.

Sources: Consolidated Federal Funds Report; Alaska Area Native Health Service

WHAT'S THE URBAN/RURAL DISTRIBUTION?

Regions around Alaska benefit about equally from federal spending—more than \$11,000 per person in 2002—but the mix of spending is different in urban and rural areas, as Figure 5 shows. (Here we define “urban” areas as Anchorage, the Mat-Su Borough, Fairbanks, and Juneau.)

- Wage spending per person in urban areas was more than twice that in rural areas in 2002—\$2,857 compared with \$1,097. Most federal offices and military posts are in urban areas.
- The biggest per person spending in all regions was grants, but that spending was about 40 percent higher in rural than in urban areas in 2002—\$5,809 compared with \$4,135. Rural areas are more likely to see grants for new sanitation systems and other basic infrastructure and for Alaska Native services.

WILL THE MONEY LAST?

Federal money has become increasingly important to Alaska’s economy in the past decade. Oil production—which fueled a boom in the early 1980s—has declined, leaving the state budget in deficit and taking money out of the economy. Commercial fishing and logging, two of Alaska’s other basic industries, have been hit by changing world markets and other factors.

But many Alaskans wonder how long this level of federal spending can last, with the federal government itself facing a big deficit and with Senator Stevens scheduled to step down as chair of the senate appropriations committee in 2004.

We can’t predict future federal spending. A recent analysis by the Citizens Against Government Waste defines about \$400 million of Alaska spending as “pork;” that could offer one measure of how vulnerable Alaska is to cuts. (Of course, people disagree about what constitutes pork.)

Another way of estimating Alaska’s vulnerability is looking at how much faster federal spending has grown here

Figure 5. Per Capita Federal Spending in Urban and Rural Alaska, 2002*



than it has nationwide since the early 1980s. If Alaska spending were at the same level—relative to the national average—as it was in the early 1980s, spending here would be about \$2 billion lower.

But even if some spending disappears, much will remain. It’s in the national interest to continue military operations and land management in Alaska. Federal obligations toward Alaska Natives will continue. A growing older population will mean more growth in Social Security, federal pensions, and Medicare. Federal aid programs for everything from road construction to medical care for the poor are not going to disappear, although they could become smaller.

And a final note: there are yet other ways federal dollars benefit Alaskans, that don’t show up in annual spending. Those include millions of dollars in federal loans, mortgage insurance, and cost-of-living allowances for federal employees.



Understanding Alaska

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This summary is based on the ISER report, **Federal Spending and Revenues in Alaska**, (2002 version), by Scott Goldsmith and Eric Larson. It was prepared as part of the Understanding Alaska series. The full report is available from ISER’s offices (call 907-786-7710) or on the Understanding Alaska Web site: www.alaskaneconomy.uaa.alaska.edu.