The Economics of the University of Alaska and the U-Med District

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To Union of Students, UAA, Legislative Appreciation Dinner
December 6, 2004

The University of Alaska Anchorage is in the middle of what's come to be known as the U-Med district—because UAA and a number of medical facilities and offices are all concentrated here. The U-Med district is the center of the knowledge economy in Anchorage and one of the most consistently and rapidly growing centers of employment in the state.

The largest private employer in Alaska, Providence Health System, is headquartered just across the street from UAA. Providence has a workforce of 3,600, with the majority of employees right here in the U-Med district. Just by way of comparison, FedEx, another one of Anchorage's growing employers, has a workforce of about 1,100.

There are also two other large private employers here in this area, and they've both grown by leaps and bounds in recent years. The 14th largest private employer today is the Southcentral Foundation. A few years ago, in 1997, it was ranked 94th. And in 15th place is the Alaska Native Tribal Health Consortium (ANTHC), which was not even ranked in 1997. These are both Native organizations providing health services to Alaska Natives.

Where does UAA fit in here? With employment of about 2,200, UAA is the largest public employer in the district. This is a respectable number, although it is only one among many large public employers in the city, including the federal and state governments, the municipal government, and the Anchorage school district.

Besides the four employers I've already mentioned, there are others, including—but not limited to—Alaska Pacific University (APU), the Alaska Psychiatric Institute (API), and the McLaughlin Youth Center. If we add those employers, we quickly get in excess of 8,000 employees in the U-Med district, and the number is growing. Rep. Sharon Cissna defines the boundaries of the U-Med district as running from Debarr Road to Tudor Road and Lake Otis Parkway to Boniface Parkway. Within that perimeter, she estimates total employment of 16,000, of which 12,500 work in health care jobs.

Now, I am the first to admit that predicting the future is tough. A classic case is the price of oil. Will it go up or down tomorrow? How many would bet on it going up? How many would bet on it going down?

But some things are easy to predict, and I don't mean death and taxes. One of the easiest to predict is that both the major industries in this district—education and health care—will be among the fastest growing in the next decades. The reason it is easy to make that prediction is: demographics.

First, look at health care. For at least the last two years running, nearly half the new jobs in Anchorage have been in the health care field. Part of the reason is that the senior population in Alaska has been growing at a faster rate than in virtually any other state for the last 20 years. The population is aging, and seniors are choosing to stay in Alaska when they retire. There are several reasons for this, and it is worth studying, because the senior population can be a boost to the economy in many ways, including the fact that they are big consumers of health care.

But the last 20 years is just a prelude to what may be about to happen. The leading edge of the baby boom generation, those folks born from 1946-1964, are about to hit retirement age—60—starting in 2006. What is important about the baby boomers—and I'm one of them—is the simple fact that there are so many of us. For decades marketing executives have followed the aging of this population and drooled as we all, as a group, bought homes, had children and started buying diapers, put money into college savings funds, and otherwise boosted sales of age-appropriate purchases as we moved through the various stages of life.

One of the interesting things about Alaska is that we have more than our fair share of baby boomers, compared with the rest of the nation. In a few short years boomers will put the growth rate of Alaska's senior population—which is already fast—into overdrive. That will have consequences across the economy, but will be felt directly in this part of town in the hospitals, clinics, and other offices supplying health care services.

Turning to education, what we see starting to hit the campus are, you guessed it, the children of the baby boomers. And because there are so many baby boomers, they have had a lot of children. And for that reason, the demographers have given them a name too. They are known as the echo generation, or sometimes simply as generation Y.

The echo generation is more spread out in age than the boomers, but they are heavily concentrated in the primary- and secondary-school ages. As such, many of them are soon to be heading off to college, and I believe that even without capturing a larger share of college-bound seniors, UAA is going to be growing much faster in the next 10 years than in the last 10—simply because of the arrival of the echo generation on our doorstep. Of course we expect to continue increasing the UAA capture rate—the share of the college bound-population choosing UAA—and if we succeed, that will only add to the growth.

Then of course there are those baby boomers themselves, many of whom will not be content to simply retire. They will want to continue exercising their brains, which is one of the best ways I have found to try to stay young. This phenomenon of "brain gain" represents another source of university growth.

So although it will always be a challenge to predict the growth of the state and Anchorage economies, the simple demographics of the baby boomers and their children guarantee strong growth in health care and higher education in the state—and much of that growth will be concentrated in the U-Med district. And how we deal with the issues of the

supposed “brain drain” of our children, and the potential “brain gain” from our elders, will largely determine how fast or slow that growth occurs.

Now let’s turn briefly to higher education as an economic enterprise. Of course the primary benefit of the university is the education it provides not only to the students but to the entire community in a multitude of ways.

But in the process of generating these benefits, it also provides an economic boost to the community. Just like Boston, Austin, and Princeton are all college towns where higher education forms an important—and sometimes the most important—part of the economic base, so in the U-Med district, we have a small nascent college town that is contributing to the economic health of the community.

This contribution comes from two main sources of spending, as well as some minor ones. The first is UAA’s annual spending for operations and capital. In 2004 that’s expected to be about $164 million. Where does this money come from? About $67 million comes from the state General Fund appropriation to the university. Nearly $100 million comes from other sources. Tuition, federal money, and income from auxiliary services (meals, room and board, the book store, and so on) account for the bulk of that $100 million.

What does the university buy? Well, it buys education, and that is represented not only by university professors and administrators, but also by a broad range of support personnel running the gamut from cooks to maintenance people. In total, UAA employs about 2,200 people, according to the Alaska Department of Labor. And many of these jobs are the “high paying” jobs we like to see being created in this state.

But in addition to personnel, the university spends its money on buying goods and services, largely from businesses in the Anchorage economy. McDowell and Associates recently estimated that about $30 million of UAA expenditures on goods and services were made within the Anchorage economy. In addition, about $20 million of the expenditures on goods and services benefiting UAF were also made within the Anchorage economy. Taken together, Anchorage businesses enjoyed about the same level of sales to UA as did Fairbanks businesses.

The other major source of economic impact is student spending. (If you have kids in college, you understand what I mean when I say these students are consumer units, really no different from the tourists one sees downtown during the summer months.) Students do not spend all their time studying and do not spend all their income on education. As marketing experts know well, these kids have a lot of discretionary income to spend on clothes, entertainment, eating out, cars and other transportation, travel, sports equipment, and—for those not living at home or in the dorms—occasionally rent and food.

We don’t have good figures on the magnitude of these expenditures. We can easily come up with a variety of estimates, depending on whom we count as a student, where we assume they are living, and what we assume they are spending their money on.

McDowell estimated $126 million for the entire university. I take a more conservative approach.

If we look just at the non-education expenditures—that is, expenditures that do not flow through a university account—of full-time students, about 6,000 or so, and if we further assume about 1,000 live in the dorms and another 1,000 live in rental units (a pure guess), with the remainder living at home, we come up with expenditures of roughly $25 million. It could easily be much more, or somewhat less.

If we add university expenditures and student expenditures not directly related to education, throw in a bit for visitor and alumni spending, we get a total fast approaching $200 million for spending in the Anchorage economy coming directly from the operation of the university. That is the amount added to the local spending stream.

This infusion has a multiplier effect like other dollars that get spent locally. I have not yet had a chance to run the numbers, but the re-spending of this cash infusion creates sales, jobs, and personal income throughout the economy. Sales and jobs in real estate, health care, banking, grocery stores, eating and drinking establishments, and health care are generated. Household income expands across the community.

Now this tells us what the community would lose if UAA closed its doors today and all its full-time students had to transfer outside the state or relocate to Fairbanks. (And parents would also feel a bigger bite on their incomes, if they had to pay out-of-state tuition and room and board.) We don't expect that to happen, of course. In fact we expect just the opposite. We expect two things to happen. First, we expect our Alaska student capture rate to increase (among both students from Anchorage and from other Alaska communities). Second, we expect the number of non-residents choosing UAA to increase.

And when student enrollment increases, the economic impact goes up. How much depends on both the cost of educational services for the additional students, and their circumstances—for example, whether they're residents or non-residents. The job of the university is to minimize the cost of providing quality education to these additional students, to maximize the benefit both to the state treasury and to the economy in terms of job and income growth.

Let me close with a short pitch for university research, mostly done at UAF, but an increasing activity here at UAA and obviously close to my heart. University research is truly an economic enterprise, as I asserted in a report prepared earlier this year, akin, on a smaller scale, to mining, tourism, and other industries that bring new money into the state and help the economy expand. A relatively modest investment of state funds in university research gets leveraged into a much larger amount of research funding that flows into the state from Outside sources. This revenue supports one of the cleanest, most labor intensive, high-wage, stable, year-round industries. It is an industry with tremendous growth potential and with proper foresight we can easily capture our fair share of that growth, for the benefit of Alaska and our economy.