THE BASE CASE PROJECTION

Detailed results for the BASE CASE are presented in an appendix.

THE BASIC SECTORS

For the foreseeable future, the Alaska export base will continue to be dominated by commodity-producing industries combined with tourism, national defense, and the movement of international freight. Relatively high labor costs, sparse and expensive infrastructure, small market size, and distance from markets will continue to act as barriers to the development of significant processing as well as manufacturing and services for export. Petroleum, mining, tourism, and international freight hold the most potential for employment growth. Growth of the timber and seafood industries may result from more intensive exploitation of the resource base, together with the expansion of value-added processing.

Because of this dependence on commodity-producing industries, the Alaska economy will continue to experience localized business cycles as commodity prices respond to world market conditions. Although the existence of these cycles can be expected, their timing cannot be forecast. Consequently our projections have an appearance of smoothness and continuity which contrasts with the past experience of the economy and which is unlikely to be the actual pattern in the future.

Several such cycles have the potential to impact the economy in the coming years. We have included in the BASE CASE slowdowns associated with both declining state petroleum revenues and slowing growth in federal assistance to the state. The cycle associated with construction of a pipeline to bring North Slope gas to market is captured in one of the many SENSITIVITY CASES.

Petroleum. After falling below $10 in the winter of 1998-99, the lower 48 price of a barrel of North Slope Crude rebounded into the $25-$30 range for nearly two years before moving back toward its long term average price. It has recently been moving in the $30 to $50 range however, due to a number of economic and political factors. We assume the price gradually settles back down to a long term average of $22 per barrel in 2008 (2003$). [A higher price is examined in a SENSITIVITY CASE.]

Employment in this sector remains stable, both on the North Slope and in Cook Inlet. The state has recently relaxed regulations on the state royalty rate on marginal oil fields and this will enhance interest in the development of a number of smaller fields on the North Slope, as well as heavy oil fields such as West Sak. Second, exploration continues and new fields continue to be discovered. Third, billions of barrels of oil remain in fields currently producing. The expansion of infrastructure and technological advances will continue to reduce the costs of exploration, development, and production in the future as they have in the past. Future production is expected to decline at a slower rate than in the past and this will continue to sustain a large workforce because of the intensity of development.

Exploration and modest production from the Alaska National Wildlife Refuge is included in the BASE CASE but not the construction of a gas line to carry North Slope natural gas to tidewater or the US Midwest. We assume instead that North Slope gas is converted to a liquid on site and transported through the existing pipeline after 2010. North Slope oil production remains relatively constant at 1 million barrels per day until 2010 and then falls off at 3 percent annually. [Gasline construction is examined in a SENSITIVITY CASE.]

In all cases the Alyeska Pipeline and the processing of petroleum for export continue at the current level of employment. Processing consists of the export of LNG and the manufacture of Urea—activities centered on the Kenai Peninsula, and the refining of a small portion of the crude oil produced in the state at refineries in several locations. [Kenai gas manufacturing is examined in a SENSITIVITY CASE.]

Mining. The mineral potential of Alaska has long been recognized; and the combination of a large base of prospects, growing world demand, and technological advances will result in growth in production even if commodity prices were to remain flat. This is reflected in the current activity level in this industry around the state—in in Southeast, Southwest, Southcentral and Interior Alaska. The development of the Fort Knox and Pogo mines outside Fairbanks reflect this trend.

The general lack of infrastructure—access and power--at most sites, high construction and operating costs at remote sites, and distance from markets, means that only the largest deposits can be successfully developed. Furthermore, they must be able to withstand the price fluctuations experienced in world metal and coal markets due to world business cycles. The Kensington, Donlin Creek, and Pebble prospects, all world scale projects, are currently attempting to address these challenges.

We assume these prospects become producing mines in the coming decade and that other mining activity, unspecified, continues to grow at a rate of 3 percent annually. $). [Mining activity is examined in a SENSITIVITY CASE.]

Forest Products. The closures of the pulp mills in Sitka and Ketchikan as well as the sawmill in Wrangell reflect a retrenchment of this industry that has historically been central to the economic health of Southeast Alaska. Timber harvesting and processing will continue to be an important part of the Southeast Alaska economy albeit at a lower level of employment than in the recent past. On the other hand, there is potential for modest expansion of the harvest from South Central Alaska forests.

In the BASE CASE we assume that employment in harvesting grows 1 percent annually and that a modest wood products manufacturing industry gradually develops in South East Alaska.

Seafood. International competition has negatively impacted the value of Alaska seafood production in recent years, and expansion of the fishing industry is constrained in the long run by the resource base, which is close to full exploitation. Potential for growth exists from further "Alaskanization" of the fishery (harvesting and processing of fish caught in Alaska waters by Alaskans), from adding value to seafood prior to export through additional processing, and from the stimulation of growth in consumer demand for Alaskan products. On the other hand, policies to rationalize seafood harvests could reduce Alaska employment levels while improving efficiency, international competition could continue to reduce the value of Alaska stocks, and competition from sport fishermen and other harvesters could reduce the commercial allocation.

In the BASE CASE, the level of employment in fish harvesting and processing remains constant, reflecting a balance between these factors.

Tourism. The tourism industry will continue to expand as a result of both the growth of demand for tourism in the US and abroad and the increasing market share being drawn to Alaska because of continuing development of the tourism infrastructure in the state.

In the BASE CASE, the index of tourism expenditure growth is 5 percent annually. This index reflects the combined effects of growth in the number of visitors, increased average length of stay, and growing real expenditures per visitor day. In addition, we assume a continuation of construction activity associated with infrastructure development related to tourism. [Tourism activity is examined in a SENSITIVITY CASE.]

International Air Cargo. International air cargo operations continue to expand at the Anchorage International Airport, and some activity is also occurring at Fairbanks. The trans-Pacific market is growing rapidly and Alaska is well positioned to play an important role in this growth.

In the BASE CASE we assume continued expansion through 2010 followed by stable employment.

Military. Military personnel levels are difficult to project due to the conflicting demands of security and the federal budget. In the late 1990s, there was a significant downsizing

of Alaska military bases in Anchorage (Fort Richardson) and Fairbanks (Fort Wainwright) as well as the closure of several other bases in the state at Adak, King Salmon, McGrath, and Delta Junction.

In the near future we expect an expansion of personnel associated primarily with the deployment of a new army brigade. Subsequent to that we expect uniformed military personnel to be constant, and that Alaska will not be impacted by future base closures. [Military activity is examined in a SENSITIVITY CASE.]

Federal Civilian. In spite of some recent reduction in the number of federal employees in Alaska, the federal government presence in the state is likely to increase in the future for several reasons. Federal civilian employment in certain agencies such as the U.S. Postal Service will respond to growth in the population of the state. Other agencies such as the U.S. Department of Interior will experience increasing levels of activity as the demands on federally owned and managed public resources increase.

In the BASE CASE, we assume employment growth at a .25 percent annual rate. The federal cost of living adjustment (COLA) declines from 25 percent to 10 percent during the projection period.

Federal Grants. We assume a gradual tapering off of the level of federal funds for capital construction projects, in such areas as transportation and rural water and sewer, and special operating grants. Thereafter they resume their growth with population and the price level. [Federal grant activity is examined in a SENSITIVITY CASE.]

Federal Procurement. We assume the current high level of federal procurement spending for military and civilian activities in the state continues through 2010 and thereafter tapers off.

Basic Income. As the Alaska population ages, income from dividends-interest-rent will account for an increasing share of total personal income. We assume real per capita dividend-interest-rent grows .5 percent annually.

Federal transfers to individuals, primarily Medicaid and Medicare grow with population and real income.

The final resolution of the Exxon Valdez oil spill lawsuit is assumed to occur between 2006 and 2015. Although the court settlement was for about $5 billion, the amount which it will ultimately add to Alaskans' incomes is unknown since the decision is under appeal and the residences of all recipients is not known. We estimate final resolution will pump $2 billion into the economy in the BASE CASE.

Petroleum Rents. The Permanent Fund dividend has contributed to growth of the economy like any other basic industry. Its influence will decline in future years as a portion of the earnings of the Permanent Fund, including part of the share now allocated to the dividend, is appropriated to cover the necessary expenses of state government.

Agriculture. Agriculture in Alaska currently primarily serves the local market with an insignificant share destined for export from the state. We assume that employment in this sector grows 2 percent per year.

Other Manufacturing. Other basic sector activity that has not been explicitly identified in the projection is assumed to grow with the growth in the overall economy. Growth in manufacturing for export, excluding fish processing, timber harvesting and processing, and petroleum processing, is currently insignificant and projected to remain so.

THE NATIONAL ECONOMY AND POLITICS

Trends in the national economy have an important influence on the growth of the Alaska economy. First, a large portion of the exports of the state are sold in the lower 48, so the strength of Alaska export industries, particularly tourism, depends upon the general health of the US economy. Second, the growth in real wage rates at the national level, which is driven by productivity increases, directly influences growth in real wages in Alaska. If real wages grow nationally, Alaska real wages will also grow to maintain parity. Higher real wages in turn contribute to growing purchasing power for

Alaskan consumers. Third, unemployment in the rest of the nation influences the size of the labor force in Alaska. Higher national rates of unemployment cause more people to consider Alaska as a place to look for work. Finally, the size of the federal budget has an important influence on the Alaska economy since Alaska receives more in federal expenditures per capita than any other state.

The national economy is currently in the midst of a recession of unknown length and magnitude that is having several effects on the Alaska economy. First, it weakens demand for some Alaskan products, particularly tourism opportunities within the state. Second, it results in population growth as unemployed workers from other parts of the country look for work in Alaska. Third, weakness in the stock market may reduce consumer spending. Finally, the low interest rate has stimulated consumer spending and business investment in the state.

We assume that the growth of the national economy will eventually return to its long-term trend values and that the Alaska economy will adjust in response to these changes. Consumer spending and investment will recover. The unemployment rate, interest rate, and inflation rate will all return to their historical levels. Productivity growth will return to its long term trend, and with it, the growth in real average weekly earnings. [Productivity growth is examined in a SENSITIVITY CASE.]

Because of the large military and federal civilian work forces, the large share of federally owned and managed natural resources, the large Native American population, and the fact that Alaska has only recently become a state, the federal government will continue to play an important role in the Alaska economy. In general, we assume no major departures from current policies in these and other areas, such as the legal structure of the Alaska Native Corporations and the by-pass mail system of the U.S. Post Office, which provides subsidized freight service to rural Alaska.

STATE FISCAL POLICY

Petroleum Revenues. About 85 percent of state general fund revenues come from current or former year petroleum related activities. State petroleum revenues are based upon the price of oil, production, and the tax and ownership regime. Although we project that the price will be constant in real dollars in the long run, experience shows that it is quite volatile in the short term, resulting in fluctuations in petroleum revenues of hundreds of millions of dollars from year to year in spite of relatively constant levels of production. Over the long term, production is projected to continue the decline that began in 1989. We use the Alaska Department of Revenue projections of production in the near term and, since these projections have tended to be conservative in the past, in the longer term use a decline rate consistent with the historical trend.

As exploration and production move outward from the central Prudhoe Bay facility, the wellhead price, upon which royalty and tax payments are based, will fall. Exploration and development will tend to become concentrated on smaller fields. This will reduce the severance tax per barrel that is based on field size and average well productivity. Finally a smaller share of production will come from lands owned by the state. This will reduce the state revenue yield per barrel produced because of the need to share any revenues with the federal government or private landowners.

State tax and royalty rates have changed numerous times in the past, but we assume no changes in the future that would significantly change effective rates. Federal policy also influences state petroleum revenues. We assume no change in federal policy impacting state petroleum revenues except the opening of ANWR to exploration.

In the BASE CASE, total state petroleum revenues fall from $2.0 billion in 2003 (a year of high oil prices) to $1.1 billion in 2010 (2003$), $1.1 billion in 2020, and $.8 billion in 2030.

In addition to taxes and royalties on current production, the state received several hundred million dollars annually through most of the 1990s from the settlement of various disputes with the oil companies over the valuation of petroleum for calculating tax liability and royalty payments. This backlog of outstanding disputes has been greatly reduced, and the state has now

accumulated a cash reserve of several billion dollars in the Constitutional Budget Reserve (CBR) account. We assume future annual contributions to this fund are $20 million. This balance is being gradually expended to cover annual deficits in the state general fund budget, and the balance is currently projected to be gone in 2007.

Non-Petroleum Revenues. Non-petroleum revenues account for about 15 percent of state general fund expenditures. Alaska has neither a state personal income tax nor a statewide general sales tax. Taxes, primarily the corporate income tax, fuel taxes, seafood taxes, and excise taxes on insurance and utilities, account for about half of non-petroleum revenues. The remainder consists of licenses, charges, investment earnings, and miscellaneous.

Total State Expenditures. In addition to the general fund, the state budget includes expenditures out of Permanent Fund earnings (currently the dividend), expenditures of federal funds, and "off budget" items that are self financing such as the International Airports. Taken all together the budget of the state is about $7 billion, making it one of the most important factors in the economy.

Alaska Permanent Fund. The Alaska Permanent Fund has a balance of about $24 billion (including the earnings reserve and unrealized capital gains). Its future growth in real terms will come from contributions of a share of state royalties from petroleum and other resources and from any reinvestment of earnings in excess of the amount required to maintain the purchasing power of the fund balance through deposits known as "inflation proofing." Although the Legislature has also made special appropriations to the Fund in the past, we do not expect that practice to continue.

Because of its size, the annual earnings of the Fund now constitute the largest source of income for state government and the Fund will be the centerpiece of any strategy to mitigate the effects of declining petroleum revenues. We assume a continuation of the conservative investment policy of the Fund and a stable 4.5 percent annual return after inflation in the BASE CASE.

"Fiscal Gap" Strategy. Since revenues from petroleum production account for 85 percent of the state general fund revenues and about 1-in-3 jobs in Alaska can be traced to state government spending, the decline in petroleum production which began in 1989 will continue to have a major impact on the economy. The relatively small contribution to state value added from our other resource industries precludes the possibility that revenues from these industries could successfully fill the void left by declining petroleum revenues. Whereas in the past increasing state expenditures fueled by expanding petroleum revenues contributed significantly to economic growth, the loss of petroleum revenues has for several years caused a "fiscal drag" on the economy.

We can describe the ways in which the loss of petroleum revenues will impact the economy only in very general terms because it is difficult to predict with any precision either the amount of petroleum revenues that will be available to government during the coming years or the adjustment policies which state and local governments will adopt to deal with declining revenues. Up to now, the main response has been to try to minimize growth in the state operating budget and utilize cash reserves to balance the budget. However, the need for more comprehensive adjustments will become necessary at some point in the future.

These measures form a fiscal package with six elements, three of which have already been initiated.

First, although state general fund appropriations, including local government transfers, continue to grow in relation to population and the price level, they fall in real per capita terms as the availability of revenues decreases.

Second, the cash balances in the Constitutional Budget Reserve (CBR) are used to balance the budget.

Third, as the CBR balance falls, the cost of living adjustment normally built into public sector wage rate contracts is eliminated for a period to allow real wage rates in the public sector to adjust downward.

Since these measures alone will be insufficient to balance the state budget at a level that provides a reasonable level of public services, three additional measures will become necessary.

First the available earnings of the Permanent Fund are transferred each year as necessary to support general fund appropriations. In no case is the corpus of the fund, currently protected by the Constitution, used to pay for government.

Second, the formula used to determine the Permanent Fund Dividend, paid to all Alaska residents, is revised. The amount allocated to the Dividend account becomes the residual real earnings of the Permanent Fund after the appropriation to the General Fund.

Third, the personal income tax is restored at rates that approximates those in place before the tax was eliminated in 1980.

The combined effect of these fiscal measures is to cushion the state economy from the full effects of the reduction in petroleum revenues. Employment in government stabilizes and the importance of public spending for the economy declines.

State government spending—operations, capital expenditures, transfers to local governments, transfers to individuals, loans to business and individuals—no longer contributes to economic growth as was the case in the past. For example, the restoration of the personal income tax and the reduction of the Dividend, actions designed to maintain the purchasing power of government, reduce the purchasing power of households by a somewhat smaller amount.

Local government is also a large employer and is heavily dependent on state transfers to support its programs. The declining ability of state government to finance its budget will limit the ability of local government to expand services and will force local government to look for new sources of revenue as well.

There is no assurance that state government will respond to declining petroleum revenues in the way described here, particularly with regard to the timing of events. There is a tendency in representative government to postpone the politically painful decisions associated with budget reductions until a crisis arises. However, there are examples from the past, such as the special contributions to the Permanent Fund in the 1980s, which demonstrate that Alaskans have successfully implemented policies that balance future public sector needs against pressing present demands. Thus, our assumption that the state will be successful in managing its fiscal future is at least partially supported by past experience.

One important implication of this set of fiscal assumptions is the continued growth of the Permanent Fund at the same time that there is a decline in government expenditures and the Permanent Fund Dividend. Its continued existence provides an important source of income to Alaska and Alaskans, but it is possible that the Permanent Fund would not survive the painful transition which declining revenues might impose. “Cashing out" of the Fund in the short run would eliminate it as a source of income in the longer term, and this would have significant consequences for any economic projection—providing a temporary stimulus to the economy as long as Permanent Fund-supported government spending were available, but followed by a severe economic slump.

INFRASTRUCTURE AND SUPPORT

Employment in infrastructure (transportation, communications, utilities, and construction) and support (trade, services, and finance), will initially grow more slowly than in the past as the economy adjusts to the realities of life after Prudhoe Bay. Later in the projection period growth will accelerate in response both to increases in basic sector business activity and household purchasing power. As in the national economy, the continuing shift toward an economy dominated by the provision of services will be in evidence in Alaska.

Expansion of infrastructure and support has progressed at a very rapid pace since statehood in response to maturation of the Alaska economy. At the time of statehood, there was very little business infrastructure to support the

commodity-producing industries (including the military) or to provide services to Alaskan households. Since then growth in the infrastructure and support industries of the state has transformed the structure of the economy, at least in urban Alaska, from a "frontier" to one typical of many parts of the rest of the nation. Although not yet complete, this maturation process has largely run its course and growth of these sectors in the future will occur at a rate which more closely parallels that of basic sector activity. Nevertheless the majority of new jobs added to the economy in the next 25 years will be in the support sector of the economy.

TOTAL EMPLOYMENT GROWTH

Employment growth will be slower in the earlier years of the projection, averaging just 1 percent annually during the next two decades, and increase to 1.4 percent thereafter. This pattern is a direct result of the assumptions of basic sector and fiscal activity. Modest expansion in support sector activity will offset the fiscal drag on the economy from declining petroleum revenues. Total basic employment will expand slowly, infrastructure employment will be stable, support employment will experience the most rapid growth, and pressure to contract will continue for state and local government. When state and local government get on a sustainable fiscal trajectory, the fiscal drag will disappear and growth will be driven by expansion of the economic base.

POPULATION AND HOUSEHOLDS

State population and household growth generally track that of employment since people tend to migrate in pursuit of jobs. The availability of jobs will continue to be the primary but not only determinant of population in the state. A smaller share of jobs than historically will go to nonresidents in future years. An increasing proportion of the population will either be too young or too old to be in the labor market.

Most significantly the share of the population over aged 65 will increase from 6.5 percent to nearly 14 percent by 2030. It will be the fastest growing part of the population. [Retiree population is examined in a SENSITIVITY CASE.]

The labor force participation rate for Alaska has historically been above the national average, not because Alaskans of a particular age and sex are more likely to work but because of a concentration of the population in those age groups that have a high percentage of people employed or looking for work.

In future years the Alaska labor force participation rate will be influenced by two factors which will have opposite effects on the rate. First, the aging of the population will move a larger share of the population into older age cohorts, which have lower labor force participation rates. Second, the age-specific labor force participation rates of females will continue to rise in concert with national rates. We assume the first of these factors will dominate and the labor force participation rate will decline very slowly. At the same time the dependency ratio, (children+seniors)/adults, will fall.

Natural increase (births minus deaths) will continue to add between 8 and 9 thousand people to the population each year. A large number of younger Alaskans will be entering the labor market in the early part of the projection and this will be more than sufficient to fully supply that labor market in the early years, resulting in net out-migration in some years. Later the number of young adults entering the market will fall, and Alaska will experience net in-migration in order to fill the new jobs being added to the economy.

The average household size has been declining in Alaska as it has in the rest of the nation due to the increase in the proportion of single-parent households, non-related adult households, and elderly households. In addition, Native household size has declined substantially, partly in response to increased availability of housing and higher incomes. This has resulted in more rapid growth in the number of households than population. We assume, consistent with national expectations, that average household size will continue to decline, but at a much slower rate than in the past.

WAGES AND PERSONAL INCOME

The real average annual civilian wage (adjusted for inflation), which grew rapidly in the 1960s and at a slower rate in the 1970s, fell during the 1980s and 1990s. This reflects a shift in employment toward lower wage industries and downward pressure on wage rates from slower growth in employment opportunities. This is partly a reflection of the state recession in mid-1980s, partly due to structural change in the Alaska economy, and partly the result of changes occurring in the national economy. The real average annual civilian wage is projected to grow at an annual average rate of .4 percent, reflecting the future mix of jobs and growth in productivity in the national economy, the later which translates into upward pressure on the real wage.

Historically, the vast majority of personal income in Alaska has come directly from wage and salary payments. This made household purchasing power very sensitive to fluctuations in basic industry activity. More recently however a larger share of income has come from non-wage sources (transfers as well as dividends, interest, and rent). This reflects both the growth of numerous government income transfers to individuals (like the Permanent Fund dividend) that support household spending, and the aging of the population. An older population has more opportunity to acquire assets that generate income independent of wages, and also has income from pensions and other retirement accounts. Furthermore an older population will draw more heavily on the Medicare and Medicaid programs.

Income from non-wage sources is expected to continue to grow, albeit at a slower pace than historically, particularly transfers. Permanent Fund Dividends and federal entitlements such as Medicaid and Medicare will account for most of the growth.

In spite of growth in the real wage, transfers, and other sources of income, the real per capita income of Alaskans will only grow at .2 percent annually. Because of the reimposition of the personal income tax, real per capita disposable personal income will remain essentially unchanged over the projection period.

PRICES

The price level in Anchorage is about 12 percent above the national average. This is down from 46 percent above in 1961, 34 percent in 1970, and 29 percent in 1980. The downward trend in the cost of living differential is attributable to an increase in market size in the state that results in competition in consumer and labor markets and economies of scale. These trends are expected to continue, albeit at a slower rate so that the price level in Anchorage will move closer to, but not fall to, the national average. In the BASE CASE the differential is projected to fall to 6 percent by 2030.

Because the price level is expected to move marginally closer to the national average, inflation will closely track the national average as well.

STATEWIDE SUMMARY

In summary employment growth will be driven by the continued development of the natural resources of the state with modest increases in value added from processing of those commodities. The rate of employment growth will be considerably below the historical average because of the deceleration of growth of support sector activities and the realignment of the public sector. Growth is characterized as occurring at a relatively smooth rate, but it is likely to continue to be punctuated by cycles of more rapid and slower growth due to the dependence of the economy on commodity production and the uncertainty about how "fiscal drag" will manifest itself.

Strong construction seasons, the movement of several large retailers into the Alaska market, growth in services (in particular, tourism and health services), a boom in mining, growth in the Permanent Fund dividend, expansion of the air cargo industry, and growth in federal grants have generated most of the employment growth during the last several years.

Economic growth will be slow in the near term as the state wrestles with the “fiscal gap” and the growth in federal spending in Alaska slows down.

ANCHORAGE

The growth rates for employment, population, and households in Anchorage parallel those of the state because Anchorage represents a large portion of the state economy and its economic base is the most diversified in the state. In addition Anchorage is the center for most of the support services provided both to businesses and households throughout much of Alaska. Consequently Anchorage is impacted by developments occurring in virtually every part of the state.

The important activities that support the economy include: Petroleum—headquarters for development and production on the North Slope and Cook Inlet in the Kenai Peninsula Borough, as well as home for many of the workers on the North Slope. Military—two military bases (Elmendorf Air force Base and Fort Richardson Army Base) with several thousand active duty personnel. Federal Government—the Department of Interior provides management of the 60 percent of Alaska lands owned by the Federal Government and the Department of Defense supports military operations. Tourism and Air Transportation—Anchorage hosts two-thirds of the 1.2 million tourists who visit the state annually and the International Airport services both passenger and air freight traffic between the United States, Europe, and the Far East. Commercial Center—54 percent of trade receipts and 69 percent of service receipts flow through Anchorage businesses, and Anchorage serves as headquarters for most banks as well as being the transportation and construction center for much of the state. State Government— supported largely by petroleum revenues, state government is an important employer in Alaska, and Anchorage has the largest concentration of state employees.

Anchorage residents enjoy a high per capita income and a high mean household income. Factors contributing to the high overall income include the high average wages in several important industries such as petroleum and construction, a relatively high proportion of professional and technical jobs, a relatively small population over 65, and a high labor force participation rate. Purchasing power is enhanced by the absence of state or local income or sales taxes and the annual Permanent Fund dividend each resident receives from the state.

Although the cost of living in Anchorage has historically been higher than in the rest of the country, that is only a partial explanation of the higher wages and incomes. Furthermore the cost of living differential has narrowed considerably in recent years with improved transportation, increased population, larger markets, and other factors.

The Anchorage population has nearly tripled since Alaska became a state in 1959. In the process Anchorage has been transformed from a frontier town into a modern city. The petroleum industry has supplanted the military as the dominant basic industry in the community. Together with specific government policies fostering the development of the Alaska economy this has led both to growth in household income and population stability. Trade, services, and finance support industries have grown enormously as Anchorage has gradually replaced Seattle as the supply center for much of Alaska.

MATANUSKA-SUSITNA BOROUGH

The Matanuska-Susitna Borough economy has become closely linked to the Anchorage economy as over the years better road connections have transformed large parts of the Matanuska-Susitna Borough into a suburb of Anchorage. The Borough will continue to evolve as a part of the greater Anchorage economy and will grow with Anchorage since it has a relatively small economic base of its own consisting of mining, timber, and tourism. But because it is on the periphery of the greater Anchorage economy, change in the Borough will be more pronounced than for Anchorage. Consequently, the rate of growth in the Borough will be faster than for the state or for Anchorage when the economy is expanding and may lag when the state economy is stagnant.

Employment in the Matanuska-Susitna Borough will grow on average 3.9 percent per year, and population will grow at 3.3 percent. As a result the Borough will account for an increasing share of total jobs and income in the "Greater Anchorage" region as time passes.

[Population shift within Greater Anchorage is examined in a SENSITIVITY CASE.] The relative growth rates of jobs and population in the "Greater Anchorage" region is sensitive to the transportation links connecting its various parts. [A Knik Arm Crossing Bridge is examined in a SENSITIVITY CASE.]

Wage and salary jobs in the Matanuska-Susitna Borough are largely in trade and services in support of resident households. A large share of the economic base is provided by thousands of daily commuters to Anchorage and residents working at other jobs sites around the state.

KENAI PENINSULA BOROUGH

The economy of the Kenai Peninsula Borough is relatively diverse with significant levels of activity in the production and processing of petroleum, commercial fishing, and timber. In addition the Borough is a center for tourism, state government facilities, and regional transportation. This base will provide stability to the economy and growth rates will mirror those of the state and Anchorage. The Borough will continue to rely on Anchorage for the provision of many support services.

The wage and salary jobs in the Kenai Peninsula Borough are based primarily on the activities of the petroleum, fishing, and tourism industries. The transportation links to Anchorage do not allow commuting on a daily basis.