



## Project Profile: Alaska

### Impact Statement

The OEA Industry Resilience (IR) project in Alaska raised the visibility of the strategically important military installations in the state, increased understanding of defense spending in different regions, and enhanced the DOD position to serve in the increasingly key Arctic region. The information gathered in the project will inform critical budget and policy decisions at the local and state level in support of DoD installations and the defense industrial base.

### Key Project Takeaways

The supply chain data collection and analysis are yielding important information previously unavailable at the sub-state level regarding DoD vendors, installations, personnel, and payroll. The process of collecting data and conducting outreach to stakeholders is generating interest in and support for DOD activities in the state. There are opportunities to connect the ecosystem that supports Alaska entrepreneurship (such as the Alaska Native Corporation technical capabilities) with the DOD interest in promoting innovation and problem-solving at installations. Understanding the strengths and capabilities of the vendor base providing installation services both informs efforts to increase innovation and create workforce development programs in support of DoD installations and the defense industrial base.

### Project Description

#### Rationale

Alaska is home to numerous military installations critical to national security because of the state's strategic location in the Arctic and Pacific Rim, as well as proximity to near-peer adversaries. The roughly 29,000 active duty, National Guard, reserve, and defense civilian personnel comprise roughly nine percent of the state's workforce, though official employment figures do not generally count service members. In the 2017 Fiscal Year, the DoD spent more than \$4,000 in Alaska for every resident. As just one example of its strategic importance, Joint Base Elmendorf–Richardson (JBER) in Anchorage is the home of the Headquarters, Alaskan Command, Alaskan NORAD Region, Joint Task Force-Alaska, and several other units. It has responsibility for air sovereignty, combat training, force staging and throughput operations in support of worldwide contingencies. Missions based out of JBER support and defend U.S. interests in the Asia Pacific region and around the world by providing units ready for worldwide air power projection and a base capable of meeting PACOM's theater staging and throughput requirements.

Over the last 15 years, changes in defense expenditures and the Alaskan economy threaten the state's ability to support DoD missions. Major events leading to a whipsaw effect include the 2005 Base Closure and Realignment Commission that combined facilities, dramatic proposed reductions in troop sizes at Eielson AFB and the 4th Airborne Brigade Combat Team of the 25th Infantry Division, followed by reversals and rapid growth, with the arrival of two squadrons of F-35 Lightning jets at Eielson AFB in 2020. The 2011 Budget Control Act created further uncertainty in the defense manufacturing sector. The



uncertainty surrounding the state's defense sector placed Alaska's defense manufacturers and service providers in the position of having to choose to leave the defense sector and focus instead on commercial markets that provide the revenue stability and predictability to allow for longer-term planning and investment in capital equipment purchases and workforce development. This uncertainty both reduces the resiliency of the DoD supply-chain in Alaska and robs these companies of the financial resiliency from participating in the defense sector. With an uncertain economic situation and high unemployment in the state due to depressed oil prices, many of these businesses rely on counter-cyclical government spending to remain in operation.

The Department of Defense contributes more to Alaska's gross domestic product (GDP) on a per capita basis than all but two other states. However, despite the out-size economic contributions by the US military to the Alaskan economy, decision makers have little granular knowledge regarding the location of defense suppliers in the state, the types of products they supply to various installations, and the vulnerability of these businesses to changes in defense spending, economic disruption, natural hazards, and cyber threats. The highly rural nature of much of the state and the remote location of many Department of Defense and Department of Homeland Security (DHS) installations and their extended supply chains for goods only exacerbates these issues.

Comprehensive Economic Development Strategies (CEDs) at the regional level in Alaska seldom include defense as a major area of focus. The Alaska Department of Commerce, Community, and Economic Development has employed industry specialists in timber, oil & gas, seafood, and minerals, but never defense. The state's leading economic researchers at the Institute for Social and Economic Research (ISER) have not published a significant study on Alaska's defense sector for over a decade. These factors amount to an alarming lack of knowledge and capacity to adjust to unexpected changes in defense activity in the state and leave Alaska unprepared to proactively respond. These experiences demonstrate how poorly the state and local economic development entities are equipped to assist the communities and Alaska-based businesses that support these installations. With financial support from the OEA, the University of Alaska Center for Economic Development (CED) plans to enhance the state's capacity to assist Alaska businesses, communities, and workers that provide support to domestic and international defense operations located at Alaska installations.

#### Program Activities

The Office of Economic Adjustment (OEA) funded the University of Alaska Anchorage's Center for Economic Development through an Industry Resilience grant to develop four major deliverables:

- Supply Chain Analysis
- Defense Industry Survey
- Defense Industry Asset Map
- Community Economic Impact Analysis



The **data collection and analysis of Alaska's defense supply chain**, nearly completed, provides a baseline for identifying the firms, supply chains, and economic sectors most affected by changes to DOD and DHS spending. This is a major advancement in a state where the last serious intra-state analysis of the defense sector was completed in the 1980s. There is much interest particularly in the regional breakdowns of defense spending patterns, which the study found to primarily concentrate around major DoD installations near Anchorage and Fairbanks, as well as Coast Guard installations in smaller communities like Ketchikan and Kodiak. The study additionally provided insight into contracts by vendor, with specific interest in the share of out-of-state and Alaska Native contractors.

The **data collection and analysis** are completed for the supply chain work; a final report is near-ready, with a planned publication date of May 2020. The report will suggest targets for commercial and contract diversification and inform resiliency and economic adjustment strategies while increasing public and stakeholder understanding of the defense sector. So far, the Alaska IR team has already produced brief snapshots, fact sheets, and short pieces specific to the defense sector in individual regions (e.g., Fairbanks) not previously available.

Before the onset of the Covid-19 pandemic, the project team worked with an external consultant, the McDowell Group, to develop a **survey of defense suppliers in Alaska**. Survey questions sought to gather attitudes about the Alaska business climate, needed support services, level of confidence, and related topics. Over 150 participating businesses completed the survey (as of early March), along with 15 qualitative interviews with top defense and industry leaders, including a former Deputy Chief of Staff of the Air Force. Organizing and analyzing the data collected from the survey is completed and the project team will deliver a report in April 2020. The project team is exploring options, including stakeholder meetings, for how to assess the impact of the pandemic on this deliverable.

The project team will **identify and map defense industry assets** in the state that can be aligned or mobilized to inform strategies that strengthen and diversify defense suppliers and promote DoD supply chain resiliency. The asset map will identify and describe building blocks for an economic strategy that addresses defense suppliers and communities, including infrastructure, institutions, networks, and intangibles like quality of life. The project team will release an RFP for this work in April 2020. The project team is seeking to incorporate understanding of best practices from other parts of the country in this work from communities with more exposure to defense projects. This deliverable will seek economic strategies for resiliency that make sense in Alaska's unique environment.

The project team will conduct a **community economic impact analysis** that examines the effect of defense spending on employment and income at the industry and locality level, to identify how changes in defense spending influence economic activity in various regions around the state. National economic impact models, such as IMPLAN and REMI, fail to adequately capture the impact of changes in defense spending in Alaska, and the Alaska IR Team plans to retrospectively use historical data on the short- and long-term economic impact of such changes to inform its analysis. Policymakers in Alaska lack the



information to leverage appropriate community resources in support of changes in the DoD's presence, such as the decision to build housing in support of an influx of DoD and contractor personnel.

Traditional forecasting models cannot account for the impact of defense spending in cities like Fairbanks and Anchorage, where military spending may be as high as one-third of the regional GDP, or where military spending has an outsized role in small communities. This work will inform DOD's and the state's understanding of how sensitive regions are to defense spending changes through empirical assessments and allow policymakers to leverage local resources to support changes in the DoD presence. The project team is exploring options for how the impact of the pandemic will affect the proposed approach for this deliverable.

In addition, the grantee agreed to undertake significant outreach and communications responsibilities to engage key stakeholders in the state and gather input on the specified deliverables. These efforts have been underway since project inception, including in-person presentations and written products. The project team is in regular contact with relevant state agency officials in the Division of Economic Development and the University of Alaska hosted Institute of Social and Economic Research (ISER).

## Resiliency Impacts

### Increasing Awareness of the Defense Industrial Base

OEA funding enabled the project team to enhance state-wide awareness of the importance of the defense industrial base and major strategic installations located in Alaska. The public outreach through presentations at conferences, blogs, and related efforts started early in the project and is ongoing. The Alaska IR Team developed factsheets and presentations on regional defense supply chains to present to local stakeholders in Fairbanks. Cooperating with organizations such as the Association of Defense Communities (ADC) at their Alaska Defense Forum last October raised awareness with key stakeholders, including legislators. This led to an opportunity to testify at a legislative hearing, which was postponed due to the Coronavirus. Additional outreach is planned later in the project and in different venues around the state, as well as virtually. The outreach will highlight survey data and other project deliverables as they are completed.

Additionally, the defense supply chain analysis raised statewide awareness of the importance of Alaska Native Corporations in supporting the defense industrial base. These firms both provide services to local installations and support DoD operations and federal contracting outside the state.

## Other Community Benefits

### Alignment with State Programs

OEA funding and the research associated with the project provided numerous opportunities for coordinating with key state and local officials to support this work and the broader agenda. Relationships with the Alaska Department of Commerce, the state Department of Military and Veteran Affairs and Alaska Native Corporations, city economic development officials, key personnel in the



defense industry and military installations, Fairbanks Tiger Team, and others contributed to the quality of the research conducted thus far and will contribute to broader support in the future. CED is hosted under the University of Alaska's Business Enterprise Institute, which also supports the state's PTAC, MEP and SBDC, meaning CED has close relationships with assets that can support the state's defense industrial base and foster collaboration. Outreach to these and other stakeholders, both in-person and planned regional (virtual) presentations, will broaden the coordination and alignment with important components of the ecosystem.

### Lessons Learned

Even at this relatively early phase in the project, the grantee shared several insights regarding lessons learned thus far:

- The data collected during the supply chain analysis proved invaluable because it provides insights not previously available at the sub-state level. Stakeholders, partners, service providers, and others can use this information to better shape policy and investments based on more relevant (rather than aggregated statewide) data.
- Defense personnel from local installations engaged by the project team proved very helpful in the effort to collect data and insights. In particular, procurement officers on installations should be contacted early in the project when feasible for assistance in providing and interpreting data.
- In communities where military installations are a larger proportion of the overall economy, such as Fairbanks, political leadership is very aware of defense needs and the contribution made to the regional economy. This is less the case in a larger city like Anchorage.