State of The Sitka Economy

Prepared for:

Sitka Economic
Development Association

Prepared by:

McDowell Group, Inc.

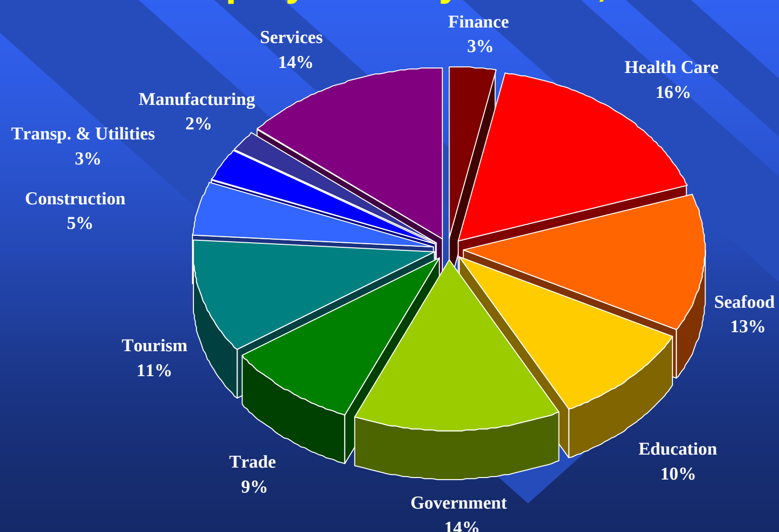
March 17, 2006

Presentation Contents

I. The State of Sitka's Economy
II. Regional Economics
III. Special Topics:
  • Community Tourism Planning
  • The Seafood Industry
IV. Assets and Opportunities

I. State of the Sitka Economy

Sitka's Balanced Economy
Employment by Sector, 2004

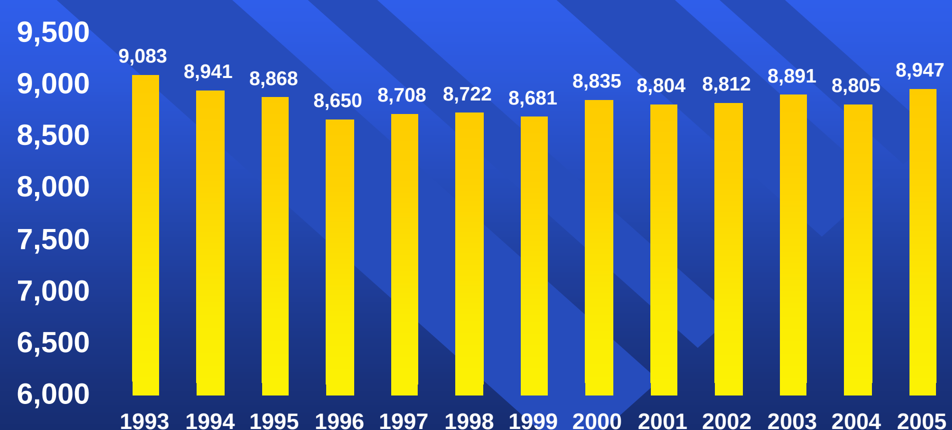


Sitka Employment By Industry, 2004

Industry	Annual Average Employment	% of Total Employment
BASIC:		
Healthcare	836	17%
Seafood	641	13%
Tourism	520	11%
Education	467	10%
Construction	238	5%
Manufacturing	75	2%
SUPPORT:		
Government	701	14%
Services	675	14%
Trade	451	9%
Trans. & Util.	150	3%
Finance & R.E.	140	3%
Total	**4,894**	**100%**

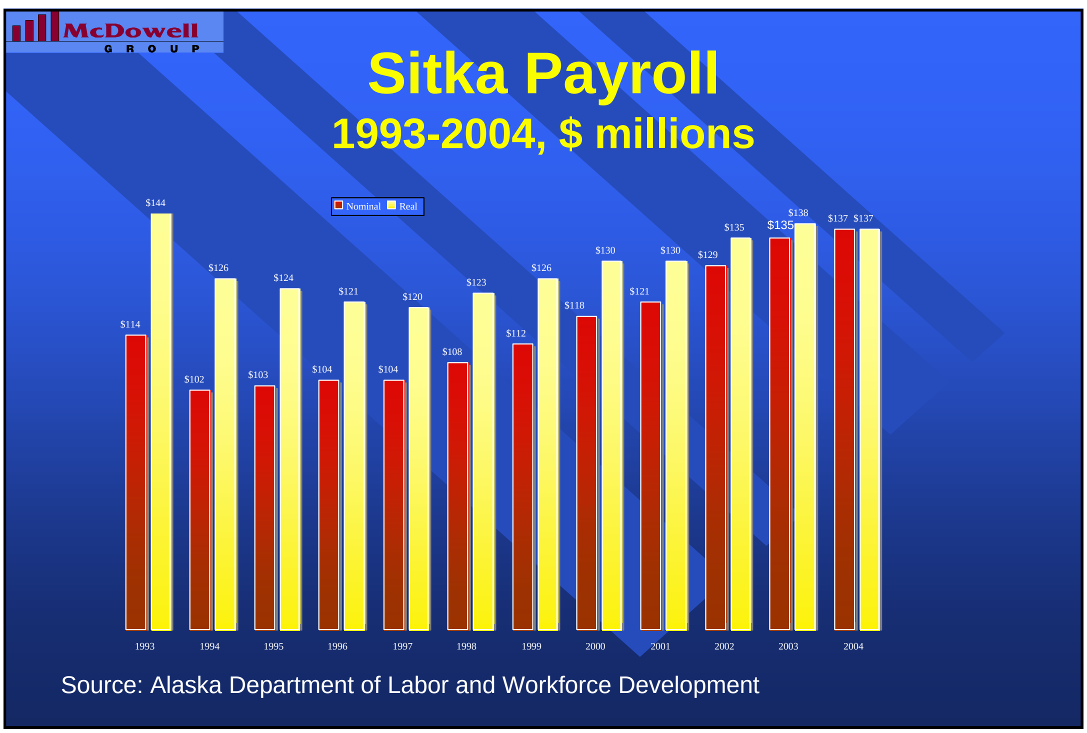
Sitka Population

1993-2005



Source: Alaska Department of Labor and Workforce Development


McDowell GROUP
Sitka Employment
1993-2004
4,500
4,000
3,500
3,000
2,500
2,000
4,074
3,778
3,842
3,888
3,825
3,875
4,055
4,083
4,171
4,302
4,358
4,278
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004
Source: Alaska Department of Labor and Workforce Development


McDowell GROUP
Sitka Payroll
1993-2004, $ millions
Nominal Real
$114 $144
$102 $126
$103 $124
$104 $121
$104 $120
$108 $123
$112 $126
$118 $130
$121 $130
$129 $135
$135 $138
$137 $137
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004
Source: Alaska Department of Labor and Workforce Development

Sitka Gross Business Sales

1993-2005 ($ million)

Source: City and Borough of Sitka

Sitka Construction Activity

Number of Dwelling Units, 1993-2005

Source: City and Borough of Sitka

Sitka Education Performance

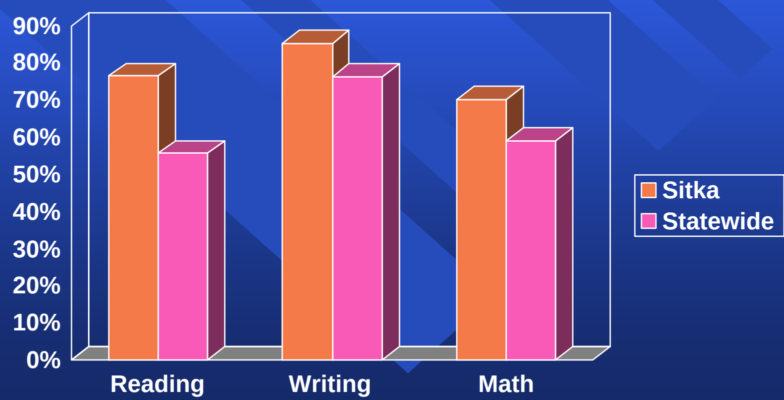
- School enrollment down a little (-9 to 1,515) in 2005
- Standard base assessment results higher than statewide
- High School Graduation Qualifying Exam results better than statewide for reading, writing, and math
- Two new schools met Adequate Yearly Progress
- Schools meeting Adequate Yearly Progress (AYP) standards:
  - Sitka High School
  - Mt. Edgecumbe High School
  - *Blatchley Middle School
  - *Keet Gooshi Heen Elementary
  - Baranof Elementary
  - Sitka Correspondence

Standard Base Assessment

(Percent Proficient, SY 2004-2005)

	Reading		Writing		Math	
Grade	Sitka	Statewide	Sitka	Statewide	Sitka	Statewide
3	93%	79%	85%	75%	86%	75%
6	78	76	77	72	67	65
8	96	80	91	74	78	62

High School Graduation Qualifying Exam Results



Sitka in 2005

- Slight population growth
- School enrollment down slightly
- Employment up in first 1/2 of 2005
- Sawmill Cove Industrial Park revenue and employment increasing
- Well-balanced economy continues
- Seafood value up
- Cruise down a little
- Summer air up a little, total year down

II. Southeast Regional Economics

Regional Population Trends
2004-2005

	Average Annual % Change
Sitka	+1.3%
Juneau	+0.2%
Ketchikan	+0.2%
All Other Southeast	-3.2%
Total Southeast Alaska	-0.2%
Total Alaska	+0.9%

McDowell GROUP

Southeast Employment 2005

- Employment up by 600 to 36,550
- Increase of 1.7%
- Changes in:
  - Leisure and Hospitality +200
  - Goods producing +150
  - Education and health services +100
  - Construction +100
  - Trade +100
  - Local government –100
  - Federal government –50

McDowell GROUP

Average Monthly Wages 2004

Anchorage	$3,457
Juneau	$2,993
Ketchikan	$2,764
Sitka	$2,680
Alaska	$3,218

Source: Alaska Department of Labor and Workforce Development

Southeast
Tourism, Timber & Mining

Southeast Cruise Passenger Volume 1994-2005

McDowell GROUP

Cruise Traffic by Port

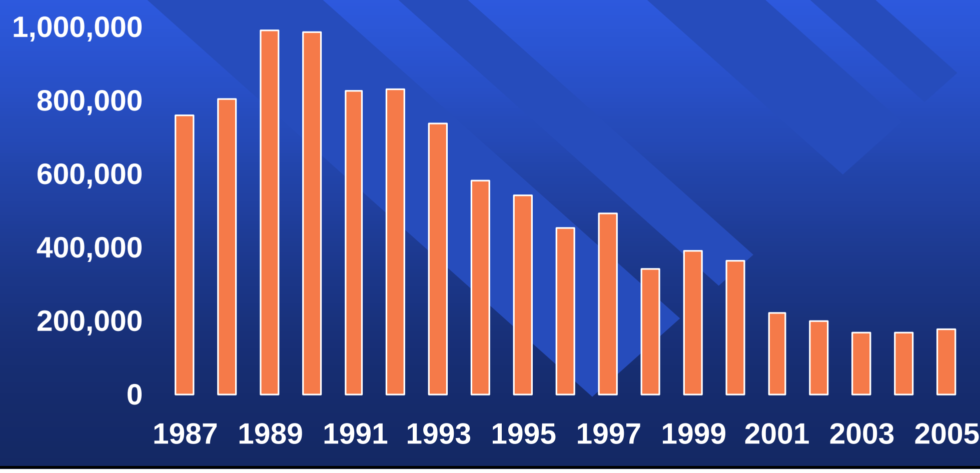
	2005 Volume	% Change 04-05
Juneau	948,226	+7%
Ketchikan	921,429	+6%
Skagway	774,361	+7%
Sitka	229,793	-2%
Prince Rupert (BC)	95,405	+47%
Icy Strait Point	77,498	+15%
Wrangell	44,760	-7%
Haines	30,832	+2%
Total Southeast	953,355	+8%

McDowell GROUP

Regional Tourism Outlook

- Cruise capacity stable in 2006
  - Shifting of market shares by port
  - Itinerary change favors Sitka: forecast 267,000 in 2006. May be temporary
- Non-cruise market outlook stable

Southeast Timber Harvest
1987-2005 (000 bf)



Mining

- 260 jobs at Greens Creek Mine
  - 9+ years reserves
- Kensington Mine development underway
  - 225 perm jobs projected
  - Early 2007 start-up
  - 10+ years mine life

Special Report:
Community Tourism Planning

Steps of Strategic Planning

- Step #1: Where are we now?
  - Current status: Our factual starting place
    - Strengths, weaknesses, opportunities, threats
- Step #2: Where do we want to go?
  - Vision, mission, goals
    - "If Sitka is extremely successful in developing and managing tourism, what is the desired end result, the vision?"
- Step #3: How do we get there?
  - Action Plan
    - Tasks, Who's responsible, Timeline

Alaska Community Tourism Planning Guidelines

- Local control is essential
- Planning must include the management of impacts, not just growth
- Must be compatible with the scale, character, vision, and will of the community
- Optimal benefits – economic, social and cultural – directed to local interests
- The "A's" of tourism planning must now include AREA (planning for impacts on the human and natural environment)
  - Advertising, Attitude, Attractions, Accommodations, and Access are the other 5 A's

Step #1: "Where are we now?" Current status of the market

- *Alaska Travelers Survey* Summer 2005 is Sitka's first detailed visitor market research in over a decade:
- Sponsored by:
  - Lead by SCVB
  - Major contributions by SEDA & SCBOA
- For the purpose of:
  - Marketing (SCVB)
  - Charter Economics (SCBOA)
  - Community Tourism Planning (SEDA)

Step #1: "Where are we now?" Current status of local interests

- Resident opinion gathering
- Business community input
- Planning process for community
- Infrastructure issues
- Impact considerations
  - Positive and negative

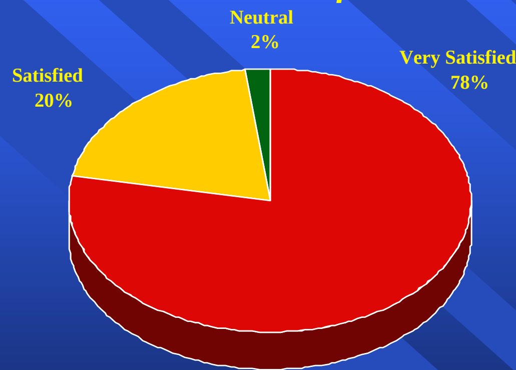
Sitka Passenger Volume 2005

Mode	Volume	% change 2004-2005
Cruise Visitors	229,793	-2%
Total Air Passengers	75,763	-4%
Summer Air Passengers	28,046	+2%
Ferry Passengers	12,519	-16%

Planning Considerations: Vision: Where would Sitka like to see change, if any? Air brings multiple markets as does cruise.

Air Visitor Satisfaction

How satisfied were you with your overall Sitka experience?



0% Dissatisfied/Very Dissatisfied

Planning Consideration: Accommodation of visitors: Need to understand basis for high satisfaction for future planning

Air Visitor Origin

- **69% Western US**
  - **Washington (25%)**
  - **California (25%)**
- **11% Midwestern US**
- **10% Southern US**
- **8% Eastern US**
- **1% Canada**
- **1% Other International**

Planning Consideration: Access: Air infrastructure and schedule major key to multiple market growth.

Air Visitor Demographics

- Gender
  - 82% male
  - 18% female
- Average age: 53 years of age
- Average travel party size: 3.9 people
- 60% attained college degree
- Average household income: $110,000

Planning Considerations: Advertising and Vision: Who is Sitka marketing to? Who do you want?

Past and Future Sitka Travel

- 52% of visitors had been to Sitka before
  - Repeat travelers had made an average of 4.9 trips to Sitka
  - 8% had entered or exited the state by cruise ship on their last trip
- 65% said they were “very likely” to return to Sitka

Planning consideration: Repeaters can be good source for management and planning feedback

McDowell GROUP

Air Visitor Expenditures

- Visitors were asked for their expenditures in Sitka (excluding airfare to/from Sitka)

AVERAGE SPENDING, PER PERSON

$1,125	Overnight sportfishing packages
92	Other accommodations
84	Tours and activities
155	Other items (dining, shopping, etc.)
$1,456	Average spending per person in Sitka

Planning consideration: Attitude/advertising: High spending visitors. What level of economic return in exchange for marketing efforts?

McDowell GROUP

Air Visitor Activities

- 73% Fishing
  - 63% Guided, 11% Unguided
- 63% Shopping
- 34% Wildlife viewing
- 30% Cultural activities
- 24% Hiking/nature walk
- 12% Visiting friends/relatives
- 10% Boating
- 10% City tour
- 4% Kayaking

Planning considerations: Attractions and Area: What are impacts on land, residents, and resources? Vision: Visitor diversity and new market development?

Length of Stay and Lodging

- Average number of nights in Alaska: 6.7
- Average number of nights in Sitka: 4.9
  - 39% hotel/motel
  - 36% lodge
  - 14% private home
  - 7% bed & breakfast
  - 3% vacation rental
  - 2% boat
  - 1% camping

Planning considerations: Accommodations: Long stays, multiple beneficiaries, capacity planning.

Sitka Charter Fishing Sector

Charter Fishing Sector

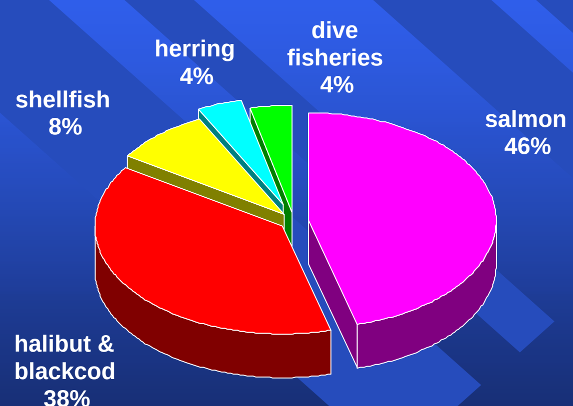
- 63% of total air visitor market, summer 2005
- Number of Sitka operators and boats stable
  - 121 businesses operating 213 boats in 2005
- Revenue growth in 2005 (per CBS): +9%
- Summer air growth in 2005: +1.5%
- National trend down
- Non-resident Alaska license sales: +5% in 2005
- Major activity for non-cruise market in Alaska
  - 324,000 NR licenses in 2005
  - 125,000 of them 1-day
  - 183,000 of them 3-14 day

Sitka Charter Sector Economics

CBS reported sales by charter operators in 2005:	$21 million (6% of Sitka total sales)
Total client spending:	$23 million ($2,200 per client)
Operator estimate of % of total operations expenditures in Sitka:	About 90% (Est.: $15-$17 million locally)
Major Sitka expenditure categories:	Wages Boat and crew contracts Boat operations and equipment Groceries, Fish processing
Employment:	Average Annual: 120-150 Est. Peak season: 350-400 Est.

Special Report: The Sitka and Southeast Seafood Industry

Major SE Fisheries
2005 Ex-Vessel Value



Source: ADF&G/NOAA

Southeast Seafood Production 2004

	Pounds	Value
Ex-vessel:		
Salmon	278,891,000	$76,890,000
Non-salmon	62,850,000	$99,210,000
Total	**341,741,000**	**$176,100,000**
First Wholesale:		
Salmon	182,503,000	$214,694,000
Non-Salmon	50,618,000	$131,363,000
Total	**233,121,000**	**$346,057,000**

Sitka Land-based Processor Production Only, 2004

	Pounds	Value
Ex-vessel:		
Salmon	27,479,000	$18,819,000
Non-salmon	11,369,000	$26,218,000
Total	**38,848,000**	**$45,037,000**
First Wholesale:		
Salmon	19,601,000	$35,118,000
Non-Salmon	10,855,000	$34,750,000
Total	**30,456,000**	**$69,868,000**

Sitka Seafood in 2005

- Sitka Ranks 9th largest port by value, 26th largest port by volume in U.S
- Substantial IFQ landings port
  - Sitka #2 in sablefish, #5 in halibut
- Increased salmon fillet production
- Significant increase in wholesale value
- Excellent support services
- Good marine infrastructure - need more
- Supportive community
- Municipal cold storage

Sitka Seafood Stats

- Sitka residents fished 780 permits earning $34 million in 2004, more in 2005
- Sitka processed +25% of total SE region landings by value in 2004
- Sitka First Wholesale value of $70 million does not include floaters or fish harvested at Sitka and processed elsewhere
- Sitka basic industry employment #2 behind health care
  - 641 annual average employment

McDowell GROUP

Southeast Seafood Trends

- Increase in wholesale prices
- Processor shift to value-added product forms produced in the region – increased fillet production - especially Sitka
- More seafood product shipping by air (capacity limits)
- More specialized seafood processors
- More low-value species processing in China
- Plans to increase cold storage capacity
- Freight consolidation planning

McDowell GROUP

Southeast Seafood Situation

- Over 1/2 of SE income from species other than salmon
- Prices, stocks and markets generally healthy for non-salmon species
- Salmon prices continue to rebound for all species
- Halibut and Sablefish TAC down slightly
- Strong political force behind salmon industry recovery

Southeast Salmon in 2005

- King salmon harvest down 13 percent, ex-vessel value up 7%
- Pink and chum prices continue recovery
- Pink harvest big, chum harvest down: Total low-value harvest of 265 million pounds
- Strong domestic-market interest in wild salmon benefits SE
  - Closest to U.S. market
  - Longest season in AK (fresh market)

Source: ADF&G COAR

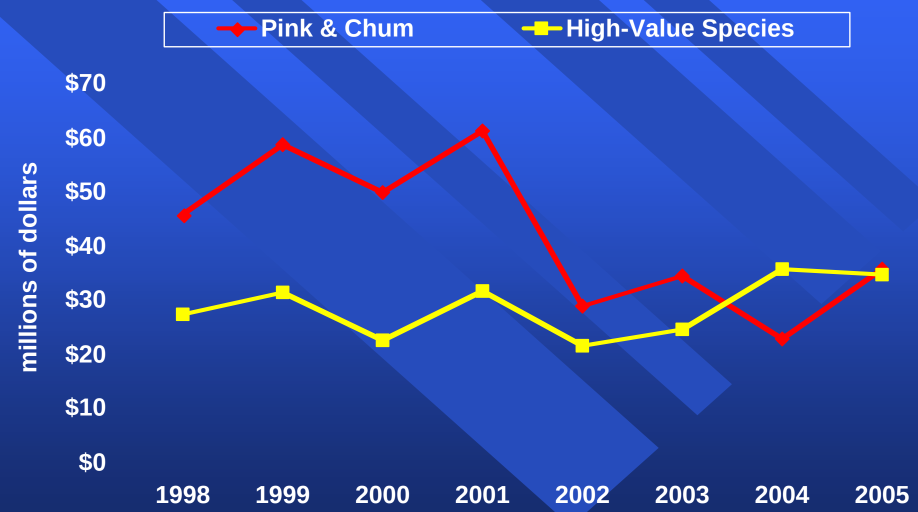
SE First Wholesale Salmon Value

Average in $ Per Pound

	2003	2004	2005
Fresh King	$2.18	$3.37	$5.29
Fresh Sockeye	$1.93	$2.53	$NA
Fresh Coho	$1.57	$2.13	$3.16
Frozen King	$1.19	$2.90	$3.93
Frozen Sockeye	$1.68	$2.49	$2.95
Frozen Coho	$1.37	$2.17	$2.93

Source: AK Dept of Revenue ASPR

SE Ex-vessel Salmon Value



Source: ADF&G

Other Species

- Halibut price increased to record levels, 2C TAC down
- Sablefish prices increased in 2005, SE TAC down
- Tanner fishery down slightly, Golden King crab also down slightly.
- Red king crab was open for a fishery
- Strong value in 2005 Sitka herring fishery

Southeast Seafood Outlook

- Additional processing in Sitka
- Price outlook good for 2006 - all species
- Increased Sitka hatchery production ahead
- Priority market emphasis on salmon quality

IV. Assets and Opportunities

Sitka's 2006 Assets

- Alaska's most balanced and diversified economy
- History of economic infrastructure support
- Community willing to consider compatible development
- Proactive municipally supported development organization
- Strong Alaska Native economic sector
- Dedicated industrial development site
- Strategic location for additional seafood industry development
- Strong attraction base for cruise and non-cruise visitor market development
- Planning for tourism management and controlled growth

Sitka's 2006 Opportunities

- Model constructive resolution behavior for Alaska in resource allocation challenges
  - Adopt both/and, *not either/or*, community economic policy
- Continue history of seafood industry-friendly community support - all sectors
- Be proactive in tourism management planning with community vision
  - New visitor market development potential
- Appreciate Sitka's exceptional economic balance and diversity by supporting economic, social and cultural contributions of all sectors

State of The Sitka Economy

Prepared for:

Sitka Economic Development Association

Prepared by:

McDowell Group, Inc.

March 17, 2006