

State of the Sitka Economy, 2008

Summary Report

Prepared For:



Sitka Economic Development Association

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The State of the Sitka Economy: Selected Indicators

Introduction

The Sitka Economic Development Association (SEDA) sponsors an annual community business planning event entitled "State of the Sitka Economy." SEDA retains the McDowell Group, Inc., an Alaska research-based consulting firm with expertise in Alaska's economy and industries, to prepare a presentation summarizing the economic status of the community. The purpose of this summary report is to clarify and expand on the information presented in the "State of the Sitka Economy" PowerPoint presented in Sitka on March 25, 2008.

In addition to the normal overview of the Sitka economy, a special section addresses Sitka's role in the regional tourism and seafood industries. The report closes by summarizing Sitka's economic development issues and opportunities.

Population

The State Demographer in the Alaska Department of Labor and Workforce Development (ADOLWD) is the state's official estimator of population. Sitka's 2007 population is estimated at 8,640, a decline of 349 people (4 percent) from 2006, the most significant annual loss since the years following pulp mill closure.

Data represents population as of July 1st, 2007. Since July, anecdotal information indicates the population has continued to decline, due to decreases in employment opportunities in the second half of 2007.

School Enrollment

Sitka public school enrollment declined in 2008 to 1,380, down 74 students (-5.1 percent) from 2007. School Enrollment has declined 14.3 percent since 2002 when 1610 students were enrolled. Shifting demographics are contributing to changes in school enrollment. Fewer young families with children appear to be making Sitka home. Also, recent job losses seem to have impacted this year's enrollment.

**Sitka Public School Enrollment
2002-2007**

Year	School Enrollment
2002	1,610
2003	1,550
2004	1,466
2005	1,477
2006	1,477
2007	1,454
2008	1,380

Source: Sitka School District, Oasis counts.

Employment and Earnings

Sitka's economy is well balanced with several sectors contributing to the local economy. Health care, government, seafood, and tourism, along with trade, transportation and utilities are all significant employers in Sitka. With this well-balanced economy Sitka can compensate to some degree for declines in one or two specific sectors.

While employment in the first two quarters of 2007 is up slightly (0.4 percent) over the first two quarters of 2006, recent employment losses won't be reflected until 3rd and 4th quarter data are released later in 2008. Major job losses occurred the second half of 2007, especially with the closer of Sheldon Jackson College, and Sitka's employment total for the year of 2007 is expected to show a decline.

Likewise payroll for the first two quarters of 2007 equals \$73 million, up slightly from the same period in 2006. But with the loss of good paying jobs in education, health care, and government in 2007, Sitka may see a decline in total payroll when final 2007 figures become available.

Sitka's payroll for nonagricultural wage and salary employment in 2006 was \$148 million, slightly higher than in 2005. In recent years Sitka's payroll has been on the rise, other than a slight decline from 2003 to 2004. The 2006 final payroll is the highest total since 1993.

Readers should note that this official ADOLWD payroll data excludes seafood crew earnings, which are substantial in Sitka. Seafood crew earnings are not reported in standard employer quarterly reports.

Housing Construction

In 2007, 34 dwelling units were constructed, a significant decline from the 2006 total of 54 units. Peak building activity took place in 2005 when a number of multiple unit buildings were built, for a total of 71 new units. Housing occupancy reportedly remains high with demand for affordable housing still a major issue in the community, as it is in other major Southeast communities.

Sitka also tracks lot absorption, with an absorbed lot being one that is being built on for the first time. This is a means to measure changes in residential land availability. The Sitka housing market absorbed 31 new lots in 2006. Figures for 2007 indicated a significant decrease – only 16 lots absorbed, identical to the recent low of 16 in 2002.

Business Sales

Sitka gross business sales as reported to the City and Borough of Sitka continued its eleven-year upward trend, increasing 5 percent to \$368 million in 2007. Since 1997, gross business sales have been increasing steadily. Improved reporting may play some role, but the overall trend is certainly positive.

Recent Changes

In the second half of 2007, the Sitka economy has seen some major changes when three major employers announced closures or cutbacks. The resulting employment losses are particularly critical to Sitka because they came in the typically stable and well-paying sectors of education, health care and federal government.

LOSSES IN LATE 2007:

- Sheldon Jackson College closed
 - 109 Sitka jobs lost
- SEARHC cutback
 - 40 jobs lost in Sitka alone
- U.S Forest Service cutback
 - 6 Sitka jobs lost with potential of 5 more by 2010

While published data is unavailable at this time, these changes are impacting the Sitka economy. Anecdotal information indicates the population may have declined further than reported in the current ADOLWD population estimate. There also are longer-term implications from the loss of these stable family-wage jobs. The amount of money circulating in the economy is decreasing, and eventual loss of support jobs in other sectors of the economy is certain to result. As fewer families can afford to live in Sitka due to economic opportunities, population declines may continue. It can take at least a few years for the full impacts of significant job losses to play themselves out in the local economy.

Sitka has seen some positive change at the same time. Silver Bay Seafoods opened in 2007 and processed salmon during the fishing season. The new business provided 170 seasonal jobs and 10 full-time year-round positions. Also, Sitka Community Hospital purchased Moore Clinic. While the merger has not created jobs at this time, SCH expects to improve overall medial service with the acquisition.

Ferry service is also set to increase in 2008 as the M/V Fairweather has been scheduled to service Sitka 5 days a week, plus one mainline ferry per week.

The Southeast Regional Economy: Selected Indicators

Population

The regional population for Southeast Alaska totaled just over 69,000 in 2007, falling by 1.5 percent from 2006. After increases in population from 2001 to 2003, the regional population has declined in each of the past four years. In 2007, the largest decline in population was seen in Sitka (4 percent). In recent years smaller regional communities have experienced the greatest proportional decline, as residents have typically moved from rural communities to urban areas, reflecting a statewide trend. In 2007, Haines was the only community in Southeast with a population increase (0.8 percent). All other communities, including the region's urban centers, lost population.

Southeast Alaska Population Trends 2003-2007

	2003	2004	2005	2006	2007
Southeast Region	71,796	70,910	70,891	70,405	69,328
Haines	2,318	2,252	2,208	2,239	2,257
Juneau	31,294	31,122	31,225	30,811	30,305
Ketchikan	13,525	13,082	13,131	13,201	13,160
Prince of Wales	5,591	5,568	5,510	5,479	5,328
Sitka	8,890	8,824	8,944	8,989	8,640
Skagway-Hoonah-Angoon	3,165	3,117	3,063	3,016	3,001
Wrangell-Petersburg	6,323	6,269	6,167	6,034	6,016
Yakutat	690	676	643	636	621

Source: Alaska Department of Labor and Workforce Development

Employment and Earnings

According to the ADOLWD *Current Employment Statistics Program* (CES), preliminary Southeast employment estimates were up slightly, at about 0.1 percent in 2007. Sectors experiencing losses in employment include education, health services, goods producing, seafood processing, and state government. Overall, employment has increased due to growth in the service-providing and leisure/hospitality sectors. Early 2008 estimates indicate a slight regional decrease in employment.

Recent employment losses in the region have been focused in education, health care and government. These positions are typically well-paying stable year-around positions, providing individuals with a livable wage. Unfortunately, most employment growth in Southeast has been in sectors that do not provided employees with wages levels and seasonal stability comparable to those of the jobs being lost. This exchange of family-wage jobs for lower-paying employment in trade and service industries is part of a longer-term statewide and national trend.

The Regional Visitor Industry and Sitka's Role

The results of a major statewide visitor survey, the *Alaska Visitor Statistics Program (AVSP)*, sponsored by Alaska Department of Community and Economic Development, were released in April of 2007. The survey of nearly 6,000 exiting summer visitors – conducted by the McDowell Group – provides detailed information on the statewide visitor market, as well as on regional and local markets, including Sitka.

Statewide, the summer visitor industry was flat in 2006 remaining at about 1.6 million visitors, 82 percent of them vacation/pleasure visitors, while 2007 showed a return to the industry's long-term growth pattern by increasing to an estimated 1.7 million visitors. The cruise market accounted for virtually all of the growth with air travel to Alaska remaining relatively stable and the highway/ferry market segment continuing its significant long-term decline.

The fall/winter AVSP report (covering October 2006 through April 2007), was released in November 2007, and includes statewide data and a special profile of Sitka visitors.

Statewide, the fall/winter market is considerably smaller than the summer market, at 250,000 visitors. Other differentiating factors are the high percentage of visitors that travel by air (95 percent) and the relatively low percentage of vacation/pleasure visitors (12 percent). Southeast fall/winter visitor traffic totaled 30,000 visitors while Sitka visitors accounted for 5,000 of the total regional volume.

Full Year Alaska Visitor Volume May 2006 - April 2007

Volume	
Alaska	1,881,000
Southeast	1,190,000
Sitka	291,000

Source: AVSP

Sitka's visitor volume totaled was 291,000, about a quarter of the full year regional total from May 2006 to April 2007. While AVSP data is the best data to measure the visitor industry, other sources give an idea of total traffic in and out of Sitka. Total Sitka deplaning air passenger traffic fell 1 percent in 2007, while the number of disembarking ferry passengers increased by 8 percent (both air and ferry traffic includes local residents and business travelers). Cruise traffic to Sitka, which tends to fluctuate from year to year (depending on ship itinerary changes and competitive port factors) has not increased over time and declined by 12 percent in 2007. Sitka has not shared in the recent doubling of the regional cruise market due to lack of docking facilities.

While data are not available specifically on the Sitka sport fishing charter market, the decline in air traffic (virtually all charter fishing clients arrive by air) may indicate a softening in the charter industry, reflecting a statewide trend of decline in nonresident sport fishing license sales since 2005. While Sitka-specific sport fishing licenses data was unavailable, statewide data indicates the number of sport fishing licenses sold in 2007 declined by 3.3 percent since peaking in 2005.

Finally, Sitka bed tax receipts in 2007 grew 10 percent. While city officials were unable to explain the increase in the face of declining visitor traffic volumes, one likely explanation is an increase in the price of lodging.

The Regional Seafood Industry and Sitka's Role

Seafood processing is a major Sitka industry with multiple seafood processing businesses, ranging from small custom processors to large scale processing plants. In 2006, Sitka land-based processors alone produced 34 million pounds of product valued at \$93 million at wholesale. Sitka land-based processors accounted for over 25 percent of the total first wholesale value of seafood produced in the region.

This Sitka land-based processing total does not account for floating processors, direct marketers, or seafood harvested in the immediate area that is tendered to other communities for processing. For example, most of the Sitka herring harvest is tendered to other communities because of the current competitive harvest management method. All processing considered, Sitka area production easily exceeds \$100 million annually.

The local processing industry is expanding. In 2007, Silver Bay Seafoods opened its doors to process salmon. The new plant created 170 processing jobs. Sitka now has a total of four major processors providing jobs. While 2007 employment data is unavailable, it is estimated that there were over 300 jobs related to seafood processing in Sitka in 2007.

Sitka residents also play a major role in the region's harvesting activity. In 2006, Sitka residents (plus their crews) fished 739 permits earning \$38 million in ex-vessel value while landing 28 million pounds of harvested seafood. While these totals represent the production of Sitka resident fishermen, the total volume and value of fish landed at Sitka by all harvesters, regardless of place of residence, is significantly higher. The volume of fish landed in Sitka grew from 35 million pounds of fish landed in 2005 to 41 million pounds in 2006. Sitka landings had an ex-vessel value of \$59 million accounted for 29 percent of the total regional ex-vessel value in 2006.

In 2006, the regional seafood industry produced \$368 million in first wholesale value from fish with an ex-vessel value of \$202 million. Pounds harvested in the region totaled 228 million and which were processed into 181 pounds of product.

Halibut and Sablefish

Sitka's seafood production is substantial enough to place it high among all Alaska and U.S. ports. Sitka processes significant IFQ poundage and is Alaska's #3 port in sablefish landings and #4 port in halibut landings. Overall, Sitka ranks as the 6th largest port in the U.S based on value and 19th based on volume. In 2006, total IFQ poundage landed in Sitka was 3.5 million pounds of halibut and 4.3 million pounds of sablefish. With a lower TAC (total allowable catch) for halibut in areas 2C and 3A in 2007, it was expected that the volume would decline. In 2008, the TAC has once again declined.

Salmon

Market prices for king and coho salmon declined in 2007, after three straight years of increases to exceptional highs. Harvest volumes of both king and coho were down in 2007. The overall value of the chum salmon harvest fell due to a lower than expected harvest volume while prices remained steady. Pink salmon recovered from an unexpected down year in 2006. The pink salmon harvest volumes increased 244 percent in 2007 to 161 million pounds, following the historic even/odd year cycle in which odd years produce significantly more

pink salmon in the region. At the same time, the per pound value of pink salmon increased 58 percent to \$0.19 per pound. The result was a 290 percent increase in the overall ex-vessel value of southeast pink salmon.

Consumer preference for wild salmon has continued to drive strong demand and good prices. Over the past year salmon markets have stabilized as prices are reaching the top end of consumers' willingness to pay. Alaska processors, including at least two of them in Sitka, are continuing to adapt to the market conditions by providing value-added products consumers prefer, such as salmon fillets. For the low-value pink salmon, a product form shift is underway with less salmon ending up in cans and more being processed into value added products. This has allowed canned salmon inventories to clear. As predicted pink salmon prices improved as inventory volumes declined after the poor harvest of the 2006 season.

The 2008 salmon harvest forecast by the Alaska Department of Fish and Game is predicting a decline in the number of fish harvested. In Southeast, the overall volume of salmon harvested is expected to be lower than in 2007. King, coho, and chum salmon are all expected to have moderately higher harvest volumes than in 2007. If these predictions are correct, salmon fishermen targeting these high value species could benefit. The pink salmon harvest (targeted by seine fishermen) is expected to be down 54 percent. Pink salmon make up the bulk of the southeast harvest in terms of volume. Salmon prices for the 2008 season are unclear at this time. However, winter king salmon prices have been strong.

Development Issues and Opportunities

The McDowell group was asked by SEDA to look at the Sitka economy to discuss potential development opportunities. While Sitka has a well-diversified economy, recent economic losses concern community leaders. To fully identify and evaluate development opportunities in Sitka, an “*Economic Needs Assessment*” would need to be completed. An in depth “*Economic Needs Assessment*” would properly identify and quantify potential development opportunities in the Sitka economy. The development discussion contained in this section is limited at this time to available information.

Development Issues

Two key issues arise when any community discusses economic development. The first issue is **control**. What do the community, municipal government, business community, and SEDA have control over that might stimulate economic progress in the face of the current state of decline? While local interests might favor a particular form of economic advance, is there sufficient control to at least assist bringing an economic venture into reality? It is critical to invest precious development resources where enough local control exists to significantly enhance chances of success. For example, control of the Sawmill Cove Industrial Park led to several economic developments that very likely would not have otherwise occurred.

The second issue is **choice** – what does the community of Sitka choose to do in regard to economic development? What forms of economic progress are generally favored; what forms are generally opposed? The community of Sitka, like other communities, can be ambivalent when it comes to certain economic issues. For example, the community appears to generally favor infrastructure and financial support for the seafood industry, and growth as a nationally prominent seaport is one result. On the other hand, cruise ship tourism support is clearly ambivalent at best, with significant local opposition to support infrastructure that would result in economic growth. The result is Sitka not sharing to some degree in the doubling of the regional cruise market in recent years. Both the seafood and cruise scenarios are examples of choice.

Given the issues of control and choice, what might the study team suggest as having some economic promise for Sitka? First the study team recommends an assessment by the real experts on the Sitka economy.

Assessment of Economic Potential

While an occasional major development, such as a mine or new seafood processing operation sometimes occurs, most economic development is done in small pieces – a few jobs at a time, a small business opening, a non-profit gaining a significant long-term grant, a locally-financed cold storage facility, or an agency getting new positions in their Sitka budget, for example.

In order for Sitka to evaluate economic potential in relation to what the community has control over, the study team suggests some forum such as a survey and/or open discussion groups. Businesses, non-profits and government agency leaders would be asked two key questions.

The first question leads to an assessment of economic potential by those most expert in the local economy, “What opportunities for expansion or new growth do you see for your business, non-profit or agency?”

The second question addresses control, “What barriers exist to the opportunities you see, and what can local interests do to reduce or eliminate these barriers?” Armed with answers to these two key questions, local interests wanting to encourage economic progress can further develop a realistic plan of action.

Apparent Sitka Development Opportunities

Seafood Industry

Sitka is one of Alaska’s and the nation’s most important seafood ports, and could continue to attract new harvesting, processing and marine service participants because of its many advantages. The community has good harbor facilities and harbor management, a positive community and municipal attitude toward the seafood industry, strong marine service and supply support, significant hatchery production, a large local fleet, strong processors, and a great location in relation to prime fishing grounds in the Gulf of Alaska. Recently, Sitka has seen growth in the processing sector, partly due to progressive local effort to encourage such development.

Marine Industries

Currently, SEDA is working on planning for a marine industry development at Sawmill Cove. In a survey completed by SEDA, respondents indicated most of their haul out and marine services are completed outside of Sitka. The major reasons for respondents’ decisions to perform marine services outside Sitka were cost and available services. Some respondents felt that Sitka already has adequate facilities. However, there is opportunity to provide better marine services locally so business does not leave the community. High fuel costs may have an upside for Sitka. Fuels costs now make running boats to Puget Sound (the preferred marine services location for many survey respondents) prohibitive for at least some vessel owners. This may be one stimulus for further Sitka marine services development.

Tourism

Historically, tourism has been a growth industry in Sitka and is important to the local economy. However, the two mainstays of the industry – the charter industry and cruise ship tourism – no longer appear to be local growth industries. Charter fishing appears to have peaked out statewide in 2005 (nonresident license sales are down about 3 percent), and cruise tourism has not grown in recent years, in part because it is limited by the lack of docking facilities – a controversial community issue most recently settled by local election.

Tourism development in Sitka falls into the *choice* category to some degree. The cruise dock issue appears resolved with the result being no market growth. Sitka supports tourism in general through modest public funding of the Sitka Convention and Visitors Bureau.

The charter industry issue is more complex. To allocate more halibut to the Sitka charter industry will be done at the expense of Sitka seafood industry processors and harvesters. Recent City and Borough of City data shows the retail value of the charter industry at about \$20 million while the wholesale value of the Sitka shore-based seafood industry is \$93 million in 2006. This unsettled allocation controversy is very emotional and political on both sides, but the fact remains that both industries contribute significantly to the local economy and the real resource allocation decision is out of Sitka's control. The community apparently, and appropriately, supports both by providing harbor and other facilities to serve them.

Government

Government, in all its forms, is by far Sitka's most important industry. The NPS, USCG, USFS, State Troopers Academy, University of Alaska Southeast, Mt. Edgecumbe High School, and the Sitka Pioneers Home are obvious examples. Government support for non-profits – such as the successful Center for Community, and the critically important SEARHC medical complex – is critical for dozens of local Sitka interests. Finally, Sitka Tribe is a major growth industry all in itself as a tribal government with special dedicated funding sources.

In economic development, government is unique. The tools for bringing in economic advancement are eminently available to Sitka. Effective political action, advocacy for worthy functions, and competence in securing funding are all essential assets in bringing government-related economic development to Sitka.

Real Estate

The cost and availability of real estate is a major issue for many current and potential residents, and for business and non-profit entities as well. Most new economic development requires access to land, and local interests must include land assets in any program encouraging economic development in Sitka. Finally, Sitka's lower-than-average wage levels in most sectors means the market for affordable housing could be strong, representing a community development opportunity.