State of The Sitka Economy

Prepared for:

Sitka Economic Development Association

Prepared by:

McDowell Group, Inc.

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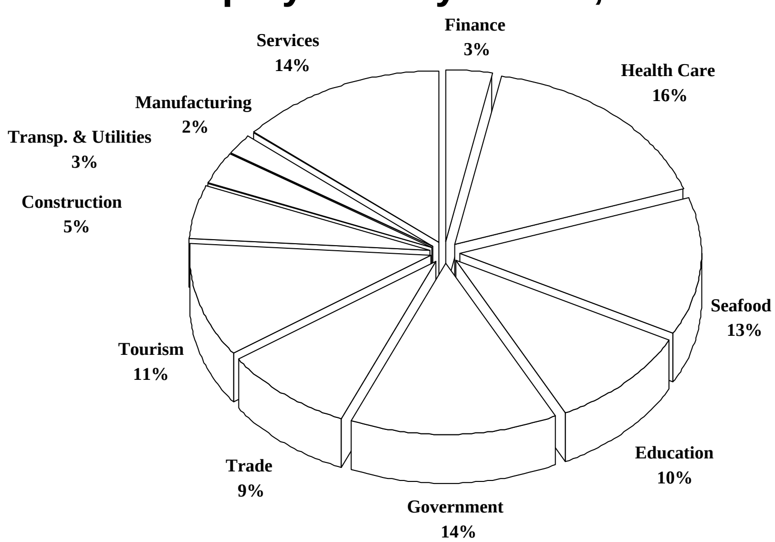
Presentation Contents

I. State of the Sitka Economy

Sitka's Balanced Economy
Employment by Sector, 2004

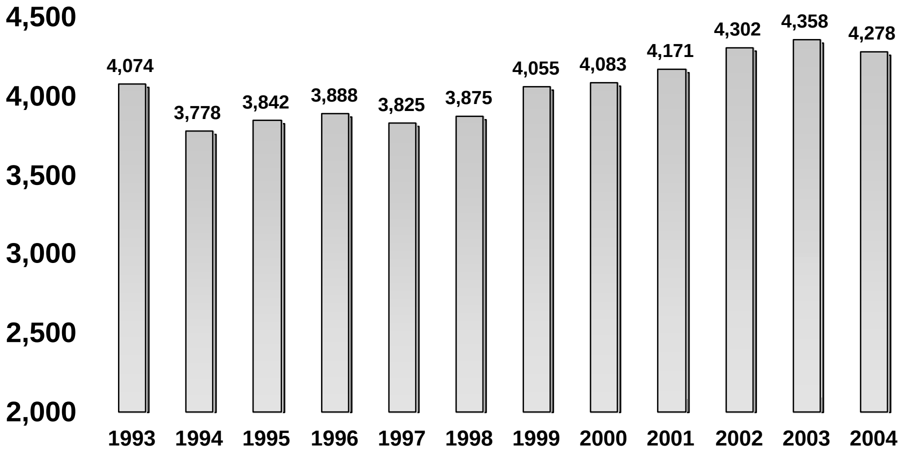


Sitka Employment By Industry, 2004

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 Employment

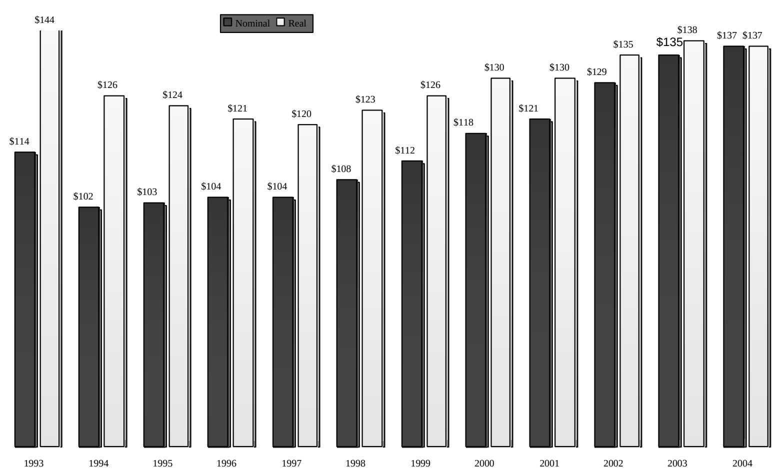
1993-2004



Source: Alaska Department of Labor and Workforce Development

Sitka Payroll

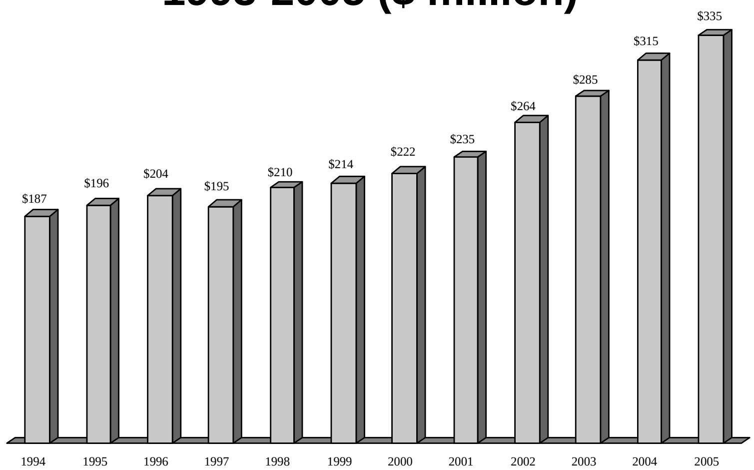
1993-2004, $ millions



Source: Alaska Department of Labor and Workforce Development

Sitka Gross Business Sales

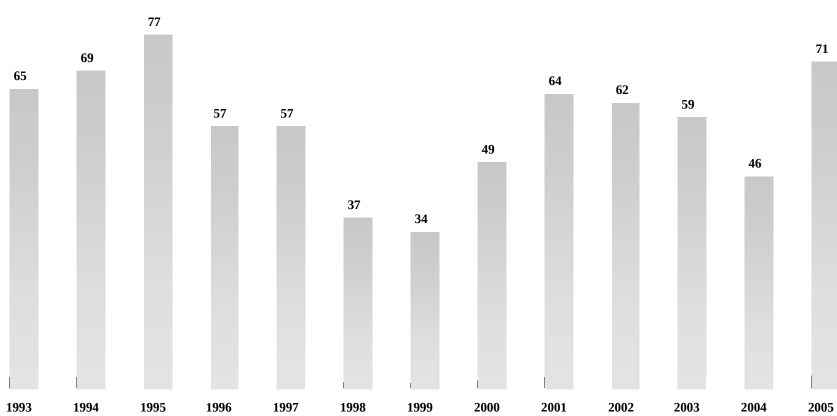
1993-2005 ($ million)



Source: City and Borough of Sitka

Sitka Construction Activity

Number of Dwelling Units, 1993-2005



Source: City and Borough of Sitka

Sitka Education Performance

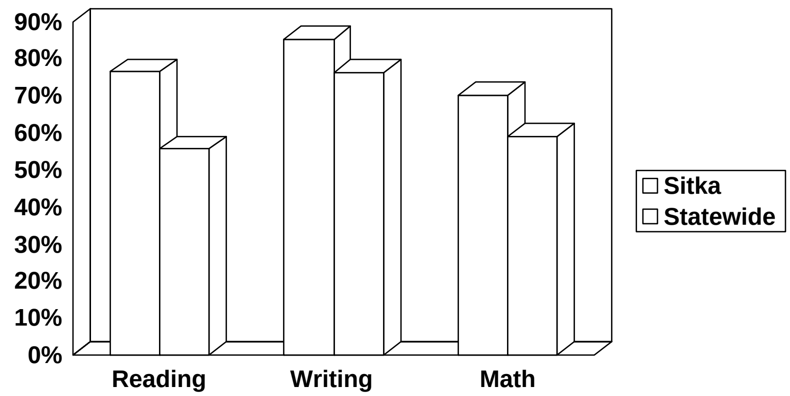
- School enrollment down a little (-9 to 1,515) in 2005
- Standard base assessment results higher than statewide
- High School Graduation Qualifying Exam results better than statewide for reading, writing, and math
- Two new schools met Adequate Yearly Progress
- Schools meeting Adequate Yearly Progress (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%**

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

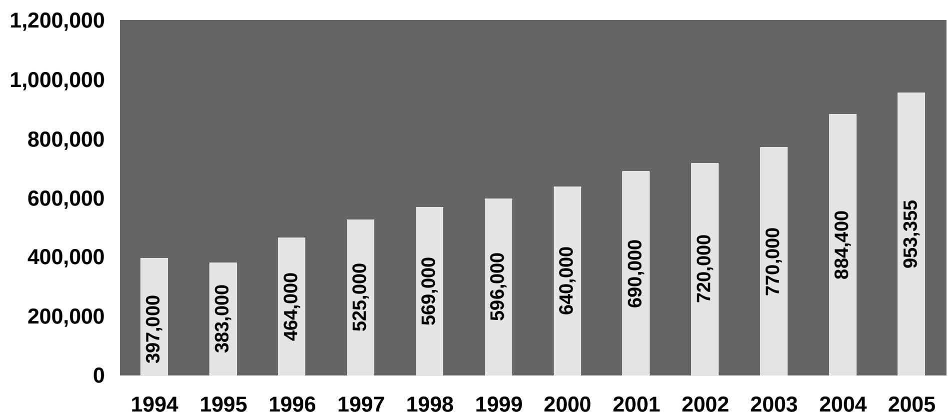
Average Monthly Wages 2004

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



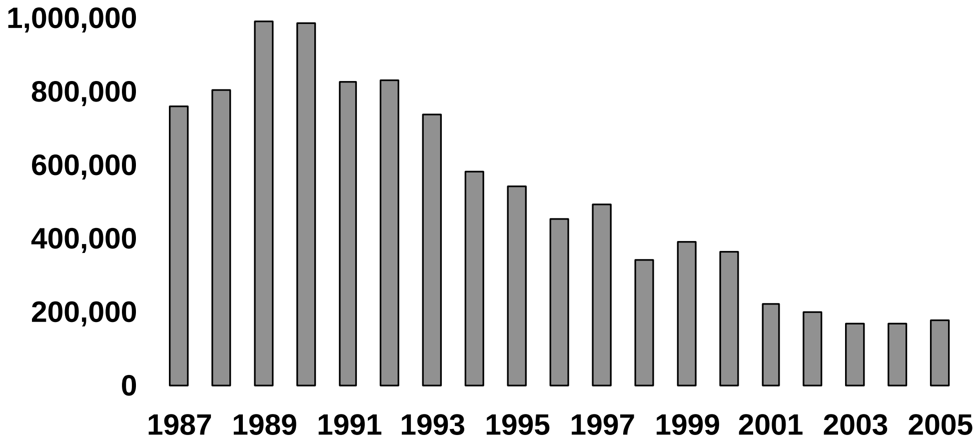
Cruise Traffic by Port

	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%

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

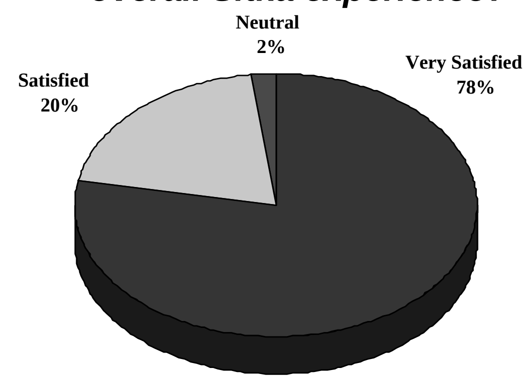
Sitka Passenger Volume 2005

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

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?

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

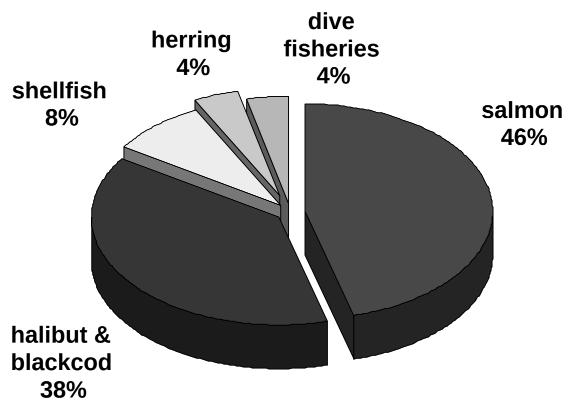
- 63% of total air visitor market, summer 2005
- Number of Sitka operators and boats stable
  - 121 businesses operating 213 boats in 2005
- Revenue growth in 2005 (per CBS): +9%
- Summer air growth in 2005: +1.5%
- National trend down
- Non-resident Alaska license sales: +5% in 2005
- Major activity 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

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

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)

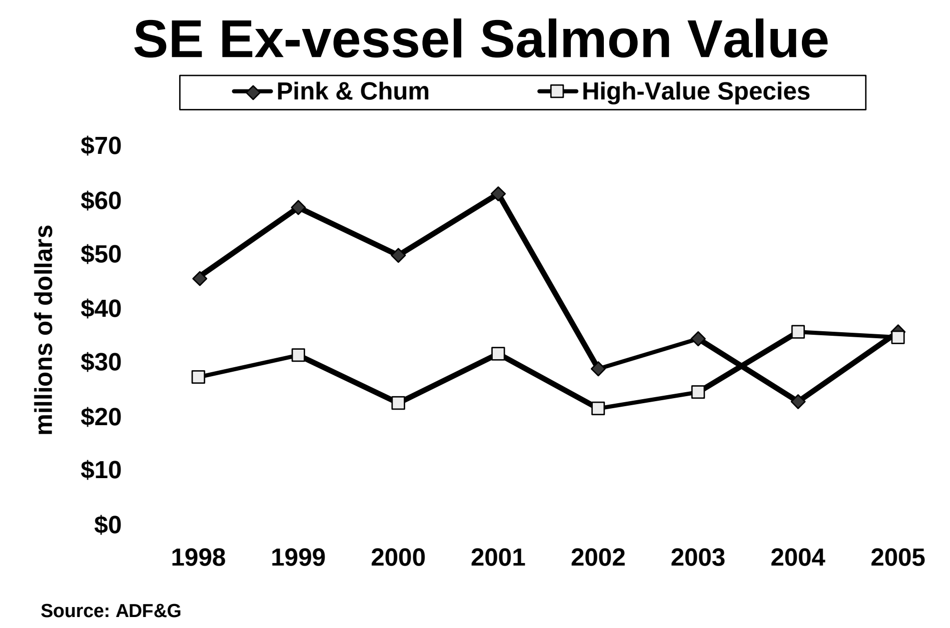
Source: ADF&G COAR

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



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

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