

A Diversified Economy— The Kenai Peninsula

By Scott Sellmeyer

The last *Alaska Economic Trends* article on the Kenai Peninsula Borough (March 1990) focused on a recovering economy led by a wide variety of industries. These positive growth trends have continued across many sectors. Fishing, tourism, oil and gas production and refining, and government continue to be the backbone of the local economy. The economy's strongest asset is its diversification. (See Figure 5 and Table 1.)

The short-term outlook for the Kenai Peninsula Borough is generally positive. The only major soft spot has been the downsizing in the oil industry. Like the rest of the state, the oil industry still provides a substantial portion of the borough's wages and taxes. Any further oil industry cutbacks will have a negative affect on the Kenai Peninsula's economy.

After a decline during the crash of the mid-1980s, population and job growth are making steady strides. Over the last five years, the Kenai has had an average net gain of about 280 new jobs a year. Employment for 1994 is expected to be at an all-time high. Population growth has been sporadic, but following an upward trend in the 1990s. The increases in the Kenai's population have occurred mainly outside of organized cities. (See Table 4.) School enrollment on the Kenai Peninsula reached a record high in 1994 at 10,214 students and is expected to keep rising.

This growth is fueled by good years in tourism, fishing, and retail. Average monthly wages for 1993 were \$2,458, a slight increase over previous years. Most of the new jobs created are not the high wage jobs of the oil industry. New employment is in the lower-wage, low-benefit service sector. As in the rest of the state, staff reductions, consolidations, and efficiency measures trimmed the highly paid work force of the oil industry on the Kenai. These work force reductions, as in the recent Marathon/Unocal switch layoffs, ripple throughout the entire economy.

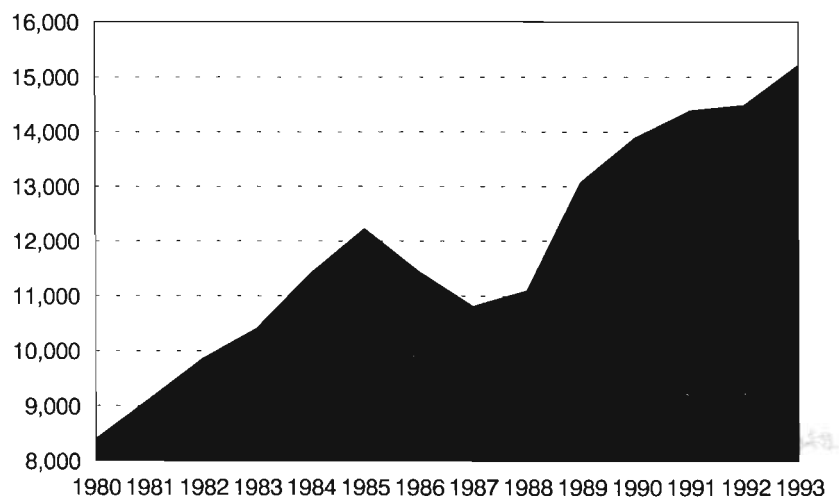
Unemployment higher than average

Even with the recent growth in employment, the current unemployment rate on the Kenai Peninsula is higher than the state average. This continues a historical trend in which the Kenai has remained an average of 4.7 points above the state's jobless rate. The higher unemployment rate can partially be explained by two reasons. First is the extreme seasonal nature of the job market on the peninsula. Second, there is a core of peninsula residents that are employed elsewhere in the state, but return home to the Kenai when they become unemployed. It is hard to attribute all of the employment differential to these factors. Clearly, there are other inherent causes for the consistently higher unemployment that are difficult to identify and isolate.

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Figure • 1

Trends in Peninsula Wage and Salary Employment



Source: Alaska Department of Labor, Research & Analysis Section.

Kenai Peninsula Borough Wage and Salary Employment 1985-1993

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Total Nonag. Wage & Salary	12,216	11,438	10,677	10,947	12,845	13,693	14,191	14,019	14,995
Oil and Gas	825	934	757	838	919	1,174	1,155	1,043	1,063
Construction	1,387	864	642	619	825	717	713	623	689
Manufacturing	1,419	1,295	1,320	1,486	1,644	1,861	2,066	1,848	1,833
Trans./Comm./Util.	934	678	568	622	1,199	995	1,066	967	1,001
Trade	2,436	2,318	2,264	2,180	2,305	2,556	2,708	2,936	3,194
Wholesale Trade	382	381	372	397	395	404	379	404	441
Retail Trade	2,054	1,937	1,892	1,783	1,910	2,152	2,329	2,532	2,753
Finance, Ins., Real Estate	366	375	299	257	280	281	277	300	323
Services and Misc.	1,933	2,041	1,876	1,926	2,361	2,688	2,808	2,823	3,163
Government	2,916	2,933	2,951	3,019	3,312	3,421	3,398	3,479	3,729
Federal	210	225	216	248	269	285	289	309	357
State	836	823	787	912	1,063	1,077	1,051	1,029	1,031
Local	1,870	1,885	1,948	1,859	1,980	2,059	2,058	2,141	2,341

Source: Alaska Department of Labor, Research & Analysis Section.

Bringing in the tourist dollars

With its beautiful scenery and dynamic range of outdoor activities, tourism will probably play a larger role in the Kenai's future economy. Preliminary figures indicate that 1994 was another strong year for tourism. Many new projects are in development to capture the elegance of the wild and use it to promote economic growth. These proposed enterprises include the Alaska Sea Life Center in Seward, the North Pacific Volcano Interpretive Center to be located between Ninilchik and Anchor Point, and the Alaska Maritime Refuge Center in Homer.

In the last few years, Seward and Resurrection Bay have shown the largest increases in the number of visitors. The Kenai Fjords National Park is the main reason. Over its short life span, the number of yearly visitors have grown substantially to over 120,000 in 1993, according to the National Park Service (NPS). (See Figure 2.) The NPS estimates that each visitor spends \$72 a day while visiting the park. These tourism dollars are growing as a key source of income in the area.

There are two distinctive tourist groups that visit the Kenai. One is the interstate Lower

48 tourist. In the summer of 1993, 29% of the 836,900 visitors to Alaska spent time on the Kenai. The largest attraction is the sport fishing headquarters of the Kenai River. The other group is the intrastate tourist; mainly Anchorage area residents. There were approximately 180,000 visits from Anchorage area residents to the Kenai Peninsula from January 1990 to March of 1991. Construction upgrades completed on the Seward Highway over the next five years will provide safer, quicker access to the peninsula. This should further improve these figures. Estimates peg Anchorage resident spending in 1991 at \$71 million on the peninsula. The success of the Kenai's tourism industry is therefore tied to the economic fate of Anchorage and its rate of population growth. The reliance of the Kenai on intrastate travelers is a unique feature for a state which counts on visitors from outside Alaska to support its tourism industry.

Oil sings the blues

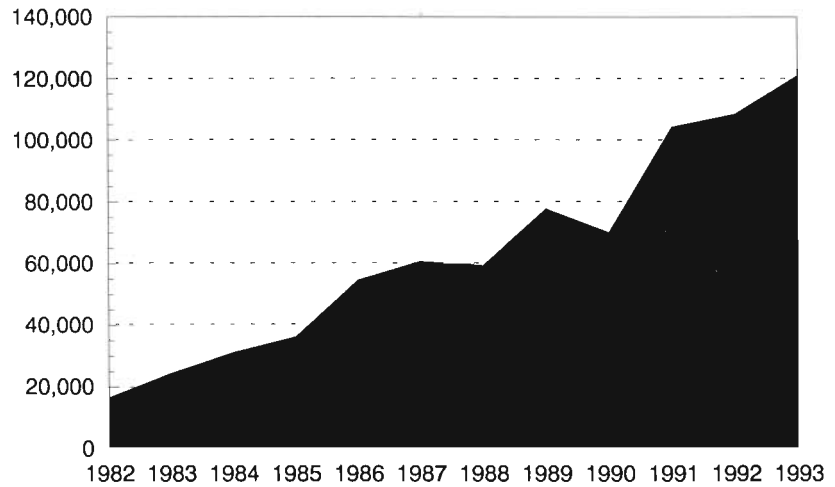
The Kenai Peninsula is experiencing the pains of a declining oil industry. The excitement over the Sunfish discovery in Cook Inlet turned out to be overly optimistic. In the fall of 1994, Union Oil Company of Cali-

Figure • 2

fornia (Unocal) and Marathon Oil Company traded properties in the Cook Inlet area. This exchange will allow each company to concentrate in its area of specialty and reduce operational costs. Marathon will focus on natural gas production and Unocal on oil platforms. When the reorganization is over, approximately 40 jobs will have disappeared from the industry. It is not clear what the future holds for the oil industry on the peninsula. Oil production is still declining, but natural gas has partially replaced the void. (See Figure 3.) It appears that oil jobs and production will continue to decline over the near future unless a major find is discovered and proven economically recoverable. If current estimates hold, Cook Inlet oil reserves will last another twenty years.

On the positive side for the Kenai Peninsula's oil industry, new discoveries are being exploited across the Inlet in the McArthur River area. Stewart Petroleum constructed a 2.8 mile pipeline to connect their McArthur River Field with the Trading Bay facility. Stewart Petroleum expects to recover 100 million barrels of oil over the next two decades. The expansion by the Division of Oil and Gas of a future oil lease sale and the recent unsealing of bids that had been delayed by litigation add to the good news.

Visitor Traffic to the Kenai Fjords Keeps Growing



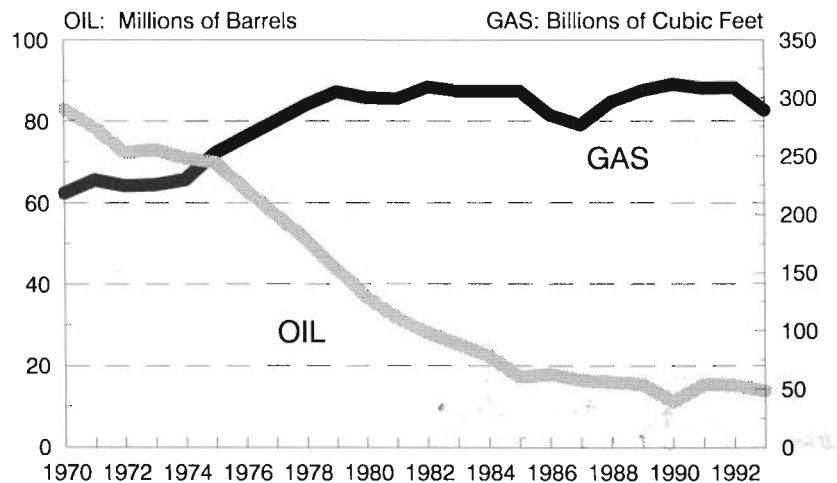
Source: National Park Service.

Figure • 3

Higher sockeye prices but no pinks

In 1994, fishers in the Cook Inlet had a good year. Sockeye prices moved higher and the catch was larger than predicted. The Upper Cook Inlet sockeye catch exceeded the Alaska Department of Fish and Game projection of 2.5 million by 1 million fish, though it was down 0.8 million from 1993. The value of the 1994 Upper Cook Inlet sockeye catch was around \$35 million. Higher prices in 1994 lifted the value of the catch above the \$31 million 1993 level. Pink salmon fishers in Cook Inlet were hit with their second bad season in a row when the runs collapsed. Even though 1994 was a near record year for the state, the outlook for the salmon industry cannot be considered bright. In real terms, the price of salmon has fallen sharply over the last five years. Much of this decline is due to the encroachment of farmed salmon into the market. In 1994, farmed salmon will comprise almost 35% of the world's market.

Cook Inlet Oil and Gas Production



Source: Alaska Department of Natural Resources, Division of Oil and Gas.

In the fishing industry, diversity is seen as the wave of the future. There are forays into the introduction of oyster growing in Kachemak and Resurrection Bays as another potential cash crop.

Fish processing employment is growing faster than the economy as a whole, but the rate has decreased over the last few years. The top four fish processors on the Kenai Peninsula account for an average of 975 jobs in 1993. In the peak summer months there are around 3,000 fish processing jobs. These are not the high-wage, glamorous jobs, but they do fill in the employment picture.

Construction growing

Construction is starting to rebound. The building of the retail stores had the largest impact on the industry. If the visitor centers mentioned earlier go forward, there will be an uplift in construction across the Kenai. Driven by a growing population and a healthy economy, housing construction is coming back. Construction is growing in the towns of Kenai and Soldotna, and also outside of orga-

nized cities. Even though residential construction grew in 1993-1994, these levels are only about a fourth of the go-go early eighties. Housing prices were up 4.7% in 1993 to average \$108,092. The prices for houses have been fighting their way back from the basement of 1988.

Retail bonanza

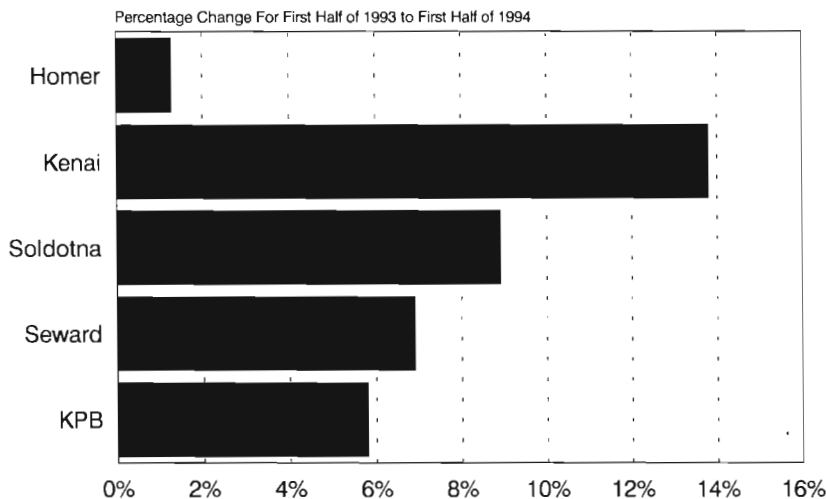
What have been the effects of the retail expansion in Kenai and Soldotna? Residents are staying closer to home and shopping at the newly opened retail outlets. This means more employment on the Kenai Peninsula and higher sales tax revenues for local governments. (See Figure 4.) There are other benefits from this expansion. A reduced cost of living due to lower prices should result from the increasingly competitive market. Also, since fewer dollars leave the Kenai for Anchorage or mail order firms, employment will remain higher in these retail outlets.

Timber!

Timber is still a small industry on the Kenai. The troubles of the Seward Sawmill reflect the dark days of timber harvesting around Alaska. Some cutting and processing is occurring, the most notable operations are in the western peninsula around Ninilchik. A new lumber mill will open in Ninilchik and process up to 30,000 board feet a day. The mill will process the timber harvest of Klukwan Forest Products. The Department of Natural Resources has gone ahead with timber sales in the Clam Gulch Forest Management Block. The harvested spruce will yield 4.8 million board feet and is part of a five-year plan by the state to log 60,000 acres on the peninsula.

Figure • 4

Taxable Sales Increase on the Peninsula



Source: Kenai Peninsula Borough.

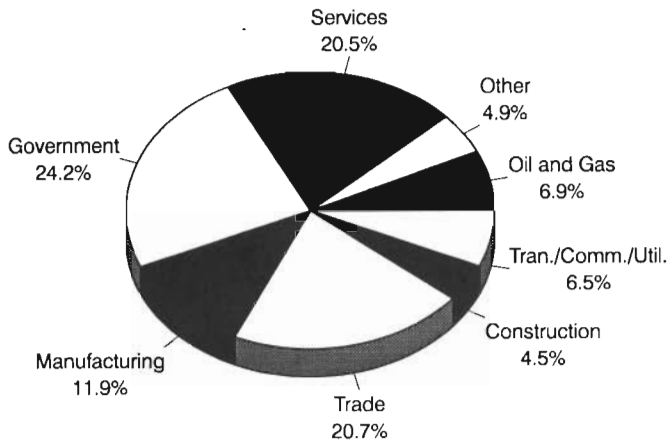
Highlights of the Big Three

More jobs in Seward

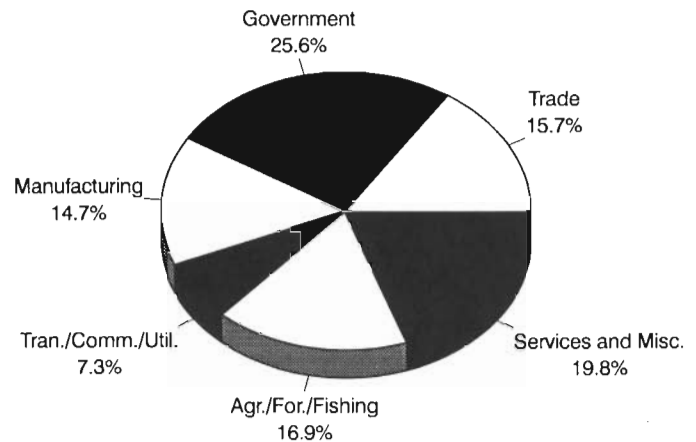
Seward's population has held firm over the past few years, while employment continues to rise. Increased tourism and fish processing are the main catalysts behind job growth. The proposed \$47.5 million Alaska Sea Life

Employment by Industry—1993

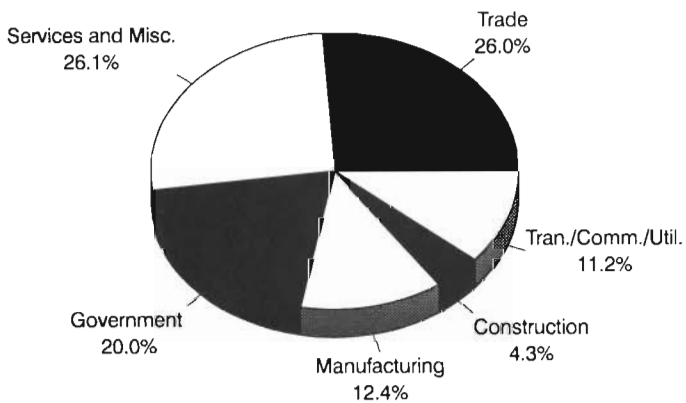
Kenai Peninsula



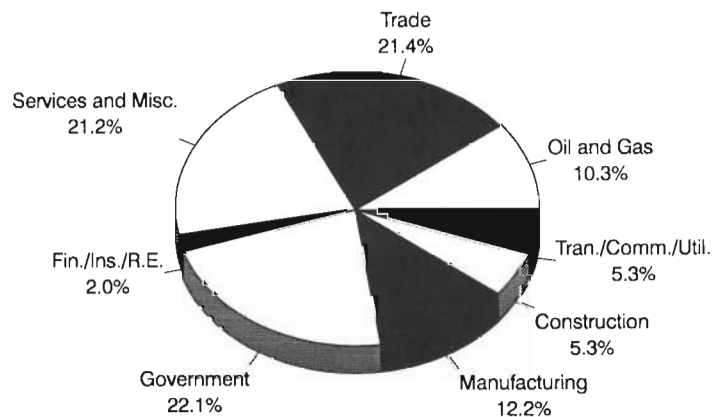
Seward



Homer



Kenai/Soldotna



Source: Alaska Department of Labor, Research & Analysis Section.

Center, a marine science research and visitor center, will help expand the tourism trade. In November, the center received \$25 million from the Exxon Valdez Oil Spill Trustee Council to help fund construction which is scheduled to be completed in 1997.

The town has also benefitted from cruise ships making Seward their port of call instead of Whittier. In 1995, 125 cruise ships are scheduled, a 200% increase from 1993. A

possible expansion of the dock facilities and two small hotels are planned to provide accommodations for the increasing number of visitors.

A major disappointment for Seward has been the on again, off again status of the \$20 million Seward Sawmill. The lack of a reliable source of timber has hampered its operation and forced a shutdown.

T a b l e • 2

A Snapshot of the Kenai Peninsula Borough Statistics from the 1990 Census

As compared to the rest of Alaska...	KPB	Alaska
The Kenai had a rapid increase in population...		
Percent change 1980-1990 (1990 Population = 40,802)	62.0%	36.9%
Peninsula residents are a little older...		
Median age	31.3	29.4
Percent under 5 years old	9.3%	10.0%
Percent 21 years & over	63.9%	64.5%
Percent 65 years & over	4.9%	4.1%
Whites are the largest percentage...		
Percent White	90.9%	75.5%
Percent American Indian, Eskimo, or Aleut	7.2%	15.6%
Percent Asian/Pacific Islander	1.0%	3.6%
Percent Hispanic (all races)	1.8%	3.2%
Percent Black	0.05%	4.1%
Less people are employed...		
Percent of all 16 years + in labor force	66.9%	74.7%
Percent males 16+ in labor force	74.7%	82.1%
Percent males unemployed	11.3%	10.0%
Percent females 16+ in labor force	58.1%	66.4%
Percent females unemployed	8.9%	7.3%
Incomes are higher...		
Median household income in 1989	\$42,403	\$41,408
Percent of families below poverty level	6.2%	8.0%
Percent with less than \$5,000 income	3.4%	3.5%
Percent with \$5,000-\$9,999 income	5.4%	4.8%
Percent with \$10,000-\$14,999 income	7.0%	6.4%
Percent with \$15,000-\$24,499 income	12.7%	13.3%
Percent with \$25,000-\$34,999 income	11.8%	13.6%
Percent with \$35,000-\$49,999 income	17.2%	18.5%
Percent with \$50,000-\$74,999 income	23.4%	21.3%
Percent with \$75,000-\$99,999 income	10.7%	10.9%
Percent with \$100,000 or more income	5.7%	7.7%
Housing is cheaper...		
Median Gross Rent	\$479	\$559
Percent rented for less than \$200	2.9%	1.7%
Percent rented for \$200-\$299	9.2%	5.4%
Percent rented for \$300-\$499	36.9%	27.8%
Percent rented for \$500-\$749	28.0%	29.8%
Percent rented for \$750-\$999	9.4%	12.8%
Percent rented for \$1,000 or more	3.8%	9.1%
Percent with no cash rent	9.8%	13.5%

Source: U.S. Bureau of the Census.

Kenai/Soldotna retail gains

The focus of economic attention has shifted from Seward a few years, back to the Kenai/Soldotna region. The Central Peninsula had a tough time reviving from the downturn in the 1980s. Now it is recovering with job gains in retail and services. The greatest difference in the last year has been the arrival of the large retail chains and many national fast food franchises. (See Table 3.)

A possible boom for local construction and employment might occur if the Midrex hot briquetted iron plant is located in Nikiski. Midrex is a subsidiary of Kobe Steel Ltd., a large Japanese steel manufacturer. The plant requires large quantities of low cost natural gas and shipping facilities. The potential expansion of Nikiski's docks have made it the front runner. Full-time employment at the plant is anticipated to be 125 jobs. This \$200 million facility would provide a needed expansion to the job and tax bases of the surrounding communities.

Sales figures for Kenai reflect the growing strength of the town. Comparing the first two quarters of 1993 to 1994, taxable sales for the city of Kenai increased over 13%. (See Figure 4.) The construction boom fueled by K-Mart and Fred Meyer may continue with several government building and maintenance projects scheduled to begin soon.

Does Homer still have its sea legs?

Tourists are increasingly calling Homer their vacation destination. Taxable sales were up 16.4% for the years 1989 to 1993. Indications are that 1994 was another banner year. Winter tourism in the form of conferences and conventions is another growth area. Land's End Resort in Homer is remodeling and expanding from a 150 guest capacity to 250 for the 1995 tourist season. Homer's population is growing slowly. There was a temporary dip in employment in 1992 but the town has been recovering since then.

Homer, with a deep water dock, is exporting wood chips harvested from the western peninsula. A new facility was constructed on the spit to hold the chips awaiting shipment to

Japan. This trade across the Pacific is anticipated to continue for 15 years providing jobs and wealth to the region.

Diversity for the future

The next decade for the Kenai Peninsula is going to mirror the employment sector changes that are occurring across Alaska. High paying oil jobs are slowly giving way to lower wage service sector jobs. Diversification may allow the borough to weather these changes with less turbulence than other areas of the state. The number of jobs may hold firm or grow in the future, but this might be at the expense of wage levels. Increasing competition for higher wage jobs and a move to jobs that require less skills will put downward pressure on wages. Like the rest of Alaska, the Kenai is looking toward the future with guarded optimism for a real "Sunfish" to be discovered.

The Kenai Peninsula's Top Ten Private Sector Employers

Rank	Firm	1993 Employment
1	Union Oil	581
2	Cook Inlet Processing	410
3	Central Peninsula Hospital	286
4	Fishing Company of Alaska	249
5	Carrs	201
6	Tesoro Alaska	182
7	Inlet Salmon	182
8	K-Mart	166
9	Peninsula Home Health Care	158
10	Dragnet Fisheries Company	133

Source: Alaska Department of Labor, Research & Analysis Section.

Population Breakdown for the Kenai Peninsula Borough—1993

Kenai Peninsula Borough	44,411		
Anchor Point	1,016	Kalifonsky	312
Clam Gulch	83	Kasilof	437
Cohoe	556	Kenai city	6,813
Cooper Landing	261	Moose Pass	105
Crown Point	80	Nikiski	2,954
Nanwalek (English Bay)	174	Nikolevsk	435
Fox River	407	Ninilchik	509
Fritz Creek	1,611	Port Graham	177
Grouse Creek	584	Primrose	69
Halibut Cove	79	Ridgeway	2,207
Happy Valley	363	Salamatof	1,019
Homer city	3,885	Seldovia city	307
Hope	154	Seward city	2,732
Jakolof Bay	35	Soldotna city	3,809
Kachemak	389	Sterling	4,550
		Tyonek	143

Source: Alaska Department of Labor, Research & Analysis Section, Demographics Unit.