

Sitka: A Rich History and A Diverse Economy

B y B r i a n N . R a e

Few cities in Alaska can match Sitka's historic diversity. This

Southeast Alaska community has a unique blend of Native, Russian and American cultures which reflects the origins of the city's inhabitants. Sitka was Alaska's capital under both the Russian and American flags. However, the city's rich and varied history is not the only thing unique about Sitka — other superlatives also apply.

The City and Borough of Sitka is, in land area, the largest city in the United States. It includes almost all of Baranof Island (the community of Port Alexander being outside the borough boundary), all of Krestof and about one-half of Chichagof Island. It is the only Southeast Alaskan community situated on the outside waters, an important factor in the structure of its economy.

A Tlingit Village Turned Russian Fur Trading Post

The first commercial use of Sitka was for the Russian fur trade. Alexander Andreevich Baranov led the expedition which brought the first Russians to Sitka on May 25, 1799. The crew built their camp about six miles from the current city, which at the time was a Tlingit village.

The Tlingits were expert hunters, and supplied the traders with thousands of sea otter pelts in exchange for guns, powder, lead and whiskey. Baranov disapproved of the

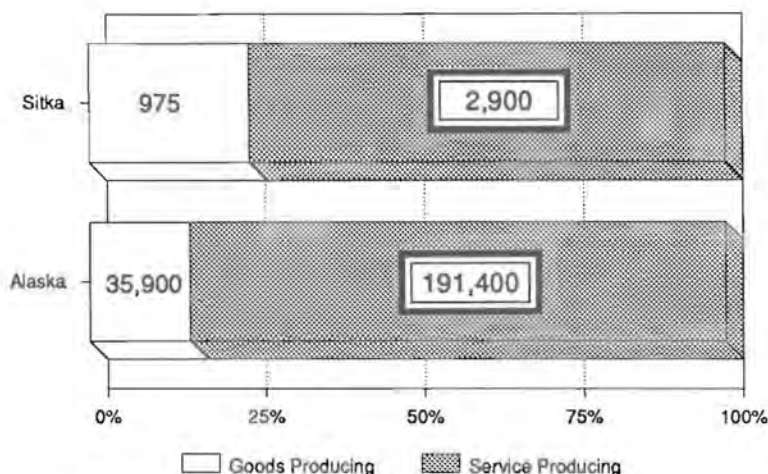
goods used for trade, fearing that the Tlingits might attack the community. One and one-half years after the settlement was built, Baranov's fears were realized. Most of the Russians were killed in the attack and the remainder were rescued and returned to Kodiak.

In 1804 the Russians returned to retake Sitka. After much fighting, a round of protracted negotiations ensued. The Tlingits, facing many Russian troops with superior weapons, slipped out of Sitka in the night. While Baranov reclaimed the village, bands of warriors continued to attack anyone leaving the safety of the settlement. Still, a city was built which became the largest fur trading center in Southeast Alaska. The area also produced goods for sale to the trading fleet. A processing facility provided barrels of salted

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Figure • 1

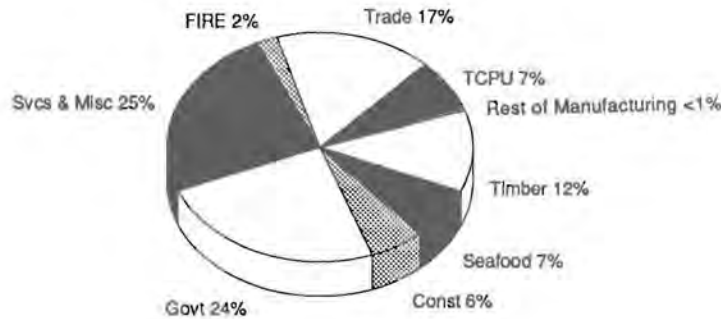
Employment by Type Goods Producing vs. Service Producing



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

Figure • 2

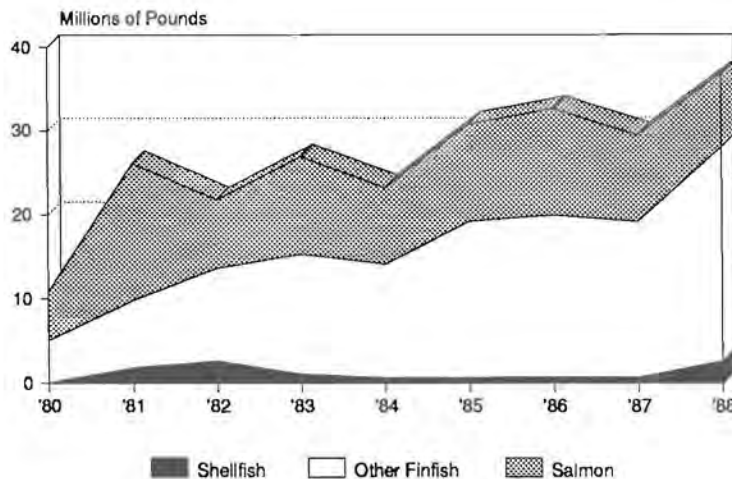
City and Borough of Sitka Employment 1989



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

Figure • 3

Seafood Production by Weight Sitka Seafood Processors, 1980-88



Source: Alaska Department of Fish and Game, Commercial Fisheries Entry Commission.

fish, and gardens supplied fresh produce. A local shipyard made both large and small ships to replace those lost at sea, while a foundry cast ships' gear, bells and cannon.

Because of declines in the stocks of fur animals and a lack of good management and development, the Russian companies abandoned Sitka as a source of furs. Other countries were setting up trading posts in Alaska, even though the land was under Russian control. Seeing their income decline along with the sea otter population, and afraid that another country (probably the United States or Britain) would take the land by force, the Russian government sold Alaska to the United States on October 18, 1867. In a ceremony on Sitka's Castle Hill, the Russian flag was lowered and replaced by the U.S. flag.

Sitka was dealt a blow when the territorial capital was moved to Juneau. The process took some time, but began in 1904. Although most Sitkans were not troubled by its relocation, the city lost what would eventually become a major part of the state's economy.

Gold Rush Bypassed Sitka

Sitka saw little development in the late 1800s. In 1912 seals became the new sea otters, and were hunt-

ed heavily for six years. Fishing was an important industry, and expanded rapidly until 1941 when it fell into a long term decline. However, Sitka was virtually bypassed by the single most important event in Alaska's early development.

The greatest impetus in Alaska's early growth was the gold rush of the late nineteenth and early twentieth centuries. Gold was first discovered in Southeast near Sitka at the Cache Mine in 1872. While this find brought some prospectors into the area, larger strikes occurred on the mainland. Prospectors bypassed Sitka, traveling through Skagway heading for the Yukon or up drainages near Juneau and up the Stikine river.

Sitka Capitalized on Its Resources

While Sitka did not see much of the boom from gold, its economy remained viable. The initial dependence on the sea otter and seal trades was not sustainable, but some of the advantages which made Sitka a successful trading post continue to help its economy to this day.

When looking at the Sitka economy, many of the industries are there because of the area's natural resources. This is evident in the amount of manufacturing employment that is located in Sitka. (See Table 1.) The city has a much larger share of goods producing industry employment than does the state as a whole. (See Figure 1.)

Another thing unique about Sitka is its economic diversity. Most Southeast Alaska communities rely on either the forest products industry, the seafood industry, government employment, or the tourist trade for the bulk

of their economic activity. Sitka incorporates a share of all of these industries in its economy. (See Figure 2.)

Fishing: A Steady Presence in the Local Economy

As in its fur trading days, the waters around Sitka are productive fishing areas, and companies have taken advantage of this by locating processing facilities there. Processing is not the only side of

T a b l e • 1

City and Borough of Sitka Employment by Industry 1989 by Quarter and Annual Average

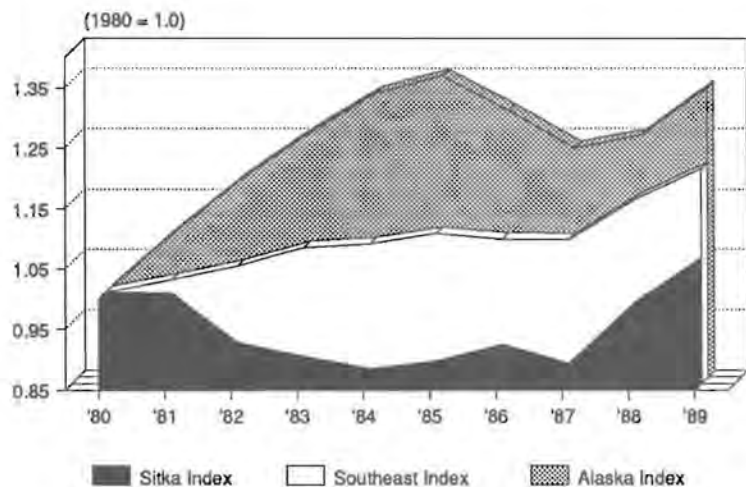
	89/1	89/2	89/3	89/4	Annual Average
TOTAL EMPLOYMENT	3,517	4,140	4,325	3,844	3,957
Goods Producing 1/	700	1,135	1,249	821	976
Construction	153	255	291	190	222
Manufacturing	547	880	958	631	754
Seafood Processing	130	373	423	216	286
Other Manufacturing	417	507	535	415	469
Service Producing 1/	2,817	3,005	3,076	3,023	2,981
Transportation	235	291	342	258	282
Trade	591	678	670	633	643
Wholesale	39	84	72	58	63
Retail	552	594	598	575	580
Finance, Ins. & Real Estate	79	89	82	91	85
Services & Misc. 1/	929	977	1,033	1,015	989
Services	893	921	956	981	938
Government	983	970	949	1,026	982
Federal	243	263	278	257	260
State	284	276	278	287	281
Local	456	431	393	482	441

1/ Because of confidentiality constraints, mining has been included in Services & Miscellaneous employment totals.

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

Figure • 4

Employment Index Sitka, Southeast & Alaska



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

In the worst, neither is. Figure 3 shows how the amount of product processed has changed since 1980. Sitka's main seafood products are salmon, herring and shellfish, although other products are beginning to appear in local processing facilities. While the harvests are cyclical, total production has generally increased since 1980. These increased activities at the processors came at a time when some other industries in Sitka were on the decline. Without the increase in seafood production, the fall in employment during the early 1980s would have been even more dramatic.

While the fishing industry has thrived in Sitka, the community has also taken advantage of its

the industry in Sitka. Fishing boats also call the city home for its readily accessible port and service center.

Sitka has the largest number of boat berths of any Southeast city, at 1,150, and one of the few dry docks in the region. In 1989 there was one berth for every 7.2 residents of the borough, compared to one for every 11.5 residents of Southeast. Fishing boats occupied over 50% of all berths in Sitka. Considering the number of limited entry salmon permits owned by Sitkans, this is not surprising. The Commercial Fisheries Entry Commission reports that at the end of 1988, Sitka fishermen owned 393 permits—16 seine, 5 drift gill net, 190 power troll and 182 hand troll.

The Alaska Department of Labor does not keep statistics on fish harvesting employment (since fishermen and their crews are considered self-employed), so it is difficult to say how many Sitkans worked at this craft. However, it is apparent that many Sitka families and companies benefit from the employment opportunities and money earned in the Southeast fisheries.

Sitka fishermen, and the processors located there, know their business is volatile. In the best of times, price and quantity of their catch is high.

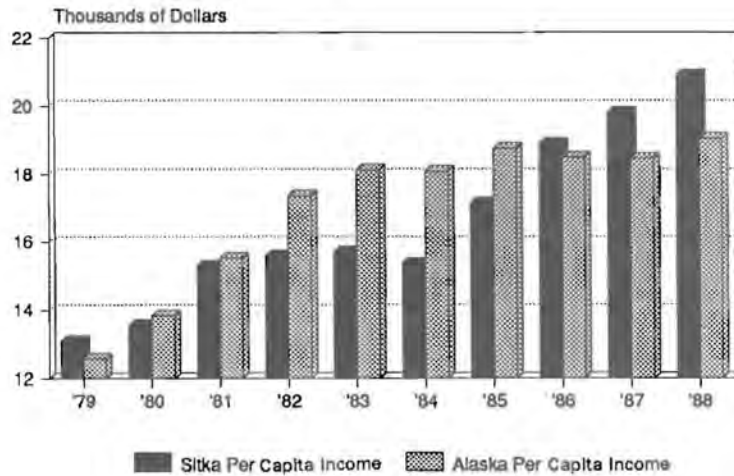
location and its early beginnings to become a regional trade and service center in Southeast. While Juneau and Ketchikan serve more communities and can offer a wider variety of services, Sitka has its own areas and industries that it serves, and its own specialties it can provide consumers throughout the region.

Sitka Is a Regional Center for Higher Education

One service which Sitka provides for more than just the local community is higher education. Sitka's Sheldon Jackson is one of the few private colleges in Alaska. A branch campus of the University of Alaska-Southeast is also located there. In addition, the only state-operated boarding high school in Alaska, Mt. Edgecumbe, draws Alaska Native students from all over the state to Sitka. These schools offer basic education to their students, but they also do more. Each school specializes in areas of importance to Sitka, ranging from marine research to Native art.

The schools are held in high esteem by many Sitkans. They help the local economy through student expenditures, but many also credit the schools with helping Sitka grow economically.

Per Capita Income — Sitka & Alaska 1979-88



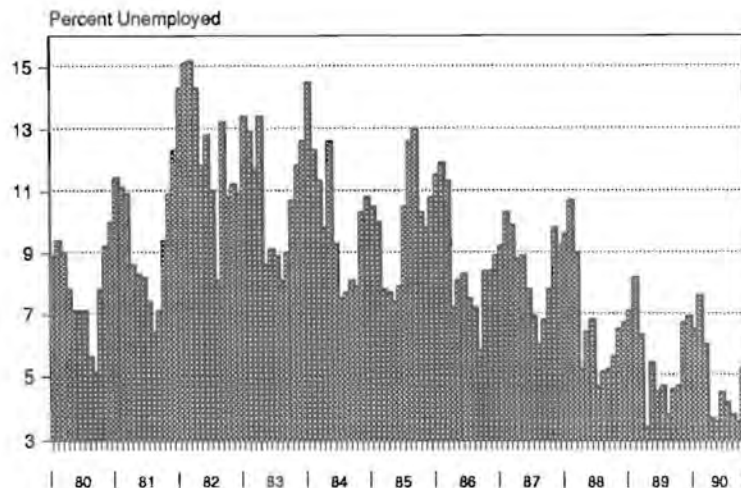
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Health Care Is An Important Employer in Sitka

The second large service industry in Sitka is health care. While Sitka can claim the first hospital ever built in Alaska (built while Sitka was still a Russian trading post). The prominence of the health care industry is a modern-day occurrence. The former Bureau of Indian Affairs Hospital, now operated by the Southeast Alaska Regional Health Corporation (SEARHC), the Sitka Community Hospital, and the Pioneers' Home combined employ over 400 Sitkans.

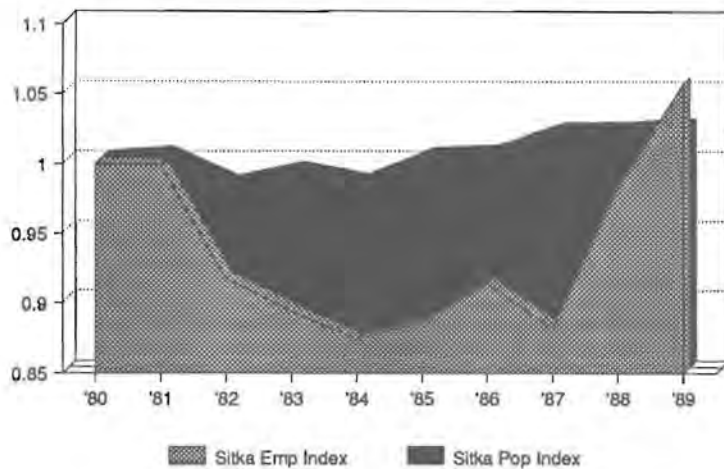
This figure does not include the number of health care providers in private practice and their staff. When this employment is included, employment in the health care industry accounts for one in every nine jobs in the city. This is an incredibly high percentage - in Alaska only one in 23 jobs are in the health care industry.

Sitka Unemployment Rate by Month, 1980-90



Source: Alaska Department of Labor, Research and Analysis Section

Employment & Population Index



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

Wood Products Industry Adds to Economic Diversity

The area's timber resources are the basis for another of Sitka's major industries. The creation of a pulp and timber industry, however, was undertaken more by government agencies than by individual Sitkans. In the 1940s, the federal government was looking for a way to populate Southeast Alaska. An industry capable of providing year-round jobs to residents was needed. The government saw the creation of a timber industry with its additional employment as a means to that end. The new industry would provide jobs and year-round resident employment.

Tourism A Growing Industry

During the last several years, Sitkans have found yet another way to take advantage of what they have — they show it off. Tourists have several reasons to visit during their Alaska vacations. Sitka's rich history and cultural diversity make it an attractive point of interest for visitors.

Last year 137,000 pleasure visitors, over 40% of all visitors to Southeast, saw Sitka. Over the years, local operators have become more aggressive in marketing their services. Tourists to the city, even those on tight schedules such as cruise ship passengers, find many ways to spend their time and money in Sitka. They can take advantage of guided small boat tours to see local historical sites and wildlife, take a charter boat to local halibut fishing grounds, see Native art and dancers, or visit a raptor rehabilitation center. They can also take walking tours of the city and its attractions and browse through the shops and museums. All totaled, visitors spent \$4.6 million in Sitka in 1989.

In the 1950s, several long term contracts were signed with forest product companies guaranteeing them the necessary supply of timber to build and operate mills in Southeast Alaska. Only two companies which signed contracts still operate in the area, and Sitka is the location of one of these companies.

Alaska Lumber and Pulp Company, a Japanese-owned pulp mill located on Silver Bay, is the largest privately-owned firm in Sitka. The company employs about 400 in the mill, with additional employees in their logging operations. The number of Sitkans employed in the industry and their relatively high rates of pay make this one of the most important industries for the city.

Early '80s a Rough Period for Sitka

Although no one industry dominates Sitka's economy, the city's small size leads to some inherent instability. In the past, Southeast has shown a steadier growth rate than the state as a whole, largely avoiding the major booms and busts which have plagued the state. (See Figure 4.) Sitka has not, unfortunately, been able to totally avoid them.

In 1980 Sitka's economy was doing well. The timber market was strong, with high prices and demand boosting employment to near record highs. Sitka had also seen employment gains through the Sitka Community Association's participation in the Comprehensive Employment and Training Act (CETA) program. This federally funded jobs program boosted employment by nearly 300 during the late 1970s.

Two events occurred simultaneously which affected Sitka's employment. First, the Reagan administration phased out the CETA program from 1980 through 1982. The second event was a weakening in the timber market.

A sagging timber industry explains a large share of Sitka's employment drop from 1980 through 1985. Weak market conditions drove forest products employment down during a time when increased government revenues, and spending, were bolstering economies in other parts of the state. During this time, Alaska's per capita income was increasing rapidly, but Sitka's remained nearly flat. (See Figure 5.) The city's unemployment rate increase during the early 1980s was in large part caused by the weakening timber market. (See Figure 6.)

In addition, the lack of jobs and a high unemployment rate forced many to leave the city, and the population fell below its 1980 level in 1982 through 1984. (See Figure 7.) This out-migration helped ease the unemployment problem, but contributed to the area's economic downturn.

Timber Recovery Fueled Mid-'80s Turnaround

In 1985, the market for timber products regained its strength, boosting both the local economy and its employment. Combining the gains in the timber industry with good fishing seasons helped Sitka post large employment gains in 1988 and 1989. The city's economy is currently very strong, with both per capita income and unemployment rates at favorable levels compared to the remainder of the state.

The Outlook for Sitka's Economy

While the diversity of seafood, timber and tourism activities has helped stabilize the city's economy to date, there is the possibility for changes in all of these areas. Seafood seems to be the area with the greatest potential for growth, while both tourism and timber will have to contend with certain problems in the future.

New Products Offer Fishery Some Growth Potential

Although it will always have to contend with the fluctuations of the market and of the harvests, the seafood industry is expanding into other product lines and Sitka processors are some of the leaders in this trend. Some processors have taken traditional products and creatively packaged them into new forms. Now, instead of shipping outfilets or other semi-processed forms, microwaveable frozen entrees and packaged portions are being prepared locally.

The industry is also expanding into totally new products. Both sea cucumbers and sea urchins have proven to be marketable products, and at least two Sitka processors have the facilities necessary to process them. Unlike the traditional fisheries, cucumbers and urchins are harvested by divers, who must obtain permits from the Alaska Department of Fish and Game. Currently about 60 people are registered to dive for cucumbers in the Sitka area. The increased harvest and demand for permits, as well as concerns about the subsistence use of these resources, prompted the department to put a moratorium on their harvest. When the total population and acceptable harvest levels are better established, the new fishery can resume. Fish and Game staff believe this should happen sometime in early 1991.

Processing cucumbers and urchins will probably not employ hundreds of workers, but there is an important aspect to this fishery. These products are at their prime in the winter months, when most processors are shut down and employees are without work. Even the addition of 50 jobs, a realistic level given current demand, would have a positive impact on the local economy.

Industry representatives also see larger markets for products such as geoduck, horse clams, and abalone if the resources are available for expansion. The availability of resources is a concern for many fishermen and processors, particularly in the more traditional fisheries. High seas interception of salmon destined for Alaska's waters continues to present a problem, and some feel that certain fisheries could be wiped out if the process continues.

Timber Industry Stable But Uncertain

Sitka's timber industry seems, at least for the moment, to be stable. The industry has just worked through a major piece of compromise legislation on the Tongass National Forest. Although the full impacts are not yet clear, the general consensus is that the compromise will provide enough logs for the two Southeast mills

to continue to operate under the current circumstances. Other factors, however, could place additional pressures on the industry.

It appears that the market for dissolving pulp is weakening, so prices will probably decline. The Sitka mill has, in the past, relied heavily on logs from Native land. As the supply of Native logs continues to fall, and the expense of harvesting the less accessible stands drives up prices, profits could be reduced. Also, many of the timber operations are having problems with waste disposal, and the Sitka mill is not immune from these problems. Finally, several of the timber harvest operations are currently blocked by litigation. The court should rule on these cases soon.

Even with all these problems, it appears that the Sitka mill will continue to operate for the foreseeable future. Given the pulp log supply situation, large scale employment gains are unlikely. Still, the mill should remain one of the city's largest employers and a stabilizing factor in the local economy.

U.S. Recession Could Threaten Tourist Trade

Tourism also faces some problems in Alaska, but Sitka should continue to get at least its current share of the visitors in the future. For 1991, the number of visitors is expected to increase as a large number of cruise ship dockings are scheduled for Sitka. Several factors, however, might contribute to reduce the total number of visitors in future years. Many economists have declared that a recession is occurring in the Lower 49 states. During recessionary times, people have less discretionary income, and are less able to afford the expense of an Alaskan vacation. These people might substitute a vacation destination closer to their home, saving money in the process.

For those that can afford more expensive vacations, the opening of Eastern Europe presents tough competition for Alaska. That area has been closed to tourists for many years, and many Americans trace their ancestors to Europe. There is probably pent up demand to visit Europe, at the expense of Alaska's tourist trade. Fortunately for Sitka, tourist-related ventures seem well established and well versed in luring visitors to their establishments.

Diversity Will Continue to be Sitka's Economic Strength

Sitka has a rich history, many natural resources, and the advantage of being one of the oldest settlements in Southeast Alaska. The city has not squandered these advantages, and has become a regional trade and service center. The city specializes in two industries, education and health care, providing services to people throughout the region and the state.

Still, resource-based industries provide the foundation for Sitka's economy. The city serves as a base of operations for many fishermen participating in the salmon, halibut, shellfish, herring and bottom fisheries, as well as a home for many of the workers in Sitka's processing plants. The local pulp mill provides year-round employment to about 400 Sitkans. Both of these industries inject large amounts of money into the local economy.

Although the city has not been able to avoid all of the booms and busts which have occurred in the state's history, its economic diversity helps insulate it from most such shocks. Overall, the city should continue this trend. The fishing and tourism industries appear to be positioned for future growth, and this should manifest itself throughout the Sitka economy. New products in the seafood industry and continued expansion of tourist-related services will be the main reasons for this growth.

The future for the region's timber industry is not as bright. Given recent congressional actions and the current national climate of conservation in favor of expanding development, there is little room for industry growth. Still, the industry should survive for the foreseeable future, continuing to provide jobs and income to Sitkans.

The area will not be without its ups and downs — it has gone through them before and survived, and it will go through them again. The diversity of Sitka's economy will, however, allow the city to continue to be an important part of the Alaskan economy for years to come.