

Sitka: Coping with Structural Change

By John Boucher

Sitka, located on the west side of Baranof Island on the outside waters of the Southeast Alaska panhandle, is a community steeped in history. A former Russian and U.S. territorial capital, and a center of Tlingit culture, Sitka has a rich heritage and a relatively strong and diverse economy. Fishing, health care, education, tourism and government all play important roles in the local economy. Until recently, the timber industry was also a major portion of Sitka's economy, but the closure of the Alaska Pulp Corporation (APC) pulp mill significantly reduced the timber industry's presence. Today, Sitka's economy is striving to overcome the adverse effects of the pulp mill closure.

The September 1993 pulp mill closure dealt a significant blow to Sitka's economy. At the time, the pulp mill was the city's largest employer, accounting for over 10 percent of the jobs and 17 percent of all wage and salary earnings in the borough. When the pulp mill shut its doors, nearly 400 people lost high paying year-round employment. Since then, the community has struggled to adjust to the reduced level of economic activity. In the process, the local economy has become more reliant on Sitka's other economic strengths. (See Table 1.) The road after the closure has been bumpy, as total employment, average wages, population and other economic indicators have either receded or slowed. (For a look at the effect the layoff had on former APC workers, see 'Case Study of a Layoff—Work Life After Sitka's Pulp Mill Closure' on page six in this issue of *Trends*.)

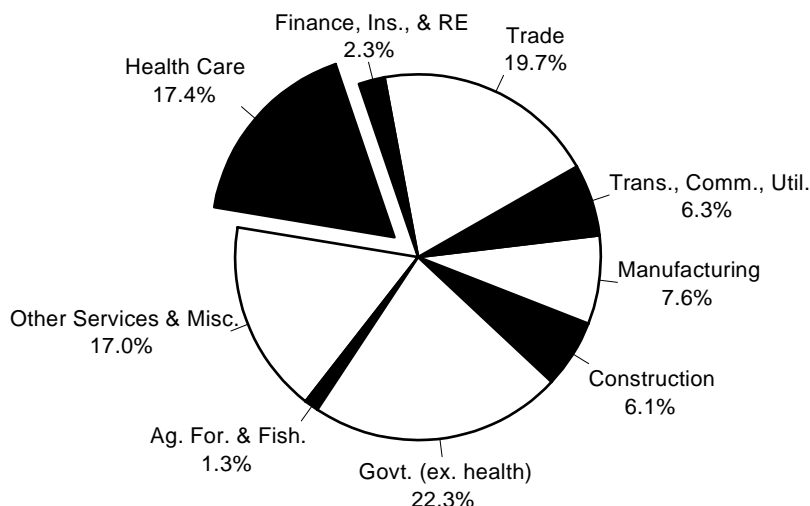
A regional health care and education center

One of Sitka's economic pillars, the health care industry has provided the most cushion for the impact of lost pulp mill jobs and wages. This community of 8,800 boasts more than 675 jobs in the health care sector with an annual payroll of over \$21 million. That represents 17% of the jobs and 20% of the wages in the local economy. (See Figure 1.) Two regional health care facilities augment the medical services supported by the local population. The larger of these is the Southeast Alaska Regional Health Corporation's (SEARHC) hospital and community health services facility. In addition to SEARHC, the state operates Alaska's original Pioneer's Home, with over 100 employees. Sitka Community Hospital, owned by the City and Borough, rounds out the list of the three largest health care facilities that make up the majority of Sitka's health care employment. (See Table 2.) An

John Boucher is a labor economist with the Research and Analysis Section, Administrative Services Division, Alaska Department of Labor. John is located in Juneau.

Figure • 1

Sitka is a Health Care Center 1996 Annual Employment by Industry



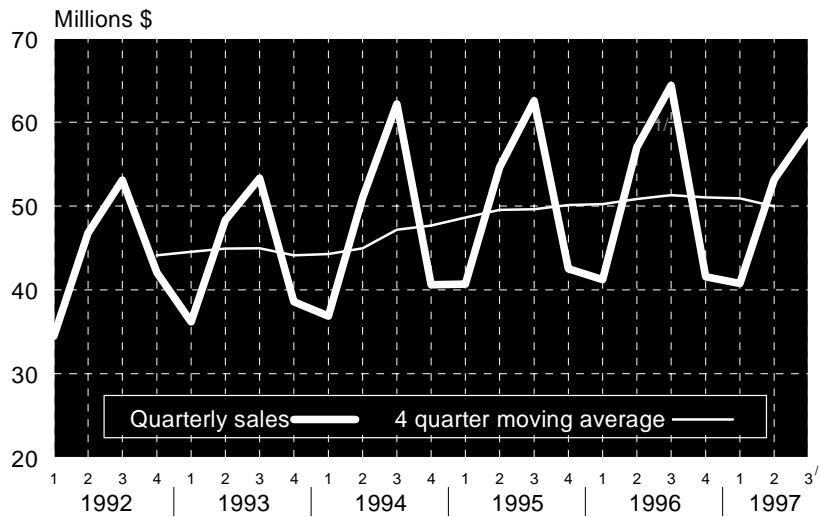
Source: Alaska Department of Labor, Research and Analysis Section.

Figure • 2

Sitka Sales Slowing Reported Gross Sales by Quarter—1992-1997

¹Third quarter 1997 data are preliminary.

Source: City and Borough of Sitka, Finance Department.



aggressive expansion at SEARHC during the last four years was fortuitously timed for Sitka's economy—offsetting part of the jobs lost at the pulp mill.

While less prominent than the health care sector in terms of employment and payroll, regional education facilities also add to Sitka's economic base. Sheldon Jackson College, Mt. Edgecumbe High School, which serves children from all over Alaska, and the Alaska State Troopers Training Center all serve to broaden Sitka's economic base by providing educational services to a state-wide constituency.

Tourism industry suffers from itinerary change

Up until 1997, Sitka's visitor industry had helped buffer the local economy from the effects of lost pulp mill employment and wages. The number of cruise ship visitors to Sitka had shown steady

Table • 1

Sitka Borough Employment by Industry, 1980-1996

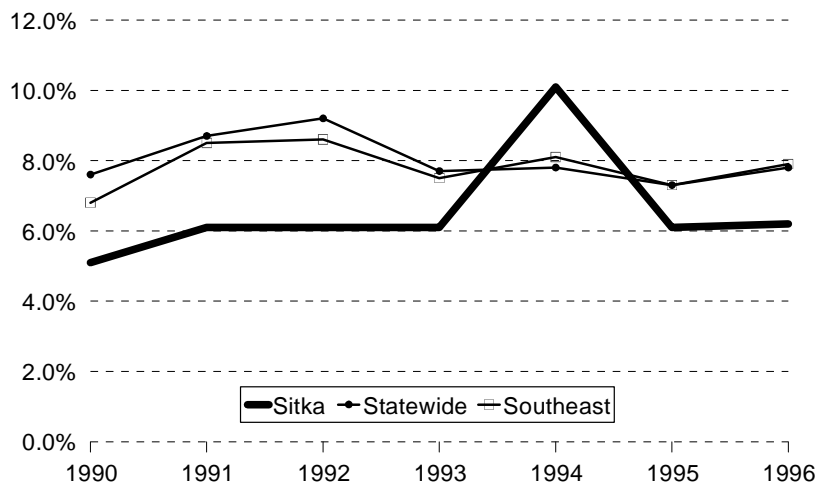
*Indicates nondisclosable

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

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Industries	3,743	3,739	3,434	3,347	3,270	3,318	3,422	3,302	3,681	3,957	4,124
Mining	0	*	*	*	*	*	*	*	*	*	*
Construction	244	310	275	221	203	183	171	151	147	222	236
Manufacturing	*	*	*	*	*	505	570	632	701	754	749
Trans., Comm., & Util.	257	273	280	271	273	323	398	295	264	282	296
Trade	442	467	480	487	498	502	555	569	485	643	691
Wholesale Trade	34	37	36	29	34	37	36	34	52	63	76
Retail Trade	408	431	444	458	465	465	519	535	433	580	616
Finance, Ins., R.E.	*	*	69	71	67	66	73	74	71	85	77
Services & Misc.	479	493	512	593	612	664	595	610	906	938	997
Agric., Forest., & Fish.	*	*	*	*	*	*	*	29	39	63	46
Government	1,170	1,174	1,117	1,091	1,037	1,043	1,023	936	929	982	1,032
Federal	601	576	514	463	362	353	309	284	255	260	259
State	204	222	231	240	254	250	279	254	265	281	304
Local	366	376	373	388	420	440	435	399	409	441	469
Nonclassified	*	*	*	*	*	*	*	*	*	*	*

growth through 1996, when 238,000 passengers visited Sitka. During the 1997 season, Holland America bypassed Sitka on several cruise ship itineraries, and the result was a drop of nearly 70,000 cruise ship visitors, or a 30 percent cut-back in the total number of cruise ship passengers. Some estimates place the lost spending in Sitka due to this passenger reduction at about \$3.5 million. (See Figure 2.) Next season, a further drop in the number of cruise ship passengers is expected as one of the larger cruise ships is replaced by a smaller capacity ship.

Sitka Unemployment Tends to be Lower
Annual average unemployment rate 1990-1996



Alaska
Department of
Labor, Research
and Analysis
Section.

Federal government a critical employer

Federal government jobs have long been a staple of the Sitka economy, and they will continue to play an important role in the future. The largest

federal civilian agency is the U.S. Forest Service. The Chatham District headquarters is located in Sitka, with most of the district's personnel based there. One result of changes in management policy on the Tongass National Forest has been a smaller presence for the Forest Service in Sitka. A combination of slimmer budgets and the implementation of the new Tongass Land Management Plan (TLMP) has resulted in staff cuts in the Chatham District. While all of the reductions have yet to take effect, a good portion of the downsizing has occurred. During 1998, some additional reductions at the Sitka office, perhaps the loss of 10 more staff members, are expected. The future outlook for the Forest Service should be relatively stable once the staff reductions related to the downsizing of the timber harvesting program are completed.

Although not counted in the total wage and salary employment in Table 1, the U.S. Coast Guard station has a significant presence in Sitka. With nearly 200 uniformed military personnel, the Sitka Coast Guard contingent includes an air station, a

1991	1992	1993	1994	1995	1996
3,956	3,980	4,074	3,778	3,842	3,888
*	*	*	*	0	0
205	204	222	236	226	239
736	714	628	304	329	297
321	296	292	276	261	246
701	759	788	771	793	765
81	86	70	65	62	36
621	673	718	706	731	729
71	66	74	77	79	89
806	846	927	1,005	1,032	1,123
57	39	47	46	44	50
1,041	1,053	1,086	1,064	1,078	1,080
262	267	265	272	265	250
300	308	323	318	319	325
480	479	497	474	494	504
*	*	*	*	0	0

Figure • 4

Sitka's Average Wage Has Fallen Since 1993

Average monthly wage for Sitka Borough 1985-1996

Alaska
Department of
Labor, Research
and Analysis
Section.

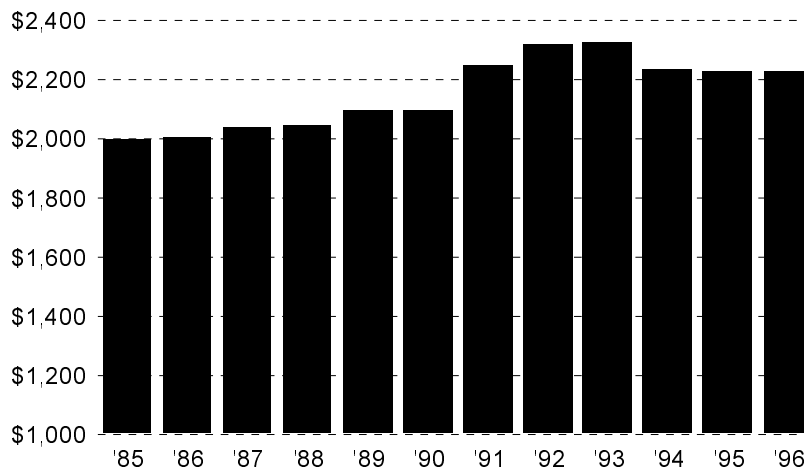


Table • 2

Three Health Care Providers in Sitka's 10 Largest Employers

Largest civilian employers in Sitka Borough

1/ Includes student employees and adjunct faculty.

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

Rank	Employer	1996 ann. avg. employment
1	Southeast Alaska Regional Health Corp. (SEARHC)	338
2	Sitka Borough School District	207
3	City and Borough of Sitka	160
4	U.S. Forest Service	158
5	Sitka Sound Seafoods Inc.	126
6	Sitka Community Hospital	111
7	State of Alaska- Pioneer's Home	103
8	Hames Corporation	94
9	Center for Community	80
10	Sheldon Jackson College	76
11	University of Alaska ¹	70
12	Westmark Hotels Inc.	63
13	Seafood Producers Coop.	60
14	McGraw's Custom Construction	59
15	Samson Tug & Barge Co. Inc	52
16	Sitka Tribe of Alaska	52
17	State of Alaska- Department of Education (Mt. Edgecumbe)	46
18	Lakeside Grocery Inc.	46
19	Allen Marine Inc.	37
20	Alaska Airlines Inc.	37
21	McDonald's of Sitka	37

marine safety detachment, a navigational aid team, and the buoy tender *USS Woodrush*. (Due to the definition of civilian nonagricultural wage and salary employment, only civilian Coast Guard personnel, which number about five at the Sitka station, are counted in the wage and salary employment figures in Table 1.) After the Forest Service and the Coast Guard, the National Park Service and the U.S. Postal Service are the largest federal agencies in Sitka.

Fishing, fish processing a Sitka staple

Because of its proximity to the rich fishing grounds of Southeast Alaska's outside waters, Sitka has a long history as a fishing port and processing center. More than 460 permit holders live in Sitka, and their 1995 estimated gross earnings were over \$27 million. (See Table 3.) The sablefish, halibut and salmon fisheries provide most of the income for local fishers, but Sitka fishers held permits in over 40 different fisheries ranging from traditional categories such as shrimp, crab and herring to dive fisheries like abalone and sea cucumber. Like many other fishing communities in Alaska, earnings for the salmon fisheries have suffered in recent years due to continued low prices. In addition to its fishing fleet, Sitka has a sizable seafood processing sector, with over a \$5.6 million payroll and an annual average employment of over 200. Employment in this industry is very seasonal, with 1996 employment figures ranging from a low of 115

in the winter months to a peak of 335 in the summer.

Fisheries Provide Nearly \$30 Million in Earnings

Unemployment traditionally low, but average wage has fallen

Sitka's relatively diverse economy has meant that unemployment rates have consistently fallen below both the statewide and the regional average. After the pulp mill closure, there was a significant spike in the local unemployment rate, which temporarily reversed the trend of lower rates in Sitka in 1994, but by 1995, Sitka's unemployment rate returned to its traditional position. (See Figure 3.) While the level of unemployment has

returned to pre-pulp mill closure levels, the wages lost following the pulp mill closure have been more difficult to recover. Sitka's average monthly wage peaked in 1993 at \$2,325, but by 1996 that number had fallen for the third consecutive year to \$2,232. (See Figure 4.)

Summary: Diversity helps Sitka cope with economic shift

While the 1993 closure of the Sitka pulp mill was a significant blow, Sitka's diverse economy was relatively well positioned to survive the ill effects of the closure. A vibrant health care industry, a significant federal government presence, regional education facilities, the tourism industry and a substantial fisheries industry have all helped to

	Number of People	Number of Permits Fished	Pounds	Estimated Gross Earnings
1995	461	939	26,540,725	\$27,172,247
1994	465	1,004	33,798,664	31,152,047
1993	488	986	28,397,883	21,937,032
1992	520	1,039	21,624,899	19,543,256
1991	523	1,062	24,029,279	21,529,751
1990	519	1,019	22,961,704	22,842,159
1989	490	944	28,591,558	22,792,102
1988	473	943	23,728,973	26,121,458
1987	450	873	20,205,828	19,147,640
1986	433	811	19,647,087	15,956,607
1985	422	746	23,382,855	13,887,902
1984	405	651	13,200,755	9,667,343
1983	397	622	10,928,335	7,289,934

1995 was latest data available.

Source:
Commercial
Fisheries Entry
Commission.

prevent the local economy from slipping into a downward spiral. As could be expected, economic indicators such as population, retail sales, total payroll, average monthly wage and total employment have slipped below the levels seen prior to the pulp mill's closure.

Sitka's economy still has some future obstacles to overcome, such as the loss of additional Forest Service employment and an expected drop in the number of cruise ship passengers. However, the worst of the downturn in Sitka's economy appears to be behind the community, and its abundant resources and diverse economy position it well for future economic growth.