

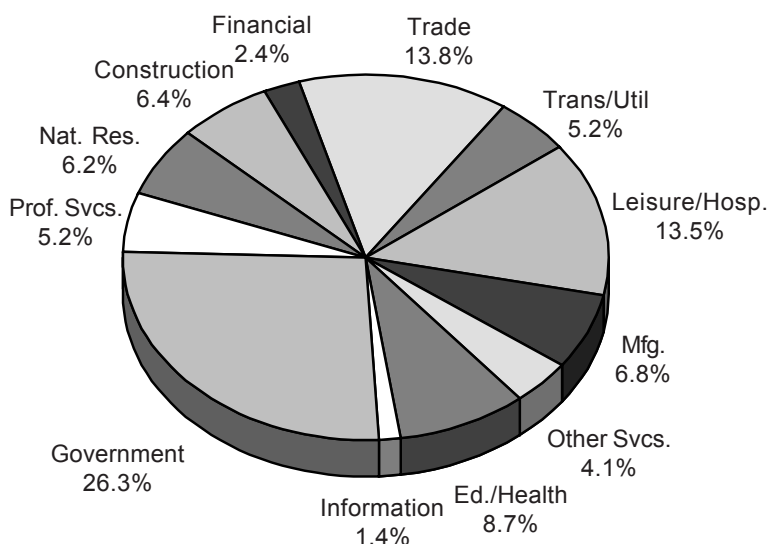
An economy that benefits from diversity

Few economies, if any in this state, have bragging rights equal to those of the Kenai Peninsula Borough. Most communities struggle to diversify their economies, but the Kenai Peninsula accomplished this long ago. (See Exhibit 1.) Fishing, the visitor industry, oil and gas, refining, government, and its attractiveness as a haven for retirees, are the fundamental economic drivers of the Kenai Peninsula economy. Each category, upon examination, reveals particulars that further enhance the diversity.

The Kenai's visitor industry is defined not only by the number of cruise ships that dock in Seward, but also by the thousands of independent visitors from around the world and nation, along with the hordes of Alaskans that descend on the Peninsula every year. Its fishery is defined not only by its

diverse, rich commercial fishery; it also includes a large and famous sport fishery, without rival in the state. Its oil and gas industry not only supports local activity but it is home to service companies that also do work on the North Slope. It generates value added activity such as oil refining and petrochemical manufacturing. In addition, a significant number of Kenai Peninsula residents work on the North Slope but spend their paychecks locally. And they aren't the only ones. It appears a growing number of people are choosing to live on the Peninsula because of the quality of life it offers at an affordable price. Their income source is elsewhere—sometimes in the form of a retirement check or sometimes a paycheck from elsewhere in the state. Not last, nor least, is the continued expansion of the region's support sector—retail, health care, and professional services. As a result of this expansion, Peninsula residents are satisfying fewer of their needs from Anchorage or elsewhere but instead do so locally. This effectively keeps more income close to home and generates further economic activity.

1 Where People Work In the Kenai Peninsula Borough Wage and salary employment 2003



The Peninsula's diversity does not guarantee economic health. Struggles and periods of economic woe do come, and the past five years furnish plenty of examples. But when one of the sectors goes through a period of difficulty, the others keep the overall economy afloat. Also, there is always the possibility that one of the industries that has a foothold in the economy will go through an expansionary period.

Growth modest since 2000

In a bygone era, the Kenai Peninsula's economy was on a fast track, like much of the state's economy. In the 1970s, employment grew by seven percent a year and in the 1980s by five percent per year. In the 1990s the pace moderated

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

to two percent per year and over the past four years it has further slowed to approximately one percent per year. (See Exhibit 2.) There are several reasons for the slowing of the pace of growth. A number of the industries that have historically been characterized as the backbone of the Peninsula's economy have struggled in recent years. This group includes the commercial fisheries, the oil and gas industry, and timber. Even its visitor industry went through some leaner years. All of these industries remain important elements in the economy but they are not shouldering growth as they did in the past. Instead it is the area's support industries that keep its economy moving ahead, albeit at a much slower pace.

A deep and broad visitor sector

It is probably no exaggeration to characterize the Kenai Peninsula's visitor industry as the most diverse in the state and one of the most developed. It reaches out to every corner of the borough. Its location and wide variety of attractions make for an unbeatable combination. Access is easy—it is within a short driving distance of the state's largest city and airport and is also accessible by sea for cruise ships and the state ferry system. Activities include sightseeing, hiking, camping, nature watching, boating, hunting, and a sport fishery of world renown, the largest in the state. Unlike many other visitor destinations that depend on one category of visitor, the Peninsula gets them all—cruise ship visitors, independents from around the country and world, and a heavy dose of Alaska visitors, most of whom come from the Anchorage/Mat-Su region but from elsewhere as well. Many of the in-state visitors bring visiting relatives with them. This diverse support for the Peninsula's visitor industry enables it to adjust to dramatic changes, such as losing many of its cruise ship passengers to another port, or general national economic woes.

Probably the single largest attraction on the Peninsula is sport fishing. The Kenai/Russian River system is the single most heavily utilized sport fishery in the state. And besides this there are the huge sport fisheries of Seward, Homer, Soldotna, Kenai and Ninilchik. In 2003, 848 guided fish charter boats were operating on the

Peninsula—making it the hands down largest charter boat fleet in the state. Charter boat users are a minority of sport fishermen; most of them fish on their own.

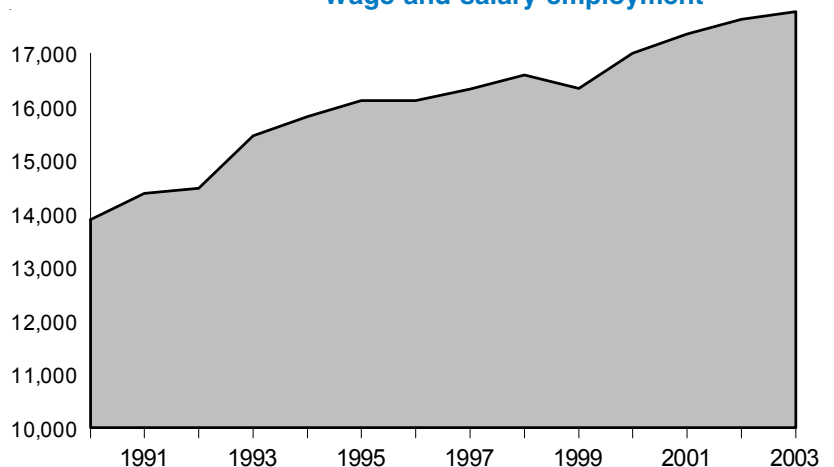
In 2003, visitor related taxable sales reached \$71.9 million, or nearly ten percent of all taxable sales in the borough. In 1991 visitor taxable sales represented only seven percent of all sales. Between 2000 and 2003 employment in the leisure and hospitality industry increased by 332 jobs—bested only by health care & social assistance. (See Exhibit 3.) New hotels such as the Aspen Hotel in Soldotna and new eating and drinking places have bolstered these numbers.

The single largest blow to the Peninsula's visitor sector came this summer season when half of the cruise ships that normally dock in Seward chose to dock in Whittier instead. This will be a significant hit for Seward, but the city's visitor industry is diverse enough to weather this big loss.

Oil and gas sector struggles

The state's first oil production came out of Cook Inlet and some believe it ensured Alaska's statehood. But this also makes it Alaska's mature oil province. Oil production on the Peninsula peaked in 1970 at 226,000 barrels of oil per day compared to 29,000 today—so it certainly has seen bigger days in the past. Unlike oil, natural

Employment Growth About 1% Per year 2000–2003, Kenai Peninsula Wage and salary employment **2**



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

gas production has remained far more stable and has helped stem even steeper employment declines. The natural gas produced on the Peninsula generates power and heat for most of the homes in Southcentral Alaska. Despite its status as Alaska's "over-the-hill" oil province, the local industry remains an important economic actor—particularly on the Central Peninsula.

Oil and gas is still the single largest source of high paying jobs. In 2003, the oil and gas industry directly generated approximately 1,000 wage

and salary jobs on the Peninsula, or nearly six percent of all wage and salary employment. Because of the higher wages, (see Exhibit 4) it represents almost 12 percent of all wage and salary payroll. This is a conservative number because firms such as construction contractors, logistics support, and others that are directly engaged by the industry are not included in these figures. Not only does this industry play an important employment role, but nine of the Peninsula's top ten taxpayers are attached to the oil industry.

3 Kenai Peninsula Borough Average monthly employment by industry sector

	2000	2001	2002	2003	Change '00-'03	Percent Change '00-'03
Total Wage and Salary Employment³	16,994	17,361	17,628	17,774	780	4.6%
Agriculture, Forestry, Fishing, Hunting ¹	21	26	22	31	10	47.6%
Natural Resources ^{2 3}	1,422	1,322	1,366	1,108	-314	-22.1%
Logging	70	69	65	71	1	1.4%
Mining ³	1,352	1,253	1,301	1,037	-315	-23.3%
Oil and Gas ³	1,320	1,221	1,264	999	-321	-24.3%
Construction	1,034	1,195	1,200	1,133	99	9.6%
Manufacturing	1,347	1,213	1,075	1,200	-147	-10.9%
Seafood Processing	656	467	328	562	-94	-14.3%
Trade, Transportation, Utilities	3,434	3,510	3,580	3,378	-56	-1.6%
Wholesale	200	268	268	197	-3	-1.5%
Retail	2,276	2,263	2,330	2,260	-16	-0.7%
Transportation, Warehousing, Utilities	958	979	982	921	-37	-3.9%
Information	194	246	262	253	59	30.4%
Financial Activities	422	414	445	426	4	0.9%
Professional Services	702	779	829	921	219	31.2%
Educational & Healthcare Services	1,219	1,277	1,346	1,545	326	26.7%
Healthcare/Social Assistance	1,136	1,202	1,269	1,481	345	30.4%
Leisure & Hospitality	2,062	2,094	2,191	2,394	332	16.1%
Accommodations & Eating & Drinking	1,804	1,820	1,894	2,055	251	13.9%
Accommodations	603	591	603	691	88	14.6%
Eating and Drinking	1,201	1,229	1,291	1,364	163	13.6%
Other Services	706	801	773	726	20	2.8%
Government	4,427	4,486	4,538	4,658	231	5.2%
Federal Government	436	414	428	427	-9	-2.1%
State Government	1,027	1,059	1,085	1,096	69	6.7%
Local Government ⁴	2,964	3,013	3,025	3,135	171	5.8%
Local Education	1,413	1,442	1,340	1,370	-43	-3.0%
Tribal Government ⁴	151	116	138	154	3	2.0%

¹ Excludes logging (2000-2003)

² Includes logging (2000-2003)

³ Adjusted for reporting error (2000)

⁴ Adjusted for classification error (2000)

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Another important factor is that this industry provides support to the North Slope oil fields. The 2000 Census counted 755 Kenai Peninsula residents working on the North Slope. Only Anchorage and the Mat-Su Borough provide more workers. If these workers are being paid the average oil industry wage, the injection of cash coming from outside the Peninsula adds up to a significant economic force.

Much of the oil industry's infrastructure is old and big new investments are not on the horizon. In recent years employment went through another period of downsizing—321 fewer jobs existed in 2003 than in 2000. Even the size and life of Cook Inlet's gas reserves are being debated—some believe that at current use they could begin to run dry by 2015. Higher natural gas prices are spurring additional exploration and could prevent declines of natural gas production. In 2003 Unocal found the Happy Valley gas field near Ninilchik and built a spur line. Marathon Oil just made a discovery in the Kasilof area that might prove commercial.

Some of the oil platforms are for sale and a few have been shut down. But periodically there is a strong renewed interest in exploration. Stalwarts such as Chevron, Mobil, Shell and others have left the area, but they have been replaced by new companies such as Pelican Hill, XTO Energy, Union Texas Petroleum Corp., and Forest Oil. Both Forest Oil and ConocoPhillips Petroleum have plans to drill new prospects and XTO Energy is reworking older properties. So companies remain that believe promising potential still exists on the Peninsula.

This is only part of the story. Much of Cook Inlet's oil and gas provides feedstock for a number of "value added" activities. They include Tesoro's oil refinery, Agruim's urea and ammonia plant, and ConocoPhillips Petroleum's LNG plant—the only exporter of natural gas in the state. Together, the former two employ 436 workers. (ConocoPhillips' numbers are already counted in the oil industry.) If these other related payrolls are included with the oil and gas industry's earnings, then eighteen percent of the Peninsula's payroll comes from the hydrocarbon sector. Employment among this group of employers has declined—

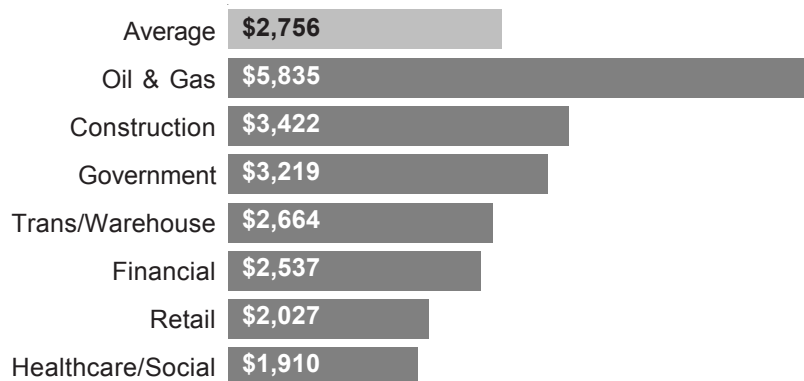
specifically in the Agrium plant, which recently cut its workforce by 60. A recent ruling in favor of Agrium should prevent further layoffs in the short term.

Commercial fishing loses economic strength

Twelve years ago, the seafood industry was by far the most important source of income for residents of the Kenai Peninsula Borough, but times have changed. In the peak year of 1992, the local harvest exceeded \$129.3 million. No other industry, not even the public sector, produced a larger gross payroll. Participation in the various fish species was high. A decade later in 2002, (the most recent data recorded by the Commercial Fisheries Entry Commission) Kenai Peninsula fishermen landed a smaller harvest, down nearly 30 percent from 1992 volume, but the value of the catch had fallen much more dramatically. The 2002 harvest brought just \$50.5 million. (See Exhibit 5.) This translates to a drop of 61 percent in harvester earnings from ten years ago without factoring in the impacts of inflation.

Salmon prices are the cause. In 1992, salmon, the most targeted and most abundant species, contributed 68 percent to local harvester earnings. By 2002 salmon dropped to 30 percent, and halibut became the largest contributor to earnings (see Exhibit 6) with a share of harvest volume of just seven percent. The Commercial Fisheries

Average Monthly Earnings Kenai Peninsula Borough—2003 **4**



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Entry Commission's records of 2002 confirmed that average fishing income for local halibut fishermen, a group of 333 individual quota owners in 2002, ranked much higher than average earnings of the local 774 salmon permit holders. Last year, Homer became the halibut capital of the state, recording the most pounds landed while Seward claimed the top spot in sablefish deliveries.

Most Kenai Peninsula salmon fishermen lower their nets in Cook Inlet and in neighboring areas of Prince William Sound or Kodiak, but a fleet of more than 100 boats travels west to salmon grounds in Bristol Bay, the Alaska Peninsula, or the Chignik area. Salmon prices differ from one area to the next but usually Cook Inlet red salmon is considered a premium fish, fetching higher prices than red salmon caught in most neighboring and western areas. Halibut, cod, and other groundfish harvesters of the Kenai Peninsula typically fish in the Gulf of Alaska and boat size often determines the individual harvest volume and fishing effort. The Kenai Peninsula's crab fleet consists of only a few members who make the long voyage to the fishing grounds of the Bering Sea.

Salmon harvest prices push the industry into decline

Permit holders, crews, and seafood processing employment have been affected everywhere by the plunge in salmon prices. A look at the number

of Kenai Peninsula permit holders actually fishing reveals the downturn in participation. In 2002, only 1,029 local fishermen, who own one or several species permits, attempted to earn income from commercial fishing. Participation fell by 32 percent compared to 1992. In the same period, average monthly seafood processing employment suffered a loss of 572 jobs, which means that the Kenai Peninsula seafood processing crew of 2002 was only half as strong as in 1992. Moreover, several processing plants have ceased to operate in the past twelve years due to lack of profits. Adverse developments in salmon markets have turned the Kenai Peninsula's most profitable industry into a weaker performer. In 2002, retail's total payroll was larger than local fishing income.

Although total fishing earnings for 2003 and 2004 have not been computed, harvest data indicate that Cook Inlet fishermen had two good years. Catches of red salmon, the most profitable salmon species for local fishermen, were up in 2003 and 2004. Prices were up slightly in 2003 but whether they held in 2004 is still questionable. (Red salmon harvest prices for Cook Inlet were not available.) Prices in several other areas fell this year because of the abundant harvests. High fuel costs during the 2004 season will also impact fishermen's earnings.

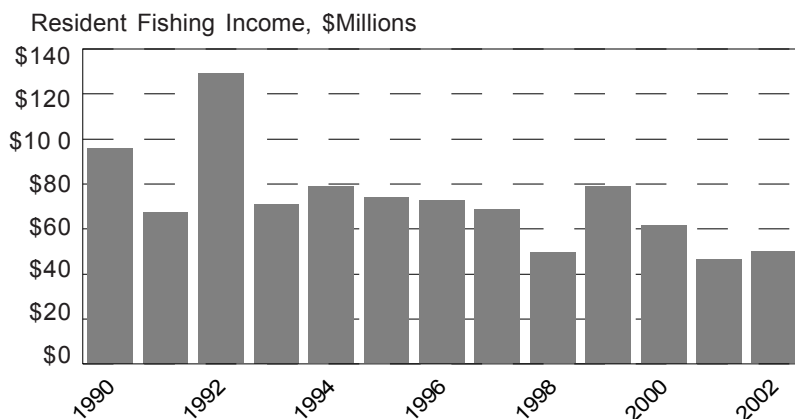
Services keeps overall employment in the black

The Peninsula's service sector is what kept employment inching forward in recent years—probably no surprise to residents, particularly those living on the Central Peninsula. A real standout was the growth in health care & social assistance, which mirrors its phenomenal growth in every corner of the state. During the past three years it grew by more than 30 percent.

Another industry in the services sector that has done quite well is leisure & hospitality, which reaps major benefits from the visitor industry. New hotels, lodges, and restaurants have insured further expansion of this industry.

Population growth and "import substitution" are other important factors in the expansion of the

5 Several Lean Years For Kenai Peninsula fishermen



Source: Commercial Fisheries Entry Commission

Peninsula's service sector. More business services, health care, personal services and other types of services are now available locally. Because the Peninsula now provides for more of its own needs, the economic multiplier effect of these expenditures grows, which in turn leads to additional expansion in these industries.

One industry in the service sector that did not grow was retail trade. Retail employment actually declined between 2000 and 2003, the opposite of statewide trends. This is largely the result of the closure of Kmart in March 2003 when approximately 100 jobs were lost in the City of Kenai. When the 2004 data become available, this trend will probably reverse itself because a new Home Depot with 150 employees opened in early 2004 in the old Kmart building, and by late 2005 a new Fred Meyer will open in Homer.

Government provides some stability

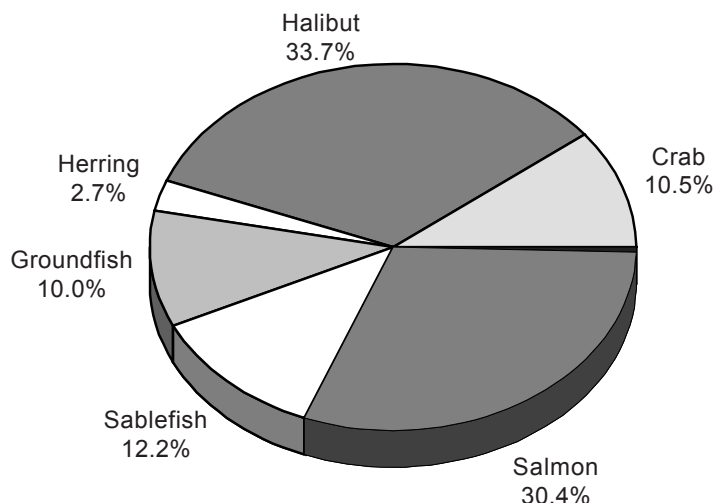
A little over a quarter of the wage and salary jobs on the Peninsula are with government—which is fairly close to the statewide average. Two thirds of these jobs are with local government, and more than half the local government jobs are in education. In fact, the single largest employer in the borough is the Kenai Peninsula Borough School District. In 2002 the district's employment declined, along with enrollment. A few schools have even closed. But the rest of local government's employment has crept up enough to more than offset these losses. One reason local government is so prominent in the borough is that both the South Peninsula and Central Peninsula hospitals receive significant local public funds and are therefore accounted for under local government. Neither federal nor state government employment levels have changed much in recent years. At the federal level the big agencies are the Federal Aviation Administration, the Bureau of Land Management, and other natural resource agencies. At the state level some of the large employers are Spring Creek and Wildwood Correctional Centers in Seward and Kenai, respectively, and the Departments of Fish and Game and Transportation.

Population now grows slowly, and is not very diverse

Since 1990 the Kenai population has grown by 26 percent, from 40,802 to 51,220 in 2003, compared to 18 percent statewide. (See Exhibit 7.) Only the boroughs of Anchorage, Fairbanks and the Mat-Su have larger populations than the Peninsula. In recent years this growth has slowed. Since 2000, its growth averaged less than one percent per year—not much different than employment, and a bit slower than statewide.

The Peninsula's geography is diffuse. Its population of more than 51,000 is spread out among 31 identified communities that formed in all shapes and sizes. Most of the population is spread out along the highways outside of incorporated communities. Five of its communities are accessible only by plane or boat. When one thinks of the Peninsula, it is usually its largest cities—Kenai, Soldotna, Homer, and Seward, that come to mind, but only 37 percent of the borough's population lives in them. The biggest population concentration lives in the area immediately surrounding the communities of Kenai and Soldotna. The areas with strong growth include Soldotna, Kasilof, Nanwalek and the Homer area. The Seward area's population has changed little since 2003 and a few communities have actually lost population.

Halibut Top 2002 Moneymaker For Kenai Peninsula fishermen 6



Source: Commercial Fisheries Entry Commission

Population by Community

Kenai Peninsula Borough 2000–2003

	2000	2001	2002	2003	Annual Change 2000- 2003	Average Percent Change
Kenai Peninsula Borough	49,691	50,051	50,486	51,220	1,529	0.9
Anchor Point CDP	1,845	1,824	1,797	1,826	-19	-0.3
Bear Creek CDP	1,748	1,843	1,832	1,823	75	1.3
Beluga CDP	32	24	25	26	-6	-6.4
Clam Gulch CDP	173	169	174	176	3	0.5
Cohoe CDP	1,168	1,180	1,210	1,201	33	0.9
Cooper Landing CDP	369	393	371	358	-11	-0.9
Crown Point CDP	75	90	88	78	3	1.2
Diamond Ridge CDP ***	1,802	1,821	1,112	1,086	-716	-15.3
Fox River CDP	616	597	566	563	-53	-2.8
Fritz Creek CDP	1,603	1,674	1,737	1,740	137	2.5
Funny River CDP	636	627	686	705	69	3.2
Halibut Cove CDP	35	29	28	25	-10	-10.3
Happy Valley CDP	489	507	520	503	14	0.9
Homer city ***	3,946	3,885	4,641	4,893	947	6.6
Hope CDP	137	145	152	161	24	5.0
Kachemak city	431	428	426	473	42	2.9
Kalifornsky CDP	5,846	6,041	6,145	6,230	384	2.0
Kasilof CDP	471	454	504	571	100	5.9
Kenai city	6,942	6,910	7,109	7,125	183	0.8
Lowell Point CDP	92	97	108	89	-3	-1.0
Miller Landing CDP ***	74	71	0	0	-74	—
Moose Pass CDP	206	207	216	221	15	2.2
Nanwalek CDP *	177	185	219	214	37	5.8
Nikiski CDP	4,327	4,378	4,345	4,357	30	0.2
Nikolaevsk CDP	345	340	323	313	-32	-3.0
Ninilchik CDP	772	762	761	777	5	0.2
Port Graham CDP *	171	179	175	165	-6	-1.1
Primrose CDP	93	99	92	87	-6	-2.1
Ridgeway CDP	1,932	1,969	1,961	2,011	79	1.2
Salamatof CDP *	954	896	895	902	-52	-1.7
Seldovia *	430	437	451	432	2	0.1
Seldovia city	286	307	324	300	14	1.5
Seldovia Village CDP	144	130	136	138	-6	-1.3
Seward city	2,830	2,767	2,755	2,733	-97	-1.1
Soldotna city	3,759	3,813	3,889	4,059	300	2.4
Sterling CDP	4,705	4,780	4,777	4,888	183	1.2
Sunrise CDP	18	16	14	15	-3	-5.6
Tyonek CDP *	193	162	182	193	0	0.0
Balance of Kenai-Cook Inlet census subarea	227	229	187	188	-39	-5.8
Balance of Seward-Hope census subarea	22	23	13	13	-9	-15.8
Native Villages that overlap multiple CDPs						
Kenaitze *	29,320	30,173	30,435	30,877	1,557	1.6
Ninilchik *	13,264	13,578	13,696	13,895	631	1.4

The borough's population is considerably less diverse than the state's. Nearly 87 percent of the population is white compared to 71 percent statewide. Native Alaskans make up the second largest group with 7.9 percent of the population, and most of these Natives belong to Kenaitze tribe. Hispanics form the next largest minority group at 2.3 percent of population. The ratio of males to females is almost identical with the rest of the state: for every 100 females there are 107 males.

The aging population may become a powerful economic force

The median age for the borough's population was 36.7 in 2002, which is four years older than the state's median age. The population of the Peninsula has a larger share of population over 55 and a smaller share younger than five. Nearly 18 percent of the borough's population is over 55 versus 14 percent statewide. A likely explanation for these demographic developments is that more residents are remaining when they retire. It is also possible that a significant number from elsewhere in Alaska and even from the contiguous states are moving to the Peninsula to retire.

One could even go so far as to speculate that in recent years, without this trend, the Peninsula might have actually lost population. From an economic standpoint, attracting retirees may be an emerging force in parts of the borough. The relatively mild climate, lower cost of living, recreational opportunities, and

CDP—Census Designated Place

*Alaska Native Village Statistical Area

**Tribal Designated Statistical Area

*** Homer annexed part of Diamond Ridge and all of Miller Landing 3/20/02.

Sources: US Census 2000, Alaska Department of Labor and Workforce Development, Research and Analysis Section, Demographics Unit.

attractive lifestyles the Peninsula has to offer are characteristics that have often proved a powerful force in resort community development around the nation. Considering the future size of this retiree population in Alaska and the nation, this trend could become a growing factor and advantage for the Peninsula.

The Kenai\Soldotna economy mirrors the borough

The Kenai/Soldotna economic area is a near mirror image of the entire Kenai Peninsula Borough. It is not only the largest region; it is

home to nearly two thirds of the borough's wage and salary employment. (See Exhibit 8.) What can be said about the diversity on the Peninsula applies to this area, since it is home to all of the industries already mentioned. The area's wage and salary workforce is 460 larger than it was in 2000. Over the past four years the big losses have been in the oil and gas sector and the fishing industry. Despite these losses, both industries continue to be mainstays in the area. In fact, the Peninsula's entire oil and gas sector can be found within the confines of this area. In 2002, fishermen on the Central Peninsula earned \$10.3 million

Kenai/Soldotna Area

Average monthly employment by industry sector

	2000	2001	2002	2003	2000-2003 Change	Percent Change 2000-2003
Total Wage and Salary Employment	10,934	11,241	11,478	11,394	460	4.2%
Agriculture, Forestry, Fishing and Hunting	9	12	6	6	-3	-33.3%
Natural Resources	1,369	1,268	1,316	1,054	-315	-23.0%
Logging	44	46	46	50	6	13.6%
Mining	1,325	1,222	1,270	1,004	-321	-24.2%
Oil and Gas	1,315	1,210	1,257	991	-324	-24.6%
Construction	716	861	825	742	26	3.6%
Manufacturing	904	780	686	778	-126	-13.9%
Seafood Processing	387	202	106	224	-163	-42.1%
Trade, Transportation, Utilities	1,976	2,072	2,230	2,140	164	8.3%
Wholesale	139	212	212	140	1	0.7%
Retail	1,551	1,533	1,576	1,585	34	2.2%
Transportation, Warehousing, Utilities	286	327	442	415	129	45.1%
Information	127	165	175	167	40	31.5%
Financial Activities	257	249	267	261	4	1.6%
Professional Services	566	642	696	783	217	38.3%
Educational & Healthcare Services	771	789	828	962	191	24.8%
Healthcare/Social Assistance	702	726	762	901	199	28.3%
Leisure & Hospitality	1,078	1,125	1,152	1,155	77	7.1%
Accommodations & Eating and Drinking	979	1,022	1,058	1,037	58	5.9%
Accommodations	261	281	298	269	8	3.1%
Eating and Drinking	718	741	760	768	50	7.0%
Other Services	524	556	551	520	-4	-0.8%
Government	2,639	2,723	2,746	2,827	188	7.1%
Federal Government	261	224	232	234	-27	-10.3%
State Government	535	548	560	568	33	6.2%
Local Government	1,843	1,951	1,954	2,025	182	9.9%

Note: Year 2000 and 2001 employment numbers for Kenai Peninsula School District are adjusted; Year 2000 contains adjustment for reporting error in oil and gas

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

and fished 467 permits. Several seafood processing plants have closed and some have resumed operation, reflecting uncertainties in the salmon fisheries.

For the sake of simplicity we divided the Peninsula into three relatively large, distinct regions, the Kenai/Soldotna area or Central Peninsula, the Seward area, and the Homer region.

Over the past four years the big growth industries for the area have been professional services, healthcare and social assistance and government. Although retail employment failed to grow because of the closure of Kmart, the Central Peninsula is the undisputed center of commerce for the borough. More than 32 percent of all retail sales come out of the Central Peninsula. To some extent this has always been true, but what has changed is that local retail development is becoming a viable substitute for retail services in Anchorage. Two of the top ten employers in the area are retailers. (See Exhibit 9.) The visitor industry makes its contribution to retail, services, and other growth on the Peninsula.

The Kenai River, home of the biggest sport fishery in the state, flows through the Kenai/Soldotna area. Some have estimated a fifth of the state's sport fishing takes place on this river system. Nearly 400 guides work the river. The area is home to other major sport fisheries and visitor attractions. The Central Peninsula is also the borough government's administrative center. Headquarters of the borough, the school district, and many of the major federal and state offices are also in this region of the borough, providing some stability to the area.

Homer a hamlet?

Many Alaskans and other visitors view the community of Homer as a picturesque hamlet by the sea. In terms of population, Homer, with nearly 4,900 residents in 2003, has long since passed hamlet size. Over time it has developed from a fishing community to a tourist mecca and a commercial center serving a much larger population. In 2003, approximately 11,600 people lived in the area within a stretch of road running about 35 miles north and 25 miles east of Homer, and an additional group of 840 people lived across Kachemak Bay. Homer has preserved its small town character. It still has a fishing community and an active artist group that celebrate its natural

9 The Largest Employers In the Kenai/Soldotna area –2003

Rank	Company/Organization	Average Monthly Employment	Business Activity
1	Kenai Peninsula Borough School District	870	Local Government
2	Central Peninsula General Hospital	396	Local Government
3	Kenai Peninsula Borough	368	Local Government
4	Frontier Community Services	330	Janitorial Services
5	Agrium US Inc.	263	Petroleum Products
6	Fred Meyer	231	Grocery/General Merchandise
7	Peak Oilfield Services	216	Oilfield Services
8	Safeway	204	Grocery Store
9	Alaska Petroleum Contractors	202	Oilfield Services
10	Tesoro Alaska Company	172	Refinery
11	Union Oil of California (UnoCal)	163	Oil and Gas Extraction
12	University of Alaska	139	State Government
13	City of Kenai	115	Local Government
14	Central Peninsula Counseling Services	115	Health Care
15	Laidlaw Education Services	110	School Bus Transportation
16	Alaska Department of Corrections	109	State Government
17	Lutheran Health Systems	97	Nursing Care Facility
18	VECO Alaska	95	Oilfield Services
19	Snug Harbor Seafoods	95	Seafood Processing
20	McDonald's	94	Eating Establishment

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

beauty. Homer has become popular as a retirement community and locale for summer homes. These residents, whether part-time or full time, have closer ties to the community than typical tourists. Still, Homer's visitor industry is also thriving and contributes to the support of local cottage industries including bed and breakfasts and arts and crafts.

Industry employment

Wage and salary employment in the Homer area, which includes Ninilchik and the Homer periphery, has grown steadily. Between 2000 and 2003 nearly 200 payroll jobs were created. (See Exhibit 10.) Homer's strongest job creation has been in industries that either cater to tourism

or provide services to the area's population. Employment growth in health care and the leisure and hospitality industries are examples.

Government among area's largest employers

Among Homer's largest employers are three government entities. (See Exhibit 11.) Those three alone represent nearly 20 percent of the area's total wage and salary employment. The local hospital, the second largest employer, belongs to the public sector because it receives public revenues. It may also come as a surprise that Chugach Electric is on the Homer area top employer list. Its Beluga power plant, situated across Cook Inlet, is within the borough.

Lower Peninsula—the Homer Area **10** Average monthly employment by industry sector 2000–2003

	2000	2001	2002	2003	Change 2000-2003	Percent Change 2000-2003
Total Wage and Salary Employment	3,304	3,358	3,434	3,500	196	5.9%
Agriculture, Forestry, Fishing and Hunting	7	6	6	8	1	14.3%
Natural Resources	39	41	40	40	1	2.6%
Logging	25	23	19	21	-4	-16.0%
Mining	14	18	21	19	5	35.7%
Construction	229	223	228	243	14	6.1%
Manufacturing	n/a	n/a	n/a	171	n/a	n/a
Seafood Processing	n/a	n/a	n/a	138	n/a	n/a
Trade, Transportation, Utilities	834	837	845	770	-64	-7.7%
Wholesale	19	13	13	14	-5	-26.3%
Retail	n/a	n/a	n/a	425	n/a	n/a
Transportation, Warehousing, Utilities	307	313	320	331	24	7.8%
Information	47	59	63	62	15	31.9%
Financial Activities	88	85	66	64	-24	-27.3%
Professional Services	110	108	113	117	7	6.4%
Educational & Healthcare Services	293	326	350	439	146	49.8%
Healthcare/Social Assistance	291	324	348	437	146	50.2%
Leisure & Hospitality	481	480	512	567	86	17.9%
Accommodations & Eating and Drinking	417	412	439	494	77	18.5%
Accommodations	145	130	139	141	-4	-2.8%
Eating and Drinking	272	282	300	353	81	29.8%
Other Services	141	116	114	105	-36	-25.5%
Government	869	892	912	914	45	5.2%
Federal Government	70	72	76	54	-16	-22.9%
State Government	129	131	141	142	13	10.1%
Local Government	670	689	695	718	48	7.2%

n/a Data not available

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Entrepreneurship is a key element in Homer's economic equation

According to Census 2000, Homer has the highest percentage of self-employed workers on the Kenai Peninsula. Nearly 19 percent of the local labor force had businesses, fished commercially, owned charter boats, operated them as a skipper or a deckhand, or were in other self-employment. Many of Homer's self-employed were artists or worked in other professional capacities. Tourism and commercial fishing are industries that involve a high rate of self-employment and both industries are central to Homer's economy.

Commercial fishing is the traditional industry

The Homer area has the highest number of local residents in the Kenai Peninsula Borough who depend on commercial fishing as a livelihood. Many fishermen participate in multiple fisheries often far from home. In 2002, Homer area fishermen claimed nearly 64 percent of all harvest income earned by Kenai Peninsula fishermen. This income is important for Homer's economy. The \$32 million supplement amounted to a 25 percent increase to Homer's total payroll earnings in 2002.

Tourism looms large

The impact of tourism on the local economy is hard to measure but it can be assumed to be large. Homer's cottage industries, including its numerous bed and breakfast places, accentuate the fact that Homer is a hospitality town. In addition, there are several hotels and many food service places to accommodate visitors. Sport fishing and sightseeing charters, street vendors on the Homer Spit, gift shops, recreational businesses, art galleries, nature information centers, and the Pratt Museum are all in business to entertain visitors.

Seward

In the Kenai Peninsula Borough, the Seward area is smallest in population. This magnificent landscape lies at the head of Resurrection Bay and between the Kenai and Chugach mountain ranges. In 2003, Seward, with its outlying areas, was home to 5,044 people who resided either within the city limits or in nearby residential neighborhoods. Its basic sector industries are government, tourism, and commercial fishing.

Overall employment growth stalls

Average monthly wage and salary employment in Seward has not advanced in the past four years. In fact, between 2000 and 2003 it showed a slight decline. (See Exhibit 12.) While public sector employment has gained ground, the private sector has registered job losses. Overall private sector employment declined by 116 jobs since 2000. Most of these losses occurred in seasonal industries. It would appear that tour operators worked with smaller staffs in 2003 than in previous seasons and that seafood processing employment also declined.

Government employment provides stability in Seward's economy

The public sector is Seward's largest employer, claiming one third of all wage and salary jobs. The Spring Creek prison is the largest employer in the area. (See Exhibit 13.) The Kenai Penin-

11 Homer Area's Largest Employers 2003

Rank	Company/Organization	Average Monthly Employment	Business Activity
1	Kenai Peninsula Borough School District	311	Local Government
2	South Peninsula Hospital	268	Local Government
3	South Peninsula Behavioral Health Svcs	160	Health Care
4	City of Homer	111	Local Government
5	Lands End Resort	87	Resort
6	Safeway dba. Eagle Store	81	Grocery Store
7	Homer Electric Association	73	Utility
8	Chugach Electric Association	67	Utility
9	Deep Creek Custom Packing	54	Seafood Processing
10	Job Ready Inc.	48	Social Assistance

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

sula Borough School District is in the runner-up position. In most communities schools are on the large employer list. In addition, Seward's Alaska Vocational Technical Education Center (AVTEC) is a large and unique public sector employer. Seward benefits not only from its direct employment impact but also from the presence of a growing student population.

The visitor industry has become a staple

Seward's visitor industry differs from other areas in the borough because it is a cruise ship passenger gateway. This year, cruise ship traffic will be down 50 percent because Whittier became the preferred port of call for one major cruise ship line. Post-season calculations will determine how the downturn has impacted the local visitor industry. Yet, Seward does not rely

on cruise ship clientele only. It attracts many visitors from Anchorage and elsewhere who pursue recreational activities and participate in staged special events. Seward's Fourth of July Mount Marathon race and its Silver Salmon derby have become major Alaska attractions. Its outdoor entertainment includes tours of Kenai Fjord, which provide access to maritime wildlife viewing amid a spectacular landscape. Seward also hosts weekend travelers from Anchorage, who store their recreational boats in Seward's small boat harbor. More than 80 percent of the recreational boats in this harbor belong to Anchorage boaters. The presence of a large military resort that includes a hotel, RV park, and campground is an additional bonus for Seward's visitor industries. The area's recreational potential is well known on Anchorage's large air force and army bases.

The Seward Area **12** Average monthly employment 2003

	2000	2001	2002	2003	Change 2000-2003	Percent Change 2000-2003
Total Wage and Salary Employment	2,348	2,317	2,254	2,312	-36	-1.5%
Natural Resources	13	12	9	11	-2	-15.4%
Mining	13	12	9	11	-2	-15.4%
Construction	67	84	92	73	6	9.0%
Manufacturing	277	247	206	252	-25	-9.0%
Seafood Processing	222	193	148	200	-22	-9.9%
Trade, Transportation, Utilities	589	559	458	407	-182	-30.9%
Wholesale	38	41	42	42	4	10.5%
Retail	190	187	208	203	13	6.8%
Transportation, Warehousing, Utilities	361	331	208	162	-199	-55.1%
Information	13	10	10	10	-3	-23.1%
Financial Activities	46	37	58	52	6	13.0%
Professional Services	15	20	18	14	-1	-6.7%
Educational & Healthcare Services	146	157	167	144	-2	-1.4%
Healthcare/Social Assistance	135	147	157	143	8	5.9%
Leisure & Hospitality	340	326	363	464	124	36.5%
Accommodations & Eating and Drinking	252	232	245	326	74	29.4%
Accommodations	97	89	89	158	61	62.9%
Eating and Drinking	155	143	156	168	13	8.4%
Other Services	148	118	107	103	-45	-30.4%
Government	694	747	766	774	80	11.5%
Federal Government	103	114	116	114	11	10.7%
State Government	351	368	373	374	23	6.6%
Local Government	240	265	277	286	46	19.2%

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

The seafood industry

Seward's commercial fisheries, like many in the state, have seen dramatic changes in recent years. In the past, Seward accommodated the Prince William Sound herring fleet, a fishery that has been closed in most years since the catastrophic oil spill of 1989. Despite the near collapse of the close-by herring fishery and depressed prices for salmon, harvester income did not fall as hard as in other areas in the borough. Healthy sablefish and halibut fisheries have helped to prevent the erosion of harvest values. In 2002, the two species contributed 81 percent to the harvest value of \$5.3million for 45 local permit holders. Income from the salmon fishery accounted for a mere 14 percent of total payments received by fishermen for their catch. A decade earlier, 86 Seward permit holder earned \$7.4 million from a more diversified fishery. Salmon yielded one third of the total harvest value. Although harvest values have declined between 1992 and 2002 by 28 percent, average earnings per individual permit holder have increased by 37 percent. Moreover, seafood processing employment in Seward has not suffered severe losses.

Summary

The strength of the Peninsula's economy is its economic and geographic diversity. That strength will not necessarily ensure future economic growth. The traditional leaders will remain important to its overall economic picture but they face challenges. Fisheries, particularly those tied to salmon, will continue to feel the global economic pressures. It will take a major oil or gas discovery to reverse the downward trend of the Peninsula's hydrocarbon sector. The outlook for its visitor industry remains robust along with its attraction as a residential area. The continued expansion of its support services should also play a positive role.

13 Largest Employers in Seward Area 2003

Company/Organization	Avg. Monthly Employment	Business Activity
Alaska Department of Corrections (Spring Creek Correctional Center)	191	State Government
Kenai Peninsula Borough School District	108	Local Government
Seward Association for Advanced Mariners (Sealife Center)	117	Aquarium/Research Institute
CIRI Alaska Tourism	96	Sightseeing/Hotel
City of Seward	93	Local Government
Icicle Seafoods	90	Seafood Processing
Alaska Dept. of Labor and Workforce Development (AVTEC)	76	State Government
Ocean Beauty Seafoods	69	Seafood Processing
U.S. Department of Agriculture (Forest Service)	66	Federal Government
Safeway (Eagle Store)	58	Grocery Store

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section