

Executive Summary

Third quarter gross and taxable sales were greater than those of 2003. Permitted construction project values were greater as well, due in part to permitting of the Central Peninsula General Hospital expansion, increasing values by 192.5% over third quarter 2003 and volume by 9.5% for the period. Labor force totals increased but employment totals increased more, resulting in a full percentage drop in unemployment rates when compared to a year ago.

Gross sales for third quarter 2004 were 9.2% higher than those of third quarter 2003 with manufacturing sales gaining 43.2%, leading all industry sectors. Gross sales in Kenai increased 20.1%, a result of Home Depot establishing its presence in the local economy. In the taxable sales arena, mining sales showed the greatest growth, 42.5%, while Kenai welcomes the 27.5% gain.

Soldotna permitting provided 63.5% of quarterly construction permit values, \$23,780,115 of the KPB total, \$37,465,065. Although the CPGH expansion permit provided the major portion of value, total values without that permit would have exceeded 2003. Volume of permits was near the recent yearly average.

One of the issues facing businesses in the oil and gas industry is a lack of support infrastructure. As exploration and drilling decisions are made, costs involved in delivery of the gas or oil to market must be considered. Several wells drilled in recent decades have been or are being revisited as new technology has become available making the development of the wells economically viable. Mitigation of sand production is available making wells within the current infrastructure more appealing to developers. In addition, a method for production of gas at various levels of a well, in various conditions of recovery, has been proven and made commercially available.

A decision was made that beluga whales in Cook Inlet whales are not an endangered species, mitigating another potential barrier to development of offshore fields in the Cook Inlet Basin.

In recent months, a gas field west of Cook Inlet has been put on line and application has been made to drill another west side development gas well. Coal prices in the Pacific Rim markets have doubled, making development of the coal deposits on the west side of Cook Inlet more attractive. On the east side, newly developed wells are producing gas in the Happy Valley region.

SALES

Reported gross sales within the KPB reached \$680,048,681, an increase of 9.2% over one year ago, and a gain of \$57,355,047. Of the ten active industries in the KPB, five experienced double digit gains, two single digit gains, and only three reported sales declines. Of the decliners, the drop in government sales is meaningless because government is not in business to make sales but rather to provide services. Total government sales provide less than one tenth of one percent of total KPB sales. Taxable sales gained 8.2% to total \$264,839,658, as, again, only three industry sectors reported declines. Taxable sales were \$20,044,891 greater than one year ago.

Quarterly Sales

Gross by Industry. Retail sales increased 10.5% in this large sector, from \$201,243,992 during third quarter 2003 to \$222,289,119 during the most recent quarter. The \$21,045,127 gain provided nearly 37% of the KPB gain. Manufacturing reported the third largest percentage of sales, 13.9%, and increased 43.2% over third quarter 2003. Sales reached \$94,791,639 for a gain of \$28,575,282. Transportation, communication and public utilities (TCPU) reported sales of \$54,783,180, gaining 24.7% over the \$43,949,309 reported sales of third quarter 2003. Mining sales increased from \$30,366,980 to \$35,697,405, a gain of 17.6%. Agriculture, Forestry and Fishing (AFF) sales also experienced a double-digit gain, 15.5%, to total \$15,586,413. Two sectors reported single-digit gains. Services, the second largest sector, experienced 9.8% growth with sales of \$119,412,778, surpassing third quarter 2003 sales of \$108,796,801 by \$10,615,977. Finance, Insurance and Real Estate (FIRE) had sales of \$16,553,663, increasing 3.0% over third quarter 2003.

Three industries reported declining sales. Construction sales dropped 19.6% to \$65,669,856, down from \$81,679,740 a year ago. Sale of wholesale goods reached \$55,255,444, a 9.2% drop from the \$60,869,241 in sales during third quarter 2003. Lastly, government sales dropped 24.7% to \$9,184, an inconsequential amount in the total sales economy. (See page 15 for detail.)

Taxable by Industry. The standard continues to move upward for taxable sales, as quarterly sales gained 8.2%, and reached \$264,839,658, a gain of \$20,044,891 for the quarter. During third quarter 2003 sales totaled \$244,794,767. Retail sales make up 57.2% of total taxable sales, and gained 9.3% over 2003 with sales reaching \$151,471,609. Last year, those sales totaled \$138,592,913. The \$12,878,696 retail sales gain accounts for 65% of the overall gain in taxable sales. Service sales increased 7.0% from \$63,181,878 to \$67,627,846. TCPU sales increased \$1,198,711 to reach \$21,020,654, a 6.0% gain for the quarter. Sale of wholesale goods increased 7.2% from \$7,070,996 to \$7,582,105. Manufacturing sales of \$3,747,913 were 12.4% greater than sales of \$3,333,206 during third quarter 2003. Mining sales increased 42.5% and AFF sales increased 12.9% as sales reached \$1,871,702 and \$1,916,036, respectively.

Only three sectors experienced declining sales for the quarter. Construction sales dropped 4.6% from \$3,318,362 to \$3,166,114. FIRE sales were down 0.4% from \$6,451,652 to \$6,426,495. Lastly, the \$9,184 in government sales marked an inconsequential 24.7% decrease. (See page 16 for detail.)

Gross by Area. Gross sales increased 9.2% with all areas except Seldovia reporting gains, to total \$680,048,981. Kenai benefited from Home Depot's opening as retail sales increased 34.9% to \$40,558,112. However, TCPU sales of \$11,963,076 also increased substantially, 139.8%, as did mining, 44.0%, with sales of \$2,185,343. Overall, Kenai sales increased 20.1%, Homer by 6.6%, the unincorporated area sales grew by 12.4%, Seward by 1.7% and Soldotna by 0.1%.

Seldovia's loss of sales resulted in total sales of \$1,780,287 for a 37.2% decrease for the quarter. (See detail on page 17.)

Taxable by Area. All six areas of the KPB reported increased sales, resulting in an 8.2% gain in taxable sales. For a second consecutive quarter Kenai led the way with 27.5% growth to sales of \$40,010,283, influenced by Home Depot's operation. Homer sales increased 7.3% from \$45,063,673 to \$48,365,566. Soldotna's \$65,788,674 in sales marked a 5.1% increase over last year when sales reached \$62,576,271. Seward sales reached \$36,487,325, a 5.1% increase over 2003 sales of \$34,710,226. Lastly, Seldovia's \$1,157,900 in taxable sales marked a 1.5% increase over 2003 when sales reached \$1,140,319. (See Page 18 for detail.)

Year-to-Date Sales

Gross by Industry. Year-to-date September 30 sales of \$1,513,862,381 were 3.7% greater than one year ago when sales reached \$1,460,270,507 in the KPB. The gain is equivalent to \$53,591,874 in sales. Mining sales marked the greatest percentage increase, 44.0%, with sales of \$107,597,146. AFF sales followed with an 11.6% gain for \$21,834,091 in sales. The last double-digit gainer, services, had sales of \$254,357,804, an 11.3% increase. Three sectors experienced lesser gains: retail sales increased 8.4% to \$535,908,597; TCPU gained 6.8% to \$129,303,718; and FIRE sales grew 2.8% to \$44,229,730. Sale of wholesale goods was stable, gaining 0.03%, only \$39,313, for total sales of \$147,668,730.

Only construction and governmental sales declined. Construction sales dropped 29.0% to \$136,523,309, a \$55,845,681 decline. The 5.5% in government sales is inconsequential with sales of \$31,368. (See detail on page 19.)

Taxable by Industry. Six of ten industries report sales gains during the first nine months of 2004 over those of 2003 with sales of \$611,397,280. The large retail sector

increased 7.9% from \$330,327,883 to \$356,299,259. Services gained 6.1% growing from \$124,073,510 to \$131,665,545. Wholesale sales increased 8.8% from \$18,385,545 to \$19,999,573. AFF sales increased 10.8%, mining sales increased 7.6% and manufacturing sales gained 8.4% with sales of \$4,475,536, \$4,001,874 and \$7,996,360, respectively.

The greatest numerical and percentage decline was reported by the FIRE sector as sales declined 4.1% to \$17,005,186. Construction sales dropped 2.1% to \$8,310,926. Government sales of \$31,303 were down 5.7%. (See detail on page 20.)

Gross by Area. Year-to-date sales grew by 3.7% to \$1,513,862,381. Seldovia, with strong service and construction sales, has increased gross sales by 22.5%, with sales totaling \$6,502,138. Kenai sales have grown 11.5% to \$234,856,712 with strength in numerous sectors, most notably in mining, wholesale, TCPU and retail sales. Soldotna sales are up 4.6%, reaching \$267,318,898 while sales in the unincorporated area gained 3.1% to total \$666,174,701.

Sales in both Homer and Seward have declined through third quarter, losing 0.9% and 1.3%, respectively. Homer sales to date are \$211,089,732 while Seward businesses report sales of \$127,920,200. (See detail on page 21.)

Taxable by Area. As KPB taxable sales increased 6.1% overall to \$611,397,280, Kenai sales gained 14.7%. Kenai sales have reached \$105,857,090 after three quarters, compared to \$92,317,429 a year ago. Homer sales, \$111,788,085, were 6.9% greater than the \$104,527,048 in sales reported last year at this time. Soldotna sales increased 5.6%, moving upwards from \$144,058,542 to \$152,180,309, while Seward sales increased 2.5% to \$68,953,810 from \$66,079,148 a year ago. Businesses in the unincorporated report sales of \$169,953,771, gaining 2.2% over a year ago.

Seldovia sales dropped 1.4% to \$2,664,215 from \$2,702,255 in 2003. (See detail on page 22.)

Annual Sales

KPB 2003 annual gross sales of \$1,918,423,572 were 2.2% above those of 2002 as seven sectors improved sales while three sectors had declining sales. This gain recaptures some of the 4.6% sales decline from 2001 to 2002. Each of the five cities reported gains while sales by businesses in the unincorporated area declined 0.2%.

Taxable sales increased 1.2% from 2002 to 2003 with sales of \$732,525,598, following a 2.7% increase one year ago and 5.7% from 2000 to 2001. Four cities increased taxable sales from 2002 to 2003, with Kenai and the unincorporated areas reporting declines.

Gross by Industry. Annual Gross sales increased 2.2% for 2003. The AFF sector had the largest percentage gain, 31.4%, with sales of \$22,009,310; the construction sector gained 12.6% with sales of \$257,304,716; and FIRE increased sales 5.6% to reach \$58,001,069. The large retail sector gained 3.1%, or \$19,316,786, to total \$642,874,952. Sale of wholesale goods increased 3.2% to \$194,212,922 while sales in the service sector rose 0.6% to \$279,323,105. The inconsequential \$41,980 in government sales marked an 85.9% increase.

TCPU sales of \$158,651,440 indicate an 8.2% decrease while mining sales dropped 6.1% to \$106,561,739. Manufacturing sales declined 0.8% from 2002 with sales dropping from \$201,047,383 in 2002 to \$199,442,339 during 2003. (See detail on page 23.)

Taxable by Industry. Taxable sales increased 1.2% during 2003. AFF sales rose 12.3% while sale of wholesale goods increased 11.3% with sales of \$5,010,961 and \$24,139,455, respectively. Construction sales rose 5.2% to \$11,263,432 while retail sales increased 2.3% to \$427,844,984 and sales in the service sector gained 0.3%, or \$434,609, to \$145,765,227. Government's 85.9% sales gain is inconsequential at \$41,980.

Taxable sales in the mining sector decreased 16.5% to \$4,885,262. FIRE sales were down 5.6% to \$22,742,851 while manufacturing sales declined 3.9% to \$9,239,486. TCPU sales of \$81,591,960 decreased 3.0%. (See detail on page 24.)

Gross by Area. As KPB sales grew by 2.2%, Seldovia gross sales expanded 50.7%, reaching \$7,255,560 for the year, due to strength in the construction sector. Seward, with \$156,916,263 in sales, marked a 10.3% gain. Homer sales increased 3.9% while Soldotna sales rose 3.6% to reach \$273,257,347 and \$337,665,147, respectively. Kenai taxable sales increased 1.3% to \$282,773,775.

KPB's unincorporated area is the only region to see a decline in gross sales for 2003, declining 0.2% to \$860,555,480, a decrease equivalent to \$1,321,239 in sales. (See detail on page 25.)

Taxable by Area. Homer sales increased 8.5% to \$131,595,475 while Soldotna sales gained 7.7% to total \$190,616,882. Seldovia sales of \$3,376,944 marked a 3.2% increase while Seward sales increased 1.0% with \$76,376,082 in reported sales. Across the KPB, sales increased 1.2%.

Kenai taxable sales were down 11.2% for the year, dropping to \$121,407,156 as Big KMart completed its plans to go out of business on the Kenai Peninsula and all of Alaska. Sales in the KPB unincorporated area decreased 0.6% to \$209,153,059. (See detail on page 26.)

CONSTRUCTION PERMITTING

Quarterly Permitting

By Area, Value. Permits issued within the KPB during third quarter had a total appraised value of \$37,465,065. This 192.5% increase is due to permitting of the hospital expansion in Soldotna, with an assessed value of \$21,384,000. Without that permit, values would still have increased nearly 26%. Seward's permits provided 17.9% growth; Homer's permitting value, \$9,531,900, was 215.6% greater than one year ago, but Soldotna led the way with 883.3% growth. Seldovia, with no permits, had -100% growth, while Kenai permitted \$1,991,750 worth of projects, 46.2% less than one year ago.

By Type, Value. New commercial permit values provided 77.4% of value with \$29,009,901 in assessed value permitting during third quarter 2004. New residential permits added 13.0% of the total with \$4,860,200. Commercial alteration/addition permit values of \$2,008,493 provided 5.4% of the total while residential alteration permits issued during the quarter had a total value of \$1,586,471 or 4.2%. (See detail on page 32.)

By Area, Volume. Homer issued 42 permits, double the 21 issued a year ago. Kenai issued 31 permits, fourteen fewer than one year ago. Soldotna issued 24 permits, up from the 19 that were issued one year ago. Seward issued 18 permits, three more than second quarter 2003 when 15 were issued. The remote community of Seldovia did not issue construction permits. (See detail on page 33.)

By Type, Volume. Of the 115 third quarter permits, 44 were issued for residential alteration or additions. New residential projects added 32 with 12 permits issued for new commercial structures. Twenty-seven permits were issued for commercial alterations. (See detail on page 34.)

Year-to-Date Permitting

Year-to-date September 30 permit values leaped to \$75,442,292 with permitting of the hospital expansion in Soldotna. This is the highest on record, surpassing the 1995 value of \$61,670,382 when the Seward SeaLife Center was permitted. Permit volume of 256 is off the high of 302 permits issued YTD 2002.

By Area, Value. Following three strong quarters, year-to-date assessed permit values are 106.0% greater than during 2003. Soldotna, issuing 43.2% of the value, has permitted \$32,593,011 in construction projects YTD. Homer reported \$20,679,631 in permit value, 27.4% of the KPB total. Seward is not far behind with a total permit value of \$17,792,300 and 23.6% of the total, while Kenai issued \$4,201,150 for 5.6%. Seldovia has issued permits totaling \$176,200 in assessed value, year to date. (See detail on page 35.)

By Type, Value. New commercial permitting has provided 70.6% of total value YTD, \$75,442,292, as Soldotna permitted a hospital expansion. New residential total permit value

was also strong with \$14,691,484 being permitted. Commercial alteration added \$5,159,736 and residential alteration another \$2,320,830 to the total. (See detail on page 36.)

By Area, Volume. Homer issued 83 permits, 32.4% of the total. Kenai issued 65 permits or 25.4%, followed by the 59 issued in Soldotna. Seward issued 45 for 17.6% and Seldovia issued four permits YTD. (See detail on page 37.)

By Type, Volume. Of the 256 permits issued during the first three quarters of 2004, 62.9% were for residential projects. Eighty-three permits were for new homes while 78 were issued for alterations or additions. Commercial alterations added 64 permits and new commercial permits provided the final 31. (See detail on page 38.)

Annual Construction - Year 2003

Construction permits are required by KPB cities, but not by the KPB, resulting in incomplete construction activity data. Permit values during 2003 totaled \$43,606,177, a 5.8% decrease from 2002 but the fourth highest total value on record, behind 2002, 2001 and 1995 when Seward's SeaLife center was permitted for a total value of \$61,510,032, the highest on record.

There were 336 permits issued during 2003, 4.3% fewer than the 351 issued during 2002, but second highest on record. Kenai issued the greatest number of permits and has done so in all but four years since 1986 when permitting was first recorded.

By Area, Value. Homer permitting provided 35.1% of KPB annual value; issuing permits totaling \$15,326,815, a 52.5% increase over 2002. Kenai's \$10,441,800 total value added 23.9% to the KPB total but marked a 37.8% decrease from 2002. Seward permit values increased 0.9% for the year to \$7,982,765, providing 18.3% of the total. Soldotna permit values dropped 28.8% to \$7,952,297, providing 18.2% of the KPB total. Seldovia's \$1,902,500 value provided the remaining 4.4%. (See detail on page 39.)

By Type, Value. New projects provided 72.4% of permit activity with commercial and residential permits providing 36.3% and 36.1% of the total, respectively. New commercial values of \$15,820,201 were slightly greater than new residential permit values, which totaled \$15,729,888. Commercial alteration/addition permit values totaled \$9,775,309 or 22.4% of the total. Finally, residential alteration/addition permits added \$2,280,779 for 5.2% of the KPB total. New residential permit values were 9.6% above 2002 while commercial alteration/ addition values were up 25.0%. New commercial values declined 27.4% and residential alteration/addition total value was down 1.1%. (See detail on page 40.)

By Area, Volume. During 2003 Kenai issued 114 of the 336 permits, providing 33.9% of the KPB total. Homer issued 86 permits while Soldotna issued 74 permits, 25.7% and 22.0%, respectively. Seward issued 50 permits, 14.9% of the total and Seldovia's 12

permits added 3.6% of the volume. Homer and Seldovia increased permit volume over 2002 with Homer issuing 28.4% more permits than one year ago and Seldovia's count increased by 50.0%. Those areas with declining permit activity include Seward, down 21.9%, Soldotna was down 18.7% and Kenai issued 5.8% less than one year ago. (See detail on page 41.)

By Type, Volume. Commercial alteration/addition annual activity for 2003 increased 9.1% as 96 permits were issued, setting a new record high. New residential activity shows 104 permits were issued for the second year in a row, and resulting in a three-way tie with 1994 for highest volume in a year. Ninety-four residential alteration/addition permits were issued, 19.0% less than 2002. New commercial activity decreased 2.3% to 42 permits. (See detail on page 42.)

EMPLOYMENT

Once again, the labor market increased, but employment increased to a greater extent, with the resultant decrease in unemployment. During July, August and September 2004, the labor force was larger by 472 persons, 553 persons, and 391 persons in relation to the same month during 2003.

During those same three months, the number of unemployed persons decreased 296, 248 and 201 persons from one year earlier. One would expect an increase in labor force to cause an increase in unemployment but, due to employment growth, the opposite occurred. Employment growth resulted in 768 more persons working during July 2004 than July 2003. August and September saw similar growth, with growth of 801 and 592 additional persons working each month, respectively.

As a result of the above changes, KPB's unemployment rate has been decreasing. For the month of July, the rate decreased from 9.8% during 2003 to 8.5% during 2004. The August rate dropped from 9.4% to 8.2% and the September rate from 10.5% to 9.5% over the same period. Since 1993 the average September unemployment rate has been 5.1%, a standard to which we are drawn. The previous high September employment occurred during 2000 when 21,492 persons were employed in the KPB. (See detail on pages 43-46)

POPULATION

Population estimates for 2003 show the Kenai Peninsula population at 51,220 persons, a 0.1% gain for the year. Homer grew by 3.6% to 4,893 while Kachemak City gained 12.9% to a total of 473 persons. Soldotna also increased, gaining 2.9% to 4,059 residents. Kenai decreased 0.6% to 7,125 and Seldovia lost 2.6%, down to 300 persons. Seward's population is down 2.2% to 2,733. Alaska's population, estimated at 648,818 for 2003, also marked a 0.1% increase for the year. (See page 47-52 for detail.)