

Executive Summary

Property taxes, employment, sales tax revenues and disposable income are viewed as the key factors in an economy. As both volume and value of construction in the Kenai Peninsula Borough are increasing, property tax revenues increase. Employment has trended upward for the past several years, with both a larger labor force and increased employment, accompanied by decreasing unemployment rates. Both gross sales and taxable sales are at record highs, indicating that sales tax revenues are also at record highs. Per capita income continues to increase as well, which in theory, increases disposable income as long as inflation is kept under control. With those facts in mind, it is clear that the Kenai Peninsula Borough economy is a healthy economy.

Second quarter gross sales increased 12.3% from \$464,388,613 during second quarter 2004 to \$521,606,851 during 2005, a \$57,218,238 increase. Taxable sales gained 3.7% to reach \$214,690,22, up from \$207,034,918 one year ago, a \$7,655,304 increase. Construction activity gained momentum as permit values for the period increased 5.3% to \$21,767,075 and volume increased 37.7% from 106 permits a year ago to 146 for second quarter 2005.

With the exception of January, the labor force has set new highs each month for the first six months of the year. Only four years have experienced lower unemployment during June than June of 2005 and only two years (2000 and 2001) have had lower unemployment rates than June of this year. The May unemployment rate tied for the low record. Employment is at record highs for all months except January. Employment data since 1990 has recently been updated by the Alaska Department of Labor,

The oil & gas industry remains in the spotlight with recent issues and developments. Agrium has received proposals for gas supplies, which may allow them to delay the announced closure or even disregard plans for shutdown of operations. The announced closure was a factor in disputes over operation of the Cook Inlet Gas Gathering System (CIGGS), which passes through state lands or waters so must be regulated as a common carrier or gas utility pipeline. Unocal received two offers for purchase; a proposal from Chevron that has been accepted, and a controversial offer by CNOOC, a company based in China, which has been rejected. Three offers are being evaluated by the State for building a natural gas pipeline, each with it's own set of options for route, destination, and product. Concern in the Peninsula is for a natural gas supply to meet local residential needs as well as needs of area plants that use or process natural gas and employ local residents. A plan gaining area support is a bullet line, which would be a smaller diameter, lower pressure line delivering natural gas to the Peninsula from the North Slope fields. Incentives to spur exploration in the Cook Inlet are being considered, as well as means of bringing a jack-up rig for that exploration. The average daily rate of a jack-up rig at year-end 2004 was \$57,500. The cost of mobilization to Alaska waters is estimated to be between \$12 and \$20 million.

Area businesses are seeing the first of the summer tourists with initial reports indicating a strong visitor season.

Commercial fishers are set for a busy summer with projections of a strong return of sockeye salmon. Kenai Wild, the community based non-profit regional salmon brand, is set for a fourth year of operation with four processors and nearly 200 members. Markets are expanding throughout the United States and into the European Union.

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A nutraceuticals plant, Denali Biotechnologies, has established a presence in the KPB, an addition to the manufacturing sector. Their headquarters are located in the KPB but they purchase wild blueberries from native and private landowners, statewide.

SALES

Second quarter 2005 gross sales of \$521,606,851 were 12.3% more than the \$464,388,613 in sales occurring during 2004, a difference of \$57,218,238. Taxable sales increased 3.7% from \$207,034,918 during 2004 to \$214,690,222 during the most recent quarter, with six of ten sectors experiencing increasing sales. Retail sales provided 60.2% of taxable sales and produced both the greatest numerical and percentage increase, gaining \$6,908,668 and 5.6%. Quarterly sales data may be skewed in certain industries because businesses that consistently report less than \$6,000 in taxable sales annually may be allowed to report sales on an annual basis.

Quarterly Sales

Gross by Industry. Reported gross sales reached \$521,606,851 during second quarter 2005, a gain of 12.3% over the \$464,388,613 reported one year earlier. Transportation, Communications and Public Utilities (TCPU) sales increased 87.2%, from \$35,418,629 during second quarter 2004 to \$66,292,744 during the most recent quarter, a gain of \$30,874,115. Construction sales experienced 52.5% growth with sales of \$64,647,351, surpassing second quarter 2004 sales of \$42,383,490 by \$22,263,861. Agriculture, Forestry and Fishing (AFF) sales increased \$1,818,983 or 46.5% from \$3,911,032 to \$5,730,015. Manufacturing sales gained 27.6%, as sales grew from \$15,540,229 to \$19,822,789 for a \$4,282,560 gain. All other gains were single digit gains as Finance, Insurance and Real Estate (FIRE) sales of \$15,613,560 were up 8.4% from the \$14,399,905 in sales reported one year ago. Mining sales of \$33,964,675 were 5.8% greater than last year's \$32,098,347. Retail sales increased 5.8% or \$10,868,745, from \$187,716,055 during second quarter 2004 to \$198,584,800 during second quarter 2005.

Three industries experienced sales declines with sale of wholesale goods showing the greatest decline, 30.2% with sales of \$35,333,081, down from \$50,630,515 during second quarter of 2004. Sales in the service sector were down 0.8% from the \$82,281,890 in sales reported one year ago to \$81,609,334 second quarter this year. Government sales of \$8,502 are inconsequential, but were down 0.2%. (See page 15 for detail.)

Taxable by Industry. Taxable sales continued their seemingly constant trend upward, gaining 3.7% over a year ago, with total sales of \$214,690,222, a gain of \$7,655,304 for the quarter. Sales during second quarter 2004 reached \$207,034,918. Retail sales make up 60.2% of total taxable sales, and increased 5.6% over 2004 with sales of \$129,288,137. Last year, those sales totaled \$122,379,469. The \$6,908,668 retail sales gain accounted for just over 90% of the overall taxable sales gain. Construction sales were up 3.6% from \$2,922,202 to \$3,028,610. AFF sales increased 3.3% from \$1,674,503 to \$1,730,585. TCPU sales increased 2.5% from \$19,473,926 to \$19,955,815 while sale of wholesale goods totaled \$6,694,933, increasing 1.4% over second quarter 2004 when sales reached \$6,600,388. The second largest sector, services, saw sales increase 0.6% from \$44,443,654 to \$44,693,390.

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While overall taxable sales increased, four sectors did experience declining sales. Both manufacturing and FIRE saw sales decline 2.2% with sales of \$2,677,623 and \$5,585,453, respectively. The mining sector reported \$1,027,174 in taxable sales for the quarter, down 5.1% from second quarter 2004. Finally, the \$8,502 in government sales marked a 0.2% decrease. (See page 16 for detail.)

Gross by Area. With gross sales up 12.3%, five of six KPB reporting areas experienced gains to total \$521,606,851 in sales for the quarter. Both Kenai and Seward saw gross sales increase 33.6%. Kenai experienced strength in TCPU sales to bring total sales to \$99,203,608 while Seward sales reached \$57,117,577 as construction sales spiked. Homer followed with a 22.2% gain to reach \$84,293,052 with strength in TCPU sales as well. Seldovia sales increased 5.7% to \$2,084,625. Lastly, sales in the Other KPB region reached \$193,977,222, gaining 3.7%.

Soldotna, the only declining region, had sales of \$84,930,767, down 4.9% from the \$89,308,815 in gross sales during second quarter 2004. (See detail on page 17.)

Taxable by Area. As with gross sales, only one of the six regions experienced declines for the quarter as taxable sales across the KPB totaled \$214,690,222, a gain \$7,654,304 over second quarter 2004. All changes were single-digit gains or declines for a KPB gain of 3.7%. Seward sales increased 8.9% from \$22,997,045 to \$25,039,952. Soldotna's \$51,098,338 in sales marked a 4.3% increase over last year when sales reached \$49,010,429. Sales in the Other KPB region grew by 3.3% to total \$60,105,978, increasing from \$58,187,673. Kenai sales increased from \$36,252,658 to \$37,280,735, a 2.8% gain. Finally, Homer sales reached \$40,238,511, a 1.5% increase over 2004 second quarter sales of \$39,648,524.

Only Seldovia experienced a decline in taxable sales. Sales of \$926,708 were down 1.4% from the \$939,589 of one year ago. (See detail on page 18.)

Year-to-Date 6/30 Sales

Gross by Industry. Year-to-date June 30 sales of \$925,080,204 increased over those of one year ago when sales reached \$825,264,770. The 12.1% gain is equivalent to \$99,815,434 in sales. TCPU sales increased \$50,292,092 to reach \$124,677,770, a 67.6% gain. Construction sales increased \$35,921,857 or 50.6% to \$106,947,858. Retail sales grew \$15,231,957 to reach \$329,788,507 for a 4.8% gain. Sales in manufacturing were \$12,017,601 greater than one year ago, reaching \$53,664,855, a 28.9% increase. AFF sales totaled \$8,704,051, gaining \$2,452,093 or 39.2%. Service sales increased \$2,060,798, reaching \$127,422,071 for a 1.6% increase. Lastly, mining sales gained \$1,896,543 or 2.6% to total \$73,796,284. Inconsequential government sales of \$23,716 were up 6.9%.

Only two industry sectors experienced declining sales. Sale of wholesale goods declined 21.5% to \$72,567,868, down \$19,845,418. FIRE sales decreased 0.8% from \$27,700,815 to \$27,487,194, a drop of \$213,621. (See detail on page 19.)

Taxable by Industry. Five of ten industries report sales gains during the first six months of 2005 over those of 2004 with sales of \$358,965,287 with all changes in single-digit range. The large retail sector grew by \$9,565,939 in taxable sales, 4.7%, to total \$215,105,985. TCPU

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sector sales increased \$2,540,676 or 6.3%, reaching \$43,036,143. Services grew \$590,985 or 0.9% to \$64,286,395. The \$114,471 increase in AFF sales brought sales to \$2,678,251 for 4.5%. Lastly, government sales increased 7.2% to \$23,716.

The \$337,271 decrease in FIRE sales marked a 3.2% decrease, with sales dropping to \$10,263,709 for the first two quarters of the year. Manufacturing sales decreased \$227,465 or 5.4%, to \$4,022,366. Wholesale good sales were down \$174,331 or 1.4% to \$12,318,487. Construction and mining sales were down \$23,980 and \$15,168, respectively. Construction sales topped out at \$5,115,004 while mining sales totaled \$2,115,004. (See detail on page 20.)

Gross by Area. Year to date June 30 sales were marked by increases in four areas and declining sales in two, resulting in a 12.1% gain over all. Seward sales led the way, gaining 30.7% and reaching \$83,576,862. Kenai's gain followed closely, 29.1%, with sales of \$174,708,908. Homer also had double-digit gains for the first half of 2005 with sales increasing \$19,061,617 or 16.3%, reaching \$136,181,405. The Other KPB region saw sales increase \$30,136,992 or 8.7% to \$376,400,737.

Sales in Soldotna declined \$8,353,703 to \$150,866,600, a 5.2% drop. Seldovia sales, \$3,345,692, were down 0.9% or \$31,025 from one year ago. (See detail on page 21.)

Taxable by Area. As KPB taxable sales increased 3.5% overall, Seward taxable sales gained 8.1% over a year ago with sales of \$35,131,352, compared to \$32,491,809 a year ago. Soldotna sales, \$89,832,191, were 4.0% greater than the \$86,393,757 in sales reported last year. Other KPB sales also increased 4.0%, moving upwards from \$97,268,860 to \$101,153,762. Homer sales gained 1.7% to \$64,574,690 from \$63,473,444 a year ago. Finally, Kenai sales increased 1.5% to \$66,774,067 from \$67,798,649 a year ago.

Only Seldovia experienced declining sales as taxable sales for the first six months of the year dropped 0.5% to \$1,499,225. (See detail on page 22.)

Annual Sales

KPB 2004 annual gross sales of \$2,222,411,066 were 15.7% above those of 2003 as seven sectors had improved sales while three sectors had declining sales, most with double-digit change. All reporting areas had increased sales for the year.

Taxable sales increased 6.5% from 2003 to 2004 with sales of \$780,203,973 as seven sectors reported increased sales while three had declining sales. Each of the six reporting areas had increased taxable sales for the year.

Gross by Industry. KPB annual gross sales increased 15.7% during 2004 over 2003 sales, with all reported sales reaching \$2,222,411,066, the first year to pass the \$2 billion mark. The largest percentage gain came in wholesale goods with an 88.8% increase and \$366,603,918 in sales. The mining sector also had a large gain, 55.2% with sales totaling \$165,354,111. AFF sales of \$27,631,235 were 25.5% greater than those of 2003 while TCPU sales increased 14.3% to \$181,051,679. Service sales increased 11.1% and FIRE sales increased 10.8% with reported sales of \$309,254,338 and \$64,300,864, respectively. Lastly, the large retail sector gained 8.6%.

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While retail sales had the smallest percentage increase, the sales increased \$55,284,039 to \$699,981,425.

Three sectors had decreasing sales for the year. Manufacturing sales declined 14.4% from 2003 with sales dropping to \$170,708,461 and construction sales dropped to \$237,489,930, down 8.1%. The inconsequential \$35,105 in government sales marked a 16.4% decrease. (See detail on page 23.)

Taxable by Industry. KPB taxable sales increased 6.5% during 2004 to total \$780,203,973. Retail sales, first in size and in numerical increase, increased by \$32,489,307 or 7.6%, reaching \$461,757,359. The service industry, second in size and second in increase, gained \$10,155,800 or 7.0% to total \$154,901,038. Also increasing sales by millions, sale of wholesale goods increased \$2,008,455 or 8.3% to reach \$26,290,768 and TCPU sales increased to \$82,707,524 a gain of \$1,334,014 or 1.6%. Manufacturing and mining gained \$620,460 and \$617,038 in sales, respectively. Manufacturing sales increased 6.7% to reach \$9,859,946 and mining sales gained 12.6% totaling \$5,502,300. AFF sales rose 10.3% or \$514,282 to reach \$5,525,243.

Construction sales declined 0.1% to \$11,272,667, down \$10,685 while FIRE sales decreased 1.8% to \$22,352,088, a sales drop of \$399,741. Government's 16.5% sales decline is inconsequential at \$35,040. (See detail on page 24.)

Gross by Area. As KPB 2004 sales grew by 15.7%, all sub areas also reported increased sales. Kenai gross sales expanded 65.6%, reaching \$469,314,722 for the year, due to strength in the TCPU sector. Seldovia, with \$8,325,201 in sales, marked a 14.7% gain. Sales in the Other KPB region increased 8.5% to \$933,679,762 while Soldotna sales increased 6.9% to reach \$361,195,645. Seward and Homer sales increased 5.9% and 3.5% respectively. Seward sales totaled \$166,213,217 and Homer sales reached \$283,682,519 for the year. (See detail on page 25.)

Taxable by Area. As with gross sales, 2004 taxable sales rose in all areas of the KPB, increasing 6.5% to total \$780,203,973. Kenai, the only double-digit gainer, increased 14.3% to \$138,630,979. Homer taxable sales increased 6.3% to \$140,002,852 while Soldotna sales gained 5.0% to total \$200,052,811. Seward sales of \$79,945,206 marked a 4.7% increase while Seldovia sales increased 0.1% with \$3,381,682 in reported sales. (See detail on page 26.)

CONSTRUCTION PERMITTING

Because the KPB does not require building permits, activity portrayed in this section does not show all activity. Building projects permitted within the five cities that do require permits are shown. In addition, construction projects other than buildings are also not listed. Cases in point would be road construction projects, or other public works projects, and signage permitting which is not detailed in this section.

Second quarter 2005 values and volume of permitting activity each exceeded 2004 levels and set new record highs with 146 permits being issued with a total assessed value of \$21,737,075.

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By Area, Value. KPB permits values during the first half of 2005 had a total assessed value of \$21,767,075. Homer permitting provided 51.6% of quarterly value, issuing permits totaling \$11,242,000. Soldotna's total permit value of \$6,832,235 provided 31.4% of the borough-wide total. Kenai issued \$2,557,300 in permit value while Seward issued \$669,540, adding 11.7% and 3.1% of the total, respectively. Seldovia issued building permits with a total assessed value of \$466,000. With the exception of Seward, all areas had greater permitted values during second quarter 2005 than during second quarter 2004. (See detail on page 31.)

By Area, Volume. There were 146 permits issued in the KPB as of June 30, 2005, forty more than the 106 permitted to date during 2004. Homer issued 46 permits, twenty more than one year ago, and 31.5% of KPB's second quarter total. Soldotna issued 40 permits, fourteen more than one year ago and 27.4% of the total. Kenai increased permitting from 30 to 33 for the quarter, 22.6% of the total while Seward was stable at 21 permits. Lastly, Seldovia doubled activity issuing 6 permits with 4.1% of Borough activity. (See detail on page 32.)

By Type, Value. New commercial permit values provided 53.7% of value with \$11,692,848 in assessed value permitting during second quarter 2005. New residential permits added 34.7% of the total value with \$7,560,499 in value. Commercial alteration/addition permit values of \$1,679,958 provided 7.7% of the total while residential alteration permits issued during the quarter had a total value of \$833,770. (See detail on page 33.)

By Type, Volume. Of the 146 permits issued during the quarter, 49 were issued for construction of new homes and 23 were issued for new commercial structures. An additional 22 permits were issued for commercial alterations and 52 for residential alteration. (See detail on page 34.)

Year-to-Date Permitting

Year-to-date June 30 permit values dropped 24.8% from 2004 levels but produced the third highest permitted value on record, \$28,242,330 down from the second quarter 2004 level of \$37,531,727. The record setting year occurred during 1995 when the Seward SeaLife Center was permitted. Permit volume of 204 sets a new high and is 31 permits greater than the previous high of 173 permits issued YTD 2002.

By Area, Value. Homer issued \$14,347,900 for 50.8% of the total KPB value for the first half of 2005. Soldotna followed with \$8,253,790 and 29.2% of the total. Kenai, issuing 10.6% of the value, permitted \$2,982,800 in construction projects, while Seward issued permits with assessed values totaling \$2,176,840 for 7.7%. Seldovia has issued permits totaling \$481,000 in assessed value. (See detail on page 35.)

By Area, Volume. All areas increased year-to-date permitting from 2004 to 2005 as total permitting increased from 143 to 204 permits, a 42.7% increase. Homer's 64 permits surpassed the 42 permits issued during the first six months of 2004 by 52.4% and provided 31.4% of Borough permit activity. Soldotna issued 56 permits, 60.0% greater than the 35 issued a year

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ago. The 43 permits issued in Kenai improved 26.5% over the 34 issued for the same period during 2004. Seward issued 34 permits, increasing from 28 and Seldovia issued seven permits, up from the four issued 2004 YTD. (See detail on page 36.)

By Type, Value. Assessed permit values decreased 24.8% from \$37,531,727 to \$28,242,330 as new commercial structure values decreased 49.2% from \$24,027,841 to \$12,201,848. This is reasonable due to three major projects that were permitted last year in Soldotna alone. Each of the other three categories improved in value. New residential total value was strong with permits totaling \$11,030,855, 12.2% greater than the \$9,831,284 issued during 2004. Commercial alteration added \$3,756,927 and residential alteration another \$1,252,700 to the total. (See detail on page 37.)

By Type, Volume. Of the 204 permits issued during the first two quarters of 2005, 65.6% were for residential projects. Sixty-seven permits each were issued for new homes and for residential alterations or additions. Commercial alterations added 41 permits and new commercial permits provided the other 29. (See detail on page 38.)

Annual Construction - Year 2004

Construction permits are required by KPB cities, but not by the KPB, resulting in incomplete construction activity data. Permit values during 2004 totaled \$84,041,457, a 92.7% increase over 2003 and the highest total value on record. There were 312 permits issued during 2004, 7.1% fewer than the 336 issued during 2003, but third highest on record.

By Area, Value. Soldotna's \$37,296,926 in construction permit assessed values provided 44.4% of KPB 2004 annual value; a 369.0% increase over 2003 permit values. Homer's \$24,070,631 total value added 28.6% to the KPB total, marking a 57.0% increase over 2003. Seward permit values increased 121.9% for the year to \$17,711,150, providing 21.1% of the annual total. Kenai permit values dropped 54.2% to \$4,786,550, providing 5.7% of the KPB total. Seldovia's \$176,200 value provided the remaining 0.2%. (See detail on page 39.)

By Area, Volume. During 2004 Homer issued 108 of the 312 permits, providing 34.6% of the KPB total. Kenai issued 79 permits while Soldotna issued 67 permits, 25.3% and 21.5%, respectively. Seward issued 54 permits, 17.3% of the total while Seldovia's 4 permits added 1.3% of the volume. Homer and Seward increased permit volume over 2003 with Homer issuing 25.6% more permits than one year ago and Seward's count increased by 8.0%.

On the other side, areas with declining permit activity include Kenai, down 30.7%, Soldotna was down 9.5% and Seldovia issued 66.7% less than one year ago. Total Borough permitting was down 7.1% from the 2003 level. (See detail on page 40.)

By Type, Value. Total permit values for 2004 were 92.7% greater than those of 2003. The value of those permits was \$84,041,457. New projects provided 85.7% of permit activity with commercial and residential permits providing 66.7% and 19.0% of the total, respectively. New commercial values of \$56,079,343 led the way with new residential permit values totaling \$15,935,344. Commercial alteration/addition permit values totaled \$9,146,486 or 10.9% of the total. Finally, residential alteration/addition permits added \$2,880,284 for 3.4% of the KPB

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total. New commercial permit values were 254.5% above 2003 while residential alteration/addition values were up 26.3%. New residential values increased 1.3% but commercial alteration/addition total value was down 6.4%. (See detail on page 41.)

By Type, Volume. Commercial alteration/addition annual activity for 2003 decreased 7.1% to 312 permits from 336 during 2003. New residential activity shows 94 permits were issued down from 104 permits each of the last two years. Ninety-six residential alteration/addition permits were issued, 2.1% more than during 2003. New commercial activity was stable at 42 permits while commercial alteration/addition activity dropped from 96 to 80 permits. (See detail on page 42.)

EMPLOYMENT

Employment data has been revised and a change in the way labor force statistics are calculated for boroughs and census areas make data prior to 2000 not comparable with data from 2000 forward.

KPB's labor force continues to increase, with seasonal peaks during the busy summer months. The reported 27,751 workers during June 2005 marks an all time high, even as population statistics indicate a decline in population. This is 634 persons greater than June one year ago. The May labor force of 25,830 was 528 workers more than one year ago. Available workers during April numbered 24,749, this was 619 greater than April of 2004. The labor force during February and March was 220 and 165 greater than last year, respectively. Lastly, the January 2005 labor force was 23,873, one person less than a year ago.

There were 1,983 persons were listed as unemployed in the KPB during June 2005, down 436 persons from June 2004. May unemployment was reported at 1,891, that is 381 less than during 2004. April data indicated 2,227 persons were unemployed, 281 less than April 2004. All three months were near record lows.

KPB's 2005 unemployment rates have trended downward, beginning at 11.3% during January, moving step by step, month by month to 11.4%, 10.0%, 9.0%, 7.3% and finally to 7.1% during June. The June 2005 rate is nearly two percentage points below the June 2004 rate of 8.9%.

As unemployment decreased, employment increased month-by-month. Employment during January 2005 was reported at 21,183 persons. Each month moved higher with February at 21,457, to 21,864, 22,522, 23,939 and on up to 25,768 during June. There were 1,070 more persons working during June 2005 than during June 2004. (See detail on pages 47-51.)

POPULATION

Population estimates for 2004 show the Kenai Peninsula population at 50,980 persons, a 0.8% decrease for the year. Each of the incorporated cities also marked decreases. Homer dropped 9.1% to 5,332 while Kachemak City lost 0.6% to a total of 475 persons. Kenai also decreased, losing 4.4% to 6,809 residents. Seldovia decreased 5.7% to 263 and Seward lost 7.5%, down to 2,540 persons. Soldotna's population is down 5.6% to 3,767. Alaska's population, estimated at 655,435 for 2004, marked a 1.1% increase for the year. (See page 54 for detail.)