

# Executive Summary

Third quarter gross sales total \$712,923,275, topping \$700,000,000 for the first time ever and gaining 3.1% over 2004 third quarter. Taxable sales improved as well, gaining 3.8% to total \$279,414,727. Permitted construction project values declined 67.7% to \$12,117,491, but following the remarkable values of 2004, this was not surprising. Volume of permitting also declined from 116 permits to 95 permits. Labor force totals continue to increase, as do employment totals, resulting in continued declining unemployment rates. September's 2005 rate was 7.2%, compared to 7.9% during September 2004.

Highlights in the Oil & Gas industry include Agrium's announcement that it would not be closing its plant for at least another year because it has located a source of gas supplies to remain operative another year. Pioneer has acquired up to 50 percent of ConocoPhillip's Cosmopolitan unit offshore in lower Cook Inlet. Forest Oil announced in August their intention to drill five onshore wells as rigs become available.

During September, an agreement was submitted to the Regulatory Commission of Alaska for approval to use CIGGS, the privately owned Cook Inlet Gas Gathering System. The agreement between Marathon Oil, Unocal Corp., Agrium, Cook Inlet gas producers, Enstar Natural Gas Co. and the State of Alaska opens the system to users other than the owners, Marathon and Unocal. The main issue relates to the Alaska Right-of-Way Leasing Act requiring that pipelines crossing state lands or waters be regulated as common carrier lines. The proposed agreement would provide shipping access to both Agrium and Aurora, who in turn will make prepayments to cover costs associated with installation of meters and control instrumentation for the additional infrastructure.

Initial reports indicate commercial fisherman experienced a satisfactory harvest, as both fish count and price per pound were better than last year. Specific details are not yet available. Preliminary tourism data is also positive.

## SALES

Reported gross sales within the KPB reached \$712,923,275, an increase of 3.1% over one year ago, and an increase of \$21,599,548 in sales. Of the ten active industries in the KPB, four experienced double-digit gains, five had single-digit gains, and only one reported a decline.

Taxable sales gained 3.8% reaching \$279,414,727, as six industry sectors reported gains and four experienced declining sales. Taxable sales were \$10,337,376 greater than third quarter 2004.

## **Quarterly Sales**

**Gross by Industry.** Retail sales increased 4.5% in this large sector, from \$224,495,400 during third quarter 2004 to \$234,519,707 during the most recent quarter, a gain of \$10,024,307. Construction sales gained 11.6% or \$7,754,613, to reach \$74,807,797. Mining sales totaled \$45,642,802, gaining \$6,642,045 or 17.0% over third quarter 2004. The 2.5% gain in the service sector resulted in sales of \$122,989,270, an increase of \$2,976,089. Manufacturing reported a \$2,781,990 sales increase, 2.9%, with sales of \$99,989,169 for the quarter. Agriculture, forestry and fishing (AFF) sales increased by \$2,517,345 to total \$18,212,362, a 16.0% gain. Sales in finance, insurance and real estate (FIRE) grew by \$1,332,890 or 7.8% to total \$18,384,551. Sales in the transportation, communication and public utilities (TCPU) sector reached \$55,571,034, gaining 0.2% or \$138,574 over the \$55,432,460 reported sales of third quarter 2004. Lastly, government sales experienced the largest percentage gain, 29.6%, although the smallest monetary increase, reaching \$2,723, insignificant in the KPB total of \$712,923,275 sales.

The only sector with declining sales was wholesale goods where total sales dropped \$12,571,028 to \$42,794,676, a 22.7% decline. (See page 15 for detail.)

**Taxable by Industry.** The standard continues to rise as third quarter taxable sales increased 3.8% to reach \$279,414,727, a gain of \$10,337,376 over third quarter 2004. Six of ten industry sectors marked increased sales during third quarter 2005. Retail sales make up 57.7% of total taxable sales, and gained 5.1% over 2004 with sales reaching \$161,144,513. Last year, those sales totaled \$153,382,551. Service sales increased \$1,890,165 from \$69,142,137 to \$71,032,302, a gain of 2.7%. Tourism activity provides over twenty percent of taxable service sales. TCPU sales increased \$1,651,784 to reach \$22,873,141, a 7.8% gain for the quarter. AFF sales increased 10.6% or \$209,702, to total \$2,189,268. Finally, sales in the FIRE sector increased 0.7% or \$49,146 to a total of \$6,717,372. The sales by government entities totaled \$11,907, a gain of 29.6% but inconsequential in the total picture.

Four sectors experienced declining sales for the quarter. Reported mining sales dropped \$826,726 to \$1,081,489, a 43.3% decrease. Construction sales dropped 5.8% from \$3,278,174 to \$3,089,078. Sales in the wholesale sector were down 1.5% from \$7,644,161 to \$7,525,987. Lastly, the \$3,749,670 in the manufacturing sector sales marked a 2.4% decrease. (See page 16 for detail.)

**Gross by Area.** Gross sales increased 3.1% with all areas except the Other KPB area reporting gains, to total \$712,923,275. Seldovia had the greatest percentage gain, 23.5%, as sales increased \$424,707 to \$2,233,774, due in part to strong retail sales. Kenai sales increased 13.7% to \$111,294,018 with strength in the construction sector. Homer gained 6.2% with sales totaling \$99,774,615, also with strength in the construction sector. With sales of \$113,083,093, Soldotna sales increased 5.5% with a \$4 million increase in retail sales. Seward sales increased 3.9% to \$66,446,710.

Sales in Other KPB were down 2.0% to \$320,091,065. (See detail on page 17.)

**Taxable by Area.** All six areas of the KPB reported increased quarterly sales, resulting in a 3.8% gain. Kenai sales increased 6.5% to \$42,640,243 with strength in construction and manufacturing. Soldotna's \$69,580,021 in sales marked a 5.1% increase over last year when sales reached \$66,177,951. Seward sales reached \$38,375,511, a 3.5% increase over 2004 sales of \$37,077,424. Homer sales grew by 1.7% from \$49,027,379 to \$49,872,039. Lastly, Seldovia's \$1,199,541 in taxable sales marked a 1.5% increase over 2004 when sales reached \$1,182,138. (See Page 18 for detail.)

## **Year-to-Date Sales**

Year-to-date gross sales gained 10.7% over 2004 while taxable sales were up 4.5%.

**Gross by Industry.** KPB year-to-date September 30 sales of \$1,693,742,030 were 10.7% greater than one year ago when sales reached \$1,529,501,413. The gain is equivalent to \$164,240,617 in sales. Manufacturing sales had the greatest monetary growth, up \$53,406,415 to \$192,260,878, a 38.5% increase with strength in various areas of the sector that includes fish processing and oil & gas value-added manufacturing. Construction sales increased \$48,933,525 to reach \$186,900,985, a 35.5% gain. TCPU sales of \$182,545,476 were \$39,854,769 above 2004, a 27.9% increase. Retail sales increased 5.0% or \$26,863,299 to total \$565,833,444. Mining sales increased \$10,160,344 or 9.2% to reach \$121,060,842. Service sales of \$254,829,851 were \$9,436,050 ahead of 2004, marking a 3.8% increase. AFF sales followed with a 22.7% gain for \$26,928,513 in sales, \$4,981,538 above 2004. Finally, FIRE sales grew by \$1,936,107 or 4.3% to \$46,903,113. The \$4,255 increase in government sales to \$35,623 is inconsequential.

The only sector with decreasing sales was wholesale, declining from \$147,778,990 to \$116,443,305, down 21.2%. (See detail on page 19.)

**Taxable by Industry.** Five of ten industries report increased sales during the first nine months of 2005 over those of 2004 with year-to-date taxable sales of \$643,804,637. Sales in the large retail sector increased \$18,634,824 or 5.2% from \$358,841,292 to \$377,476,116 during the same period 2005. TCPU sales increased \$6,216,939 to total \$67,933,763. Services gained \$4,277,183 growing from \$132,838,047 to \$137,115,230. AFF sales increased by \$330,855 to \$4,874,201. Lastly, government sales of \$35,623 were up by \$4,320.

Five sectors had declining sales. While sector gains were in the millions of dollars, declines were all less than one million. Mining sales dropped \$838,994 to \$3,199,393. Sales in the wholesale sector declined to \$19,847,684, down \$289,295. Manufacturing sales of \$7,817,044 were \$276,567 less than year-to-date 2004. Sales in the FIRE sector

reached \$17,230,305, down \$153,290. Lastly, construction sales decreased \$130,023 to \$8,275,278. (See detail on page 20.)

**Gross by Area.** Year-to-date gross sales grew by 10.7% as all reporting areas increased sales over 2004. Kenai sales increased 20.5% to \$288,274,479 with strength in construction, TCPU and retail sales. Seward sales increased to \$151,328,540, an 18.4% gain with strong growth in various sectors but notably in construction. Homer sales grew by 9.2% to reach \$237,823,817 with strength in retail and construction sales. Seldovia's 8.3% increase brought total year-to-date sales to \$5,615,390. Soldotna sales gained 0.1%, reaching \$266,654,393 with strength in retail sales. Sales in the Other KPB area gained 10.6% to total \$744,045,411. (See detail on page 21.)

**Taxable by Area.** KPB taxable sales increased 4.5% overall to \$643,804,637 as all areas experienced gains. Seward had the greatest percentage increase, 6.1%, with sales of \$73,796,694 for the first three quarters of 2005. Soldotna sales grew 5.2% to \$160,455,467, followed closely by Other KPB sales, which gained 5.1% to total \$181,630,361. Kenai sales gained 3.5% reaching \$109,555,176, while Homer sales, \$115,662,725, were 2.8% greater than sales reported last year at this time. Seldovia taxable sales increased 0.6% to \$2,704,214. (See detail on page 22.)

## **Annual Sales**

KPB 2004 annual gross sales increased 16.4% over 2003, reaching \$2,236,865,510, the first time KPB annual sales topped the \$2 billion dollar mark. Seven sectors had improved sales while three experienced declining sales. Each of the six areas experienced increased gross sales.

Taxable sales increased 6.5% from 2003 to 2004 with sales reaching \$780,295,688, following a 1.2% increase one year ago and a 2.6% gain from 2001 to 2002. All reporting areas increased taxable sales from 2003 to 2004.

**Gross by Industry.** Gross sales during 2004 increased \$315,733,937 over those of 2003. The 16.4% increase brought total reported gross sales to \$2,236,865,510. The wholesale sector increased \$172,390,996, or 88.8%, to sales of \$366,603,918. Mining sector sales of \$165,354,111 were \$58,792,372 greater than during 2003, a 55.2% increase. Increasing by \$55,200,204, the retail sector increased sales by 8.6% with a total of \$699,837,432. The \$35,552,082 increase in TCPU sales marked a 22.4% gain to \$193,924,248. Service sales increased 11.3%, or \$31,486,970, to \$310,768,193. Lastly, AFF sales increased \$5,621,925 or 25.5% to reach \$27,631,235.

Three sectors marked sales declines during 2004. The decline in government sales, 16.4%, is inconsequential with total sales of \$35,105. The 8.1% decline in construction sales caused total sales to drop from \$258,251,958 to \$237,336,814 during 2004, in spite of tremendous construction permitting. Sales follow permitting. The 8.1% decline is equal to \$20,915,144 in sales. Manufacturing also saw decreasing sales, down

\$28,733,878, or 14.4% with sales totaling \$170,708,461 during 2004. (See detail on page 23.)

**Taxable by Industry.** Taxable sales increased 6.5% during 2004 over 2003 with seven of ten industries marking gains. Mining had the largest percentage increase, 12.6%, as sales reached \$5,502,300. AFF sales rose 10.3% to \$5,525,243 while sale of wholesale goods increased 8.3% to \$26,290,768. Sales in the large retail sector increased 7.6%, equivalent to \$32,423,092, to total \$461,629,346. Taxable manufacturing sales increased to \$9,859,946, a 6.7% gain. Services, the second largest sector, had sales of \$154,952,698, a 7.0% gain or \$10,140,348 more in sales than the previous year. The 1.6% increase in TCPU sales reflects a \$1,334,014 increase in sales, to \$82,707,524.

Taxable sales in the FIRE sector decreased 1.5% or \$340,991, to \$22,549,786. Sales in the construction sector were down 0.1% to \$11,243,037. The 16.4% decline in government sales is inconsequential with sales of \$35,040. (See detail on page 24.)

**Gross by Area.** As KPB sales grew by 16.4%, each of the reporting areas also experienced increased sales. With the largest percentage gain, Kenai sales rose 67.8% over 2003 to total \$475,463,260. The \$192,048,598 increase was largely a factor of increased wholesale and retail sales but growth was strong in every sector with the exception of manufacturing. Seldovia gross sales grew by 14.7%, reaching \$8,329,831 for the year. The Other KPB area sales increased 8.5% to \$935,151,337 while Soldotna, with \$361,243,013 in sales, marked a 6.9% gain. Homer's 6.0% sale increase resulted from total sales of \$290,454,399 as the TCPU, wholesale and FIRE sectors all reported double-digit expansion. Seward sales rose 5.9% to reach \$166,223,670 as both the retail and service sectors showed significant gains. (See detail on page 25.)

**Taxable by Area.** As total KPB taxable sales increased 6.5% for the year, all areas also experienced increased sales. Kenai's 14.3% gain was impacted by retail sales growth due in part to Home Depot's first full year of operation as Kenai sales topped out at \$138,672,979. Homer sales increased 6.3% to \$139,999,037 while Soldotna sales gained 4.9% to total \$200,044,811. Seward sales of \$79,955,659 marked a 4.7% increase while Other KPB sales increased 4.1% with \$218,236,890 in reported sales. Sales in Seldovia increased 0.3% to \$3,386,312. (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 \$11,117,491. This 67.7% decrease is due to strong permitting activity during 2004, a drop is not unexpected. Seward's permit values dropped 71.2% to \$653,661; Homer's permitting value, \$4,312,500, was down 54.8%, and Soldotna values were down 87.0%.

Seldovia permitted projects with a value of \$30,500, after a year with no activity. Kenai also increased permitting values with projects totaling \$4,035,100, a 102.6% increase.

**By Type, Value.** New residential permit values provided 40.1% of value with \$4,853,170 in assessed value permitting during third quarter 2005. New commercial permits added 40.0% of the total with \$4,841,400. Commercial alteration/addition permit values of \$1,627,150 provided 13.4% of the total while residential alteration permits issued during the quarter had a total value of \$795,771 or 6.6%. (See detail on page 32.)

**By Area, Volume.** Kenai issued 33 permits, two more than one year ago. Homer issued 27 permits, fifteen fewer than 3<sup>rd</sup> quarter 2004. Soldotna issued 20 permits, down from the 24 that were issued one year ago. Seward issued 13 permits, six less than third quarter 2004 when 19 were issued. The remote community of Seldovia issued two construction permits. (See detail on page 33.)

**By Type, Volume.** Of the 93 third quarter permits, 35 were issued for residential alteration or additions. New residential projects added 32 with 22 permits issued for commercial alterations. Six permits were issued for new commercial projects. (See detail on page 34.)

## **Year-to-Date Permitting**

Year-to-date September 30 permit values reached to \$40,359,821, down from the strong showing of 2004 when several large projects were permitted and a new record high was set. Although the values were less, the volume increased to 300 from last year's 259. The record high volume was set during 2002 when 302 permits were issued YTD September 30.

**By Area, Value.** Although the permit value drop seems large, the 2005 YTD total is fourth highest on record, barely less than the third highest, but significantly behind the 1995 total when the SeaLife Center was permitted and 2004 when the Central Peninsula General Hospital addition was approved, as well as the Fred Meyer expansion, and several other large projects. Homer, issuing 46.2% of the value, has permitted \$18,660,400 in construction projects YTD. Soldotna reported \$11,339,520 in permit value, 28.1% of the KPB total. Kenai's total reached \$7,017,900 and 17.4% of the total, while Seward issued \$2,830,501 for 7.0%. Seldovia issued permits totaling \$511,500 in assessed value, year to date. (See detail on page 35.)

**By Type, Value.** New residential total permit value was strong with a total of \$15,884,025 being permitted, 39.4% of the KPB total. The total value of new residential permits issued during the first nine months of 2005 was greater than all prior full year's permitting except for one, 2004. Even then, the annual value was only \$51,319 less than this year's first three quarters.

New commercial permitting has provided 42.2% of total value YTD, \$17,043,248. Commercial alteration permits added \$5,384,077 and residential alteration another \$2,048,471 to the total. (See detail on page 36.)

**By Area, Volume.** There were 300 permits issued within the KPB cities, as of September 30. Homer issued 92 permits, 30.7% of the total. Kenai and Soldotna each issued 76 permits or 25.3%. Seward issued 47 for 15.7% and Seldovia has issued nine permits YTD. (See detail on page 37.)

**By Type, Volume.** Of the 300 permits issued during the first three quarters of 2005, 34.0% or 102 were for residential alterations or additions. Ninety-nine permits were for new homes. Commercial alterations added 63 permits and new commercial permits provided the final 36. (See detail on page 38.)

## **Annual Construction**

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 annual 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 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 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 40.)

**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 down side, areas with declining permit activity include Kenai, down 30.7%, Soldotna 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 41.)

**By Type, Volume.** Commercial alteration/addition annual activity for 2004 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**

Once again, the labor market increased, but employment increased to a greater extent, with the resultant decrease in unemployment. During July, August and September 2005, the labor force was larger by 333 persons, 210 persons, and 419 persons in relation to the same month during 2004.

During those same three months, the number of unemployed persons decreased 293, 251 and 139 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 626 more persons working during July 2005 than July 2004. August and September saw similar growth, with 461 and 558 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 7.4% during 2004 to 6.2% during 2005. The August rate dropped from 7.4% to 6.4% and the September rate from 7.9% to 7.2% over the same period. Since 1993 the average September unemployment rate has been 8.8%, significantly above the 2005 rate, 7.2%. (See detail on pages 43-46)

## **POPULATION**

Population estimates for 2004 show the KPB 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 47 for detail.)