CITY OF HOMER ECONOMIC DEVELOPMENT COMMISSION
491 E. PIONEER AVENUE
HOMER, ALASKA

JANUARY 12, 2010
TUESDAY AT 6 P.M.
COWLES COUNCIL CHAMBERS

NOTICE OF MEETING
REGULAR AGENDA

1. **CALL TO ORDER/ROLL CALL**
2. **APPROVAL OF THE AGENDA**
3. **PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**
4. **RECONSIDERATION**
5. **APPROVAL OF MINUTES** of December 8, 2009 — p. 1
6. **VISITORS**
   Dr. Allan Gee, Homer High School Principal
   Lolita Brache, South Peninsula Coalition for Young Children — p. 11
7. **STAFF, COUNCIL, and CHAMBER EDC REPORT**
8. **PUBLIC HEARING**
9. **PENDING BUSINESS**
   A. CEDS development and other activities - Carol Bevis — p. 13
10. **NEW BUSINESS**
    A. Sitka Economic Development Association information — p. 23
       Teleconference with Garry White, SEDA Executive Director
    B. Alaska Film Group information — p. 37
    C. Small business incentives
    D. Economic impact of local zoning ordinances
    E. City service provision vs. declining population/tax base — p. ---
11. **INFORMATIONAL MATERIALS** (for discussion only)
    A. Bradner's Alaska Economic Reports — p. 39
    B. Items of possible interest from recent City Council meeting packets — p. 63
12. **COMMENTS OF THE AUDIENCE**
13. **COMMENTS OF THE CITY STAFF**
14. **COMMENTS OF THE COUNCIL MEMBER**
15. **COMMENTS OF THE CHAIR**
16. **COMMENTS OF THE COMMISSION MEMBERS**
17. **ADJOURNMENT/NEXT MEETING DAY AND TIME**

Next regular meeting is scheduled for February 9, 2010 at 6 p.m. in the Homer City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

ECONOMIC DEVELOPMENT ADVISORY COMMISSION UNAPPROVED
REGULAR MEETING
DECEMBER 8, 2009

Session 09-09, a Regular Meeting of the Economic Development Advisory Commission was called to order at 6:00 p.m. by Chair Erickson on December 8, 2009 at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: COMMISSIONER DAY, ERICKSON, FAULKNER, HOPPE, NEECE, RAVIN

COUNCILMEMBER: WYTHE

STAFF: SPECIAL PROJECTS COORDINATOR HOLEN
VISTA REPRESENTATIVE BEVIS
DEPUTY CITY CLERK JACOBSEN

APPROVAL OF THE AGENDA

RAVIN MOVED TO APPROVE THE AGENDA.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA

There were no public comments.

RECONSIDERATION

There were no items for reconsideration.

APPROVAL OF MINUTES

A. Meeting Minutes of November 10, 2009

RAVEN/FAULKNER MOVED TO APPROVE THE MINUTES AS WRITTEN.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

VISITORS

There were no visitors scheduled.

STAFF AND COUNCIL REPORT

There was no staff or council report.

PUBLIC HEARING

There were no items for public hearing.

PENDING BUSINESS

A. Lease Policies

Chair Erickson gave a brief overview of the process for the lease policy amendments.

RAVIN/NEECE MOVED TO BRING LEASE POLICIES TO THE FLOOR.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson read a letter she prepared that recapped the goal of the proposed amendments to the lease policies.

The Commission reviewed the amendments.

Packet Page 9 Councilmember Wythe questioned giving the Lease Committee the authority to delegate responsibility in the amendment to 1.2B. She suggested that the Council would delegate to the Committee. If it needs to go further than the Lease Committee, Council would need to delegate that if they don't want the City Manager to. There was discussion that the intent of the amendment is to have a non biased party, like a lease company be able to do the negotiations between the City and businesses because there has been a lot friction throughout the years.

FAULKNER/RAVIN MOVED TO AMEND 1.2B TO READ "WITH THE APPROVAL OF THE CITY COUNCIL, THE LEASE COMMITTEE MAY DELEGATE THE RESPONSIBILITY FOR NEGOTIATING AND ADMINISTRATING LEASES."

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was discussion regarding amendments on page 10 and the make up of the Committee and revising it so that it is more diverse than the current make up.

RAVIN/FAULKNER MOVED TO APPROVE THE AMENDMENTS ON PAGE 10.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

RAVIN/FAULKNER MOVED TO APPROVE PAGE 11.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson commented that the amendments on page 13 are to make it more industry specific.

RAVIN/FAULKNER MOVED TO APPROVE PAGE 13.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was discussion explaining that the formula is an attempt at a consistent, fair and equitable measurement of the lease rates.

RAVIN/FAULKNER MOVED TO APPROVE PAGES 15 AND 16.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was discussion regarding striking the reconsideration information. Councilmember Wythe questioned that in the absence of it being finalized and approved by council, what is there to reconsider. There was discussion of the process and how something can't be reconsidered until final action has been taken. Councilmember Wythe suggested that they leave the sentence in on page 17.

FAULKNER/RAVIN MOVED THAT WE ACCEPT THIS PAGE AS WE HAVE IT AMENDED.

It was clarified that this includes the strike out.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson summarized the amendments on page 20.

RAVIN/FAULKNER MOVED TO APPROVE PAGE 20.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson summarized the amendments to page 21 and 22 and the feed back from the bank regarding banking issues.

There was discussion that the strike out on section 11.2 C and the reference to options.

RAVIN/NEECE MOVED TO AMEND TO 11.2C TO READ **LEASES MAY CONTAIN OPTIONS FOR RENEWAL.** THE EXERCISE OF ANY OPTION **FOR RENEWAL** SHALL BE DEPENDENT...

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was discussion regarding the addition of 11.3 and for clarification "F" should be included so it references Chapter 11.2 F 1-7.

RAVIN/NEECE SO MOVED TO ADD F.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Regarding the removing chapter 12 on page 23, Chair Erickson explained that the information is covered on page 16 in chapter 7.

RAVIN/FAULKNER MOVED TO DELETE.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson briefly noted chapter 13.

RAVIN/FAULKNER MOVED TO APPROVE CHAPTER 13 IN ITS ENTIRETY.

Comment was made that right now there is a lot of bootleg sub leasing going on, because you can't sublease.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson noted the amendments in chapter 18. There was discussion regarding dealing with environmental inspection. It may not be necessary every time but there may be circumstances where you want it to happen.

Councilmember Wythe suggested adding "In circumstances where environmental impact may be a concern upon vacation of the property the city will provide an environmental review prior to the lease taking place, then the lessee will be responsible for the follow up on termination of the lease." She commented that it would be irresponsible of the Council to waive the possibility that someone created the contamination, and then put the expense of remediation on the community. If they can assure the degree of exposure prior to leasing a property then the lessee would be responsible if more exposure is created.

Point was raised regarding the necessity of standardization of who is doing the testing and that they are taking responsibility for the continuity of the data. It has to be fair to both sides. It was noted that in 16.2E addresses the lessee's responsibility, which justifies removing the removal of 18.1E as recommended.

RAVIN/NEECE MOVED TO ACCEPT CHAPTER 18.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson explained that the original ground lease and security agreement has a lot of redundancy and a lot of issues that are already taken care of in the code. They tried to get rid of items that aren't specifically the City's business to deal with.

FAULKNER/RAVIN MOVED TO APPROVE THE DOCUMENT AS THEY HAVE AMENDED IT.

It was noted that it should be reviewed by a lawyer. Commissioner Ravin asked for the lawyer to specifically explain in plain language what an estoppel certificate is. The Commission briefly discussed amendments to the ground lease. A typographical error was noted on page 34 should be corrected to read Attached as exhibit A is a schedule naming each owner <u>or</u> tenant...

Councilmember Wythe suggested they provide copies of other leases or information they reviewed for Council to look at as back ground knowledge.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

The consensus of the was to incorporate Chair Erickson's letter into a cover letter memo to include a recommendation that the EDC recommends the approval of the amended lease

policy as reviewed and approved by the Commission at the December 8, 2009 regular meeting.

RAVIN/NEECE MOVED TO APPROVE ALL THAT AUTHORIZATION STUFF THAT BETH SAID.

There was brief discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

B. CEDS Development

VISTA Representative Bevis gave the Commission an update on the second Public meeting that was held in November. She said the quilt website is still generating public input, which is one of the intentions of the site. She has been working on the Chamber of Commerce "Doing Business in Homer" study. In the next months she is working on synthesizing and doing more research. She anticipates that Borough will have their situations and prospects manual out in the next week and she will be able to do the demographic research, and have a draft by the end of January. The CEDS outline is continuing to evolve.

Chair Erickson opened a dialog emphasizing that entrepreneurs seem to be the people who get things done. What can be done in Homer to foster entrepreneurs in areas that Homer needs, and broadens the scope of community development a little wider than just the college? She expressed concerns about the ability of small business owners to provide health care for employees and questioned if the CEDS can include some incentives to draw businesses such as a group health plan. Ms. Bevis said discussion of cooperative health insurance came up in a brain storming session was, and it is something that the Chamber EDC is looking at. Suggestion was raised about expanding the City's health care program. Councilmember Wythe spoke briefly to issues of combining with the City's current insurance plan and bureaucracy involved. Commissioner Neece spoke regarding the Grange and gave brief description that the Grange is a co-op that anyone can join and that would be a more appropriate avenue for an insurance pool.

Chair Erickson requested that Small Business Incentives be included on their next agenda and asked the Commissioners to come back with ideas to help the small businesses that we already have and to draw new business in and increase the City's revenue.

VISTA Representative Bevis commented that it is interesting that the 5 ideas that received the most votes at the second public meeting were ideas that are already in process. It shows that there is some common ground and consensus, but there were a lot of new ideas with potential too, and that is what she is working on.

C. Spit Comprehensive Plan

RAVIN MOVED TO BRING THE SPIT COMPREHENSIVE PLAN TO THE TABLE.

There was brief discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

The Commission was pleased with the framework that was developed for the draft plan and made no recommendation. Chair Erickson suggested the Commissioners could email Pat Coleman if they have comments about what might be missing or need to be addressed.

NEW BUSINESS

A. Proposed 2010 Meeting Schedule

DAY/NEECE MOVE TO APPROVE THE 2010 MEETING SCHEDULE.

There was brief discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

INFORMATIONAL MATERIALS

A. Resolution regarding meeting guidelines
B. Bradner's Alaska Economic Reports
C. Local Newspaper Stories
D. Items of Interest from recent City Council Meeting Packets

Chair Erickson commented briefly regarding the Bradner's report about the ultra low sulfur diesel having no problems. She said truck drivers she has heard from say they spend way more on diesel fuel, they don't get the RPM's , they use additives with it, and it is terrible stuff.

COMMENTS OF THE AUDIENCE

Councilmember Hogan commented that Council authorized a Task Force to look at restructuring the City's health benefit plan and opening it up to the general community as an economic development tool. He thinks the success of that depends on who is sitting on it, and said, "All you guys would be perfect on it. Right now it is a wide open blank slate." He said it is good to see Commissioner's chairs full. He also said at the next meeting there is a resolution to get International Pacific Halibut Commission here in Homer for their 2012 annual meeting.

Bryan Zak from the SBDC responded to Chair Erickson's earlier comment about things they can do for economic development. He suggested:

- Economic enterprise zone
- Water and sewer rates for Commercial Businesses
- Gas line to Homer
- Tax reduction for small business for the first few years
- Keeping up with technology
- Continuing the relationship with Chamber EDC.

Commissioner Day agreed to be the liaison between the City and Chamber EDC.

COMMENTS OF CITY STAFF

Special Projects Coordinator Holen congratulated the Commission for getting through the lease policy.

COMMENTS OF THE COUNCIL MEMBER

Councilmember Wythe had no comment.

COMMENTS OF THE CHAIR

Chair Erickson thanked the Commission all their work tonight.

COMMENTS OF THE COMMISSION MEMBERS

Commissioner Neece requested an addition to the next agenda. Sitka and Seward EDC's are more like an LLC or a business, and more aggressive about getting out and doing things. He asked that the Commission discuss an Economic Enterprise Zone. Commissioner Neece said it is great to finish the lease policy and welcomed the new Commissioners.

Commissioner Hoppe said the information in this first packet looked a little intimidating, but he his looking forward to being on the Commission.

Commissioner Ravin commended Chair Erickson on her job as Chair. He said it is good to have the Lease Policy off their shoulders. He thanked the Councilmembers and said he is glad to see them here. He commented regarding Governor Angus Kings letter which had his observation that a third of the employment in the state is federal and another sixth is state, so half of the employment in our state is government. That gives us an idea what the future may look like if we don't find more economic development here as government runs out of money and resources to spend. Things are going to either get really quiet here or we are going to have to find some more private investment, production, or some means of generating some wealth and employment here. That burden lies squarely on us and our sister organization, the Chamber of Commerce. The future of our local economy is in what we do here, trying to develop some private industry. He paraphrased a quote by Wayne Gretsky; "It is easy to skate when you know where you are going. Think about where the puck is going to be, not where it is now." Commissioner Ravin said we all need to stop looking at our feet, and look at the horizon. That is the challenge.

Commissioner Faulkner congratulated everyone on getting the lease policy done. He said another hat he wears is he is on the board of the Charter School. He said earlier this year they tried to buy the Owen Marine Building on Ocean Drive and looked at leasing the Southwest Pilots building. Originally they looked at the Haus Electric building to put more classrooms in, particularly a K-2, which they have kids signed up for. They settled on the Owen building, however it is in GC1, which doesn't allow schools. They have the same problem subleasing from Southwest Pilots, but adjacent to them is Head Start. He said he was tasked with opening that back up and seeing if the zoning could be changed. The Commission will probably be seeing it as they go through planning with it. The Charter School had 35 students signed up last year that they didn't have classroom space for. He finds it interesting that in Ms. Bevis' work the college is the number one thing people want to see, and they just got

shut down hard trying to find a place to have a school, as it is very limited. It is good clean money, it gets driven to town every day, and the state law was changed last year so that Charter Schools are funded on a more equitable basis. He said the Board is going to take off after the Borough on their next shot to try to get equitable funding there. If your kid goes to a public Charter School and you pay property taxes, none of your money goes to that kid. There was agreement to add that to the next agenda. Commissioner Neece said that ties in to the film school he is working on. There is also interest in discussing things they would like to see change at Homer High in the kind of classes to develop entrepreneurs it is a worthy cause to discuss.

Commissioner Day said she appreciates the appointment and looks forward to being part of a forward thinking group.

ADJOURN
There being no more business to come before the Commission the meeting was adjourned at 7:54 p.m. The next regular meeting is scheduled for January 12, 2010 at 6:00 p.m. in the City Hall Cowles Council Chambers.

_____
MELISSA JACOBSEN, CMC, DEPUTY CITY CLERK

Approved:_____

Advocating for Young Children and Their Families

South Peninsula Coalition for Young Children: A Best Beginnings Partnership is a group of agencies and individuals advocating for better early childhood education and family resources on the southern peninsula. It was initiated with a grant of $5,000 from Best Beginnings, a statewide public-private partnership that mobilizes people and resources to ensure all children begin school ready to succeed. You may already be aware of Best Beginnings and their work statewide. For more information, you can see their website at: www.bestbeginningsalaska.org

This grant is designed to strengthen collaboration among agencies and community members for the purpose of identifying gaps in resources, improving delivery of services through improved collaboration, and advocating for new resources as needed.

Members of the coalition currently include: Head Start, Birth 2 Three, WIC, Public Health Nurses, Kachemak Kids Early Learning Center, Connecting Kids with Nature, OCS, South Peninsula Women's Services, Homer Foundation (acting as our fiscal agent) and numerous individuals including parents, educators, members of the Chamber economic development committee, etc. New members are welcome as our goal is to have a broad representation of the communities of the southern peninsula.

Family Support Survey

The first task of the group has been to design a survey to help identify strengths and gaps in services for families. We have it available on line at survey monkey (see link below). For those who do not want to do it on line, paper copies will be available at SVT Clinic, the Public Health Nurses office, Head Start, and other locations.

The results from the survey will be used along with focus groups and a larger facilitated "community conversation" event (in January) to identify and prioritize goals and to create a strategic plan for the rest of the year. To complete the survey, go to the following link:
http://www.surveymonkey.com/s.aspx?sm=O1SPafN4O75r0UVdQejjPA_3d_3d
Responses to the survey remain anonymous.

Those interested in participating at any level in this work are welcome to contact the chair: Lolita Brache at lolitagrace@gmail.com or 299 0694.

An example of public input for the Comprehensive Economic Development Strategy

Thank you for your interest in my "two cents." I hope it is of use. I appreciate the opportunity to help a community and town that is so nice. Below is a personal discussion of our experiences.

For your information, my husband and I are what you would call "knowledge entrepreneurs." Our specialty is teaching advanced therapeutic strategies to massage therapists. We sell courses online and via workshop, sell two books, and now DVDs. We are a good example of the kind of niche markets that are developing because of the internet. We have customers from around the globe including Australia, Ireland, Italy, and Singapore, and of course Canada and the U.S.

Part 1: Your Questions:

Do you feel like Homer is currently providing the infrastructure your business needs?

For the most part yes, we have printers, office supply, internet, airport, computer folks and supplies, etc. DSL needs to be improved in the outlying areas.

We are lucky where we are, but many folks do not have **high speed internet**, and preferably cable, this should be a priority.

Do you live within or outside City limits?

Outside the city limits (we like the space and wilderness). I do wish Homer would expand its perimeter so that locals had more control over how we develop. This is something I think the city should be lobbying for with the borough and with the local voting population.

Part 2:
What could we do to attract more lone eagles?

1) Keep the town attractive.

Where you find the most migration to smaller towns is in those towns that have some sort of appeal. This cannot be understated.

If you travel around Oregon and Washington, or elsewhere, the small towns that are thriving are those that have appealed to people who can choose to live where they want and bring with them either retirement income or a small or home business. These towns survived the loss of the resource-focused boom/bust economies and reinvented themselves with what they had left.

What these towns have to offer is predominantly natural beauty and access to outdoor activities or a quaint setting (like the coastal towns of OR and WA). Homer has numerous benefits over some of these other small towns.

2) Homer's assets should be advertised:

a) Its stunning beauty.

b) It is quaint, with a cute town area (that could be made more so with just some paint)

c) Coastal/ ocean access, and forest/land activities.

d) Thriving fishing (commercial and sport) industry (needs more attention)

e) Access to larger towns (this is important to those who want more shopping)

f) Healthcare is really good here, and we have a hospital.

g) Commercial irport that is fully functional, not a tiny spot with charter planes

h) High quality of life, with caring community

i) ACTIVE community – with involvement by business and individuals

j) Community events, such as festivals, arts walks, boat show, etc.

k) Museum and library, nice performance location in the high school

l) Quality Schools, a wonderful place to raise a family

m) Local and city support for local art and artists

n) Spiritual/religious community options

o) Alaska Islands & Ocean Visitor Center

p) jump off point to several National Parks: Alaska Maritime National Wildlife Refuge; Katmai, Kenai Fjords; Lake Clark; Kenai National Wildlife Refuge. And our Kachemak Bay State Park (which needs more access on this side and trails).

q) ocean science hot spot - Kachemak Bay Research Reserve.

r) Low taxes compared with other states.

s) Safe, friendly area to raise children.

t) It is affordable (so far), but development is getting scary, please see notes below.

u) Organic food and agriculture

3) My recommendations include:
Advertise the aspects that make working as a small business, telecommuter, or knowledge entrepreneur in Homer attractive. These are the above, plus additional support elements suggested below from the city.

Larger, economic goals:

a) **Develop an Entrepreneur/small business group that** can assist others with ideas and help those aspiring into their own business/work from home positions. Consider a **website sponsored by the Chamber** that addresses small business and industry development issues, as well as support items for those telecommuting, working from home, or working in the knowledge entrepreneur industry. (here is a good example: **http://www.coastguide.info/**).

Once you have a substantial support elements in place, start advertising for these people.

b) **Fish Coop:**
Homer should help the **commercial fishing folks set up a coop**. Town folks should be able to buy affordable fish. Even Haines has a fish broker there who sells reasonably priced fish to the locals. I know the commercial fishers think it is like "herding cats" to get some kind of organizing going, but I think the city should help them. I met a guy and his wife who bought a boat, come up for July only, and sell their salmon to expensive restaurants around the country. Their income is NOT benefiting Homer, instead they are making a load of money here and taking it back to Oregon. A Homer Salmon Coop could do the same thing.

c) **Keep local money local -**
We need to focus our energies on developing economies that keep the money moving around this town. This is something that Paul Seaton talks about. For example, our commercial and sport fishers are a great and valuable resource. Their money moves around this town, going from store to store, and person to person.

d) **Sustainable economies** are those that last through the years and bring economic benefits to a range of people in the community. Our sustainable options include:

Fisheries (sport and commercial)
Value-added seafood industry
Tourism
Small business folks
Retirees
Farming/agriculture (this seems to be booming)
Alternative energy development
Kachemak Bay Campus

e) **Industries Homer should focus on:**

Salmon Coop - assign someone the task of "herding the cats." (Expand on the "Kenai Wild" and team up with the Borough to improve the marketing of our fish. (like the Oyster folks are doing).

Value-Added Fish Products - Encouraging small businesses that make products from local fish or fish waste/skin. (Such as Salmon/halibut skin products & smoked oysters).

Develop Boutique/Specialty agricultural products – help small farmers get their wares to Anchorage and perhaps high end restaurants. (potatoes for example, we have several families growing over 20 specialty spuds that are delicious. Beef, kale....

Unique agribusiness or animal businesses: such as encouraging a local goat breeder to contract with State & Fed governments for invasive weed control using Goats (which is commonly used now in OR and WA because goats stomach's kill most weed seeds and they are a fraction of the cost. (Don't laugh, this is lucrative for some goat farmers in Central Oregon!).

Knowledge entrepreneurs – look at Joe Cortright's work, a consultant in Portland, OR advising communities on how to attract these types of businesses.

Telecommuting positions/work at home: medical insurance billing, call centers (like Alpine Access, LiveOps, Arise, and West at Home).

f) **Kachemak Bay State Park**: lobby the state to try to get federal funds to develop the state park on this side of the bay. This is a huge resource that is sitting idle that could bring an economic benefit to this region.

g) **Kachemak Bay Campus**: should offer courses in careers/occupations that are done fully online or that can be performed via telecommuting. (Medical insurance billing, transcription, resume writing.

Smaller but important goals:

a) Continue to **improve the look and feel** of Homer. (No more ugly Safeways for example, more look of Cosmic kitchen and Cups. Some towns define a feel or look and require that in their development and improvement codes. This is critical. A town can go ugly pretty darn easily and quickly.

b) Get the **town center** moving ahead. This is a great idea.

c) Homer needs a **town center park**. Somewhere people can gather for the Christmas tree lighting, events can be held, people can have lunch, etc.
Homer needs **more trails.** Access to our outdoors should not be limited to walking a beach or the homestead trail (or the other 2). Nor should it require an outlay of $80 to get across the water. Homer needs to work with the Borough and State to turn areas into trails, even if they are outside the formal limits of Homer.

Personal comments:
Before moving here in 2005, my husband and I lived in Bend, Oregon (though I was raised in Alaska). We watched in utter disbelief as over a 10 year period bad decision after bad decision was made by the city council and planning department. In 10 years, they ruined that quaint town.

The biggest bad decisions centered on development (commercial and residential). They choose to follow advice from large urban planners from Seattle and Portland, even though it is obvious that Central Oregon would never get that large because the interstate does not pass through the region. They allowed rampant developments as small as 4000 square feet. They did not work to prevent these from developing outside of the town core, so that now there are "suburbs" to the small town - which make trying to get across a small town a big city experience.

Of course, anyone choosing to live in a more remote, inconvenient location and in a small town is NOT going to want to live on a tiny city sized lot with no yard, and heavy traffic. Why would they? People move to remote locations for space.

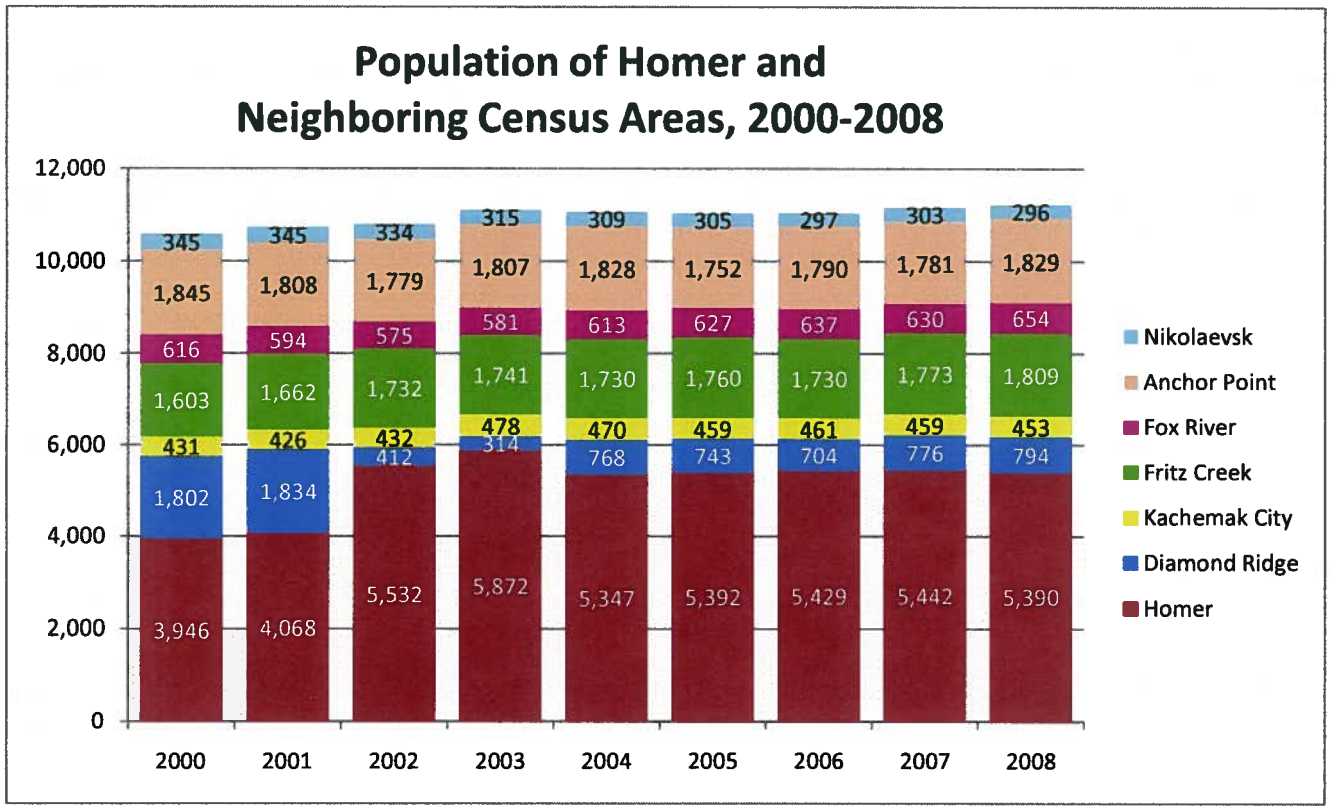
Sadly, the price of lots did not go down – as the "affordable" housing advocates (mainly real estate developers) argued. Instead, things got out of hand, the prices kept going up, the houses got bigger.....etc. Today? Well, you can get a great house in Bend, with no yard, but a 20-40 minute drive to work....because no one wants them. The houses selling are those with large yards (10,000 minimum, but mainly .5 -2.5 acre). Huge developments sit empty and the city planner's dreams of being a large industry magnet, well not really happening.

The saddest part is that Bend never planned for this. They never put System Development Charges in place till the end. So they are in the hole as they pay for the maintenance of these developments, the schools, the water, the sewer....and people are now leaving...the fancy projections of how big Bend would get never panned out. Bend should have stayed a small town, its future is uncertain...though it is still a nice place for recreation, but Bend is not quaint anymore, it is still smaller, but feels city-like, and of course the city is in the red and has been for awhile.

Homer needs to learn from Bend and other small towns and not make the same mistakes. Hopefully, this will happen. Homer has far fewer options than a town like Bend. Whittier is a great example of how even a quaint and ideal location (1 hour from Anchorage) will not help if the town chooses ugly as its city plan.

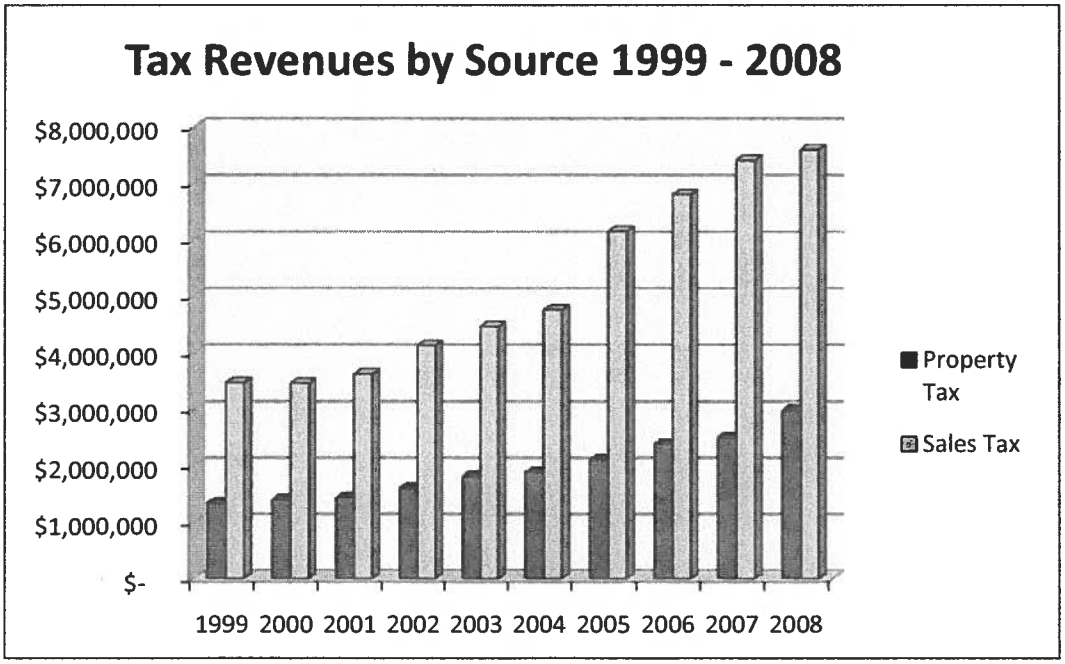
Thank you for your time and have a wonderful and prosperous new year!

Elise Wolf
Whitney Lowe
Orthopedic Massage Education & Research Institute
www.omeri.com
907-235-2348



Notes: Homer annexed part of Diamond Ridge and all of Miller's Landing in April 2002. (Miller's Landing is not shown in this graph. It had a population of 70 before annexation.) Year 2000 population is from the 2000 U.S. Census. Population figures for 2001-2008 are estimates provided by the Alaska Dept. of Labor and Workforce Development.

	Property Tax	Sales Tax	Total Taxes	Property tax rate	Sales tax rate
1999	$ 1,339,835	$ 3,468,157	$ 4,807,992	5.5 mills	3.5%
2000	$ 1,399,921	$ 3,457,311	$ 4,857,232	5.5 mills	3.5%
2001	$ 1,428,622	$ 3,622,824	$ 5,051,446	5.5 mills	3.5%
2002	$ 1,597,795	$ 4,128,010	$ 5,725,804	5 mills	3.5%
2003	$ 1,806,425	$ 4,462,524	$ 6,268,949	5 mills	3.5%
2004	$ 1,885,333	$ 4,757,588	$ 6,642,921	5 mills	3.5%
2005	$ 2,102,170	$ 6,150,695	$ 8,252,865	4.5 mills	4.5%
2006	$ 2,382,931	$ 6,804,735	$ 9,187,666	4.5 mills	4.5%
2007	$ 2,504,624	$ 7,408,500	$ 9,913,124	4.5 mills	4.5%
2008	$ 2,980,981	$ 7,601,548	$ 10,582,529	4.5 mills	4.5%



SITKA ECONOMIC DEVELOPMENT ASSOCIATION
329 Harbor Drive, Suite 212 ★ Sitka, Alaska 99835 ★ (907) 747-2660 ★ fax (907) 747-7688 ★ www.sitka.net

SEDA Strategic Plan 2008-2012

Adopted by the SEDA Board
December 6, 2007

(Updated Part Two – October 27, 2009)
NOTE: "CP" notations added refer to the 2007 CBS Comprehensive Plan

Mission Statement

The Mission of the Sitka Economic Development Association is:

- ***Foster a business climate that is receptive and conducive to existing and new business.***
- ***Help promote the creation of family wage jobs.***
- ***Enhance the quality of life for Sitkans.***

PART ONE - INTRODUCTION

This Strategic Plan was initially formulated by the SEDA Board at a planning retreat held at the Sawmill Cove Industrial Park (SCIP) in July 2006. In November 2007, the SEDA Board met again in a half-day retreat to evaluate the plan, current issues and priorities. Both meetings were facilitated by Barbara Sheinberg of Sheinberg Associates, Juneau Alaska.

The Plan is divided into four parts:

- Part ONE is an introduction and a short summary of key indicators of the recent performance of Sitka's economy.
- Part TWO documents some of SEDA recent accomplishments.
- Part THREE lists the SEDA Board's seven top priorities to accomplish during the next five years, 2008-2012.
- Part FOUR lists SEDA Action Items, with brief explanations of the goal or purpose, as developed by the Board on November 13, 2007.

Sitka Economic Summary 2006-2007

Sitka's Economic Trends

Year	Population	Total Employed (average annual)	Payroll (yearly earnings)	Annual Gross Business Sales
2000 Southeast Region	73,082	36,250		
2006 Southeast Region	70,053	36,850		
1995 Sitka	8,650	3,825	$104 million	$204 million
2000 Sitka	8,835	4,082	$117	$222
2004 Sitka	8,818	4,265	$137	$315
2006 Sitka	8,833	4,409	$148	$371

Sources: ADOLWD; City and Borough of Sitka, Finance Dept; compiled by Sheinberg Associates.
Note that payroll and employment data does not include the self employed or fishers.

2006 Average Monthly Wage

Region	Average Monthly Wage
Statewide	$3,445
Anchorage	$3,668
Juneau	$3,250
Ketchikan	$2,993
Sitka	$2,806

Source: ADOLWD, compiled by Sheinberg Associates

Sitka Average Employment by Sector, 2005-2006

Employment Sectors	Average Monthly Employment 2005	2006
Total Government	1,188	1,182
Federal Government	207	188
State Government	339	346
Local Government	641	649
Private Ownership	3,231	3,227
Goods-Producing	*563*	*558*
Natural Resources & Mining	27	46
Construction	247	236
Manufacturing	289	276
Seafood Manufacturing	207	217
Service-Providing	*2,668*	*2,669*
Trade, Trans. & Utilities	844	843
Information	43	41
Financial Activities	130	153
Professional & Business Services.	134	136
Educational & Health Services.	855	851
Leisure & Hospitality	503	472
Other Services	159	158
Unclassified Establishments	-	18
Total Industries	4,419	4,409
Source: ADOLWD, compiled by McDowell Group		

Over the past year there have been significant changes in Sitka's economy, including closure of a major employer, staffing reductions at key organizations, and creation of substantial new businesses at Sawmill Cove Industrial Park. (SCIP) These changes will impact future economic opportunities in Sitka.

SEDA retained the McDowell Group to evaluate the employment impacts of these changes. The McDowell Group conducted interviews with executives in Sitka to develop an understanding of the employment impacts of these industry changes. There has been both job loss and job creation in Sitka in recent months. Following is a summary of recent changes, by organization, based on those interviews.

- Northern Southeast Regional Aquaculture Association currently employs 23 full-time, year-round staff with 10 to 15 extra seasonal staff in the summer. A new facility under construction at SCIP may add two employees.

- Sheldon Jackson College recently suspended operations. As of November 30, 2007 all Sheldon Jackson staff will be laid off—a total of 109 full and part-time employees. Officials are looking for other operators for the Hames PE Center, the child care center, and the Sheldon Jackson Hatchery.

- SEARHC is reducing employment in the region. It is expected to reduce employment by 60 full-time employees region-wide, with 40 from Sitka. Half of the positions cut in Sitka are currently unfilled. The other half will result from active lay-offs. SEARHC is the largest employer in Sitka, with approximately 400 workers in 2006.

- The new seafood plant, Silver Bay Seafoods, was completed in 2007. During the construction 25 Silver Bay employees and 50 to 60 contractor employees worked on the $10 million project. Processing of salmon started on June 17, with 170 seasonal workers were employed, including 12 Sitka residents. Silver Bay also employs 10 full-time, year-round employees, six of whom moved to Sitka for the jobs. Silver Bay processing activity prompted Alaska Marine Lines to hire two drivers to keep up with the new freight demand.

- U.S. Forest Service officials expect the Tongass National Forest operating budget to decline 30 percent in coming years. If this occurs, it is expected Sitka will lose five positions by 2010. In the last year, six employees have left and those positions will not be filled.

- Employment has been steady at Sitka Community Hospital. The employment outlook for the hospital is no significant change.

- Current estimates for student enrollment in the Sitka School District show a decline by over 100 students since last year. Enrollment figures will impact the school district's budget and employment for the 2008/2009 school year.

Within the scope of the McDowell Report, it was not possible to identify all job losses and gains in the Sitka economy. Some Sitka employers have been or may be forced to lay off portions of their current workforce; others have vacant positions that will not be filled. Approximately 155 positions have been lost in education, health care, and government. Over the next few years, more positions may be lost as a result of budget reductions. At the same time, there have been developments in the seafood industry which will result in new seasonal jobs in Sitka. A total of 10 full-time positions and 170 seasonal positions were added in the seafood sector. The new processing plant also impacted local service businesses including one business that hired two new employees to service the new facility. Total employment figures may stay constant from year to year. However, there is a shift in employment opportunities from full-time livable wage positions to part-time lower wage seasonal positions.

PART TWO - RECENT SEDA ACCOMPLISHMENTS

(A snapshot of a few highlights from 2008 to 2009)

- Facilitated meetings and provided staff support for the Sheldon Jackson Redevelopment Task Force. The goal of the Task Force is to put the core campus property back into productive use as an educational facility that will become a hub for vocational and technical training in Southeastern, Alaska, creating jobs and bringing revenues to the City. SEDA, in partnership with CBS and the SJ Board of Trustees, is now actively participating in negotiations with the University of Dubuque to take over the SJC campus. (CP 2.1.19)

- Conducted research and made contacts with target companies that may consider establishing a presence in Sitka. A prerequisite is that such companies will not take market share from existing local businesses, but will create new family wage jobs and/or support the growth of existing business. (CP 1.1.13)

- Actively pursued opportunities for public outreach and education related to economic development in Sitka. This included the annual presentation on the State of Sitka's Economy, and presentations at Chamber of Commerce luncheons.

- Drafted and released a solicitation for proposals for the development of a marine industrial center at Sawmill Cove. Ideally, such a facility will include a boat haulout that could serve the larger vessels that must currently go south for repair and maintenance. Negotiations are currently underway with a major shipyard looking to expand into Alaska. (CP 2.5.5; CP 2.5.6)

- Drafted a Request for Proposals for the sale of Lot 22 (Stores Building) at Sawmill Cove Industrial Park resulting in purchase of the property by Silver Bay Seafoods. The condition of the Stores Building required significant upgrades and repairs to bring it into leasable condition. Sale of the building released the City from financial liability and allows for the expansion of business activity at SCIP. (CP 2.5.5; CP 2.5.6)

- Participated in development of a strategic energy plan for Sitka as part of the Sitka Energy Partnership. This included advocating for recognition of alpine hydroelectric generation as renewable energy for the purpose of Federal funding. This is an ongoing project that includes potential development of a biomass heating and power system for Japonski Island. (CP 1.1.16)

- Researched methods for funding construction of a multi-purpose dock at Sawmill Cove Industrial Park. The City would use such a facility for the movement of equipment and supplies during the Blue Lake hydroelectric expansion. Other uses include but are not limited: the export of raw and/or value added wood products (470 acres due to be cleared at Blue Lake), export of bulk and bottled water, movement of rock and gravel from a nearby quarry that could be developed, docking of a single cruise ship during the summer, potential business related to the new container terminal at the Port of Prince Rupert, and the docking of research vessels (e.g. NOAA). (CP 2.5.5; CP 2.5.6)

PART THREE - SEDA STRATEGIC PLAN PRIORITIES

(listed in random order)

1. Enhance marine facilities at Sawmill Cove Industrial Park (SCIP).
2. Rehabilitate or replace the old pulp dock at SCIP.
3. Open the Benchlands property.
4. Support development of affordable housing.
5. Expand the airport terminal.
6. Support growth of Sitka's hydroelectric and other renewable energy generation capacity.
7. Hold semi-annual forums to explore topics important to Sitka's economy.

PART FOUR - ACTIONS ITEMS

SEDA has four major categories of action it works to accomplish:

- Economic Development
- Affordable Housing
- Transportation
- Community Relations and Education

Action Items for each category now follow. A simple list is presented first, followed by some explanation and detail.

ACTION ITEMS - SUMMARY LIST

Economic Development

1. Enhance marine facilities at Sawmill Cove Industrial Park.
2. Rehabilitate or replace the pulp dock at Sawmill Cove Industrial Park.
3. Support growth of Sitka's hydroelectric and other renewable energy generation capacity.
4. Optimize outcome of Sheldon Jackson College reorganization/reuse.
5. Promote bulk water sales.
6. Promote ecotourism.
7. Increase vessel moorage both public and private.
8. Expand vocational training.

Affordable Housing

1. Open the Benchlands property.
2. Support development of affordable housing.

Transportation

1. Expand the Sitka airport, including a cool room, new terminal building and other transshipment growth.
2. Increase air freight capacity for fresh fish export.
3. Facilitate meetings that explore alternative public marine transportation solutions
4. Unify Borough, Sitka Tribe and SEARHC transportation goals.

5. Organize a Northern Panhandle transportation summit meeting.

Community Relations and Education

1. Hold bi-annual forums to explore topics important to Sitka's economy.
2. Promote macro economics education for the Sitka public.
3. Educate the public about Sawmill Cove Industrial Park.

ACTION ITEMS - REVIEW WITH DETAIL

Economic Development

1. **Enhance marine facilities at Sawmill Cove Industrial Park.** (CP 2.5.5; CP 2.5.6)
   - Develop a Marine Service Center at SCIP.
     - ✓ Publicize results of SEDA's recent survey of marine users in conjunction with a community forum.
     - ✓ Complete a mini-design for Marine Service Center at SCIP, to include boat haul out.
     - ✓ Issue RFP to seek private sector interest.
   - Construct a multi-purpose dock at SCIP.

2. **Rehabilitate or replace the pulp dock at Sawmill Cove Industrial Park.**

3. **Support growth of Sitka's hydroelectric and other renewable energy generation capacity.** (CP 1.1.16)
   ISSUE: The price of oil now makes heating with electricity more affordable than oil. New development designed for electric heat and building retrofits will increase demand on Sitka's hydroelectric capacity.
   - Adhere to plans for orderly growth of capacity.

4. **Optimize outcome of Sheldon Jackson College reorganization/reuse.** (CP 2.1.19)
   - Assist with developing a vision for the core campus that benefits Sitka.
   - Promote Sheldon Jackson Trustee-community dialogue.

5. **Promote bulk water sales.** (CP 2.5.8)

6. **Promote ecotourism.** (CP 2.7.1)
   - Retain a seat on the Sitka Tourism Committee.

7. **Increase vessel moorage both public and private.** (CP 2.6.10)

8. **Expand vocational training.** (CP 2.8.B.; CP 2.8.P)

Affordable Housing

1. **Open the Benchlands property.** (CP 2.3.8.E.)
    - Development costs are higher than anticipated. Strategies to proceed must be identified as development of housing and this land are important to Sitka's future. Cost for project elements that benefit more than the subdivision (e.g. water tank) should not be paid solely by future lot owners.

2. **Support development of affordable housing.** (CP 2.9.3)
    ISSUE: Lack of affordable housing is preventing workers from moving to town and forces workers and young families to leave; this is an economic development issue.
    - Increase the availability of rental properties.
    - Devise a program so that some of Sitka's 600-700 aging trailer units remain affordable. (CP 2.4.6)
    - Support BIHA and THRHA housing projects.
    - Support Sitka Borough actions relating to housing.
    - Articulate that research shows success in developing and keeping affordable housing depends on long-term public sector involvement.

Transportation

1. **Expand the Sitka airport, including a cool room, new terminal building and other transshipment growth.** (CP 2.2.14; CP 2.5.3)
    - Support ongoing private sector conversations to achieve airport expansion among fish processors, air carriers, air ambulances, those that need hangars etc.
    - Explore whether Port Authority management could enhance airport revenue.

2. **Increase air freight capacity for fresh fish export.**

3. **Facilitate meetings that explore alternative public marine transportation solutions to the current AMHS, with the goal of improving service from Sitka to outlying ports.** (CP 2.2.16)
    - Investigate the advantages and disadvantages of establishing a Port Authority for a Sitka based ferry.

    ISSUE: State financial support for the AMHS is at risk. A basic level of state support should be defined to provide certainty and fulfill government's role to provide public highway service in Southeast Alaska. Regional private or public ferry systems, ferry terminals and roads will likely each be a part of a long term sustainable system. Several alternative concepts exist; all must meet the challenge of working out labor issues and contracts. Sitka's ferry related economic development and cultural needs are to:
    - ✓ Improve service to and from Juneau so residents can catch the mainline ferry, student athletes can travel for school sports (Sunday ferry from Juneau to Sitka especially needed), and to improve access to the capital and the region's largest city and 'big box' retail center.
    - ✓ Improve service to and from surrounding communities so patients can easily get to SEARHC, to facilitate cultural exchange, and allow Sitka to better serve as a regional shopping hub.
    - ✓ Facilitate transport of fresh fish to the road system.

- ✓ Facilitate visitor access, especially those with vehicles.
- ✓ Support Allen Marine, a major Sitka business.

4. Unify Borough, Sitka Tribe and SEARHC transportation goals.

5. Organize a Northern Panhandle transportation summit meeting.

Community Relations and Education

1. **Hold bi-annual forums to explore topics important to Sitka's economy.** Suggestions for 07/08 are:
    - Forum on Marine/Fisheries Support, in conjunction with release of the marine support survey results and with an invited panel to discuss issues and ideas.
    - Forum in conjunction with release of updated Sitka Indicators.

2. **Promote macro economics education for the Sitka public.**
    - Target education efforts and materials to speak to differing audiences such as elementary and secondary students, supporters, Sitka's 'old-timers,' and those that often support 'no growth' positions, as well as the general public.
    - Consider participating in established school based programs such as Junior Achievement, Alaska Banking Assoc program, school-to-work programming, and volunteering as speakers/panelists.

3. **Educate the public about Sawmill Cove Industrial Park**
    - Hold an annual spring open house at SCIP, invite the media.

HOME
NEWS
About SEDA
About Sitka
Community Profile
Economic Trends
Links
Contact SEDA

SEDA Contributions to the Community of Sitka

SEDA Produced and maintained three web sites promoting Sitka as a location for business investment and providing information about Sitka:

www.sitka.net
www.sawmillcove.com
www.sitkamarine.com

SEDA also maintains a web cam that is accessed by current and former residents, prospective residents and visitors, nature enthusiasts and the simply curious.

In 2006 and 2008, SEDA published the "Sitka Community Profile," a brochure, providing information on Sitka's demographics, economy, quality of life, and labor force. This is made available for free at the airport, the Centennial Hall, and the library.

SEDA publishes "Sitka Marine Industries," a directory of local businesses providing marine parts and repair services. This is made available for free at the Harbors Department where harbor users, commercial and sports fishermen, and charter clients obtain information about local marine services.

Recent SEDA Projects Include:

Facilitating meetings and providing staff support for the Sheldon Jackson Redevelopment Task Force. The goal of the Task Force is to put the core campus property back into productive use as an educational facility that will become a hub for vocational and technical training in Southeastern, Alaska, creating jobs and bringing revenues to the City. SEDA, in partnership with CBS and the SJ Board of Trustees, is now actively participating in negotiations with the University of Dubuque to take over the SJC campus. (CP 2.1.19)

Conducting research and making contacts with target companies that may consider establishing a presence in Sitka. A prerequisite is that such companies will not take market share from existing local businesses, but will create new family wage jobs and/or support the growth of existing business. (CP 1.1.13)

Actively pursuing opportunities for public outreach and education related to economic development in Sitka. This included the annual presentation on the State of Sitka's Economy, and presentations at Chamber of Commerce luncheons.

Promoting the development of a marine industrial center at Sawmill Cove. Ideally, such a facility will include a boat haulout that could serve the larger vessels that must currently go south for repair and maintenance. An request for proposals was released and negotiations are currently underway with a major shipyard looking to expand into Alaska. (CP 2.5.5; CP 2.5.6)

Sale of Lot 22 (Stores Building) at Sawmill Cove Industrial Park via a request for

proposals. This resulted in purchase of the property by Silver Bay Seafoods. The condition of the Stores Building required significant upgrades and repairs to bring it into leasable condition. Sale of the building released the City from financial liability and allows for the expansion of business activity at SCIP. (CP 2.5.5; CP 2.5.6)

Participating in development of a strategic energy plan for Sitka as part of the Sitka Energy Partnership. This includes advocating for recognition of alpine hydroelectric generation as renewable energy for the purpose of Federal funding. This is an ongoing project that includes potential development of a biomass heating and power system for Japonski Island. (CP 1.1.16)

Researching methods for funding construction of a multi-purpose dock at Sawmill Cove Industrial Park. The City would use such a facility for the movement of equipment and supplies during the Blue Lake hydroelectric expansion. Other uses include but are not limited: the export of raw and/or value added wood products (470 acres due to be cleared at Blue Lake), export of bulk and bottled water, movement of rock and gravel from a nearby quarry that could be developed, docking of a single cruise ship during the summer, potential business related to the new container terminal at the Port of Prince Rupert, and the docking of research vessels (e.g. NOAA). (CP 2.5.5; CP 2.5.6)

Researching the need for additional senior housing and/or assisted living facilities to accommodate Sitka's aging population. Recommendations will be developed based on findings. (CP 2.9.3.C.4.)

NOTE: "CP" notations indicate the portion of the City's 2007 Comprehensive Plan related to the project.

SEDA

Sitka Economic Development Association
329 Harbor Drive Suite 212
Sitka, Alaska 99835
Phone: (907) 747-2660
Fax: (907) 747-7688
Email SEDA

search...

About Us

The Alaska Film Group

Mission Statement

The Alaska Film Group is a nonprofit trade organization designed to create economic opportunities for membership, provide an educational forum, and to be a voice for the film & video industry of Alaska.

All Film Group members have been vetted and approved by the Board of Directors after resume reviews and industry references are verified.

President:
Bob Crockett
film@alaska.net

Board of Directors:

Deborah Schildt
ifilm@alaska.net

Karen Tallent
Tallent_Karen@asdk12.org

Carolyn Robinson
carolyn@sprocketheads.com

Daryl Hoflich
darylh@gci.net

Matt Szundy
matt@theascendingpath.com

Film Group Manager:

afg@alaskafilmgroup.org

Discover AK

- Anchorage
- Fairbanks
- Seward
- Sitka
- Kodiak
- Nome
- Juneau
- Haines
- Alaska Map
- Matanuska-Susitna CVB
- Alaska CVBs and Chambers
- Videos

Contact Us

The Alaska Film Group
P.O. Box 92008
Anchorage, Alaska
99509-2008

Email to the office:
afg@alaskafilmgroup.org

Click here to Send us an Inquiry through our Private Message Board

AFG Board in Action!

(c) ISSN: 1072-8139

Bradner's
Alaska Economic Report

— *Tracking resource, business, industry & construction issues since 1974*

akecon@gmail.com

Publishers: Mike and Tim Bradner (907) 242-6572
3037 South Circle, Anchorage, Ak: - 99507

December 3, 2009
No. 20, 2009

These are critical months for Shell's offshore program

December and January are critical months for Shell Oil's Arctic offshore exploration program. The company is optimistic it will be able to proceed with its planned summer drilling but is still waiting for U.S. Minerals Management Service approval of its Chukchi Sea exploration plan due any day now. The company has its plan for Beaufort Sea drilling approved by MMS, but is still waiting to see if there will be lawsuits (a required public comment period closes in mid-December). The company and the MMS hope the new, carefully-crafted exploration plans are now more armored against litigation.

A big boost for Shell will be if the North Slope Borough stays out of expected litigation, despite efforts by environmental groups to enlist the municipality as a partner. The Chukchi has significant potential for major discoveries but those will be years off. The Beaufort, however, has real potential for near-term additions to trans-Alaska oil pipeline volumes. This is very important because the amount of oil produced from existing North Slope fields, and flowing through TAPS, is declining. Offshore, it is known that oil exists at the "Hammerhead" discovery near Camden Bay that was drilled years ago by Unocal, but not developed. Shell will be drilling nearby prospects with the intent

Continued on page 2

In this Issue:

What? Jet fuel *shortages* at Anchorage's airport?

Surprisingly, air cargo operators and Anchorage airport officials are worried about availability of jet fuel. Flint Hills Resources has cut back jet fuel production at its refinery near Fairbanks, and reduced volumes of fuel shipped to Anchorage has really hurt the Alaska Railroad. However, the air cargo business is now picking up in Anchorage. Carriers are forecasting increased fuel needs but are having trouble getting commitments from suppliers, airport officials told Anchorage business leaders at the Anchorage Chamber of Commerce luncheon Nov. 30. United Parcel Service, operator of an air freight hub at Anchorage's airport, recently shipped in fuel by ocean tanker for its

Continued on page 2

Bradners' ALASKA ECONOMIC REPORT: Published by Alaska Information and Research Services - *akecon@gmail.com*
3037 South Circle, Anchorage, Alaska 99507 TEL: (907) 242-6572 FAX: (907) 522-0195 Editor: Shehla Anjum

General Business:

Anchorage utility switches on diesel

Was this is a blip, or did Anchorage utility managers get an early warning of things to come this winter? During Southcentral Alaska's mild cold snap in mid-November Anchorage's city-owned Municipal Light and Power had to switch to diesel at its power plants (which have dual-fuel capability) because there wasn't enough natural gas coming from the Beluga field to meet utilities' needs. There were contractual issues that involved diversion of some of ML&P's share of Beluga gas production to Enstar Natural Gas, but the point is that there wasn't enough gas to go around. That was a mild bit of cold weather, too. Temperatures dipped below zero F. in some places. The region's utilities are gearing up to handle possible gas and power shortages during a deeper cold snap. Electric utilities may ask consumers to cut back and will institute rolling blackouts as a final resort. Efforts will be made to keep Enstar at near full-capacity, however, because unlike the power companies Enstar has no alternative fuel to gas.

***

Shell is ready, and waiting (Cont.)

Continued from page 1

of massing sufficient reserves in the Hammerhead area to develop the discovery. Oil could be brought ashore at either the Badami or Point Thomson field locations, where Shell will be able to take advantage of existing facilities and pipelines. An oil pipeline already exists to Badami, and ExxonMobil and its partners will build an extension of that to Point Thomson to carry liquid condensates that will be produced there in 2014. Probably the biggest challenge Shell now faces is getting a workable air quality permit from the U.S. Environmental Protection Agency. EPA is trying to write a permit that will withstand litigation, but Shell's fear is that it may be unworkable and may come too late.

***

Fuel issue at Anchorage airport (Cont.)

Continued from page 1

own needs. UPS no doubt had its reasons for bringing in its own tanker (maybe a really good deal on the load) but we're puzzled by the apparent disconnect between Flint Hills' cutback at its refinery and the reported difficulty of air carriers in getting commitments.

One wake-up call came Nov. 18 when international operators sharply increased flights to move a backlog of goods from China as a part of pre-holiday U.S. inventory rebuilding. Jet fuel demand that day jumped to 3 million gallons, up from about 1.5 million gallons usually used per day, and airport officials worried about running out of fuel. Jet fuel demand has been running about 55 million to 60 million gallons a month over the last quarter. That's still well below averages of about 80 million gallons/month a few years ago, but it's a sharp improvement over the low of 30 million gallons used last April.

***

3 new cargo carriers thru Anchorage

Anchorage airport officials landed three new international cargo operators recently, all Chinese. They include Yangtze River Express; Great Wall Airlines and Shanghai Airlines. Other good news on the aviation front: Japan Airlines did 17 special tourist charters during the 2009 summer season, 3 more than in 2008.

Passenger and freight volumes through Fairbanks International Airport have been surprisingly steady and are even up a bit, a big contrast with Anchorage, which has been hit with major declines. Fairbanks' aviation steadiness is now helping ease the volatility seen in Anchorage.

***

Signing of the agreement for Golden Valley Electric Assoc. to purchase the Healy Clean Coal Project was delayed until Dec. 11.

***

Health care costs:

Big spread in Alaska-Northwest medical, insurance costs

It's no secret that health care, and health insurance, are more costly in Alaska, but specific data is now coming out. Information from the Wilson Agency, shared at a recent Anchorage Chamber of Commerce meeting, showed that recent renewals for health coverage cost employers almost twice what renewals cost in the U.S. northwest region and the nation. Recent renewals have averaged 15.6 percent in increases compared with 8.6 percent in the northwest region and 7.3 percent in the nation. The average annual cost for employee covered after the increases was $9,902 in Alaska, $7,321 in the northwest region and $7,646 in the nation.

Meanwhile, a study now underway by the state Division of Insurance is comparing costs of specific medical procedures in Alaska and the Seattle area and showing startling differences. State insurance director Linda Hall said the study, which is still underway, shows costs in Alaska ranging from 50 percent to 150 percent higher than Seattle for specific procedures. Hall cited examples of findings so far: Annual physical: 32 percent higher in Alaska; tissue examination: 45 percent higher in Alaska; colonoscopy: 56 percent higher in Alaska; knee surgery: 116 percent higher in Alaska; gall bladder surgery: 140 percent higher in Alaska.

Cruise passengers down slightly in Ketchikan, but spending takes a big dip: Cruise passengers declined slightly in Ketchikan this past summer, down .5 percent to 937,419, but jewelry sales, an indicator of passengers' local spending, dropped 21 percent. Local hotel stays dropped 20 percent. That pretty much confirms the perception that while the cruise ships were filled this year by heavy discounting, the passengers were in a really tight-fisted mood. Ketchikan Visitors Bureau presented the data to local business groups recently.

Minerals exploration spending drops, but this is not what it seems: Exploration spending was down in 2009 and is expected to be down further in 2010, state officials say. However, the reduction isn't being interpreted as gloomy news within the mining community because people realize that much of it is due to the maturing of the giant Pebble project from advanced exploration (which involves drilling) to the permitting and advanced development planning stage, which will involve less field work. The informal estimate by state officials is that exploration spending dropped from $347.3 million in 2008 to about $160 million this year. Spending may dip further to $100 million to $150 million next year.

Despite that, there are vigorous exploration efforts underway on gold projects with prices for that metal at record levels. Exploration on base metals projects like copper and zinc should pick up too with the current turnaround in prices for those metals.

Business Intelligence

Municipal Bond Bank, state keep good ratings on credit

Government units around Alaska including the state itself continue to get good ratings on bonds, a reflection of Alaska's sound financial condition, which contrasts sharply with states like California. Moody's Investor Services recently assigned A1 ratings to the Alaska Municipal Bond Bank's planned sale of two bonds totaling $29.2 million for solid-waste projects in the Kenai Peninsula Borough and an aquatic center in the Ketchikan Gateway Borough. The A1 rating indicates that investors can expect little risk of default. The state itself and major municipalities have AA ratings. Financial markets are looking at the state's healthy revenue situation (for the short term) and hefty cash reserves that exceed $7 billion, and the favorable attitude affects views of municipalities also.

The bond bank is a state entity that issues bonds on behalf of municipalities, if they choose to use it. State debt managers and the bond bank nailed down what must be a record low (for Alaska, anyway) 30-year 3.6 percent interest rate on behalf of Ketchikan and the Kenai boroughs project.

ANCHORAGE MAYOR GIVES ASSEMBLY FIVE-YEAR FISCAL PLAN: Anchorage Mayor Dan Sullivan released the city's year-end revenue forecast, which he said is aimed to reassure the Anchorage Assembly that the numbers his finance executives are giving them are reliable. The Assembly uses the Mayor's forecast in preparation for passing next year's budget. The last report the Assembly received from the previous administration was faulted by Sullivan's administration because it was the sort of forecast that works well when the economy is stable. This year's report is "more sensitive to current economic conditions" and likely to be more accurate than the one issued last year, officials said. Former Mayor Mark Begich's finance department had forecast that the city would end the year with an $8.9 million fund balance, but the final numbers showed the city $15 million in the hole at year-end.

TWO DOWNTOWN ANCHORAGE HOTELS FACE LABOR PROTESTS: Downtown Hilton and Sheraton hotel workers have joined together in an effort to promote a boycott of the two hotels, claiming that their employers unfairly imposed a heavier workload on room attendants and more expensive health coverage. In October, the Sheraton announced it was raising monthly premium for family health insurance to $800. A representative for the union Local 878 says the premium increase means many workers will opt to have no coverage because they wouldn't be able to afford it. The union also said the Sheraton boycott is not a strike, and that it is asking potential guests not to eat, sleep or meet at the hotel until the boycott is over. While the Sheraton boycott started recently, a similar action at the Hilton has been going on since May after the hotel adopted a different workload requirement for workers. Some groups, such as the NAACP, and Alaska-based chapters of teachers, carpentry and nurses unions have pulled their meetings from the Hilton.

Continued top right

CIRI PARTNERSHIP ON FIRE ISLAND WIND PROJECT MUST BE RESTRUCTURED: EnXco has pulled out of the Fire Island wind project partnership with Cook Inlet Region, Inc., but CIRI says it will continue with the project while pursuing another partner. It said the project will be finished and generating electricity for Anchorage by the end of 2011. CIRI cited "mismatched business goals" as the reason for its split with EnXco. The Anchorage-based Alaska Native corporation hopes to sign with another well-known wind farm developer soon, but, if needed, it can fund the project without an equity partner. So far, CIRI has spent $1 million clearing land for the turbines and studying the island's geology. The project is expected to cost around $165 million including the state's commitment of $25 million for a transmission line to link the wind farm with the Anchorage electrical grid. The state money is conditional on CIRI reaching a power sales agreement with regional electric utilities and securing regulatory approvals of the contracts. CIRI said its cost estimates will be refined in coming months.

The board of Northrim BanCorp declared a quarter cast dividend of 10 cents a share, payable Dec. 18 to shareholders of record on Dec. 10. The bank said its growing profits and a solid balance sheet allowed it to maintain its cash dividend.

DOE GRANT TO INVESTIGATE SEWARD PENINSULA GEOTHERMAL: Department of Energy awarded a $4.6 million grant to University of Alaska Fairbanks researchers, who will use it to evaluate the geothermal resources at Pilgrim Hot Springs on the Seward Peninsula. The grant requires $1 million in local funds, which have not yet been secured. There are a number of "warm water" geothermal projects being investigated since the technology to produce power with warm, rather than hot, geothermal water was developed at Chena Hot Springs near Fairbanks.

Continued on page 8

Petroleum:

Slow year for exploration on slope

It's going to be a slow year for exploration drilling on the North Slope. Only two companies, both independents, are planning wells. One is Brooks Range Petroleum, drilling just north of Prudhoe. The company is hoping to find more oil in the vicinity of a small discovery made previously, and prove up enough reserves to develop the prospects. Further east, Savant Resources will return to the Badami area to finish drilling an exploration well started last year, and then drill a new sidetrack test well off a Badami well drilled previously by BP. This will be the first test of Savant's theory that the thin Badami oil reservoir sands can be produced with horizontal wells. BP failed in its previous attempt to develop Badami with conventional wells. Savant has done a "farm-put" deal with BP.

***

Big firms absent from exploration

Notably absent this year in exploration is Chevron, which as been exploring south of Prudhoe, ConocoPhillips and Anadarko Petroleum. Anadarko said it will not drill in the Brooks Range foothills this winter, but will evaluate the three wells it completed last seasons. Anadarko and its partners Petro-Canada and BG completed two years of foothills exploration drilling on a group of state and private leases near Umiat in what is called the Gubik Complex. The group had planned a test on its Chandler well this winter but decided that a program to test only one well was not cost-effective. The company hopes to conduct the test, and drill two more wells, next winter.

***

Another independent, Renaissance Umiat, is quite keen on its plan to develop shallow high API gravity oil at Umiat. The company hopes to work with the state on a road extension from the Dalton Highway, which could also support a pipeline connection to the TAPS line.

***

Salazar plans new NPR-A lease sale

Future oil and gas lease plans include Alaska, according to Interior Secretary Ken Salazar, who announced 38 lease sales scheduled on public lands, mostly in Alaska and Western states. The secretary was critical of the oil and gas industry's complaints that the Obama administration has curtailed oil and gas lease sales and for suspending the award of 66 of 77 leases sold at a contested December 2008 auction in Utah. The secretary responded by pointing out that 32 onshore lease sales have been held this year, offering more than 2.7 million acres in the West and generating more than $126 million in revenue. *The 38 lease sales for next year include the first sale in nearly two years in the National Petroleum Reserve-Alaska, where environmentalists want a permanent ban on oil and gas drilling.*

***

Shell cites new study on spill cleanup

A study funded by Shell and six other oil companies claims that it is easier to clean up oil in Arctic ice than in open water. The study argues that oil spilled in open water tends to spread over large areas and could contaminate shorelines. Ice acts as a blockade, however, that can trap the oil and allow responders more time to clean up. The spill study was conducted in Norwegian waters and used 5,944 gallons of oil. It tested several cleanup techniques, including mechanical skimmers, burning oil surrounded by fireproof booms, and chemical dispersants to force the oil to dilute to the point where it can be eaten by microorganisms. The study was presented to a group of state and federal regulators, Arctic village officials, advocacy groups and others. Most in attendance said the research was important, but some who attended raised concerns about the study being funded by industry. Such studies, which involve intentionally spilling oil, can't be done here under U.S. laws.

***

Minerals:

A record year for Alaska coal exports!

Usibelli Mines is having a great year with coal exports, and will load a record 12 ships in Seward this year. This will result in the mine producing over 1.8 million tons in 2009, also a record. The happy result is that the company has also beefed up its production workforce, hiring another 18 at the mine to its normal complement of 70. The coal is being shipped to a variety of locations in Latin America and Asia. Alaska coal is sought after because of its superior environmental qualities.

***

Fort Knox Mine now set until 2018

Kinross Gold has its new heap leach gold recovery project working at the Fort Knox Mine near Fairbanks. Combined with an expanded pit, the mine is now set to continue operations until at least 2018. The heap leach and pit expansion required an approximate $300 million investment by Kinross. The company is now exploring for new gold reserves in the mine, and increased its exploration budget by 30 percent in 2009. Two other projects planned at Fort Knox: Raising its tailings impoundment dam another 54 feet and expanding the mine's vehicle storage.

***

Court blocks Pebble injunction

A state Superior judge rejected a motion by a coalition of eight Native village corporations to block further drilling and water usage at the Pebble project in Southwest Alaska. However, the judge also rejected the state's motion to dismiss the case, which claims that state regulators violated the Alaska Constitution when they approved exploration permits for Pebble. The suit alleges that exploration drilling in the area has scared off wildlife. At least one environmental firm, Trustees for Alaska, put a positive spin on the rulings, saying that at least the judge was

Pebble injunction is defeated (Cont.)

allowing the case to go forward. Pebble officials said a ruling in favor of the plaintiffs would have impacted their ability to do work, leading to delays in the project.

***

Fisheries:

2009 salmon value down sharply

Alaska's 2009 salmon catch totaled 162 million fish, 15 million more than in 2008, but the ex-vessel payments to harvesters totaled $370 million, down from last year's $452 million paid for a smaller harvest. Prices were down for all species but king salmon saw the most dramatic fall, 42 percent, due to the recession's effects on the restaurant trade, where most kings are sold. Coho, another higher-value species, saw prices decline 33 percent. Sockeye salmon saw a less dramatic decline. Prices averaged 80 cents/pound, down only 5 percent from 2008.

***

Steller sea lion populations in southwest Alaska are slowly increasing, scientists told the North Pacific Fisheries Management Council. Surveys showed a 10 percent increase in seal pups between 2005 and 2009. This is good news for the fishing industry because the stellers are listed as endangered, which results in many areas being put off-limits to harvesting.

***

Effort to block one-fish rule falters

Halibut charter operators lost an effort to halt the National Marine Fisheries' Service one-halibut-per-day rule going into effect in Southeast Alaska, which will seriously hamper the halibut sports fishing industry in the region. The court cited charter operators' consistent exceeding of NMFS' harvest guidelines, however. In 2008 the charter fleet harvested volumes twice those recommended in the guidelines.

***

Business Intelligence (Cont.)

Continued from page 5

KENAI APPROVES RESIDENTIAL WIND POWER ORDINANCE: The Kenai City Council approved an ordinance establishing rules for building small urban wind generators on city residential lots, which officials said is the most progressive set of wind turbine regulations in the state. Kenai joins Homer in becoming the only two cities in Alaska that have addressed the issue of wind generator development within city limits. However, unlike Homer where a wind turbine has to be on lots of more than an acre, Kenai will allow them on 20,000 square feet lots.

ANCHORAGE RETAILER EXPANDS IN MIDTOWN: Anchorage-based Sagaya Corp., parent company of the New Sagaya Midtown Market in the city's midtown area, purchased adjoining property and razed a tire store and emission test center to expand parking. The project is part of a broader plan to expand the store itself. Another Anchorage developer, Mark Pfeffer, plans a small retail building along 36th Avenue is working with Sagaya owner Paul Reid to prepare their adjoining land for development.

BIG NOME HOSPITAL PROJECT UNDERWAY IN SPRING: Construction on the new $91 million Norton Sound Regional Hospital in Nome will get underway in the spring, and will triple the size of the existing facility. The current hospital, with portions dating back to 1940, employs about 450, but that number will increase by at least 100 when the new hospital is completed in 2012. The 19-bed hospital will have two beds designated for labor and delivery. The new facility is funded under the American Recovery and Reinvestment Act as part of the federal stimulus plan. The contract was awarded to Inuit-NCI, a joint venture of Inuit Services Inc., a subsidiary of the Bering Straits Native Corp., and Neeser Construction Inc. of Anchorage.

KETCHIKAN SHIPYARD IS FULL, AND BUSY: Alaska Ship & Drydock has been busy in Ketchikan, recently launching the Chevron Legacy fuel barge from is new Drydock #2. The drydock is now occupied by Alaska Warrior, a fishing vessel. The state ferry Malaspina is on the other drydock undergoing maintenance. The shipyard is also building a new ferry that will operate in Cook Inlet, connecting the Mat-Su Borough with downtown Anchorage. The Ketchikan Shipyard is owned by the state's Alaska Industrial and Export Authority and leased to Alaska Ship and Drydock, which is the operator.

SITKA WORKS TO SECURE STATE FUNDS FOR BLUE LAKE HYDRO: Sitka officials are working on efforts to secure a $12.5 million in state funds for its Blue Lake hydro expansion project, to replace federal money that recently dried up. Congress is in an anti-hydro mood, an obstacle to efforts by the Alaska delegation to get hydro classified in federal law as a renewable energy source. The Blue Lake project was originally estimated at $50 million. The city previously obtained $12.5 million in state funds and had hoped to get an equal amount in federal funds and finance the rest with bonds. The cost has now increased to $65 million but the city still hopes to move ahead and have the project in construction in 2012. Meanwhile, officials face a decision soon on whether to order a long lead-time $17 million turbine.

Special **Resource Supplement**
--Alaska Economic Report & Alaska Legislative Digest

A special service of:
Alaska Economic Report
–A special supplement available only to regular report subscribers by special order.

Resource Supplement
December 3, 2009
No. 20/09

DEC's Division of Water Quality

A gradual state takeover of federal NPDES permits

The Division of Water within the Department of Environmental Conservation, deals with water quality issues in the state. With the exception of drinking water, which falls under the purview of the Division of Environmental Health, the Division of Water is charged with improving and protecting the state's water quality. The Water Quality program includes the following five programs: 1) Cruise ship discharge regulation; 2) Wastewater discharge authorization; 3) Water Quality Standards, Assessment and Restoration; 4) Compliance; and 5) Primacy under EPA's National Pollutant Discharge Elimination System (NPDES). *In this report we focus on the state DEC's gradual assumption of authority to issue federal discharge permits under the NPDES program.*

Background

The EPA has authority under the federal Clean Water Act to control discharges into the "waters of the United States" (just what constitutes these is the subject of litigation, but it is clear that it includes wetlands). The Clean Water Act allows EPA to delegate the administration of these permits to states and many states have done this. Similarly, the EPA has authority under the Clean Air Act to delegate permit authority to states, and DEC has administered air permits for many years under this program.

Until recently Alaska allowed EPA to issue the permits partly because of cost (EPA pays for them) although the state has always had some involvement in the federal permits, certifying that state water quality standards are met, for example, and has previously charged applicants for these services. As it assumes control of the NPDES program applicants will pay all of the costs.

The key advantage of the state administering the NPDES program is that state officials understand unique Alaska conditions better than most EPA officials in the Seattle Region 10 office, and dealing with state rather than EPA reduces applicants' costs, such

Continued on next page

Special Resource Supplement, available only to regular subscribers of the Alaska Economic Report or Alaska Legislative Digest at an additional rate of $130/year; 3037 South Circle, Anchorage, Alaska 99507
(907) 522-0195 - Fax (907) 522-1761

Advantages of state vs. federal permit management

Continued from previous page

as in travel to Seattle to the Region 10 offices. The criteria and the guidelines are the same whether the program is administered by the state or by EPA. The Legislature authorized DEC's assumption of the program several years ago. On Nov. 1, 2008, in "Phase I", DEC assumed control of NPDES permits for domestic wastewater (municipal) treatment plants, about 250 seafood processor plants, about 80 log transfer facilities and approximately 30 salmon hatcheries. For the most part the transition has gone smoothly, the only issues being establishing synchronization between certain state and federal regulations, which caused some seafood processing permits to take longer than expected.

On November 1, 2009, DEC assumed control of permits for storm water discharges in "Phase II," as well as water treatment facilities on federal installations, including military bases. The stormwater discharge issue affects many industries, including construction, because the permits regulate how operators will manage water runoff from rain and snow which can carry pollutants or sediments into the natural environment. Another element of Phase II is incorporating pretreatment requirements to the domestic wastewater sector. Pretreatment provisions insure that industrial operators served by municipal sewage treatment plants treat their direct disposals to remove toxic contaminants before entering the sewage system.

Rural village sewage treatment plants

One of the more difficult areas DEC will have to deal with in Phase II is permits for numerous small rural sewage treatment plants, which will continue to include some measure of inspection to insure the facilities are being maintained and are operating properly. Climate changes may affect many rural treatment plants because permafrost thaw, erosion and other impacts could affect lagoon-type treatment plants and other infrastructure. For instance, rising temperature could increase algae and plant growth in lagoons which will complicate effective biologic treatment. Research and technology improvements for small rural treatment plants are beyond DEC's present authority and budget but it is clearly an area that will have to be addressed. The rural communities have focused on the integrity of drinking water systems since DEC had federal delegation of this program. Wastewater treatment was given a somewhat lower profile because EPA and the state recognized that not all of these rural systems could meet regulatory standards without increased investment.

Continued on next page

State will administer mining NPDES permits next year

Phase III of the NPDES takeover begins Nov 1, 2010, with DEC assuming authority for hard rock and placer mines. This is a complex area that involves controversial permits for large projects, and while the takeover is still a year away the agency is already engaged in strategic planning and has been able to add to its engineering staff to prepare. DEC points out that it is already heavily engaged on the mining permits, not only with EPA on the NPDES permits but also on a wide variety of state permits needed by a mine. The agency also works closely with the Division of Mining in the Department of Natural Resources. To that extent the state assumption of the NPDES permit represents an incremental, but not hugely significant, increase in the state's involvement in mine permit issues.

That said, there are large mining projects in advanced stages of exploration and development-planning, such as the Donlin Creek gold mine on the Kuskokwim River, the Pebble copper/gold project near Illiamna and the International Tower Hills gold project north of Fairbanks that will attract substantial public attention to their permits. There are about 10 significant mining operations in the state that now have NPDES permits along with about 300 large and medium-sized mechanical placer mines. There are also several thousand small placer miners using suction dredging, many of them bordering on recreational operations. Most of the smaller placer mines will be handled under general permits that require less specific action and staff time by the DEC.

Phase IV of the takeover begins Nov. 1, 2011, with DEC assuming authority over oil and gas operations and certain other operations including "munitions" discharges (although Alaska doesn't have any currently permitted). EPA has established regional NPDES permits (i.e. the "North Slope" permit, and the "Cook Inlet" permit) as well as the permit for Alyeska Pipeline Service Co. ballast water treatment plant in Valdez. DEC will assume management of these and will coordinate the reissue when that is needed.

Criteria for toxicity of discharges

Another area DEC's water division works in is developing, and updating, criteria that establish and measure allowable levels of metals and other substances in water discharges. The EPA relies mainly on specific numeric criteria of allowable levels of toxicity based on extensive nation-wide research, and because DEC lacks its own research capability the agency generally adopts the EPA criteria when numeric standards are called for. However, states also have leeway to adopt narrative criteria for toxic substances. For substances whose toxicity or other impacts are either unknown

Continued on next page

Criteria for toxicity: States given some leeway

or insufficiently quantified to specify numeric criteria, descriptive narrative criteria are used to protect against the adverse effects of such substances. For instance, a narrative critera for petroleum discharge would be "no visible sheen" for some protected uses. But a more strigent numerical standard would limit the amount of toxic components of hydrocarbons.

Fees are always a concern for permit applicants

DEC's fee structure for its permits has always been a subject of interest. Discharge permitting is supported by EPA grants to administer the Clean Water Act in the state; general funds approved by the Legislature and program receipts such as fees. Wastewater permit fees are set by regulation and are based on staff time associated with issuing the permits. There are standard fees for certain classes of discharges. Flat fees have an annual cost even if the permit is for five years, i.e. the annual fee is the estimated five-year cost divided by five. Annual costs, such as for inspections, are included in the fees. Fees represent a small portion of total costs to issue wastewater permits.

The agency has completed its first five-year review of actual costs of administering several types of permits and has revised regulations pending before the Lt. Governor for final approval. Assuming the regulations are approved the new fees go into effect December 23, 2009. Some sectors such as oil and gas will see increases, while some may actually see decreases. In general the fees are modest in scope and should not create a significant cost for operators.

Division staffing: There are issues

The division employs 143 managers and staff, and it recently recruited a new mining engineer because of the increased activity in that sector. The wastewater program has about 43 staff for permitting and engineering plan review. The division has had trouble filling engineering jobs as well as management-level positions because of more competitive salaries in the private sector. However, with the economic downturn, the number of applicants for vacant positions has increased, including applications from the Lower 48.

There are still issues with retaining younger employees, who, after they are trained, tend to leave for better-paying jobs with industry. The division will also face a big "brain drain" and loss of institutional knowledge in the next few years as older workers retire. To counter that, the division has begun an effort to create a data system accessible statewide which would give guidance for staff, who will be able to access needed information through the data and electronic documents and not have to rely solely on institutional memory of supervisors.

(c) ISSN: 1072-8139

Bradner's
Alaska Economic Report

— *Tracking resource, business, industry & construction issues since 1974*

Publishers: Mike and Tim Bradner (907) 522-0195
3037 South Circle, Anchorage, Ak. - 99507

December 29, 2009
No. 21, 2009

AEA: Susitna "lite" hydro may be feasible

A refinement of the Susitna hydro project study by the Alaska Industrial Development and Export Authority and its consulting firm, HDR, has cast a one-dam Susitna hydro development scenario in a new light, to the point that it ranked as a key preferred energy alternative in the recently-completed Black & Veatch energy portfolio study by AIDEA's sister agency, the Alaska Energy Authority. *(See page 3 for more on the study).*

Earlier versions of the Susitna study, an update of 1980s studies, held that the project on the upper Susitna River would only be feasible if two dams (Watana and Devil's Canyon) were built simultaneously to achieve both the power production economies of scale of a larger project and the economies of building both at the same time. This conclusion caused most people to discount the project as too big and with too much of a front-end price, just under $10 billion. HDR went back to the drawing boards, however, and looked again at a scaled-down one-dam version of the project, a "low" Watana dam only. This now appears more affordable than previously thought, particularly if the $4.5 billion cost is repaid with a levellized debt service over a longer term. Black & Veatch found both Susitna and a second major hydro project, Chakachamna, attractive and listed

Continued on page 2

In this Issue:

Housing data shows tightening state economy

The most recent data from Alaska Housing Finance Corp. reflects a tightening state economy, but conditions are nowhere near those in other states. Statistics through Oct. 31 showed Anchorage home sales off 8 percent but average home values ($321,000) down only 1.5 percent. AHFC sees the same basic trend in other parts of the state.

Delinquencies on home loans statewide through Sept. 30 increased from 2.66 percent for the first three quarters of 2008 to 5.07 percent for the same period of 2009. Nationally, 9.94 percent of home loan borrowers are delinquent. Alaska ranks near bottom, at 50th of 52 U.S. states and territories included in the delinquency data. Foreclosures among total home loans statewide were

Continued on page 2

Bradners' ALASKA ECONOMIC REPORT: Published by Alaska Information and Research Services - Email mdbradner@gci.net
3037 South Circle, Anchorage, Alaska 99507 TEL: (907) 522-0195 FAX: (907) 522-1761 Editor: Shehla Anjum

General Business:

Broadband in Southwest Alaska

Rivada Sea Lion LLC, a joint venture of the Hooper Bay village corporation, received a $25.3 million federal stimulus grant that will help fund the corporation's proposed Southwest Alaska Broadband Rural Expansion. The corporation will contribute $6.4 million of its own funds toward the project. The plan is to connect 53 villages with broadband service.

***

The popular Iditarod sled dog race is having to trim spending due to shortfalls in fund-raising. A budget of $3.7 million approved for this year has already been trimmed by $500,000 mostly due to the loss of two major sponsors and a media partnership. Prizes to winning mushers are being cut, form $925,000 two years ago to about $525,000 for this year. Sponsorship losses include reductions of sponsor funds from outdoor retailer Cabela and Chevron Corp. On the plus side, a five-year sponsorship of $1.5 million from ExxonMobil is offsetting some losses.

***

New study pushes big hyrdro (Cont.)

Continued from page 1

them on the preferred alternative list for new "railbelt" power generation sources, but noted that cost estimates and environmental work for Chakachamna are at a very early stage. Chakachamna is a lake-tap hydro project west of Anchorage near Mt. Susitna. If the Chakachamna work to date turns out true to might be a better alternative for a major hydro project in the energy portfolio, the consultants said. There's a lot more confidence in the Susitna cost estimates and environmental assessments because of the considerable work done in the 1980s as well as AIDEA's recent reassessment, Black and Veatch said. A key recommendation now is for further work to be done on both hydro projects to put the state in a better position to make a decision.

***

Housing reflects a slowdown (Cont.)

Continued from page 1

also rising, up from 0.88 percent to 1.4 percent. The national average is 4.47 percent. AHFC's foreclosures among its own 22,000-loan portfolio, was 0.0029 percent.

***

Weatherization yields big savings

The $350 million appropriated by the Legislature for home energy weatherization is yielding significant savings to homeowners, according to the Alaska Housing Finance Corp. There are two parts to this program, a "weatherization" program aimed at lower-income groups and an "energy rebate" program for homeowners with no income limits. Lawmakers approved $200 million for a home weatherization program. Of this, $73.2 million has been "encumbered," or allocated to specific projects (much of it through regional housing nonprofits). In this program 1,740 homes were weatherized in Fiscal Year 2009 (the state budget year ending last June 30); 4,000 will be weatherized in FY 2010, the current budget year ending next June 30; and 7,500 are expected to be weatherized in FY 2011, which begins next July 1. In 2010 over 100 communities will be served under the program.

In the home energy "rebate" program, which has no income limits, $160 million was appropriated and $139 million is now "encumbered," or allocated to applicants. About $23.6 million has actually been spent. About 2,300 rebates have been paid averaging about $6,100 each with the homeowner's own investment averaging $4,300. Savings per year is averaging $1,334, giving the homeowner a 3-year payback on the homeowner's share of the investment

AHFC surveyed homes in the program and found average energy cost reductions of 26 percent and energy use reductions of 31 percent.

***

Long-range energy project planning:

Recommendation for big hydro, ditching of coal raises eyebrows

The long-awaited recommendation on an integrated long-range electrical generation plan for "railbelt" utilities is out. The study was done by Black & Veatch, a consulting firm, for the Alaska Energy Authority and the regional electric utilities, who were on an advisory committee. Black & Veatch came up with a "preferred" near-term list of generation projects heavily weighted toward major hydro projects. A key recommendation is that a major hydro project, either a Susitna dam or a lake-tap project at Chakachamna, be built. Cook Inlet Region's Fire Island wind project is on the preferred list, along with the new gas-fired Southcentral Power Project planned by Chugach Electric and Municipal Light & Power. The study didn't directly address gas alternatives but assumed it being available at a certain price. Big savings were possible for energy efficiency and conservation measures – as much as a 10 percent reduction in energy use, the study indicated.

Key assumptions are that the utilities will join in forming a jointly-owned entity to build new generation and transmission capacity, as has been proposed, that the state's goal is still 50 percent of its power supply from renewable sources by 2025, and that some form of carbon tax or carbon emissions cap-and-trade will be eventually passed by Congress. State assistance will be needed in building the new capacity because the power project costs total $6 billion and above, and the combined credit ability of the railbelt utilities is no more than $1.5 billion, and maybe less.

What surprised people is that the study essentially puts coal off the table, since it assumed eventual Congressional enactment of some form of carbon legislation The big surprise was that the study recommended against restarting the mothballed 50-megawatt Healy Clean Coal Project, which AEA's sister agency, the Alaska Industrial Development and Export Authority, owns and is on the verge of transferring to Golden Valley Electric Asso. of Fairbanks. GVEA wants to get the plant up and running.

Delays in signing Healy coal plant sale; new concerns over air permit?

The signing of final sale documents transferring the mothballed Healy Clean Coal Project from the state to GVEA keeps getting delayed for reasons that are not clear. Both sides cite "paperwork" but there are some reports of concerns over the anti-coal stance of the Obama administration. The deal was to have been done in November, was then pushed Dec. 11 and then delayed again. Meanwhile, a needed renewal of the air quality permit for both the HCCP and its smaller neighbor, the 25-megawatt Healy 1 coal plant, may also be hitting snags. The renewal prompted 60 comments to the state Dept. of Environmental Conservation, some of which may have raised substantive issues. There are also worries over EPA Region 10, now taking an activist stance on several fronts. EPA may second-guess DEC on the permit, which it can do under the Clean Air Act. Another problem is that this permit covers Healy 1, an operating coal plant, as well as the shut-down HCCP.

Business Intelligence

Drain of summer cruise tourists continues with cruise ship realloca-

Holland America Lines and Princess Cruises will move one ship each from Alaska to Europe in 2011. The two cruise lines are among six that plan to reroute ships to Alaska next year. The new cuts in 2011 sailings mean a loss of about 19,500 passengers, which is on top of the earlier expected loss of 140,000. During its peak, the cruise industry brought about 1 million passengers to Alaska each year, but for the next two summers that number will be about 800,000 or less. Carnival Corp, the owner of the two cruise lines, also threatened to remove more ships from Alaska waters if a 2006 voter-approved law that created a passenger levy and other taxes is not removed. Many in the state's tourism industry have joined the cruise lines in asking state officials and the public to rescind the law because the cutbacks will hurt every community that relies on tourism.

AIRPORT ACTIVITY PICKS UP IN NOVEMBER: Combined passenger and cargo aircraft activity was up 11 percent in November at the Anchorage and Fairbanks airports, state airport officials say. This is an indication that the sharp slump in aviation activity, particularly cargo, may be coming to an end.

JAL CUTS FAIRBANKS WINTER FLIGHTS; VISITOR NUMBERS MAY REMAIN HIGH: Japan Airlines will halve its winter flights to Fairbanks this winter, offering nine direct flights from Tokyo instead of the 18 last year. The action was taken because of JAL's corporate restructuring. Fairbanks is a favorite destination for Japanese tourists who come to view the aurora borealis. In 2008, the 18 flights were a large part of the $4 million that Japanese tourists spent in Fairbanks. In the same year, the Interior was a destination for about 29 percent of Alaska's winter tourists. Despite the cutbacks in Japan Airlines flights, local tourism officials say Japanese visitors can be rerouted and there is new interest in visiting Fairbanks in Taiwan and South Korea. *Bernie Karl, operator of the popular Chena Hot Springs resort east of Fairbanks, says he has seen no downtown in winter business so far.*

SULLIVAN CUTS ANCHORAGE'S MUNICIPAL BUDGET: Mayor Dan Sullivan cut $174,000 from the $421.4 million budget for Anchorage and vetoed last minute additions put in by the Assembly for arts and cultural service grants and library services. However, the mayor let stand about $600,000 in additions that were part of a compromise package worked out earlier by some Assembly members. The final budget will result in the loss of about 200 jobs, of which 55 to 60 are currently filled. Layoffs will be made in coming weeks, the mayor said.

Anchorage's retail is showing life: Four new stores have opened in the Northway Mall in east Anchorage. The stores include two that sell clothing, one that sells used children's clothing and toys, and one, a kiosk, that sells video games and accessories for gaming systems.

PARNELL PUSHES NEW STATE ROAD TO GUBIK, UMIAT REGIONS ON SLOPE: Gov. Sean Parnell wants the Legislature to appropriate $8 million for preliminary permitting and

Continued top right

environmental work for a 90-mile road that could reach Umiat along the Colville River. The road would make possible development of the known Umiat oilfield, which has an estimated 250 million barrels of light sweet oil. The road is estimated to cost $350 million to build, and the governor said underwriting the cost of a road for the petroleum industry would lead to jobs and spur production. The road, if built, would also provide access to the Gubik natural gas discoveries east of the Colville River, although it is not yet known if these can be commercially developed. *(See more in our Resources Supplement.)*

RURAL IN-MIGRATION EFFECT ON ANCHORAGE SCHOOLS MINOR, ISER SAYS: A surge in the student population in Anchorage's schools the past two years was not due to rural migration but came instead from the Mat-Su and the road system and even from other states, according to a study by the Institute of Social and Economic Research at the University of Alaska Anchorage. The study surveyed parents and guardians of students of new students to ascertain where they came from and why they moved to Anchorage. In the 2007-2008 and 2008-2009 school year more than half of the 881 new students came from other cities and towns on the road system rather than from remote villages, with the largest group of about nearly one-third from the Matanuska-Susitna Borough. The students moving to Anchorage from other parts of the state were distributed as follows: 56 percent from the road system communities; 31 percent from the Valley; 10 percent from Kenai Peninsula; 10 percent from the Fairbanks North Star Borough; 7 percent from the Bethel census area; 5 percent from the Nome census area.

Gov. Sean Parnell's one major capital budget request this year is $109.5 million for a new science building at the University of Alaska Fairbanks, which will house classrooms and laboratories. The new building is badly needed to replace current antiquated UAF labs and classrooms.

Continued on page 8

Petroleum:

More pipe spill headaches for BP

BP's headaches with spills from aging Prudhoe Bay field pipelines continue. The company experienced three spills from pipe and flow lines in late November and December, and federal investigators say they are considering new criminal charges over the spills. One was from an 18-inch pipeline that was not in use but which ruptured apparently from overpressure caused by ice forming in the line. About 46,000 gallons of oil and produced water that were in the pipeline are estimated to have spilled. Two other smaller spills were from three-inch flowlines, again involving produced water and oil.

***

Shell gets agency okays for drilling

Shell received approval from the U.S. Minerals Management Service for its 2010 exploration plan for the Chukchi Sea after receiving earlier approval for its 2010 Beaufort Sea plan. The company will spend $350 million on the 2010 program if it survives court suits and appeals procedure. The company's biggest obstacle now is to get a workable air quality permit from the U.S. Environmental Protection Agency.

As expected, two Alaska Native groups, the Alaska Eskimo Whaling Commission and the Inupiat Community of the Arctic, filed suit in the 9th Circuit Appeals Court to overturn the Minerals Management Service approval of Shell's Chukchi Sea exploration plan. Ten environmental groups filed a separate action. The suits raise issues, including effects on whales, that were similar to cases filed two years ago against a 2007 plan by Shell.

Significantly, the North Slope Borough decided against joining the lawsuits. In a statement, Mayor Edward Itta said he would rather negotiate than sue Shell. Itta said Shell and MMS

New lawsuits against Shell (Cont.)

included provisions to mitigate effects on migrating bowhead whales in its plan. The state of Alaska said it will intervene in the lawsuit on behalf of MMS and Shell.

***

The U.S. Ninth Circuit Court of Appeals ruled against environmental groups in December on a case contesting U.S. Fish and Wildlife Service permits for petroleum activity, arguing that the work threatened endangered polar bears. This is another in a series of decisions where the appeals court has deferred to the expertise of federal agencies.

***

Two Fairbanks state senators, John Coghill and Joe Paskvan, say heavy oil incentives should be included in a state energy policy bill being developed in the Legislature.

***

Flint Hills grapples with contamination

Tests showed more wells near a Fairbanks refinery are tainted with an industrial chemical. Last month, Flint Hills Resources announced that six wells near its North Pole refinery had tested positive for sulfonane, a chemical with mostly unknown long-term health effects. Sulfonane is used to make fuel thatbonds easily with water, and Flint Hills believes a spill of the chemical that occurred some time ago reached the water table near the refinery, affecting wells. All homes with wells being tested have been provided bottled water until test results are known.

***

Larry Persily, staff to Rep. Mike Hawker, R-Anchorage, was named to replace Drue Pearce as the federal gas pipeline coordinator. Persily must be confirmed by the Senate, so he will continue to work in the Legislature until that happens.

***

Interested in the state Legislature? Inquire about out sister publication, Alaska Legislative Digest.

Fisheries:

NPFMC slashes 2010 pollock harvest

The North Pacific Fishery Management Council set the 2010 limit for Alaska pollock at 813,000 metric tons, the lowest amount in 30 years. That council's move is an acknowledgment that stocks of the Bering Sea pollock are in a bad way. The 813,000-ton limit was proposed by fisheries scientists, and was down slightly from last year's limit. The Marine Conservation Alliance voiced its support for the limits, but conservation group Oceana said the limit should have been set even lower to help restore pollock stocks, which are an important food source for salmon and Steller sea lions.

***

Cost overruns on Fairbanks hatchery

A new $45 million state fish hatchery that will raise rainbow trout and Arctic char for Interior lakes has hit cost overruns, and has lost its worker housing and researchers labs. The hatchery, at the University of Alaska Fairbanks, and a new $100 million facility being built in Anchorage will replace two hatcheries at Elmendorf Air Force Base and Fort Richardson in Anchorage. The Fairbanks hatchery will open next summer, and the one in Anchorage will be ready in summer 2011. At present the state Division of Sport Fish spends about $2.3 million yearly to run the hatcheries at Elmendorf and Fort Richardson. The new hatcheries will cost about $4 million per year, with $2.3 million yearly for the Anchorage hatchery and $1.7 million yearly for the Fairbanks facility.

***

Fish board ducks Pebble proposal

No action on Pebble fish refuge

The Alaska Board of Fisheries agreed to ask the Legislature to determine if the proposed Pebble project warranted additional protection for fisheries in the Bristol Bay, but adjourned without finalizing a letter on the subject. However, the letter might be finalized in the next few weeks, according to the board's staff. The board had earlier heard testimony about the pros and cons of the proposed Pebble gold mine and the need for creating a new state fish refuge in the Nushagak and Kvichak river drainages that are in that area. The board decided that instead of creating of a new refuge it would ask if current fishery protection is adequate.

***

Timber:

Judge halts Tongass timber sale

Federal judge James Sedwick halted the North Orion timber sale planned for a roadless area of the Tongass National Forest in southeast Alaska. Earthjustice, an environmental law firm, argued the project was devised more than a decade ago, and since then costs of timber sales have risen but timber prices have gone down. Earthjustice said the project near Ketchikan would have cost taxpayer $1.6 million to build roads in the Tongass, while generating only $141,635 from the trees.

***

Ketchikan mill switch to firewood?

Ketchikan sawmill owner Steve Seley is seeking U.S. Dept. of Agriculture funds to adapt his Pacific Log and Lumber mill to make firewood from young trees, moving away from dependence on old-growth forest logging that is opposed by conservation groups. Seley believes firewood sales can be profitable, an added plus, given pending climate change legislation, is that firewood is considered carbon-neutral as a fuel. The proposal, developed with the Ketchikan Gateway Borough, seeks $2.46 million in federal funds that would be matched with $1.63 million from Seley. A decision from the USDA is expected in the spring.

***

Business Intelligence (Cont.)

Continued from page 5

BRISTOL BAY CORPORATION'S ANTI-PEBBLE STANCE SPARKS LOCAL OPPOSITION: Bristol Bay Native Corp.'s board voted to oppose development of the Pebble mine and offshore oil and gas leasing in Southwest Alaska and said such projects would have "unquantifiable impacts" on the natural resources of the Bristol Bay region. The action brought support from some other local groups but also sharp reactions from village corporations near the proposed mine. Alaska Peninsula Corp. and Pedro Bay Corp., which are close to the mine, voiced initial opposition to the BBNC action, and were followed by Iliamna Natives Inc., Kijik Corp. and Paug Vik Ltd. Nunamta Aulukestai, a Bristol Bay nonprofit representing eight villages, said it strongly supported the Bristol Bay Native Corp. statement against the mine. An independent fishing organization, Alaska Independent Fishermen's Marketing Assoc., also weighed in with its support of the regional corporation.

Pebble Partnership, the mining consortium planning the mine, says its 2010 program is still being development but that it will be similar to 2009 and will include drilling. The company spent about $70 million in 2009.

GCI DOING WELL IN RURAL CELLULAR SALES: GCI Communications has been doing a gangbuster business selling its rural cellular service, but there have been some glitches in connecting with local land-based phone companies. GCI started selling in the Bristol Bay area Nov. 16 and has sold 866 units in Dillingham and 1,272 in the region. Local subscribers can connect with GCI phones elsewhere in Alaska and Lower 48 connections but the local phone company, Nushagak Electric & Telephone, held off on the local interconnect because the Regulatory Commission of Alaska has not issued its approval.

CORDOVA GETS 6 PERCENT OF LOCALS IN GREEN POWER PROGRAM: Cordova Electric has signed up 6 percent of its local subscribers for its new "Clean Choice" green power program where customers buy blocks of energy for $5 per block per month with the money going to further renewable power sources. Most of the green energy has been purchased by business and institutional customers. Residential sales are just getting underway with completion of a new web-based purchasing center.

The U.S. Coast Guard station at Attu, in the remote Aleutian Islands, recorded a wind gust of 178 miles per hour during a recent storm. Attu was one of two islands invaded by Japanese forces in World War II.

KENDALL AUTOMOTIVE EXPANDS IN ALASKA; SKINNER SALES SHUTS DOWN: There's mixed news om the auto dealer front. Kendall Automotive Group of Oregon purchased Auto Service Co. of Fairbanks, which operates several dealerships (and was itself a consolidation of several local Fairbanks dealers). This continues a trend of purchasing by Kendall, which also now owns dealerships in Anchorage and Wasilla. Skinner Sales and Service, operator of auto dealerships in Juneau, Ketchikan and Sitka, unexpectedly shut down in early December due to undisclosed business problems.

Special - **Resource Supplement**

-- Alaska Economic Report & Alaska Legislative Digest

akecon@gmail.com

Alaska Economic Report

--A special supplement available only to regular report subscribers by special order.

Resource Supplement
December 29, 2009
No. 21/09

Alaska oil production decline: 4.8 percent

Producers' performance in aging fields is better than expected

Production data compiled by the Alaska Department of Revenue shows Alaska oil production dropped 4.8 percent during a 12-month period ending in October, 2009 compared with the same 12 months a year previous. October is the latest month in which the department has confirmed production data, department officials told us. The decline rate is roughly similar to a 4.5 percent decline for a similar 12-month period of 2008 over 2007, the data showed. The rates are also generally in line with predictions by the department made in annual revenue forecasts for the state.

The data showed Alaska produced 251,410,198 barrels of crude oil and natural gas liquids from November, 2008 through October, 2009. Production during the same period a year earlier, from November, 2007 through October, 2008, totaled 264,060,676 barrels. The same period in 2006 and 2007 showed production totaling 274,764,962 barrels from November 2006 through October 2007.

The bulk of Alaska production comes from the North Slope. Cook Inlet produced 2,886,881 million barrels in the November-through-October period of 2008 and 2009; 4,923,407 barrels for the same period of 2007 and 2008, and 5,410,334 barrels for the same 12-month period of 2006 and 2007.

Cook Inlet production affected by volcano; still not recovered

Cook Inlet production was sharply affected by the eruption of Mount Redoubt, a volcano on the west side of the Inlet, which caused a shutdown of production on several producing platforms for several months. Production from the platforms has not recovered to levels before the shutdown, the production data shows. From September through November, production in Cook Inlet ranged from an average of 8,717 barrels/day in September to 9,290 barrels per day in November.

Continued on next page

Cook Inlet production not recovered from volcano

- Continued from previous page

That compares to levels above 10,000 barrels per day before the Mount Redoubt eruption caused a shutdown of most of the Inlet's producing platforms. Chevron, a major Cook Inlet oil producer, had expressed concerns that some of the aging wells in the Inlet would experience difficulties in reaching pre-shutdown production levels after the extended shutdown.

North Slope production levels during 2009 were affected by a major maintenance program on Prudhoe Bay oil and gas processing plants during the summer, which caused slope production to drop from typical levels of 650,000 barrels/day to 700,000 barrels/day to levels below 600,000 barrels/day from June through August of 2009, the production data shows.

Data shows better than expected performance by producers

Except for Cook Inlet, the data shows better production performance by Alaska producers than many had expected, including some of the producing companies. In various presentations to Alaska business groups in 2008 and 2009, BP Exploration Alaska Inc., a major producing company, had warned that the North Slope production decline might reach 6 percent.

Producers use a variety of techniques to stem the production decline including continued drilling of new production wells, and expansions in waterflood and Enhanced Oil Recovery projects. Companies are also producing from deposits around the large producing fields that are more technically challenging, such as viscous oil that is thicker than conventional crude oil.

Work is also underway on experimental techniques to produce heavy oil. Producing companies hope that heavy oil production and expanded viscous oil will supplement the decline of conventional oil output from the large fields. However, conventional "light" crude oil is needed to mix with the heavier oils to get the mix to flow through the Trans-Alaska Pipeline System.

Major North Slope fields began a gradual decline in 1988 from a plateau rate of around 2 million barrels/day. The production decline rate is being closely watched because of potential operating problems with the TAPS pipeline when daily throughput levels drop below 550,000 barrels.

- Continued on next page

Enstar close to deal on natural gas storage

Enstar Natural Gas Co. is in the final stages of negotiations with a TransCanada Corp. subsidiary on an agreement to build a gas storage facility on the Kenai Peninsula. Cook Inlet Natural Gas Storage, LLC, a recently-formed subsidiary of TransCanada, would develop and operate the facility, which would be located in a mostly-depleted gas field. Several gas reservoirs are being considered but the Cannery Loop field near Kenai is the leading candidate, a TransCanada spokesman told us. Cannery Loop is owned and operated by Marathon Oil Co.

TransCanada has signed a Memorandum of Understanding with Enstar as a framework for negotiations, and other customers are being solicited, the company said. Because agreements are not yet signed it is premature to disclose the volumes of gas that would be stored, company officials told us. Enstar vice president Colleen Starring said her company would be an anchor customer for the project. Two regional electric utilities, Chugach Electric Association and Anchorage's city-owned Municipal Light and Power, are also considering the plan, and the project is designed to be expanded to include more customers.

Project would inject gas in summer, draw gas in winter

The project would inject gas into the reservoir for storage during the summer and withdraw it during the winter, when regional utilities have peak demand. Until recently there has not been a need for gas storage because gas fields in Southcentral Alaska had enough pressure and capacity to meet winter increases in demand. But the gas fields are now depleted and can no longer meet demand during cold weather.

Enstar and the electric utilities have been able to draw on gas diverted from a liquefied natural gas plant in Kenai owned by ConocoPhillips and Marathon during cold weather, but the future of the LNG plant is uncertain because its federal LNG export permit expires in March, 2011. Marathon and Chevron operate gas storage for their own customers, which include Enstar, but do not have enough capacity to meet all of the regional utilities' needs.

This is important because it would help Enstar meet its deliverability requirements. It would also help stimulate more exploration and development of long-term supply because the utilities would have a place to store gas and buy from producers at steady, year-around volumes.

- Continued on next page

Storage would ease gas deliverability problem

- *Continued from preceding*

That would allow producers to operate their wells at steady rates throughput the year avoiding tremendous seasonal swings in demand from the utilities. It would make the utilities more attractive customers for the producers, although the costs of operating the storage system won't be cheap, and costs will have to be paid for by consumers.

TransCanada has a long history in developing and operating gas storage through ANR Storage Co., another subsidiary that works in Michigan with Enstar's parent company, Semco Energy. ANR has been operating gas storage in Michigan since 1940. Gas storage is one of TransCanada's core competencies, the company told us.

State releases long-awaited Cook Inlet gas reserves study

The state Division of Oil and Gas released a long-awaited technical assessment of remaining gas in Southcentral Alaska fields, but cautioned the study does not consideration that development of "probable/potential" gas deposits in the fields will require investments by producing companies and higher costs for the gas.

The estimate is that remained proven gas reserves are estimated at 863 billion cubic feet in existing fields with an additional 279 billion cubic feet of probable reserves fields that can be produced through investments like additional compression. Another 353 billion cubic feet of gas could be produced from the four largest fields in the region (*which hold the bulk of the remaining gas*) from "high confidence" undeveloped zones, or reservoir extensions in which geologists feel there is good potential for success. Developing these would require more substantial investments, mainly in drilling. Finally, there is an estimate for an additional 643 billion cubic feet in "higher-risk" undeveloped extensions or intervals, which would require even more investment.

There are also a number of potential exploration prospects that are not included in the analysis. "Consumers relying on Cook Inlet natural gas should know that while there is no need to panic, there is also no time to waste," state oil and gas director Kevin Banks said in a letter to Resources Commissioner Tom Irwin that went with the report. "Although it is apparent that sufficient reserves remain to provide gas for the coming decade, the cost of providing this energy is likely to rise. The basin is not running out of gas but it is running out of cheap gas," Banks wrote.

- *Producing companies reacted with caution to the state report. ConocoPhillips, which operates two of four larger gas fields studied by the DNR, told us it does not see enough prospects in the fields to justify additional drilling.*

MANAGERS REPORT

December 14, 2009

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE

UPDATES / FOLLOW-UP

NOTE: This is the meeting at which the Council will adopt the FY 2010 Budget. It has been a difficult process this year and I am sure everyone will be relieved when it is over. Very difficult choices will have to be made that affect all Homer residents in one way or another. But the tough choices and fiscal policy debate will not end with adoption of this budget. Council will have other pressing fiscal issues on its plate early next year. Within the first two months of 2010, I will ask the Council to focus on the following short list of fiscal priorities.

1. Stimulus Funding Revisited: The Council adopted a resolution authorizing the administration to apply for municipal stimulus funding in the amount of $161,000. You will recall that the application was to request funding for projects at the old water treatment plant, Jack Gist Park, and the Fishing Hole. At the time, we told you what we thought the program rules were going to be based upon conversations with DCCED staff. We know quite a bit more now because we have received the application package. It turns out that the emphasis is not so much on jobs directly, but on defraying costs related to energy, especially fuel and electricity. This stimulus program is actually relief for municipal governments to help with the loss of tax revenues in the economic downturn. The State is treating it like a supplemental form of revenue sharing. The staff stated that DCCED discourages applications that contain multiple projects because it would be too complicated with too much paper work and too much financial reporting. The State would also be able to get the money to the City much faster if we did not apply for multiple projects (It is a reimbursable grant). DCCED encouraged the City to stick with one simple project, like using the money for fuel or electricity. The program rules tend to discourage construction projects and spending money on stadiums or related venues (like ballfields). So, the bottom line is that we have submitted an application to reimburse the City for fuel and electricity costs in 2009. Council may want to discuss how it wants to appropriate this money, if at all. If there is no action by Council, the money will simply go into the Fund Balance; not a bad thing.
2. Legislative Grant / Reappropriation: In 2006, the City received a Legislative Grant in the amount of $2 Million for construction of a new City Hall. As everyone is aware, that project is no longer under active consideration. Last year, the Kachemak Bay Campus and Representative Seaton asked if the City would support having this money reappropriated for the proposed new building on the East Campus. The Council did not support that idea. I am bringing this up now because this grant is going to lapse in 2011. If the Council does not want this money to simply lapse and go away, it will have to ask the Legislature to reappropriate it this legislative session (beginning in January). That means that Council will have to make a relatively quick decision, within the next two months. I would recommend that this topic be scheduled for discussion at a Committee of the Whole or Special Meeting soon. This is as important as the CIP List and should be part of the City's legislative package next year. Some suggestions, just to get us started are to apply the money to Town Center Infrastructure or a refurbishment, energy

efficiency upgrade, and enlargement of the existing City Hall.

3. Legislative Grant / Main St: You will recall that the City also received a legislative grant in the amount of $2 Million to either refurbish Main St., place traffic control at the intersection with the Sterling Highway, or some combination of both. This grant expires in 2012. The Council has indicated that it wants to focus on the intersection. It requested that we ask the State Traffic Engineer or other appropriate DOT/PF official to come and explain why traffic signals cost so much, why DOT/PF prefers a roundabout, and what other options might be available. I hope to get DOT/PF here to a meeting sometime this winter and get this discussion moving again.
4. Long Range Fiscal Plan: Back in 2004, the City was in a similar fiscal position to the one it finds itself in now. Revenues were down and the City was having a hard time providing the funding necessary for the services the community wanted. The City was contributing little or no money to depreciation and was falling way behind on maintenance and repair of facilities and equipment. The General Fund Balance was significantly below where is should have been. The Council reacted by adopting a Long Range Fiscal Plan. I think it would be useful to dust that plan off and review the discussions that took place just six years ago. If the economy does not improve significantly in the next few years, or the City does not take proactive steps to promote economic development, we could be sailing into uncharted fiscal waters. It would be good to plan ahead and have an agreed upon strategy.
5. Seawall: On thing we should do in January is focus on the seawall. Council will have to make some determinations regarding whether the Special Service Area Ordinance is working as intended, how future repairs should be financed, and what roles the City should play in all of this. Council has requested that time be set aside at either a Committee of the Whole or a Special Meeting. We tentatively set something up for the Committee of the Whole on January 11. Attorney Tom Klinkner will be prepared to discuss such items as whether the Property owners Association has complied with the Code requirements, what the implications might be of the City rescinding the ordinance, and what some other possibilities might be to collect revenue for maintenance and repair instead of property taxes.
6. Cemetery: Last year we had several conversations about the fact that we are running out of space at the Hickerson Memorial Cemetery. Council entertained several proposals for land trades and outright purchases of land from an adjacent landowner. None of those proposals were accepted but discussions with the landowner have continued. The gap between the asking price and the appraisal is narrowing and talks are getting a little more frequent again. But, I thought that now might be a good time to ask, given the Council's current review of the budget and "core services" if the City wants to be in the cemetery business at all? I am not sure who might take it over but as you know, many cemeteries are operated by private interests, nonprofit groups, churches etc. If the City moves ahead to find more space for burials, it will have to acquire the land and then provide money to make improvements. The Public Works Department is responsible for Cemetery operations and maintenance and the Clerk's office maintains the official records. If Council is interested in talking about this, we could provide it with detailed budget numbers. If not, I will continue efforts to acquire more land.

ATTACHMENTS

1. December Employee Anniversaries
2. Governor Parnell: re. City Capital Budget Priorities
3. State of Alaska Oil and Gas Lease Sales / Cook Inlet Areawide 2010
4. Public Works Public Service Announcement re: Snow Removal
5. Budget Update Memorandum

6. Sales Tax Revenues / Year to Date Actuals
7. Memorandum from Personnel Director re: Self insurance Plan
8. Memorandum from Personnel Director re: insurance cost control measures.

MANAGERS REPORT

January 11, 2010

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE W. Wrede

UPDATES / FOLLOW-UP

1. Climate Action Plan: We are moving forward with planning on how to implement the Climate Action Plan. The Plan was presented to the Council at its meeting on December 14. Council requested that it have some time to read and digest the Plan and then have a workshop with Joel to discuss it in detail. Jo and I talked about the workshop this week and she has tentatively scheduled it for the last meeting in February. At that time, Council could consider its next steps including a resolution accepting or adopting the plan and specific implementation actions. In the meantime, Anne Marie is keeping track of the possible finding sources including the Energy Efficiency and Conservation Block Grant Program (The City is basically guaranteed funding but will need to apply and program rules are not finalized yet) and the AHFC Performance Contracting Program. The rules for this program are expected to be available in March provided the Legislature authorizes the bonds. Performance Contracting is described in the Climate Action Plan and is a very interesting concept. I met with the Library Advisory Board on January 5 to discuss capital improvements and energy efficiency at the Library.
2. Kachemak Drive Phase II Water and Sewer. We will ask Council for some direction on this project again very soon. The City has now obtained all of the environmental permits necessary to proceed with construction. The easements that are needed from property owners continue to come in slowly and there are about 16 remaining. I will be reviewing the status of HAWSP funds and the City's current debt obligation again in order to make a recommendation about whether the City can afford to finance this project at this time. We will likely ask the Council to authorize us to begin the first steps in preparation for an eminent domain proceeding in case that becomes necessary to obtain the remaining easements. Final authority there remains with the Council but some initial steps are necessary before the Council can make a decisions to proceed. We are aware that moving forward with this project will be very unpopular among some residents. But we also have to keep in mind that this LID was approved by a majority of the property owners in the LID and they have rights also.
3. Grants for Police and Fire Personnel. We are actively monitoring the status of Stimulus Package grant programs for funding Police and Fire Department positions. In 2009, we declined to apply for funding under the COPPS program because the strings attached seemed too onerous. However, it appears that this program may be reauthorized and we will take another look given current budget constraints. Chief Painter has applied for two positions under the federal SAFER

program. The conditions attached to this program are very favorable and we would be happy to discuss this in detail at the meeting.

4. University Lands / Baycrest Ski Trails / Conservation Easement. Council will recall that several years ago, the City accepted title to land formally owned by the University of Alaska near Rogers Loop Road. This property contains a good portion of the Baycrest Ski Trails and was designated municipal parkland by ordinance. There are restrictions in the terms of the grant used to purchase the property which state that the land may only be used for conservation, recreation, and forestry projects. Money for the purchase was obtained by the Kachemak Heritage Land Trust. The state Department of Natural Resources has contacted us and requested that a conservation easement be placed on the property. According to DNR, this is a requirement of the Forest Legacy Program (a major funding source for the purchase) which was overlooked or forgotten at the time. Since DNR is responsible for this program in Alaska, it has requested the City's assistance. We are currently reviewing a draft conservation easement and when it is ready, will bring it to Council for its consideration.
5. New Sounds System: Jo reports that the contractor will install the new sound system in the Council Chambers on January 26.
6. West Campus Boiler: Carey reports that the new high efficiency boiler was installed at the Old Intermediate School over the Holiday break. Fine tuning is underway. It is estimated that this will save 20 to 30 percent in fuel costs at the building.
7. Homer Foundation Funding: Attached is a letter from the Homer Foundation outlining how it wishes to disperse the funding it will receive from the City in 2010. I bring this to your attention because in past years, the policy was that half of the City contribution was made available for distribution to nonprofits and the other half was deposited into the City's nonprofit endowment fund managed by the Foundation for long term growth. Last year, for the first time, the Foundation distributed all of the City's contribution plus the interest earned by the endowment fund. The Foundation cited economic conditions and the extraordinary need expressed by nonprofits around town. The Foundation proposes to do the same thing this year. If the Council had any concerns about this proposal, it should make those concerns known to the Foundation.
8. Deputy Fire Chief Position: Council will recall that one of the positions that was vacant and unfilled as we worked on the 2010 Budget was the Deputy Fire Chief position. This position is still vacant and unfunded. In preparation for the time when funding can be secured, the Chief is proposing a reorganization that should save money but increase efficiency and improve overall operation and service delivery. Under this plan, the Deputy Chief position would be eliminated and replaced with an ESS / Trainer position. The new position would be responsible for all regular ESS functions and for tasks associated with volunteer training. This step will reduce employee costs, improve training and support for the volunteers that the City relies so heavily upon, and improve coverage and service delivery to the community. It has my full support.
9. Beluga Whales: As you probably know, much of Cook Inlet and Kachemak Bay was recently designated as critical habitat for Beluga whales. There is no shortage of

opinions on this topic as you might imagine. You may have noticed that Mayor Carey, along with Mayor Sullivan and the Mayor of the Mat-Su Borough have already weighed in. We will be attending workshops and closely monitoring the impacts this designation may have, both good and bad, on Kachemak Bay and on City operations. For example, this will definitely add another layer of review to capital projects such as the Deep Water Dock expansion and the East Boat Harbor project.

ATTACHMENTS

1. Letter from Homer Foundation
2. Letter from Kachemak Nordic Ski Club
3. Memo from Public Works re: Hickerson Memorial Cemetary