

**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 November 9, 2010 Page 1
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7. **STAFF AND COUNCIL REPORT**
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11. **INFORMATIONAL MATERIALS** (for discussion only)
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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 8, 2011 at 6 p.m. in the Homer City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

Session 10-07, a Regular Meeting of the Economic Development Advisory Commission was called to order at 6:05 p.m. by Chair Erickson on November 9, 2010 at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: COMMISSIONER DAUPHINAIS, ERICKSON, RAVIN, SIMPSON, FAULKNER, NEECE

COUNCILMEMBER: WYTHE

STAFF: SPECIAL PROJECTS COORDINATOR HOLEN
DEPUTY CITY CLERK JACOBSEN
CITY MANAGER WREDE

APPROVAL OF THE AGENDA

The agenda was approved by consensus of the Commission.

PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA

Mike Illg, city resident and city employee with Community Recreation, commented regarding the old intermediate school. He asked the Commission to consider that facility for the Community Recreation program. He said the program has a vested interest in the facility as they use it for some activities and he sees potential for more. Mr. Illg explained that all of the instructors, with the exception of some volunteers are contracted. Many rely on this program to teach a class and create their own income. In addition to providing a service of recreation or educational classes they are also an economic incubator in the community. There have been instances where instructors have evolved into their own business, or end up teaching at the college. He doesn't have a business plan at this time, but hopes as they look at the variables for this building they consider this program because there is tremendous potential here. Currently the program pays money to use the schools. They don't have enough space for what they are doing now, and this would give them potential to do more.

Henry Novak, director of Cook Inlet Council on Alcohol and Drug Abuse, commented regarding the old intermediate school. He explained that an issue with people who provide services for substance abuse, mental health, domestic violence, and other issues, is that the trend is that clients are referred to other offices. A lot of these folks don't have transportation and have multiple needs. He believes that being referred to several different locations makes it difficult to get things done. He asked the Commission consider a multiple use for the different agencies to be housed in one building. They usually lose people during the referral process and one facility would be easier for people accessing the services.

RECONSIDERATION

There were no items for reconsideration.

APPROVAL OF MINUTES

A. Meeting Minutes of October 12, 2010

The minutes were approved by consensus of the Commission.

VISITORS

There were no visitors scheduled.

STAFF AND COUNCIL REPORT

Councilmember Wythe commented that Council sent the request for reviewing the uses of the west campus. Right now it has a short turnaround but they have recently found out that the College will be there until May, so they may be able to request a little extra time if needed. The primary objective is to find a way for the building to become self sustaining. Currently it is costing the city money to keep it open.

Special Projects Coordinator said she will comment during the CEDS discussion.

PUBLIC HEARING

There were no items for public hearing.

PENDING BUSINESS

A. Comprehensive Economic Development Strategy (New Draft)

RAVIN/SIMPSON MOVED TO BRING THIS TO THE FLOOR FOR DISCUSSION.

No objection was expressed and discussion ensued.

Special Projects Coordinator Holen reviewed her amendments in the current draft.

There were brief comments supporting the current draft and commending Ms. Holen on her work.

DAUPHINAIS/RAVIN MOVED TO FORWARD THIS A RECOMMENDED DOCUMENT TO THE CITY COUNCIL.

There were no comments.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

NEW BUSINESS

A. Election of Officers

Chair Erickson opened the floor for nominations for Chair.

RAVIN/FAULKNER MOVED TO NOMINATE CHAIR ERICKSON A CHAIR.

There were no other nominations.

ECONOMIC DEVELOPMENT ADVISORY COMMISSION
REGULAR MEETING
NOVEMBER 9, 2010

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Chair Erickson opened the floor for nominations for Vice Chair.

SIMPSON/NEECE MOVED TO NOMINATE COMMISSIONER RAVIN AS VICE CHAIR.

There were no other nominations.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

B. New Uses for Old Homer Intermediated School

City Manager Wrede participated in discussion with the Commission about the Old Intermediate School. They agreed to do a walk through of the building on the 12th at 4 p.m. and Commissioner's noted some specific items they would like to review. Those items include recent utilities billing and operations costs and building drawings. Further down the line an estimated cost of upgrades may be requested as well.

Discussion ensued and the following points were addressed:

- Currently the building is set up as a school. To change it to an administrative use would require bringing some things to code, thus driving up the cost.
- Suggested uses as schools have included the Fireweed Academy, Community Recreation and the Park and Recreation Department, and a Maritime Academy. Those uses might not require as much of an immediate upgrade.
- The college term of lease is month to month through July, and they are expected to be there through May. The Boys and Girls Club follows the college schedule so they can be there through the end of the school year.
- The goal is to find a tenant who can pay rent to cover the operation costs.
- Subsidizing rent if the spin off benefits of the use justify subsidizing.
- Considering Federal Agencies could be beneficial as they can pay the rent and do the upgrades that are needed.
- Hibernating the building could be considered, but there are concerns about losing the building to damage, which happened earlier in the year to the old water treatment plant building.
- Due to asbestos in the building, tearing it down will be very costly.
- Zoning restrictions for uses needs to be considered.
- There is the option of putting it out for RFP and see what they get.

RAVIN/DAUPHINAIS MOVED TO ASK THE CITY COUNCIL TO MOVE THE DEADLINE TO APRIL.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

ECONOMIC DEVELOPMENT ADVISORY COMMISSION
REGULAR MEETING
NOVEMBER 9, 2010

City Manager Wrede added that he would provide the Commission information about what the building can be used for based on agreements with the Borough when title was transferred to the City. The City Attorney is reviewing those documents.

Councilmember Wythe strongly stated that the idea of subsidizing needs to be removed from the thinking process. The City can no longer afford to subsidize the building and we need to do something different with it. Part of the objective in bringing it to the Commission is to try to find a way for this to provide stimulus to our economy at no cost to the City.

There was discussion that a school is the highest and best use for the building. Commissioner Faulkner is on the Board of the Fireweed Academy and explained they have always had interest in the building but the timing for their needs haven't corresponded with the City's timeline for the building. He provided a brief overview of their needs and how they are situated now.

It was agreed that there are a lot of ideas out there and several parties who are interested in the building. Suggestion was made that rather than a formal RFP, asking for ideas from interested parties and allow time for presentations. A point was raised that when it comes to adding jobs, full time jobs should be the focus because that is what will keep people here. The Commission would also like to see some type of financial disclosure that shows long term viability of the proposed use.

Commissioner Erickson and Special Projects Coordinator Holen agreed to review chapter 6 in the Lease policy and work together to draft a questionnaire for interested parties to bring forward ideas. This will not be a formal RFP and that will need to be clear to the parties providing information.

C. 2011 Meeting Schedule

DAUPHINAIS/RAVIN MOVED TO APPROVE THE 2011 MEETING SCHEDULE.

There was brief discussion that meetings can be cancelled if the know there will not be a quorum.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

INFORMATIONAL MATERIALS

- A. EDC Memo re: Ocean Drive
- B. Items of Possible Interest from recent Council Meeting Packets
- C. Resolution 10-78A Adopting the 2011-2016 Capital Improvement Plan and Establishing Capital Project Legislative Priorities for Fiscal Year 2012
- D. City Attorney OMA Information to the Planning Commission

Question was raised regarding the status of the memo for Ocean Drive. City Manager Wrede said he hadn't made any progress yet, but will work on it and get back to the Commission.

COMMENTS OF THE AUDIENCE

Councilmember Zak thanked the Commission for their work and thinks they have a great project in front of them for Economic Development. He encouraged them to try to finish and provide recommendation before April to allow time for leasing and transition from the college leaving and the new operation coming in. He encouraged the Commission to dream big, as an example, not to rule out the location for a new City Hall. If the college purchased the current building proceeds could possibly offset the cost of refurbishing the old school. He also commented that he was in Seward for an Economic Development Forum that was facilitated by some one from the University of Alaska. He said he would put the facilitator in touch with the EDC incase they want to do a similar forum down here. He noted that he and Councilmember Howard attended the communities' survey project that Sharon Whytal presented. That is going on in the community too. It is mostly addresses health concerns but also look at it from an economic development point of view also. Lastly he has seen, as an EDD Board of Director member for the Peninsula, that there is a lot of development and concern for Seward, Soldotna, and Kenai and feels like Homer needs to increase their representation there.

COMMENTS OF CITY STAFF

Special Projects Coordinator Holen said she will not be at the building walk through. She thanked the Commission for their work on the CEDS. She said it was great to work on and is interested to see what happens next.

COMMENTS OF THE COUNCIL MEMBER

Councilmember Wythe echoed Ms. Holen's thoughts on the CEDS and is excited that it is done. She said she is very interested to see how the review of the Middle School building proceeds.

COMMENTS OF THE CHAIR

Chair Erickson commended the group on making good progress. She thinks that getting the questionnaire out and sending it to interested parties will get the dialogue started faster. She agrees that getting it done sooner than April would be best.

COMMENTS OF THE COMMISSION MEMBERS

Commissioner Neece thanked Ms. Holen for helping with the CEDS. He said he attended the public transportation meeting last Friday. That is moving forward with possibly getting two wheelchair accessible vans for the community. He is looking forward to the project with the school, it has a lot of potential.

There were no other Commissioner comments.

ADJOURN

There being no more business to come before the Commission the meeting was adjourned at 7:05 p.m. The next regular meeting is scheduled for September 14, 2010 at 6:00 p.m. in the City Hall Cowles Council Chambers.

MELISSA JACOBSEN, CMC, DEPUTY CITY CLERK

Approved: _____

MEMORANDUM

TO: WALT WREDE
FROM: THOMAS F. KLINKNER
RE: RESTRICTIONS ON USE OF HOMER INTERMEDIATE SCHOOL
PROPERTY
CLIENT: CITY OF HOMER
FILE NO.: 506,742.200
DATE: DECEMBER 7, 2010

You have asked whether the use of the Homer intermediate school site ("Property")¹ is restricted by the terms of prior conveyances of the Property. I conclude that the only restriction on the use of the Property that currently is operative is the restriction in the deed of the Property to the City from the Kenai Peninsula Borough ("Borough") that "the site shall be owned in perpetuity by the City of Homer or its successor and managed for the use and benefit of the general public."² Under this restriction, the City may not transfer ownership of the Property to another party, although it may permit another party to use the property under a lease or other arrangement. Whether a particular use of the Property is for the use and benefit of the general public is to be determined by the Council, provided that the decision is supported by findings that are not arbitrary and have a reasonable basis in fact.

A deed to the Territory of Alaska dated April 12, 1950, from the heir of the homesteader of the largest part of the Property includes the following recital: "This deed is made in lieu of that certain 'Gentleman's Agreement' entered into between my father John Redis Crittenden, deceased, and the Territory of Alaska, whereby said land is to be used for Public School purposes only." In my opinion, this recital is neither a

¹ In the quitclaim deed of the Property to the City dated July 7, 2000, the Property is described as Tract 2, Homer School Survey 1999 City Addition, according to Plat No. 2000-22. Plat No. 2000-22 created Tract 2 out of five former parcels. The Borough was the record owner of all five, having acquired the two larger parcels by conveyance, and the three smaller parcels by a quiet title action.

² Parts of the Property also are subject to reservations of mineral rights in favor of the United States and the State of Alaska. However, those reservations would affect the use of the property only if those entities chose to pursue mineral development of the Property.

covenant nor a condition limiting the rights conveyed to the grantee under the deed, and is not effective to restrict the use of the part of the Property to which it applies.

The deed of the Property from the Borough to the City, dated July 7, 1974, states that the grant of the Property by the Borough to the City is "FURTHER SUBJECT TO the restriction that the site shall be owned in perpetuity by the City of Homer or its successor and be managed for the use and benefit of the general public." This restriction remains in effect and directly governs the use of the Property. The remaining issue is its interpretation.

The restriction quoted above has two elements: (i) that the Property be owned by the City of Homer or its successor in perpetuity, and (ii) that the Property be managed for the use and benefit of the general public. The first restriction is a straightforward restriction on alienation of the Property—the City cannot convey the Property to another party. In context, the phrase "its successor" must refer to a legal successor to the City of Homer, as in the case of the merger of the City into another municipality. If the phrase "its successor" were interpreted to mean any person or entity to which the City conveyed the Property, the restriction would be meaningless. However, this restriction clearly is confined to ownership—it does not restrict the transfer of an interest in the Property other than an ownership interest, for example, a leasehold. However, the transfer of such an interest would be subject to the second restriction in the deed.

The second restriction indicates that the City holds the Property as trustee for the general public. Unlike the typical case, this restriction is not imposed in connection with the designation of a use for the Property. Courts frequently have interpreted conveyances of property to government entities for the use and benefit of the general public for a specified purpose (such as a park or street), holding that the phrase "general public" in that context refers to members of the general public who use the property for its intended purpose.³ However, I found no reported decision that interpreted the phrase, "for the use and benefit of the general public," standing alone in a deed restriction. I conclude that the City thus has discretion to determine the use to which the Property should be put, so long as the use is for a public purpose.

³ For example, the Alaska Supreme Court held that the State's leasing of a seaplane dock to a city was subject to statutes that required the lessee to make it "at all times available for the use of and accessible to the general public." Thus, the court concluded:

We think that by enacting the provisions cited, the legislature intended to insure that airport facilities would be made available, on a priority basis, to that segment of society for which those facilities are designed. Thus, in this instance, the statutes' reference to "the public" and "the general public" can only mean the *flying public*, i.e., those persons operating aircraft or machinery used incidental to the operation of aircraft.

Planich v. State, 693 P.2d 855, 858 (Alaska 1985) (emphasis in original).

Whether a use is for a public purpose is highly fact-dependent, and is not determined by some specific definition. The Alaska Supreme Court has declined to define the phrase:

At the outset we observe that the phrase 'public purpose' represents a concept which is not capable of precise definition. We believe that it would be a disservice to future generations for this court to attempt to define it. It is a concept which will change as changing conditions create changing public needs. Whether a public purpose is being served must be decided as each case arises and in the light of the particular facts and circumstances of each case.⁴

However, the Court has concluded that this leaves the determination of what constitutes a public purpose largely in the discretion of the legislative body, in this case the Council:

In determining the question presented this court adopts for its guidance the general rule, supported by the great weight of authority, that where the legislature has found that a public purpose will be served by the expenditure or transfer of public funds or the use of the public credit, this court will not set aside the finding of the legislature unless it clearly appears that such finding is arbitrary and without any reasonable basis in fact.⁵

More specifically, the Property may be leased to, or managed by, a private party, consistently with the requirement that it be used for a public purpose, as in the case of a hospital⁶ or an industrial building.⁷

In conclusion, a reviewing court will uphold a decision by the Council that a particular use of the Property is for the use and benefit of the general public, provided that the decision is supported by findings that are not arbitrary and have a reasonable basis in fact.

Please let me know whether we may be of further assistance in this matter.

⁴ *Dearmond v. Alaska State Development Corp.*, 376 P.2d 717, 721 (Alaska 1962).

⁵ *Id.*

⁶ *Lien v. City of Ketchikan*, 383 P.2d 721, 722 (Alaska 1963).

⁷ *Wright v. City of Palmer*, 468 P.2d 326, 330-331 (Alaska 1970).



Anne Marie Holen

From: Mike Illg
ent: Monday, November 22, 2010 1:46 PM
fo: Anne Marie Holen
Subject: City of Homer's Old Intermediate School

Hello Anne Marie,

I am contacting you today in regards to the City of Homer's Old Intermediate School facility as the EDC is pursuing possible uses for this building. Please pass this information on the EDC.

The City of Homer Community Recreation program has a vested interest in the present and future usage of this facility. We currently use this building for a number of CR activities that many city residents and surrounding community members utilize and depend upon. We only utilize the gym through communication with the Boys & Girl's Club manager so as long as we do not conflict with their programs and activities. Because it is a city owned facility and we are a city program, we are not charged to use the building but we do allocate some money to the Boy's and Girl's Club for restroom supplies.

Our mission statement:

"City of Homer Community Recreation will promote community involvement in and life-long learning through educational and recreational opportunities for people of all ages. This will be accomplished through maximizing usage of community facilities and resources while utilizing, expanding, and uniting local business and school resources and expertise. Our program will be designed to recognize cultural diversity and to address social and community concerns."

Here is a list of our present and future activities.

Present use:

Children's Playgroup

During the months of September to May, on Mondays and Fridays (10:30am-noon), we open the gym for parents and toddlers to come play, run and romp in a large, warm, clean indoor space during the cold months in Alaska. I estimate we have over 60 different kids that attend (thankfully not all at the same time). Many parents have expressed how important and fortunate they are to have this activity for their children's health, well being, socialization and the parent's sanity. We charge \$2 a visit for each child and we rely on volunteers to monitor the activities, make sure release forms are signed and collecting fees. The CR program does not have access to the other school facilities as schools are in session thus making gymnasiums unavailable.

Youth Basketball

Through the year we offer youth basketball through a program called Bruins Basketball. This is important as often at times the school gymnasiums are not available due to after school sports and activities. We also charge these participants a CR fee and is operated by volunteers. This is held in the evenings and sometimes on the weekends.

Future Use:

Archery

Community Recreation was recently awarded a grant to start an archery program. We tentatively have an instructor, purchased some equipment and will be planning on using the gym once or twice a week in the evenings pending enough

interest. This is a great option as the local schools do not have the time or space available to accommodate this activity. This class would be held in the evenings.

Yoga

We are planning on offering beginner yoga when the instructor is healthy enough to start once she is healed from a recent injury. This class would be held in the evenings.

Boot Camp Fitness

We are planning on offering Boot Camp Fitness when the instructor is healthy enough to start once she is healed from a recent injury. This class would be held in the evenings.

In my opinion, I think there is so much more potential for this facility to be considered. In addition to allowing the Boys & Girls Club to stay and utilize the facility, I believe the CR could efficiently utilize the other parts of the facilities for educational classes, fitness classes/weight room, toddler/parent activities, home school physical education classes, lunch time basketball or volleyball, indoor walking space during the cold months. Having a facility that was open during the daytime opposed to waiting until school is out and limiting our offerings to afterschool and evening activities in the borough school facilities would be beneficial to the Homer community. In relation to economic development, all of our CR instructors if they are not volunteering are contracted instructors. Essentially they are part time businesses offering classes through our program creating local part time jobs and contributing to the local economic multiplier of exchanged services and goods. Many of our existing instructors have expressed how they rely upon teaching their classes as a source of income to survive. Many have gone on to be full time businesses or moved on to teach at the local college. Unfortunately I have had to turn away classes and instructors due to limited times and space in the local school facilities. Utilizing this facility for the CR program could potentially expand local commerce in the Homer community as we could have an expanded venue to offer more classes and activities.

I recommend the Economic Development Committee to consider the possibilities of using the Old Intermediate School for Community Recreation programs and activities.

Mike Illg, CPRP
Coordinator
City of Homer Community Recreation
907.235.6090
www.homercommunityrecreation.com

**CITY OF HOMER
REQUEST FOR PROPOSALS
TO LEASE SPACE IN THE HOMER EDUCATION AND RECREATION CENTER
("OLD INTERMEDIATE SCHOOL" CURRENTLY OCCUPIED BY KENAI PENINSULA COLLEGE/WEST HOMER
CAMPUS AND THE BOYS & GIRLS CLUB)**

I. Invitation

The City of Homer, Alaska is soliciting proposals and statements of interest and qualifications from government agencies, the private sector, and/or not-for-profit organizations to lease space in the Homer Education and Recreation Center, also known as the Old Intermediate School, located in Homer Alaska at 450 Sterling Highway. Proposals will be accepted for all or a portion of the available property, as described below.

Responses to the City's request will be received at the office of the City Clerk, 491 E. Pioneer Avenue, Homer, Alaska 99603 until 4 p.m. _____ [date]. Proposals shall be submitted in a sealed envelope clearly labeled HERC PROPERTY LEASE PROPOSAL. Proposals received after the time specified or proposals received from proposers not listed on the planholders list will be considered non-responsive and shall not be considered. A non-refundable lease application fee of \$30 is required.

II. Description of Property

The property for lease was originally constructed in 1956 as the Homer High School. Since approximately 1998 the upper level has served as the west campus of the Kachemak Bay Campus of Kenai Peninsula College. The lower level is occupied by the Boys and Girls Club of the Kenai Peninsula. Both lessees will be vacating the property by April 30, 2011. Neighboring land is occupied by Homer Middle School, a veterinary clinic, a hotel, and other small businesses. The property is at one of Homer's major intersections, the Sterling Highway and Pioneer Avenue. Zoning is Central Business District.

The building consists of three distinct structural areas, referred to here and in the attached "Homer Education and Recreation Center Overview," as the Classroom Wing, the Central Core, and the Gymnasium. The one-story classroom wing is approximately 6,237 square feet. The central core is 2,775 square feet. The gymnasium is 6,111 square feet. More information on dimensions, floor plan, other features, and condition of the building can be found in the HERC Overview (Attachment D).

Energy costs for the building in 2010 (electricity and fuel oil) totaled \$ _____. This represents a reduction as compared to previous years, reflecting energy saving improvements including installation of a new boiler in late 2009. Water costs for the building in the last 12 months were approximately \$2,900. Future costs of electricity, fuel, and water will be influenced by the base rates, which are subject to change, as well as consumption.

III. Restrictions on Use

The subject property was conveyed to the City of Homer by the Kenai Peninsula Borough in July 2000, with a deed restriction stipulating that "the site shall be owned in perpetuity by the City of Homer or its successor and managed for the use and benefit of the general public." A recent legal analysis concluded that determination of what constitutes a "public purpose" is largely at the discretion of the legislative body, in this case the City Council.

IV. Schedule

The following is the anticipated schedule. Any date(s) may be extended by the City when in the interest of the City to do so.

1. Publish dates [dates for publication in local papers]
2. Pre-application meeting, City Council Chambers (Question and Answer Session) [time and date]
3. Proposals due to City Clerk [time and date]
4. Proposal evaluations and recommendations by review committee [date]
5. Homer City Council approval of successful proposal(s) and lease agreement(s) [date]
6. Lease negotiations begin [date]

V. Response Requirements

Proposals must be submitted in a sealed envelope clearly labeled HERC PROPERTY LEASE PROPOSAL.

A proposal may be for all or a portion of the available property ("Classroom Wing," "Central Core," and/or "Gymnasium.") If the proposer wishes to submit proposals for multiple sections and have them considered independently of each other, the proposer must submit them as separate proposals.

Every proposal, to be deemed responsive, must contain the following information:

1. A completed application form provided by the City (Attachment A – *not yet drafted*). The application should clearly state the offered rental rate and applicable period, including any proposed rent escalation factors. Leases for space in the HERC building will be offered on a competitive basis. The amount offered by the proposer for lease payments is an important factor in determining the successful proposal. City policy is to lease property at no less than "fair market rent;" however, the Council may approve a lease for less than fair market rent in circumstances involving determination of a valuable public purpose. Note: Lessee will be required to pay the costs of water and sewer service, electricity, fuel oil consumption, and telecommunications fees (e.g., telephone/Internet service). These costs will not be covered in the base rent.
2. The application fee of \$30.00.
3. A clear and precise narrative description of the proposed use of the property, including public purposes, number of full-time equivalent persons to be employed, and other community benefits. Description should include anticipated hours of operation, estimated number of staff and visitors each day, and estimated parking requirements. Possible adverse impacts including noise, fumes, and other conditions that might be objectionable to others in the area should be disclosed.
4. A specific time schedule for occupation, renovation, commencement of business activity, and other benchmarks as applicable.
5. A statement explaining to what extent the applicant intends to assume responsibility for building maintenance, custodial needs, and snowplowing.

6. All other required attachments requested on the application form, including but not limited to the following documentation: applicant information, development plan, insurance, proposed subleases, environmental information, agency approvals and permits, fees, financial information, partnership and corporation statement, certificate of good standing issued by an entity's state of domicile, and references.

VI. Other requirements

A. Permits and Regulations

The lessee must comply with all appropriate federal, state, and local laws and regulations, including City zoning restrictions.

B. Utilities

Lessee will be required to pay the cost of water and sewer service, electricity, fuel oil consumption, and telecommunications fees (e.g., telephone/Internet service).

VII. Evaluation of Proposals

The proposal review committee will be comprised of _____

Proposals that do not demonstrate financial capability, are incomplete, or are otherwise deemed nonresponsive will be rejected.

Responsive proposals will be evaluated based upon their level of satisfaction of the criteria listed below. (The order below is not intended to indicate order of importance.)

1. Compatibility with property use restrictions (for the use and benefit of the general public), City zoning code, and neighboring uses.
2. Experience of the applicant in the proposed venture
3. The development plan including all proposed phases and timetables.
4. Financial capability or backing of the applicant including credit history, prior lease history, and assets that will be used to support operations of the venture, including any proposed building renovation.
5. The proposed rental rate and term.
6. The number of employees anticipated and other economic benefits.

VIII. Selection of Tenant(s) and Negotiation of Agreement

After evaluation and ranking of proposals by the review committee, the City will offer the highest ranking proposer(s) an opportunity to negotiate lease agreements, subject to mutual agreement on terms and Homer City Council approval. The commencement date of the lease will be negotiated with the successful proposer(s). A standard building lease is attached as Attachment E of this document. *[not yet drafted]*

If the City determines, at its sole discretion, that it will be unable to reach an acceptable agreement with a proposer within an acceptable period of time, the City may terminate negotiations with that proposer and begin negotiations with the next highest ranking proposer.

IX. Other Provisions

- A. The City may withdraw the property from consideration at any time.
- B. The City reserves the absolute right to reject any or all responses, may waive any or all informalities or irregularities, and may permit the correction of errors or omissions in responses.
- C. With sufficient notice, proposers may view and inspect the subject property. To request a tour, contact _____.

With the exception of the questions addressed above, no proposer shall contact or attempt to contact any member of the review committee concerning the requirements of this request for proposals, or concerning the substance or evaluation of any proposal, except through written correspondence addressed to the Homer City Clerk at the address indicated below. All such correspondence will be deemed a public record and if pertinent, the correspondence and any response from the City will be shared with other interested parties.

X. Questions/Explanations About this RFP:

Direct general questions concerning this request for proposals to:

Homer City Clerk
491 E. Pioneer Avenue
Homer, AK 99603
907-435-3106
clerk@cihomer.ak.us

Walt Wrede, City Manager

Attachments:

- A. Lease application
- B. Homer City Code, Central Business District zoning code
- C. Vicinity map
- D. Homer Education and Recreation Center Overview
- E. Standardized (boilerplate) lease

Anne Marie Holen

From: Carey Meyer
ent: Tuesday, December 07, 2010 12:18 PM
fo: Anne Marie Holen
Cc: Mitch Hrachiar

Our records show that at the HERC I building;

from Jan-Oct, 2009 - 13,344 gallons of fuel oil was delivered
from Jan-Oct, 2010 – 8,872 gallons of fuel oil was delivered

(new boiler was installed nov-dec 2009)

33% less fuel was delivered to HERC I during this time period in 2010 than in 2009

From my memo to the Council:

“Replacement of this boiler will reduce dramatically heating costs for this building. Based on the fact that the City spends \$60,000 last year for fuel and that the new boiler(s) will be 25% more efficient; the fuel savings with a new boiler might be \$12,500 per year (\$36,000 over three years).”

At year’s end we can provide a more detailed accounting of consumption and cost savings.

Carey S. Meyer, P.E.
City of Homer
Public Works Director
3575 Heath Street
Homer, AK 99603
e-mail: cmeyer@ci.homer.ak.us
Phone: (907) 235-3170
Fax: (907) 235-3145
Cell: (907) 399-7232

*Fuel oil + elec
Energy costs in 2009
were \$57,867*



Sort Criteria:
Customer.Cust No = 4145002

4.1450.02 CITY OF HOMER-MIDDLE SCHOOL 450 STERLING HWY LOCAT 360 W P

Account Summary:

Period	WChg	WCons	SServ	SUsg	PNLTY	Billings	Adj	Payments	Oth	Balance
10/31/2009										.00
11/30/2009	25.00	111.72	20.00	123.87	-	280.59		280.59 -		-
12/31/2009	25.00	96.90	20.00	107.44	-	249.34		249.34 -		-
01/31/2010	25.00	76.38	20.00	84.69	-	206.07		206.07 -		-
02/28/2010	25.00	193.80	20.00	214.88	-	453.68		453.68 -		-
03/31/2010	25.00	76.38	20.00	84.69	-	206.07		206.07 -		-
04/30/2010	25.00	96.90	20.00	107.44	-	249.34		249.34 -		-
05/31/2010	25.00	55.86	20.00	61.94	-	162.80		162.80 -		-
06/30/2010	25.00	37.62	20.00	41.71	-	124.33		124.33 -		-
07/31/2010	25.00	11.40	20.00	12.64	-	69.04		69.04 -		-
08/31/2010	25.00	9.12	20.00	10.11	-	64.23		64.23 -		-
09/30/2010	25.00	133.38	20.00	147.89	-	326.27		326.27 -		-
10/31/2010	25.00	96.90	20.00	107.44	-	249.34		-		249.34
11/30/2010	25.00	95.76	20.00	106.18	-	246.94		496.28 -		-
Totals:	325.00	1,092.12	260.00	1,210.92	-	2,888.04		2,888.04 -		

Metered Services:

WCons Current Rate Table: 211 WA Usage - Commercial

*total water costs
HERC - Old Intermediate School*

Period	Read Date	Meter Id	Beg Read	End Read	Usage	Demand	Muliplier	Amount	Status
11/30/2009	11/16/2009	70355310	4,533	4,631	98	.0000	1.0000	111.72	
12/31/2009	12/14/2009	70355310	4,631	4,716	85	.0000	1.0000	96.90	
01/31/2010	01/14/2010	70355310	4,716	4,783	67	.0000	1.0000	76.38	
02/28/2010	02/18/2010	70355310	4,783	4,953	170	.0000	1.0000	193.80	
03/31/2010	03/16/2010	70355310	4,953	5,020	67	.0000	1.0000	76.38	
04/30/2010	04/22/2010	70355310	5,020	5,105	85	.0000	1.0000	96.90	
05/31/2010	05/18/2010	70355310	5,105	5,154	49	.0000	1.0000	55.86	
06/30/2010	06/17/2010	70355310	5,154	5,187	33	.0000	1.0000	37.62	
07/31/2010	07/14/2010	70355310	5,187	5,197	10	.0000	1.0000	11.40	
08/31/2010	08/16/2010	70355310	5,197	5,205	8	.0000	1.0000	9.12	
09/30/2010	09/16/2010	70355310	5,205	5,322	117	.0000	1.0000	133.38	
10/31/2010	10/13/2010	70355310	5,322	5,407	85	.0000	1.0000	96.90	
11/30/2010	11/10/2010	70355310	5,407	5,491	84	.0000	1.0000	95.76	
					958			1,092.12	

(usage)



Anne Marie Holen

From: Mitch Hrachiar
Sent: Monday, November 22, 2010 2:29 PM
To: Anne Marie Holen
Cc: Carey Meyer
Subject: FW: Energy Use at Old Intermediate School

Hello AMH,

The Energy costs include Electricity and Heating Oil. The 2010 data will be available in February. I do not know the status of the new boiler or usage, the fuel oil data hasn't been entered since May.

MRH installed late Dec. 2009 - started operating early Jan. 2010.

Space Name	HERC-01 KPC AND BGC
------------	---------------------

Row Labels	Sum of Energy Cost
2006	\$ 62,067
2007	\$ 59,261
2008	\$ 77,050
2009	\$ 57,867

From: Anne Marie Holen
Sent: Monday, November 22, 2010 8:40 AM
To: Mitch Hrachiar
Cc: Carey Meyer
Subject: Energy Use at Old Intermediate School

Hi Mitch,

As you may know, the Economic Development Commission has been asked to consider the question of what is the best use for the Old Intermediate School after the college and Boys & Girls Club move out. As part of this inquiry, I have been asked to include info in the next EDC meeting packet about electricity and fuel consumption/cost at the building. Can you provide maybe a year's worth of data? (More would be fine. Do you know when the new boiler was installed?)

Thanks in advance!
/amh

Anne Marie Holen
907-435-3101

1. The first part of the document is a list of names and addresses of the members of the committee.

Anne Marie Holen

From: Walt Wrede
Sent: Friday, December 17, 2010 8:23 AM
To: Anne Marie Holen; Carey Meyer
Subject: FW: Not Too Late?

AM:

FYI. I wonder if some of this information would be of interest to the EDC?

From: Barbara Howard [<mailto:bhfish@gci.net>]
Sent: Friday, December 17, 2010 7:57 AM
To: Walt Wrede
Subject: FW: Not Too Late?

fyi

From: David [<mailto:DavidW39@acsalaska.net>]
Sent: Thursday, December 16, 2010 1:21 PM
To: Barbara Howard
Subject: Not Too Late?

Barb,

A couple of weeks back I caught some of the discussion during a City Council meeting regarding what to do about the old middle school. Along with the cost of heating and the old boiler issue, the questions about what to do with the asbestos present in the old structure came up.

I don't know how much of the issue was explored in the meeting (I tuned out) and don't know how much info was presented to the members. I did want to share with you (*much* earlier, but you know how that goes) that while the emphasis was once on *removal*, the cost and complications with that approach caused a shift toward **containment and encapsulation**. I'm sure that you could locate someone who might be able to advise the Council on that approach, its advantages and possible cost savings vs the removal of the material. I Googled for: "asbestos encapsulation" and found a lot of sites with info and references. Here are a few.

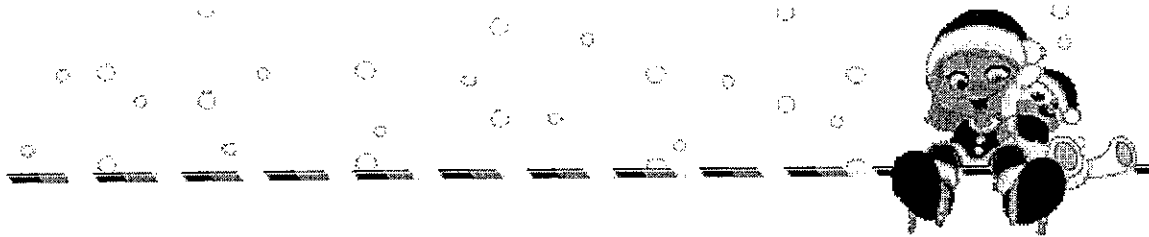
Best Wishes for the Holidays to you & Bob,

Dave

<http://encasement.com/site/pro-planet-company/asbestos.html>

<http://www.wisegeek.com/what-is-asbestos-encapsulation.htm>

<http://www.sacredplaces.org/PSP-InfoClearingHouse/articles/Asbestos%20Abatement.htm>



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CITY OF HOMER
PROPERTY MANAGEMENT
LEASE APPLICATION CHECKLIST

Applicant Name: _____

Date Application Received: _____

CHAPTER 5: LEASE APPLICATION PROCESS

5.1: POLICY

- A. It is the policy of the City of Homer to provide for a streamlined, standardized, and easily understood lease application process. A full and complete application packet shall be provided to all applicants. Applicants must be qualified under Section 18.08.50 of the Homer City Code:
 - (a) a natural person and is responsible, meaning the applicant has sufficient skill, experience and financial capability to perform all the obligations of the lessee under the proposed lease; and
 - (b) a person who is at least nineteen years of age; or
 - (c) a group, association or corporation which is authorized to conduct business under the laws of the State of Alaska. (Ord. 92-10 (part), 1992). 183 (Homer 06/04)
- B. The City administration will provide for pre-application meetings with all potential applicants to provide relevant information on things like land use regulations, lease policies, the permitting process, and other relevant topics.

5.2 PROCEDURES

A. A responsive lease application / proposal shall include:

- 1. A completed application form provided by the City

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

- 2. Any applicable fees

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

3. A clear and precise narrative description of the proposed use of the property

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

4. A specific time schedule and benchmarks for development

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

5. A proposed site plan drawn to scale that shows at a minimum property lines, easements, existing structures and other improvements, utilities, and the proposed development including all structures and their elevations, parking facilities, utilities, and other proposed improvements.

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

6. Any other information that is directly pertinent to the proposal scoring criteria contained herein

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

7. All other **required attachments** requested on the application form including, but not limited to, the following documentation: applicant information, plot plan, development plan, insurance, proposed subleases, environmental information, agency approvals and permits, fees, financial information, partnership and corporation statement, certificate of good standing issued by an entity's state of domicile, and references.

- Applicant information
- Plot Plan
- Development Plan
- Insurance
- Proposed Subleases
- Environmental Information
- Agency approvals and permits
- Financial Information (Financial Statement **REQUIRED**, Surety, bankruptcy, pending litigation are situational.
- Partnership information and a copy of the partnership agreement OR
- Corporation information and a copy of the Articles of Incorporation and Bylaws
- Certificate of good standing issued by the entity's state if domicile
- Appropriate References (Total of 4 persons or firms with whom the applicant or its owners have conducted business transactions with during the past three years. Two references must have knowledge of your financial management history (One of which **MUST** be your principal financial institution) and two must have knowledge of your business expertise).

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

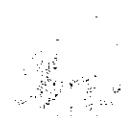
NOTES:

8. Any other information required by the solicitation or request for proposals.

YES	NO	N/A	INCOMPLETE
-----	----	-----	------------

NOTES:

Application review completed by _____ on _____ (date)





CITY OF HOMER
PROPERTY MANAGEMENT
POLICY AND PROCEDURES

CHAPTER 11: LENGTH OF LEASES / OPTIONS

11.1 POLICY

It is the policy of the City of Homer that the duration of all leases including all options shall be consistent with the provisions of Chapter 18.08 of the Homer City Code and the provisions of these policies and procedures.

11.2 PROCEDURES

- A. The initial term of leases shall be related to a large degree upon the magnitude of the lessee's financial investment and the value and usefulness of improvements that lessee will make and leave on the property upon the termination of the lease. It shall also be related, to a lesser degree, upon lessee's financing and the reasonable amortization requirements of the lessee and financing agency. Generally speaking, the larger the investment, and the greater the value and usefulness of permanent improvements that will remain on the property after termination of the lease, the longer the lease period.
- B. Leases that extend beyond 30 years (including all options) will be treated as exceptional and shall be evaluated on a case by case basis.
- C. Leases shall contain no more than two options for renewal and each option shall be for no more than 25% of the length of the initial base term. The exercise of any option shall be dependent upon lessee not being in breach of any provisions of the lease at that time.
- D. If the lease or the lessee's approved development plan provides for utilization of the lot for several months a year and the lessee installs improvements or infrastructure, occupies the lot (by persons or things), or does anything else that precludes or devalues utilization of the lot for the remainder of the year by the City or another party, the lessee shall pay either a premium rent for the months the parcel is actually in use or fair market rental for the entire lease year.
- E. It is the policy of the City that equal opportunities should be provided to compete for leasing available public property. A lessee whose initial lease and all options have expired shall have no automatic right of further renewal or extension. In general, it is the policy of the City that the Lease Committee shall offer such properties to the public through the RFP/competitive bidding process described herein.
- F. Lease Renewals: The City Council, after reviewing a recommendation from the Lease Committee, may elect to not require a competitive bidding process for a property whose lease has expired (including all options) if it finds that it is in the best interest of the City to enter into a new lease agreement with the current lessee. If the current lessee is interested in entering into a new lease agreement, he/she must indicate so in writing to the City Manager at least 12 months prior to

2010

the expiration of the lease and submit a formal lease application/proposal for evaluation by the Lease Committee. The City will review the application but is under no obligation to enter into a new lease. If the Council chooses to approve such a new lease without a competitive process, it must approve such new lease by resolution within six months that includes a finding that it is in the public interest to do so, after consideration of relevant facts including, but not limited to, the following:

1. The lessee's past capital investment and binding commitment to future capital investment
2. The lessee's financial condition and prior lease history
3. The number of persons employed and the prospects for future employment
4. Tax revenues and other financial benefits to the City of Homer anticipated in the future if the lease is renewed.
5. Consistency of the past use and intended future use with all applicable land use codes and regulations, the Comprehensive Plan, and Overall Economic Development Plan
6. Other opportunities for use of the property that may provide greater benefits to the City of Homer.
7. Other social, policy, and economic considerations as determined by the Council

G. Short Term Leases

1. A short term lease of 6 months or less may be approved by the City Manager after review and recommendations by the Lease Committee.
2. Short term leases are not required to go through the competitive bidding/PFP process described herein
3. Short term leases shall not include renewable options and no consecutive short term leases for the same property to the same lessee may be issued without the approval of the City Council.
4. Applicants for short term leases must go through the formal application process described herein.
5. The City Manager will advise the Council through memorandum or the Manager's report of all short term leases.

H. At the expiration or termination of a lease the City may negotiate to reimburse the lessee for improvements at fair market value, and then issue a request for proposals offering the lot and improvements as a package.

Homer and the Film Industry:
A Feasibility Overview©

Michael Haines

alaskaentrepreneur@yahoo.com

November, 2010

*First draft -
Comments welcome*

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1. Introduction

A major goal of the Homer Chamber Economic Development Committee (HCEDC) is to identify, encourage, and provide assistance for business opportunities which could have an impact on the economic growth and future prosperity of the community. While continuing support for traditional for-profit industries such as commercial fishing, tourism, services, and construction is important, newer industries and their associated business potential must be explored in order for commercial diversity to grow and flourish.

Discussions during recent HCEDC meetings identified the 'film industry' as one of those possible industry opportunities. The purpose of this report is to provide an overview of the feasibility of Homer (in general) and the Chamber (more specifically) participating and/or taking the lead in this area.

The film industry is often considered glamorous. Who doesn't want to be part of a movie shown on the big screen? And, how many people would turn down an offer to be on TV, whether a full feature program or a commercial? This 'glamour', unfortunately, is often coupled with it an over-abundance of passion. The key to evaluating an industry opportunity like this is to create a value proposition out of the logic extracted from the passion.

While this feasibility overview does not attempt to create the value proposition, it does extract the logic, while also identifying the next steps towards reaching the value goal.

Both Alaska and Homer have seen growth in film industry activity over the years, but there appears to be no previous attempt to determine the feasibility of, and to quantify, its value to a community such as Homer. This feasibility overview and report takes the initial steps to resolve this issue, with the recommendation that more detailed follow-up work be completed to address the 'Additional Things to Think About' identified in the last section of this report.

Any recommendations and conclusions within this report are based on a strategy to 'ease' Homer into a new area of opportunity and 'uncharted waters', while finding the

way to do it right. Over committing, with its associated exposure to potential failure, could result in a 'bruised' reputation, which would be difficult to overcome in the long term.

Industry research, the author's experiences, and interviews with both local, Anchorage, and out-of-state film industry professionals contributed to the contents and conclusions of this report. The time, comments, and suggestions provided by Homer interviewees were especially helpful, and their ideas have been incorporated in this report as appropriate.

2. Setting the Scene

'Film Industry': A definition

'Film industry' has a fairly broad definition, anywhere from film design, to production, to education, to distribution, to movie theaters, to film festivals, to award programs such as the Academy of Motion Picture Arts and Sciences "Oscar's".

For the purposes of this report, 'film industry' is defined as the production of a movie and the support services and resources that go into creating it.

The film industry is fairly unique as an industry. It is 'where the arts meet business'. While most film industry executive goals are to find investors for their movies and provide a decent return on investment, the end product (the film) generally sells because of its artistic value. Films achieve 'Oscar' winning status, not because of their financial profitability, but because of their artistic achievements. This can result in some interesting challenges when a community attempts to solicit film industry business.

Why the Film Industry?

The business journal 'Business Perspectives' describes the following impacts of the film industry on communities in general...

"Film production is a relatively high-wage, labor-intensive business. With its reliance on local services, employment of skilled workers and self-employed professionals, and

*heavy dependence on the hospitality industry, the production of a film or T.V. show can be an immediate and tremendous **shot in the arm to a local economy**. In addition to immediately enhancing the local business environment, production can serve to **accelerate training in a local economy** to provide future technical and skilled workers in this sector. The **return on relatively small inducements** can stimulate employment, earnings, and taxes, as well as **considerable expenditures of "new money"** in a community in a relatively short period of time."*

"Shot in the arm to a local economy". "Accelerate training in a local economy". "Return on relatively small inducements (investments)". "Considerable expenditures of new money"... all should be of interest to Homer. If implemented correctly, the film industry could, indeed, provide a useful expansion of economic wealth in the community.

Also of interest, is that, while Hollywood will continue to make the occasional \$100 million blockbuster, the movie industry as a whole is moving toward independent films with budgets under \$10 million. The high-profile projects may get more attention, but a steady stream of smaller productions (plus commercials and TV series) could create a continuous flow of economic opportunity for a community such as Homer. This, in turn, could nurture a new wave of upstart filmmakers while complementing those already practicing their trade and craft locally.

The Alaska Perspective

A Brief History

One of the very first, well-publicized, film industry shoot activities in Alaska occurred approximately fifteen years ago, with the filming for a McDonalds NFL Super Bowl commercial. The shoot took place in Homer. So, in some respects, Homer can be considered a pioneer in Alaskan filming.

Since those early years, the film industry has made progressively more shoot commitments within the State, primarily taking opportunities to integrate Alaska's unique outdoors scenery into movies that warrant it. This Alaska relationship recently

accelerated with the introduction of generous State corporate tax incentives for film related work performed within the State.

This has further increased movie-making opportunities and commitments, such that, in its latest annual report, the movie trade publication 'P3 Update Magazine' ranked Alaska #1 out of ten top States for domestic filming destinations.

The magazine evaluated destinations offering a combination of the best tax incentives, crew base, infrastructure and other unique resources. Alaska ranked ahead of venerable states such as California, Michigan, Georgia, New York, Illinois, Louisiana, New Mexico, Connecticut, and Florida.

Compared to most of these States, Alaska's flirtation with the film industry has been short. Some States, such as New Mexico, have seen film industry activity dating to the time movies were first produced.

Where's the Action?

Anchorage remains the principal center for film industry activity in Alaska, with major, larger movie production, such as the recent "Everybody Loves Whales", centered there. The City is the headquarters for the 'Alaska Film Office' (an office within, and financed through the State of Alaska government), the 'Anchorage Economic Development Corporation' (AEDC), Anchorage Convention and Visitors Bureau, and Alaska Film Development Program.

Anchorage is also home to Evergreen Films. In September of this year, Alaska-based NANA Development Corporation announced a major investment in the company. Evergreen claims to have invested more than \$10 million in Alaska developing a complete 3D production and post-production studio. While it has a major production facility in Los Angeles, Evergreen is also searching for business partners to invest in an Anchorage sound stage and a visual effects studio.

Last fall, Evergreen announced a deal with Homer mystery writer Dana Stabenow to produce a television series based on her novels.

Homer and the Film Industry: A Feasibility Overview

Currently, Anchorage is the major center for the film industry within the State, with little change likely in the near future.

Legislative Tax Incentives

In 2009, the Alaska State legislature approved and passed a film industry corporate tax incentive program that remains (arguably) the best in the country. The Governor signed it into law the same year. The total tax incentive is a whopping 44 percent made up as follows:

- 30-percent transferable tax credit on qualified expenditures available for filmmakers who spend a minimum of \$100,000 within 24 consecutive months.
- An extra 2-percent by filming between October 1 and March 30 of each year.
- An additional 2-percent for filming in rural areas.
- And, an additional 10-percent is granted for wages paid to Alaska residents, with no salary cap per employee/per production.

The 'transferable tax credits' are completely transferable to any other for-profit corporation registered to take advantage of the credits, and registered to conduct business in Alaska.

A 'rural area' identified in the above is population-based, and, interestingly, Homer does not qualify as a 'rural area' for this part (2-percent) of the tax incentive program. Seldovia would qualify for the 2-percent add-on, as would Kachemak City, Halibut Cove, Anchor Point, Port Graham, and Nanwalek.

It should be noted that the film production industry has a vast range of locales to conduct their business. All States can influence market demand through tax incentives, creating a competitive edge for entertainment dollars. So, State governments are uniquely positioned to influence the desirability of their communities and are likewise distinctly poised to reap the benefits.

According to Dave Worrell, Manager, State of Alaska Film Office, more than 30 productions have pre-qualified for the Alaska tax credit. All told, the estimated budget for those projects (if all materialize) amounts to approximately \$100 million in spending in Alaska.

Making a Community Attractive to the Film Industry

It's More than Tax Incentives

As a recent issue of the 'P3 Update Magazine' publication noted: *"Thanks to lucrative tax incentives springing up across the United States and its territories, filmmakers have more budget-friendly location options than ever. But, while tax breaks play a huge role in determining where to film, there are many other factors that cannot be ignored."*

So, if tax incentives are not the complete reason producers/directors choose film locations, what major factors influence them?

Eight major reasons (not prioritized) touted by producers and directors for selecting a film location are:

1. Investors within the State/community willing to help finance the movie.
2. A positive reputation within the film industry... referrals by other producers/directors.
3. Easy access from 'movie-central': Los Angeles.
4. Vendors with film industry know-how.
5. People with film industry skills.
6. Corporate tax incentives.
7. Fixed facility for indoor shoots.
8. Post production facility with computer graphics capability.

Currently, Alaska does not rank 1st in any of the above, except #6. Homer likewise.

But, Homer has one key advantage over many small communities contemplating movie industry involvement ... the community's 'culture'. While somewhat more abstract than any of the eight reasons listed above, a community with an imbedded culture of arts and

cinematography wins easily over one that doesn't. It sure helps in attracting film industry producers and directors, and encouraging them to employ local resources.

A community also needs to be flexible to accommodate the less structured ways of the film industry. Film producers may make commitments regarding schedule and resource/service needs, but very often re-arrange dates and locations with short notice prior to the actual shoot. This can place unique and stressful demands on the support services provided by the community.

In most States with an economic focus on the film industry, the larger metropolitan areas become the industry centers, or hubs. These 'centers' (because of commercial convenience or political pressure) contain major support services such as a sound stage, equipment rental, a film school, catering, lodging. From an economic viewpoint, this is where the value-add is greatest.

The smaller communities surrounding the larger metropolitan areas are primarily used as 'satellite' locations for specific shoots. These may add significant value to the movie production, but, from an economic impact perspective, these communities benefit proportionally less than the large metro centers.

A similar scenario could evolve within Alaska... the City of Anchorage becoming the 'center', and communities such as Homer providing 'satellite' service. The questions arise ... "Should Homer make an effort to become a 'center', or should it play a 'satellite' role"? "Should Homer put in place the support and services to increase its (otherwise less) share of the value-add"? "Does Homer have the resources and long term commitment to participate"?

Government Support

The current State film industry corporate tax incentive is a good start, but it's important to have the continuing, long-term support from State and local governments, from both a logistics and a financing (tax incentives) perspectives. Any industry (including the film

industry) looks for stable tax and business conditions from government in making long term commitments to do business there.

The State of New Mexico is a good example of this, but support can wane as the political climate changes. Changes in State Governors and legislators can mean a rearrangement of political priorities, to the detriment of support for the film industry.

Once committed, the State of Alaska, the Kenai Peninsula Borough, and (especially) the City of Homer and Chamber of Commerce must show continuous long term support for the film industry.

Facilities, Supplies and Services

A 'sound stage' is probably the leading facility item required by a film company, and a locally (Homer) based facility may help attract a continuous stream of film shoots. A visual effects studio would also attract top-notch film producers/directors. A sound stage is a sound-proof warehouse used to shoot scenes and build sets for films inside regardless of the weather, while a visual effects studio is for special effects and animation. Both complement any outdoor shoots made locally.

Without a local sound stage, much of the film production work would be completed elsewhere and limit the amount of income benefit to the local community.

But, a sound stage can be an expensive proposition, especially for a small community like Homer. General specifications for a sound stage include 20,000 to 50,000 sq. ft. of space (possibly on two floors); few windows; 20 to 25 ft. ceilings; open space (lots of it) but place for an office, kitchen, bathroom, etc.; while located away from major noise pollution.

A search for dedicated sound stage facilities in the State uncovered none, although Evergreen Films is searching for private investors for an Anchorage-based sound stage.

One example of the impact of sound stages is the city of Albuquerque, New Mexico (twice the population of Anchorage). Albuquerque Studios comprises eight sound stages, ranging from 18,000 square feet to 48,000 square feet. In addition, 78,000 square feet of furnished office space, wardrobe rooms and other flexible areas are available for filmmakers, including apartments to house staff during the typical three to six months it takes to make a feature film. 70,000 square feet of "mill," or production support space, for storage, construction, welding or other work is also available.

Despite a New Mexico government incentive driven film industry, Albuquerque Studios received no breaks or investments from the State or city for the sound stages. Albuquerque Studios do not make movies. Instead, they rent the space to producers. Rates for a 24,000-square-foot stage would run about \$5,000 a day.

Two union pension funds, one in Chicago and one in Washington, D.C., provided financial backing for the project and share some ownership of Albuquerque Studios with Pacifica Ventures (the owners).

None of the smaller New Mexico communities boasts a sound stage.

Alaska still has a long way to go until it can rival Albuquerque's success. One estimate is that Anchorage, alone, needs four sound stages to enable the State to compete successfully. And, these sound stages will probably need private sector financing.

Any film shoot will require local services and supplies, from food services, to hotel rooms, to meeting rooms, to equipment rental, to vehicle rental, to hair styling. Even gifts ... out-of-town film industry employees have a reputation for purchasing their share of souvenirs and gifts. All provide a 'knock on' economic effect from the primary film industry expenditures in the community.

Resources

Film industry producers /directors have an option of bringing out-of-town personnel resources to a shoot, or hire locally. The higher up the 'talent scale', the more likely the personnel resource will come from 'outside'. As with any other industry, film directors

feel comfortable working with personnel resources they value and trust. That's why these same directors will 'import' resources from Hollywood, et al, rather than use local talent, unless the locale has a track record of, or can demonstrate, providing quality personnel.

In Alaska's case, the tax incentives encourage film companies to use shoot-local resources. But, if these local resources are not qualified, the tax incentives acquire diminished value.

As mentioned elsewhere in this report, Homer has a reasonable number of talented people with film making experience... more so than most other communities of its size. But, is there a sufficient number to meet the needs of a full-fledged push to make the film industry a major component of the city's economic growth? That is, increase the economic value-add by training local talent to fill most of the needs of a movie shoot.

One Homer-based film industry professional understands this problem and has held relatively well attended film making workshops, with the objective to grow the talent base available to film industry directors. Approximately 75% of these students were Homer residents, the remainder from Anchorage.

The UAA Kachemak Bay Campus has no film industry related courses, although an 'Arts Academy' is planned for the summer of 2012. A film industry piece could be added to this program.

The University of Alaska, Fairbanks (UAF) includes a movie making minor degree in its arts program, centered out of the main campus in Fairbanks. Recently, the university attempted to upgrade the program to full degree status, but this was 'placed on hold' by the UA Regents. This program is a combination of theory and practical work, but does not have the same positive reputation attributed to out-of-state schools dedicated to the film industry.

A dedicated film industry school is relatively inexpensive and reasonably easy to implement, and could represent an opportunity for Homer to use as part of any film

industry initiative. Film schools with good reputations attract students from around the world, which could further add economic value to Homer.

Marketing

While listed last in this section of the report, marketing is an extremely important aspect of any effort to attract the film industry. Many filming locations are selected, at least initially, through references and referrals within the industry itself. So, creating a community culture that understands the needs of the industry and can support those needs carries great weight. This is an ideal way to market a community with a small investment of marketing dollars.

Using other no (or low) cost resources are also useful, and (for Homer) the State of Alaska Film Office and related marketing entities can be useful. The Homer Chamber of Commerce web site and related marketing activities can be enhanced to include 'film industry' section and links.

3. It's all about Homer

Why Homer?

Why would any film company use Homer (or even Alaska) as its base of operations?

Filmmakers typically choose a shoot venue location based upon the 'story', and once they identify the right places, they look for the best deal. It's a combination of the creative side of the business merged with the financial side. In some instances the film director will adjust the story plot to accommodate the locale. An excellent example is the May, 2011 proposed shoot of 'Innocent Love of a Butterfly' in the Homer area. The location scenery in Homer, Seldovia, and Halibut Cove provides an ideal setting for the story, with the State corporate tax incentives adding additional incentives to shoot here.

Would the film director have chosen the Homer area for the shoot without the tax incentives? Possibly, although shoot locations in Jordan (the country), and Northern

California were previously considered. In this case, the tax incentives got the attention of the producer/director, and helped make the shoot location decision.

But, helping to move the decision making process in Homer's favor was the community's reputation (albeit small) in the film industry. In addition to its fine scenery (a prerequisite for specialty films and films needing certain background effects), Homer can 'brag' a creative arts attitude and culture... a culture that has real meaning to movie producers and directors.

And, film producers/directors talk amongst their peers... the grapevine effect. Good experiences in one location spread fairly rapidly throughout the industry.

But, for all of its fine scenery, arts/film culture, and ability/reputation to make things happen, Homer lacks many of the important pieces that are needed to make the film industry a sustainable and significant contribution to the economy.

In some respects, one of Homer's current principle industries can be compared to the film industry, and provides support for the idea of the community being able to address the needs of the film industry. The commercial fish industry represents a comparable business culture. Commercial fishermen know, with reasonable probability, that the salmon will run annually. The exact date and the quantity of fish for any given run is, however, unknown. Predicting the time and size of the run is an inexact science. Commercial fishermen need to be flexible.

Same goes for the film industry. Film producers make commitments regarding schedule and resource/service needs, but very often re-arrange dates and locations based upon demands beyond their control. Like the commercial fishing industry, Homer would need to show flexibility.

What's in it for Homer?

The primary importance to Homer is the return on relatively small inducements by the community, coupled with the expenditures of significant "new money" by the film industry. A major film production spends, on average, \$100,000 a day. Not only does

that pump money into local businesses, it also creates jobs for young professionals who would otherwise leave the community and State to work in that industry.

It could make a strong economic impact on Homer as it carries over to other sectors, such as professional services, transportation, hospitality and construction. With film productions come a demand for office rentals, hotels, restaurants and catering, car rentals, guiding services and commercial construction, among other services.

For example, the following extract from an article by Kevin Max in the Bend (Oregon) Living Magazine provides an example of how a small New Mexico community participated and profited from an influx of the film industry.

“About 25 miles south of Santa Fe, residents of the dusty old mining town of Madrid woke up one day on the set of the Hollywood feature film Wild Hogs. John Travolta, William H. Macy, Martin Lawrence, Tim Allen, Ray Liotta, and the film’s crew became Madrid’s honorary, if temporary, citizens. If you added them all together—the well-heeled of Hollywood and the boot-heeled of the burgeoning artist enclave—the population swelled to more than 400, in an increasingly common scene in this southwestern state.

The film’s crew painted buildings, put in grass and white picket fences, and compensated just about any of the town’s 350 residents for the inconvenience and loss of business. Some Madrid residents also requested that their town’s name be used instead of the fictional one written into the script, and the director, Walt Becker, obliged. All in all, Madrid came out ahead.

Two residents own two Southwestern and American Indian jewelry stores in town. But they were more than smitten locals for Wild Hogs. They became vested partners, surrendering their empty lot so crews could build from the ground up Maggie’s Diner.

Since Wild Hogs wrapped, the vestiges of Hollywood remain. Tourists have started streaming into town to take photos in front of the building. At the same time, another

Director was also in the area filming the Val Kilmer movie called Conspiracy. And all this shooting centers on a single tiny town in New Mexico."

The town estimates that the film provided at least \$200 Million of no cost (to Madrid) tourist advertising.

Could this happen to Homer?

If Homer is to receive benefits from any film industry economic activities, it must also make commitments. It would, for example, have to get used to how Hollywood works. It's fast paced, involves long days and weeks, with a high level of customer service. And, it should be prepared to make a long term commitment. It will take 5+ years to build this industry to a sustainable level.

What's Happening in Homer

Homer's long-time association with the arts has not bypassed the artistic and creative side of the film industry. A small number of individuals in the community gain a significant share of their annual income from it, while a larger number rely on the industry for at least part of their annual income. This latter group would, if they had the opportunity, work full-time. All of them contract with various film industry companies through their own personal contacts. They are all sole-proprietor, self-employed professionals, with specific film industry skills. Their work is well respected in the industry.

No estimates have been made of the economic impact on the community from this employment.

Some film industry entrepreneurial activities are also blossoming in the community. For example, 'DayDreamer Productions' is a group with film industry experience attempting to establish a Homer-based company to provide state of the art High Definition/Interactive film and television production services. The group is soliciting financing for the venture while establishing credibility.

While appearing to be relatively insignificant, Homer can boast the Homer Theatre, with its annual 'International Film Festival'... now on its seventh year, and the 'Far North Film Festival', held in 2010 at the Alaska Islands and Ocean Visitor Center.

Everyone associated with the film industry in Homer indicates their desire to see it grow and prosper... a rising tide raises all ships. But, the key is to find a way to make it grow so that it is sustainable and adds economic value... the value proposition.

Comparative Communities

Film production has become increasingly more competitive and cost-conscious. Film producers, hoping to make a profitable film in an ever tougher environment, have been looking for, and have been taking advantage of, tax incentives, rebates on labor, and kickbacks on production costs throughout the USA and abroad.

States and communities offering tax incentives and other support and services to the film industry will never displace Hollywood. Its concentration of money, production assets, and creative talent will allow Los Angeles to remain the entertainment capital of the world. But with a raft of incentives, a growing band of industry pros, and state-of-the-art facilities, other states and communities could take a reasonable share of the film industry business.

It is difficult to tie down a 'competing community' and compare it directly with Homer. Very few, if any, small communities have the resources, focus, urgency, and funding necessary to create an aggressive program to attract and sustain an economy centered around the film industry. Most of the 'community' activity in the USA is driven at, and through, the State level. Here are a few examples (with reference to the participation of small communities where appropriate).

The State of New Mexico is considered to be one of the most aggressive, opportunistic, and best organized in chasing, attracting, and capitalizing on the film industry business. The major reason for their success is the pro-active approach by State government.

Yet, the tax incentives offered by New Mexico are less attractive than those available in Alaska.

The State of New Mexico, and its governor, has made the film industry one of their top economic development initiatives. With this priority, comes relatively large State budget allocations to support the cause. For any State or community attempting to replicate New Mexico's success, it is important that they create an environment of sustainability, largely independent of public sector funding.

The state started small, chasing low-budget films before moving into bigger productions that had been shooting abroad, and finally courting repeat films and longer series TV productions. At all times, one constant guided the state: "We approached it like a business," says Eric Witt, director of media arts and industries for the Governor. It had to make money for everyone who participated in the process in New Mexico.

New Mexico foresees a major increase in film production in FY 2010 and beyond due to the solidity and reliability of their film incentives, a crew base of 3,000 (all relatively new jobs), over 250 film specific businesses and services, and world-class sound stages. A second studio complex is under construction this year in Santa Fe. Total film industry expenditures within the State in 2010 are expected to exceed \$1.2 billion dollars. That's up from a meager \$8 million just five years ago.

But, most of this continuous/sustainable economy benefits the two largest communities: Santa Fe and Albuquerque. While smaller communities benefit less, the most active and aggressive of these accumulate more than their fair share of the wealth.

Canada, and especially, the Province of British Columbia, started it all. This Province is considered the 'granddaddy' of them all. Starting in the late 1980s, British Columbia stepped up with a raft of incentives that drew millions of dollars of film production to the 'Great White North', with total production investment spiking in 2003 to \$1.24 billion (Canadian) supporting 20,000+ jobs.

Michigan, California, and Maine are other States with aggressive programs to attract the film industry.

4. The Challenges for Homer

The expansion of the film industry in Homer represents a relatively good economic opportunity for the City and its environs. While it may not approach the economic impact of commercial fishing or tourism, it can still play a major role in the community's business and arts climate. And, the emphasis here is on both 'business and arts', since the two currently (and should continue to) play a major role in the Homer community.

But, it must be approached with reasonable care and planning (without being overly controlling) or the effort will fail. While it is important to take advantage of every, and any, opportunity and be entrepreneurial, it should also be considered both a long term commitment and an investment in people's time and effort. Five years from now, Homer should want to be recognized as an important player in the Alaska film industry, with its associated gain in economic value.

The discussions in this final report section attempt to list a number of opportunities and recommendations based on two primary assumptions: (a) there is limited government and other grant funding available for this venture, and (b) the private sector would play the major role in moving this initiative forward. Determining finance options (public, private sectors) was not part of this feasibility overview, so more in-depth research may uncover some positive financing options.

The major challenge for Homer is that it is a small community with limited resources. But, this is offset by the community's (albeit, small) in-grained film industry culture, which is a useful base to start from. But, where does it fit in the scheme of things, and how does Homer take maximum advantage of the opportunity?

Moving Forward: Getting things Going

Any effort to organize a film industry initiative should consider the following primary seven areas of opportunity. Remember, as described elsewhere in this report, movie

producers/directors bring many workers, equipment, and services with them on a film shoot based on the assumption that the local community cannot (or will not) provide them. They shoot in locations which are financially beneficial to them, yet anticipate excellent support and services.

From a community's perspective, the more workers, equipment and services provided by the local community, the greater the economic benefit to that community.

The seven major areas of opportunity are:

1. Government support.

Both the public sector (government) and the private sector have important roles to play, but in different ways. Using a family outdoor cook-out as an analogy, the public sector lights and feeds the fire, while the private sector grills the steak.

Having (arguably) the best corporate tax incentives in the nation (and probably the world), the Alaska State legislature has shown its support and understanding of the film industry as one solution to a potentially more diversified economy.

This is a great start, and is getting the attention of movie makers worldwide.

As a community, the government (City) of Homer has few resources and funding to add any appreciable value to what the State has provided. But, city government should voice support for the initiative, by (for example) insuring local State representatives continue to support legislation that makes filming attractive in the community. Expanding the Alaska Film Office's budget to promote Alaska to the film industry is another example where State government can help.

2. Trained workforce/resources.

A trained, local workforce, competent enough to meet the needs of film directors adds significant value to a community's ability to attract film shoots. As mentioned previously in this report, using local labor is a great multiplier for

economic growth. So, it is important to create programs that educate and train the local workforce.

A film industry school or training program would satisfy this need. It could be implemented relatively quickly with small investment, and provide the initiative to get things started. If designed correctly, such a school would also be attractive to non-Homer residents... a further economic stimulus. The world's most respected film industry training programs attract many of their students from foreign countries when using industry 'names' as teachers/instructors.

Film schools are typically private sector financed, operating independently. In Homer's case, a film school could possibly be integrated with a sound stage facility (see 3 below) to leverage resources and financing. Combining a sound stage with a film school has some obvious advantages, since the facility becomes a shared resource. Also, the UAA/Kachemak College Campus, with their proposed 'Arts Academy' scheduled for 2012, could be a partner in any school project.

3. Support facilities.

The primary/major support facility required by film directors within a community as part of a film shoot is a sound stage. As described previously, sound stages can be expensive to build and maintain. And, extensive film shoot traffic must be available to make a sound stage venture economical sustainable.

Sound stages are typically private sector financed, and may not be financially viable (at least in the early years) for Homer.

There is a possible alternative to a dedicated, fixed sound stage facility. A list of available rental warehouse space suitable for sound stage use could be maintained and provided to film directors when needed. This list would then be

matched to the needs of a particular film shoot requirement. While this has limitations (the list would not be a constant), it could provide a short-term solution to the needs for a permanent sound stage.

4. Availability of Services.

Film shoots would bring economic benefit to Homer, and the demands on the local services could be huge. The bigger the movie production, the greater the demands.

While film production pays well, it also relies heavily on local services and resources when on location. It is a labor-intensive industry, with a need for locally-based skilled workers and self-employed professionals. There is a heavy dependence on the local hospitality industry (accommodation, restaurant, vehicle rental, catering).

These demands can be relatively short-lived and of uncertain lengths (hours, days, weeks or months), so it does require a certain mind-set for those offering the service. In some respects, Homer has experience in accommodating such 'spikes' in service demands... think "cruise ships".

An education/training program for service providers would be an important aid to supporting film industry activity within the community.

5. Marketing

This is one area where the Chamber can play an active role with limited additional budget expenditures. While positive references and referrals go a long way towards enhancing a community's value to the film industry (producers and directors do communicate/network on a regular basis) there has to be some fairly aggressive marketing. But, this can be implemented in partnership with others, thereby reducing marketing costs, while increasing impact.

Working in conjunction with State marketing programs (that have budget funding) would be helpful. The Homer Chamber of Commerce web site and related marketing activities can be enhanced to include a 'film industry' section and link. For example, this could include a listing of available shoot locations and support services available.

When marketing \$\$\$ are in short supply, cooperative marketing efforts can work wonders.

6. 'Go-to' Team

Currently, no organization or individual has the 'authority', or has been delegated, to be a single focal point for film industry related issues and opportunities within the community. This causes confusion for the industry... who do they contact for information regarding film shoots?

What's needed is a 'go-to' person, who heads up a 'go-to' team, and this person/team becomes that focal point. Any request for film shoot services from film producers/directors would be processed through this 'go-to' person. The 'go-to' person would then assemble a group of individuals from the community and create a specific 'go-to' team for the particular shoot.

This 'go-to' person most likely would (at least initially) be part of the Homer Chamber of Commerce, could be a paid, part-time position (if funding was available), or could work on a volunteer basis (if such a person would volunteer). In addition, it is recommended that this person NOT be part of the film industry in Homer, yet have the 'connections' within the community to serve the needs of outside film companies.

Members assembled for each 'go-to' group would be volunteers with a passion for making this successful.

7. Learning more about the business

The more Homer knows about the needs of the film industry for a film shoot, the better the community will be prepared. What better way to achieve this than working directly, on a day-to-day basis, with an actual movie shoot in the community. This could be achieved by assigning an intern to 'tag along' on the planned shooting of 'Innocent Love of a Butterfly' in the Spring of 2011.

The information obtained would aid the community's understanding of the industry's needs for the future.

Additional Things to Think About

Things to think about (not all encompassing) in addition to the above in order to create the value proposition ...

- 1: Define/estimate the economic value to Homer.
- 2: Further define the Chamber's involvement.
- 3: How deep should Homer get involved? What's the strategy?
- 4: Set priorities.
- 5: Where's the money?
- 6: What's the marketing strategy/plan?
- 7: Need an inventory of film industry resources in Homer.
- 8: City/Borough/State government involvement.
- 9: Identify risks/rewards.

5. References

"An overview of film production incentives", John Gnuschke, Business Perspectives, September, 2005.

"Top Ten Film Locations", P3 Update Magazine.

Homer and the Film Industry: A Feasibility Overview

'Frequently Asked Questions', Alaska Film Office.

Bend (Oregon) Living Magazine, Kevin Max, Author.

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MANAGERS REPORT

November 22, 2010

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE

UPDATES / FOLLOW-UP

1. Website Launched: You may have noticed or heard that the new City website has been launched. If you have not been there yet, please take the time to check it out. www.ci.homer.ak.us. Please keep in mind that this is still very much a work in progress. Links are still being established and documents and other information posted. But generally, everyone seems pretty excited about the capabilities of the new site. It should be a much more useful tool for the public. For example, one of the new features allows folks to sign up for e-mail alerts. And you can pick what you want. So, if for example, a resident just wants to receive copies of Port and Harbor Commission agendas, they can do so. The Library page and the Clerk's page are particularly impressive. This new site will save time for staff when it comes to disseminating public information. But it will also require a refocus and more effort spent on keeping the site current. Terry Felde is the Website Coordinator and she has done an excellent job pulling this together. She also had a great deal of help from the liaisons in each department. Please let us know if you would like a public demonstration and/or training on the new site. We could do that at an upcoming workshop.
2. Comprehensive Economic Development Strategy (CEDS): The Economic Development Commission has completed its work on the CEDS. It voted to pass the draft document on to the Council for review and approval at its regular meeting on November 9, 2010. A copy of the document was provided with your packet as an informational item so that you have some time to look it over and give it some thought. We thought it would be a good idea to put the resolution approving the CEDS off until the January 10 meeting so that the Council will be able to devote as much attention as possible to the budget. As you know, there are only two more scheduled meetings this year.
3. Business Travel: Last week I traveled to Soldotna along with Carey, Bryan, and Rick to meet with the Corps of Engineers. In the morning we discussed transfer of the Corps permit for the seawall to the property owners and a City permit application to make beneficial use of dredged spoils. In the afternoon we discussed a regional general wetlands permit for the proposed Enstar transmission, distribution, main, and service lines. A little more information about all of these topics appears below. The week of November 15 I will be travelling to Anchorage to meet with DOT/PF about several stalled projects including the Main St. traffic signal, the Spit Trail extension, the Deep Water Dock, and the TORA Agreement. These four projects will be top priorities in the coming year.



4. Fire Training Facility: Chief Painter is scheduled to travel to California on December 2 through December 4 to conduct a pre-delivery construction inspection. If everything looks OK, the facility will be shipped to Homer and we anticipate its arrival before the end of this year. After much discussion, we have decided that the best location for the facility, at least initially, is on the Spit. It was hard to find a location that was away from residential areas and close to a water source. The Spit provides both including access to a hydrant. The spot chosen is on gravel, but within the Chip Pad enclosure, at the Northwest corner, near the road and the fire hydrant. There will be some limited smoke several times a year during training exercises. We really look forward to getting this facility up and running.
5. Update: Fire Mitigation Project / Bridge Creek Watershed: This project is moving along slowly and methodically. As everyone knows, this is a sensitive area and no one wants to do anything that would endanger water quality or important habitat. The Bridge Creek Watershed Protection District Ordinance contains many requirements that must be met before an operation of this type can be undertaken. The ordinance also requires that the Homer Soil and Water Conservation Service review the plan and make recommendations on the required erosion and sedimentation plan. All of this takes time. We have received recommendations from the Soil and Water Conservation District and also consulted with the Department of Fish and Game and Cook Inlet Keeper. A field trip took place several weeks ago. On Tuesday of this week, the Spruce Bark Beetle program staff will be here to discuss where we are and to perhaps start putting together the Conditional Use Permit application. It is starting to get a little late in the season and much will depend upon the weather and how long it takes to obtain the CUP.
6. Update: Enstar Project: Enstar has completed the distribution line from the North Fork Road to the Chapman School. It is my understanding that the school and some of the businesses fronting the line are now hooked up and will be served with gas next spring. Enstar is preparing design and costs estimates for extending the distribution line down to Homer and beyond. The goal is to have the information ready for the legislature to consider in January. The Corps of Engineers is actively discussing a regional general wetlands permit for Enstar's transmission, distribution, main, and services lines. The idea is to issue one permit for the entire expected build-out of the project instead of many individual permits for each segment or subdivision. This will save a lot of time and red tape. In the next few months, Enstar and the City will map out the expected location of the Main lines in City streets. We hope to get the gas distribution task force up and running soon to help with this effort. The Kachemak City City Council has already decided that it will finance the installation of the gas mains throughout the entire City and pay for it with an increase in the mil rate. So, they are significantly ahead of Homer in that regard. The City, the State, and Enstar are still working on amendments to the grant agreement to satisfy the concerns expressed by the Council. At the time this was written, I had still not signed the construction agreement. I covered a lot of ground quickly here. Please let me know if you have questions.

7. Kachemak Drive Phase II Water and Sewer: What is next?: As you know, after new information came to light, the City rejected all bids and returned the bid bonds to all bidders for the Kachemak Drive Phase II Water and Sewer LID. At this time, we suggest going back to the engineer who produced the project cost estimate (five years old now) and reevaluating the estimate and looking for some value engineering to lower costs. If the new cost estimate is more than 15% higher than the estimate the property owners approved, or if the new scope of work is significantly changed, it is likely that we would have to go back to the property owners for approval. The goal is to re-bid the project and work toward construction beginning next summer or fall. Attached is a memorandum from the Public Works Director suggesting the way forward. Please let us know if you want to spend more time on this at some future meeting. This may become an action item for the Council at some point. We do have some time in which to consider this carefully since the Council has already extended the project timeline. It is my understanding that all secured permits are good for at least three years.
8. Energy Audit / City Buildings and Facilities: The consultants have completed their energy audits and recommendations for City buildings and facilities. A representative for the contractor will make a presentation as a visitor on the regular agenda. Attached is a memorandum from the Public Works Director along with a spreadsheet which shows the energy saving projects with the biggest payback. The work on these projects is at 65%. We are looking for tacit approval from the Council to move specific projects to 95%. At that point we would be ready to ask the Council to appropriate funds to make the improvements. Note that the estimated costs to do all of the projects exceeds what we currently have available. Discussion will be necessary about which projects to proceed with, whether we want to expend the entire RLF in one shot, and whether more money should be appropriated or applied for. Again, let us know if you want to add this topic to a future workshop.
9. Derelict Vessels: Several years ago, the Council asked lots of questions about why we had so many derelict vessels in the harbor. Since that time, Bryan and his staff, working closely with the City Attorneys, have redoubled efforts to get these vessels out of the harbor. It is difficult and tricky to do this and many harbors are struggling with the same problem. Bryan has done an excellent job and he has been able to use a number of creative approaches to making this happen. We have reported to you about several vessels that have been removed over the past two years. Some vessels were cut up and recycled and left with the rest of the scrap steel this summer. This includes one large barge and derelict vessel that were beached on City tidelands. The latest vessel to leave is the Inlet Harvester. Many of you will remember this ship. It has been inactive and tied up at JJ Float for well over a decade. It was taking up a huge amount of moorage space. Now that it is gone, the space is available for "working" boats. We are trying hard to impress upon people that the Homer Harbor is not a storage yard. It is a working harbor and we want vessels that are actively working and providing jobs and revenues to this community. Attached is a memorandum from the Port and Harbor Director summarizing efforts in the past few years.

10. Tidal Power Update: We recently learned that the Alaska Energy Authority intends to reject the City's Round IV tidal power feasibility study application. The reason given is that this pot of alternative energy money is for construction, not feasibility studies; something that we have received very mixed messages on in the past. So, that is the bad news. The good news is that AEA is suddenly very interested in exploring tidal power and they want to do a joint project directly with NOAA to look at the feasibility of tidal power in all of Cook Inlet, including Kachemak Bay. So, from my point of view, this is a win-win situation for the City. We now have reasonable assurance that tidal power opportunities will be explored. And, the City is relieved of the responsibility of being the grant recipient and the project manager; something that would have required a great deal of staff time and effort.
11. Beneficial Uses of Dredge Spoils: The City has submitted an application to the Corps of Engineers to use dredge spoils to create several new parking lots and to replenish certain beaches that have experienced erosion. We did this for several reasons. 1) An attempt to assist the Corps as it attempts to devise a 20-year dredging plan, 2) an attempt to replenish eroded beaches which has been encouraged in the past, 3) an effort to create more off street parking which has been recommended. Beneficial uses of dredged materials is encouraged in official Corps documents. The Corps held an initial scoping meeting with permitting agencies and we expect that they will request more information. Concern was expressed about proposed revetments and possible contamination of the dredged materials.
12. Seawall Update: We continue to be faced with seawall issues and are attempting to make progress. We are working with the Corps to have the permit transferred to the property owners which is where it should have rested in the first place. The Corps has responded that under its rules, it can only transfer a permit to a willing party. We have explained the unique circumstances to them and they have requested more information. I will be initiating a conversation with the property owners to determine if there is a willingness to assume responsibility for the permit. I will also make another attempt to sell the two lots the City owns as directed by the Council. In the meantime, the property owners met with Senator Begich when he was here and they want support from the City for improvements to the wall. It seems like there is room for agreement on a path that benefits everyone here and I will continue to attempt to find a solution.
13. Budget Amendments: We have made some changes to the draft budget without going through the formal budget amendment process. Regina will provide you with new budget pages that you can insert into your draft budget. These changes are simply clerical errors. They are not substantive changes. For example, they include the \$22,000 mistake that Francie discovered in the library personnel budget, another \$29,000 mistake that was discovered in the jail personnel budget, inclusion of the \$5,000 expenditure for website hosting and maintenance which Council had approved previously, and changes to the Old Intermediate School Budget (Leased Properties) that reflect changing circumstances.
14. Records Retention: Tom Klinkner, Holly Wells and I have been talking about the need to amend the City Code section on records retention as it relates to e-mails

for awhile now. This section of the code needs to be changed to reflect changes in technology and the law. Work on that ordinance is in progress and I hope to bring you something on it in January.

15. Senator Begich Follow-up: We are working to follow-up on the requests Senator Begich had when he was here. Some information we can provide right now, such as information on Homer intersection improvements, earmark money and the stalled deep water dock project, and the erosion problem at mile 150-157, Sterling Highway. Anne Marie is providing that information to the Senator. Other items he requested will be forwarded when they are complete. Those include the Enstar design and cost estimates for extending the gas transmission line to Homer and beyond and the Corps of Engineers technical report on the proposed East Boat Harbor.
16. Old Water Treatment Plant: Progress is being made regarding the demolition of the old water treatment plant building. Most of the electrical and other important and salvageable equipment has now been removed. We anticipate that a request for bids will be issued next month or in January and that demolition will take place this winter. This spring we can focus on the new fire station facility on the remaining cement pad.
17. Fire Department Recruitment: The Fire department is conducting a Firefighter I class and testing will take place in December. There are presently eight students taking the class. An EMT training class will begin in January. The Department is working hard to step up recruitment and efforts appear to be paying off.
18. Library / Budget Questions: At the last budget workshop, questions were raised regarding the impacts of reducing the book budget, reducing travel and training costs, and charging for computer use, among other things. Attached is a memorandum from the Library Director which discusses these topics.

ATTACHMENTS

1. November Employee Anniversaries
2. Memorandum from Library Director re: Budget Questions from last Workshop
3. Memorandum from Public Works Director re: Kachemak Drive Water and Sewer
4. Memorandum from Public Works Director re: Energy Audits and Recommendations for capital expenditures.
5. Memorandum from Port and harbor Director re: Derelict Vessels



MANAGERS REPORT
January 10, 2011

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE *W. Wrede*

UPDATES / FOLLOW-UP

1. Proposed Ocean Drive Improvements: The Economic Development Commission has requested that I contact DOT/PF about safety improvements on Ocean Drive. Concern was expressed about summer time traffic and the number of pedestrians, especially when the Farmers Market is open. The problem is anticipated to become worse this year because all of the cruise ships are scheduled to be in port on Saturdays. The Commission suggested creating a turning lane on Ocean Drive and temporarily moving the bike lane to either Bay Avenue or to Lakeshore Drive. At the last meeting, I informed the EDC that I thought it would be best to first bring this recommendation/request to the attention of the Council and that the Council could either authorize me to contact DOT/PF on behalf of the City or refer this issue to other entities that might have an interest such as the Planning Commission or the Transportation Committee.
2. Lobbyist: The RFP for lobbyist services is on the street. The deadline for proposals is January 13th. If all goes well, we plan to have approval of a lobbyist contract on the agenda for the meeting on January 24. In the meantime, there are two issues that need to be discussed. The first is that I would like to quickly put together a small review team to review and score the proposals. Are any Council members willing to serve on that committee? Most of the work would take place the week of January 17th. The second issue is the scope of work. This was not discussed in great detail during the budget amendment process. There was a lot of talk about amending the fisheries business tax statute, but not much else. So, before we interview candidates and draft a contract, it would be good to more clearly define the scope of work.
3. New Lease Agreement: Tom Klinkner is working on amending the City's standard ground lease. He is doing this for several reasons. First, he thinks the document can be updated and edited to make it shorter and more current (reflecting recent changes in the lease policies, insurance requirements, etc), while still maintaining the necessary protections for the City. He is also attempting to incorporate some of the EDC recommendations where appropriate and beneficial. The Council recently approved new leases for Snug Harbor and Brad Faulkner. We plan to use the new lease in those negotiations. Please let me know if and how the Council wants to be involved with the amendment of the standard lease.
4. Gas Distribution Task Force: The Task Force is up and running. The second meeting will be on Monday, January 10, at 12 Noon. The focus so far has been on the grant requirement that Homer come up with a plan that provides for distribution of gas infrastructure within the city limits. So far, this has included an internal review of the City utility ordinances to see if they need to be amended

and an initial analysis of funding options and build-out scenarios. Enstar representatives will be at the meeting to discuss build-out plans and Enstar's tariff with respect to main line extensions.

5. The New Budget: The Finance Department is working hard to prepare the new final budget for public dissemination. The budget will incorporate all of the amendments approved by the City Council. The department is also changing the format somewhat and adding new sections to make the document more informative and easier to read and locate information. For example, the Water and Sewer Fund will have a new presentation since it is no longer an enterprise fund. There are also new stand alone sections for the Permanent Fund and for Staffing information. Capital projects are arranged in a different way to make them easier to find. Regina can explain all of the changes to you at the meeting if requested.
6. TORA Agreements: Good News. We have made some progress and we are now beginning the process of negotiating Transfer of Responsibility Agreements (TORA) with DOT/PF for the Spit Trail extension and the Deep Water Dock Expansion feasibility study. This is the first step in getting these projects moving and we hope to have draft agreements ready this month. The TORA that is pending is the one on Spit Parking. This one is almost ready for final approval but has been suspended in part for budgetary reasons. I would like to discuss whether the Council still wants to move forward with this given budget cuts and concerns about taking on new responsibilities.
7. Conditional Use Permit / Bridge Creek Fire Mitigation Project: A Conditional Use Permit application has been submitted and the Planning Commission is scheduled to take this matter up at its regular meeting on January 19th. A copy of the application narrative is attached for your information (not the full application). This project may generate public discussion and debate. Please let me know if you have any questions or wish to discuss this in more detail.
8. Enstar / Gasline Grant Follow-Up: The grant agreement has been amended to incorporate the sub-grant agreement between the City and Enstar. This clarifies and directly addresses the Council's concerns about issues like ownership, operation, maintenance, and liability. Also, questions about the applicability of Davis Bacon provisions have been answered by the Department of Labor. This resolves all remaining issues. Contracts have been executed, Enstar has submitted its first invoice, and the paperwork is being prepared for reimbursement by the state.
9. Joint Workshop Request / Planning Commission: The Planning Commission has requested a joint workshop later this winter to discuss code enforcement, especially on the Homer Spit. The Planning staff is being hammered on all sides about enforcement. Many in the community, including I believe, the Commission itself, are concerned that the City is not doing enough, or being assertive enough, about code enforcement, particularly on the Spit. On the other hand, a sizable portion of the community believes that the City is being too aggressive and that code enforcement and maybe even portions of the code itself should be rolled back. Enforcement on the Spit has proven to be very difficult for a wide variety of reasons and would be very expensive to ramp up. There is a lot more background

that could be provided but this is the gist of it. The Commission and the staff would like some input and guidance from the Council on this matter.

10. Spit Dredged Materials Disposal: I recently reported that the City was working with the Corps of Engineers to find a long term solution to the disposal of dredged materials. The Corps has inquired why the City had prohibited these materials from leaving the Spit. Bryan has been doing research on the history of this and has shared it with the Port and Harbor Commission. It is my understanding that the Commission recently recommended that these materials be allowed to leave the spit if it was necessary. So, you may see an ordinance to accomplish that coming to you soon. I suspect there will be a lot more discussion about this at that time.
11. Energy Efficiency / Capital Improvements: This agenda contains an ordinance that would appropriate funds for capital improvements that increase energy efficiency in City buildings and facilities. A cost center spreadsheet is attached. As you can see, the cost to complete recommended projects that have a good payback period exceeds the amount of money contained in the grant and the Revolving Energy Fund. The ordinance and spreadsheet make suggestions about how these projects might all be funded and how the costs would be allocated. This should be a good starting point for discussion. The Council may or may not want to do all of these projects at once and it may have different ideas about how they should be funded. Using enterprise fund depreciation reserves might generate debate, especially since we have not been putting money into those accounts. There are other questions about repayment of the REF as well if enterprise funds are used (maybe the enterprise funds should be reimbursed instead). We look forward to this discussion.

ATTACHMENTS

1. January Employee Anniversaries
2. Project Narrative / Bridge Creek Fire Mitigation Project

**CITY OF HOMER
HOMER, ALASKA**

**ECONOMIC DEVELOPMENT
ADVISORY COMMISSION**

RESOLUTION 11-__

A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA, APPROVING AND ADOPTING THE COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY (CEDS) AND FORWARDING THE CEDS TO THE HOMER ADVISORY PLANNING COMMISSION FOR A RECOMMENDATION ON WHETHER IT SHOULD BE ADOPTED AS PART OF THE HOMER COMPREHENSIVE PLAN.

WHEREAS the Economic Development Advisory Commission (EDC) is charged with developing and updating the City's economic development plan (Comprehensive Economic Development Strategy) as part of its advisory role on economic development matters, and

WHEREAS the City's economic development plan (formerly known as the Overall Economic Development Plan) was last updated in 1999, and

WHEREAS the City of Homer recruited a VISTA (Volunteers in Service to America) member to assist the EDC with the CEDS in a year-long effort, and

WHEREAS during this time the VISTA reviewed economic literature as well as previous local plans and surveys and shared this information with the EDC, conducted more than 20 interviews with local citizens from diverse backgrounds, organized two public forums on behalf of the City of Homer EDC, solicited additional public input by email, publicized the project through news releases and interviews, and provided the EDC with a scoping report; and

WHEREAS the public has also had the opportunity to provide input for the CEDS at EDC meetings and work sessions over the course of two years; and

WHEREAS care was taken to ensure that the CEDS is consistent with the Homer Comprehensive Plan;

NOW, THEREFORE, BE IT RESOLVED that the Homer City Council approves and adopts the Comprehensive Economic Development Strategy as the City's economic development plan, and

BE IT FURTHER RESOLVED that the City Council requests that the Homer Advisory Planning Commission consider and make a recommendation on whether the CEDS should be adopted as part of the Homer Comprehensive Plan.

PASSED AND ADOPTED BY THE HOMER CITY COUNCIL this ____ day of _____, 2011.

CITY OF HOMER

James C. Hornaday, Mayor

ATTEST:

Jo Johnson, City Clerk
Fiscal Impact: None

MANAGERS REPORT
December 13, 2010

TO: MAYOR HORNADAY / HOMER CITY COUNCIL

FROM: WALT WREDE *W. Wrede*

UPDATES / FOLLOW-UP

This report is devoted to discussing the impacts associated with some of the proposed budget amendments offered by members of the Council. At the last Committee of the Whole meeting, the Council discussed some of these proposed amendments, but not all of them. It is hoped that this report will assist in moving the conversation ahead.

The report focuses on major proposed cuts that represent a change in direction or policy and that would have very significant impacts upon the City's ability to carry out its mission and to serve and protect the public. Reports from individual department heads are attached. Department heads will be available to answer questions at the Committee of the Whole.

In-House Legal Department: This topic has been discussed several times over the past few years. It is a good conversation to have periodically to make sure the Council is getting the best value it can for legal services. There are definitely a set of advantages and disadvantages to doing this and I won't take the space to go into that here. As far as the budget goes, I do not see any advantage to taking this step now. First, I am not convinced this would actually save the City money. In-house attorneys are often quite skilled at a number of areas of municipal law. However, outside legal experts are often required and you still have the conflict of interest problem which we seem to experience regularly. Also, as Council member Hogan notes in his memo, the Council would have to not only hire an Attorney but also an assistant, perhaps a paralegal. Both of which might be PERS employees. Second, the numbers Mr. Hogan uses for expenses are speculative. We could not know what it would really cost until we draft up a job description, advertise or issue an RFP, and hire someone. That is not a good way to build a budget. In short, this might be a good discussion to have again, but now is not the time because the discussion has little immediate impact upon the budget. I would suggest bringing this up again before the next legal contract expires if the Council wishes.

Outsourcing IT: This proposal would have very serious negative impacts upon all City operations. It would be extremely disruptive and again, I am not sure it saves any money. As I was thinking about this, it occurred to me that the Council probably does not have a good idea of the scope of responsibility that the IT department currently handles. At the last meeting, I brought along the Systems Manager's job description in case I had an opportunity to discuss this. Following is a sample of what is included in the Job Functions and Major Activities:

- Maintaining and improving the City's Wide Area Network (WAN) and Local Area network (LAN).
- Installation and maintenance of the citywide IP Telephone system
- Advises all staff on aspects of computerized information systems as needed
- Install and configure hardware and software and monitors computer resource utilization and performance
- Information systems procurement and third party upgrades and repairs
- Analyze and document information needs; develop solutions that are consistent with the computing environment
- Manage security, backup, and recovery procedures to assure system integrity.
- Monitors networks on a regular basis to insure the integrity of those systems including auditing backup, testing restoration, monitoring virus protection, monitoring network statistics, and overseeing system security.
- Assists the Police Department with investigations of computer related crime, including but not limited to computer theft, fraud, child pornography and computer hacking.
- Assists in development of departmental procedures and policies related to the use of automated systems.
- Technical support for City's web page and certain webmaster functions.
- Installs network cabling and retrofit cabling.
- Develops training classes.
- Troubleshoots and resolves problems relating to both hardware and software in all departments.
- Performs preventative and remedial maintenance of computer equipment such as terminals, modems, printers, microcomputers, disk drives, and cables in all City departments.
- Assist departments with other non-pc computer technologies, including but not limited to, telephone systems, PLC controllers and telemetry monitoring, heating and air conditioning automation, E911 systems, EMS and Police dispatch and radio console systems, network based security systems, and wireless GPS systems and base stations.

As you can see, the scope of responsibilities is probably much broader than many people may realize. It is my view that the City is getting a tremendous value for its money. It is doubtful that an outside consulting firm would be able to do all of this for less money. Further, the IT staff are available 24/7 and are always there when they are needed. The City's systems are critical for public health and safety and need the type of attention that can only be provided by in-house staff. The IT staff have saved the City significant amounts of money through innovative approaches to service delivery and the procurement of services; especially telephone services. I strongly recommend no change here.

Employee Health Care Contribution

I would recommend that the Council not take any action on this at this time. If the Council wishes to do something in this area, I recommend that it delay any action until the following steps are completed:

- The Parity Study. This will give the Council a better overall picture of the employee benefit package as a whole as it compares to other municipalities and hopefully, comparables in the private sector. That way, Council can see the entire compensation package instead of focusing all of its attention on health care.
- Federal Health Care Regulations: The new rules are still being written. The City is consulting with its attorney's and insurance experts regarding potential impacts associated with making changes to the plan and subsequently losing the City's grandfather status. More information is coming in almost every day and we are getting closer being able to making recommendations with some degree of confidence.
- Consultation with Employees: The Council previously adopted a policy that no changes would be made to the health care plan unless the employees had at least 30 days to review and comment. The employees have not had the opportunity to review and comment on Councilmember Hogan's proposed amendment. Further, consultation with the employees is desirable because they would likely come up with and endorse options that are perceived to be more fair and equitable than the one on the table.

As has been noted many times, the City Health Insurance Plan is a pretty good one and it serves as one of the best remaining recruitment and retention tools the City has at its disposal. Making cuts to this plan would reduce benefits further on top of other cuts that have already been made. There would be a real cost to employees, especially young ones with families. It is always good to remember that City employees live here too. They pay taxes and they spend their earnings at local businesses.

That aside, the administration and many employees recognize that health care costs now constitute an unacceptably high percentage of the City budget. The current benefit may be something the City can no longer afford. If the Council wants to address the issue this year, I would suggest the following course of action:

- Instruct the City Manager to come up with a plan to reduce health care costs. It would be helpful if a target amount of savings were identified.
- Give the Manager several months to consult with employees to review options and develop a set of recommendations
- The CM will provide a report with a set of recommendations no later than April 1 that could be implemented this year.
- This approach would result in savings toward the end of this year, hopefully result in some buy-in from employees, and would slow the growth of health care costs in future years.

Overtime: The attached reports from department heads address much of what needs to be said about overtime. The Police, Fire, Public Works, and Port and Harbor overtime

budgets go directly in large part to emergency response, public safety, and vital services. It is difficult if not impossible to cut overtime and make it up with part time employees. A very significant amount of training and certifications are necessary to do these jobs and to respond in emergencies. Part time employees with minimal training and compensation cannot even go into the water treatment plant, work on a broken sewer line, or attack a fire. They also can't do a whole lot to reduce the responsibilities of full time employees in the office.

Cutting overtime in these departments would represent a serious cut in services and the public should be forewarned. It is hard to budget for overtime in general. These budgets are based upon experience and past actual expenses. The bottom line is that cutting these budgets is in many ways just a paper exercise. If emergencies arise, we will respond. That is our duty. The Fire Chief is not going to decline to send personnel to a structure fire because it would put him in danger of exceeded his overtime budget. Public Works will send the sanders out if the roads become dangerously icy or the culverts freeze up and cause flooding. We will continue to do this unless the Council tells us to stop. Most overtime expenditures are non-discretionary.

On the administration side, the best way to reduce overtime is to do something about the number of boards, commissions, and committees we have. I am talking specifically about the Planning, City Clerk and City Manager office staff. Committee work takes up a very large percentage of available staff time reducing productivity and increasing overtime and compensation costs. Council could consider a) reducing the number of committees, b) requiring that most meetings take place during the day, and c) relieving the Clerk's office of staffing all committees except standing Commissions like Planning, Port and Harbor, Parks, and Economic Development. Most duties of the committees can be added to the responsibilities of the standing Commissions.

Credit Card Charges: Please refer to the attached memorandum from the Finance Director. While we do not like paying these charges either, there are real benefits associated with allowing customers to pay by credit card. The Finance Department is hot on the trail of ways to reduce these expenses. Also, note that we would lose the discount we already get from the bank on these charges if we start making customers pay a fee for using a credit card.

Uniforms: At the last meeting, the Chief of Police discussed what is included in the uniform budget. Attached is a Memorandum from the Fire Chief in which he addresses the same issue. In my opinion, making police, firefighters, emergency medical responders, and public works employees who are dealing with hazardous wastes or crawling into confined spaces pay for gear that they are required to have either by law or for safety is a really bad idea. No other City does this that we are aware of.

ATTACHMENTS

Alaska Economic Report

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More on budget issues in our Legislative Digest

December 17, 2010
No. 20/2010

\$108 million tax-free business financing left on the table

The bulk of \$135 million of Alaska's authorization for tax-exempt private business financing that was available in 2010 has been left on the table, about \$108 million. The federal Recovery Zone Facility bond program, being administered by the Alaska Industrial Development and Export Authority, the state development corporation, expires Jan. 31 unless additional bonds are sold. AIDEA's board must approve the tax-exempt status of revenue bonds, which are actually issued by banks doing the financing, and it appears no more bonds will be approved by year-end.

The authority, working with banks and businesses doing expansions, has approved about \$27 million in Recovery Zone Facility bonds. An additional \$60 million was planned for Buccaneer Alaska, an independent oil explorer, in a deal with KeyBank to acquire a jack-up rig for Cook

Inlet exploration, but as we go to press it appears the deal may not close in time for the bonds to be sold by Jan. 31.

It was surprising to us that Alaska businesses would not jump at the opportunity, given current rock-bottom interest rates, to get further reductions in finance costs with the unique tax-exempt feature of this bond program. Alaska's experience, however, is similar to other states, many

- *Continued on page 2*

In this Issue:

- Kenai, Fairbanks economy Pg. 3
- New bulk fuel storage Pg. 3
- AIDEA refinancing demand Pg. 4
- 2010 halibut earnings Pg. 7

Our Resources Supplement coming later this week

Parnell lays out his FY 2012 budget proposal: No big surprises

Gov. Sean Parnell introduced his FY 2012 budget proposal for the state financial year beginning next July 1. Legislators actually write the budget although the governor has line-item veto authority over additions they make, so Parnell's proposal should be viewed as a kind of template for the actual, a starting point for the discussion. Still, it's important because the governor signals what's important to him and in most cases the

chief executive gets what he or she want. Here are the basic numbers: Total authorization to spend for FY 2012 is \$11.103 billion, up from \$11.07 billion authorized for the current year. This includes, however, \$1.468 billion of Permanent Fund transactions for FY 2012 (similar for the current year) for the Permanent Fund dividend and the "inflation-proofing" reinvestment

- *Continued on page 2*

Government:

Parnell's FY 2012 budget (Cont.)

- Continued from page 1

of earnings to the corpus of the Fund, both which must be included in the appropriations bill. This leaves \$9.645 billion total actual spending, including federal and all state funds, proposed for FY 2012, down 2.4 percent from \$9.869 billion in the current year. The biggest drop in the spending comes from reduced federal funds available (\$2.928 billion in FY 2012 vs. \$3.160 billion in the current year). The governor proposes lower amounts of total state general fund spending and spending of other state funds but these numbers will certainly change during the legislative session. The operating budget, with total funds, is proposed at \$1.295 billion for 2012 vs. \$1.177 billion in the current FY 2010. The total capital budget is proposed at \$1.613 billion for 2012 vs. \$1.709 billion in the current FY 2010. These numbers include federal and all state funds.

In the capital budget, two big ongoing infrastructure projects, the Port of Anchorage expansion and the Point MacKenzie rail extension, got some of their requested amounts. The Anchorage port project got \$20 million in the governor's budget (\$300 million had been requested) and the rail project got \$20 million (\$67 million had been asked for). There is also a \$6.5 million increment of continued "bullet" gas pipeline studies. What will concern legislators is \$160 million to reimburse TransCanada Corp. and ExxonMobil Corp. for their work in a large gas pipeline project. That will turn to gall if it's apparent by spring that the project isn't going to go. What's new is \$65.7 million to launch a licensing effort for a 600 Megawatt Susitna River hydro project.

- Continued at right

Tax-free financing left on table (Cont.)

- Continued from page 1

of which left a lot more on the table than Alaska. Banks did try to promote the program, as did AIDEA. *Could it be that Alaska firms are in such a cautious, hunkered-down mode that they just weren't paying attention?*

In its Dec. 3 meeting, AIDEA's board approved financing \$16.8 million for water and sewer utilities to serve the new Goose Creek correctional facility being built near Point MacKenzie in the Matanuska-Susitna Borough. In a complex transaction AIDEA will hold title to the utility, and finance it with authority general obligation bonds, and will sell the facility to the private developer, Valley Utilities LLC, which will be the utility operator.

It was an unusual and complex deal but it allowed the project to be financed at rates a full two percent below what would have been the 2 had Valley Utilities financed the project through a conventional AIDEA business participation loan. Valley Utilities has a contract with the Matanuska-Susitna Borough, owner of the prison, and the state Department of Corrections, which will lease and operate the prison. The utilities are now under construction, with construction financing by Wells Fargo. AIDEA also approved an \$8.032 million loan participation deal with Northrim Bank to Tudor Storage LLC for long-term financing of the company's acquisition of additional storage facilities.

(Cont. from left) The revenue situation looks okay. The Dept. of Revenue is estimating FY 2012 general fund income at \$5.061 billion, up from \$4.674 billion in the current year. Federal revenue and other state income must be added to this, but income looks okay for the state, for now.

Mat-Su's economy is strong: Growth engine for state

One-third of residents in "valley" commute to jobs in Anchorage

The Mat-Su Borough's economy is still strong, despite the economic slowdown in the state, according to the state's Department of Labor. Much of the job growth in the borough comes from new businesses starting up and expanding to provide goods and services, such as stores and health care, to area residents. The Valley's population has grown significantly in the last decade as more people moved in because of the lower housing costs there. From 2000 through 2009, the population went up by 24,000 people, while jobs roughly doubled, to about 20,000 today, the department said.

The employment kept increasing in the borough last year, even as it fell in the rest of Alaska, and early indicators for 2010 are also positive. The average salary in Mat-Su was \$36,492 in the last decade, or nearly \$13,000 less than in Anchorage, and attributable to the growth of lower-paying retail and service jobs in the Valley. The number of job commuters to North Slope jobs doubled between 2005 and 2008 and now totals about 8 percent of the Valley's residents. Nearly one-third of Valley residents work in Anchorage and that percentage has been steady for some time. The median age in Mat-Su is 34.5 years, compared with the median of 33.1 years in Anchorage and a statewide median of 33.5 years.

Fairbanks' economy steady: Some growth, some decline

Fairbanks' economy appears steady, the outlook for slow growth, the latest (third quarter 2010) report from the Fairbanks North Star Borough indicates. Bank deposits in the region were up 9.5 percent but loan activity down 1.9 percent. Incoming and outgoing air passengers showed growth over last year (3.5 percent and 4.8 percent) reflecting the improved tourist season; employment was flat or slightly down except in education and health services. Bankruptcies, personal and business, were down compared with the same quarter of 2009. Average sales price of a single-family home was \$223,494, up 2 percent from third quarter 2009. The Fairbanks-area cost of living index was 137.3 during the third quarter, in the American Chamber of Commerce Researchers Assoc. national survey. This compares to 128.6 for Anchorage and Seattle 119.8. Within that index Anchorage, grocery prices were actually lower.

Airlines work to add new bulk fuel storage in Anchorage

The airline consortium that operates bulk jet fuel tanks with 500,000 barrels of capacity at Anchorage's airport is looking to add 300,000 barrels of new tankage and hopes to bring the Alaska Industrial Development and Export Authority into the deal as an investor or financing. AIDEA is working to encourage development of 800,000 barrels of new fuel storage at the Port of Anchorage which could be owned and operated by a private party. We hear Delta Western is interested. The airlines are now bringing in more jet fuel by barge and taking less from the Flint Hills refinery near Fairbanks, hence the interest in more storage capacity.

Business Intelligence

AIDEA earned \$58.8 million in net revenues last year, a record

The Alaska Industrial Development and Export Authority's board approved a \$29.4 million dividend to the state General Fund, representing 50 percent of the corporation's Fiscal Year 2010 net income of \$58.8 million. This is the highest dividend ever paid by AIDEA to the state and the state corporation's net revenues were also at record levels. With the \$29.4 million included, the authority has, to date, paid the state \$304.1 million in dividends.

REFINANCINGS PUSH UP AIDEA LENDING; AUTHORITY CONSIDERS CHANGES: What is pushing up AIDEA's net revenues was a wave of new loans, two-thirds of them refinancing, under the authority's loan participation program with commercial banks. Refinancing were prompted by record low interest rates and a recent change in the authority's interest rate structure approved by the Legislature, which allows AIDEA to be more competitive in lending. However, there is now concern that refinancing may be eating into the authority's lending capacity to the point that capacity for true business expansions, as compared to refinancing, may become limited if there is a growth spurt in the economy. With this in mind the authority may consider a two-tier interest rate structure with a slightly higher rate for refinancing compared with rates for business expansion.

NATIVE CORPORATION SUPER-PAC FUELED MURKOWSKI WRITE-IN: Alaskans Standing Together, the Alaska Native corporation political action committee formed to help fund Sen. Lisa Murkowski's write-in campaign for reelection, raised \$1.7 million in 38 days with the largest contributor being the Alaska Federation of Natives at \$308,000. AFN has previously not made political contributions but made this one after raising the money from donors, who were not disclosed. General Communications Inc., or GCI, contributed \$100,000 to Alaskans Standing Together. Six Native regional corporations contributed \$100,000 each with a seventh, Arctic Slope Regional Corp., contributing \$200,000. An eighth regional corporation, Aleut Corp., contributed \$20,000 and a ninth and tenth, Calista Corp. and Bristol Bay Native Corp., contributed \$15,000. Native village corporations contributed smaller amounts, along with a Community Development Quota fisheries nonprofit, APICDA. Businessmen Jim Jansen, Ed Rasmuson and Robert Gillam made major contributions.

Joe Miller, funded with far-right money from out-of-state, contested Lisa Murkowski's win right to the end, with an appeal to the state Supreme Court of state Superior Court decisions favorable to the incumbent Murkowski. The supreme court is expected to rule on the appeals quickly.

RURAL SCHOOLS; HIGH COSTS, CONSTRUCTION CHALLENGES: The new 34,000-square-foot school at Kongiganak cost \$25 million -- \$166,000 for each of 150 students in the K-12 facility -- but there were plenty of construction challenges, ranging from a need to drive piling down 60 feet to special devices to keep permafrost frozen.

- Continued top right

The school is twice the size of the old school, which had been threatened by flooding. Construction had to take place partly in winter so frozen soil could support heavy equipment. Also, Kongiganak has no year-around airstrip so an ice-strip had to be built to land C-130s.

ANCHORAGE PROMOTES AN \$80.4 MILLION BOND ISSUE: Anchorage school officials are promoting an \$80.4 million schools bond package for the April municipal elections in the city, the largest portion of which would be \$47.1 million for Service High School renovations. If the bonds pass the district would be eligible for \$21 million in state grants for the Service High work. Also in the package is \$17 million for upgrades to career and vocational training facilities in Anchorage schools.

ANCHORAGE BUDGET IS \$435 MILLION: The Anchorage Assembly approved a \$435 million operating budget for 2011 that raises property tax by only half of 1 percent but cuts services and positions from levels in place this year. The new budget is about \$14.5 million less than would be needed for the same size government as this year, according to the city's financial officer. The Assembly avoided having to make more severe cuts because it increased the tobacco tax by \$5.7 million annually beginning in January. The cuts include cutting one People Mover and the shutting down the Dimond Samson branch of the public library.

BARROW'S VILLAGE CORPORATION, UIC, PAYS RECORD DIVIDEND: Ukpeagvik Inupiat Corp. will pay a record \$15-a-share dividend on Dec. 17 to shareholders of record on Dec. 10. The total payout will be over \$3 million, with a typical shareholder receiving \$1,500. UIC, a village corporation based in Barrow, operates beyond that village in industries such as construction, architecture and engineering, regulatory consulting, and maintenance and logistics.



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Petroleum:

BP's work on Liberty rig suspended

Technical problems caused BP to suspend work on its big Liberty drilling rig which was in final construction stage on the North Slope. The plan was to begin drilling Liberty in 2011, but that is now delayed. The delay will have some effect on BP's planned 2011 capital budget, previously estimated at about \$800 million. The rig, one of the largest in the world, is owned by BP but was being built by Parker Drilling Co., which will also be the rig operator. BP plans to develop Liberty with ultra extended-reach horizontal producing wells which will require a large rig.

BOEM at work on Shell permit

The Bureau of Ocean Energy Management set a Dec. 22 public comment deadline on its new Environmental Assessment, or EA, of Shell's planned 2011 Beaufort Sea exploration well. *The essential change in the EA is the company's plan to barge all used drill fluids and other wastes out of the Arctic, which is the first time such a "zero-discharge" standard has been adopted for offshore drilling.* Usually drill fluids, called "mud", are disposed in the sea. Shell says it is now more confident that a drill permit for a 2011 well will be issued by BOEM.

BOEM estimated Shell's worst-case blowout at 1,194 barrels per day. Shell had estimated 860 barrels/day, given what the company knows about likely pressures down in the hole. Despite that Shell must still adhere to the state of Alaska's spill contingency planning standard, which is to have equipment and procedures ready for a 5,000 barrels/day spill.

Presidential oil commission on Arctic

The presidential oil spill commission is discussing Arctic offshore safety and will likely

– Continued top right

Offshore oil commission (Cont.)

include some recommendation in its final report that industry perform demonstrations of oil spill cleanup, and that more Arctic-related research be funded. The U.S. Geologic Survey has a study underway of research gaps and priorities which will be released in the spring of 2011.

ANWR a national monument?

As the 50th anniversary of the Arctic National Wildlife Refuge approaches, environmentalists and supporters of the refuge are urging President Barack Obama to make it a monument, a move that would forever put the refuge's coastal plain out of the reach of any oil companies. Supporters want the country's largest refuge to join the list of other monuments such as the Statue of Liberty, the Giant Sequoia groves of California, and George Washington's birthplace in Virginia. *National monument status would also put an end to any hopes for possible production of an estimated 11 billion barrels of recoverable oil.*

State: No change in spill trends

A Department of Environmental Conservation study of North Slope oil spills between 1995 and 2009 found no overall trend of increasing spills but did find a statistical connection between spills in older oil field flow lines and also those which carry unprocessed liquids from wells to processing plants. These are a highly corrosive mixture of water, natural gas and crude oil. The department is recommending some rule-tightening as well as periodic public reports of spill trends and the condition of pipelines.

Eni Oil and Gas expects to begin production at its new Nikaitchuq offshore field very soon. The company has employed up to 560 contractor workers are 42 company employees on the slope during construction of the \$2 billion project.

Fisheries:

Halibut harvests cut; prices to rise

Halibut catches will tighten again in 2011, pushing up prices even higher than recent record-setting levels. The International Pacific Halibut Commission will consider recommendations of a 32.5 million pound harvest allocation for Alaska, down from 40 million pounds allowed in 2010. The cuts will be particularly hard in Southeast, which will see a 47 percent reduction in poundage; the central Gulf of Alaska region will see a 24 percent harvest reduction. The overall halibut stock is growing, scientists say, but more slowly than expected. The commission will make final harvest decisions at a January meeting. The 2011 halibut season begins in March.

2010 halibut earnings soar over '09

Higher prices for halibut propelled earnings for harvesters in Alaska to \$193 million for the 2010 season, \$61 million up over 2009. Ninety nine percent of the 2010 allowable harvest of 40 million pounds was caught. Prices at the dock averaged \$3.76 per pound compared with a \$3.21 average for the 2009 season.

Worries about Pacific food balance

There is growing concern among scientists that with the doubling of the number of salmon spending part of their lives in the North Pacific there may not be enough food in the ocean to support the species. Since 1978, more than \$13 billion has been spent on restoration of wild salmon populations in the Pacific Northwest, but at the same time salmon hatcheries have also expanded in the U.S., Russia, Japan and Canada.

The number of hatchery-raised salmon released has jumped from 500 million in 1970 to more than 5 billion in 2008. Only a small percentage of both wild and hatchery-raised salmon actually survive to spawn. However, both wild and hatchery-raised

- Continued to right

Worry over Pacific food balance (Cont.)

salmon compete for the same food, and even though the North Pacific and Bering Sea cover vast areas, both also tend to congregate in the same feeding grounds.

Recent studies have suggested that competition for food is affecting salmon runs up along the West Coast, from Puget Sound to Alaska's Bristol Bay reds. Wild salmon returning to spawn are smaller, which makes them more susceptible to predators. Another recent study contends that there is a "common pool" of salmon food in the North Pacific and suggests hatchery fish are so abundant that there may not be enough food for the wild salmon.

Petroleum:

Slope production decline continues

The production decline on the North Slope continues to be underestimated. State petroleum economists do the best they can but the estimates are usually revised downward. The latest forecast for production this year is an average of 644,000 barrels per day, which is down from 650,000 barrels/day forecast last spring and 659,000 barrels/day estimated last December. A similar trend is seen in the estimates for next year, which is an average of 616,000 barrels/day in the latest forecast; 619,000 barrels/day estimated last spring and 623,000 barrels/day forecast last year in December.

When people talk of the production decline they usually use general estimates of 5 percent yearly, but it's sobering that the actual decline last year from the year before was 7.1 percent, according to the latest Revenue Department reports. Industry also now talks of the number dropping to 500,000 barrel/day in "three or four years" instead of "four to five years."

Business Intelligence - continued from page 5

NEW SENIOR MANAGEMENT AT ACS: Alaska Communications Systems Group Inc. announced that Liane Pelletier, will step down Feb. 1 as president. and CEO and will be succeeded by its Chief Operating Officer Anand Vadapalli. The Anchorage-based telecommunications company said the transition is part of long-term planning by the board of directors and that Pelletier will remain chairman of the board. Alaska Communications is the state's largest telephone company and last year it earned \$34.1 million, up from a loss of \$10.8 million a year ago, and its revenues decreased to \$346.5 million from \$351.8 million the previous year.

- *Northrim BanCorp Inc., the owner of Northrim Bank, declared a regular quarterly dividend of 12 cents per share to be paid Dec. 17 to shareholders of record on Dec. 9.*

TOURISM ASSOCIATION TROLLS FOR VISITORS FROM AUSTRALIA, NEW ZEALAND:

The Alaska Travel Industry Association is trying to woo more tourists from Australia and New Zealand and says that increased trans-Pacific flights and attractive currency rates should help. In October, ATIA held tourism workshops for tour wholesalers, travel agents and journalists in Australia and New Zealand. There has been a significant increase in planned flights from cities such as Sydney, Melbourne, Brisbane and Auckland to Los Angeles, San Francisco and Vancouver, B.C. Meanwhile, the Australian dollar's current parity with the U.S. dollar also makes American destinations more attractive.

SECOND FEATURE FILM NOW IN PRODUCTION IN ALASKA: Alaska has a second feature-length film in production, "Ghost Vision," a thriller starring Jon Voight among others. Another film, "Everyone Loves Whales" is also being filmed. Twenty five years ago Voight was in another film based in Alaska, "Runaway Train." The movie "On the Ice" by Alaska filmmaker Andrew MacLean is among the 16 full-length feature films selected to compete in the 2011 Sundance Festival. MacLean received attention at Sundance in 2008, when a shorter version of the same movie won the Jury Prize in Short Filmmaking. Both movies were filmed in Barrow and while the newer, longer version is mostly in English, the previous one was entirely in Inupiat.

The state's new film tax-incentive program is helping to attract movie producers to Alaska. The tax credits were initially hard to sell but we're told the producers of "We Like Whales" successfully sold its credits. We hear Gov. Sean Parnell plans changes to the film tax credit program.

NATIVE CORPORATIONS PAID OUT \$171 MILLION IN DIVIDENDS IN 2008: Alaska Native corporations distributed \$171 million in dividends to Native shareholders in 2008, representing 66 percent of the net profits of the corporations. All 12 of the Native regional corporations paid dividends. Several village corporations paid dividends also.

Subscription requests and comments may be directed to the Alaska Economic Report at akecon@gmail.com. You may also provide comments by calling Tim Bradner at (907) 440-6068

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Salmon catchers, processors did great in 2010

The value of this year's Alaska's wild salmon catch—\$533.9 million—was one of the highest in 18 years. What was more surprising is that when harvests are high, as they were this year, prices typically drop, but this season's harvest of 169 million fish ranked among one the largest since statehood yet it commanded high prices.

All species of salmon fetched high prices this year, and state fisheries officials noted three reasons for the upswing: consumers are more aware of differences between wild versus farmed salmon; disease and other problems resulting in a decline in farmed salmon production in several countries; and rising production of value-added Alaska salmon products, such as burgers and fillets. The state Department of Revenue's Annual

Salmon Price Report documented the trends, showing sales of fresh and frozen salmon, and salmon fillets, up sharply this summer. Sales of fresh salmon in headed-and-gutted form rose 18 percent over the 2009 season while sales of frozen headed-and-gutted salmon were up 23 percent. Sales of fillets also gained strongly, with 18 million pounds sold compared with 15 million pounds in 2009. Canned salmon sales were down a bit for the summer period but processors point out that most sales of canned product are made in

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Election: Murkowski set to win U.S. Senate race

New idea for North Slope: Oil source-rock fracturing?

Just when things are look bleak in the state's "oilpatch" someone comes along with a new idea, and there's a ray of sunshine. The latest buzz is over the acquisition of 105 state leases by Texas-based Great Bear Petroleum in the Oct. 27 state North Slope lease sale and the company's talk of "new geologic ideas." The acreage is south of Prudhoe Bay and Kuparuk and has been explored previously by

several companies. The street talk is that Great Bear may be thinking of fracturing some of the deeper source rocks to release crude oil, much as fracturing is now being widely used in the Lower 48 states to release gas from shale and more recently to get new oil production. A similar idea is being considered by other companies in Cook Inlet, where deep source rocks may still hold

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Energy:

CIRI, utilities talk on Fire Island

Cook Inlet Region Inc. and four "railbelt" utilities are deep in negotiations on power purchase contracts for CIRI's \$160 million 50-Megawatt Fire Island wind project in Cook Inlet near Anchorage's international airport. The cost of integrating the wind power, which is variable, into the existing railbelt power grid, which is set up for steady power generation from "baseload" sources like gas-fired and hydro generation, is the key issue. A consultant report for the utilities pegs the integration cost at 10 cents to 11 cents per kilowatt hour, which would be added to the 9 cents/kilowatt hour CIRI would charge for the power. The utilities privately say that is a worst case scenario and other options are being looked at.

CIRI hopes to get the contacts signed and be in construction next summer on the 33 wind turbines to be installed. Site preparation and construction of some foundations for turbines was done this year. Fire Island could be operating by late 2012, and its power would allow the utilities to reduce use of gas by about 1.5 billion cubic feet per year, stretching out gas supplies and deferring a likely need to import liquefied natural gas, or LNG, for two to three years. The consultant report for the utilities said the reduced use of gas will be more like 500 million cubic feet/year because of the utilities' need to maintain standby generation capacity, but CIRI said that assumes older, inefficient turbines are used. Chugach Electric Assoc. is leading the negotiations for the utilities, which include Anchorage's Municipal Light & Power, Matanuska Electric Assoc. and Golden Valley Electric Assoc. of Fairbanks.

Salmon industry did well (Cont.)

- Continued from page 1

the winter. Salmon prices were up for most products and species. Headed-and-gutted fresh sockeye went for \$4.03 per pound on average during the summer compared with \$3.67 per pound in 2009 for the same period. Frozen sockeye sold for \$3.99 per pound, up from \$2.39 per pound in 2009. Silver and pink salmon prices also showed increases. The state's 2010 salmon harvest of 169 million fish was 20 percent above what biologists had forecast.

The upsurge in demand and prices for salmon are largely a result of global trends in salmon markets (less farmed fish, for example) but it is also due partly to efforts by the Alaska industry, with state and federal assistance, to diversify the salmon product line, improve quality and intensify niche-marketing. The rapid growth of fillet sales, a "value-added" product by Alaska processors, is an example of new products being sold. Improved quality control, with measures like icing equipment in Bristol Bay and the niche marketing with regional brands funded by harvesters themselves are all contributing.

Energy:

Akutan geothermal: Market concern

The City of Akutan's geothermal project looks pretty good based in initial drilling (see our item last issue), but the problem being faced is the opposite of that at Cook Inlet Region's Fire Island, of variable wind power. Geothermal is a constant power source, and the issue at Akutan is that the biggest customer, a Trident Seafoods plant, operates only in the summer. So, what's to be done with power generated the rest of the year? Can the project be economic based on mainly a seasonal demand?

Geologists are crying "foul" on latest USGS downgrade of NPR-A

A lot of petroleum geologists are livid over the new U.S. Geological Survey's low-ball estimate of National Petroleum Reserve-Alaska oil resources. The new estimate, released recently, puts the technically recoverable oil resource at about 896 million barrels, down from over 10 billion barrels estimated in 2002. *There's a lot of suspicion that the lower estimate will be used by the Interior Department to emphasize conservation zones in the new planning effort for the reserve, which was the impetus for a request from the Bureau of Land Management to the U.S.G.S. early this year for the reassessment.*

That aside, what has many geologists upset is that the U.S.G.S. used publically-available data from 21 exploration wells from 30 drilled in the northeast NPR-A and would not wait until data from 9 other wells was released (well information goes public after a period from the date a well is drilled) and, just as important, did not use any of the high-quality three-dimensional seismic data gathered in recent years, even though a lot of this is available for purchase. The 9 wells missing from the set included in the U.S.G.S. analysis included some to the west where there is thought to be more liquid hydrocarbon potential than to the east, where there are strong gas shows. What's important about the 3-D seismic, though, is that scientists can discern the presence of hydrocarbon fluids in the rocks and can often distinguish gas from oil. However, this gets tricky because liquids-rich gas (gas and condensate) can look a lot like gas-rich oil, and the only way to really know is through drilling. The bottom line is that the new estimate low-balls the potential of the reserve and sets the stage for conservation set-asides and possibly reclassification for study as potential Wilderness, a move that means the land is managed as Wilderness, allowing no motorized access.

The U.S.G.S. also did not consider the oil accumulation at Umiat, in the southeast NPR-A, where Renaissance Umiat, an independent, is working to develop and produce a small oil fields discovered years ago by the U.S. Navy, and where the company believes there may be a deeper, larger oil resource. Meanwhile, conservation groups are setting up for a push to get parts of the NPR-A into Wilderness classifications. The Alaska Wilderness League, based in Washington, D.C., has opened an office in Fairbanks to more closely scrutinize U.S. Bureau of Land Management actions. The group is focusing on gaining Wilderness designations for parts of the National Petroleum Reserve-Alaska and certain BLM-administered lands in the eastern Interior.

Employment trends: Alaska employment is slightly up for the first six months of 2010, by about 0.4 percent, according to the state Dept. of Labor. The same period for 2009 saw a slight decline of about the same amount. Health care employment is showing major gains this year, the department said. A surprise for labor economists has been the relative strength of service employment in the leisure industries, like eating and drinking establishments and hotels. Part of this may stem from the surprising strength of the 2010 tourism season.

Business Intelligence

Allen Marine of Sitka moves into Southeast small vessel cruise tourism

Allen Marine Tours of Sitka is moving into the small ship cruise niche in Southeast Alaska vacated by the recent shutdown of Cruise West. The company has operated summer day cruises with small vessels for many years but will operate 8-day, 7-night cruises departing and returning to Sitka beginning next May. Sales have already started. Allen Marine has acquired three vessels for the venture, a 105-foot catamaran purchased from Majestic America Lines and two 140-foot vessels acquired from Cruise West. Allen Marine also builds catamaran aluminum vessels in Sitka for customers on a special-order basis.

ALASKA BROADBAND SERVICE COSTLY, SLOW: Alaska broadband service is slow and costly, according to a national survey by Net Index. The state's geography, rough terrain and the small size of communities account for the differences with national averages, GCI and other broadband operators say. The Alaska average cost of \$16.47 per megabit was compared with a national average of \$6.13 per megabit and a world average of \$4.46 per megabit. The download speed in Juneau is 3.46 megabits per second (Mbps) compared with the nation's average of 10.19 Mbps. Juneau's upload speed was 0.49 Mbps compared to 2.25 Mbps for the nation. The quality of Alaska broadband, however, compares favorably with the national average and in some cases in superior, the survey by Net Index indicated.

NOME'S CITY UTILITY ENTERING FUEL BUSINESS: The city-owned Nome Joint Utility System will begin fuel sales and deliveries in competition with private operators such as Crowley. The city council approved the move after retail operators hiked local gasoline and diesel prices. Gasoline prices went up 50 cents/gallon to about \$5 per gallon recently, and at the same time that the city saw its fuel purchase prices decline to \$2.62/gallon for diesel. The city buys in bulk and negotiates volume discounts but even with that it's tough to explain the opposing trends in prices.

Sea trials are continuing near Ketchikan for the MV Susitna, the Matansuka-Susitna Borough's new Cook Inlet ferry vessel. The latest tests involved vehicle loading and unloading. One test involved a 35-ton dump truck. The Susitna is due to be delivered to Cook Inlet next summer.

KETCHIKAN BOROUGH SELLS OFF MORE INDUSTRIAL LAND: The Ketchikan Gateway Borough assembly approved a \$5.3 million sale of Wards Cove industrial property to Hopen & Assoc., a firm planning to develop a waste energy project at the site. The purchase includes the local Connell Lake dam and water pipeline, which Hopen will have to rehabilitate. The company hopes to do sales of treated fresh water, loading 20-million-gallon water tankers at the dock.

MAT-SU REACHES AGREEMENT WITH TEACHERS ON RAISES: The Mat-Su Borough School District and the Mat-Su Education Association and the Classified Employees Association

- Continued top right

reached a tentative agreement offering teachers and classified employees increases of nearly 6 percent over the next three years. The pact would leave teachers' planning time intact but it does not guarantee that everyone will still have a job next year. The School Board is set to ratify the agreements at its next meeting, and then the unions will present them to their members for vote sometime before the end of the month. Schools Superintendent Ken Burnley said the costs of the pay increases and health benefits would have to be counterbalanced through reduction in staff in every area by at least 3 percent, or 75 positions. The superintendent also noted that class sizes would go up by more than two students, but that it won't be crippling.

FIRST NATIONAL PROFITS PROFITS STEADY; ASSETS, LOANS NUDGE UP: First National Bank Alaska posted third-quarter profits of \$10.6 million, the same net income as posted in previous year's third quarter. For the first nine months of this year, the Anchorage-based bank had profits of \$29.7 million, down from \$30.2 million a year ago. The bank reported no other financial numbers for the third quarter. In its Federal Deposit Insurance Corp. filings at the end of the second quarter the bank showed assets of \$2.65 billion, including \$1.2 billion in loans and \$1.15 billion in securities, as of June 30. Total assets increased 4 percent from a year earlier, with loans rising 1 percent, and deposits up 6 percent to \$1.65 billion.

GCI PROFITS UP SHARPLY FOR THIRD QUARTER: GCI reported third-quarter profits of \$7.6 million, up 75 percent from the same quarter of last year. Revenue grew 14 percent during the quarter to \$172 million. For the first nine months this year, profits totaled \$11.2 million, up 54 percent, and revenue was \$486 million, up 8 percent. GCI officials said all of the telecom firm's business lines were performing well fueled by the firm's decision to undertake "a major investment program to take advantage of growth opportunities in the Alaska market, particularly

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Petroleum:

Small Badami field starts up again

Savant Alaska and Arctic Slope Energy, working on a "farmout" arrangement with BP, have restarted the small Badami oil field 30 miles east of Prudhoe Bay. State agencies told us that between 1,600 barrels per day and 2,000 barrels per day are moving through the restarted Badami pipeline, and that Savant and ASE hope to increase production to 3,000 b/d and 4,000 b/d soon. BP worked to develop Badami over 10 years, from the mid-1990s to 2005, but the field never produced to BP's expectations due to complexities of the reservoir. The field was then shut down. Savant and ASE drilled horizontal production well legs off the wells BP drilled with hopes of getting more production. Savant may also be producing from a new well it drilled near Badami.

Buccaneer/state talks on jack-up rig

Buccaneer Alaska LLC, an independent company interested in Cook Inlet, is working with the Alaska Industrial Development and Export Authority on a \$60 million financing plan to acquire a jack-up rig and move the unit to Cook Inlet, where it would be stationed for several years. Buccaneer is a subsidiary of an Australian company of the same name. *AIDEA staff approved a tax-free revenue bond Nov. 15 using part of Alaska's allocation of Recovery Zone tax-free private financing under the federal stimulus act (a program AIDEA administers.)* AIDEA may also invest in the project as part of its economic development finance program. A recent change in state law now allows the state authority to own part of a project. Previously the authority had to own all of the project in which it invested.

The entity formed by Buccaneer is Kenai Ventures LLC and there will be other partners, the company said. Buccaneer hopes to move a rig to the Inlet next summer and test two prospects, one

Jack-up rig to Cook Inlet? (Cont.)

near Middle Ground Shoal and another further north, near the North Cook Inlet gas field.

Leak of BP's pipe maintenance record

A BP employee leaked a copy of an internal company data base showing the status of North Slope field pipeline repairs, and ProPublica, an investigative journal, published a report that caused a new burst of publicity over BP's maintenance programs. State officials asked the company for an explanation and were told that "F" rankings reported by ProPublica referred to pipe segments where serious corrosion had been detected, and where maintenance and repairs were needed. The data base reflects the ongoing status of the program with some of the segments reported as "Fs" repaired by the time reports appeared, state agencies told us. Also, none of BP's pipelines were operating outside of federal and state safety standards, or had any spill occurred, the state Petroleum Systems Integrity Office said.

Trans-Alaska pipeline value: Fairbanks North Star Borough is considering an appeal of a judge's decision about the value of trans-Alaska oil pipeline, which the judge set at almost \$10 billion for 2006. Judge Sharon Gleason's ruling was issued earlier this year, but borough officials believe pipeline owners BP, ConocoPhillips and Exxon Mobil will appeal to the Alaska Supreme Court. The borough is considering an appeal of a portion of the ruling that it lost—the one that connected the pipeline's tax value to the cost of building a new pipeline. Borough officials want the cost of any replacement pipeline to be based on the current 48-inch diameter pipeline. The owners argued that any future pipeline would be smaller than the current line, which is now pumping oil at less than a third of its 2.1 million barrels per day capacity.

Fisheries:

Halibut quotas expected to be up

Biologists' recommendations for the 2011 halibut harvest are expected by the end of November, but based on scientific data gathered this summer another down year for harvest volumes is anticipated. Catch quotas overall for Pacific halibut were cut 10 percent yearly for 2009 and 2010. While recommendations are due out soon the actual harvest quotas will be set in January.

Gulf tanner crab quotas increase

Tanner crab quotas in the Gulf of Alaska will be up in 2011. Kodiak's tanner quota will be twice as high in 2011 as this year. Biologists have set a 1.5 million pound catch limit, twice the 2010 level, for the Kodiak area. The limit of tanner for the Alaska Peninsula is set at 2.3 million pounds, up from half a million pounds in 2010.

Minerals:

Industry 2009 value at \$3 billion?

Alaska is in the midst of a mining boom. The overall value of the state's mining industry reached \$2.9 billion last year, and that will certainly be exceeded this year. The 2009 number, for example, did not include Juneau's Kensington gold mine, which went into production this year. Gold prices are now at all-time high, with metal reaching \$1,400/oz. recently, and state mining officials note that more than 4 million acres of state land is now staked and exploration for hard-rock metals is increasing. The value of gold production alone is expected to top \$1 billion, with the metal coming mostly from Kensington, Pogo near Delta Junction, and Fort Knox near Fairbanks, the state's three large mines.

The Dept. of Labor said petroleum employment has held steady through the summer at 12,000. Job totals are down about 700 from 2009, though.

Pebble independent study is delayed

The Legislative Council, an interim committee of the Alaska Legislature, failed to resolve difference on how to proceed with a proposed \$750,000 independent study of environmental issues related to the big Pebble copper/gold project near Iliamna. House Speaker Mike Chenault said it would be better to wait on the study until the companies working on Pebble have a proposed plan for how they would build a mine. Others, including state Reps. Alan Austerman and Bryce Edgmon, want the study done ahead of time to serve as a guide for state agencies reviewing a mine application. We don't expect any resolution of this impasse before the new Legislature convenes in January.

Note: Pebble will require large amounts of power. Its preferred option for power generation is natural gas, possibly with a liquefied gas import project.

Oil source-rock fracturing (Cont.)

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petroleum. If this is what Great Bear has in mind and if it works it could be a whole new ball game for the North Slope because the source rocks for the region are plentiful. Fracturing operations require substantial support from service companies, so a development like this would be a real boost for the state's support contractor industry.

There were only three other bidders in the Oct. 27 sale. ConocoPhillips acquired one lease, as did AVCG LLC, a group of independents which operate through Brooks Range Petroleum, a subsidiary (and the only company drilling an exploration well on the slope this winter). An individual, lease broker Daniel Donkel, acquired 28 leases. In the Beaufort Sea state offshore sale held simultaneously with the onshore sale another independent new to the slope, GMT Exploration Co. LLC of Denver, acquired 8 leases. Donkel acquired 13 leases.

Business Intelligence (Cont.)

(Continued from page 5)

mobile wireless service." Other areas in which GCI showed growth were: basic cable subscribers up 1 percent from a year earlier to 130,500; cable TV consumers using 87,500 high definition and DVR boxes, up 14 percent in a year; consumer wireless lines up 12 percent to 122,900; long distance phone subscribers down 1 percent to 89,000; local phone lines up 2 percent to 84,700; and cable-modem subscribers up 7 percent to 104,400.

MAT-SU VOTERS ENDORSE \$23.5 MILLION VALLEY ARTS CENTER: Matanuska-Susitna Valley voters gave a big boost to local arts when they voted in favor of a bond proposition that allows construction of a \$23.5 million Valley Center for Art and Learning, the area's largest auditorium at the Mat-Su College campus. The 30,000 square-foot theater will seat up to 800, a big improvement over the 220-seat auditorium at Colony High School, the area's largest at the moment. The Mat-Su campus project is part of a \$397 million package of projects that will be funded with state-issued bonds, after voters approved sale of such bonds.

FAIRBANKS SCHOOL DISTRICT PUSHING \$61 MILLION BOND ISSUE: North Star Borough administration and assembly are voicing concern over the school district's proposed \$61 million school construction bond. Assembly members said they want the projects to prove their importance during the economic downturn and that taxpayers were being asked to approve a large amount. School officials said that while the amount was large, the need was even greater. The assistant superintendent of facilities said North Pole schools face overcrowding and there is a backlog of maintenance. The bond package includes a new \$30 million elementary school in North Pole, \$9 million in upgrades at Barnette Magnet and Ryan Middle schools and other maintenance projects.

\$37 MILLION IN TAX-FREE BUSINESS FINANCING LEFT ON THE TABLE: The Alaska Industrial Development and Export Authority will wind up issuing about \$98 million in "Recovery Zone" tax-exempt revenue bonds from a \$135 million allocation in tax-exempt financing provided for the state by the federal stimulus program. Sixty million dollars of the \$98 million is allocated to financing for a Cook Inlet jack-up rig for oil and gas exploration (see item, page 6) and another \$26 million was allocated under three business development loans. This still leaves \$37 million in the allocation which will go unused when the program expires Jan. 31. AIDEA advertised the program widely but got a muted response.

NANA TO PAY OUT \$20 MILLION IN DIVIDENDS: NANA Regional Corp. of Kotzebue will pay out a \$14 per share dividend to its 20,000 Inupiaq shareholders, NANA's board decided. The dividend will total about \$20 million and is up from last year's dividend payout of \$17.2 million. NANA owns and receives royalties from the Red Dog lead and zinc mine and provides substantial support service to the mine, and is also engaged in a wide variety of other business.

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New slope oil projects could "change the game"

Two new projects could be game-changers for oil production on the North Slope. One is BP's proposal to sharply expand "viscous" oil production in the existing producing fields, which could involve as many as 2,000 new wells, 50 new drill-pads and all the related infrastructure, roads, pipes, utilities, etc. The second is a concept being pursued by Austin, Texas-based independent Great Bear Petroleum to drill into the source rocks for North Slope oil and produce by fracturing wells, a procedure used now to produce from tight rocks in the Lower 48. This would be its first application in Alaska. We mentioned the Great Bear proposal in our last Economic Report, but we have more details now.

BP's proposal involves overcoming the economic challenges that have confronted vis-

cous oil production to date (about 50,000 barrels per day) by sheer economies of scale. The company says continued refinements of technology will be needed but the pathway is now clearer than it has been in the past. The company described the project as a way to flatten the decline of oil moving through the trans-Alaska oil pipeline. TAPS is moving about 600,000 barrels/day now and 6% of this is about 36,000 barrels/day, so that gives us a sense of the potential seen by BP, although this would have to be increased by

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- BP spending, drilling Pg. 6
- Great year for fisheries Pg. 8

Our Resources Supplement coming later this week

Revenue forecast: State's oil revenues to be stable next year

Alaska's oil revenues are expected to remain basically stable over the next two years, according to a state Department of Revenue forecast released Friday. Eighty seven percent of Alaska's state revenues are provided by oil taxes and royalties, the department said in its fall 2010 revenue forecast. Alaska revenues will total \$5.4 billion in Fiscal Year 2011, the current budget year, and are expected to

increase to \$5.7 billion in 2012, the budget year beginning next July. Revenues totaled \$5.5 billion in Fiscal Year 2010, which ended last June 30. Production from the North Slope was estimated at 650,000 barrels/day last year; 619,000 barrels/day for the current budget year, FY 2011, and 614,000 barrels/day for FY 2012, which begins next July. Cook Inlet production is estimated

- Continued on page 2

Energy:

Emerging energy fund in development

The state's new Emerging Energy Technology Fund should be up and running and ready to receive applications sometime after the new year, the Alaska Energy Authority says. Regulations are now being written but things were slowed due to staffing issues. The Legislature approved the program in its 2010 session, appropriating \$2.4 million in state funds. AEA will also manage the Denali Commission's similar program, which has \$3.1 million available. That gives the fund a total of \$5.4 million to work with. An initial application may come from Tyonek Corp. for a new-technology coal-to-liquids project being developed by Accelerger, a technology firm.

Renewable energy: New grants

Alaska Energy Authority is likely to give the governor and the Legislature a list of \$50 million in new renewable energy projects for consideration in the 2011 session. Lawmakers approved \$50 million for this year's allocation but Gov. Parnell whittled it down to \$25 million. With Rep. Bill Thomas, R-Haines, as House Finance co-chair, the AEA recommendations should have a friendly reception. Thomas was a prime sponsor of the renewable energy grant program. \$150 million in grants to 124 projects, now underway, been approved by the AEA to date.

Retail:

Anchorage: New PetSmart locations

PetSmart will soon have two retail locations on the north and south sides of Anchorage. The nation's largest specialty retailer's south Anchorage store on E. Dimond Blvd. is already open, while its north store on Muldoon Road is set for a Dec. 18 opening. Each store will also offer a grooming salon, private training classes, and a canine day camp and boarding facilities.

New oil projects for North Slope (Cont.)

- Continued from page 1

the same increment every year to flatten TAPS' volumes on a sustained basis, BP is not giving out any details of the proposal but the scale (2,000 wells, etc.) would indicate a considerable ramp-up.

Great Bear says its too early to estimate the company's potential production but it should be enough "to make the pipeline very happy," the company told us. The idea involves drilling to one of three layers of major source rocks for the large producing fields and then fracturing. A great many wells, pads, roads and infrastructure would be needed, and the ongoing drilling, repeat fracturing and well stimulation work these kinds of wells need to sustain production will create a lot of business for service and support companies. (See more on both the BP and Great Bear projects in our Resources Supplement coming later this week.)

Stable state revenues expected (Cont.)

- Continued from page 1

at 12,000 barrels/day for the current year, dropping to 11,000 barrels/day in the current year and 10,000 barrels/day next year. Industry capital investment on the slope is estimated at \$2.43 billion for the current year with \$2.02 billion in estimated operating expenses; capital investment next year is estimated at \$2.94 billion with \$2.12 billion in operations spending. The companies are required to submit estimates of spending with their production tax returns filed to the state.

The revenue estimate is a preliminary report that precedes the department's usual release of its forecast in December. The preliminary report was released early due to the necessity of including fall forecast numbers in materials supporting the state's bond sale early next month.

Parnell choosing his team: Sullivan at DNR, Butcher at Revenue

Governor catches flak over inexperience of some appointees

Gov. Sean Parnell hasn't wasted time announcing new cabinet appointments, a signal that he intends to chart a course different than set by former Gov. Sarah Palin whose cabinet Parnell inherited. There's some puzzlement over some appointees, however, mainly because of lack of experience. This may signal a desire by Parnell to have people who will have to adhere to yet-to-be announced policies. Attorney General Dan Sullivan as natural resources commissioner is considered sound. Deputy DOTPF Commissioner Marc Luiken named as commissioner is also applauded. Though only with DOTPF for two years, Luiken has 29 years in command positions in the U.S. Air Force. There are some concerns as to how well Luiken will deal with legislators.

Bryan Butcher, named as revenue commissioner, is seen as having finance experience from his tenure at Alaska Housing Finance Corp. and as staff to the Legislature's finance committees, and having very good relations with lawmakers. There is some uncertainty about Becky Hultberg, named to head Administration, who has a public relations background. Hultberg is considered smart and potentially able to grow in the job, but state labor relations may be a difficult learning curve.

The real questions are being asked about Cora Campbell, named acting commissioner at Fish and Game, who lacks professional credentials needed to deal with the department's science-heavy staff. Though Campbell does come out of a commercial fishing family, that won't cut it with sports hunting and fishing groups. Susan Bell, named recently as Commerce Commissioner, and Larry Hartig, state environmental commissioner, are being retained. Hartig is considered steady by business, and fair and even-handed by the environmental community. Bill Streur, deputy state health department commissioner, was named acting commissioner at that agency.

Two immediate policy hot potatoes are, for Butcher, Parnell's plans to make changes in the state oil and gas production tax, and for Sullivan how to bring the Point Thomson lawsuit with ExxonMobil and its partners to closure. Following closely on those, for both, will be whatever Parnell can salvage from former Gov. Palin's Alaska Gasline Inducement Act, or AGIA, policy.

State chooses Watana for hydro. Will Legislature adequately fund effort?

In a long-anticipated decision on a new major hydro project the state has tilted toward the Low Watana dam project on the upper Susitna River and will consider the smaller Chakachamna lake tap hydro project west of Anchorage as an alternative. The ball is now in the Legislature's court (and Gov. Sean Parnell's) on whether sufficient funding will be appropriated to put the project on a serious track toward licensing by the Federal Energy Regulatory Commission. We hear about \$150 million will be needed next year, with similar amounts in several following years to prepare the application.

Continued on page 8

Business Intelligence

Only 25 million of 45 million-acre Native lands entitlement are transferred

Almost 40 years after passage of the Alaska Native Claims Settlement Act of 1971, only 25.9 million acres of the 45.4 million acres awarded to Native corporations have been actually transferred. Required surveys and other complexities slowed the transfers, the Bureau of Land Management says. Koniag Inc., the Kodiak-based Native regional corporation, recently took title to 146,693 acres of mineral estate on the Alaska Peninsula, about half of Koniag's entitlement of 270,000 acres.

NEW BRIDGE ACROSS TANANA RIVER POSES CONSTRUCTION CHALLENGES: The planned \$160 million Tanana River bridge is turning out to be one of the state's more challenging construction projects. Alaska Railroad Corp., which is managing the project, is searching for a local source for large rocks needed to buttress the bridge's north end against river erosion. The bridge is half a mile long, given the wide, braided nature of the river. Eighty steel structures 165-feet by 12 feet, each weighing 60 tons, are needed. The steel will come from U.S. or Asian mills, and engineers are still unsure whether to bring them via rail and truck from Seward or all by truck through Valdez. Funding, most from federal sources, is nearly complete, and the project is to be in construction starting in 2011 and finished by 2015. Kiewit is the likely lead contractor but negotiations are continuing, the railroad said. The bridge is a key link in the railroad's long-range plan for an 80-mile, \$700 million extension from Fairbanks east to Delta but the immediate purpose is to give the U.S. Army access to 1.2 million acres of training area south of the Tanana River. The bridge crossing will be near Salcha, east of Fairbanks.

KETCHIKAN GIVES FINAL OKAY TO LAND DEAL: Ketchikan's borough assembly gave the final okay to a plan by Ken Hopen, of Hopen & Assoc., to purchase 348 acres of industrial land including 148 acres of tideland and 200 acres of upland. Hopen's major project is a waste-to-fuel plant but other plans include a micro-hydro and wind power generation project and small vessels docks. The land purchase price was \$5.3 million but Hopen said the full build-out will require a \$100 million investment.

A Minotaur IV rocket launched Oct. 18 from the state's Kodiak Launch Complex successfully placed four small satellites in polar orbits. The facilities are operated by Alaska Aerospace Corp., a state corporation.

VALDEZ STILL SEEKS USES FOR ITS GRAIN SILOS: The City of Valdez is still trying to find uses for the \$10 million grain silos built in 1982 for the state-sponsored ill-fated Delta barley project. The latest plan, a lease to Delta Concrete Co. to store dry cement, fell through when costs for installing specialized equipment in the silos fell through. The barley project has become a poster child of an ill-conceived state development project. State land near Delta was auctioned off and land cleared at state expense, but crops fared poorly in the local climate and wild bison

- Continued top right

feasted on what was grown. The project was developed under the administration of Gov. Jay Hammond. Bill Sheffield, who succeeded Hammond, finally terminated the project.

UNIVERSITY FACES \$2 BILLION MAINTENANCE BACKLOG, UPGRADE NEED: The University of Alaska has a \$2 billion maintenance backlog and hopes for legislative approval of its request to borrow \$100 million for its growing list of maintenance and renovations projects. The university's Board of Regents recently passed the 2012 capital budget and that includes asking for another \$82.5 million in state money and another \$30 million in federal funding. The Legislature would have to approve the \$100 million university bond and the request for state dollars. *The university warned that its Fairbanks campus will have a "major utility failure" if it is unable to have a \$37 million power upgrade. The Fairbanks campus, which has the oldest facilities in the system, also needs a \$35 million modernizing of its electrical distribution system.* There are currently 45 projects on the improvement list, and officials say the school needs about \$50 million a year just to keep up that list from growing. In all, the university will ask for a state appropriation of \$351 million, a 2.9 increase from last year, as part of its overall \$885 million budget.

FAIRBANKS STILL WRESTLING WITH AIR EMISSIONS PROBLEMS: The mayor of Fairbanks is stuck in a bind between the Environmental Protection Agency that wants a reduction in the city's pollution and voters who approved a measure in October prohibiting enforcement of any measures against home heating devices and turns over air quality control to the state. Meanwhile, the Fairbanks Air Pollution Control Commission is about to consider the measure that would scale back regulations on wood-smoke emissions but prohibit the installation of old stoves. Smoke from inefficient wood stoves is the main contributor to the problem that has

- Continued on page 8

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Petroleum:

BP's spend on slope steady in 2011

BP says it will spend about the same in 2011 in Alaska capital and operations investment as was spent in 2010, or about \$800 million in capital and \$1.3 billion in operations and maintenance. Last year the company had projected \$830 million for 2010 capital investment but the actual amount spent will wind up at \$800 million, BP told us. Capital investment includes new drilling in existing fields and the first wells in the Liberty project, an offshore field BP will develop with extended-reach, long-distance, high-angle wells.

BP is expanding its North Slope drill rig fleet, too. Six rigs are now operating in fields managed by BP, and a seventh rig delivered in August by sealift, Doyon 25, will be up and running by the end of the year. There is also the new heavy Parker Drilling Co. rig that will be drilling the Liberty wells. That will be operating in 2011 also, make a total of 8 units in BP's drill fleet.

Tom Barrett is new Alyeska president

The new head of Alyeska Pipeline Service Co. is a former top federal pipeline regulator who also led the Coast Guard in Alaska. Tom Barrett takes the helm of the pipeline company at a time of dwindling oil flow from the North Slope oil fields leading the pipeline company to cut costs and relocate employees. The company is also looking at how many years longer it can operate the pipeline without a major inflow of new oil. Barrett is the first head of Alyeska who is not on loan from any of the oil companies.

Oil production at 611,000 b/d

Oil production is expected to average 611,000 barrels per day through the current budget year, the Department of Revenue forecast said, but increase slightly next year mainly due to the expected startup of Eni's new Nikaitchuq off-

Oil prices to remain steady? (Cont.)

shore field on the North Slope. In its forecast the department assumed North Slope crude oil prices at \$77.96 per barrel for the current year and \$82.67/barrel for the next budget year beginning July 1. Another assumption is that North Slope crude will sell at \$2.50 per barrel on average below West Texas Intermediate crude, the department said.

Minerals:

Miners keep wary eye on court suit

Minerals companies are watching an upcoming state superior court over whether the state Dept. of Natural Resources violated state statutes in approving exploration core drilling for the Pebble mine project without local community consultation. A decision in the case would affect exploration core drilling statewide.

NovaGold won't sell all Nome assets

NovaGold Resources is still working to sell its closed Rock Creek gold mine near Nome. Other NovaGold assets such as the Big Hurrah gold deposit and gravel resources in Nome are not being sold, however. The company is still spending money on Rock Creek, mainly to dewater a containment dam, with \$13.5 million of a \$19.1 million 2010 budget spent as of Aug. 30, the company said.

Millrock Resources exploration

Millrock Resources did test drilling on gold prospects at two locations east of Nome, one near Council where 17 test holes were drilled in a partnership with Kinross Gold, and a second project near Bluff. Bering Straits Native Corp. is the subsurface minerals owner on the Bluff property.

Fisheries:

Good times for salmon fishermen

Salmon fishermen around the state, except in Kodiak, got big paychecks in 2010. The total paid to harvesters for salmon was \$534 million, the highest amount in 18 years, but the increase in value was concentrated mainly in two areas, Prince William Sound and Bristol Bay. Prince William Sound processors this year paid out nearly three times what they paid in 2009, \$143 million vs. \$54 million. Increases in Bristol Bay were healthy, but not as much: \$153 million vs. \$146 million. Southeast Alaska saw a healthy bump up: \$131 million vs. \$111 million. Cook Inlet payments totaled \$35 million vs. \$22 million. Kodiak did not fare well, however. Earnings dropped in 2010 to \$28 million from \$39 million in 2009.

Prices were up for all species of salmon by healthy margins, but the increase in prices were matched by big harvests in some regions. In Prince William Sound the 2010 harvest of \$75 million salmon set a record, and amounted to 45 percent of all salmon caught this year.

2011 may be another good salmon year, at least in Bristol Bay. State Dept. of Fish and Game biologists estimate the 2011 sockeye run in the bay region at 38.5 million, which translates to a catch of about 30 million in the region or 28.5 million just in the bay.

Farmed salmon will rebound

Part of what is propelling those higher salmon prices is a shortage of salmon caused by viruses that struck Chilean salmon farmers, but the Chilean industry is recovering more quickly than expected. Farmed salmon output in Chile was 50 percent below normal in 2010 but in 2011 will be about 25 percent down from a peak of 650,000 tons produced in 2008.

King crab prices are strong

Crab prices are rising. Red king crab from the Bering Sea is going for about \$6 per pound, up from an average of \$4.76/pound last year. Most of the crab is going to Japan, and the weak U.S. dollar is helping export sales.

There are high halibut prices, too. The 2010 halibut fishery closed Nov. 15. It was a good year in the fishery, with prices holding at \$5 per pound or above through most of the season.

A niche fishery for Bering cisco

Kwik'pak Fisheries in Southwest Alaska is attempting to develop a small Bering cisco fishery for Lower Yukon fishermen, selling to a niche market that has opened since the collapse of the Great Lake Chub fishery due to over-exploitation. Acme Smoked Fish Corp. in Brooklyn is the major buyer. The small whitefish, served smoked, is a traditional food for U.S. Jewish and Eastern European consumers. A small three-day experimental fishery was opened Sept. 15 with 12 local fishermen participating. State fisheries biologists must assess stocks before allowing expansion.

Scientists: Doubled pollock biomass

Federal scientists have determined that the overall biomass of Bering Sea Pollock has almost doubled, increasing from about 4.6 million metric tons in 2010 to 9.6 million metric tons in 2011. National Marine Fisheries Service biologists will present details to the North Pacific Fishery Management Council, which will make recommendations on the 2011 pollock quota. Growth of the biomass is seen as a result of pollock fishing restrictions ordered in recent years. The catch limit was set at 800,000 metric tons in 2010. From 2002 through 2006 harvests of about 1.5 million mt/year were allowed.

Business Intelligence (Cont.)

(Continued from page 5)

placed Fairbanks on the EPA's list of communities violating fine particle standards. The EPA has given Fairbanks a 2014 deadline to reduce particulate levels.

NMFS CUTS SOUTHCENTRAL HALIBUT CHARTER FLEET: About a third of the halibut sport charters out of Homer, Seward and Valdez will not be going out to sea when new federal rules take effect in February. The National Marine Fisheries Service feels the charter fleet has grown too rapidly and is asking boat owners to demonstrate their participation in the fishery in 2004 or 2005 as well as 2008 to qualify for a permit. All permits come with angler endorsements or limits on the number of fishermen aboard who can keep halibut. Charter boats are not allowed to keep halibut unless they have a federal permit. Charter boat owners are unhappy about the new rules and say the government has artificially eliminated competition and choices for consumers.

There is good news in terms of supply for halibut charter operators: 2011 sport halibut allocations are increased a bit from 2010. The Southeast quota is 120,448 fish, up from 119,151 this year; in Gulf of Alaska waters off Southcentral the 2011 quota is 354,098 fish, up from 317,804 this year.

Cordova's chamber of commerce awarded Trident Seafoods its innovation of the year award for the company's development of a waste recycling project to make fish oil of fish waste.

State tilts toward Watana hydro (Cont.)

- Continued from page 3

The decision, made by the Alaska Energy Authority but obviously with Parnell's blessing, came 9 days late – it was originally scheduled Nov. 15. Earlier this year the Legislature appropriated \$10 million to the AEA to evaluate both projects and recommend a preferred option, which has now been done. What this means is that the state will begin doing the environmental and engineering work for an application for Low Watana with the Federal Energy Regulatory Commission, which must license the project. Because FERC requires an alternative to be considered, that will be Chakachamna. Studies on both options will continue.

Low Watana is a scaled-down version of one of the two dams – Watana and Devil's Canyon – that were part of the large Susitna hydro project given extensive study in the 1980s. That project was abandoned when its costs increased and there were uncertainties as to whether its 1,200 MW power output could be absorbed by the market. Chakachamna was also studied then as an alternative. One question legislators must wrestle with is how the hydro project would affect the proposed 24-inch "bullet" gas pipeline from the North Slope. Hydro would take some of the electricity market from such a pipeline.

The following comments by Richard Heinberg, speaker at the recent Bioneers Conference in Anchorage and author of numerous books and essays on energy-related topics, were published in his "Museletter" blog, November 2010:

Alaska and Energy

During my recent visit to Anchorage, Alaska to speak at that city's Bioneers satellite conference, the friendly locals seemed eager to educate me about their local energy issues. Some of what I learned struck me as important to share with a wider audience. Alaska is, of course, a huge energy exporter. Crude from the North Slope saved America's energy bacon back in the '80s, helping to lower world oil prices and bankrupt the evil Soviet empire. Production there has declined from a peak of over two million barrels per day to only 600,000 or so today. Once the flow drops below 500,000 barrels, there will be problems with icing in the Trans-Alaska Pipeline system. Not good.

The state's economy is based almost entirely on resource extraction. Everyone gets a check annually from the Alaska Permanent Fund, set up in 1976 primarily by the efforts of then Governor Jay Hammond. High oil prices mean big dividends: in 2008-2009 extra-large payouts made Governor Palin look good to her constituents, though she was in no way responsible.

Alaska has enormous opportunities for renewables—wind, microhydro, geothermal, tidal, even solar. But these are far from being adequately developed, and progress in that direction will take time and lots of investment—a dramatically higher pace of investment than is currently evident.

Anchorage (by far the largest city in the state) faces a particular challenge with natural gas: currently nearly all houses are heated with gas, but supplies from Cook Inlet will run low in two years, even sooner with an abnormally cold winter. Most options to replace current sources (more drilling, LNG, alternative energy) will take longer than two years to develop. There is no serious planning for what to do about this.

Then there is the situation of the native villages. On one hand, the indigenous peoples of the north might seem well placed to weather the changes ahead as industrial society succumbs to peak oil, peak coal, and peak gas: they have cultural traditions of self-sufficiency, small populations relative to land area, and access to lots of wild protein on the hoof (moose, caribou). However, as James van Lanen of Alaska Department of Fish and Game wrote to me in an email just the other day:

"Alaska Native villages are in a very precarious situation. These remote villages are only accessible by motorized travel via air or watercraft. They are entirely dependent upon fossil-fuel systems for goods and services: food, heat, health care. They have no contact with the outside world without fossil fuels.

"Some villages obtain more of their food resources from wild sources than others. It would be safe to say that on average 80% of the protein consumption in a village is from wild sources. Berries and Plants supplement some part of the overall diet but this is small. The two important things to consider are (1) much of the food

consumed comes from industrial sources and is shipped in via small aircraft and (2) wild food harvests are currently almost entirely fossil-fuel dependent (there is a well-embedded 'machine culture' in native villages; I believe that there is no extant ability to obtain significant amounts of wild foods without the use of machines)..."

"Peak Energy will hit Alaska villages sooner and more intensely than many other places. Fuel is already up to \$9 per gallon in some places. As it becomes uneconomical for current supply operations to continue the industrial resources these villages rely on will fizzle out."

"Most village people are aware of their complete dependence upon fossil fuels. Many elders foresee a future collapse due to increasing costs and modern dependence. However, there is no general awareness of the phenomenon of Peak Energy in these communities. There is no awareness that the entire system may break down. Alaska villages desperately need to become educated in what we are facing."

I came away from my too-brief sojourn in Anchorage with both a deep appreciation for this land of great natural beauty, contrasts, and extremes, and an equally deep concern for how Alaskans will deal with their enormous energy challenges. Some of those challenges are going to present themselves forcibly in the very near future.

Sincerely, Nina Faust

A Brainstormed List of Ideas to Make the Spit a Place to be in the Winter

1. Birding tours to see the naturally occurring waterfowl like eiders and other unusual species.
2. Talk up using Homer for its spas and alternative health choices like massages.
3. Promote winter surfing and kite boarding and other ocean sports. A winter festival?
4. Host winter hikes on the Spit with some natural history tossed in.
5. Use the bike trail when ice free.
6. Host special programs at Land's End.
7. Encourage more use of the hockey rink--recreational skating, skating instruction, speedskating, tournaments.
8. Ice skating follies.
9. Photography + workshops for scenic beauty and naturally occurring wildlife.
10. Encourage better sanding and clearing of the bike path to be functional most of the year.
11. Have a bike rental/deposit system at each end of the bike path.
12. Advertise for (green) small conventions at Land's End.
13. Winter juried art show and art festival.
14. Winter Kite festival?
15. Ides of March Beach Parade
16. End of the Road--Entertaining Music, Art, Performance Winter Blues Spit Celebration--Beach Music
17. Birding tours to highlight the natural diversity found at the End of the Spit, including presentations about importance of Spit bird habitat.
18. Storm and surf watching.
19. Promote Sea to Ski tourism--stay on the ocean, ski in the hills.
20. Attract a regional broomball tournament.
21. *Curling tournaments*

#6

To: Sara Wilson Doyle
Project Consultant
USKH
351 W. Parks Hwy., Ste. 200

To Whom It Concerns,

My name is Robert Townsend and I would like to address the proposed changes to vehicle parking as outlined in the Homer Spit Comprehensive Plan.

As summarized in section 2C, I do not believe due consideration has been given to the many people who live in the small communities on the south side of Kachemak Bay. Summer and year round residents boat to Homer on a regular basis to conduct their business: buy groceries, run to the lumber yard or boating supply outlet, make an appointment at the doctor or dentist office, pay their bills at the phone or electric utility, or dash into their credit union or bank - pretty much every service or business you can imagine. Then they hurry back to the harbor, carry a load of their stuff to their boat or water taxi, and try to get across the bay before the day breeze kicks up.

Year round residents in Halibut Cove come to Homer once or twice a week all winter on the "mail boat". They have only 3 hours to get their running done before the boat departs for the return trip. I would argue that access to convenient parking adjacent to marina ramps is more crucial to these users than the casual visitor. It can be a major headache to unload your supplies and then have to park in a remote lot and walk back to the ramp.

And there is one fact that bears on this that I want to stress. As residents of Kachemak Bay, we pay a sales tax to the city collected by nearly every business in Homer; yet we receive very few services in return- no roads, no water and sewer, no schools, no police or fire protection. And that is okay. But the

one thing we do need is access to the harbor along with adequate long term parking (even longer than 7 days, at times). And to charge us a fee to park our vehicles seems terribly callous and unfair.

If I might offer a solution I would suggest issuing one free permit per family to property owners who live on the south side of the Bay that would allow them to park adjacent to marina ramps, (or as close as possible). And they shouldn't be required to move their vehicle in less than 14 days.

I would further suggest that any changes adopted would only apply to the peak visitor months (June-August). The rest of the year parking should be open, first come first served, no meters, no permits, no fees.

Thank you
Robert Townsend
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