

CHAPTER 2 BACKGROUND INFORMATION

Introduction

This chapter gives an overview of Homer's history, current conditions and trends, and sets the stage for the policies presented in the remainder of the plan.

Specific subjects covered include history, natural setting, and trends in land use and economic activity.



History

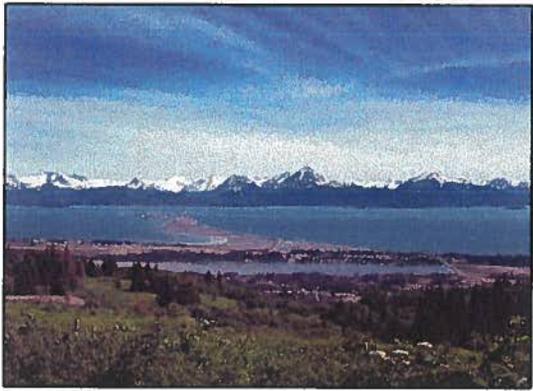
The area surrounding Homer has been home to Alaska Natives for over 8,000 years. Ancient cultures converged here, traveling to this rich bay with its sea mammals, salmon and protected waters. They arrived on foot overland from the Alaskan interior, and they paddled strong seas in skin boats from the Alaska Peninsula and Kodiak. Some migrated around the rocky outer coast from Prince William Sound. Great piles of discarded bones, shells, and artifacts, called middens, identify many ancient sites where early cultures lived. House pits, the remains of Sugpiaq Alutiiq and Dena'ina Athabascan semi-subterranean houses, are found on the islands and along the shores of Kachemak Bay. The Pratt Museum and the Homer library are excellent sources of information about the rich Alaska Native history of Kachemak Bay. While archaeological evidence indicates that major Native settlements were located across Kachemak Bay from Homer, there is also evidence of early Native campsites on the Homer Spit. Today persons with Alaska Native heritage make up approximately 7 percent of Homer's total population.

Homer's non-Native history began in 1895 when the US Geological Survey came to the area to study coal and gold resources. The following year, Homer Pennock, the man of character after whom the town is named, arrived with a crew of 50 gold miners and developed a small settlement on the Spit. While gold mining never became a profitable endeavor, coal mining did and was the predominant economic activity from the late 1800s through World War I. In the early 1900s, fishing developed into an important industry. The majority of canneries and fishing-related activity was centered across the bay in Seldovia. *See area map, page 1-2.* However, when the 1964 Good Friday earthquake struck, Seldovia's waterfront was devastated. The Homer Spit also subsided several feet due to the earthquake but it was able to assume Seldovia's fishing support activities. Like the Good Friday earthquake, the 1989 Exxon Valdez oil spill in Prince William Sound marked another very significant event for Homer. While Homer is somewhat distant from the point of grounding, outside Valdez, the reach of the spill was vast; Homer's shoreline was included in the 1,300 miles of coast impacted by the Exxon Valdez disaster. Afterward, Homer's Pratt Museum developed an award-winning exhibit about the spill's considerable impact on Homer and the surrounding area.

Homer, like the rest of the state, has roots in resource extraction industries. Yet this tie has served to underscore the importance of preservation and protection of the natural environment – critical to the livelihood and success of the community. This strong relationship to the natural environment, combined with Homer's stunning natural setting and its vibrant arts and cultural scene, has made it a popular destination for tourists.

Natural Environment

Literature intended to draw visitors to Homer describes it as a breathtakingly beautiful community, surrounded by snowcapped mountains and glaciers, a gateway to mountain and maritime adventure and the halibut capital of the world. Homer is also well-known for its gravel spit, a significant geographic feature which extends 4.5 miles into Kachemak Bay.



Kachemak Bay and the Homer Spit

Homer's year-round ice-free port and protected harbor provide easy access to Kachemak Bay, which is traveled by Homer residents, residents of nearby communities and visitors for recreation, wildlife viewing, fishing and transportation. Life in Homer relates to the ocean in many ways – the climate, economy, environment, infrastructure and way of life are all shaped by, and benefitted by, Homer's proximity to the water.

The ocean also influences Homer's climate and environment. Homer has a maritime climate and is fairly temperate by Alaska standards. Average daily temperatures range from 45 to 65 degrees Fahrenheit in the summer and 14 to 27 in the winter. Yearly snowfall during the winter averages 55 inches; total annual precipitation is 24 inches. This precipitation feeds many streams and watersheds in the Homer area. In fact, Homer's drinking water comes from a surface water source, the Bridge Creek Reservoir. Other significant streams in the Homer area include Twitter Creek, Fritz Creek and Diamond Creek. Additionally, Homer recently conducted a wetland assessment which identified several high-quality wetland areas. The largest wetland within Homer's city limits is the area surrounding Beluga Lake, which is home to many species of birds and wildlife.

The topography of the region adds to its beauty. The City of Homer is situated in a geographical area referred to as the Homer Bench. The Homer Bench is characterized by high bluffs to the north and gently sloping shorelines in the south. Homer is bounded by Kachemak Bay to the south, and Diamond Ridge to the north, which rises from about 400 to 1,100 feet above sea level. The area is composed of layered sand, silt, clay, conglomerate, coal seams and volcanic ash. Common rock types include shale, sandstone, coal and claystone. The steep slopes and the loose nature of the soil and bedrock make the area susceptible to landslides when saturated with water. Homer experiences both bluff and shoreline erosion problems. Across the bay in Kachemak Bay State Park, the dramatic, heavily glaciated mountains of the Kenai Range provide stunning scenic views for the city.

Social Environment

Regional Growth and Demographics

The Kenai Peninsula Borough (KPB) Comprehensive Plan (2005) documented growth and change throughout the region and found several interesting trends. Specifically, the plan found that long-term trends indicate that the borough's population is aging, which corresponds to a decline in school enrollment. Borough incomes are declining as well. The following data provides more detail regarding these trends.

Table 1 shows that the overall population growth in the borough has slowed to 2 percent from the high growth rates of the 1970s and 1980s.

Table 1. Kenai Peninsula Borough Population Statistics 1960-2000

Year	Population	Average Annual Growth
1960	9,053	-
1970	16,586	6.2%
1980	25,282	4.3%
1990	40,486	4.9%
2000	49,691	2.0%
2005	51,268	0.3%

Source: Alaska Department of Commerce, Community and Economic Development 2005 population estimates.

The very slight increase in borough population in recent years has not been uniform across age groups. The retirement age group has grown significantly, while other age groups have not. In 1990, 4.9 percent of the population was aged 65 years and older, while in 2000 it increased to 7.3 percent. This change is also reflected in the increase in the median age of the population. In the ten years between the 1990 and 2000 Census, the median age increased from 31 to 36.3 years.

The aging of the population is coupled with a drop in school enrollment in recent years. To date, the high mark was reached in 1997 with 10,459 school children enrolled in KPB schools. Current enrollment, for 2006/07, is at 9,360 students, representing a 9 percent drop in enrollment from the 1997 high.

After adjusting for inflation, median family incomes dropped significantly throughout the borough. The KPB Comprehensive Plan states that the borough wide median income rose from \$42,403 in 1989 to \$46,397 in 1999; however when inflation is factored into this figure, it reflects a 19 percent drop in median family income.

These trends pose important issues for the borough and its communities. Notably, an aging population creates needs for specific types of public facilities and services, tax revenue collection, and special housing. Lower school enrollment numbers often mean that State support becomes more limited and school budgets are stretched. An aging population is often indicative of the lack of local economic opportunity sufficient to attract and hold younger families. A more vibrant economy would attract and retain younger workers and families, and a more diverse tax base. Decreasing incomes may increase demands on social services while simultaneously lowering support for and ability to pay taxes or fees for services.

Homer Population Trends and Demographics

As a community within the Kenai Peninsula Borough, Homer has experienced many growth changes and trends similar to the borough as a whole. Compared to the borough, Homer’s population growth rate has been a bit higher in recent years, averaging 6.3 percent per year between 2000 and 2005. This “growth spurt” is due mostly to the annexation of 4.58 square miles of land in 2002, increasing Homer’s land base by 28 percent. If one looks instead at the combined area of Homer, Diamond Ridge and Miller’s Landing (“pre-annexation Homer”), population growth between 2000 and 2005 was only 0.9 percent per year, only slightly faster than KPB.

Table 2. Homer Population Statistics 1960-2000

Year	Population	Average Annual Growth
1960	1,247	-
1970*	1,083	-1.4%
1980	2,209	7.4%
1990	3,660	5.2%
2000	3,946	0.8%
2005**	5,435	6.3%

Source: Alaska Department of Commerce, Community and Economic Development 2005 population estimates.

* Homer's growth rate declined due to the 1964 incorporation of the city.

** Homer annexation was effective March 20, 2002.

Homer's seasonal population fluctuations complicate the effort to define the community's demographic character. In the summertime, the population of Homer swells dramatically with tourists, seasonal workers employed in commercial fishing and tourist support industries, and part-time summer residents and second-homeowners. General population growth trends, numbers, and graphs do not capture the complexity and variation of Homer's population. For instance, anecdotal accounts from local residents paint a picture of an aging baby-boomer demographic that may reside in Homer for three months of the year, claim Alaska residency, and yet spend large portions of the year out of state.

Shifting Age of the Population

Like the surrounding borough, Homer too is shifting toward an older population. This may be explained by two main factors: the aging of Homers' existing population and the in-migration of retirees (a large segment of the overall in-migration population).

The rich homesteading heritage of the area, and its many long-standing and established residents who are committed to living out their lives in Homer, account for the first factor; the second is part of a larger trend prevalent throughout the borough. A recent study conducted by the University of Alaska's Institute for Social and Economic Research (ISER)¹ served to underscore this perceived growth in the retirement community as it found that out-migration of retirees is not occurring in the Kenai Peninsula Borough. Specifically, between 1995 and 2000, 379 seniors moved to the borough while only 329 departed.

Whether due to in-migration or the aging of long-standing Homer residents, Homer has seen an increase in its population of persons aged 65-and-older from 7 percent in 1990 to 10 percent of the total population in 2000. Additionally, the median age for Homer is higher than in both the state and the borough. Tables 3 and 4 illustrate these facts.

¹ Goldsmith, Scott and Jane Angvik, UA Research Summary No. 7, Institute of Social and Economic Research, September, 2006.

Table 3. Age Statistics for City of Homer, 1990-2000

	1990 Population		2000 Population	
	Number	Percent of Total	Number	Percent of Total
Total Population	3,660		3,946	
9 and Under	679	19%	551	14%
10 to 19	511	14%	646	16%
20 to 34	844	23%	478	12%
35 to 44	774	21%	659	17%
45 to 54	389	11%	748	19%
55 to 64	203	6%	366	9%
65 and Over	263	7%	398	10%

Source: US Census Bureau. Note: US Census Bureau's 2000 population is slightly different from State of Alaska numbers. The census captures the April 1 population while the State estimates the July 1 population.

Table 4. Comparative Age Statistics, 2000

Location	Median Age	Percent 65 & Up
Homer	38.8	10%
Kenai Peninsula Borough	36.3	7%
Alaska	32.4	5.7%

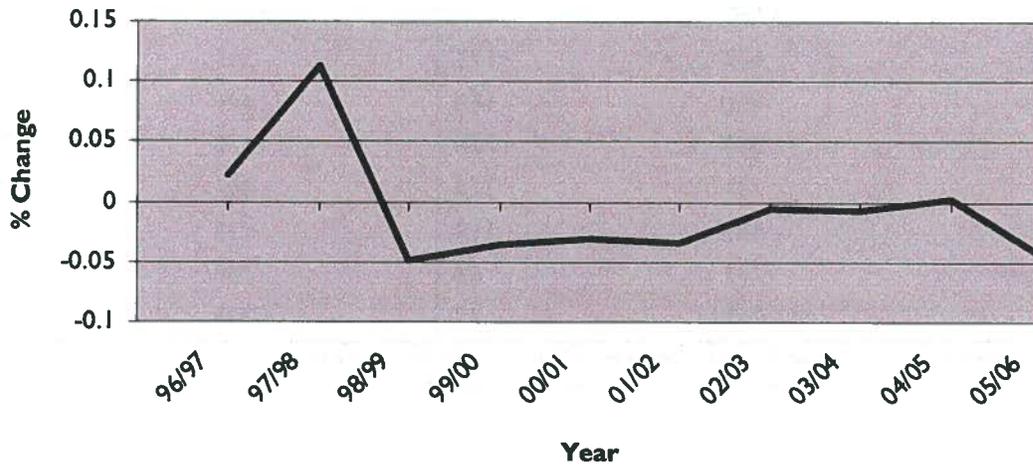
Source: US Census Bureau and Alaska Department of Commerce, Community and Economic Development (DCCED).

Additionally, in 1990, almost half of Homer's population (44 percent) was between the ages of 20 and 44. Ten years later, this age range represented less than one-third (29 percent) of the total population. During this same time period, the proportion of people aged 45 to 64 jumped from less than one-fifth (17 percent) of the population to more than a quarter (28 percent).

The aging of the population is accompanied by a decline in school enrollment numbers in Homer. Total school enrollment went from a high of 2,412 students during the 1997-98 school year to 1,958 students during the 2005-06 school year. Again this data indicates that area growth is tied more to older persons, retirees, and second homeowners. Families with young children are less prevalent.

Yet another indicator of an increasingly larger retirement population is the growth in the number of adults not in the labor force and not seeking work. Census data indicates that in 2000, 33 percent of Homer's potential workforce was deliberately not in the labor force nor were they seeking work, a four percent increase from 1990. See Table 5.

Figure 1. Change in School Enrollment, 1995-2006



Source: Kenai Peninsula Borough

Table 5. Homer's Labor Force, 1990-2000

	1990 Population Number	2000 Population Number
Total Population	3,660	3,946
Total Potential Workforce (16 & older)	2,673	3,006
Total Employment	1,863	1,849
Adults not in Labor Force (and not seeking work)	810	984
Percent of Potential Workforce not seeking work	29%	33%

Note: unemployment not included in this table

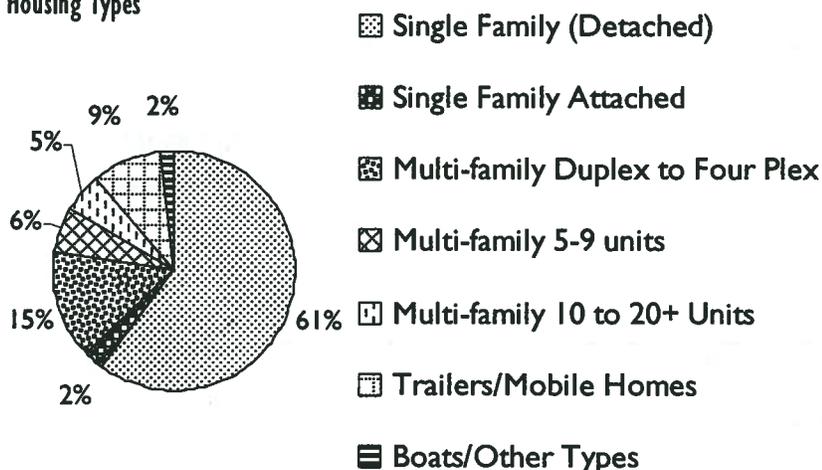
Source: US Census Bureau.

Trends in Land Use & Housing

Land Use Patterns & Capacity

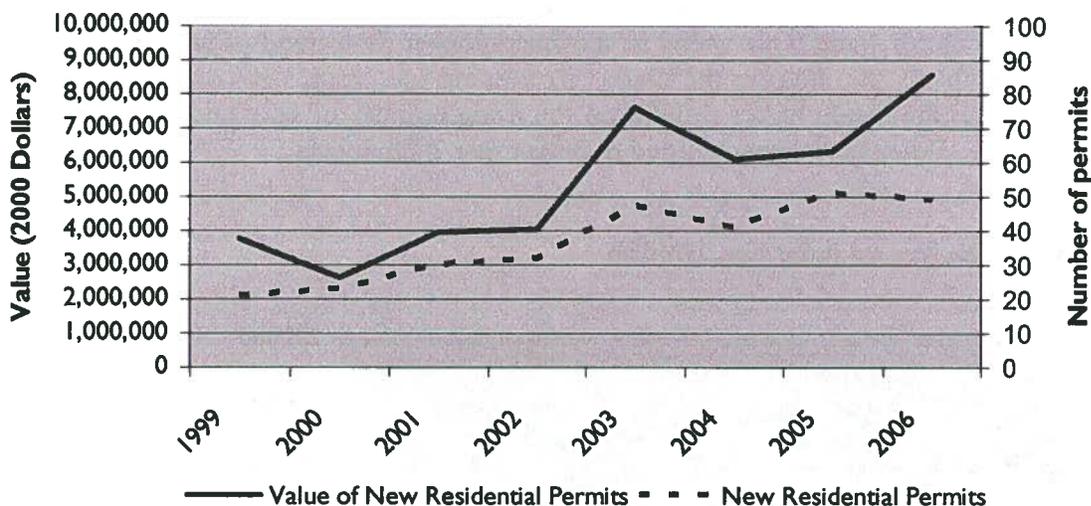
Residential use remains the predominant function of developed land in Homer. The city has three residential zoning districts – urban, rural, and residential office. The majority of current zoning is rural residential which allows for low-density development in areas not served by water and sewer. Despite the majority of the residential uses being located within the rural residential zoning district, many homes are served by public water and sewer. The predominant type of residential development is single family detached. Specifically, 61 percent of Homer residents live in single family detached homes as illustrated by the following chart.

Figure 2. Homer Housing Types



The number of new residential permits has been generally increasing in Homer since 1999. As new housing starts have been on the rise, the value of the new residential permits has been increasing significantly as well. Figure 3 shows the value of new residential permits compared to the number of new residential permits.

Figure 3. Comparison of Residential Permits and Permit Value



Source: Alaska Multiple Listing Service (MLS)

Table 6 shows the City tax revenues from property and sales taxes from 2000 through 2006. Property tax revenues have increased an average of 7 percent each year between 2000 and 2006. This increase reflects both the increase in number of units and the increase in average prices for land and housing. Sales tax revenue has also increased, due to increased sales as well as an increase in the tax rate from 3.5 percent to 4.5 percent.

Table 6. City of Homer Tax Revenues, 2000 through 2006

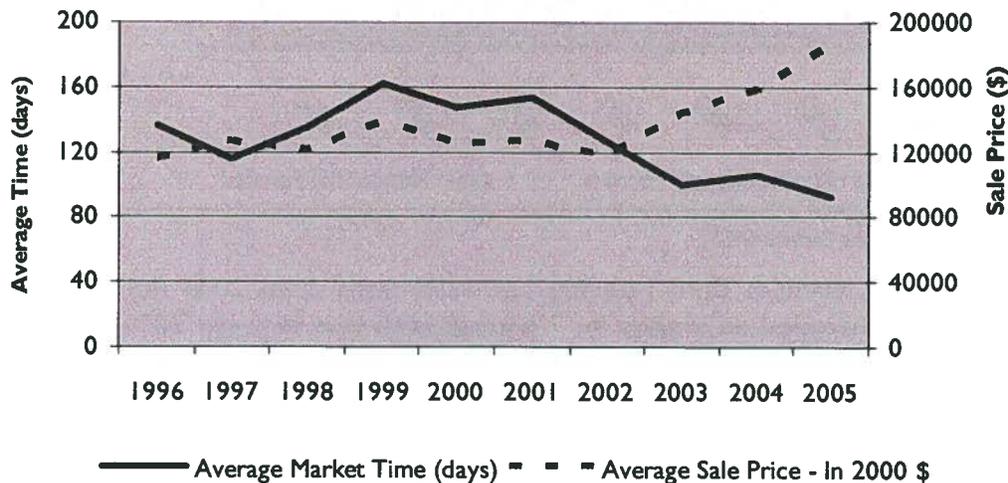
	Property Tax	% Change	Sales Tax	Sales Tax Rate
2000	\$1,347,712	10.4	\$3,465,157	3.5%
2001	\$1,342,886	-0.36	\$3,484,847	4.0%
2002	\$1,374,158	2.3	\$3,585,461	3.5%
2003	\$1,543,120	12.4	\$3,978,578	3.5%
2004	\$1,742,434	12.9	\$4,353,146	3.5%
2005	\$1,797,165	3.1	\$4,701,795	4.5%
2006	\$2,036,066	13.3	\$5,809,399	4.5%

Source: Kenai Peninsula Borough, 2007.

Housing Characteristics

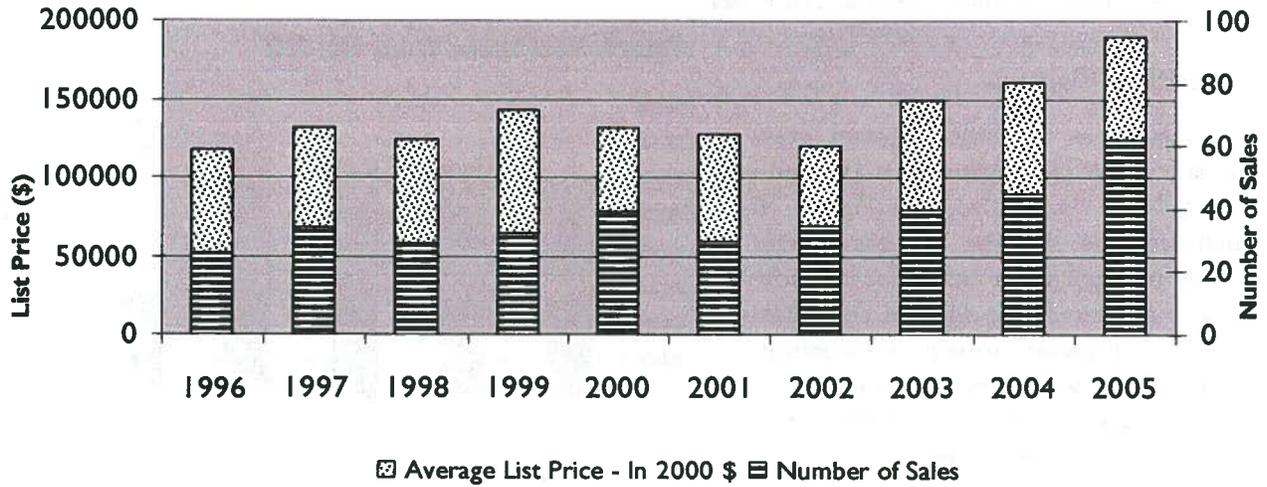
Some Homer residents are concerned that housing prices are being driven by wealth earned outside the community and at a level very difficult to match in Homer. Increasing housing prices have implications for who can live and thrive in Homer. Recent market trends have tended towards a leveling of home prices. However, prices remain high and since 2002, home prices increased annually at rates ranging from 13 to 25 percent. The average list price in 2005 was approximately \$216,000 and the average sale price was \$211,000. In recent years houses typically did not stay on the market for long. While Homer’s hot housing market has cooled a bit, the theory remains that the demand for housing and rise in prices was spurred by money from outside the local area. Anecdotal accounts from local realtors and title companies cite a fairly dramatic increase in the number of sales originating outside Alaska. While data for 2006 and 2007 is not incorporated, Figures 4 and 5 are useful in showing a longer term trend of increased housing prices. Figure 4 compares the time on the market to housing sale price; days on the market are decreasing while prices are rising. Figure 5 indicates the rising number of sales and rising list price over the past 10 years. Prices have been adjusted to reflect year 2000 dollars.

Figure 4. Comparison of Sale Price and Market Time, 1996-2005



Source: Kenai Peninsula Borough, 2007.

Figure 5. Comparison of List Price and Number of Sales, 1996-2005



Source: Kenai Peninsula Borough, 2007.

Economy

Education, health care, commercial fishing, and tourism form the backbone of Homer’s economy. Education and health care fields provide the greatest number of jobs in Homer. Notably, the South Peninsula Hospital is the second largest employer just behind the Kenai Peninsula Borough School District. *See Table 7.* Census 2000 data indicates that Homer has the highest percentage of self-employed workers on the Kenai Peninsula, illustrative of an entrepreneurial spirit alive and well within the community. Nineteen percent of the local labor force held business licenses at the time of the 2000 census.

Additionally, Homer has the highest number of local residents in the Kenai Peninsula Borough that rely on commercial fishing. Fishing income is incredibly important to Homer’s

Table 7. Top Area Employers, 2004-2005

Top Area Employers, 2004-2005		
Homer	Annual Average Employment	
	2004	2005
Kenai Peninsula Borough School District	300	313
South Peninsula Hospital	250	256
South Peninsula Behavioral Health Services	152	150
City of Homer	114	110
State of Alaska (Excludes University)	101	95
Safeway/Eagle Store	82	84
Lands End Resort	81	80
Federal Government	80	75
Chugach Electric	69	69
Homer Electric Association	71	67

Source: Kenai Peninsula Borough, 2007.

economy. Specifically, 541 area residents (of approximately 5,000 total residents) hold commercial fishing permits and in 2002 Homer area fishers claimed approximately 64 percent of harvest income for all the Kenai Peninsula commercial fishers.²

Increasing Visitors

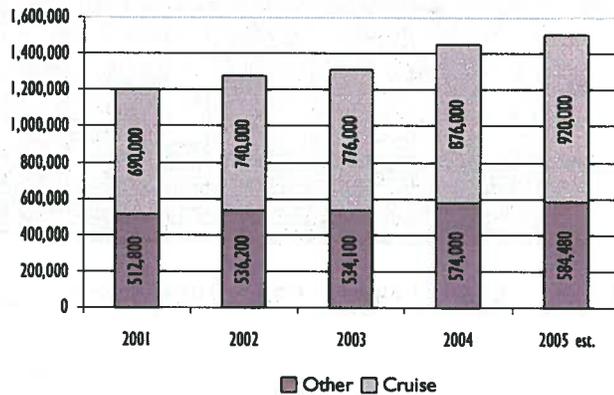
Like Alaska as a whole, tourism grew dramatically in Homer between 1990 and 2000. More recently, as Figure 6 illustrates, the number of out-of-state visitors to Alaska has continued to grow but at a declining rate. Homer continues to be a popular tourist destination. *Alaska Economic Trends* reports that “Homer’s visitor industry is thriving and contributes to the support of local cottage industries including bed and breakfasts and arts and crafts.”³ It is likely that Homer will continue to draw in visitors as the gateway to Kachemak Bay State Park, “halibut capital of the world,” and for the general access to natural habitat and wildlife areas it provides.

Unlike many of Alaska’s most visited communities – destinations on cruise itineraries like Juneau, Ketchikan, Fairbanks and Skagway – the large majority of visitors to Homer are “independent travelers” from both in-state and out-of-state. These sectors of the state’s tourism economy have grown more slowly than the package/cruise sector, and have declined in the percentage of all Alaska travelers. The upside of attracting these types of visitors is that they tend to spend more and stay longer in a community than “cruise package” visitors.

The general increase in visitors and tourism in Alaska has contributed to job growth in the service sector. In 2005 there were 505 full-time equivalent wage and salary jobs in Homer in the “leisure and hospitality” category. These accounted for more than 15 percent of total wage and salary employment. This classification did not exist prior to 2000, so a trend cannot be directly calculated. However, Homer’s full-time average annual employment in the services sector increased dramatically between 1998 and 2005, more than doubling from 654 to 1,452. The job creation is linked to the robust visitor industry. Most new jobs are in industries that either cater to tourism or provide services, such as the health care and leisure and hospitality industries. In addition, many other tourism jobs are held by proprietors and don’t show up in standard employment data.

Figure 7 shows the median household, family and non-family (individual) income for Homer for both 1990 and 2000. Homer has seen a decline in median income when 1990 levels are adjusted to 2000 dollars as in Figure 7. There has been, however, a notable increase in the percentage of families reporting incomes of more than \$100,000. In 1990, 10 percent of Homer’s families had incomes of more than \$100,000; while in 2000 14 percent had these high incomes. Perhaps contributing to this

Figure 6. Alaska Summer Visitors 2001-2006



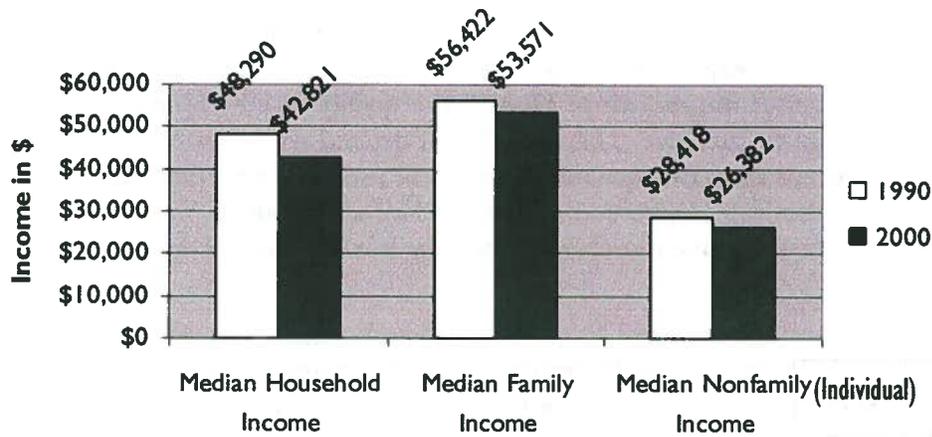
Source: Kenai Peninsula Borough, 2007.

² Kenai Peninsula Borough Comprehensive Economic Development Strategy (CEDS), 2003.

³ *Alaska Economic Trends*, November 2004, Department of Labor and Workforce Development.

rise in income is the increase in the number of persons receiving retirement income which has shifted from 11 percent of households in 1990 to 17 percent of households in 2000.

Figure 7. Median Income in Homer



Source: US Census Bureau and Consumer Price Index (used to adjust to year 2000 level).

Table 8 shows historical wage and salary employment growth for the region. (Wage and salary employment excludes fish harvesters and sole proprietor businesses.) Homer employment surged upward at more than 5 percent per year after 1998. A small part of this increase may have been due to annexation but the main reason appears to be the growth in tourism. The services category of employment more than doubled between 1998 and 2005. There were more than 500 full-time equivalent workers in the “accommodations and food services” sub-sector alone as of 2005. (Because new classifications were adopted in 2002, it is not possible to compare this figure with prior years.)

Table 8. Historical Wage and Salary Employment Growth

	1990	1995	1998	2005	Avg. growth 1990-98	Homer avg. growth 1998-2005
Construction	214	163	165	248	-3.2%	6.0%
Manufacturing	304	242	167	163	-7.2%	-0.3%
Transportation/Communication/ Utilities	245	288	229	319	-0.8%	4.8%
Trade	450	696	664	501	5.0%	-3.9%
Services and misc.	426	602	654	1,440	5.5%	11.9%
Government	463	655	660	937	4.5%	5.1%
Total	2,102	2,646	2,539	3,608	2.4%	5.1%

Source: Institute for Social and Economic Research (ISER), 2007.

Growth Trends

Homer's future growth will be driven by a combination of what happens to the Alaska economy and also specific factors that are more or less independent of what is happening in the Alaska economy. These include things like the prices for the mix of fish species that Homer fishers tend to catch, the growth of specific visitor attractions similar to the Islands and Ocean Center, and the location decisions of major retailers or other businesses. Perhaps most important of all, and most difficult to forecast, is the growth of Homer as a quality-of-life community that is attracting wealthy people who want to live here. This growth will depend partly on the actions that citizens take to maintain the current attractive qualities, and it will probably also depend on more mysterious attributes that economists call "reputation effects." If Homer remains a "hot" residential destination, then it can grow, at least in some dimensions, more or less independently of changes in the conventional "economic base."

The University of Alaska's Institute of Social and Economic Research (ISER), found that Homer's growth seems to track changes in the Kenai Peninsula Borough economy. By exploiting this relationship, ISER used economic projections for Alaska and for the KPB as a benchmark for projecting future growth in Homer. A high growth scenario was also analyzed that is consistent with projections used in the recently adopted Homer Water and Sewer Master Plan (2006). *See Appendix A.*

The conclusion that Homer tracks the KPB economy was based on three empirical tests.

Test 1. Population growth: Data shows that Homer population (as measured with Diamond Ridge and Miller's Landing included) grew at about the same rate as KPB population during the 1990s and during the past six years. The rates for 2000 through 2006 are 0.5 percent for Homer and 0.3 percent per year for KPB, which are substantially the same.

Test 2. Employment growth and structural change: Comparing employment by broad sector in Homer to employment in the KPB shows that employment in Homer grew much faster than in the KPB, with the extra growth concentrated in services.

Test 3. Change in age structure: The final test addressed the issue of demographic change and the aging baby boomers. Is Homer "aging" faster than the KPB? This would indicate that KPB projections are less useful for projecting Homer conditions. The change in population between 1990 and 2000 for specific age cohorts is remarkably similar for Homer and KPB. Unfortunately there is no data by specific age cohort for recent years so it is conceivable that Homer's age structure no longer matches the KPB structure. However, the match through the 1990s is reassuring.

The three tests and available historical data suggests that Homer's growth has been reasonably consistent with the growth of the KPB. Therefore, a low-growth scenario for Homer has been developed from recent econometric projections of the KPB economy that are, in turn, based on a detailed model of the statewide economy. The population and economic growth rate projected for Homer is as follows:

It is important to understand that while the State economy has matured and diversified, with growth in tourism, air cargo and mining, Alaska remains particularly vulnerable to economic shocks. Homer needs to plan for growth, and there are good reasons to expect this growth will continue. At the same time, the community needs to be aware that growth rates could quickly slow or reverse. The boom and bust of Alaskan economic life requires City governments to be both optimistic and realistic, and to be able to respond to change.

Table 9. Growth scenarios

	2005	2015	2025	2030	Growth Rates		
					2005-2015	2015-2025	2025-2030
Low-growth scenario							
Alaska population (000's)	663.3	717.9	822.5	877.3	0.8%	1.4%	1.3%
KPB population	49,691	52,300	58,700	61,800	0.5%	1.2%	1.0%
KPB wage-salary employment	18,075	17,000	18,700	19,700	-0.6%	1.0%	1.0%
Homer population	5,393	5,676	6,371	6,707	0.5%	1.2%	1.0%
Homer employment	3,608	4,619	5,204	5,482	2.5%	1.2%	1.0%

Source: Institute for Social and Economic Research (ISER), 2007.

Summary

Taken together, the set of facts presented in this chapter support the conclusions listed below.

- Homer’s demographics are changing. Many out-of-town and out-of-state retirees are coming to Homer, affecting land prices and expectations about public services and facilities.
- Homer needs room to grow, in a way that respects the community’s character, addressing concerns about sprawl and climate change. The plan should designate locations and patterns for new growth, considering related needs like expanded water and sewer service.
- Housing prices are being driven up by new demands and an influx of more wealthy residents. Maintaining a stock of quality housing for middle- and low-income households will be important for Homer’s future.
- The natural environment is important to Homer’s economy and way of life. The community clearly desires to maintain the natural environment. New strategies will be needed to protect this environment as the community grows – particularly regarding drainage, erosion, and open space.
- Homer has a diverse, vibrant economy that builds on the community’s strengths and character. The community will need to work to enhance and preserve economic opportunity.
- Tourism has grown significantly in Homer, contributing to growth in the overall service sector.
- Trends of the last 15 years are likely to continue, and Homer will face new challenges and opportunities tied to growth.

