

Kenai Peninsula Borough Comprehensive Economic Development Strategy 2016

Kenai Peninsula Economic Development District

Prepared for the US Economic Development Administration

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Executive Summary

This Comprehensive Economic Development Strategy (CEDS) for the Kenai Peninsula Borough is the result of a region-wide, public planning effort led by the Kenai Peninsula Economic Development District (KPEDD). It sets a vision for the economic growth of the region from 2016 to 2021, and serves as the action plan for KPEDD as the primary entity responsible for economic development initiatives for the Borough as a whole.

The CEDS provides an overview of the economic, demographic, and employment trends of the region, places its unique geography in context, and reviews the strengths, weaknesses, opportunities, and threats. Using this background information collected from public datasets and extensive public outreach, the document then lays out the goals, objectives, and strategies for the five-year period, with an eye toward the resiliency of the region as it faces downturns in the oil and gas industry and declining state funds.

The Kenai Peninsula Borough is in some respects a microcosm of Alaska as a whole. Its landmass hosts glacial rivers, mountain ranges, spruce forests, and coastal fjords—a sampling of the state’s varied geography. The region’s economy is likewise home to a large resource sector (fisheries, oil, and gas mostly) and a substantial visitor industry built around access to wilderness amenities. Peninsula communities range from rural and remote to urban and well-connected with highways and broadband internet. Statewide concerns like the potential liquefied natural gas (LNG) pipeline and 2014-15 decline in oil prices loom large in the Borough. However, the region is unique in several respects, including a rapidly aging population and relatively low public sector employment with no military bases and few state employees. In both its challenges and opportunities, the Kenai Peninsula Borough exhibits both strong resemblances and notable contrasts to Alaska as a whole. The CEDS attempts to capture these unique conditions and incorporate them into a comprehensive plan for future growth.

The Kenai Peninsula Economic Development District

“To attract, grow, and retain business and industry on the Kenai Peninsula that will enhance the vitality and quality of life in our communities.” –KPEDD Mission Statement

KPEDD is a 501©(4) non-profit regional economic development organization. Established in 1988, KPEDD serves the residents and communities of the Kenai Peninsula Borough in Southcentral Alaska.

As the first federal Economic Development District designated in Alaska, as well as the first Alaska Regional Development Organization or ARDOR, KPEDD has actively pursued development opportunities for the region. Over its lifetime, KPEDD has been involved in a variety of projects including public works advocacy, shellfish industry development, international trade, promotion of a North Slope Natural Gas Pipeline to Cook Inlet, building infrastructure, industry recruitment, and business retention and expansion (BR&E).

KPEDD, with funding provided by the Kenai Peninsula Borough, US Economic Development Administration, and State of Alaska, compiles and publishes the Kenai Peninsula Borough CEDS, and the this document represents the most recent update, replacing the previous 2011 document.



CEDS Strategy Committee

The KPEDD staff and the University of Alaska Center conducted the CEDS process for Economic Development (UACED), under the general direction and guidance of the KPEDD Board of Directors. The Board also formed the core of the CEDS Strategy Committee, which convened bi-monthly from October 2015 until April 2016, along with a full-day strategy session on March 15, 2016. The Strategy Committee consisted of the following individuals:

Current KPEDD Board Members:

- Brendyn Shiflea (Board Chair) ConocoPhillips
- Dale Butts, City of Seward
- Stephanie Queen, City of Soldotna
- Todd Smith, Kenai, Business Owner
- Brandii Holmdahl, Kenai Peninsula Borough
- Rick Koch, City of Kenai
- Bryan Zak, Alaska Small Business Development Center
- Stan Mishin, Kenaitze Indian Tribe
- Rachel O'Brien, State of Alaska
- Dale Bagley, Kenai Peninsula Borough Assembly
- Julie Woodworth, Homer, Banking

Former Board Members (engaged during process):

- Tim Dillon, City of Seldovia
- Mark Dixson, City of Soldotna
- Katie Koester, City of Homer
- Joe Rybeck, Soldotna, Private Industry
- Mike Dye, Homer, Private Industry

KPEDD Staff:

- Tim Dillon, Executive Director
- Rick Roeske, Former Executive Director
- Caitlin Coreson, Programs Manager

Process

The Kenai Peninsula Borough CEDS was developed in accordance with the U.S. Economic Development Administration's guidelines, with KPEDD Executive Director Rick Roeske overseeing its completion. UACED conducted the background research, coordinate the public process, facilitated the creation of the action plan, and drafted the document itself. Wherever possible and practical, the Executive Director and Board members participated in community forums and industry focus groups, and provided extensive feedback and input on various drafts of the document.



The relationship with the UACED began in June 2015, with work continuing into the fall and then the spring of 2016. Key milestones in the CEDS development include:

- August 17, 2015—meeting between KPEDD Executive Director and UACED team to discuss major economic trends to analyze for the CEDS.
- January 27, 2016—Tourism industry focus group with Kenai Peninsula Tourism Marketing Committee
- January 29, 2016—Business Forum to gather input at KPEDD’s annual Industry Outlook Forum
- February 3, 2016—Kenai and Soldotna Chambers of Commerce joint meeting, luncheon presentation and listening session.
- February 5, 2016—Seward Chamber of Commerce luncheon presentation and listening session
- February 20, 2016—Fisheries focus group held in conjunction with the annual meeting of the Cook Inlet Aquaculture Association
- March 8, 2016—Homer Chamber of Commerce luncheon and listening session.
- March 9, 2016—Seldovia Chamber of Commerce presentation and listening session.
- March 15, 2016—CEDS Strategy Committee Meeting for the review of public input and formation of action plan/work plan.
- May 16, 2016—CEDS draft approved by Strategy Committee, 30-day comment period initiated.
- June 16, 2016—Comment period closed, document finalized for submission to EDA.

Goals and Action Plan

The Kenai Peninsula Borough is a collection of diverse and vibrant communities where citizens have year-round employment opportunities; businesses have access to a highly skilled, trained, and educated workforce; residents and visitors can enjoy the unique mix of urban and rural recreation activities; and responsible city and Borough management promotes economic growth and diversification. –Kenai Peninsula CEDS Vision Statement

Through the participatory process described, the CEDS team identified six major goal areas summarized below. These goals attempted to holistically address the future economic needs of the Kenai Peninsula as a diversified, thriving region with adequate job opportunities and a uniquely Alaskan lifestyle. Each goal was matched with a series of actions, metrics, and partner organizations.

These goals reflect the overall needs of the Borough as described by community forum participants, background research, and the SWOT analysis as the best way to maximize the assets of the region while mitigating potential areas of weakness.



Regional Partnerships	<ul style="list-style-type: none"> • Build ties to industry associations and communities • Coordinate region-wide economic development with communities
Infrastructure and Technology	<ul style="list-style-type: none"> • Industry focused infrastructure • Transportation infrastructure • Expanded broadband access
Workforce and Human Capital	<ul style="list-style-type: none"> • Industry partnerships and voc-tech • Workforce attraction and retention
Business Climate and Entrepreneurship	<ul style="list-style-type: none"> • Strengthen existing businesses through business retention and expansion • Promote responsible development • Develop entrepreneurial ecosystem
Quality of Place	<ul style="list-style-type: none"> • Develop Kenai Peninsula "brand" for residents, visitors, and businesses • Promote expansion of recreational amenities and public access
Knowledge Creation and Dissemination	<ul style="list-style-type: none"> • Track and report economic and demographic trends • Seek new venues to publicize findings

Figure 1: Goal and Action Plan Summary.

Human Capital

- Population in the Kenai Peninsula Borough, at about 58,000 in 2014, is projected to grow more slowly than the rest of the state, although LNG and other factors could result in significant population growth.
- Unincorporated communities with highway access, and in close proximity to commercial centers like Soldotna or Kenai show the highest rates of growth. Established cities like Seward, Homer, and Soldotna have grown at a slow-to-moderate pace, and several South Peninsula communities are losing population.
- The Borough shows low rates of in-migration. Most migrants moved to, or from, other parts of Alaska—predominantly Anchorage, the Matanuska-Susitna Valley, or the Fairbanks area.
- The population of the Kenai Peninsula Borough is aging faster than the rest of the state, as the “economically active” share, those aged 20 to 64, is smaller than the statewide average.
- Healthcare and social assistance is the largest employment sector, followed by retail trade, accommodation and food service, agriculture (fisheries), construction, and mining (oil and gas) according to US Census data.
- Employment in the region is spread widely across these sectors, giving the Borough a higher degree of diversification than almost any other part of the state.



- Despite having a relatively strong, diverse economy, unemployment rates are usually higher than the state average. For instance, in March 2016 the Borough’s unemployment rate of 9.7% exceeded the state rate of 7.3% by almost two percentage points.¹

Geography

- The land mass of the Kenai Peninsula Borough is roughly the size of Massachusetts and New Jersey combined. However, the Borough has only 3.7 residents per square mile. Waterways make up 8,741 square miles of the Borough.
- 99% of the population resides on the Peninsula itself, with the western part of the Borough being sparsely populated.
- The Kenai Peninsula Borough has many diverse climates. This can be seen by the numerous National Forest/Parks within or adjacent to the Kenai Peninsula Borough.

Community Development and Quality of Life

- In terms of cost of living, the Kenai Peninsula Borough has some of the least expensive housing costs in the state. The average Peninsula home sells for \$115,000 less than an average Anchorage home, and about \$10,000 less than an average Mat-Su home.
- Consumer goods ranging from groceries to gasoline are more expensive than either Anchorage or the Mat-Su, but residents often save enough on housing to achieve a lower overall cost of living.
- Low taxes and cost of living are the likely factors attracting retirees and seniors to the Borough from other parts of the state.

Infrastructure and Transportation

- Infrastructure in the Borough ranges from communities with highway access to those only accessible by air and water. Highway communities support the highest rates of population growth.
- The only communities currently on the Alaska Marine Highway System are Homer and Seldovia. Ferry service is a critical link for these cities.
- Average energy costs are low by state standards, but wide variation exists between communities with natural gas and those without.

Industry Analysis

- Using a location quotient (LQ) analysis, which measures employment concentration, economic sectors in the Borough were analyzed for their size and growth. Industries were then categorized as “Stars,” “Mature,” “Watch-list,” “Challenged,” or “Opportunity” industries.
- Star industries (high concentration, positive growth) include: healthcare and social assistance, real estate, government, and retail trade.
- Mature industries (high concentration, negative growth) include: accommodation and food services (tourism), agriculture (fishing), mining (oil and gas). These are the historic drivers of employment growth, although in some cases may face significant challenges, such as oil and gas.

¹ Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section



- Watch-list industries (high concentration, negative growth) include: manufacturing, and construction.
- Challenged industries (low concentration, negative growth) include: wholesale trade, and administrative services.
- Opportunity industries (low concentrations, positive growth) include: information, professional services, educational services, and financial services.
- Economic and demographic resiliency is analyzed in this document as well. The Kenai Peninsula Borough is highly diversified by Alaska standards, but still exposed to volatile national or international markets such as oil and gas, and fisheries. LNG presents enormous opportunities for future growth, but significant workforce gaps must be filled to take advantage of them.
- In terms of demographics, the Borough is facing low in-migration and an aging population. The region also has strengths to combat this, such as a low crime rate, and affordable energy and housing. “Placemaking” strategies to attract young families to these assets could be one approach.



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I. Human Capital

Demographics

General Trends

Based on U.S. Census data from July 2014, 57,212 people live on the Kenai Peninsula. From 2010 to 2014, population on the Peninsula increased 3.3%. By the year 2042, the population is projected to grow by roughly 15%. This growth translates into a projected 65,647 residents, which would suggest an average annual growth of 0.4%. After the year 2022, population growth is expected to slow for both Alaska and the Kenai, but Peninsula growth rates will decline more sharply than the state overall as the state should grow at an annual rate of 0.9% through 2042.

At the community level, growth rates vary considerably. The bedroom communities of the Central Peninsula, a highway accessible area that spans from Sterling to Kasilof, showed robust growth rates between 2010 and 2014. This includes Ridgeway, Kalifornsky, and Salamatof, all located a short drive from the commercial centers of Soldotna and Kenai. These latter two communities, taken together with other established cities like Seward, Homer, and Nikiski, showed modest growth—likely a consequence of limited buildable land within their municipal boundaries. The small coastal communities of the South Peninsula such as Ninilchik, Kachemak City, and Seldovia were more likely to see a shrinking population. Anchor Point and Diamond Ridge, however, showed significant growth. Highway access, buildable land, and proximity to an existing population center seem to be the biggest predictors of growth. See Appendix 1 for more information on the communities' population changes.

In any region, there are two main components of population change: natural increase and net migration. Natural increase is based on birth and death rates, while net migration reflects movement to and from the region. For example, from 2013 to 2014 the population on the Kenai Peninsula Borough increased by 399 residents. Of this, 325 (81%) were due to natural increase, and 74 (19%) to net migration.

Population projections provided by the Alaska Department of Labor and Workforce Development suggest that in the coming decades this dynamic will change (see Appendix 2): by 2032, 57% of population growth will be due to natural increase and the rest to net migration. By 2042 64% of population growth will come from net migration. This trend is connected to another challenge the region faces, an aging population. Over time the Borough's workforce will increasingly rely on individuals relocating to the region rather than births, putting additional pressure on a small labor market.



Community	2014 Population	% Change from 2010-14	Community	2014 Population	% Change from 2010-14
Salamatof	1,120	14.3%	Homer	5,099	1.9%
Nanwalek	275	8.3%	Tyonek	174	1.8%
Ridgeway	2,187	8.2%	Diamond Ridge	1,174	1.6%
Kalifornsky	8,441	7.5%	Bear Creek	1,985	1.5%
Anchor Point	2,059	6.7%	Kenai (city)	7,167	0.8%
Fritz Creek	2,024	4.8%	Funny River	877	0.0%
Kasilof	574	4.6%	Kachemak	460	-2.5%
Sterling	5,869	4.5%	Ninilchik	847	-4.1%
Clam Gulch	183	4.0%	Happy Valley	566	-4.6%
Soldotna (city)	4,311	3.6%	Port Graham	168	-5.1%
Nikiski	4,652	3.5%	Fox River	644	-6.0%
Seward city	2,768	2.8%	Seldovia (city)	233	-8.6%
Cohoe	1,394	2.2%	Halibut Cove	65	-14.5%
Hope	196	2.1%	Nikolaevsk	270	-15.1%
Cooper Landing	295	2.1%			

Figure 2: Kenai Peninsula Borough Communities by Population

Source: US Census Bureau American Community Survey, 2010-2014

With slowing population growth and an increasing share of net migration as the main driver of growth, age distribution becomes a vital indicator. Based on U.S. Census data from 2014, the region’s economically active population, which includes individuals between 20 and 64 years old, accounts for about 60% of total population (see Appendix 3). Statewide, the share of the economically active population is similar at around 62%. Population projections for 2042, show a decrease in the economically active population from 34,540 in 2014 to 33,989 or 52% of the total residents, compared to 56% statewide. Alarmingly, the Borough’s working-age population is expected to shrink, even as the total number of residents will increase slightly.

Race and Ethnicity

The Kenai Peninsula Borough is less ethnically diverse than the state as a whole, but the non-white share of the population is growing. According to U.S. Census Data, a large majority of Peninsula residents are white (85% in 2014, compared to about 66.9% statewide²), although the growth rate for this group is the lowest among ethnic groups, 3.2% over the period from 2010 to 2014 (see Appendix 5). At about 12%, “American Indian and Alaska Native” is the second largest group in the region, and this share of the population grew by 5% during these years. The highest growth rate over the same period was by the “Black or African American” group at 39.1%, reaching a population of 762 in 2014. Asian and Native

² Race and Hispanic Origin, 2010-2014. Retrieved from <http://laborstats.alaska.gov/pop/estimates/data/RaceHispAK.xls>. Retrieved on 10.03.2015.



Hawaiians are the smallest ethnicity groups on the Kenai, but taking into account average growth rates, these groups should increase in the next five years.

Employment

In analyzing employment on the Kenai Peninsula it is useful to look at the most established industries in the region, including fisheries (part of agriculture, forestry, fishing and hunting U.S. Census category), oil and gas (classified as mining), health care and social assistance, retail trade, and accommodation and food services (see Figure 3).³

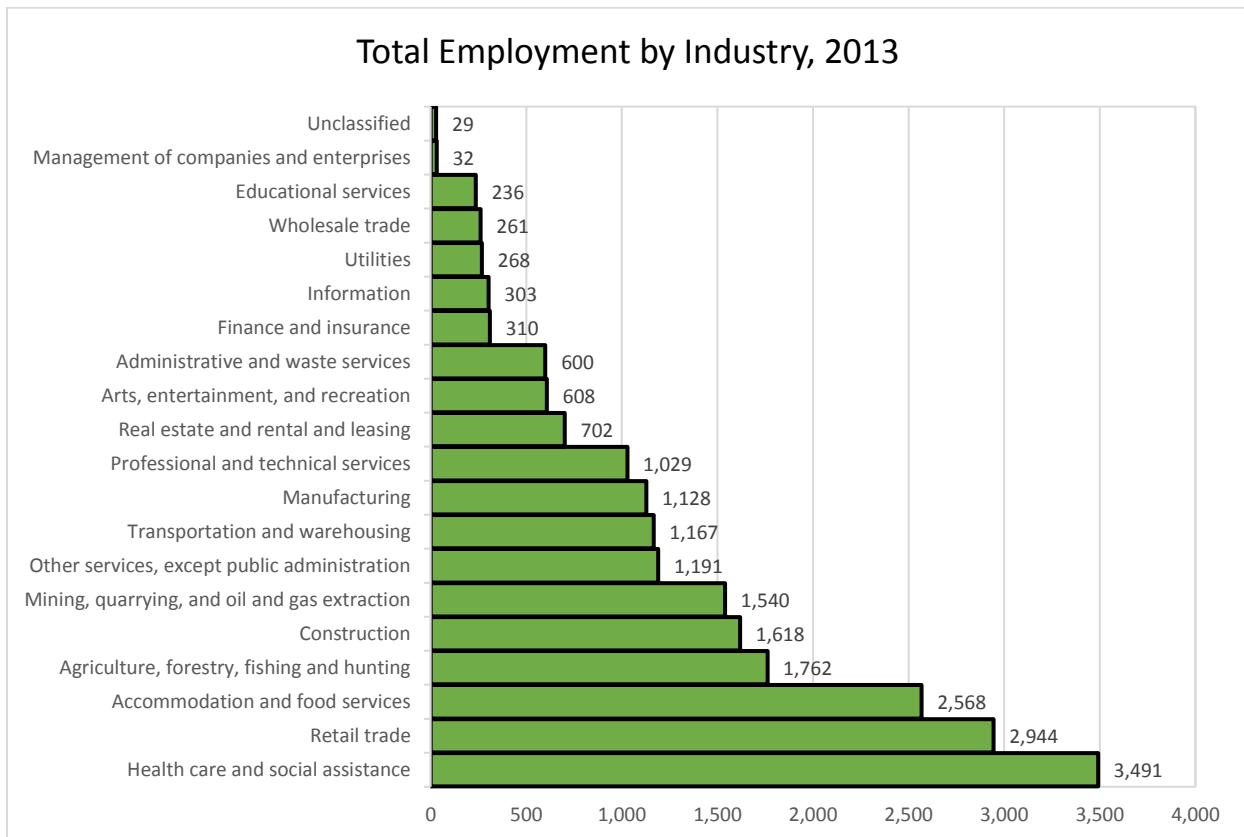


Figure 3: Total employment by industry, 2013

Source: US Census Nonemployer Statistics data, Quarterly Census Employment and Wages

Measured by employment, the Kenai Peninsula Borough economy is more diversified than the state overall. Oil and gas, and government are the key statewide sectors. In Kenai, mining (including oil and gas) employment is at the same level as construction (7.1% and 7.4% respectively), and agriculture (including fishing, see Appendix 7) takes a slightly higher share, 8.1%. At the same time the healthcare and tourism sectors have the largest share of total employment (accommodation and food services – 11%, retail trade

³ When evaluating employment in the region two main databases are key: 1. Quarterly Census Employment and Wages (QCEW); 2. US Census Nonemployer Statistics data, which contains information on earnings and counts self-employed individuals and sole proprietors. As Kenai Peninsula contains a significant number of self-employed commercial fishermen, the second source of information plays an important role. See Appendix 6 for a more detailed breakdown.



– 13.5%, and health care and social assistance – 16%). That means there are at least six reasonably large sectors driving employment in the Kenai Peninsula Borough, insulating it from shocks in any one employment category.

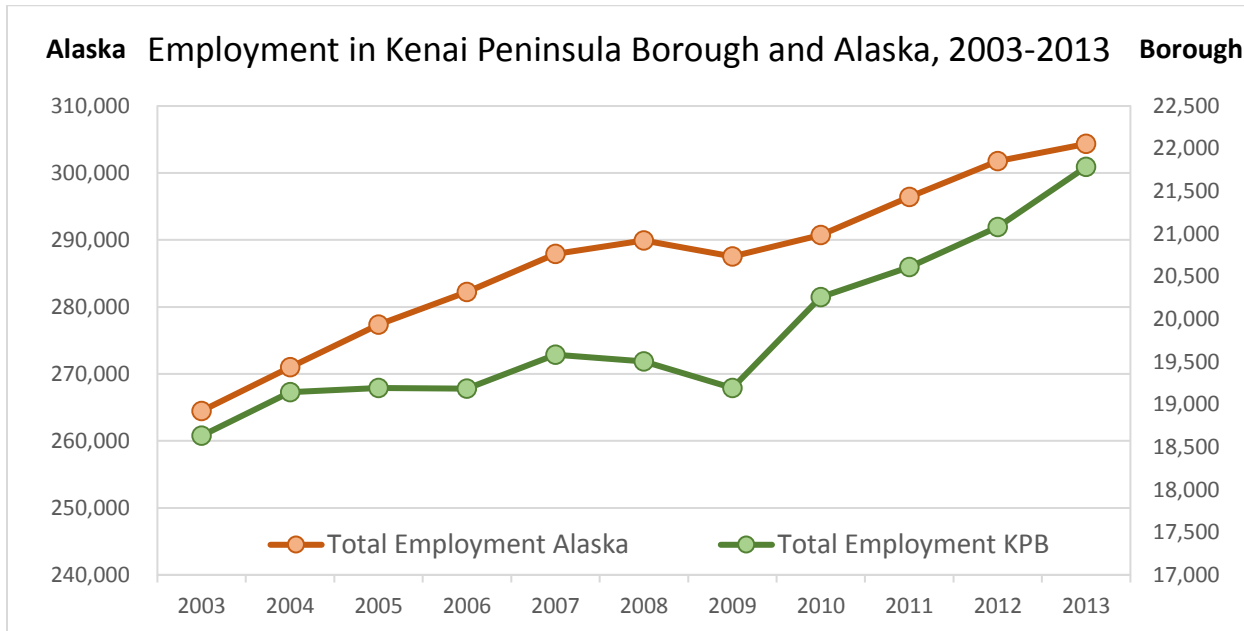


Figure 4: Employment in KPB and Alaska, 2003-2013

Source: US Census Nonemployer Statistics data, Quarterly Census Employment and Wages

From 2003 to 2013 there were two dips in Kenai Peninsula Borough employment: 2006, and 2008-2009. Some explaining factors are: poor fish harvests, tourism, changes in construction, and oil and gas. Poor fish harvests led to low fishery employment in 2006 and 2008. Tourism played an important role in the 2008 decline as the visitor industry in Alaska generally follows trends in the national economy closely, which was in decline in 2008 (see Appendix 10). The construction industry is another sector with substantial influence on Borough employment trends. There were two significant declines in construction employment since 2003: 2006, and a more prolonged decline that started in 2008 and lasted until 2012 (see Appendix 9). The oil and gas industry is also an economic driver in the Kenai Peninsula Borough. Oil production was decreasing until 2009, and it caused a continuous decrease in sector employment from 2008 to 2011. It recovered in the following two years, reaching a high in 2013 (1,540 employees) when Alaska North Slope West Coast Average Oil Spot Price was at a high point \$107.60 per barrel (please see Appendix 12).⁴

For the last 10 years, the unemployment rate in Kenai Peninsula Borough was on average higher than at the state level: 8.6% vs. 7% (see Figure 5). Borough unemployment follows state trends: from 2007 to

⁴ AOGA Fact Sheet: Cook Inlet Oil and Gas Production. Retrieved from http://www.aoga.org/sites/default/files/news/cook_inlet_fact_sheet_final.pdf. Retrieved on 10.01.2015.



2010 there was a constant increase from 7.6% to 10%. Beginning in 2010 unemployment began declining, and in the last three years it leveled out at 8%.

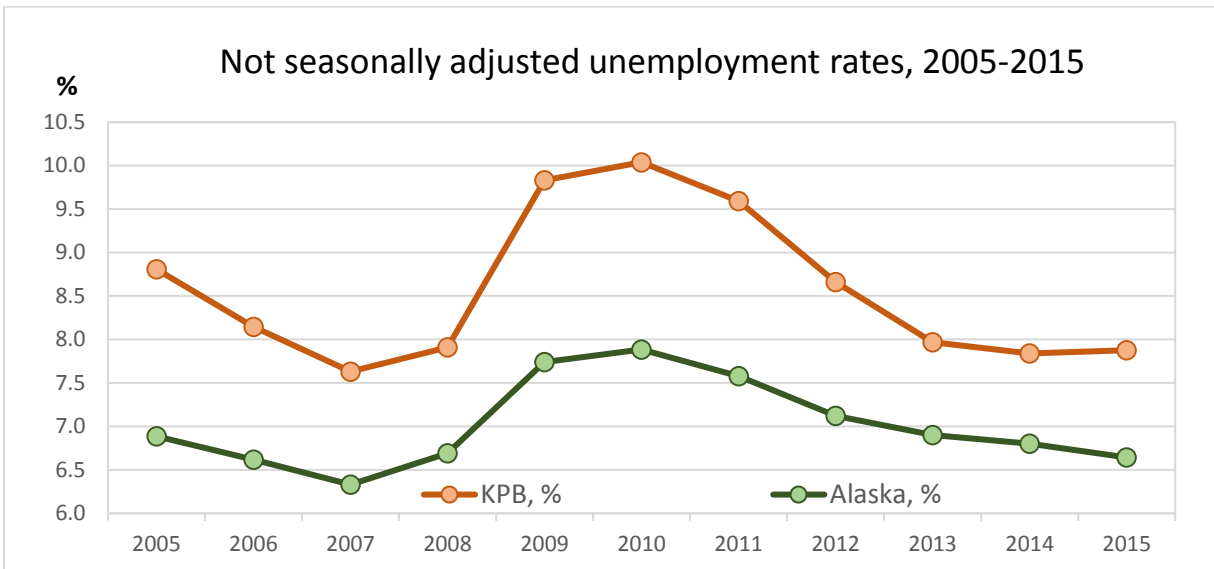


Figure 5: Not seasonally adjusted unemployment rates, 2005-2015

Source: Alaska Department of Labor and Workforce Development

Education

Education is one of the most important areas for identifying economic development in the Kenai Peninsula and Alaska overall, as future availability of specialists and a qualified labor pool depends on high graduation rates and educational attainment. Available statistics divide the school-age population into three age groups: 5-9, 10-14, and 15-19 years old. Based on population estimates from July 2014, these groups combined make up about 19% of the Kenai Peninsula Borough’s population. Statewide, the same groups account for almost 21% of the population, with almost equal distribution between groups. It is projected that through 2042 the share of students will remain essentially flat at both the Borough and state level. At the state level this group will grow faster than at the Borough level with the state growth rate becoming 27.3%, and the Borough growth rate becoming 18.7%.

Over the last 10 years, enrollment in the Kenai Peninsula School District has continuously declined from the 2003-2004 school year, when there were 9,645 students, to 9,077 students in 2013-2014. This trend is associated primarily with the decreasing population of school-age children. It is significant that enrollment is decreasing slower than school-age population: in the last decade enrollment in public schools decreased 5.9%, while population in the age group decreased 12.2%. This indicates that a greater share of the school age population is enrolling – an observation validated by increasing graduation numbers, and falling dropout rates (see Appendix 13).

Based on information provided by Kenai Peninsula Borough School District, this trend was facilitated by a number of other changes, programs, and initiatives over the past few years. The School District works with “at-risk” students at Nikiski Middle-High, Soldotna High, and Seward High schools. Another program that helps students succeed is personalization of the education experience with distance courses. They provide opportunities for students that meet their individual needs and interests at a time, place, and



pace that works for them. Moreover, state investment in career and technical education programming has expanded with the passage of Senate Bill 84 in 2010, which may have a positive impact on graduation rates.

Beyond the K-12 system, the Kenai Peninsula College and Alaska Vocational Technical Center (AVTEC) are located in the Kenai Peninsula Borough. The former is a community campus system within the University of Alaska Anchorage, with four locations – Soldotna, Homer, Seward and Anchorage (via distance delivery).⁵ AVTEC is located in Seward and provides training in a variety of industrial and technical fields, ranging from welding to nursing.⁶ Other training organizations include the Homer Marine Trades Association.

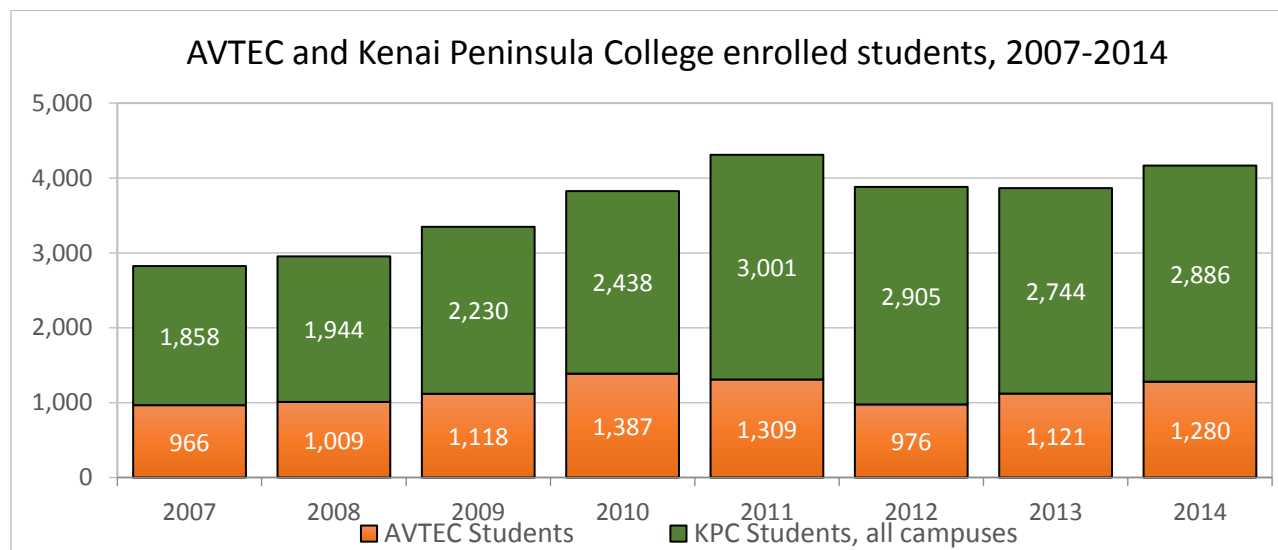


Figure 6: AVTEC and Kenai Peninsula College enrolled students, 2007-2014

Source: University of Alaska Anchorage Institutional Research Enrollment Reports;
<http://www.uaa.alaska.edu/ir/reports/Enrollment/index.cfm>

The year 2011 was characterized by the largest number of students enrolled in AVTEC and Kenai Peninsula College in the last seven years (see Figure 6). Since 2011, enrollment numbers in both institutions fell slightly, though there was an uptick between 2013 and 2014. In comparison with the previous year the increase was about 12.7%, but after 2011 the number of enrolled students declined until 2014. The GRAD program donation in 2011 was primarily focused on the College Access Program; which provides structural, motivational, and experiential support targeting college and career awareness, academic rigor, college readiness, and affordability so that students successfully complete postsecondary education.⁷ The GRAD program may have been one motivator behind the increase in college enrollment.⁸

⁵ About Kenai Peninsula College. Retrieved from <http://www.kpc.alaska.edu/about/>. Retrieved on 10.08.2014.

⁶ AVTEC. Retrieved from http://www2.Borough.kenai.ak.us/Econ/1S_P%20data/Demographics/AvTech.htm. Retrieved on 10.08.2015.

⁷ Walmart Donates \$25,000 to Project GRAD Kenai Peninsula. Retrieved from <http://www.akbizmag.com/Alaska-Business-Monthly/October-2011/Walmart-Donates-25000-to-Project-GRAD-Kenai-Peninsula/>. Retrieved on 08.10.2015.

⁸ GRAD Program Kenai Peninsula Borough. Retrieved from <http://alaska.projectgrad.org/programs/>. Retrieved on 12.11.2015.



II. Geography

Land Area

The Kenai Peninsula Borough is 25,600 square miles, of which 15,700 square miles are land⁹, and 8,741 square miles are water¹⁰. The population per square mile is 3.7. The Borough is roughly the size of New Jersey and Massachusetts combined.

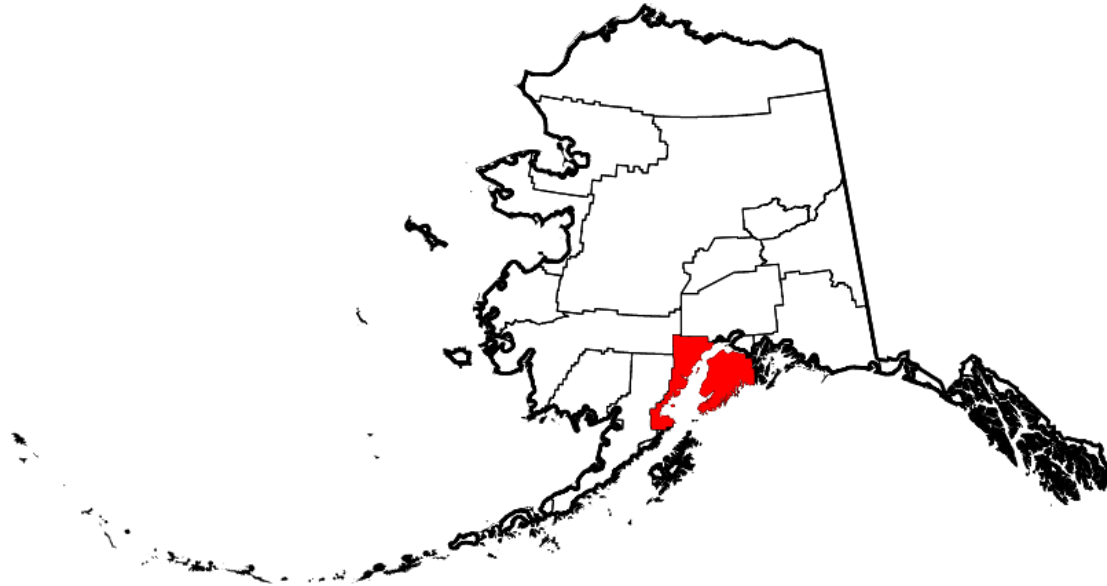


Figure 7: Alaska Boroughs, Kenai Peninsula Borough in red

Location

The Borough is surrounded by Anchorage to the north, the Alaska Range to the west, the Gulf of Alaska and Prince William Sound to the south and east. The Kenai Mountains run to the north and south of the Borough. The Cook Inlet runs in the center of the Borough, creating two land masses. Although, approximately 99% of the population resides in the Peninsula, with the west side of the Borough being sparsely populated.

⁹Source: Kenai Peninsula Borough, Our Geography: <http://www.kpb.us/our-geography>

¹⁰ Source: NOAA, South Central Alaska, Kenai Peninsula



Kenai Peninsula Borough

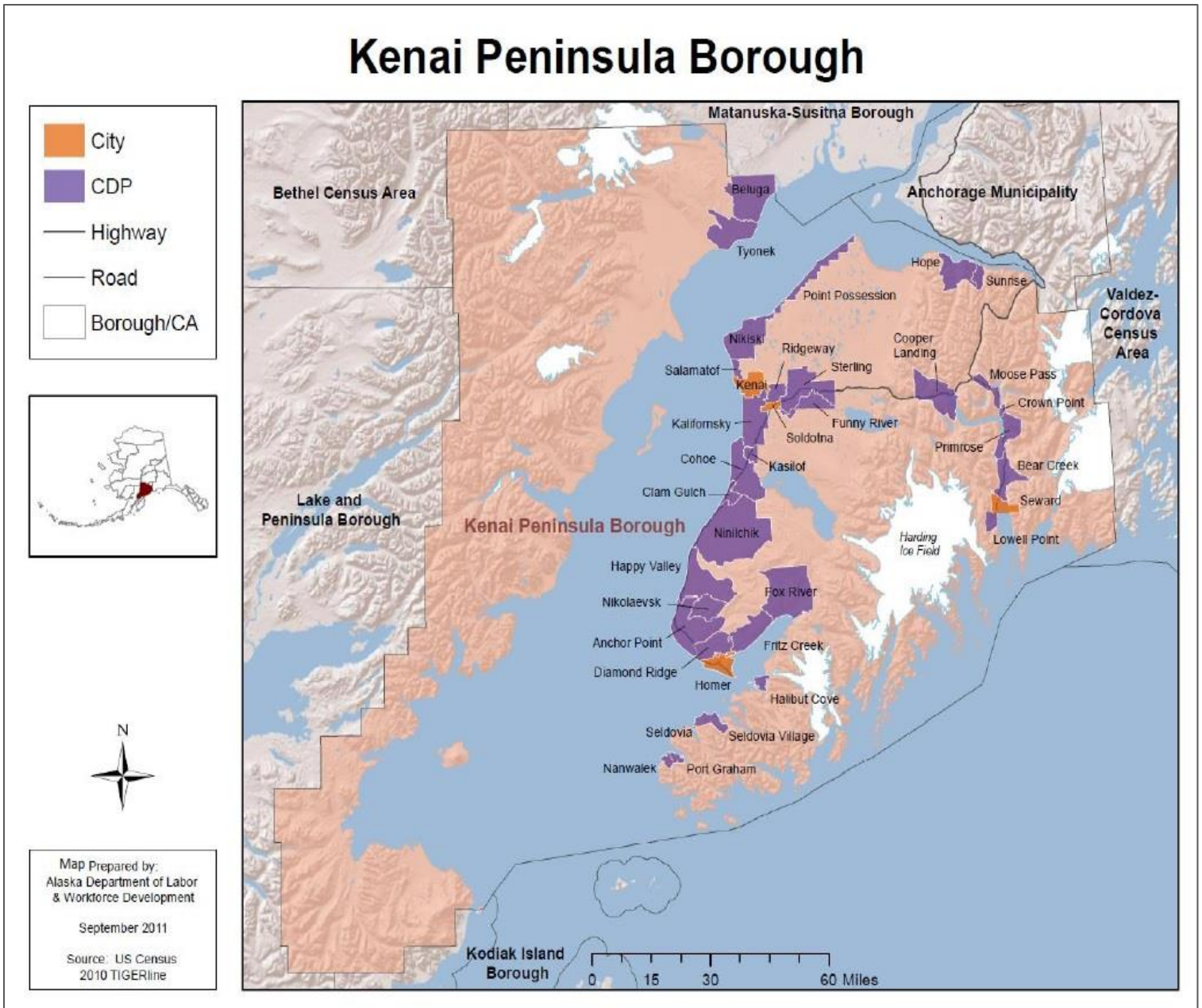


Figure 8: Map of Kenai Peninsula Borough
Source: Alaska Housing Finance Corporation

The Borough's 37 communities are connected by land, air, and ferry. The Kenai Peninsula Borough has 29 airports or landing strips (discussed further in infrastructure and transportation). The air miles from major public Kenai Peninsula Borough airports to Anchorage, the closest hub city, are as follows:



Figure 9: Air miles between Anchorage and Borough communities

Natural environment

The Borough consists of diverse climates including: glacial rivers, mountain ranges, spruce forests, and coastal fjords. Much of this diverse climate is part of national forests/parks within or adjacent to the Kenai Peninsula Borough including:

- Chugach National Forest
- Katmai National Park and Preserve
- Kenai Fjords National Park
- Kenai National Wildlife Refuge
- Lake Clark National Park and Preserve
- Kachemak Bay State Park

The Kenai Peninsula is an active zone for earthquakes, the Pacific Plate found in the Gulf of Alaska is still quite active. The January 24th, 2016 earthquake was centered in the Cook Inlet region, it was 7.1 magnitude. There are also volcanoes in the Cook Inlet area.

There are a plethora of waterways in the Borough, which support the extensive aquaculture economies. Two important water habitats are the Chickaloon River Flats, which is a major saltwater estuary, and the Kenai National Wildlife Refuge. The refuge is drained by numerous waterways including:

- Kenai River
- Anchor River
- Six Mile Creek
- Fox River
- Snow River
- Chuitna River
- Trail Creek
- Palmer Creek



- Chakachatna River
- Rocky River.¹¹

In 2013 an Anadromous Streams Ordinance was passed to prohibit development within 50 feet of waterways that are salmon-bearing. The vegetated buffer zones help filter out a variety of contaminants from reaching the waterway. The contaminants are produced by a variety of sources including storm water runoff.

Climate

Winter

The Borough has relatively mild winters with the average temperature ranging from 4° to -38° F. Winter is short by Alaskan standards lasting from December to February. The winter season has far less sunlight, the shortest day of the year, December 20, has only 5 hours and 43 minutes of sunlight. The average snowfall varies greatly based on location. The greatest average snowfall is in Hope (89.5 inches), and the smallest average snowfall is in Nikiski (33 inches), many other communities in the Borough have average snowfalls more similar to Hope.

Spring

Spring is short, lasting from March until May. This is when the snow begins to melt, and the temperature and amount of daylight are increasing. This is the time of year people use for harvesting, particularly of perennial plants such as: fiddleheads, young marsh marigolds, and Devil's club.

Fall

Beginning in September, as many of the tourists and sport fisherman have left, the level of precipitation increases (when compared to the spring months). Many seasonal businesses close up for the winter. The temperature begins to drop from an average high of 57° in September to an average high of 31° in November.

Summer

The summers are mild, with temperatures ranging from 46-70° F. Summer lasts from June through August, and is prime fishing season. The average precipitation ranges from a high of 66 inches in Seward, to a low of 18 inches in Nikiski. Summer brings much more sunlight, the longest day of the year, June 21st, has 17 hours and 4 minutes of daylight.

III. Community Development and Quality of Life

Cost of living

A strong indicator for cost-of-living is the consumer price index (CPI), which in Alaska is calculated only for Anchorage. Average prices around the state vary considerably depending on community, so while CPI indicates a general rate of inflation, it provides limited insight into local prices outside of Anchorage. In 2014 prices increased 1.6%, and in the first half of 2015, only 1.1% (see Appendix 14).

¹¹ Source: U.S. Fish & Wildlife Service



According to the July 2015 *Trends* publication from the Alaska Department of Labor, Borough prices are higher than those of Anchorage in the categories of groceries, supplies for housing construction (both local and delivered from Lower 48 states), and fuel prices. Only housing is cheaper in the Borough than in Anchorage (see Table 1), which may be additional incentive for migration to the region, both for permanent relocation and for seasonal jobs, as both rent and home prices are lower than in Anchorage.¹² However, because housing is such a large share of a typical family’s expenses, it frequently offsets higher prices in other categories for some Borough communities.

Table 1: Housing expense comparison

	Kenai Peninsula Borough	Anchorage	Mat-Su (Wasilla)	Year	Difference Kenai/ Anchorage
Weekly Grocery Cost, Family of Four, \$	199.93	179.39	174.66	2015	1.11
Two Bedroom Apartment Rent per Month, \$	923	1,331	969	2014	0.69
The Cost of Buying from Local Suppliers, Home construction, \$	29,018	23,405	27,604	2015	1.24
The Cost of Buying from Seattle, Home construction, \$	35,124	33,433	34,047	2015	1.05
Average Housing Price, \$	246,948	360,965	256,295	2014	0.68
Gasoline Price per Gallon, \$	4.13	3.90	3.97	2013	1.06
Diesel #1 Price per Gallon, \$	3.88	3.71	3.94	2014	1.05

Another way to look at cost-of-living is the cost-of-living index (COL), which differs from CPI by the fact that the former takes into account changes in purchasing patterns in the region, and therefore provides a better picture. Moreover, COL data is available for the Kenai Peninsula Borough (see Figure 10). This index compares the region with the national average based on several factors: groceries, health care, housing, utilities, transportation, and miscellaneous.

¹² Cost of Living. Retrieved from <http://laborstats.alaska.gov/col/col.pdf>. Retrieved on 10.26.2015. Alaska Energy Data Gateway. Retrieved from <https://akenergygateway.alaska.edu/community-data-summary/1411788/>. Retrieved on 10.26.2015



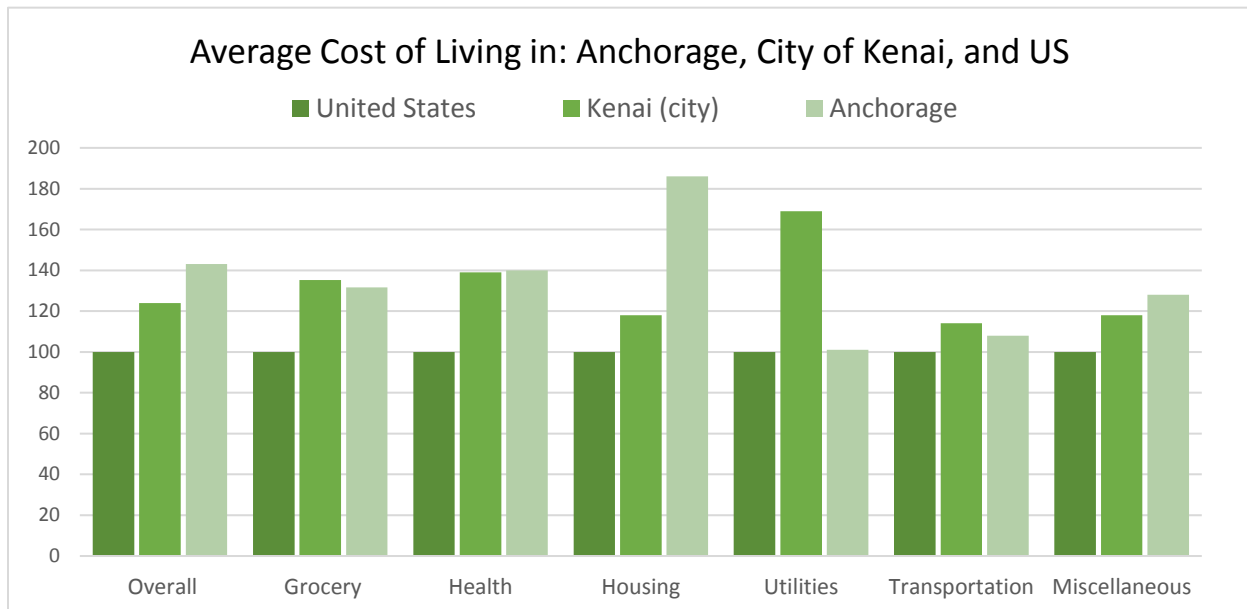


Figure 10: Average cost of living in: Anchorage, City of Kenai, and US

Source: http://www.bestplaces.net/cost_of_living/city/alaska/kenai

The Borough has high utility and grocery costs in comparison with the national and Anchorage averages. Health expenses are similar to Anchorage, and housing is significantly less expensive, which underscores the previous conclusion. As with the Mat-Su Borough, affordable housing provides a source of competitive advantage for the Borough and may be used as an inducement for young families to relocate.

Income

Income levels in the region provide another indication of quality of life when taken together with price levels. Per capita income trends in the region show that over the last 10 years there was only one year of decline: 2009, the year after the national economic and financial crises unfolded. The same year ANS oil price declined almost 38%, which may have also contributed to falling incomes on the Peninsula (see Appendix 12).

Per capita income in Alaska, and particularly in Anchorage, has also increased over the last 10 years, but the Borough growth rate was notably higher. Statewide incomes grew 3.8% on average, and 3.3% in Anchorage. In the Borough the annual rate was 4.9% (see Appendix 15). While Anchorage historically has higher incomes, the gap has shrunk considerably (in 2013 it was only \$1,665 per year). Taking into account the overall picture (see Figure 10), cost-of-living in Anchorage is 7.3% higher than in the Kenai Peninsula Borough, but income per capita in 2013 was 13% higher (per capita income in Anchorage - \$54,766 per year, in the Borough – \$48,485 per year.) The region has the 12th highest income per capita in Alaska.

Total personal income in Kenai Peninsula Borough in 2013 was \$2.6 billion. Appendix 16 represents total personal income by industry. The highest income is in three industries: transportation and warehousing (about 18% of total income), local government (16% of total income), which is divided into school district



employees' income (66%) and non-education employees' income (34%), and mining, quarrying, and oil and gas extraction (slightly more than 12% of total income).

The share of employment in the mentioned industries is presented in the second graph in Appendix 16. This graph shows that, for example the transportation and warehousing sector has the highest share of employee personal income out of total personal income in the region, and also has the highest share of employment. The local government sector accounts for 16% of personal income, and 10.5% of total employment. The difference is even higher in mining, quarrying, and the oil and gas sector, 12.4% of income and 5.1% of jobs. Essentially each of these sectors produce jobs that pay well above average. The situation in retail trade and healthcare is opposite – these industries' employment have a much higher share than the total income, in other words, these industries have more employees who work for less income.

Household income in the Kenai Peninsula Borough is lower than the statewide average but higher than at a national level (see Appendix 17). About 19.9% of households have average income ranging from \$50,000 to \$74,999 per year, 4.4% live on less than \$10,000 per year, and about 3.7% on more than \$200,000.

Housing Availability

As stated in the “Cost of Living” section, housing in the Kenai Peninsula Borough is more affordable than in Anchorage. Average sales price varies depending on the type of housing, but on average prices in Anchorage are 28% higher than on the Peninsula. According to Alaska Housing Finance Corporation, the average home loan amount in the Kenai Peninsula Borough in 2015 was \$214,885. As the cost of building supplies for home construction on the Peninsula are higher than in Anchorage, housing prices may be lower because of other factors like cost of land and labor force. For example, average monthly wage in the Building Construction sector in the Borough is \$4,280, while in Anchorage it is \$6,679.¹³

Table 2: Average housing sale price for Kenai and Anchorage

	Number of Loans	Change over Previous Year	Average Loan, \$	Average Sales Price Kenai, \$	Average Sales Price Anchorage, \$	Share Financed by Loan (Kenai)
Single-Family	147	7.5%	226,205	260,510	361,983	86.8%
Condominium	3	-40%	153,300	176,000	210,238	87.1%
Multi-Family	2	-60%	265,150	467,500	582,596	56.7%

Source: Alaska Housing Market Indicators, Q1 2015. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/alaska-housing-market-indicators/>. Retrieved on 10.21.2015.

The number of houses constructed varies by year and by community. On average 45.3% of the houses are built in Homer, 26.8% in Kenai and about 23% in Soldotna, among the communities reporting data to the Alaska Housing Finance Corporation Housing Market Indicators survey, which includes only a selection of Borough communities. There is a strong correlation between the number of houses built and the average price the same year (see Figure 11). Housing demand appears strong although building activity can vary from year to year. Most construction is funded by private developers rather than publicly-funded housing authorities, as in rural Alaska.

¹³ Preliminary Annual Employment and Wages. Retrieved from <http://labor.alaska.gov/research/qcew/ee14.pdf>. Retrieved on 10.21.2015.



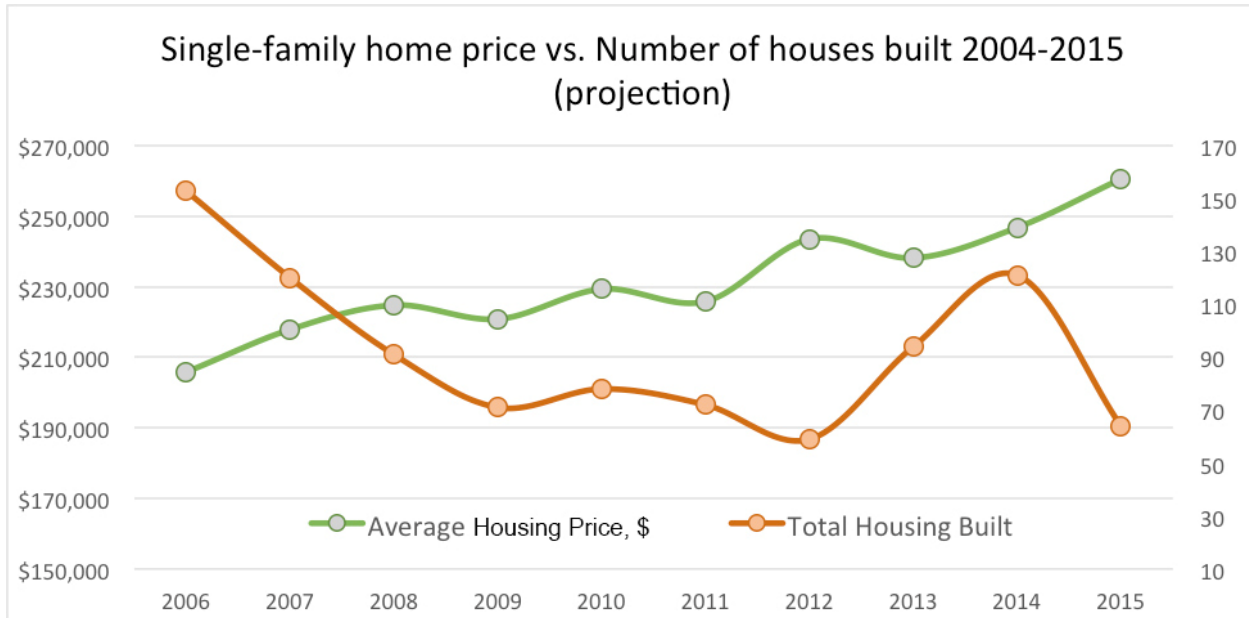


Figure 11: Single-family home price vs. Number of houses built, 2004-2015 (projection)

Source: Alaska Housing Market Indicators. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/alaska-housing-market-indicators/>. Retrieved on 10.21.2015.

Note: 2015 – Houses built is based on regression analysis projection.

In the last 10 years there were several spikes in home prices, including 2008, 2010, 2012 and 2015. On average housing cost inflation per year was about 3.5%, while average inflation on consumer goods during the same period was about 2.5%. This means the home prices in the Borough increased 1.4 times faster than general prices.

As for affordability, on average about 29% of households in the Kenai Peninsula Borough spend more than 30% of total income on housing costs, including rent, utilities, and energy costs, meeting the definition of “cost burdened.”¹⁴ In the Matanuska-Susitna Borough about 34% of households are cost-burdened, while at the state level the figure is 31%.¹⁵ Only a small percentage of homes are 1-star energy rated in the Peninsula region, the least efficient category of housing (see Table 3). Approximately 3% of housing units on the Kenai Peninsula are available for sale or rent with the lowest percentage being found in Clam Gulch (only 1%) and the highest, at 8%, in Seldovia.¹⁶

¹⁴ 2014 Alaska Housing Assessment. Kenai-Peninsula Borough. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/housing-assessment/>. Retrieved on 10.21.2015.

¹⁵ 2014 Alaska Housing Assessment. Matanuska-Susitna Borough and statewide report. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/housing-assessment/>. Retrieved on 10.26.2015.

¹⁶ 2014 Alaska Housing Assessment. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/housing-assessment/>. Retrieved on 10.21.2015.



Table 3: Housing cost burden, rate of overcrowding, and energy rating

	% of Cost-Burdened Households	% of Overcrowded Housing Units	% of 1-Star Housing Units
Homer	36.1%*	5.0%	5.4%***
City of Kenai	30.7%**	3.7%	4.2%
Seldovia	23.2%		5.8%
Seward	33.4%	6.4%	9.4%
Soldotna	42.1%	1.2%	3.1%
Anchorage Municipality	35.0%	4.2%	3.8%
Matanuska-Susitna Borough	34%	6%	5%

Source: 2014 Alaska Housing Assessment. Retrieved from <https://www.ahfc.us/efficiency/research-information-center/housing-assessment/>. Retrieved on 10.21.2015.

*Red – High

**Black – Moderate

***Green – Low

IV. Infrastructure and Transportation Development:

Transportation

Roads

Unlike most of Alaska’s landmass, large portions of the Borough are connected to the North American Highway System through Anchorage. The Seward and Sterling Highways are the primary arteries on the Kenai Peninsula and provide much of the region ground access to the rest of Alaska, Canada, and the Lower 48. The Kenai Spur Highway connects the large population centers of the Central Peninsula – Kenai, Nikiski, Ridgeway, and Salamatof – to the Sterling Highway. At opposite ends of the Peninsula, the Seward and Sterling Highways connect Seward to Homer and enable the development of numerous communities like Moose Pass, Cooper Landing, and Anchor Point, which lie between. The diversified economy of the region owes much to this relatively well-developed highway infrastructure, enabling the flow of people (including tourists), consumer goods, and construction materials at lower cost than regions dependent entirely on air transportation.

A number of communities and villages in the Southern Peninsula do not connect to the road system, including Seldovia, Nanwalek, and Port Graham. These communities are accessible by boat or air. On the western side of the Borough, the village of Tyonek is also only accessible by boat or air. Disconnectedness from ground transportation creates challenges such as: difficulty receiving timely medical care, increased cost of living, and fewer employment opportunities than the rest of the Borough.¹⁷

The Kenai Peninsula Borough Road Service Area includes more than 630 miles of roads. The area is divided into five regions: Central, West, North, East, and South, and each region is divided into units. There are 28 units overall (see Figure 12).¹⁸

¹⁷ <http://www.cityofseward.us/DocumentCenter/View/396>

¹⁸ Road Service Area. Retrieved from <http://www.kpb.us/rds-service-area/about-rds>. Retrieved on 11.09.2015.



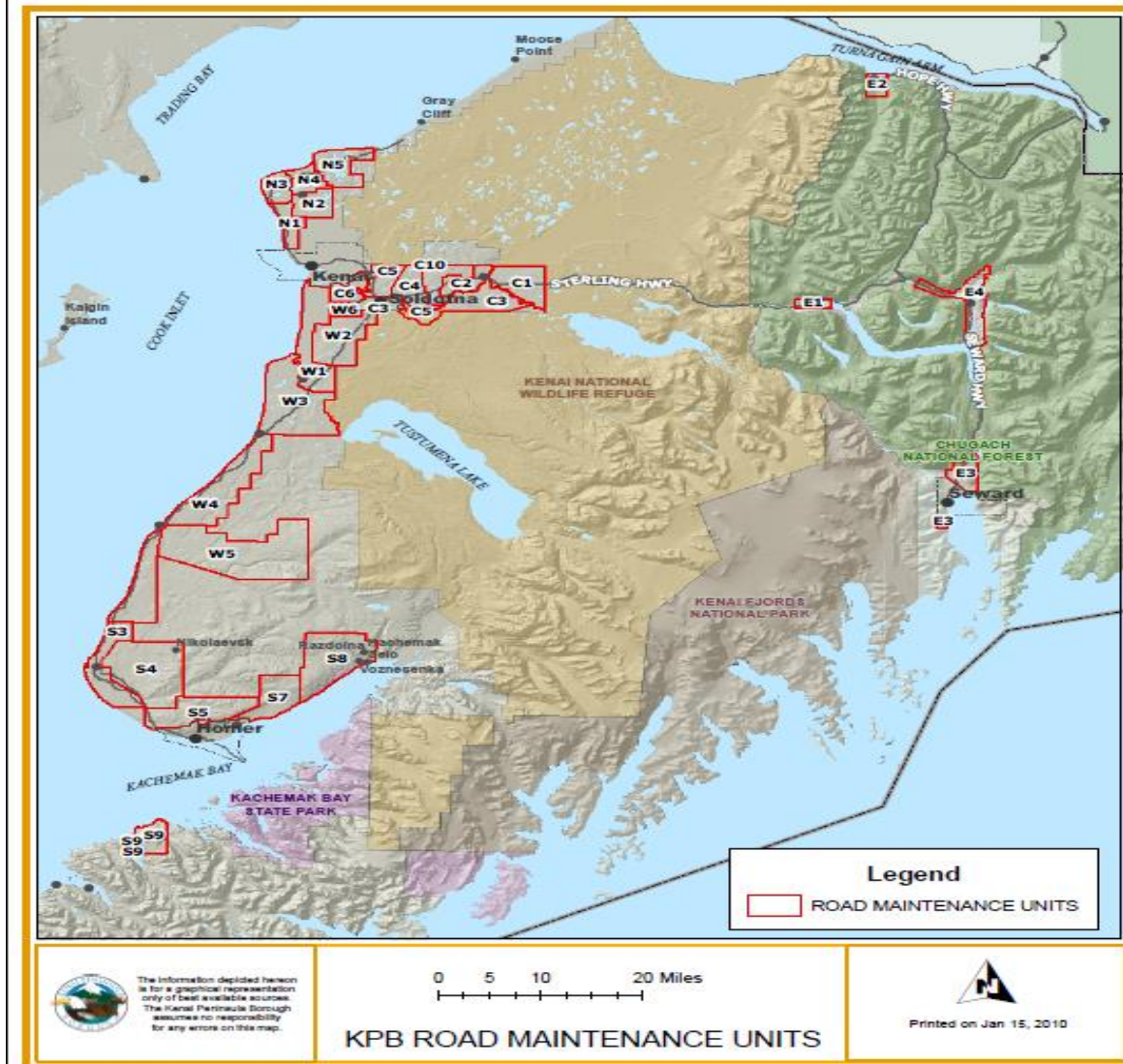


Figure 12: Kenai Peninsula Borough Road Service Area Boundaries

Source: Retrieved from <http://www.kpb.us/images/KPB/RDS/KPBRoadUnits.pdf> on 3.3.2016.

Roads also connect commuters to places of employment. About 8.4% of workers commute to the Peninsula from other areas, both in Alaska (7.9%) and from other states (0.5%), though it is not known what share commute via air transportation.¹⁹ About 12.5% of commuters work in Agriculture, forestry, fishing and hunting, and mining sector, 11.6% – in Retail trade and 22.8% – in Educational services, and health care and social assistance.²⁰ According to a U.S. Census Bureau report, most workers within the region drive a car to work – 79%.

¹⁹ Based on U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates.

²⁰ Based on U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates.

Air Access

There are both public and private airports in the Kenai Peninsula Borough, ranging from those that receive daily commercial service, such as Homer and Kenai to remote gravel airstrips.²¹ Public airports include major hubs and airfields used for large carriers, jet liners, and international flights, as well as smaller public charter flights and personal aircraft. Private airports may require special permission, a private membership, or use of private charter flights. Most airports are private as there is a need to access many small, remote communities. “Flightseeing” tours are very popular among tourists, especially in Homer, Soldotna, and Kenai.

Table 4: Public and Private Airports in KPB

Airport	Location	Ownership
Anchor River Airpark Airport	Anchor Point	Private
Hackney Landing Seaplane Base	Clam Gulch	Private
Bear Cove Farm Airport	Homer	Private
Bradley Lake Hydroelectric Project Airstrip Airport	Homer	Private
Homer Airport	Homer	Public
Kasilof Airport	Kasilof	Public
Carty’s Airstrip Airport	Kenai	Private
Doyle Estates Airport	Kenai	Private
Henley Airport	Kenai	Private
Island Lake Seaplane Base	Kenai	Public
Kenai Municipal Airport	Kenai	Public
Drift River Airport	Kenai	Public
McGahan Industrial Airpark	Nikiski	Private
Offshore Systems-Kenai Heliport	Nikiski	Private
Bangerter Field Airport	Soldotna	Private
Soldotna Airport	Soldotna	Public
Mackeys Lakes Seaplane Base	Soldotna	Public
Alaska Airpark Airport	Sterling	Private
Sterling Air Park Airport	Sterling	Private
Dutch Landing Strip Airport	Sterling	Private
Lakewood Airstrip Airport	Sterling	Private
Scooters Landing Strip Airport	Sterling	Private
Sterling Air Park Airport	Sterling	Private
Seward Airport	Seward	Public
Nanwalek Airport (was English Bay Airport)	Nanwalek (English Bay)	-
Dog Fish Bay Airport	Nanwalek	Private
Port Graham Airport	Port Graham	-
Seldovia Airport	Seldovia	Public
Seldovia Seaplane Base	Seldovia	Public
Tyonek Airport	Tyonek	Private

²¹ Kenai Peninsula County Public and Private Airports. Retrieved from <http://www.tollfreeairline.com/alaska/kenaipeninsula.htm>. Retrieved on 11.09.2015.



Source: <http://www.tollfreeairline.com/alaska/kenaipeninsula.htm>,
http://www.gutenberg.us/articles/List_of_airports_in_the_Kenai_Peninsula_Borough.

Kenai Municipal Airport is the largest of nine airports in the region and serves as the primary collection and distribution center for scheduled passenger, cargo, and mail service. Regular commuter flights out of Kenai Municipal link the Central Peninsula to Anchorage, 60 air miles away.

Railroad

The Alaska Railroad Corporation operates two trains between Seward and Anchorage. The Grandview Cruise Train is only available to cruise ship passengers beginning or ending a cruise in Seward. The Coastal Classic is open to the public and makes a daily round-trip from Anchorage to Seward with a stop in Girdwood. Seward is the only community in the Borough with rail access, and the train moves freight (including coal from the Interior for export) in addition to passengers.

Alaska Marine Highway System

The Alaska Marine Highway System serves Homer and Seldovia on the Kenai Peninsula. In 2006, Homer's ferry passengers increased, as AMHS ferry service to and from Seward was discontinued. The ferry currently goes to Homer and Seldovia as part of the Southcentral Alaska route. Not unlike traditional highway access, ferry service is a vital link between coastal communities and allows vehicles as well as passengers to access places like Seldovia, which are not on the road system.²²

Energy

In 2014, the estimated average annual energy cost for houses in the Kenai Peninsula Borough was about \$4,510, approximately 1.6 times more than the cost in Anchorage and 2.1 times the national average. About 18% of the occupied housing in the Kenai Peninsula Borough has completed either the Home Energy Rebate, Weatherization, or Building Energy Efficiency Standards (BEES) program since 2008, compared to 21% statewide. These programs subsidize residential upgrades to housing to increase efficiency.²³

As for the cost burden, on average, approximately 29% of households in the Kenai Peninsula Borough spend more than 30% of total income on housing costs, which includes rent, utilities, and energy costs. Annual energy costs constitute approximately 8% of the Census median area income for occupied housing, Matanuska-Susitna Borough residents spend 5.2%.²⁴ Based on the "2014 Alaska Housing Assessment," the highest annual energy cost is in Seldovia (about \$7,303) and the lowest is in the City of Kenai (\$3,000). It should be noted that natural gas distribution has continued to expand since these data were compiled, reducing costs by displacing more expensive heating oil.

²² Communities. Retrieved from <http://www.dot.state.ak.us/amhs/communities.shtml>. Retrieved on 11.09.2015.

²³ 2014 Alaska Housing Assessment: Kenai Peninsula Borough, 2014.

²⁴ Ibid.



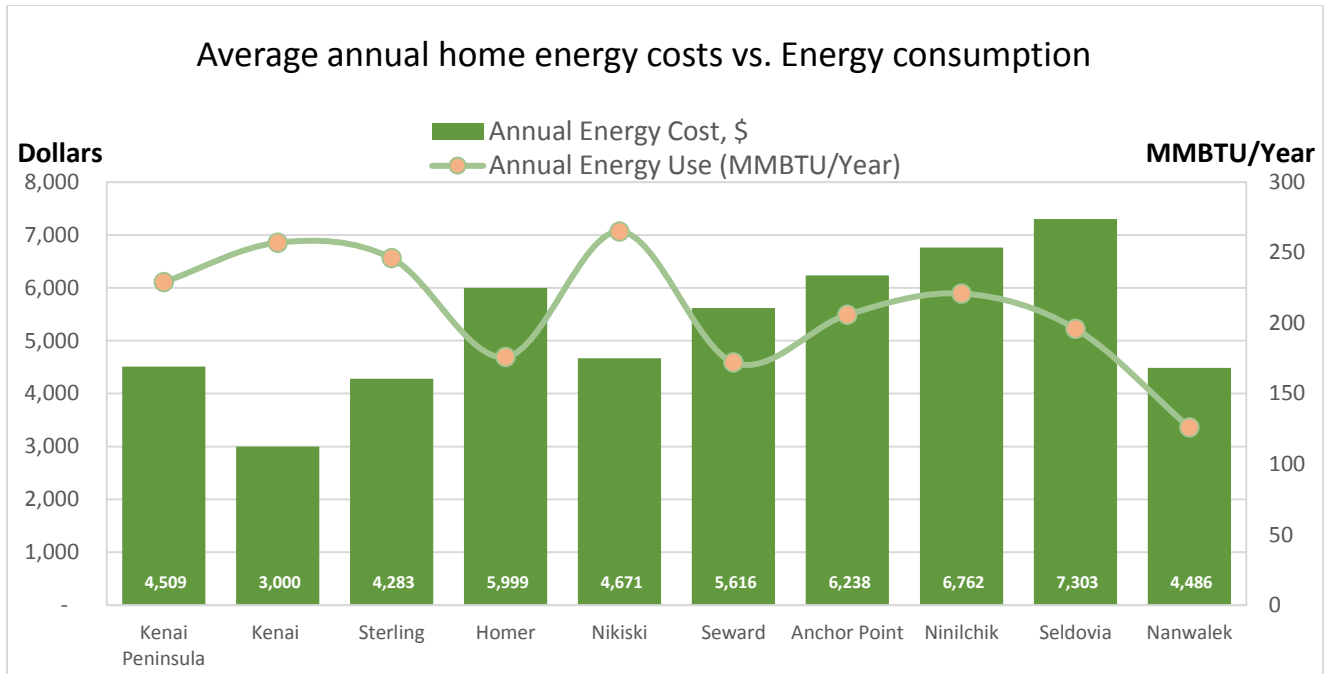


Figure 13: Average annual home energy costs vs. Energy consumption

Source: 2014 Alaska Housing Assessment: Kenai Peninsula Borough, 2014

The graph above shows that the highest energy consumption is in Nikiski – about 265 MMBTU per year. The lowest is in Nanwalek at 126 MMBTU per year. Overall, on the Peninsula, the most often used heating fuel is gas (43.6%) followed by fuel oil, kerosene, etc. (38.2%) wood (7.4%) bottled, tank, or LP gas (6.3%), and electricity (3.4%).²⁵ Table 5 contains information on prices for different types of energy in the Kenai Peninsula Borough.

Table 5: Energy cost comparison for: Anchorage, KPB, and Mat-Su

	Electricity (\$/ kWh)	Heating Oil (\$/gal)	Gasoline (\$/gal)	Propane (\$/gal)
Anchorage	0.15	\$3.98	\$3.85	\$3.73
Mat-Su	0.15	\$4.54	\$3.85	-
Homer	0.24	\$4.66	\$4.28	\$4.12
Kenai (city)	0.24	\$4.77	\$4.41	\$4.15
Seward	0.22	\$4.80	\$4.34	\$3.38
Seldovia		\$5.12	\$5.13	-

Source: 2015 Kenai Peninsula Situations and Prospects

Based on the data provided in the table, the highest electricity price is in Homer and Kenai (city), and the lowest in the region is in Seward. Overall, electricity on the Peninsula is more expensive than in Anchorage or the Mat-Su Valley. The same is true of heating oil, gasoline, and propane prices.

²⁵ City-Data: Kenai Peninsula Borough. Retrieved from [http://www.city-data.com/county/Kenai Peninsula Borough-AK.html](http://www.city-data.com/county/Kenai_Peninsula_Borough-AK.html). Retrieved on 11.09.2015.



Most of the communities in the Kenai Peninsula Borough are not eligible for the power-cost equalization program, an energy subsidization program run by the state. In fact, there are three main companies providing electric power to the region (see Figure 14):

- **Homer Electric Association** serves most communities on the west side of the Kenai Peninsula, from Kenai and Soldotna to the non-highway communities on the south side of Kachemak Bay. It buys most electricity from Chugach Electric and operates the Bradley Lake Hydroelectric Facility for the Alaska Energy Authority. It is cooperatively owned by the ratepayers.
- **Seward Electric System** is the smallest Railbelt utility, providing electricity only to Seward, on the east side of the Kenai Peninsula. It buys most power from Chugach Electric and is owned by the City of Seward.
- **Chugach Electric Association** is the largest utility in the state, directly providing electricity to most of Anchorage and other communities in Southcentral Alaska. In the Borough, it sells power to communities on the northern and eastern sides of the Peninsula, as well as Tyonek. It owns the Cooper Lake Hydroelectric Facility near Cooper Landing.²⁶ Like the Homer Electric Association, it is a member-owned cooperative.

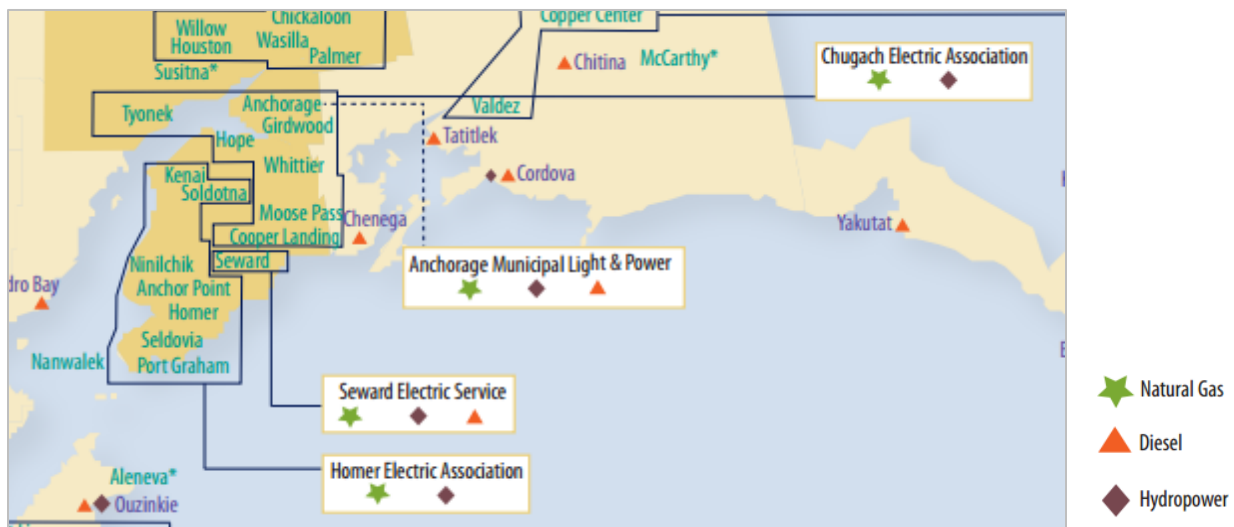


Figure 14: Power Provider in KPB

Source: http://www.iser.uaa.alaska.edu/Publications/2012_07-RS-EnergizingAlaska.pdf.

Most of the Borough is connected to the state electrical intertie, which links most of the state’s highway-accessible (Railbelt) communities, providing relatively low cost power compared to rural Alaska. Alaska’s Railbelt region includes about 75% of all Alaskans. These communities rely on natural gas from Cook Inlet to generate more than 90% of electricity. All Railbelt utilities share hydropower from the state-owned Bradley Lake Dam on the Kenai Peninsula, and additional sources of hydropower.²⁷

²⁶ How electricity is generated in Alaska. Retrieved from http://www.iser.uaa.alaska.edu/Publications/2012_07-RS-EnergizingAlaska.pdf. Retrieved on 11.05.2015.

²⁷ http://www.iser.uaa.alaska.edu/Publications/2012_07-RS-EnergizingAlaska.pdf



Communications

General Communication Inc. (GCI) and Alaska Communications (AC) are the two main providers of internet, telephone, and cellular services. The former is also a leading provider of cable TV services. Information on broadband access and cable TV service prices is provided below (see Table 6).

Table 6: TV and Internet Rates

	Kenai	Soldotna	Homer
GCI Internet	\$59.99-\$174.99 per month	\$59.99-\$174.99 per month	\$59.99-\$134.99 per month
GCI TV	\$29.99-\$44.99	\$29.99-\$44.99	\$29.99-\$44.99
AC Internet	About \$79.99 per month	About \$79.99 per month	About \$79.99 per month

Source: GCI and Alaska Communications website.

Internet price depends on the speed of connection and the volume of information for download for every specific plan in Kenai, Soldotna and Homer. TV service price depends primarily on number of channels.

V. Business Development: Industry Sector Analysis.

Utilizing Location Quotient Analysis

Location quotients (LQ's) are ratios that compare the concentration of employment by sector in a defined region to that of a larger area.²⁸ In this case, location quotients are used to compare Kenai Peninsula Borough employment by industry to those of the state as a whole. LQ's are an indicator of economic specialization for regions—as an example, parts of the industrial Midwest have high LQ's in manufacturing, meaning they have a higher concentration of manufacturing employment than the nation a whole. An LQ of 1.0 means employment in that sector is average for the state. Greater than 1.0 means higher than average, and less than 1.0 indicates below average concentration.²⁹ Industries were broken into quadrants based on location quotient and growth rates, which can be seen in Table 7.

²⁸ Location Quotient Calculator. Retrieved from <http://www.bls.gov/cew/cewlq.htm>. Retrieved on 10.22.2015.

²⁹ Traditionally Quarterly Census of Employment and Wages (QCEW) data is used to calculate location quotients, but as on Peninsula there is a significant number of self-employed commercial fishermen and employment in this area is not counted in QCEW. US Census Nonemployer Statistics contains information on earnings and counts self-employed individuals and sole proprietors that is why it was also taken into account.



Table 7: Summary of industry analysis

Star industries	Mature industries	Watch-list industries	Challenge industries	Opportunity industries
Health care	Agriculture, forestry, fishing and hunting	Construction	Administrative and waste services	Educational services
	Utilities			Transportation and warehousing
Real estate	Mining, oil and gas	Manufacturing	Wholesale trade	Professional and technical services
Real estate and rental leasing	Accommodation and food service			Financial services and insurance
				Information
				Management of companies and enterprises

Note: Industries are listed from highest LQ to lowest LQ, and positive growth rates are shown with black and negative growth rates are shown in red, within each quadrant.

Star industries (high concentration, positive growth): Industries in this segment are more concentrated in the Borough than at the state level (LQ>1). Star industries act as economic drivers for the region. All the listed industries had a positive employment growth rate from 2004 to 2013, so their role in the regional economy is likely to grow. Local decision makers should pay close attention to industries with LQ>1, as negative trends in these industries could mean significant job losses. Industries in this sector include:

- Health care
- Real estate and rental and leasing
- Real Estate

Mature industries (high concentration, negative growth): Industries in this segment are more concentrated in the Borough than at the state level (LQ>1), and are usually export-oriented (meaning the bulk of sales come from outside the region though not necessarily outside the country). These industries are drivers of the local economy, but the same time they show a negative employment growth rate from 2004 to 2013, meaning that they are becoming less concentrated. A highly concentrated industry (LQ >1), having a negative growth rate could indicate risk for the regional economy. Oil and gas, in particular, has shown strong growth in the past but is currently retrenching. Industries in this sector include:

- Accommodation and food services (included in tourism industry analysis)
- Agriculture, forestry, fishing and hunting
- Mining, oil and gas
- Utilities

Watch-list industries (high concentration, negative growth): There are industries with declining employment, which should be closely watched by decision-makers, as there could be potential challenges in the immediate future. Industries in this sector include:

- Manufacturing (including refining and fish processing)



- Construction

Challenge industries (low concentration, negative growth): Industries in this segment are less concentrated in the Borough than at the state level, ($LQ < 1$), and are declining as a share of employment. Wholesale trade is a relatively small industry (only 1.2% of the total employment in 2013), and it has a negative growth rate (-32% in 2013 compared with 2012) and declining concentration, which indicates potential problems. Industries in this sector include:

- Wholesale trade
- Administrative and waste services

Opportunity industries (low concentration, positive growth): Industries in this segment are less concentrated in the Borough than at the state level ($LQ < 1$). As growth rate in this sector is positive, industries are growing faster than at the state level, but are not yet as concentrated. In other words, these industries may have opportunities for job growth. These industries are still small, but fast-growing. Industries in this sector include:

- Information
- Professional and technical services
- Financial services and insurance
- Transportation and warehousing
- Educational services
- Management of companies and enterprises

A location quotient map was developed based on Borough employment data. Industries can be classified on five main categories based on their location on the map. Figure 15 represents LQ analysis for Kenai Peninsula Borough industries.



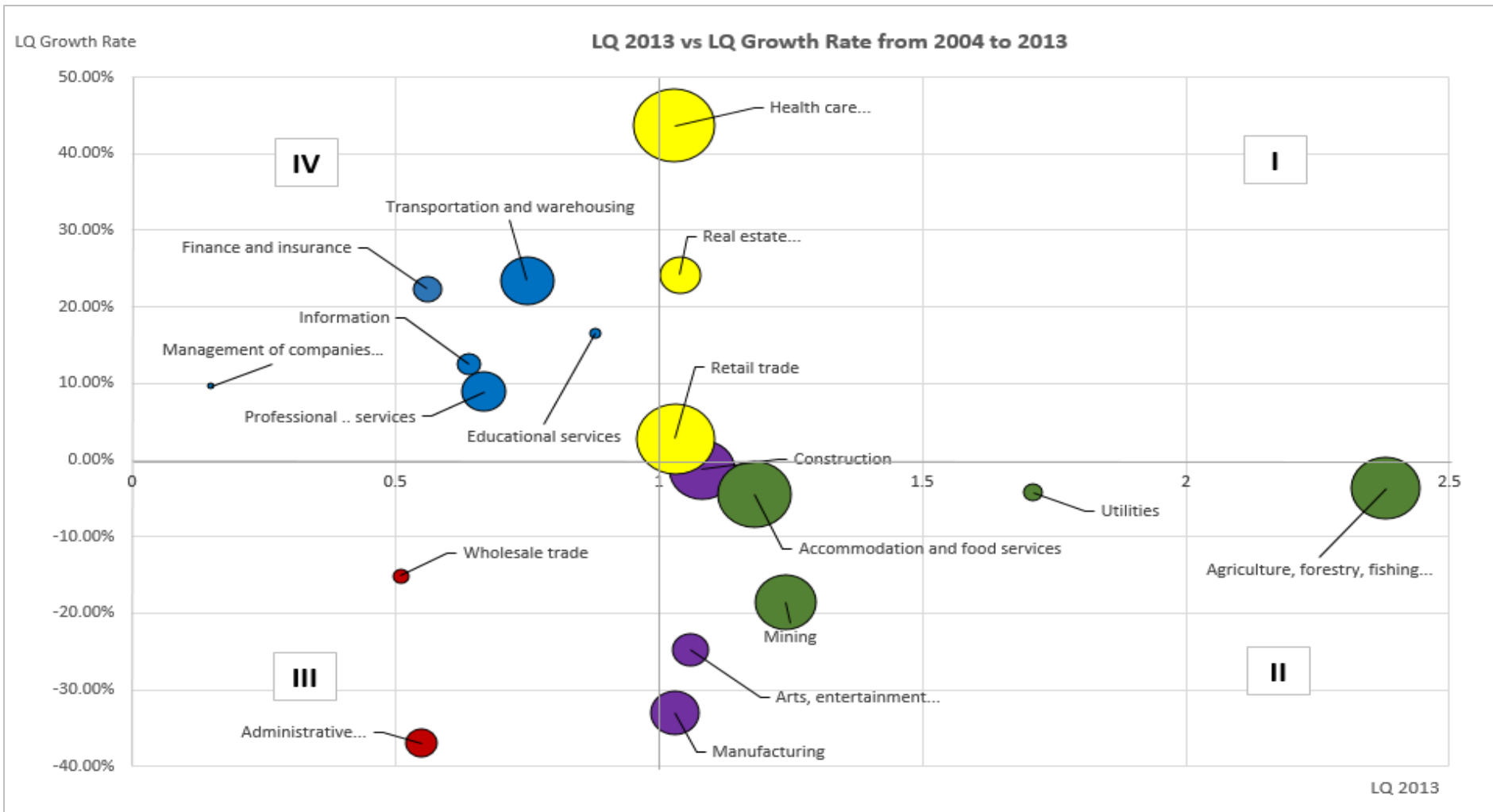


Figure 15: Location Quotient in 2013 vs. Location Quotient Growth Rate

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Note: Yellow – star industries, green – mature industries, red – challenge industries, blue – opportunity industries, purple – industries on a watch-list.



Star Industries – Local Economic Drivers

Healthcare and Social Assistance

This sector has three major employers: Central Peninsula Hospital (CPH), South Peninsula Hospital (SPH) and Dena’ina Wellness Center (DWC.) CPH is the largest with a roughly 49-bed hospital and 60-bed house with a long-term skilled nursing center, six family and specialty physician services clinics, and a new specialty medical office building that is scheduled to open in 2016.³⁰ SPH is located in Homer and includes an emergency room, 18-bed acute care, and other health and wellness services. DWC offers medical care for Alaska Native and American Indian beneficiaries in the region. The Dena’ina Wellness Center offers medical, dental, behavioral health, chemical dependency, wellness, physical therapy, pharmacy support and traditional healing services.³¹

Healthcare is a large employer in the region, accounting for 16% of total employment. It plays an important role in the region. There are three sectors, each roughly equal in terms of employment:

- Hospitals, nursing, and residential care facilities - 35% of the industry, 1,209 jobs in 2013
- Social assistance - 27% of the industry, 936 jobs in 2013
- Ambulatory health care services - 39% of the industry, 1,346 jobs in 2013

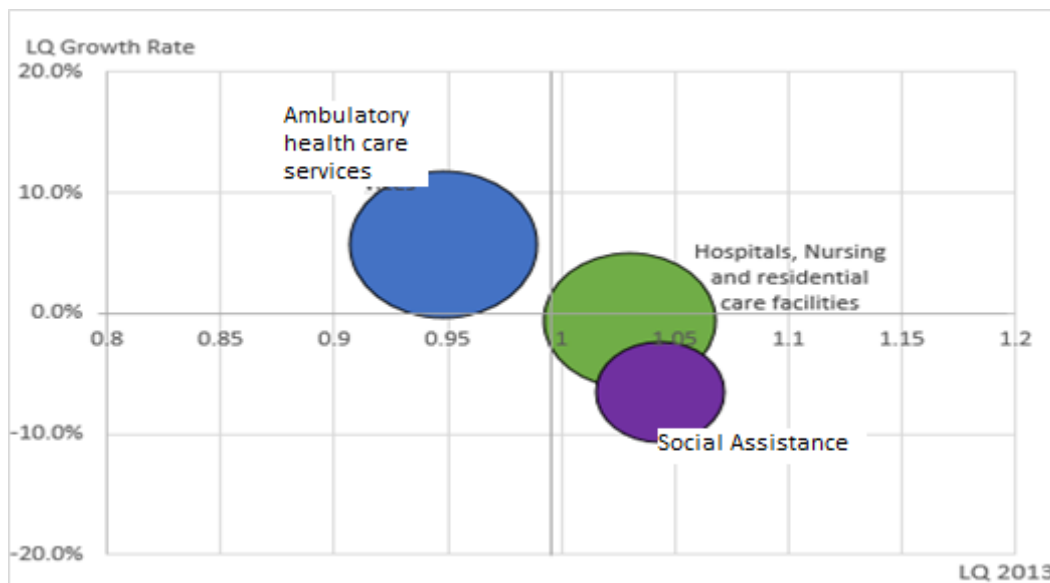


Figure 16: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in health care and social assistance

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics.

The Hospitals, Nursing and Residential Care facilities sector has an employment concentration greater than the state ($LQ > 1$). This sector had a slowing growth rate in 2013, but with a new wellness center that opened in 2014 in Kenai, faster growth should materialize. Three potential future sources of growth for the healthcare industry are: Medicaid expansion (healthcare reform), aging population healthcare, and

³⁰ 2015 Kenai Peninsula Situations and Prospects. April 2015. – P. 39.

³¹ Dena’ina Wellness Center. Retrieved from <http://www.kenaitze.org/index.php/dwc-menu/>. Retrieved on 10.30.2015.



services for LNG project employees. These changes would bring additional demand for services in all three sectors mentioned above and increase healthcare employment in the region.

Real Estate and Retail Trade:

Two other star industries are real estate and retail trade. About 16.7% of total employment, 3,646 jobs, are in these industries. Most sectors in the retail trade industry have less than 300 employees, which is less than 1.5% of total employment. For the current analysis we will focus on sectors with more than 500 employees including:

- Food and beverage stores - 19.5% of the industry, 709 jobs in 2013
- General merchandise stores – 15.4% of the industry, 561 jobs in 2013

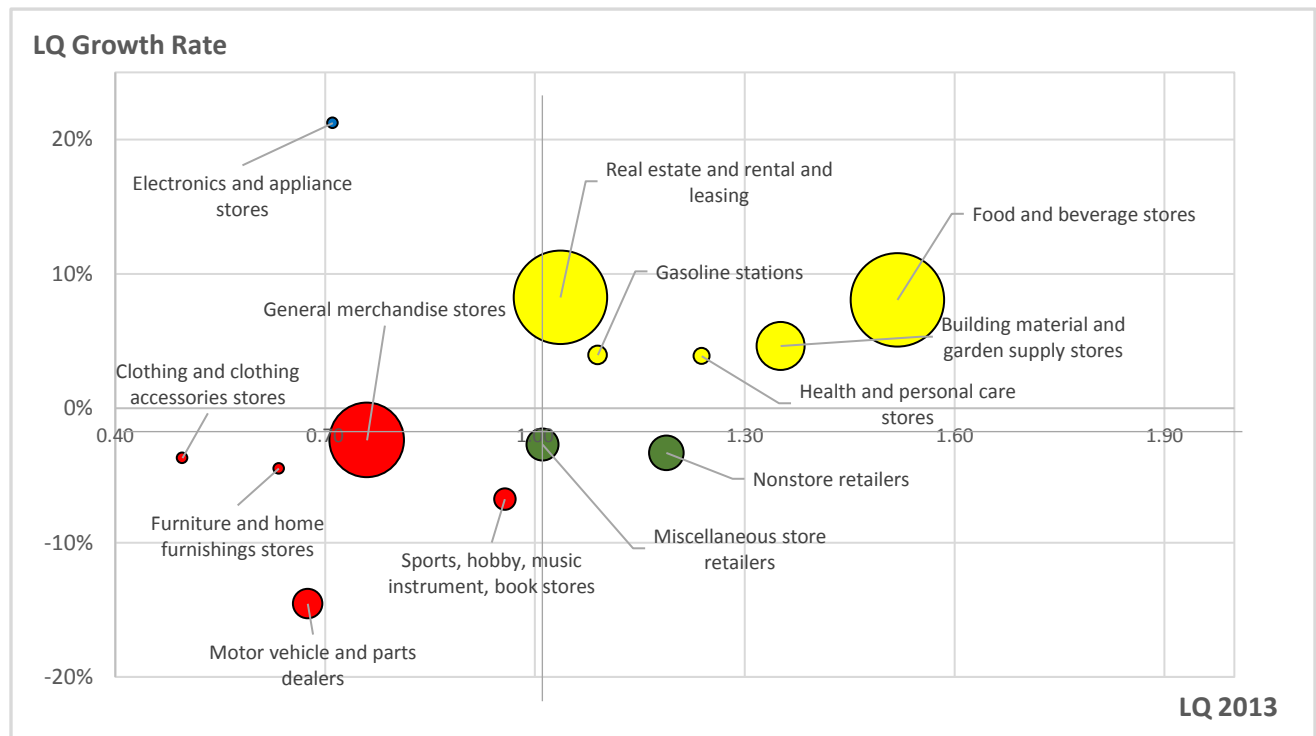


Figure 17: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Real Estate and Retail Trade

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics.

Real estate and rental and leasing has an employment concentration that is similar to the state. This sector had positive growth, about 9%, from 2012-2013, which could be due to the increase in the number of houses being built. This sector includes: car rental, recreational vehicle rental, recreational goods rental, real estate and property management.

The food and beverage stores category has an employment concentration greater than the state (LQ>1). This sector had positive growth, about 10% from 2012-2013. General merchandise stores has an employment concentration less than the state (LQ<1). It had almost zero growth from 2012-2013.



Government Sector

Government employment plays an important role in the Kenai Peninsula Borough. Based on Quarterly Employment Census data, about 26% of total employment comes from the public sector, which is about 5,012 jobs in federal, state, and local government (see Appendix 18).

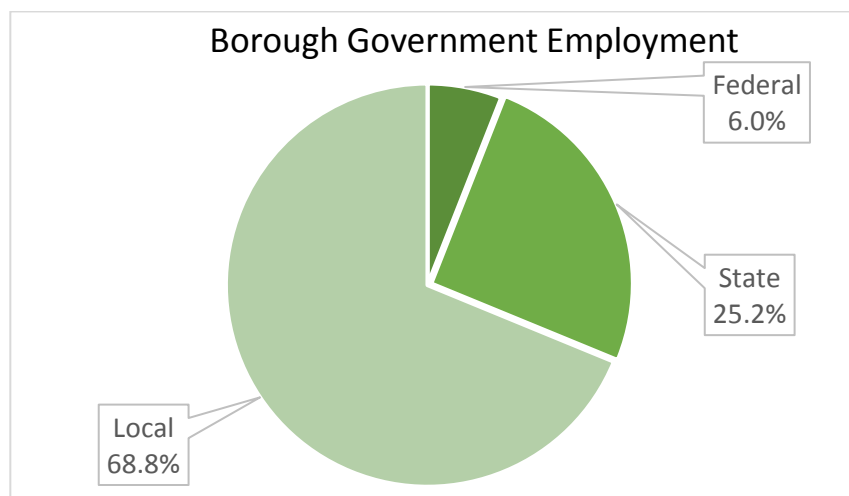


Figure 18: Kenai Government Employment for the First quarter of 2015

Source: Based on <http://labor.alaska.gov/research/qcew/ee14.pdf>

Within the public sector jobs in Kenai Peninsula Borough, about 68% are in local government (see Figure 18). This share did not change significantly over the last five years, and the share of federal and state employment in the Borough also held steady. Members of the military make up the majority of the federal employment. The vast majority of local government employment is in education services – about 65% in 2013 based on IMPLAN analysis.

Table 8: Local government employment

	2011	2012	2013	2014	2015
Federal	0.41	0.41	0.39	0.38	0.34
State	0.86	0.83	0.80	0.79	0.79
Local	1.35	1.35	1.37	1.38	1.36

Source: Based on Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Location quotient analysis for the government sector shows that local government on the Kenai Peninsula is more concentrated than at the state level, ($LQ > 1$). In 2015, this concentration slightly decreased. The State government LQ (for the Borough) is close to 1, indicating employment concentration similar to the state level. Federal government is less represented on the Kenai Peninsula than Alaska overall, ($LQ < 1$). This is apparent in the fact that on the Peninsula there are not large federal military bases.



Mature industries

Tourism

In 2013, tourism brought in \$88M in sales, a number expected to increase with economic growth in the Lower 48, which drives visitation. According to sales tax data, the largest share of visitor-related sales occur in Seward, about 20% (\$51.7 million in 2013), followed by Homer and Soldotna with 17% and 14% respectively. Seward and Homer provide visitors with a highway-accessible scenic coastal experience, while Soldotna sits on the world-renowned Kenai River and hosts much of the Borough's retail.

Tourism most closely follows national economic cycles. Since the industry relies heavily on Lower 48 visitors, any downturn in the economy causes fewer people to visit Alaska, and those that come spend less while in-state. Information on visitor spending spans 2008 to 2013 (see Appendix 10), and shows that a 13% decline occurred between 2008 and 2009. This led to tourism employment dropping 8.6% (see Figure 19). The largest declines were in the water guiding, and hotel/motel/bed & breakfast sectors – 24% and 16% respectively (see Appendix 10). By 2012 tourism employment had recovered to the pre-downturn level.



Figure 19: Tourism Employment in the KPB and Real GDP, 2002-2013

Source: Quarterly Census Employment and Wages, Bureau of Economic Analysis

In 2013 tourism-related sectors accounted for almost 16% of the total employment in the Kenai Peninsula Borough, making it the second largest employment industry after healthcare and one of the primary economic drivers in the region. Tourism is a seasonal industry in the region, which causes significant fluctuations in employment numbers season-to-season, the average monthly employment of 2,648 includes a summer high of over 3,700 employees.³² In 2014 there was an increase in the number of visitors coming to the KPB, compared to previous years. This contributed to a modest (1.3%) increase in

³² 2015 Kenai Peninsula Situations and Prospects. April 2015. – P. 66.



employment. While there is no one Census category that encapsulates tourism’s many categories, there are two sectors that serve as proxies:

- Accommodation and food services – 2,568 jobs in 2013
- Arts, entertainment, and recreation – 608 jobs in 2013

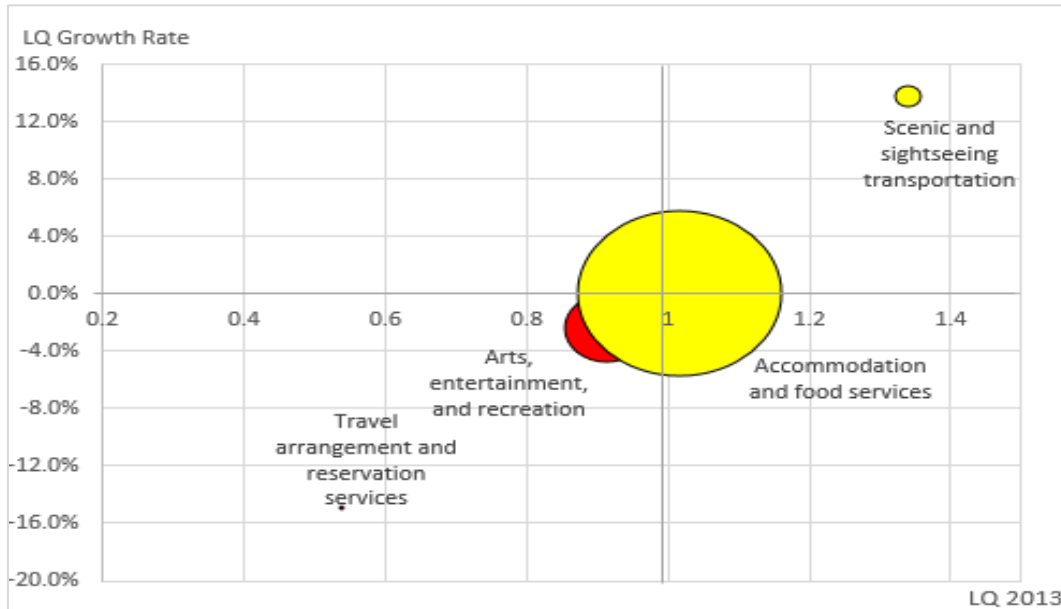


Figure 20: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Tourism

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics.

Accommodation and food services is the largest sector of tourism within the region. The employment concentration is greater than at the state level (LQ>1). There was no growth between 2012 and 2013. With that being said, this industry alternates between being a driver of growth, and maturing into a steady, slow growth industry.

Arts, entertainment, and recreation is another tourism-related category. Employment here is less concentrated than at the state level (LQ<1). It has a negative growth rate with a 2% drop in employment from 2012-2013. This sub-industry brings more than \$15M in visitors spending every year, having a significant impact on the region (see Appendix 19).

Agriculture, forestry, fishing and hunting

Fisheries have a long history in the Borough. Seven main species are harvested: salmon (about 22 fisheries), three types of crab (about 9 fisheries), halibut (3 fisheries), shrimp, clams (12 fisheries), herring (about 18 fisheries), and groundfish (about 17 fisheries.) Based on Fish and Game and NOAA Fisheries Service information most salmon (39%) and halibut (61%) in 2014 were harvested in Homer. Most harvest earnings are coming from salmon (about \$72 million), which is followed by halibut (about \$14 million), and crab (about \$10 million, see Figure 21).



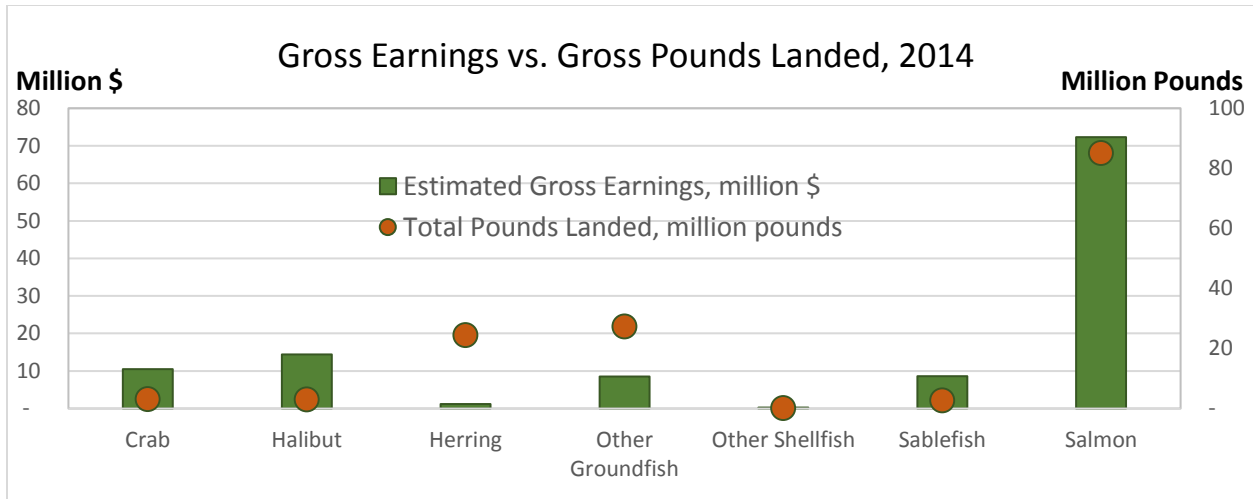


Figure 21: Gross Earnings vs. Gross Pounds Landed, 2014

Source: <https://www.cfec.state.ak.us/gpbycen/2014/122.htm>

From 2003 to 2013 there were three dips in Kenai Peninsula Borough employment: 2006, 2008-2009, and 2012. One factor was poor fish harvests and thus low fishery employment (see Figure 22). For example, in 2006 total employment in fishing fell almost 8% while the harvest (total pounds landed) decreased about 19%. The next decrease started in 2008, and employment bottomed out in 2009: a total decrease in two years of 5.5%. An interesting trend occurred in 2012, when total employment dropped about 8% without a substantial change in fish harvest. Information for 2014 fishing employment trends is not available yet, but Cook Inlet commercial salmon harvest decreased 21% that year.

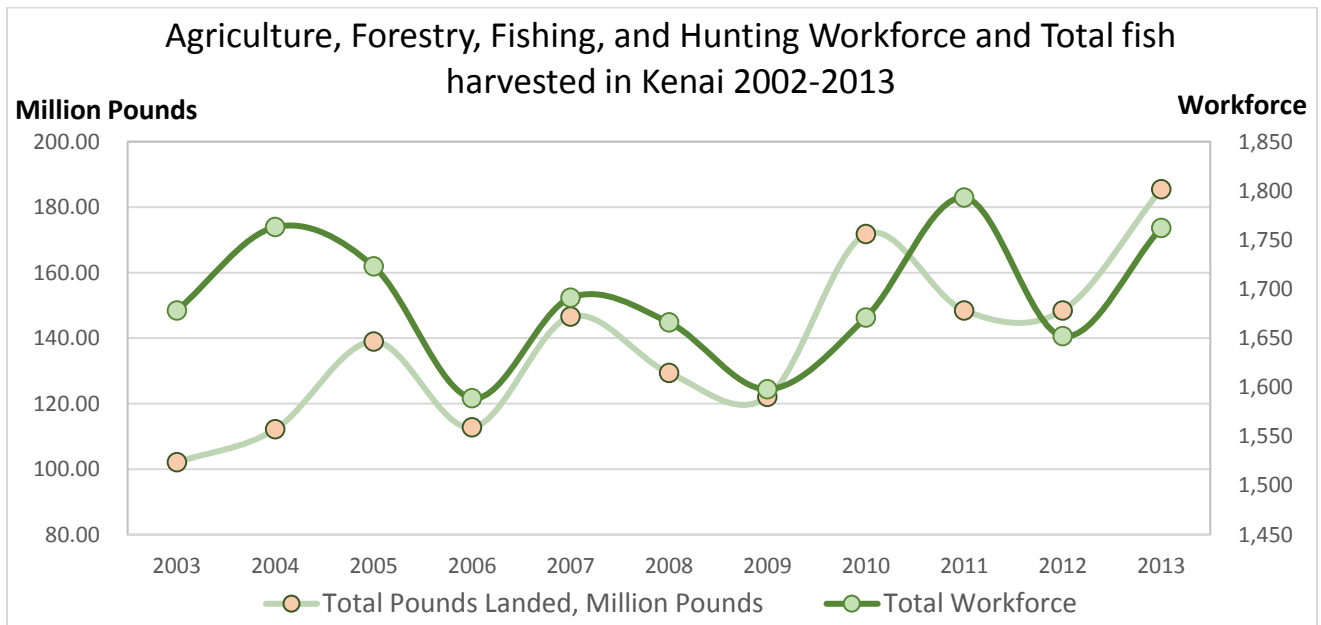


Figure 22: Agriculture, Forestry, Fishing and Hunting Workforce & Total fish harvested in Kenai, 2002-2013

Source: US Census Nonemployer Statistics data, Quarterly Census Employment and Wages, Commercial Fisheries Entry Commission Fishery Statistics - Participation and Earnings.



According to the State Division of Agriculture, there are about 55 farms registered in the Kenai Peninsula Borough.³³ Most farms listed on the Division website focus on flowers (mostly peonies), vegetables, herbs and teas, and mushrooms. In addition to agriculture, the Kenai Peninsula Borough contains part of the Chugach National Forest, which is the second largest national forest in the United States. Most of the commercial timber harvest is located in the coastal zone, but only 6% of the land is considered productive, so harvests are relatively small compared to other national forests. The primary tree species are Sitka and White Spruce. Based on Alaska Forest Facts, spruce bark beetle infestations have killed many of the trees on the Chugach in recent years.³⁴ The entire Chugach, and much of the Kenai region, has been affected by this pest. There are 19 businesses registered under the following forestry industries and located in Kenai Peninsula Borough: Timber tract operations, forest nurseries and gathering of forest products, and logging.

Table 9: Location and number of logging products and operations

NAICS and Location	Number of Businesses
113110 - TIMBER TRACT OPERATIONS	3
Kenai	1
Ninilchik	1
Talkeetna	1
113210 - FOREST NURSERIES AND GATHERING OF FOREST PRODUCTS	4
Cooper Landing	1
Kasilof	1
Ninilchik	1
Seward	1
113310 - LOGGING	12
Anchor Point	1
Kasilof	1
Kenai	1
Nikiski	1
Ninilchik	1
Seward	1
Soldotna	6

Source: Based on Department of Commerce and Community Development Business License Database.

Agriculture, forestry, fishing, and hunting is a mature industry. In 2013 employment was 1,762, equal to 8% of the total employment within the Borough. There are four sectors within this industry including:

- Fishing, hunting and trapping (98% of which is commercial fishing)
- Agriculture and forestry support activities
- Forestry and logging

³³ Kenai Peninsula Alaska Farms. Retrieved from <http://dnr.alaska.gov/ag/sourcebook/KNindex2014.html>. Retrieved on 12.21.2015.

³⁴ Alaska Forest Facts. Retrieved from <http://www.akforest.org/facts.htm>. Retrieved on 12.22.2015.



- Crop production

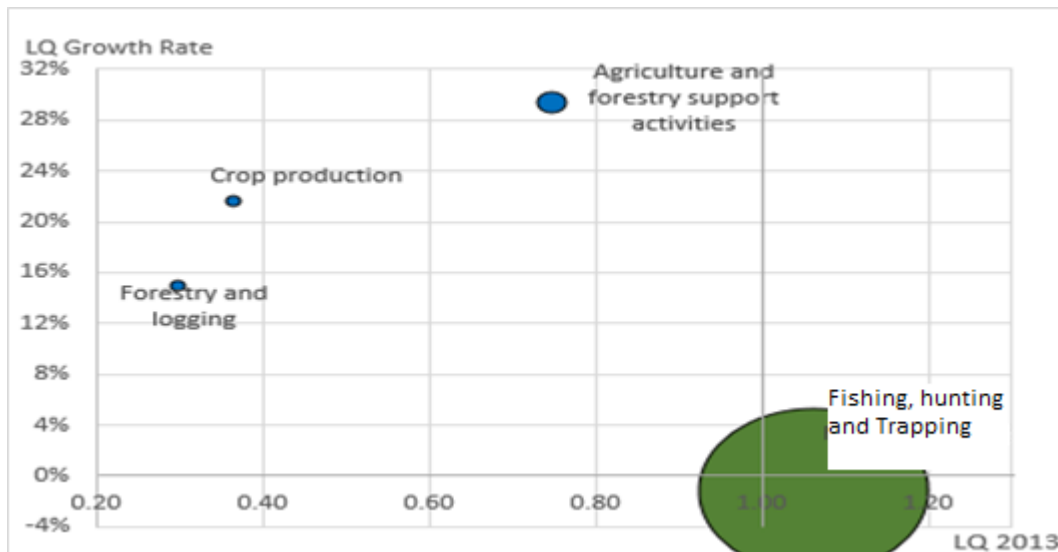


Figure 23: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Agriculture, forestry, fishing and hunting

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Fishing, hunting and trapping has an employment concentration greater than the state ($LQ > 1$). In a ten-year perspective, the industry concentration declined 3.7%. However, from 2012-2013 it had a moderate growth rate of 3.8%. In 2013, employment in this sector increased 7%. However, even small changes in employment resulting from poor harvests, regulatory burdens, or weak prices should be watched closely.

Agriculture and forestry support activities employment concentration is less than the state, ($LQ < 1$). Support services had an LQ growth rate equal to 30% between 2012 and 2013. This sector provides services that are an essential part of agricultural and forestry production.³⁵

Mining, Oil and Gas

Aggregated mining, quarrying, and oil and gas extraction shows the largest growth among all industries – 31% in 2013. The oil and gas industry in the Kenai Peninsula Borough, centered on the Cook Inlet Basin, has a significant influence on the region. Appendix 12 shows total mining sector employment and Cook Inlet oil production from 2002-2014. Outside this period, oil production peaked at 230,000 barrels per day in 1970.³⁶ The lowest level of production was 2009, when the figure reached 7,500 barrels per day, and it was believed that more than 90% of the Basin’s recoverable oil reserves were depleted. By that time the Kenai Peninsula Borough (and Southcentral Alaska as a whole) faced energy shortages: large industrial producers slowed operations until the Alaska Legislature passed the “Cook Inlet Recovery Act,” expanding capital credits for producers and leading to increased operations by smaller drilling companies.³⁷ There are ongoing talks of altering or sunseting the tax credit programs, but as a result of the initiative, oil

³⁵ NAICS Definition. Retrieved from <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=115&search=2012>. Retrieved on 10.27.2015.

³⁶ AOGA Fact Sheet: Cook Inlet Oil and Gas Production. Retrieved from http://www.aoga.org/sites/default/files/news/cook_inlet_fact_sheet_final.pdf. Retrieved on 10.01.2015.

³⁷ Ibid.



production increased 35.5% in 2010 from 7,209 to 10,244 barrels per day and kept increasing for the next four years. As production was decreasing in 2009, it caused continuous decreases in sector employment from 2008 to 2011; though it recovered in the following two years, reaching a high in 2013 (1,540 employees), when ANS West Coast Average Oil Spot Price also was at a high point \$107.60 per barrel (see Appendix 12). In 2014, oil prices began declining, causing a reduction in employment in the industry.

The industry accounts for 7% of overall employment, predominantly associated with oil and gas. Jobs in oil and gas extraction are centered on the Cook Inlet Basin, which has a significant influence on the region. Taking into account direct and indirect economic impacts, this industry provides about 6,000 jobs, meaning that approximately 1 in 8 jobs are tied to this industry, and \$430 million in annual wages. Sectors included in this industry are:

- Oil and gas extraction –384 jobs in 2013
- Support activities for mining –1,115 jobs in 2013
- Mining –411 jobs in 2013

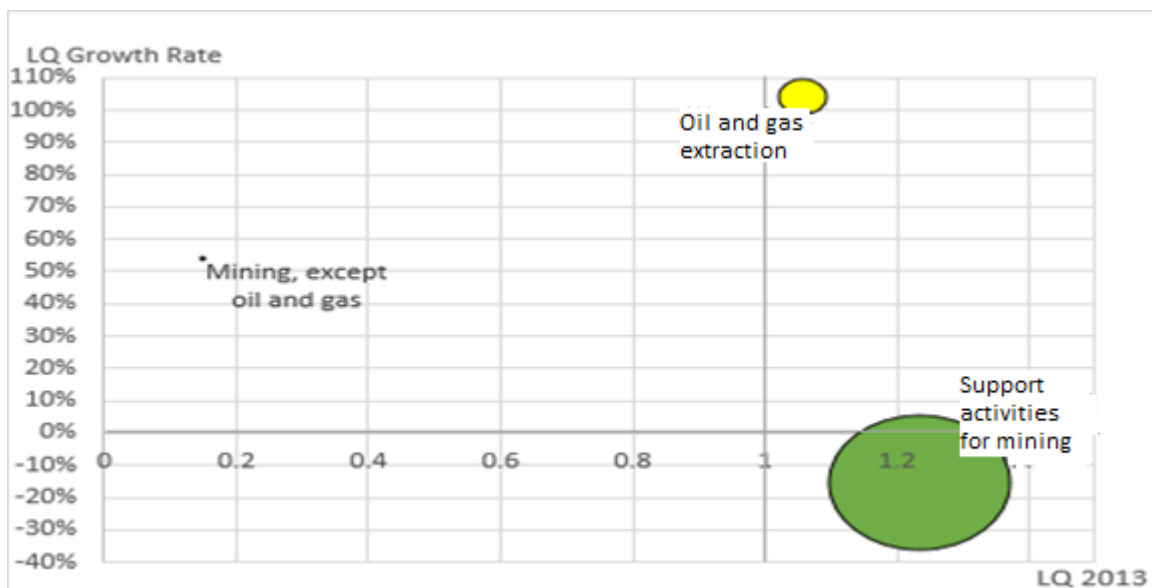


Figure 24: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in mining, oil and gas

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics.

Support activities for mining has an employment concentration greater than the state, (LQ>1). Support activities for mining had a negative growth rate from 2012-2013. However, there is great potential for growth in the years ahead because of the proposed gasoline mega-project on the horizon. The Alaska Liquefied Natural Gas (LNG) Project calls for a pipeline from the North Slope to Nikiski, where an LNG plant would be located. If implemented, Alaska LNG would result in tens of billions in capital expenditure, and bring 9,000-15,000 jobs during construction and 1,000 long-term jobs statewide, many of which would be in the Borough.³⁸ If BP, ConocoPhillips, ExxonMobil, and the State of Alaska continue to move forward

³⁸ AOGA Fact Sheet: Cook Inlet Oil and Gas Production. Retrieved from http://www.aoga.org/sites/default/files/news/cook_inlet_fact_sheet_final.pdf. Retrieved on 10.01.2015.



with the Alaska LNG Project through the front-end engineering and design stage, oil and gas extraction and support activities will grow. Which will bring additional employment in industries such as transportation, warehousing and wholesale trade, healthcare, and many others.

While often overlooked in the discussion about oil and gas, the mining industry still plays a significant role in the Borough. Gravel pits are in operation along the Seward and Sterling Highways, and there are active placer gold miners in the Hope and Canyon Creek areas. In addition, PacRim Coal is developing the Chuitna Coal Project on the West side of Cook Inlet (within Borough boundaries) which could begin construction in 2018. The company believes the project will create 500 direct jobs during the construction phase, and 250 year-round jobs once operations begin.³⁹

Watch-list industries

Construction

The construction industry is another traditional driver of the regional economy, providing 1,618 jobs in 2013. Construction provides an average of 8.5% of total employment in the region (see Appendix 9). Borough sales tax records list 699 construction businesses physically located in the region.⁴⁰ There were two significant declines in construction employment since 2003: 2006, when it dropped by 2.2%, and a more prolonged decline that started in 2008 and lasted until 2012, with an overall drop of 5.5% (see Appendix 9). A period of decreased sales is usually followed by decreased construction employment and vice versa. The first graph in Appendix 9 shows the lag between gross construction sales and employment. Graph 2 in Appendix 9 shows that construction employment trends also follow the number of houses built in the region. The employment growth rate between 2012 and 2013 was 5%. In 2013 sales began declining, so there may be a decline in employment in the future. However, as of 2013, all 3 sectors showed increased employment. The 3 sectors within the construction industry are:

- Construction of buildings – 28% of the industry, 456 jobs in 2013
- Specialty trade contractors – 60% of the industry, 964 jobs in 2013
- Heavy and civil engineering construction – 12% of the industry, 198 jobs in 2013

³⁹ Dan Graham, Chuitna Coal Project Manager, Personal Communication.

⁴⁰ 2015 Kenai Peninsula Situations and Prospects. April 2015. – P. 66.



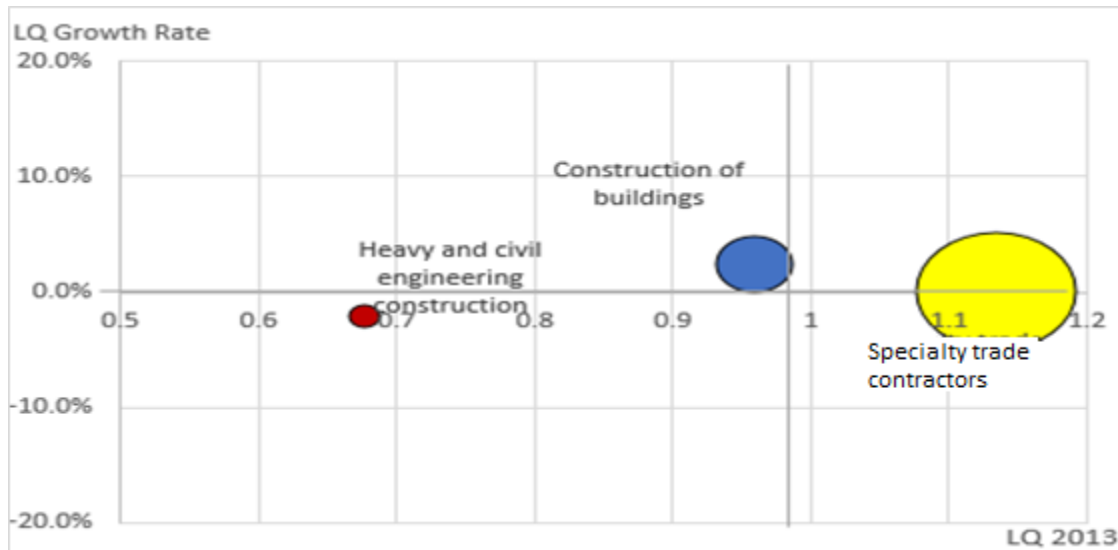


Figure 25: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Construction
 Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Specialty trade contractors form the largest construction sector, with a concentration higher than at the state level ($LQ > 1$). This includes companies focusing on specific activities like pouring concrete, site preparation, plumbing, painting, or electrical work.⁴¹ This sector’s growth rate is almost zero, which indicates it should be watched for signs of diminishing employment.

The heavy and civil engineering construction sector has been in decline for years and never reached the statewide concentration ($LQ < 1$). LNG project implementation would change this situation and potentially make this category a key driver of employment, at least during the construction phase. For the region to take advantage of this opportunity, significant investments in workforce development and attraction of specialists would be logical steps. The LNG project would likewise impact every subsector of construction.

Construction of buildings has an employment concentration less than at the state level, ($LQ < 1$). Construction of buildings employment closely follows trends in homebuilding. This sector grew prior to 2014, but 2015 projections show declining homebuilding activity, possibly signaling falling employment in this sector.

Manufacturing

Manufacturing accounts for about 5% of total employment in the Kenai Peninsula Borough. In the Borough there are two main manufacturing sectors: food manufacturing and fabricated metal product manufacturing. Petroleum and coal products manufacturing (i.e. jobs at the Port of Nikiski) would also be included in this analysis. However the number of employees for this sub-sector is not disclosed to the Bureau of Labor Statistics. The largest sub-sectors of the other manufacturing are: beverage and tobacco product manufacturing, and transportation equipment manufacturing. Combined employment in these two subsectors based on only “Quarterly Census of Employment and Wages” data is about 105.

⁴¹ 2012NAICSDefinitions. Retrieved from <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=238&search=2012>. Retrieved on 10.28.2015.



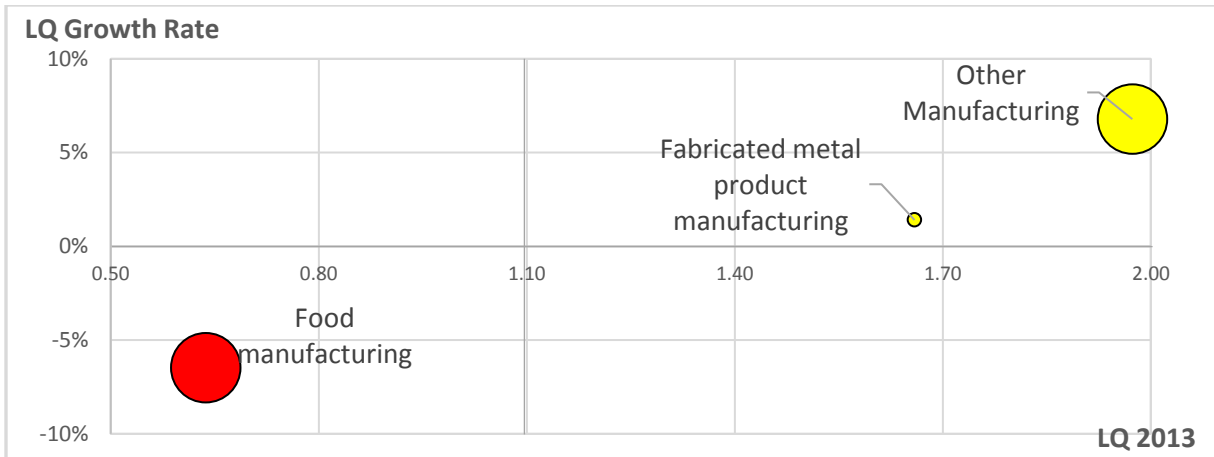


Figure 26: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Manufacturing

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Food manufacturing is less concentrated than at the state level ($LQ < 1$), and employment decreased 9% in 2013. This sector includes fresh and frozen seafood processing, which is a key support sector for the fishing industry. Based on Alaska Department of Labor and Workforce Development information, about 8.2% of the state processing employment is located in Kenai Peninsula Borough (2,043 employees).⁴² In the Borough 56.2% of employees come from out-of-state for seasonal employment. At the state level about 69.3% of seafood processing employees are coming from out-of-state.⁴³ Fabricated and metal product manufacturing employment is more concentrated than at the state level ($LQ > 1$), but employment declined in 2013 by 1%. This sector tends to follow trends in oil and gas sector, which purchases metal components. Overall, employment in the manufacturing industry declined – about 22% from 2004 to 2013.

Challenged Industries

Wholesale trade and Administrative and support services

Wholesale trade is not a driver of the economy, but it is connected with industries such as mining (including oil and gas), transportation, warehousing, and others playing important roles in the region. Which is why declining growth and employment concentration are potentially problematic. About 4% of Kenai Peninsula Borough employment is in these industries, in which employment concentration shrank between 2012 and 2013. There were 1,697 jobs in this quadrant in 2013 spread across 5 sectors, including:

- Merchant wholesales of durable goods
- Merchant wholesales of non-durable goods
- Electronic markets, agents and brokers
- Administrative and support services

⁴² Seafood Processing Employment by Borough or Census Area, 2012. Retrieved from <http://laborstats.alaska.gov/seafood/Southcentral/SCSFPBorca.pdf>. Retrieved on 12.18.2015.

⁴³ Alaska Statewide Seafood Industry, 2001-2012. Retrieved from <http://laborstats.alaska.gov/seafood/statewide/AKSFPOver.pdf>. Retrieved on 12.18.2015



- Waste management and remediation services

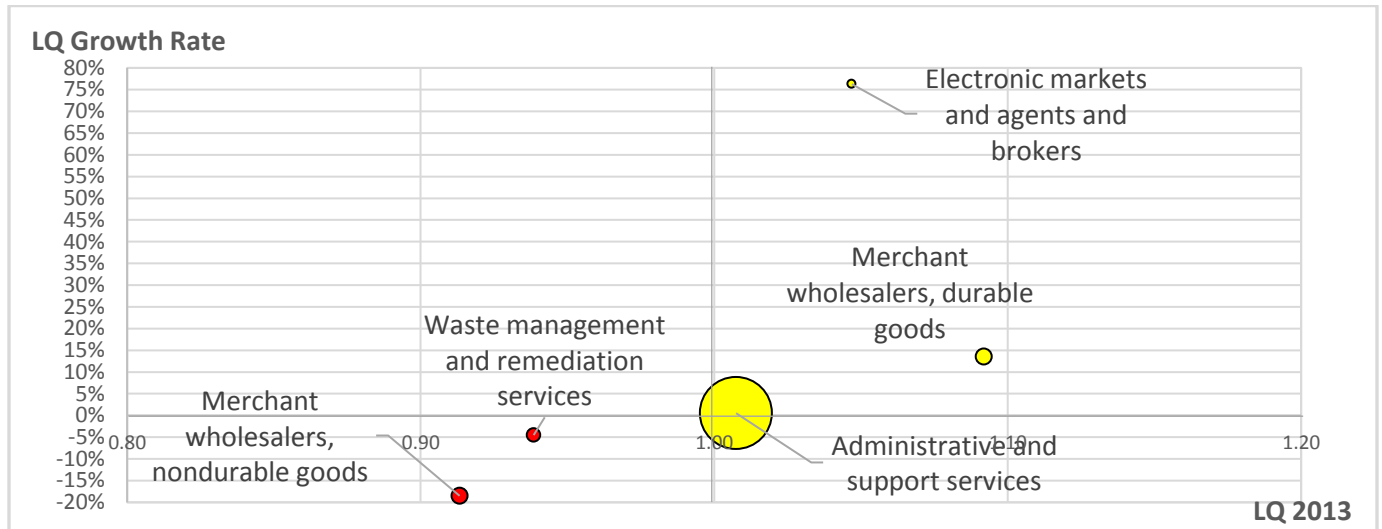


Figure 27: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Challenge Industries

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

Merchant wholesales, non-durable goods employment is less concentrated than at the state level, (LQ<1). This sector showed 18.5% decline from 2012-2013. Non-durable goods merchant wholesale trade establishments are engaged in wholesaling products such as paper and paper products, chemicals and chemical products, drugs, textiles and textile products, apparel, footwear, groceries, farm products, petroleum and petroleum products, alcoholic beverages, books, magazines, newspapers, flowers and nursery stock, and tobacco products. Items must have a lifetime less than three years to fit into this category.⁴⁴

Administrative and support services employment concentration is equal to the state level. This sector had insignificant growth from 2012-2013. This sector includes: employment services, business support, services to buildings and dwellings, investigation and security services, and travel arrangement and reservation services.

Opportunity industries

About 10% of total employment in the region (2,252 jobs) are in opportunity industries, those with a low concentration but fast growth rate. These industries have the potential to become major employment drivers in the future. Opportunity industries are:

- Information
- Professional and technical services
- Financial services and insurance
- Transportation and warehousing

⁴⁴ 2012 NAICS Definitions. Retrieved from <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=424&search=2012>. Retrieved on 11.01.2015.



- Management of companies and enterprises
- Education services

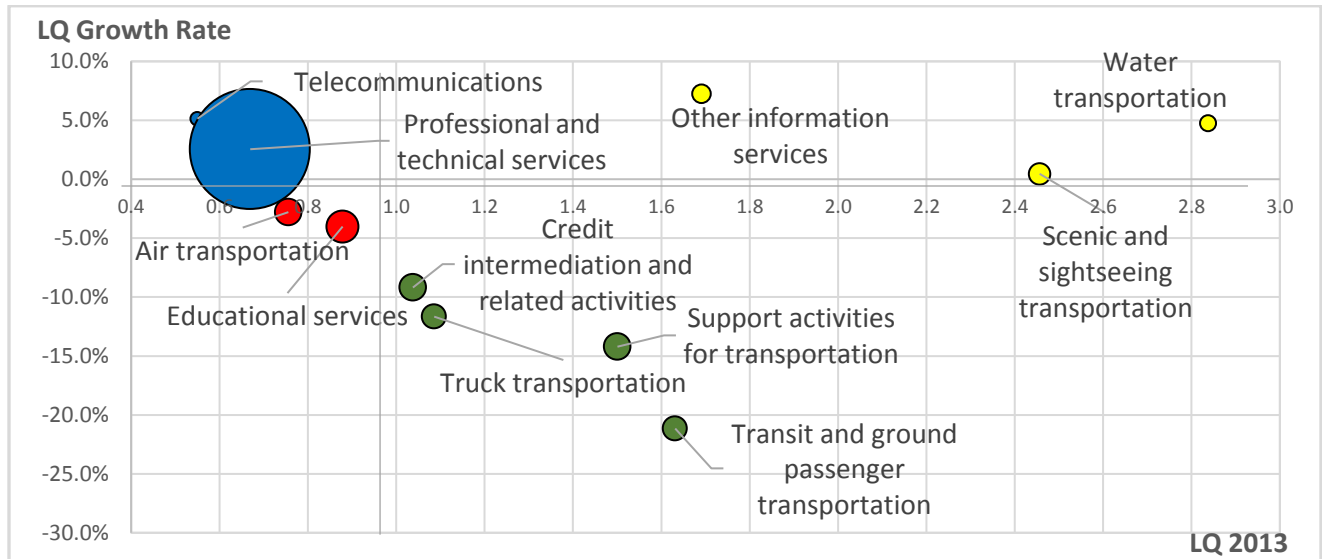


Figure 28: Location Quotient in 2013 vs. Location Quotient Growth Rate from 2012 to 2013 in Opportunity Industries

Source: Quarterly Census of Employment and Wages, Census Nonemployer Statistics

The category of professional, scientific and technical services is the largest opportunity sector with employment of 1,029, which continues to grow. Employment in the professional and technical services sector is less concentrated than at the state level (LQ<1). However, the employment in this sector has been growing. Interestingly, this fast-growing opportunity industry consists of specialized services that require advanced education. For instance, this category includes lawyers, architects, accountants, engineers, designers, and other professionals. The growth of this portion of the economy may reflect the growth of the “knowledge economy” in the Borough. Historically, many parts of the state contracted professional work from Anchorage or out-of-state, but it appears that a greater share of this work can be done locally—a positive development.

Educational services has a concentration less than at the state level, (LQ<1), and it is declining further. It may reflect trends in high school enrollment, which has declined over the last 10 years; with less students enrolled, there is less demand for specialists providing educational services. It includes establishments that provide instruction and training in a wide variety of subjects. Services are provided by specialized establishments such as schools, colleges, universities, and training centers. These establishments may be privately-owned and operated for profit or not for profit, or they may be publicly-owned and operated. They may offer food and accommodation services to their students.⁴⁵

The Kenai Peninsula Borough is accessible by water, railway, road, and from nine airfields. Depending on the source of information, there are between 150 and 300 large and small businesses in the transportation

⁴⁵ 2012 NAICS Definitions. Retrieved from <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=238&search=2012>. Retrieved on 11.01.2015.



and warehousing sector.⁴⁶ Employment concentration increased from 2004 to 2013, however employment concentration is still less than at the state level (LQ<1). The recent decline in transportation volumes may be a good reason to watch this industry closely as it may face some challenges that can lead to employment decreases in the future. The sectors within transportation and warehousing include:

- Water transportation
- Air transportation
- Track Transportation
- Transit and ground passenger transportation
- Support activities for transportation
- Scenic and sightseeing transportation

Resilience Component

Challenges to economic resiliency

The Kenai Peninsula Borough economy is more diversified than the state overall, according to employment figures. Even though the economy is diversified, several industries that act as economic drivers – oil and gas, healthcare, fisheries, and tourism are facing challenges. Sustainability of the Kenai economy depends mostly on the resilience of these industries against external threats and whether or not there are mechanisms in place to help overcome challenges.

As previously stated, the fishing industry is heavily dependent on harvest figures and quotas distributed in a specific area. While quotas and harvest figures cannot be adequately address at the local level, other issues within the fishing and related industries can be addressed. One of the issues that can and should be addressed is the decline in fresh and frozen fish processing as a share of the food-manufacturing sub-sector. Seafood processing accounts for 500 jobs, which could ultimately be lost to offshore processors or those based in adjacent regions. Seafood processors serve an important function in enabling commercial fishermen to sell their catch. It is important for this sub-sector to thrive in the region so that the fishing industry is not only utilizing natural resources but also providing value added to the product, and therefore supporting economic development in the region through increased employment.

The mining, oil and gas industry is dependent heavily on global markets both in terms of price and demand, which makes it vulnerable to external threats outside of local control. However, there are many opportunities associated with the Alaska LNG project. It will potentially have large impacts on industries associated with gas production, such as transportation and warehousing, healthcare, construction, and retail trade. There may be opportunities for workforce training to provide specialists needed in the project during the construction phase, and when an LNG plant, storage, and tanker terminal in Nikiski is in operation.

Truck transportation and transportation support activities are sub-sectors of the oil and gas industry. These sub-sectors are areas of concern because they are becoming less concentrated than at the state level with constantly declining employment. These two sub-sectors may need additional attention from local decision makers and a greater understanding of the challenges they face. Likewise, the heavy and

⁴⁶ 2015 Kenai Peninsula Situations and Prospects. April 2015. – P. 64.



civil engineering sub-sector has seen recent declines. This is problematic because it has the potential to become an economic driver due to oil and gas linkages.

Among all healthcare sub-industries, social assistance is the one most in decline. This sector plays an important role in the Borough because of the aging population and potential need for more services in the near future. By 2042 the share of population over 65 years old is expected to grow from 14% in 2014 to 22%, an increase of about 6,000 people. In addition, the Alaska LNG project will potentially bring additional employees and their families to the region, which will further increase demand for healthcare services.

Tourism is an industry that is highly vulnerable to economic conditions of the national economy. Lower 48 (or global) downturns cause sharp decreases in the number of tourists coming to Alaska, depressing jobs and sales tax receipts. Strategies to grow visitor revenues by extending “shoulder” seasons and increasing the average expenditure of visitors are worthy of careful consideration.

Employment within the arts, entertainment, and recreation sub-sector is declining. Aside from its impact within the tourism sector, this is an area with strong implications for the livability and quality of life in the Borough. It could be addressed through placemaking initiatives, which seek to improve arts and entertainment options for residents. The Kenai Peninsula Mural project, along with art projects in libraries and parks throughout the region testify to the importance of arts within the Borough.

Challenges to demographic resiliency

There are several main challenges in regional demographics:

1. Aging population
2. Decreasing economically active population
3. Shortage of young individuals and families relocating to region

The core problem is availability of well-paid jobs in the region that would potentially attract young professionals to move to the Kenai Peninsula Borough. In addition, the region is aging more rapidly than the rest of the state, and the popularity of the region as a retirement destination is related to this. It may be useful to develop programs that focus on attraction of young professionals and their families, highlighting the benefits of living in the Kenai Peninsula Borough. For example, the Borough has one of the lowest crime rates per capita in the state: only 1.91 crimes per 100 people in 2014, (compared to 6.13 in Anchorage, see Appendix 20). In addition, Borough housing prices are lower than in the Mat-Su Borough or in Anchorage. As the greatest number of people moving to the region come from the Municipality of Anchorage, Matanuska-Susitna Borough, and Fairbanks North Star Borough, a regional marketing program may be aimed at these regions specifically. As an additional factor, the relatively high internet speeds may be attractive to telecommuters wishing to take advantage of the region’s natural amenities and high quality of life.

If the Alaska LNG Project comes to fruition, an effort to attract new families to the Kenai Peninsula Borough should become more effective as jobs become more available. There may be some other areas lacking qualified employees, such as construction, healthcare, and some areas of tourism. It is important



to support activities to fill these gaps, which will potentially increase employment and lead to economic diversification throughout the region.

Public Engagement

Public engagement for the project was conducted through surveys at community forums. Three surveys were administered: to Cook Inlet Aquaculture members, at a KPEDD board meeting, and at a community meeting. Respondents were generally optimistic about the economic future of the community. While respondents were generally amiable to increased population growth, many were worried about the repercussions of a population boom due to the construction of the LNG pipeline. They were supportive of the current education system, and many felt there was a need for increasing support for K-12, and post-secondary education. Borough residents felt optimistic about the future of the community, however a lack of economic opportunity and rising cost of living could drive some residents out. Finally, respondents were less than optimistic about the general health and future of the fisheries and commercial fishing industry.

Type of Engagement	Events
Industry Input	<ul style="list-style-type: none"> • Tourism Focus Group with Kenai Peninsula Tourism Marketing Committee, January 2016 • Industry Outlook Forum business leader discussion (oil and gas representation), January, 2016 • Fisheries Focus Group in conjunction with Cook Inlet Aquaculture Association Annual Meeting, February 2016
Community Input	<ul style="list-style-type: none"> • Kenai and Soldotna Chambers of Commerce joint meeting, February 2016 • Seward Chamber of Commerce meeting, February 2016 • Homer Chamber of Commerce Meeting, March 2016 • Seldovia Chamber of Commerce Meeting, March 2016
Strategy Committee	<ul style="list-style-type: none"> • Bimonthly KPEDD Board meetings, August 2015—April 2016 • In-depth goal formation workshop, March 2016
Surveys	<ul style="list-style-type: none"> • Community Survey distributed at community meetings (Kenai, Soldotna, Seward, Homer, Seldovia, Industry Outlook Forum) • Fisheries survey distributed by Cook Inlet Aquaculture Association • KPEDD Board pre-meeting survey
Public Comment	<ul style="list-style-type: none"> • 30-day comment period, document posted on KPEDD website, newspaper and media advertisements

Figure 29: Public Participation Summary

Economic state of Kenai Peninsula Borough

About 75% of the community felt the peninsula was average or somewhat prosperous. Some factors that were adding or detracting from the prosperity level in the community were: uncertainty in the economy



due to oil prices, the lack of year-round employment with corresponding salary, and increased tourism leading to additional jobs.

A total 69% of the participants felt somewhat or very optimistic about the future of the peninsula. Some factors they felt were adding, or detracting to their optimism were: the uncertainty of the LNG pipeline and plant, lack of local and state assistance/funding for projects, and tourism as a consistent provider of jobs.

Availability, training, and education of workforce

About 61% of the community surveyed felt that there was not a sufficient workforce available. Some issues with workforce availability were: lack of seasonal workers, and available workers not being trained

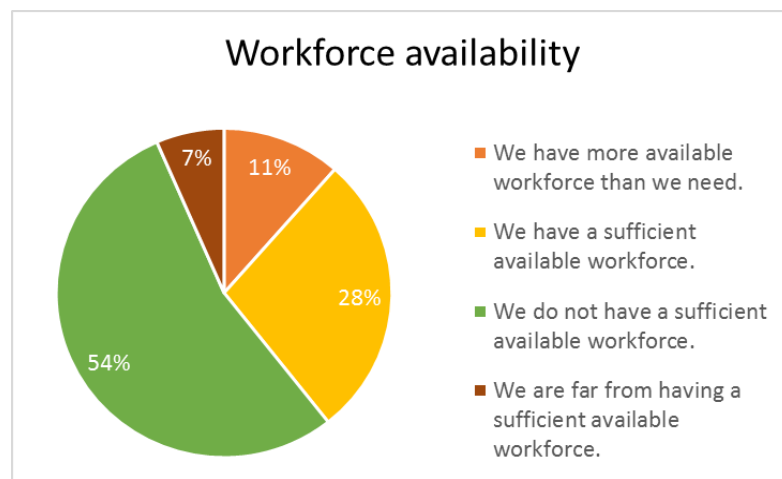


Figure 30: Workforce Availability

for industries with job openings. Respondents were also worried about the declining number of young people investing and working in commercial fishing.

52% of respondents felt that the current workforce is not adequately, or far from prepared. Respondents desired the following: better alignment between local high schools and local industry, customer service skills, and applicants with additional skills/training. Numerous respondents suggested that industry

specific training could be provided through partnerships and or vocational education program hosted at the Borough high schools.

Approximately 75% of respondents felt the K-12 education system in the Kenai Peninsula was average to somewhat high quality. There was a lot of discussion of increasing funding for education, and making the K-12 and post-secondary/community college systems better. In particular aligning job training with growing industries such as healthcare.

Fisheries

There were three main themes discussed by respondents in the fisheries and aquaculture survey. Respondents were interested in having KPEDD provide the following: increased marketing, increased lobbying, and educational outreach.

Respondents felt that KPEDD could be using targeted marketing to bring additional economic development to the region. Top marketing priorities included:



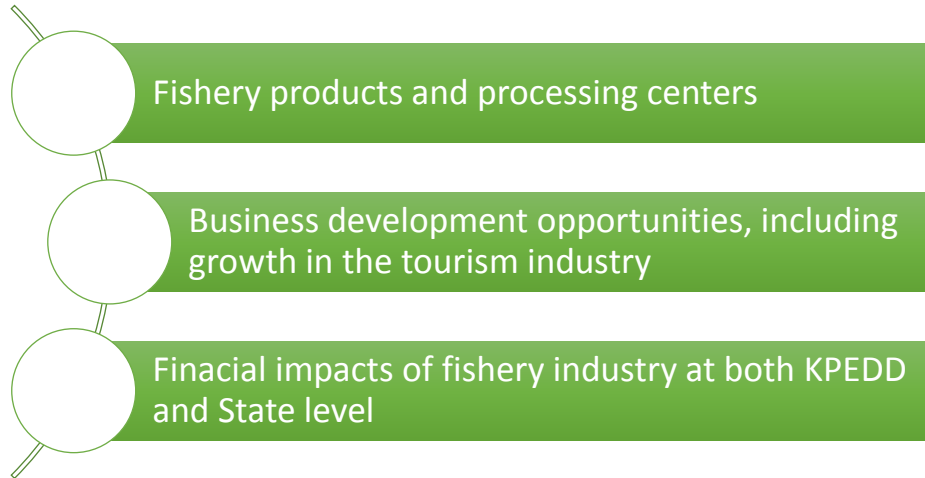


Figure 31: types of marketing desired by fisheries groups.

VI. SWOT Analysis

	Beneficial	Harmful
Internal	<p style="text-align: center;">Strengths</p> <ol style="list-style-type: none"> 1. Increasing graduation rate combined with decrease in dropout rates. 2. Kenai Peninsula College and AVTEC’s ability to prepare professional workforce. 3. Housing prices are lower than in Anchorage and the Mat-Su. 4. Third lowest crime rate per capita in Alaska (among 20 tracked Boroughs and census areas). 6. Large communities are accessible by road. 7. The region is accessible by road, air, and water transportation as well as rail service in Seward. 8. Diverse economic base spans tourism, oil and gas, fisheries, healthcare, and construction. 9. Two Alaska Small Business Development Center offices: Homer and Kenai. 10. Two large ice-free ports with Coast Guard presence, Homer and Seward. 11. Natural gas expanded in 2015 to additional communities. 	<p style="text-align: center;">Weaknesses</p> <ol style="list-style-type: none"> 1. Aging population. 2. Economically active population (potential workforce) is shrinking. 3. Low in-migration. 4. Decreasing public school enrollment. 5. Higher prices than Anchorage and Mat-Su for groceries and gasoline. 6. In most communities in the region, the share of cost-burdened houses is about 29 %. 7. Tourism sector’s dependence on the Lower 48 economic situation. 8. Fishing sector’s dependence on harvest quota and fluctuation in the number of fish. 9. Decrease in oil production resulting from low prices.
External	<p style="text-align: center;">Opportunities</p> <ol style="list-style-type: none"> 1. Increase in employment in oil and gas, construction, and healthcare sectors associated with Alaska LNG. 2. Infrastructure to be built for Alaska LNG in Nikiski. 3. The oil and gas industry has a higher than average income in the region, so with an increase in employment in this sector, average income in the region will increase as well. 4. There are several opportunity industries that show high growth rates in comparison with the state: professional and technical services, telecommunications, administrative and support services, and information services. 	<p style="text-align: center;">Threats</p> <ol style="list-style-type: none"> 1. Lost opportunities if Alaska LNG is not implemented. 2. Possible economic downturn in the Lower 48 affecting tourism. 3. Further decrease in oil prices. 4. Uncertain economics of Alaska LNG. 5. Increase in salmon harvest limit in the region. 6. Seafood harvest subject to natural fluctuations. 7. There are several industries that are at risk: truck transportation, educational services, merchant wholesales (nondurable goods,) food manufacturing (including fish processing), general merchandise stores, arts, entertainment and recreation (part of tourism), heavy and civil engineering construction. 8. State funding for education, a key employer, is subject to cuts in coming years.



VIII. Goals and Action Plan

The following section describes the goals, objectives, strategies, partners, and metrics developed in response to background research, extensive public input, and the direction of the Strategy Committee. These six goals address regional partnerships, infrastructure and technology, workforce and human capital, business climate and entrepreneurship, and quality of place. Following lengthy discussions and reviews of data, the Strategy Committee believed that these areas served to holistically address the future economy of the Kenai Peninsula Borough by strengthening the capacity of the region to engage in economic development, supporting existing large employers, improving workforce readiness, investing in new business creation, and addressing quality of place factors that have recently been recognized as a driver of regional economies.

Flowing from the SWOT analysis, community and industry feedback, and Strategy Committee guidance, these goals seek to maximize the use of the region’s assets—diverse economy, reasonable cost of living, well-developed infrastructure, outdoor recreation—to build a more prosperous future. At the same time, the demographic challenges of a relatively small workforce and shocks in the price of oil are factors to be mitigated.

Vision Statement

“The Kenai Peninsula Borough is a collection of diverse and vibrant communities where citizens have year-round employment opportunities; businesses have access to a highly skilled, trained, and educated workforce; residents and visitors can enjoy the unique mix of urban and rural recreation activities; and responsible city and Borough management promotes economic growth and diversification.”



Goal 1.0 Regional Partnerships: *Foster renewed collaboration between municipalities, tribes, chambers, and industry groups across the Kenai Peninsula Borough to build on the region’s comparative economic advantages, especially for its key current and emerging industry.*

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
<p>1.1. Coordinate economic development activities with industry associations such as those representing fisheries, tourism, oil and gas, as well as chambers of commerce at the community level.</p>	<ul style="list-style-type: none"> • Sign memoranda of understanding (MOU’s) with industry groups and chambers of commerce • Assist in hosting industry appreciation days • Organize and host Industry Outlook Forum • Combat duplication of community efforts from one community to the next 	<ul style="list-style-type: none"> • Seven MOU’s negotiated and signed • 3 industry appreciation events held • Industry Outlook Forum delivered – 300 in attendance • Disseminate data highlighting benefits of local key employers 	<ul style="list-style-type: none"> • Kenai Peninsula Tourism Marketing Committee (KPTMC) • Cook Inlet Aquaculture Association (CIAA) • Other fisheries groups • Oil and gas representatives • Chambers • Tribes (Kenaitze, Salamatof, Ninilchik, Seldovia, Tyonek) • Kenai Peninsula Borough • Kenai Peninsula Municipalities • Kenai Peninsula Lending Institutions • Alaska SBDC • <u>PacRim Coal</u>
<p>1.2 Improve and coordinate economic development planning efforts among municipalities and communities.</p>	<ul style="list-style-type: none"> • Initiate forum for communities to better communicate, ensuring inclusion of unincorporated communities • Promote collaboration of regional organizations by providing relevant information to each • Ensure board representation from all sub-regions of Borough 	<ul style="list-style-type: none"> • Number of municipal meetings held • Dollar value of public and private investment, including in-kind 	<ul style="list-style-type: none"> • Community subsidized associations • Municipalities • Borough • Unincorporated Areas • Alaska SBDC



Goal 2.0 Infrastructure and Technology: *Actively promote infrastructure and technology development to lay a foundation for economic growth within the Kenai Peninsula Borough.*

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
<p>2.1 Advance infrastructure development projects (airport, harbors, roads, etc.) targeted towards improving efficiencies for specific industries, including tourism, fisheries, and maritime.</p>	<ul style="list-style-type: none"> • Assess industry needs by hosting listening sessions and community dialogs • Develop inventory of maritime, tourism, and fisheries-related infrastructure projects • Locate public and private investment to support development • Advocate for new recreational areas and trails 	<ul style="list-style-type: none"> • Dollar value of public and private investment • New jobs created 	<ul style="list-style-type: none"> • Kenai Peninsula Borough • Municipalities • Fisheries groups • Tribes • Airport and Harbor Commissions • Alaska Railroad, • U.S. Coast Guard, • State of Alaska, • Commercial air carriers
<p>2.2 Seek improvements to transportation infrastructure.</p>	<ul style="list-style-type: none"> • Assess economic impacts of planned highway improvements • Assess impacts of changes in Alaska Marine Highway service • Educate policymakers and the public on traffic and transportation needs associated with large-scale development (i.e. LNG) 	<ul style="list-style-type: none"> • Traffic counts • Accident data 	<ul style="list-style-type: none"> • Alaska Department of Transportation and Public Facilities • Kenai Peninsula Borough • Local Transportation Committee
<p>2.3 Expand access to broadband for schools, colleges, and commercial enterprises.</p>	<ul style="list-style-type: none"> • Work with funding agencies and service providers to increase awareness of benefits 	<ul style="list-style-type: none"> • Dollar value of public and private investment • Average broadband speed • Percentage of households with access to broadband • Percentage of customer related businesses providing WIFI 	<ul style="list-style-type: none"> • Telecoms and internet service providers • Federal and state funders • KPTMC



Goal 3.0 Workforce and Human Capital: *Expand the skillsets of Borough residents to fill high-demand jobs and retain talent in the region.*

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
3.1 Facilitate cooperation between major employers and vocational-technical programs to improve the job-readiness of the Borough’s labor force.	<ul style="list-style-type: none"> • Identify gaps in the labor market using data from <i>Situations and Prospects</i> and BR&E surveys • Partner with AVTEC and Kenai Peninsula College to host industry conversations • Educate policymakers and the public on workforce needs 	<ul style="list-style-type: none"> • Number of improved or new degree or certificate programs developed • Number of recent graduates employed 	<ul style="list-style-type: none"> • Post-Secondary and Industry Association (i.e. the Alliance) • AVTEC • KPC • Alaska Workforce Investment Board • Alaska Department of Labor and Workforce Development
3.2 Support programming to attract and retain a professional workforce.	<ul style="list-style-type: none"> • Continue to partner with Kenai Young Professionals on events • Expand professional networking opportunities by hosting outreach events • Assess data for healthcare landscape in the <i>Situations and Prospects</i> report 	<ul style="list-style-type: none"> • Number of events held • Number of participants 	<ul style="list-style-type: none"> • Chambers • CPGH • PCHS • Seward Hospital • South Peninsula Hospital



Goal 4.0 Business Climate and Entrepreneurship: *Enhance Borough-wide entrepreneurship ecosystem and business climate.*

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
4.1 Support health and resiliency of regional businesses through business retention and expansion initiative.	<ul style="list-style-type: none"> • Use BR&E data to assess needs of business community and promote resiliency during downturn • Act as broker between businesses and services, such as voc-tech and Small Business Development Center 	<ul style="list-style-type: none"> • Number of surveys completed • Number of hot button Issues tracked • Number of businesses provided with assistance • Number of businesses reporting favorable views of business climate • Number of jobs created 	<ul style="list-style-type: none"> • Municipalities • Chambers • SBDC • AVTEC • KPC • Alaska Workforce Investment Board • Alaska Department of Labor and Workforce Development
4.2 Promote economic opportunities resulting from responsible development of natural resources.	<ul style="list-style-type: none"> • Continue engagement of oil and gas sector • Educate public on economic benefits of oil, gas, mining, and timber 	<ul style="list-style-type: none"> • Value of new private investment 	<ul style="list-style-type: none"> • Oil and gas industry • Mining • Fishing • Farming
4.3 Develop new, and strengthen existing, services and support systems for entrepreneurs.	<ul style="list-style-type: none"> • Evaluate role of legacy programs such as KPEDD microloan and incubator • Assess new programming such as business plan competitions, angel investment, technical assistance • Develop networking events for entrepreneurs • Assist displaced industry workers in launching new businesses 	<ul style="list-style-type: none"> • New programs launched • Number of events held • Number of start-ups • Amount of funding received 	<ul style="list-style-type: none"> • SBDC • Center for Economic Development



Goal 5.0 Quality of Place: *Enhance the quality of life and recreational opportunities in the Kenai Peninsula Borough to retain and attract residents and visitors.*

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
<p>5.1 Development of a strong Kenai Peninsula “brand” as a quality place to live and visit. Strategies build on the comparative advantages of accessibility, cultural, and natural resources.</p>	<ul style="list-style-type: none"> • Link and align community-level branding efforts into a stronger brand, & cohesive message • Partner with KPTMC to amplify tourism marketing efforts • Build up marketing platforms such as social media and newsletters • Develop promotional video and collateral • Publicize quality of life factors like low cost of living, low crime rate, good schools 	<ul style="list-style-type: none"> • Number of new visitors • Number of new residents • Sales tax revenue 	<ul style="list-style-type: none"> • KPTMC • Chambers • Municipalities
<p>5.2 Promote expansion of recreational facilities, trails and public access.</p>	<ul style="list-style-type: none"> • Educate the public and policymakers on the benefits of new recreational trails, public access, and public lands • Promote, and seek funding for, the development of year-round activities and amenities 	<ul style="list-style-type: none"> • New recreation development initiated 	<ul style="list-style-type: none"> • KPTMC • Chambers • Parks and Recreation Commission • Municipalities



Goal 6.0 Knowledge Creation and Dissemination: Lead the region in the analysis, and dissemination of economic and demographic data to educate the public and policymakers.

Objective	Strategies and Actions	Metrics/Impacts	Key Partners
6.1 Generate and disseminate economic and demographic data geared towards businesses, decision makers, and communities.	<ul style="list-style-type: none"> • Provide un-biased, objective data to policy makers, industries, and interested parties • Listen to needs of communities to identify data and information gaps • Field requests to engage in industry-based information dissemination 	<ul style="list-style-type: none"> • Number of new reports • Supply data focused on benefits of big players in community 	<ul style="list-style-type: none"> • Kenai Peninsula Borough • Chambers • Municipalities
6.2 Develop and strengthen avenues for sharing and disseminating data and analysis.	<ul style="list-style-type: none"> • Continue annual publication of <i>Situation and Prospects</i> report • Publicize findings from BR&E surveys • Generate searchable database for <i>Situations and Prospects</i> data (GIS format) • Provide info on major economic indicators annually via the Industry Outlook Forum • Continue to develop and refine website as data sharing portal • Media release of data on Industry Appreciation Day 	<ul style="list-style-type: none"> • Number of web hits on reports • Number of attendees at Industry Outlook Forum 	<ul style="list-style-type: none"> • Kenai Peninsula Borough • Chambers • Municipalities



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