

# **State of Alaska FY2007 Governor's Operating Budget**

**Dept of Commerce, Community, & Economic Development  
Office of Economic Development  
Component Budget Summary**

**Component: Office of Economic Development**

**Contribution to Department's Mission**

Improve economic development and increase investment in Alaska by advancing successful tourism, fisheries, forest products, and minerals programs.

**Core Services**

Provide policy recommendations and staff support to Governor and Commissioner on tourism, fisheries, forest products, minerals and business development programs.

Analyze the economic effect of proposed regulations on small businesses.

Manage the Alaska Regional Development Organizations program (ARDORs), the Made in Alaska program, the Alaska Manufacturing Extension Partnership (AMEP) and the Alaska Marketplace Program (AMP).

Provide a link between Alaska communities (especially rural communities), government, businesses, and industry sectors.

Compile industry data and provide analysis.

Support development of potential high growth industries and products.

Review business environment and recommend and promote changes.

Provide technical assistance to potential entrepreneurs.

Support export-led and cluster-based development.

End Results	Strategies to Achieve Results
<p><b>A: Rural Alaska communities in economically distressed areas will have more opportunities to diversify their economies through tourism development.</b></p> <p><u>Target #1:</u> Increased economic benefits from visitors each year.</p> <p><u>Measure #1:</u> Increased lodging taxes in rural Alaska communities (excluding Anchorage, Fairbanks and Juneau)</p> <p><u>Target #2:</u> One or more projects developed in each rural Alaska community cluster by FY2008</p> <p><u>Measure #2:</u> Number of new projects developed by Rural Visitor Industry Product Development Program</p>	<p><b>A1: Implement DCED's Rural Visitor Industry Product Development Program.</b></p> <p><u>Target #1:</u> Provide technical assistance to 4-6 rural community clusters in round one of the Rural Visitor Industry Product Development Program through the end of FY06.</p> <p><u>Measure #1:</u> Number of community clusters receiving technical assistance.</p> <p><b>A2: Improve customer service skills and employability of Alaska's workforce.</b></p> <p><u>Target #1:</u> Increase number of students who complete AlaskaHost customer service training by 10% each year.</p> <p><u>Measure #1:</u> Number of students who complete AlaskaHost training each year.</p>
End Results	Strategies to Achieve Results
<p><b>B: Increase the value of the minerals industry in Alaska</b></p> <p><u>Target #1:</u> 10% annual increase in statewide mineral exploration spending.</p>	<p><b>B1: Be a strong advocate for mineral resource development.</b></p> <p><u>Target #1:</u> Maintain trade show participation at 5 per year.</p>

<p><u>Measure #1:</u> Percentage increase in mineral exploration.</p> <p><u>Target #2:</u> 10% annual increase in statewide mineral development expenditures.</p> <p><u>Measure #2:</u> Percentage increase in minerals development expenditures.</p> <p><u>Target #3:</u> 10% annual increase in statewide mineral production value.</p> <p><u>Measure #3:</u> Percentage increase in minerals production value.</p> <p><u>Target #4:</u> 10% annual increase in total value of the Alaska minerals industry.</p> <p><u>Measure #4:</u> Percentage increase in total annual statewide minerals value.</p>	<p><u>Measure #1:</u> Number of trade show participated in FY2005</p>
<p><b>End Results</b></p>	<p><b>Strategies to Achieve Results</b></p>
<p><b>C: Redevelop a statewide forest products industry.</b></p> <p><u>Target #1:</u> Increase forest products industry employment in the Southeast region.</p> <p><u>Measure #1:</u> 10% employment increase</p>	<p><b>C1: Provide technical assistance and advocacy services through Commerce.</b></p> <p><u>Target #1:</u> Fill forester position(s) in the Department of Commerce.</p> <p><u>Measure #1:</u> Number of forest product positions in the Department of Commerce.</p>
<p><b>End Results</b></p>	<p><b>Strategies to Achieve Results</b></p>
<p><b>D: Through the Fisheries Revitalization Strategy, increase the economic return to the Alaska salmon industry.</b></p> <p><u>Target #1:</u> By 2006, increase the ex-vessel value of the salmon industry by 10% over the 2003 prices.</p> <p><u>Measure #1:</u> Measure in ex-vessel value on a price/pound basis.</p> <p><u>Target #2:</u> By 2006, increase the wholesale value of the salmon industry by 10% over the 2003 prices.</p> <p><u>Measure #2:</u> Measure in wholesale value on a price/pound basis.</p>	<p><b>D1: The Office will develop a grant program that increases product diversification.</b></p> <p><u>Target #1:</u> By 2006, the fisheries equipment grant program will support an overall industry trend towards increased fillet production in Alaska to increase total fillet production by 10% by weight.</p> <p><u>Measure #1:</u> Percentage increases in Alaska salmon fillet production by value and volume.</p> <p><b>D2: The Office will develop a grant program that increases product diversification among its grantees.</b></p> <p><u>Target #1:</u> By 2006, grantees that received fillet processing equipment will increase fillet production by 50% from 2003 levels.</p> <p><u>Measure #1:</u> Percentage increase in fillet production for grantees receiving funds for fileet equipment.</p>
<p><b>End Results</b></p>	<p><b>Strategies to Achieve Results</b></p>
<p><b>E: Increased economic benefits from sale of Alaskan manufactured and/or made products.</b></p> <p><u>Target #1:</u> Increased number of jobs resulting from sale of Alaskan manufactured and/or made products.</p> <p><u>Measure #1:</u> The number of manufacturing jobs created in Alaska.</p>	<p><b>E1: Increased numbers of certified "Made in Alaska" products that are manufactured and/or made in Alaska.</b></p> <p><u>Target #1:</u> Numbers of certified products per year that are manufactured and/or made in Alaska increase by 3%.</p> <p><u>Measure #1:</u> Numbers of certified products.</p>

End Results	Strategies to Achieve Results
<p><b>F: ARDOR programs create new jobs or save jobs in Alaska.</b></p> <p><u>Target #1:</u> Increase number of jobs created or saved through ARDOR programs.</p> <p><u>Measure #1:</u> Number of jobs created or saved through ARDOR programs.</p>	<p><b>F1: Implement performance based criteria to distribute state funding among ARDORS.</b></p> <p><u>Target #1:</u> Increase number of ARDORS that meet criteria to receive I funding from XX to XX.</p> <p><u>Measure #1:</u> Number of ARDORS that receive funding.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> <li>• Provide tourism planning and business development assistance</li> <li>• Manage AlaskaHost hospitality training program</li> <li>• Implement Developing Alaska Rural Tourism Program and state tourism marketing contract</li> <li>• Manage Alaska Public Lands Information Center in Tok</li> <li>• Maintain Tourism Satellite Account and Alaska Visitor Statistics Program</li> <li>• Advocate for statewide mineral resource development</li> <li>• Provide a bridge between minerals industry and communities</li> <li>• Provide staff support for the Alaska Minerals Commission</li> <li>• Prepare Alaska Minerals Commission Report and contribute to Alaska's Mineral Industry Report</li> </ul>	<ul style="list-style-type: none"> <li>• Management of the Fisheries Revitalization Strategy</li> <li>• Provide vital analytical support related to Internal Water Permits, fisheries-related legislation, market trends and federal government efforts</li> <li>• Assist small businesses and entrepreneurs</li> <li>• Review business environment and recommend new product forms for the seafood industry</li> <li>• Work with Governor's Office, Commissioner's Office, Congressional delegation, and local governments to revitalize forest products and timber industry</li> <li>• Prepare the Alaska Economic Performance Report with Division of Community Advocacy</li> <li>• Prepare the International Export Annual Report with Governor's Office staff.</li> <li>• Prepare a report on the effects of new regulations on small businesses for the Department and Legislature.</li> </ul>

FY2007 Resources Allocated to Achieve Results							
<p><b>FY2007 Component Budget: \$3,080,500</b></p>	<p><b>Personnel:</b></p> <table> <tr> <td>Full time</td> <td>20</td> </tr> <tr> <td>Part time</td> <td>3</td> </tr> <tr> <td><b>Total</b></td> <td><b>23</b></td> </tr> </table>	Full time	20	Part time	3	<b>Total</b>	<b>23</b>
Full time	20						
Part time	3						
<b>Total</b>	<b>23</b>						

**Performance Measure Detail**

**A: Result - Rural Alaska communities in economically distressed areas will have more opportunities to diversify their economies through tourism development.**

**Target #1:** Increased economic benefits from visitors each year.

**Measure #1:** Increased lodging taxes in rural Alaska communities (excluding Anchorage, Fairbanks and Juneau)

**Alaska Lodging Taxes (millions \$)**

Year	YTD Total
2000	3.97
2001	4.37 +10.08%
2002	4.05

	-7.32%
2003	4.14
	+2.22%
2004	4.54
	+9.66%
2005	4.30
	-5.29%

Not including Anchorage, Fairbanks and Juneau.

**Analysis of results and challenges:** Statewide municipal lodging taxes revenues decreased nearly 3% between 2003 and 2004 (following a 2% decrease between 2002 and 2003). However, when Anchorage, Fairbanks, Fairbanks North Star Borough and Juneau are excluded, municipal lodging taxes increased nearly 10% from \$4,139,746 in 2003 to \$4,539,520 in 2004.

Regional economic impact data was last estimated by the McDowell Group in 1999. Based on 1998 data, regional visitor industry employment (direct) was estimated to be as follows: Southeast (4,407 jobs), Southcentral (10,786), Southwest (864), Interior North (4,254), State total (20,311). Payroll and proprietor's income for the same time period: Southeast (\$86.1 million), Southcentral (\$213.2 million), Southwest (\$16.9 million), Interior North (\$74.2 million), State total (\$390.4 million).

Currently local data is not available that can be linked directly to visitor activity except for lodging taxes. The ability to measure jobs, income and tax revenues to regions and municipalities would help the state determine whether communities were increasing their benefits from visitor activity.

**Target #2:** One or more projects developed in each rural Alaska community cluster by FY2008

**Measure #2:** Number of new projects developed by Rural Visitor Industry Product Development Program

**New Tourism Projects in Rural Alaska**

Fiscal Year	Quarter 2	Quarter 3	Quarter 4	YTD Total
FY 2005	0	0	0	0
FY 2006	7	0	0	7
	0%	0%	0%	0%

Call for projects for the Rural Alaska Product Development Program began in November 2004. Projects were selected in December 2004. The first stakeholder meeting was held in Nome in December 2004. Preliminary site visits took place in Bethel/YK Villages and Nome in August 2004.

**Analysis of results and challenges:** Products developed or in development in FY06:

Nome/Gambell/Savoonga: Small cruise ship tours (Stakeholder meetings held in Nome, Gambell, Savoonga; Workshop on packaging and how to negotiate with cruise lines scheduled, 2 branding workshops scheduled.

Central Southeast Alaska: Marketing partnership among Wrangell, Petersburg and Coffman Cove developed. Logo, brand and brochure developed.

Central Southeast Alaska: Alaska Coastal Wildlife viewing guides are in progress.

Copper Basin: A development of a regional marketing partnership and branding effort is underway.

Bethel/YK Delta: Development of tour itinerary including village experiences is in development (workshop facilitated by Sitka Tribal tours completed, training on reaching international markets completed, workshop and familiarization trip planned with Alaska receptive tour operators, additional stakeholder meetings planned).

Haines/Klukwan: Feasibility Study completed for tourism facility at Letnikof Cove.

Barrow: Development of bed & breakfast businesses underway (workshop complete, working with Fairbanks Convention & Visitors Bureau on mentor program, working with Alaska Bed & Breakfast Association on additional training at annual meeting).

**A1: Strategy - Implement DCED's Rural Visitor Industry Product Development Program.**

**Target #1:** Provide technical assistance to 4-6 rural community clusters in round one of the Rural Visitor Industry Product Development Program through the end of FY06.

**Measure #1:** Number of community clusters receiving technical assistance.

**Number of Community Clusters Receiving Technical Assistance**

Fiscal Year	Quarter 4	YTD Total	Target
FY 2004	0	0	0
FY 2005	4	4	4
FY 2006	0	0	6

**Analysis of results and challenges:** Developing Alaska Rural Tourism (DART): Through a partnership among the Department of Commerce (OED), Economic Development Administration, OED provided assistance to four major community groups to develop marketing strategies, marketing partnerships, or package tourism products and attractions. In FY 2005, these included the following:

- (1) Central Southeast Alaska (Wrangell, Petersburg, Coffman Cove)
- (2) Yukon Delta Communities (Bethel, Goodnews Bay, Mekoryuk, Quinahagak, Toksook Bay)
- (3) Bering Strait Communities (Nome, Savoonga, Gambell, King Island, Diomedes, Solomon)
- (4) Copper Valley Communities (Mentasta, Chistochina, Gulkana, Gakona, Glennallen, Copper Center, Kenny Lake, Chitina, other.

In FY06, we expect that 2-3 additional community groups could receive assistance (Bristol Bay, Haines/Kluckwan Inc./Cannery Cove LLC and Kodiak Island.)

**A2: Strategy - Improve customer service skills and employability of Alaska's workforce.**

**Target #1:** Increase number of students who complete AlaskaHost customer service training by 10% each year.

**Measure #1:** Number of students who complete AlaskaHost training each year.

**AlaskaHost Students**

Fiscal Year	ANC/FBX/JNU	Others	YTD Total	Target
FY 2003	182	111	293	0
FY 2004	301	283	584	0
FY 2005	424	198	622	0
FY 2006	0	0	0	684

**Analysis of results and challenges:** The number of students who completed AlaskaHost training increased 6.5% from 584 in FY04 to 622 in FY05. After seeing an increase in rural students completing AlaskaHost training between FY03 and FY04 (155%), the number of students who completed AlaskaHost training in communities outside Anchorage, Fairbanks and Juneau decreased 30% from 283 in FY04 to 198 in FY05. OED staff dedicated more updating AlaskaHost curriculum to make it more relative to Alaska communities in FY2006.

**B: Result - Increase the value of the minerals industry in Alaska**

**Target #1:** 10% annual increase in statewide mineral exploration spending.

**Measure #1:** Percentage increase in mineral exploration.

**Percentage of Expenditures in mineral exploration Alaska**

Year	Millions \$\$	% Increase
2002	26.5	0
2003	27.6	4.15%
2004	70.8	156.52%

**Target #2:** 10% annual increase in statewide mineral development expenditures.

**Measure #2:** Percentage increase in minerals development expenditures.

**Value of Development Expenditures in Alaska**

Year	Millions \$\$	% Increase
2002	34.1	0
2003	39.2	14.96%
2004	209.1	433.42%

**Analysis of results and challenges:** Development investment increased 433.4% between 2003 and 2004 (\$39.2 million to \$209.1 million)

**Target #3:** 10% annual increase in statewide mineral production value.

**Measure #3:** Percentage increase in minerals production value.

**Value of Minerals Production in Alaska**

Year	Billions \$\$	% Increase
2002	1.013	0
2003	1.0007	-.92%
2004	1.3387	33.87%

**Target #4:** 10% annual increase in total value of the Alaska minerals industry.

**Measure #4:** Percentage increase in total annual statewide minerals value.

**Total Value of Alaska Minerals Industry**

Year	Billions \$\$	% Increase
2002	1.0734	0
2003	1.0674	-.24%
2004	1.62	51.40%

**B1: Strategy - Be a strong advocate for mineral resource development.**

**Target #1:** Maintain trade show participation at 5 per year.

**Measure #1:** Number of trade show participated in FY2005

**Number of Trade Show Participation**

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total	Target
FY 2003	NA	NA	NA	NA	3	0
FY 2004	NA	NA	NA	NA	3	0
FY 2005	0	3	2	0	5	0

**Analysis of results and challenges:** In FY04, the DCED minerals specialist represented the state at 3 trade shows (Minerals Roundup 2004, Prospectors and Developers Association of Canada, Alaska Miners Association Convention). In FY05, the DCCED minerals specialist represented the state at MINExpo, Northwest Miners Association, Minerals Roundup 2005, Prospectors and Developers Association of Canada,

and Alaska Miners Association Convention.

**C: Result - Redevelop a statewide forest products industry.**

**Target #1:** Increase forest products industry employment in the Southeast region.

**Measure #1:** 10% employment increase

**Southeast Economic Region Employment**

Year	Logging	Wood Product	YTD Total
2001	500	300	800
2002	350 -30.00%	150 -50.00%	500 -37.50%
2003	400 +14.29%	150 0%	550 +10.00%

**Analysis of results and challenges:** The timber industry provided the economic foundation for many of Southeast Alaska communities. Year-round, well-paying jobs helped increase the standard of living and developed an infrastructure that made growth possible in other industries like tourism and seafood. The current state of decline in the industry affects transportation costs and other public services that were initiated in part to serve a growing timber industry.

Nonetheless, the Southeast region experienced some increase in timber-related employment between 2002 and 2003 (most recent data from the Alaska Department of Labor).

**C1: Strategy - Provide technical assistance and advocacy services through Commerce.**

**Target #1:** Fill forester position(s) in the Department of Commerce.

**Measure #1:** Number of forest product positions in the Department of Commerce.

**Forest Products Development Specialists**

Fiscal Year	Positions	YTD Total
FY 2001	0	0
FY 2002	0	0
FY 2003	0	0
FY 2004	0	0
FY 2005	0	0
FY 2006	1	1

**Analysis of results and challenges:** The Department of Commerce has not had a forest products development specialist for well over five years. A major change for the Department this year was the hiring of a senior level forest products development specialist position in July 05.

**D: Result - Through the Fisheries Revitalization Strategy, increase the economic return to the Alaska salmon industry.**

**Target #1:** By 2006, increase the ex-vessel value of the salmon industry by 10% over the 2003 prices.

**Measure #1:** Measure in ex-vessel value on a price/pound basis.



## Salmon Prices to Fishermen (ex-vessel)

Alaska Salmon Change in Price Per Pound from 2003 through 2005					
Species	2003	2004	% change between 2003 & 2004	2005	% change between 2004 & 2005
Chinook	\$ 1.37	\$ 1.62	18.8%	\$ 1.79	10%
Coho	\$ 0.49	\$ 0.58	18.4%	\$ 1.04	80%
Chum	\$ 0.17	\$ 0.16	-9.9%	\$ 0.24	54%
Sockeye	\$ 0.60	\$ 0.57	-4.7%	\$ 0.70	22%
Pink	\$ 0.08	\$ 0.07	-8.0%	\$ 0.10	36%
Total	\$ 0.25	\$ 0.29	16.7%	\$ 0.33	11%

**Analysis of results and challenges:** The ex-vessel value, or average price paid to fishermen, for Alaska salmon increased since 2003. In 2003, the price per pound for all salmon combined was \$0.25/lb. That increased to \$0.29/lb in 2004 for a percentage increase of 16.7%. As of the date of this entry (Sept. 2005) final 2005 numbers have not been posted. However, projections list the 2005 price per pound at \$0.33/lb, an 11% increase over 2004 and a 29% increase over 2003 prices.

Chinook and coho prices are enjoying significant gains. Sockeye, the greatest dollar earner among the Alaska salmon at about 60% of its total value, is slowly breaking out of its low price point from 2002, even while supply increases. Chum salmon is enjoying greater price increases in 2005. Pink salmon, a species that makes up between 10 - 20% of the total value of salmon, is beginning to increase in value to the fishermen.

Relying on the total average price per pound misses a number of key social and economic areas. The total harvest volume and its relationship to demand tend to be major drivers in the price per pound calculation. Also undescribed is the species by species and region by region change in value. These nuances are critical to Alaska residents depending on their situation. For more detailed information, please contact Glenn Haight, Fisheries Development Specialist at 907-465-5464 or glenn\_haight@commerce.state.ak.us.

**Target #2:** By 2006, increase the wholesale value of the salmon industry by 10% over the 2003 prices.

**Measure #2:** Measure in wholesale value on a price/pound basis.

Processing Values for Alaska Salmon from 2003 to 2004 by Species			
Species	2003	2004	% change
Chinook	\$ 2.20	\$ 3.53	60%
Chum	\$ 0.91	\$ 1.02	11%
Coho	\$ 1.54	\$ 1.99	29%
Pink	\$ 0.89	\$ 0.88	-2%
Sockeye	\$ 2.05	\$ 2.03	-1%
Total	\$ 1.29	\$ 1.43	11%

Processing values are also referred to as "wholesale" values.

**Analysis of results and challenges:** Wholesale values, the value obtained by the first company that buys the salmon from the fishermen, increased 11% from 2003 to 2004 on a price per pound basis. Aside from increases in prices paid in the market for products, price gains can come from changes in the product mix at the producer level. For instance, if more fillets are produced than head and gut from one year to the next, the price per pound will increase. This may not translate into true increases in value because in order to make fillets you remove weight that would otherwise be sold in a less processed form.

Data indicates that the value of various product forms at the wholesale level differs by species. For instance, the most valuable form to sell a Chinook or coho is whole, with its head on and viscera removed. Fillets are the most valuable product form for sockeye and chum. Can products remain the most valuable use for pink salmon.

Chinook and coho, the two high value troll caught species, witnessed strong gains in the wholesale market. This may be due to increased production of whole and fillet products within these species. Market demand appeared strong for both species.

Chum salmon values increased as more production was shifted to fillets, whole and head and gut, away from can.

Pink salmon values fell, most likely due to an increase in head and gut and wholesale products. These lesser processed products than pink salmon in a can, sell for less at the wholesale level. The growth in these product forms is to service increased production capacity in Thailand and China where producers are making new pink salmon products.

Sockeye values were down slightly. Declining values in the can market could not be lifted by a doubling of the fillet production at a slightly higher value, and marginal increases in headed and gutted products at a slightly higher prices.

**D1: Strategy - The Office will develop a grant program that increases product diversification.**

**Target #1:** By 2006, the fisheries equipment grant program will support an overall industry trend towards increased fillet production in Alaska to increase total fillet production by 10% by weight.

**Measure #1:** Percentage increases in Alaska salmon fillet production by value and volume.

Product form	Total Volume:			Total Value:		
	2003	2004	% change	2003	2004	% change
Canned	193,262,188	192,813,614	0%	\$ 227,970,115	\$ 246,823,763	9%
Fillets	13,498,511	19,303,610	43%	\$ 26,590,163	\$ 47,530,469	79%
Head & Gut	201,874,729	244,025,605	21%	\$ 205,586,061	\$ 306,141,547	49%
Mincel/Other	1,493,756	1,671,197	12%	\$ 766,104	\$ 1,116,442	48%
Roe	25,742,399	21,223,647	-18%	\$ 110,938,813	\$ 97,617,165	-12%
Whole	15,278,582	28,658,356	88%	\$ 11,240,578	\$ 24,014,369	114%
Total	451,150,166	507,696,019	13%	\$ 583,081,864	\$ 725,252,755	24%

  

Product form	\$/lb		% change in \$/lb
	2003	2004	
Canned	\$ 1.18	\$ 1.29	9%
Fillets	\$ 1.97	\$ 2.46	25%
Head & Gut	\$ 1.02	\$ 1.25	23%
Mincel/Other	\$ 0.51	\$ 0.67	32%
Roe	\$ 4.31	\$ 4.60	7%
Whole	\$ 0.74	\$ 0.84	14%
Total	\$ 1.29	\$ 1.43	11%

Reading from top left to right and then down, the three charts indicate total volume in pounds, total dollars and price per pound, respectively. Alaska salmon fillet production increased 43% at the wholesale level from 2003 to 2004. With an increase in the price per pound of 25%, this meant a total increase in the value of fillets of 79%. While this was impressive, other product forms witnessed similar significant increases in value - indicating a strong demand in the market for wild Alaska salmon.

**Analysis of results and challenges:** 2004 fillet production numbers mark a significant increase in Alaska salmon fillet production. Fillet production increased steadily the past few years, but garnered only about 2% of all production. That increased to 4% for 2004. While this remains a small amount of the overall production, this relatively big increase in this product form indicates Alaska salmon producers are making investments in an effort to meet changing consumer demands.

**D2: Strategy - The Office will develop a grant program that increases product diversification among its grantees.**

**Target #1:** By 2006, grantees that received fillet processing equipment will increase fillet production by 50% from 2003 levels.

**Measure #1:** Percentage increase in fillet production for grantees receiving funds for fileet equipment.

**Fillet Production for Fisheries Economic Development Grant Recipients**



2004 fillet production for the Fisheries Economic Development Grant Program grantees who received fillet equipment for the 2004 season increased 142% over 2003. H&G - Headed and gutted.

**Analysis of results and challenges:** The increase in statewide salmon fillet production in 2004 was 43%. The increase in fillet production among the Fisheries Economic Development Program grantees with fillet awards was 142%. When you remove the volume of production from the grant recipients from the statewide total, the increase in fillet production falls to 30%. Fillet equipment grants to Alaska producers influenced an increase in the annual fillet production by 12%.

**E: Result - Increased economic benefits from sale of Alaskan manufactured and/or made products.**

**Target #1:** Increased number of jobs resulting from sale of Alaskan manufactured and/or made products.  
**Measure #1:** The number of manufacturing jobs created in Alaska.

**Analysis of results and challenges:** Data will be collected and reported in FY2007

**E1: Strategy - Increased numbers of certified "Made in Alaska" products that are manufactured and/or made in Alaska.**

**Target #1:** Numbers of certified products per year that are manufactured and/or made in Alaska increase by 3%.

**Measure #1:** Numbers of certified products.

**Analysis of results and challenges:** Data will be collected and reported in FY2007.

**F: Result - ARDOR programs create new jobs or save jobs in Alaska.**

**Target #1:** Increase number of jobs created or saved through ARDOR programs.

**Measure #1:** Number of jobs created or saved through ARDOR programs.

**Analysis of results and challenges:** Data will be collected and reported in FY2007

### **F1: Strategy - Implement performance based criteria to distribute state funding among ARDORS.**

**Target #1:** Increase number of ARDORS that meet criteria to receive I funding from XX to XX.

**Measure #1:** Number of ARDORS that receive funding.

**Analysis of results and challenges:** Data will be collected and reported in FY2007

## **Key Component Challenges**

### Mining

Efforts to attract investments in mineral projects is a key challenge. Infrastructure for mineral projects is necessary to stimulate mining investment in the State. Lack of access, power and qualified labor presents a very expensive project scenario for mineral company management; this becomes an issue in deciding venues for project investment. Only very significant projects such as Pebble Copper, Donlin Creek, Greens Creek, and Red Dog are able to handle the formidable expenses associated with the construction of supporting infrastructure. Lesser, but significant projects are shelved until appropriate infrastructure is available.

Stable and reasonable taxation is critical to attracting mining companies to the State. The uncertainty of state and municipal taxes vexes mining executives when considering mineral project investment venues that have similar geologic settings. The tax burden imposed on a mining company can significantly alter the economics of projects; this variable provides an uncertain investment environment to the project managers. In this regard, presenting a stable and reasonable tax environment to the mining industry is important to create an environment favorable to project investment.

Permitting efficiency and consistency is important in maintaining a stable investment environment. The dismantling of permits like the General Camp permit creates an aura of uncertainty and adds to the expense of permitting and the time required to obtain certain permits.

### Fisheries

Competition from farmed salmon and other aquaculture products is a primary concern. The Alaska fishing industry is a dynamic and vital industry to Alaska. While many fisheries are strong, the Alaska salmon industry continues to suffer lower prices, due in large part to the increase of farmed salmon on the world market. Solutions for the Alaska salmon industry include increasing quality, providing product forms that meet changing consumer demands, and lowering costs and reducing inefficiencies where appropriate. Given the seafood industry's experience with farmed salmon, we can project with some certainty that the growth in other cold-water aquaculture species will have some level of impact on Alaska's wild fisheries. A major task for the industry and, government that supports this industry, is to develop a response to these competitive forces before they begin to actually impact economic value.

### Forest Products

Japan has historically purchased nearly 80% of Alaska's total wood product exports. Factors including changes in Japan's building industry combined with prolonged economic stagnation have shrunk this market for Alaska's high quality and high priced old growth forest timber. Alaska wood exporters must pursue new markets. China is an emergent force on the economic scene, but there remain significant trade issues which have yet to be resolved with that country.

Timber sales from the Tongass Forest remain curtailed due to continuing legal restraints upon the sale of much of its timber. In addition to creating legal uncertainty regarding many of its timber offerings, many U.S. Forest Service resources will now be required to rewrite the 1997 Forest Land Management Plan, further crippling progress of the timber sale program.

## Tourism

Many areas of rural Alaska continue to look to tourism development as a way to bring new wealth into communities hit hard by the downturns in the resource-based industries. They continue to lack resources necessary to prepare for and attract tourism development in their communities. They are requesting information and technical and planning assistance to help them make informed choices about tourism development.

Customer service training continues to be a priority need in rural areas. Even in places where tourism is well developed, customer service training is an ongoing need because of workforce turnover. Numerous organizations such as the Alaska Travel Industry Association, Alaska Association of Convention & Visitors Bureaus, Alaska Regional Development Organizations and the Cook Inlet Tribal Council have indicated their support for the State's AlaskaHost customer service training program.

Though many of the independent travelers visiting Alaska enter via the Alaska and the Taylor Highways. Many travelers simply drive through the Alaska Highway (AKHC) on their way to other areas and do not consider the "Borderlands" region a tourist destination in itself. This issue is being partially addressed through the expansion of the Tok visitor center which will be able to provide more information to travelers. The Alaska Public Lands Information Center also serves as a visitor welcome center for the State of Alaska and provides access to Alaska Marine Highway services.

## **Significant Changes in Results to be Delivered in FY2007**

### Mining

Establishing a reasonable and stable tax environment can be accomplished, at least in part, by appropriate education of the public, and the State and municipal administrations relative to the economics of mining projects. Developing economic models of projects for public education is an important issue. Also, working through the Minerals Commission, the Legislature and supporting agencies to convey this message in appropriate context is important.

Developing long range plans for establishing appropriate infrastructure for mineral districts will convey a mining-friendly impression to the mining companies and encourage investment in the State. Working through the Minerals Commission, the Legislature, the Administration (DOT&PF, DNR – Land Planning and AIDEA) and the BLM to establish these plans will convey the appropriate impression and reality.

Permitting proficiency and consistency is important in supporting project development. The Administration has made significant advances in promoting permitting efficiency and promoting cooperation in permitting by establishing the Large Mine Permitting group within the Office of Project Management and Permitting of DNR. There is room for improvement in the process. General Permits for routine activities such as establishing camps and for performing other routine project support functions serve an important, but functional method of permitting. Working through the Minerals Commission relative to these and other related issues will provide meaningful permitting discussion and consideration.

### Fisheries

The office is continuing its role in the Fisheries Revitalization Strategy which includes final grants administration on several equipment and marketing grants. Those grants will continue to be measured for effectiveness, as the Office further shifts its focus from program development and implementation to industry and government support services in an effort to withstand the potential impact of farmed salmon and other aquaculture species.

### Forest Products

The Forest Products Development Specialist will work with the Governor's Office, Commerce Commissioner's Office, Department of Natural Resources, Alaska's Congressional Delegation and local governments to advocate the revitalization of Alaska's timber industry, particularly in the creation of sustained yield units in parts of the Tongass.

We anticipate progress on three initiatives: (1) Create up to 200 new jobs in the Fairbanks area through enhanced manufacture of timber products; (2) Increase the timber industry in South Central Alaska, especially the wood chip manufacture and export business, through combined efforts of local, national and private organizations; (3) Revise the 1997 Tongass Land Management Plan, as mandated by the 9<sup>th</sup> Circuit Court Ruling.

## Tourism

Implementation of the Developing Alaska Rural Tourism project will continue through the end of FY06 to provide hands-on technical assistance to six economically distressed community clusters within rural Alaska to expand their visitor industry infrastructure, services, and attractions. The goal is to increase visitation to rural communities and increase employment opportunities including higher paying positions within the visitor industry.

AlaskaHost will have a new curriculum designed to better meet the needs of Alaska communities. The program marketing materials and web site will have a new look that will include Rie Munoz art. New teachers will be trained. Class participation will increase from 600 to 800 participants due to increased marketing and improvements to the program.

The Office of Economic Development will work with Alaska Travel Industry Association to commission Alaska Visitor Statistics Program V that will provide critical information to develop the state's tourism marketing program and help communities, regional marketing organizations and businesses develop business and marketing plans. Significant changes have occurred within the tourism industry since September 2001 (when AVSP IV was concluded) so results from AVSP V are highly anticipated.

## **Major Component Accomplishments in 2005**

### Mining

*Alaska Minerals Commission Report, 2005.* The Minerals Commission produced the report for the Legislature and Administration in early January 2005. The report identified a number of critical items that impact mineral resource development in one form or another. The Commission is now in the process of meeting to formulate its report for the 2006 Legislature and Administration. This report will identify issues of concern that need Legislative and Administrative action for resolution.

*Mineral Industry Report (Special Report 59).* Considerable effort was devoted to collecting, analyzing and reporting data relative to the status of the minerals industry in the State for 2004. This report is now being printed and will be available by the first of November. The value of mineral production for 2004 was \$1.34 billion and is expected to increase significantly in future years. The total value of the industry, including exploration, development and production, was \$1.62 billion in 2004, up considerably from \$1.07 billion in 2003.

*Trade Show Participation.* The Office of Economic Development has presented mining opportunities in the State by participation in a number of trade shows during 2005. The shows provided the opportunity to present the relative attractiveness of the State for mineral resource development. Items included presentation of existing projects and operations, geologic and geophysical information, data acquisition opportunities, tax regime, land status, and so forth. Mining Trade shows attended during the year include 1) Alaska Miners Association Fall Convention in Anchorage, 2) Northwest Mining Association meeting in Spokane, WA, 3) Roundup in Vancouver, BC, and 4) Prospectors and Developers Association of Canada.

*Project Support.* The Office participates in permitting support, project promotion activities, and otherwise supports the development of projects such as Pogo, Kensington, Donlin Creek, Pebble Copper, Rock Creek, MAN (platinum group metals), and others as opportunities are presented.

### Fisheries

*Fisheries Revitalization Strategy.* The fisheries staff continued its involvement in a number of important efforts to improve the health and strength of the Alaska salmon industry. Through the Fisheries Revitalization Strategy, staff continued to oversee \$35 million in equipment and marketing grants, and other salmon related projects making up the Fisheries Revitalization Strategy.

Through the Fisheries Revitalization Strategy, the State assisted in the modernization of the processing capacity of Alaska's processing sector, provided vital marketing funds to strengthen the positive attributes enjoyed by wild seafood, and provided other important infrastructure, financing and technical assistance to industry.

*Administration Support.* Staff continued to provide analytical support for the Administration in a number of areas, including fisheries-related legislation, changes in market trends including the potential impacts from other aquaculture

species, and federal government efforts particularly with the US Department of Agriculture. Staff works in several arenas of government, providing economic information, working to improve the business environment, supporting small businesses and entrepreneurs, and spurring new product forms.

Forest Products

A Forest Products Development Specialist was created in 2005 and commenced work in 2006. This position currently focuses on developing the above-mentioned initiatives. In addition, this position fosters strategic alliances and cooperative relationships with all of the necessary state, federal and private entities to bring this industry development to fruition.

Tourism

*Research.* Commissioned McDowell Group to conduct Rural Alaska Visitor survey in summer 2005 for Central Southeast, Bering Strait, Copper Basin, and Western Alaska.

*Local and Regional Planning and Development Efforts.* Commenced Developing Alaska Rural Tourism program and identified community groups for technical assistance including Central Southeast (Wrangell, Prince of Wales, Petersburg), Haines and Klukwan Village, Bering Straits Communities (Nome, Kotzebue, Gambell, Savoonga), Yukon Delta (Bethel, Mekoryuk, Quinhagak, Goodnews Bay), Copper River Basin Communities. Staff worked with communities to complete tourism inventories, training, market and product development.

*AlaskaHost Program.* The number of students who completed AlaskaHost training increased 6.5% from 584 in 2004 to 622 in 2005. Office of Economic Development staff dedicated more time this year to updating AlaskaHost curriculum to make it more relative to Alaska communities. The program is now significantly different than the SuperHost program licensed through Tourism British Columbia so that it can be considered a separate, state-owned program. A CultureHost component was also added.

**Statutory and Regulatory Authority**

AS 44.33.020	Department of Commerce, Community and Economic Development
AS 44.33.020 & AS 44.33.740	Rural Development
AS 44.33.431	Alaska Minerals Commission
AS 44.33.020(36)	Tourism Development

<b>Contact Information</b>
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**Office of Economic Development  
Component Financial Summary**

*All dollars shown in thousands*

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	864.9	1,448.2	2,036.8
72000 Travel	122.8	90.0	90.0
73000 Services	249.0	56.7	246.7
74000 Commodities	19.2	24.1	24.1
75000 Capital Outlay	0.0	7.9	2.9
77000 Grants, Benefits	0.5	60.0	680.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>1,256.4</b>	<b>1,686.9</b>	<b>3,080.5</b>
<b>Funding Sources:</b>			
1002 Federal Receipts	58.3	200.0	392.1
1004 General Fund Receipts	0.0	155.1	519.2
1007 Inter-Agency Receipts	63.8	70.7	815.9
1061 Capital Improvement Project Receipts	4.0	100.0	102.6
1108 Statutory Designated Program Receipts	82.4	20.1	51.0
1175 Business License and Corporation Filing Fees and Taxes	1,047.9	1,141.0	1,199.7
<b>Funding Totals</b>	<b>1,256.4</b>	<b>1,686.9</b>	<b>3,080.5</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Federal Receipts	51010	58.3	200.0	392.1
Interagency Receipts	51015	63.8	70.7	815.9
Statutory Designated Program Receipts	51063	82.4	20.1	51.0
Business License Receipts	51173	1,047.9	1,141.0	1,199.7
Capital Improvement Project Receipts	51200	4.0	100.0	102.6
<b>Restricted Total</b>		<b>1,256.4</b>	<b>1,531.8</b>	<b>2,561.3</b>
<b>Total Estimated Revenues</b>		<b>1,256.4</b>	<b>1,531.8</b>	<b>2,561.3</b>

**Summary of Component Budget Changes  
From FY2006 Management Plan to FY2007 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2006 Management Plan</b>	<b>155.1</b>	<b>200.0</b>	<b>1,331.8</b>	<b>1,686.9</b>
<b>Adjustments which will continue current level of service:</b>				
-Transfer PCN 08-T006 from Office of Economic Development to Commissioner's Office	0.0	0.0	-110.9	-110.9
-Transfer programs, funding, and 4 positions to Community Advocacy as part of reorganization	223.2	183.0	680.0	1,086.2
-Transfer PCN 08-T008 & 08-X102 to Office of Economic Development from Commissioner's Office	0.0	0.0	202.3	202.3
-Commemorative Coin Commission Staff Support transferred from the Governor's Office	46.6	0.0	0.0	46.6
-State Celebration Commission Staff Support transferred from the Governor's Office	92.8	0.0	0.0	92.8
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	2.2	3.0	21.7	26.9
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	0.2	0.3	2.4	2.9
-FY 07 Retirement Systems Cost Increase	3.9	5.5	39.7	49.1
<b>Proposed budget decreases:</b>				
-2nd Year Fiscal Note Adjustment for Regulation Effect on Small Businesses (HB33)	-5.0	0.0	0.0	-5.0
<b>Proposed budget increases:</b>				
-Risk Management Self-Insurance Funding Increase	0.2	0.3	2.2	2.7
<b>FY2007 Governor</b>	<b>519.2</b>	<b>392.1</b>	<b>2,169.2</b>	<b>3,080.5</b>

**Office of Economic Development  
Personal Services Information**

Authorized Positions		Personal Services Costs		
	<u>FY2006</u> <u>Management</u> <u>Plan</u>	<u>FY2007</u> <u>Governor</u>		
Full-time	15	20	Annual Salaries	1,328,482
Part-time	3	3	COLA	35,454
Nonpermanent	1	1	Premium Pay	0
			Annual Benefits	673,193
			<i>Less 0.02% Vacancy Factor</i>	(329)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>19</b>	<b>24</b>	<b>Total Personal Services</b>	<b>2,036,800</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk II	0	0	0	3	3
Administrative Supervisor	0	0	0	1	1
Dev Spec I, Option A	0	0	2	0	2
Dev Spec II, Option A	0	0	1	0	1
Dev Spec II, Option B	0	1	2	0	3
Development Manager	1	0	0	0	1
Economist	1	0	0	0	1
Fisheries Development Spec	0	0	0	1	1
Forestry Specialist	1	0	0	0	1
Grants Administrator II	0	0	1	0	1
Local Govt Spec III	2	0	0	0	2
Local Govt Spec IV	1	0	0	0	1
Outreach Administrator	1	0	0	0	1
Planner III	0	0	1	0	1
Project Coordinator	1	0	0	0	1
Publications Tech II	1	0	0	0	1
Special Projects Coordinator	1	0	0	0	1
Special Projects Manager	1	0	0	0	1
<b>Totals</b>	<b>11</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>24</b>