

THE IMPACT OF SEALASKA CORPORATION ON THE SOUTHEAST ALASKA ECONOMY

PREPARED FOR:

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Research-Based Consulting

Juneau
Anchorage

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Executive Summary

The purpose of this study was to measure the economic impact of Sealaska Corporation and its subsidiary operations on Southeast Alaska. This report presents region-wide data and impacts, as well as data for the communities of Hoonah, Kake, Hydaburg, and Prince of Wales Island overall.

Sealaska-related Spending and Employment in Southeast

- Sealaska Corporation, Sealaska Timber Corporation, and Sealaska Heritage Institute spent \$46 million in Southeast in 2002 in support of corporate and timber-related operations. This spending was spread throughout the Southeast region. Over 360 businesses and organizations in 16 Southeast communities received spending from Sealaska-related activities.
- Region-wide, Sealaska and its contractors employed approximately 695 full and part-time workers in 2002. These workers earned an estimated \$20 million in payroll.
- Sealaska and its contractor employment combined make the corporation the largest for-profit private sector employer in Southeast Alaska.
- Including indirect employment and payroll, Sealaska-related employment total approximately 1,000 workers and approximately \$29 million in payroll in Southeast Alaska.
- The total economic “output” of Sealaska Corporation and its subsidiary operations totaled approximately \$85 million in 2002. This is a measure of all direct and indirect spending in the region associated with Sealaska Corporation.

Other Sealaska Benefits in Southeast

- Unlike other corporations in the forest products industry, Sealaska Corporation has a mission broader than paying dividends to shareholders. In addition to generating dividends, Sealaska’s mission includes cultural preservation, shareholder education and shareholder hire. Sealaska Corporation provides the seed money for the Sealaska Heritage Institute, which sponsors and supports numerous Native culture programs across Southeast Alaska. Using money set aside by Sealaska Corporation, Sealaska Heritage Institute awarded \$743,000 in scholarships in 2002, \$308,000 of which was awarded to students from 17 Southeast communities.

Role of Sealaska in Southeast Communities

Sealaska logging activity and, in particular, ship loading activity represent very important sources of cash to many village residents. A total of 208 Hoonah, Kake, and Hydaburg residents earned some income from ship loading. Though these jobs are part-time, they are a critical source of cash income.

Kake

- In Kake, 118 workers earn income from Sealaska-related logging activity. Sealaska-related employment contributed approximately \$2.4 million in personal income in 2002. This accounts for 19 percent of the community's estimated total personal income of \$12 million.

Hoonah

- Hoonah, a community of 868 residents (plus another 75 at the nearby Whitestone Logging camp), has 150 Sealaska-related jobs with approximately \$3.1 million in personal income. This represents approximately 20 percent of total local personal income.

Hydaburg

- In Hydaburg, with a population of 364, 73 local residents earned income from ship-loading work. Sealaska subcontractors also create additional local employment through logging activity. This is in a community that is the poorest in Southeast Alaska, with per capita income that is only about half the regional average. Total annual Sealaska-related personal income in Hydaburg is approximately \$1 million, about one-quarter of total personal income for Hydaburg in 2002.

Craig/Klawock and Other Prince of Wales (POW) Island

- Sealaska is by far the single largest source of employment on POW Island. Sealaska contributes approximately 310 jobs to the POW Island economy. This includes both full-time and part-time employment in Sealaska logging-related activity. This count includes employment for residents of Hydaburg.
- In addition to logging contracts, Sealaska spent another \$1.2 million in 2002 with a total of 35 POW businesses located in Craig, Hydaburg, Thorne Bay, and Klawock.

**Summary of Economic Impacts of Sealaska Corporation
on Southeast Alaska, 2002**

Total Southeast Regional Impacts	
Direct employment	695
Direct + indirect employment	1,000
Direct payroll	\$20 million
Direct + indirect payroll	\$29 million
Total Sealaska spending	\$46 million
Number of Southeast businesses and organizations receiving Sealaska dollars	360
Number of Southeast communities receiving Sealaska dollars	16
Total Sealaska-related Output	\$86 million
Local Area Impacts*	
Hoonah Impacts	
Sealaska-related employment	150
Sealaska-related payroll	\$3.1 million
Percentage of total personal income	20%
Kake Impacts	
Sealaska-related employment	118
Sealaska-related payroll	\$2.4 million
Percentage of total personal income	19%
Hydaburg Impacts	
Sealaska-related employment	82
Sealaska-related payroll	\$1 million
Percentage of total personal income	24%
Craig/Klawock and Other POW Island Impacts	
Sealaska-related employment	310
Sealaska-related payroll	\$10.6 million
Other Sealaska Contributions to SE Economy	
Sealaska Heritage Institute scholarship recipients in Southeast	299
Number of Southeast communities with SHI scholarship recipients	17
Total scholarships awarded in Southeast	\$308,000

*Note: Individual areas totals do not include indirect impacts of Sealaska activity. The numbers in this table are based on the best available data and should be considered estimates.

Introduction

Sealaska Corporation is a Native-owned corporation founded in 1971 as one of 13 regional Native corporations under the Alaska Native Claims Settlement Act (ANCSA). Sealaska Corporation's mission is to manage corporate assets to provide economic, social and cultural benefits to shareholders. Sealaska is the largest private landholder in the region, and represents over 16,000 Tlingit, Haida, and Tsimshian shareholders, approximately half of whom live in Southeast Alaska.

Most of Sealaska's economic activity is generated by its subsidiary, Sealaska Timber Corporation. Sealaska Corporation's cultural and educational mission is administered by Sealaska Heritage Institute, which sponsors and supports numerous Native language and culture programs across Southeast Alaska, including the biennial cultural event, Celebration. Each year, Sealaska Heritage Institute awards scholarships from funds set aside by Sealaska Corporation to Alaska Natives who are Sealaska shareholders and descendants.

The purpose of this study is to measure the economic impact of Sealaska Corporation and its subsidiary operations on the Southeast Alaska economy. Sealaska Timber Corporation, through contractors, harvests and exports logs from the Hoonah, Kake and Prince of Wales Island areas. Communities specifically affected by this activity include Hoonah, Kake, Hydaburg, Craig/Klawock and the Prince of Wales Island economy in general. Other communities throughout Southeast Alaska benefit as a result of employment opportunities in stevedoring.

This analysis focuses on the employment and personal income effects of Sealaska operations in Southeast overall. Sealaska Corporation, Sealaska Timber Corporation, and Sealaska Heritage Institute provided detailed data on spending in Southeast communities. Key Sealaska contractors were contacted to collect information about the residency of the employees working on the Sealaska contracts. This, along with data from the Alaska Department of Labor and Workforce Development (ADOL), the U.S. Bureau of Economic Analysis (BEA) and the U.S. Census, provided the data used in the analysis.

While this report provides professionally defensible estimate of the economic impact of Sealaska, it is important to recognize the limitations of this analysis. The study team relied heavily on the employment data provided by contractors. Residency of workers at some remote logging camps was not available from all subcontractors. The available data is considered to be accurate, however, there was no way to independently verify this information. Alaska Department of Labor and Workforce Development employment data does not consider the residency of employees – its published data considers only place-of-work.

Personal income is a strong indicator of the economic impact. However, very little data exists on personal income in small communities. In fact, the most current measure of per capita income for communities such as Hoonah, Kake, and Hydaburg is the 2000 census. More recent data is available, from the BEA for larger geographic areas, however, this data does not accurately reflect many of the smaller communities within these areas.

Given this dearth of relevant and timely data, the study team relied on a mix of current employment data and wage rate data (2002), census area per capita source data at the community level (as of 1999, from the 2000 U.S. Census), and other income data such as Commercial Fisheries Entry Commission data on the value of residents' commercial seafood harvest over the last several years.

Finally, this report presents the most comprehensive picture possible of personal income sources in affected communities, given data limitations and the limited time available to conduct this study. A more detailed assessment of local personal income sources would be possible with a survey of key employers in the affect communities.

Chapter I: The Economic Impact of Sealaska Corporation

This chapter provides spending and employment data for Sealaska Corporation, Sealaska Timber Corporation and Sealaska Heritage Institute. This data reveals important economic impacts, but it does not provide a complete picture of the corporation's impact on the Southeast region or its communities.

While Sealaska Heritage Institute scholarships have been included in the analysis of Sealaska spending, some of Sealaska's contributions to Southeast are beyond the scope of this report, such as the long term economic benefits of SHI scholarships after recipients of educational funding return to the region with degrees and vocational certificates. Sealaska Corporation's shareholder intern program and shareholder hire policy have likewise provided educational and career opportunities that may not otherwise have been available to many Southeast residents. Due to a lack of data, this report does not consider the economic impact of Sealaska events, such as the three-day Celebration event, which draws a thousand or more visitors to Juneau and creates thousands of dollars of spending in Juneau. There are also impacts from dividends paid to shareholders in 2003 as a result of 2002 earnings that were paid outside the study period of this report. In the first dividend payment since 2000, Sealaska Corporation paid \$4.8 million to urban, at-large, and village shareholders in April 2003, an average of \$300 per shareholder.

This report focuses on the quantifiable direct impact of corporation business activity, namely timber harvesting, on Southeast communities including spending on payroll and purchases of goods and services by Sealaska Corporation, Sealaska Timber Corporation and Sealaska Heritage Institute in 2002.

Sealaska-related Spending in Southeast Alaska

Direct Sealaska Corporation, Sealaska Timber Corporation, and Sealaska Heritage Institute spending in Southeast Alaska in 2002 totaled approximately \$45.6 million in payroll and the purchase of goods and services. Over 360 businesses and non-profit organizations in 16 Southeast communities received Sealaska-related spending. Organizations that received Sealaska spending in 2002 include logging contractors, marine service centers, air carriers, and non-profit organizations.

In calendar year 2002, Sealaska Corporation directly spent over \$7.5 million on payroll and the purchase of goods and services in Southeast communities. Over 79 percent of this spending occurred in Juneau. The Sealaska Heritage Institute spent an additional \$800,000 on payroll and the purchase of goods and services in these communities. The following table details Sealaska Corporation's direct spending by community in 2002.

**Sealaska Corporation Spending in Southeast Alaska, 2002
By Community**

Community	Spending
Juneau	\$5,988,019
Craig	380,700
Ketchikan	233,858
Kake	206,705
Hydaburg	166,618
Angoon	147,087
Klawock	145,795
Hoonah	124,200
Yakutat	96,602
Sitka	26,607
Haines	9,333
All Other SE Communities	2,966
Total	\$7,528,491

*Note: Does not include Sealaska Timber Corporation.

Sealaska Timber Corporation spent over \$37 million on payroll and the purchase of goods and services in Southeast Alaska in 2002. Most of this spending went to logging and ship loading contractors operating in the Hoonah, Kake and Prince of Wales Island areas. The following table shows Sealaska Timber Corporation direct spending on payroll and purchases in 2002.

**Sealaska Timber Corporation Spending in Southeast Alaska, 2002
By Community**

Community	Spending
POW Island	\$15,615,016
Ketchikan	10,927,783
Kake	5,311,983
Hoonah	5,031,302
Unassigned Southeast	198,992
Sitka	130,379
Juneau	53,111
All Other Southeast	44,277
Total Southeast Spending	\$37,312,843

Sealaska-related Employment and Payroll

Sealaska Corporation employment and its contractor employment combined to make the corporation the largest for-profit private sector employer in Southeast Alaska. Sealaska accounts for more employment than Norquest, Greens Creek

Mining Company, and Alaska Airlines, some of the region's other largest for-profit private employers. Among all private sector businesses in Southeast Alaska, including non-profit organizations, Sealaska Corporation and its contractor employment ranks second to SEARHC.

Region-wide, Sealaska Corporation, Sealaska Timber Corporation, Sealaska Heritage Institute, and its contractors employed approximately 695 full and part-time workers in 2002 in Southeast Alaska. Annual average employment was 425 workers. These workers earned an estimated \$20 million in annual payroll.

Sealaska Corporation headquarters employment in Juneau averaged 34 workers in 2002, with a total payroll of \$2.3 million. Sealaska Heritage Institute employment in Juneau averaged 19 workers in 2002, with a total payroll for the year of \$490,000. Including local spending and payroll, Sealaska Corporation's direct impact in Juneau totaled approximately \$8 million.

STC directly employs 28 in Southeast Alaska, including 15 in Ketchikan, eight in Craig and a combined total of five in Hoonah and other Southeast communities. These jobs accounted for almost \$1.6 million in annual payroll in 2002.

**Sealaska Timber Corporation Payroll in Southeast Alaska, 2002
By Community**

Community	Payroll
Ketchikan	\$959,090
Craig	342,720
Hoonah	152,201
All Other Southeast	123,753
Total Southeast Payroll	\$1,577,764

Sealaska Timber Corporation contracts created an estimated 600 jobs in Southeast Alaska. While payroll data is not available for these contractors, based on ADOL wage estimates for the region, it is estimated that these jobs account for \$15.7 million in annual payroll.

**Sealaska Timber Corporation Contractor Employment
in Southeast Alaska, 2002
By Community**

Community	Total Number of Employees
Kake	118
Hoonah	150
Hydaburg	82
Craig/Klawock/Other POW	228
All Other Southeast	19
Total Southeast Employees	597

Sealaska-related direct employment in Southeast was just under 700 jobs in 2002. Including indirect employment and payroll, Sealaska-related employment totals approximately 1,000 workers and \$29 million in payroll in Southeast Alaska, based on McDowell Group estimates. Based on direct and indirect employment, Sealaska Corporation accounts for 2 percent of the region's economy.

**Sealaska-Related Employment
in Southeast Alaska, 2002**

Location	Annual Average Employment	Peak Monthly Employment
Sealaska Corporation headquarters	34	40
Sealaska Timber Corporation headquarters	29	34
Sealaska Timber Corporation contractors	425	597
Sealaska Heritage Institute headquarters	19	24
Total Sealaska-related direct employment	507	695

Sealaska Heritage Institute Scholarships

Sealaska Heritage Institute awards scholarships annually from funds set aside by Sealaska Corporation. Sealaska Heritage Institute awarded \$743,000 to Alaska Natives who are Sealaska shareholders and descendants for college, university, and vocational and technical schools in 2002. A significant amount of these scholarships, almost \$308,000, were awarded to residents of Southeast Alaska communities. SHI scholarships were awarded to 299 students residing in 17 Southeast communities.

Sealaska Heritage Institute Scholarship Awards in Southeast Alaska, 2002

City	Number of Recipients	Total Scholarship Awards
Angoon	7	\$7,400
Craig	10	\$11,150
Gustavus	1	\$1,250
Haines	11	\$13,700
Hoonah	18	\$13,525
Hydaburg	4	\$1,858
Juneau	95	\$99,563
Take	9	\$7,750
Ketchikan	65	\$65,380
Klawock	2	\$2,300
Metlakatla	2	\$1,850
Pelican	2	\$3,700
Petersburg	5	\$5,150
Port Alexander	1	\$800
Sitka	33	\$35,150
Wrangell	26	\$29,288
Yakutat	8	\$8,100
Total Southeast	299	\$307,913

Chapter II: The Role of Sealaska in Southeast Alaska's Rural Economies

As indicated above, many Southeast communities experience some level of economic impact from Sealaska timber harvest operations. This analysis focuses on the smaller communities that are substantially impacted and dependent on Sealaska jobs and income from logging and/or ship loading, including Hoonah, Kake, and Hydaburg. This section also provides data on the impact of Sealaska on the POW Island economy overall.

Hoonah

Sealaska Timber Corporation contractors harvested approximately 20 mmbf last year in the Hoonah area and constructed four miles of road. Whitestone Logging is Sealaska's logging contractor in the Hoonah area.

Hoonah is a community of 868 residents (plus another 75 residents at the nearby Whitestone Logging camp) with an economy based on commercial fishing and seafood processing, timber harvesting, and government. The population of Hoonah has been slowly declining in recent years, losing about 3 percent (24 residents) between 1998 and 2002.

The data presented in the following table does not include the population at the Whitestone Logging Camp. According to the Alaska Department of Labor and Workforce Development (ADOL), the camp's population was estimated to be 75 people in 2002. Whitestone's population continued to decline from 109 in 2001, 116 in 2000, 152 in 1998, 165 in 1997 and 205 in 1996.

Population Trends in Hoonah, 1990, 1995, 1998-2002

Year	Population
1990	795
1995	878
1998	892
1999	877
2000	860
2001	873
2002	868
% Change 1998-02	-2.7%
% Change 01-02	-0.6%
% Native	61%

According to ADOL, Hoonah City Schools was the community's largest employer in 2002. At the peak, Whitestone Logging employed another 115 people (not all Sealaska-related). Other leading employers include Hoonah Cold Storage, the City of Hoonah, and Hoonah Indian Association.

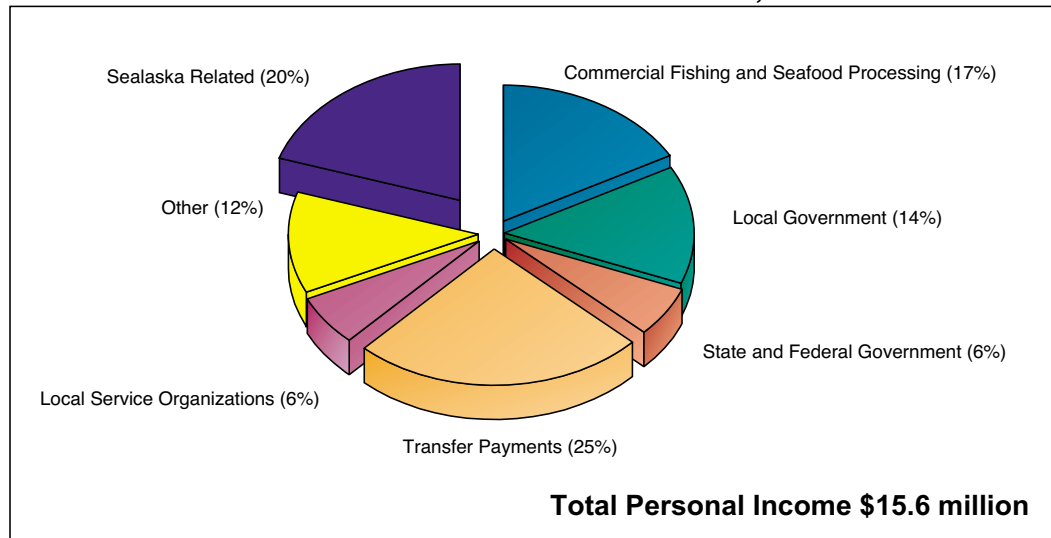
**Annual Average Employment in Hoonah, 2002
Non-Agricultural Employment
Top Ten Employers**

Employer	Annual Average Employment	Peak Monthly Employment
Hoonah City Schools	70	85
Whitestone Logging, Inc.	59	115
Hoonah Cold Storage	35	65
City of Hoonah	26	32
Hoonah Indian Association	21	25
U.S. Department of Agriculture - Forest Service	19	27
Wards Cove Packing, Inc.	16	18
Harbor Lights Minimart	9	10
Hoonah Alaska Native Sisterhood	7	8
Alaska Native Brotherhood Camp #12	7	7
All Other Employers (27)	73	
Total Employment	342	

A survey of STC contractors found that Sealaska-related employment in Hoonah totaled approximately 150 workers in 2002. This includes full-time and part-time jobs. Employment in ship loading peaked at 77 workers, while Whitestone employment peaked at 63 jobs (Sealaska-related employment only). Other companies working for Sealaska in the Hoonah area include Pacific Rim Log Scaling and Yaan Dux Xach Co.

One approach to measuring the role of a business or industry in a local economy is to examine sources of personal income. Based on U.S. Census per capita income level of \$16,097, personal income in Hoonah totals \$15.6 million in 2002. The following chart indicates the key sources of this personal income, including personal income for local people generated as a result of Sealaska timber harvest activity.

Sources of Personal Income in Hoonah, 2002



Sealaska-related timber harvest activity accounts for one-fifth of personal income dollars flowing into Hoonah, or approximately \$3.1 million annually. Commercial fishing and seafood processing account for an estimated \$2.6 million in personal income. Over the 1997-2001 period, local commercial fishermen harvested fish with an average annual ex-vessel value of \$2.5 million. It is important to note that ex-vessel value represents gross income to fishermen. Net income, or personal income, is the amount of money left over after all expenses have been paid (for the purposes of this study, net income is assumed to be 60 percent of ex-vessel value, or an average of \$1.5 million). According to preliminary Commercial Fisheries Entry Commission data, 55 Hoonah resident permit holders fished 81 different permits in 2002.

Local government, including the school district, is an important source of personal income in most rural communities, including Hoonah. Local government accounts for an estimated \$2.2 million in personal income for Hoonah residents. State and federal government sources of personal income include jobs with the Alaska departments of Public Safety, Fish and Game, and Transportation, as well as the U.S. Department of Agriculture, Forest Service.

Local service organizations include Hoonah Indian Association, Hoonah Alaska Native Sisterhood, Alaska Native Brotherhood, Tlingit Haida Regional Electric Authority, and Southeast Alaska Regional Health Corporation. Together these organizations account for approximately \$940,000 in personal income.

Transfer payments account for one-quarter of all personal income for Hoonah residents, or approximately \$3.9 million. Transfer payments include all payments from governments to individuals, such as Permanent Fund dividends, social security payments, welfare payments, and other government transfers.

The "Other" category of personal income includes all other sources, in particular income generated from other private sector commercial activity such as construction, retail sales, transportation services, other services, lodging, and others. Personal income generated as a result of tourism activity is included in

this category. The total estimated personal income from this category is \$1.8 million.

Kake

Sealaska Timber Corporation contractors harvested approximately 12 mmbf last year in the Kake area and constructed 12.5 miles of road. Kake Tribal Logging is Sealaska's logging contractor in the Kake area.

Kake is a community of 700 residents, with an economy based on commercial fishing and seafood processing, timber harvesting, government and tourism. Kake's population has been declining slowly in recent years after peaking in 1998 at 775 residents.

Population Trends in Kake, 1990, 1995, 1998-2002

Year	Population
1990	700
1995	703
1998	775
1999	745
2000	710
2001	697
2002	700
% Change 1998-02	-9.7%
% Change 01-02	0.4%
% Native	67%

According to 2002 ADOL data, Kake Foods, Kake Tribal Corporation and Kake Tribal Logging were the community's largest employers that year. At the peak, Kake Tribal Logging employed 83 people. Other leading employers include the Kake City School District, and the Village of Kake.

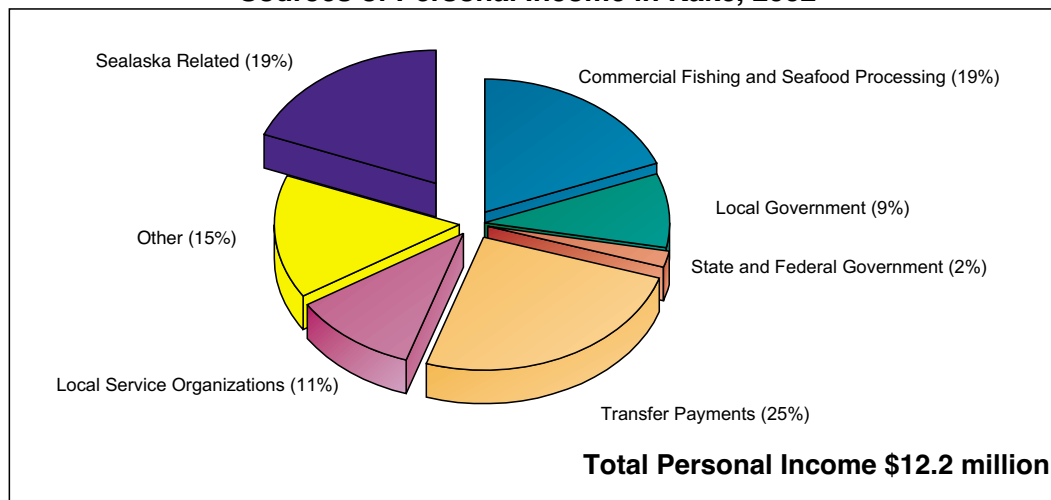
Southeast Stevedoring employs another 58 residents of Kake which is not reflected in ADOL data. A total of 118 full and part-time local jobs in Kake are attributable to Sealaska logging activity. Sealaska-related jobs contributed approximately \$2.4 million in personal income in Kake in 2002.

**Annual Average Employment in Kake, 2002
Non-Agricultural Employment
Top Employers**

Employer	Annual Average Employment	Peak Monthly Employment
Kake Foods Inc.	62	181
Kake Tribal Corp.	55	73
Kake Tribal Logging and Timber	54	83
Kake City School District	30	38
Organized Village of Kake	27	32
City of Kake	19	34
SE Alaska Regional Health Corp.	14	16
SOS Value Mart Inc.	11	12
Gunnuck Creek Hatchery	7	12
Rural Alaska Community Action Program	5	10
All Other Employers (13)	26	
Total Employment	309	

Based on McDowell Group estimates, personal income in Kake totals \$12.2 million annually, based on a per capita income level of approximately \$17,411. The following chart indicates the key sources of this personal income, including personal income for residents generated as a result of Sealaska timber harvest activity.

Sources of Personal Income in Kake, 2002



Sealaska accounted for about one-fifth of all personal income dollars flowing into Kake in 2002, or approximately \$2.4 million annually. Commercial fishing and seafood processing accounted for an estimated \$2.3 million in personal income. During the 1998-2002 period, local commercial fishermen harvested fish with an ex-vessel value of approximately \$900,000, according to preliminary Commercial

Fisheries Entry Commission data. In 2002, 26 Kake resident permit holders fished 43 different permits.

City government accounts for 9% of all local personal income in Kake, or approximately \$1.2 million. Kake has relatively few state and federal jobs, with only about \$180,000 in total personal income from these sources.

Local service organizations include Organized Village of Kake, Southeast Alaska Regional Health Corporation, the Rural Alaska Community Action Program, and Tlingit Haida Regional Electric Authority. Together these organizations account for approximately \$1.3 million in personal income.

Transfer payments account for approximately one-quarter of all personal income for Kake residents, or about \$3.0 million. Again, transfer payments include all payments from governments to individuals, such as Permanent Fund dividends, social security payments, welfare payments, and other government transfers.

The “Other” category of personal income includes all other sources, in particular income generated from other private sector commercial activity such as construction, retail sales, transportation services, other services, lodging, and others. Personal income generated as a result of tourism activity is included in this category. The total estimated personal income from this category is \$1.8 million.

Hydaburg

Hydaburg’s population is 364 residents, according to the Alaska DOL. Hydaburg’s population has been declining in recent years after peaking in 1995 at 406 residents, but experienced a slight increase in 2002. Timber industry activity is the primary source of local employment, along with local government.

Population Trends in Hydaburg, 1990, 1995, 1998-2002

Year	Population
1990	384
1995	406
1998	397
1999	369
2000	382
2001	354
2002	364
% Change 1998-02	-8.3%
% Change 01-02	2.8%
% Native	85%

According to ADOL data, the Hydaburg City School District, Haida Corporation, and Southeast Stevedoring were the community’s largest employers in 2002. At

the peak, Southeast Stevedoring employed 73 Hydaburg people while the school district employed a peak of 30. Other leading employers include City of Hydaburg, and SEARHC.

**Annual Average Employment in Hydaburg, 2002
Non-Agricultural Employment
Top Ten Employers**

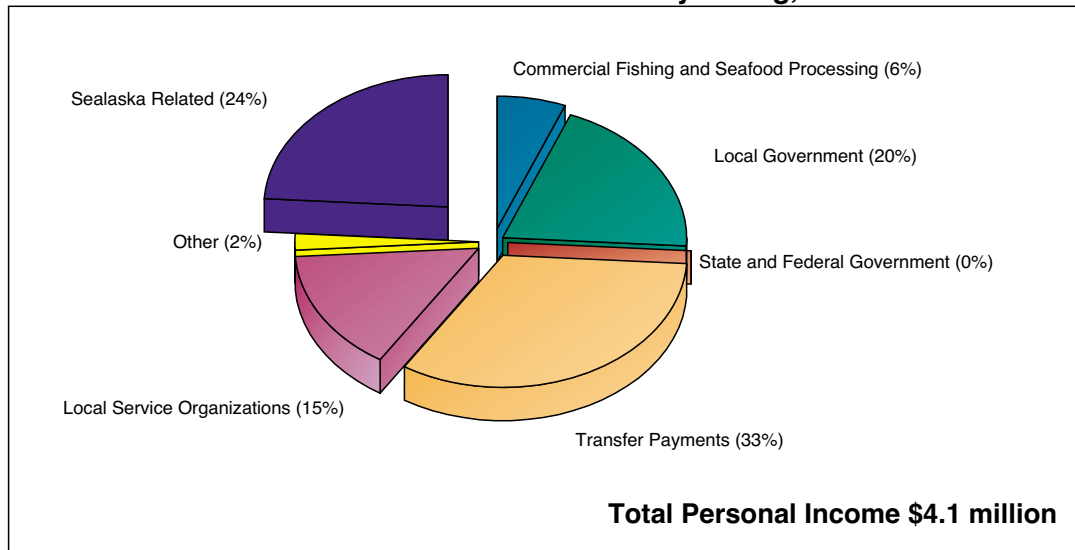
Employer	Annual Average Employment	Peak Monthly Employment
Hydaburg City School District	26	30
Haida Corporation	12	16
Southeast Stevedoring	12	40
City of Hydaburg	10	14
SE Alaska Regional Health Corp.	10	10
Hydaburg Cooperative Association IRA	7	12
Dot's	3	5
Grants Towing	2	4
Rural Alaska Community Action Program	2	3
Haida Oil Products	1	5
Total Employment	84	

Currently, a total of approximately 82 jobs, mostly part-time, for Hydaburg residents are attributable to Sealaska logging activity. Southeast Stevedoring employs 73 in Hydaburg and Alaska Pacific Logging employs another 5. Sealaska-related jobs accounted for approximately \$1 million in personal income in 2002.

Hydaburg has among the lowest per capita income rates in Alaska. In 1999, per capita income in the area averaged \$11,401, only about 62 percent of the Prince of Wales-Outer Ketchikan average of \$18,395 and approximately half the Alaska average of \$22,660. Approximately 85 percent of the residents of Hydaburg are Native, according to the 2000 Census.

Personal income in Hydaburg totaled \$4.1 million in 2002, based on an estimated per capita income level of \$11,401. The following chart indicates the key sources of this personal income, including personal income for residents generated as a result of Sealaska timber harvest activity.

Sources of Personal Income in Hydaburg, 2002



Sealaska timber harvests accounts for about one-quarter of all personal income in Hydaburg, or approximately \$1 million annually. Commercial fishing and seafood processing account for an estimated \$250,000 in personal income. During the five-year period of 1998-2002, local commercial fishermen harvested fish with an average annual ex-vessel value of approximately \$400,000, according to preliminary Commercial Fisheries Entry Commission data. In 2002, 18 Hydaburg resident permit holders fished 31 different permits.

Local government, including the school district, accounts for an estimated \$830,000 in personal income in Hydaburg.

Local service organizations include Southeast Alaska Regional Health Corporation, the Rural Alaska Community Action Program, and the Hydaburg Cooperative Association IRA. These organizations account for approximately \$600,000 in personal income.

Transfer payments account for approximately one-third of all personal income for Hydaburg residents, or about \$1.4 million. Again, transfer payments include all payments from governments to individuals, such as Permanent Fund dividends, social security payments, welfare payments, and other government transfers.

The "Other" category of personal income includes all other sources, including Haida Corp and other local businesses. The total estimated personal income from this category is \$400,000.

Craig/Klawock and the POW Island Economy

Most of Sealaska's timber harvest activity occurs in the Prince of Wales Island area, including Dall Island and Soda Bay. In 2002 approximately 64 mmbf was harvested from these areas, and 25 miles of road were constructed. Sealaska's

logging contractors include Phoenix Logging (Dall Island), Alaska-Pacific Logging (Soda Bay and Natzuhini) and Columbia Helicopters subcontracting with Shaan Seet (Dall Island).

Sealaska is by far the single largest source of employment on POW Island. Sealaska-related employment on POW Island directly generated approximately 310 full and part-time jobs and \$9.8 million in annual payroll in 2002. This includes jobs with Shaan Seet, Phoenix Logging Co., Southeast Stevedoring and Alaska Pacific Logging, Inc. Including direct, indirect, and induced employment, Sealaska creates a total of between 350 and 400 jobs in the POW area.

In addition to logging contracts, Sealaska Corporation and STC spent another \$1.2 million in 2002 with a total of 35 POW businesses located in Craig, Hydaburg, Thorne Bay, and Klawock.

Sealaska is a strong component in an otherwise weakened POW economy. Including logging and ship-loading contracts, direct STC and Sealaska Corporation local purchases of goods and services and local STC payroll, Sealaska invested \$22 million in the POW economy in 2002.

Chapter III: The Potential Socioeconomic Impacts of Reduced Sealaska Timber Harvests

In Chapters I and II, the employment and income impacts of Sealaska were presented. These impacts, however, do not necessarily reflect what would happen to an economy if Sealaska were to reduce or discontinue timber harvest operations in the Hoonah, Kake or Prince of Wales Island areas. Several factors would determine, ultimately, how people and a local economy would react to the loss of Sealaska-related jobs and income.

This chapter briefly addresses the potential socioeconomic impacts of reduced Sealaska timber harvest activity. The chapter begins with a historical perspective on rural socioeconomic conditions and the political forces that have shaped the economies of these communities in the recent past.

The Economics of Rural Southeast Communities

While economic conditions in rural Southeast Alaska communities are not well-understood, available indicators suggest the region's villages continue to struggle economically. Based on the best available data, communities with a majority Native component in the population are typified by high unemployment (and underemployment) and low per capita income. As indicated in Chapter II, nearly every Southeast community with a population of 50 percent or more Native people has experienced population decline in recent years. For example, Angoon's population fell by 3.2 percent between 2001 and 2002, Hoonah by 0.6 percent, Klawock by 2.6 percent, and Klukwan 7.5 percent. Only Hydaburg and Kake grew slightly between 2001 and 2002 (up 2.8 and 0.4 percent respectively).

Why are Southeast's smaller communities struggling economically? Several outside forces have been at work, including initiation of limited entry in the commercial salmon fisheries and, more recently, the individual fisherman's quota (IFQ) system. These resource management changes have led to the migration of commercial fishing permits from rural to urban people. IFQs have also resulted in the loss of crew jobs important to rural fishermen. This migration has made it more difficult for rural people to earn cash income.

Another reason for the population decline has been the reduction in Tongass National Forest logging activity. Since 1990, the volume of timber harvested annually from the Tongass National Forest has dropped from 471 million board feet (mmbf) to 146 mmbf in 2000, a 70% decline. The Tongass forest products industry's direct employment of approximately 200 people is over 2,000 jobs below the 1990 level, when logging, sawmill and pulp mill employment totaled 2,500 jobs.

The Southeast Alaska economy has lost over \$100 million in forest products payroll since 1990, not counting indirect and induced payroll losses. While the mill towns of Sitka, Ketchikan and Wrangell have suffered the lion's share of these losses, the rural communities have also lost employment and income

opportunities as well as reduced Tongass timber receipts, which provide funding for rural schools and roads.

Other forces have also affected the rural economies of Southeast Alaska. Declining state government revenues have led to reduced municipal assistance and revenue sharing, for example. Welfare reform has also affected the socioeconomic structure of some communities. Federal and state laws passed in 1996 made fundamental changes to welfare programs that had been in place for decades. In Alaska, some families began reaching the 5-year lifetime limit on welfare benefits in July, 2002. While some families may fit the exemption criteria allowing for benefit extensions, many residents, especially those in rural communities, find limited opportunities for work in their areas – jobs are often low-paying, part-time or seasonal, and not sufficient for a family to reach self-sufficiency. In summary, a range of forces have led to increasing economic hardship for many rural communities.

This historical context is important in considering the potential socioeconomic consequences of reduced or discontinued Sealaska timber harvests. It is important to recognize that communities such as Hydaburg, Kake, and Hoonah have and will continue to face major challenges as they seek to improve the socioeconomic well-being of their residents –even without any loss of Sealaska-related income for local residents.

Community Analysis

The potential socioeconomic impacts of reduced Sealaska logging activity would vary from community to community. Some communities are better-equipped to adjust to the economic shock that would occur. In all cases, however, the economic shock of a complete cessation of Sealaska logging activity would be significant.

All communities (Hoonah, Kake, and POW communities) would likely see some population decline, but not proportional to the loss of jobs and income. Because most rural residents have placed lifestyle over economic opportunity in where they have chosen to live, many will likely remain despite the loss of an important source of income. Many affected residents would remain but would attempt to get by with less cash and a lower standard of living.

In all communities, local business would see reduced sales (though Hydaburg has almost no retail development), resulting from the decline in local disposable income.

Reduced school enrollment and associated loss of state foundation formula school funding would result, to the extent that out-migration occurs.

Hoonah

Hoonah, the largest of the four communities considered in this study, could best adjust to a reduction in Sealaska logging activity. Hoonah has the most diverse economy and offers the widest range of alternative employment opportunities. Nevertheless, the loss of 150 jobs and \$3.1 million in personal income – 20 percent of all local personal income – (plus additional indirect losses) would represent a very significant shock to the local economy. Population loss would be

expected, certainly from reduced population at the Whitestone Logging camp, but also from some out-migration of Hoonah-proper residents. A population loss of ten percent or more is possible.

Kake

Sealaska creates 118 jobs and \$2.4 million in annual personal income, 19 percent of the local economy in the community of Kake. The local population could fall by 10 to 15 percent and per capita personal income could drop by 15 to 20 percent.

Hydaburg

Hydaburg has at stake 82 jobs and \$1 million in annual income – almost one-quarter of all local personal income. Hydaburg exists in a historical socioeconomic context within which Sealaska-related jobs have been particularly valuable. Because local residents are likely to choose lifestyle considerations over cash income considerations, the local population would not decline in proportion to the economic loss. Still, per capita personal income could fall by 25 percent. Residents of Hydaburg have few, if any, employment alternatives.

Craig/Klawock and Other Prince of Wales Island

The impacts of reduced timber activity on the Prince of Wales economy are still potentially significant. The entire POW economy could suffer a significant economic shock. Sealaska creates a total of 310 jobs in the POW economy. Approximately \$10.6 million in personal income is at stake.

Clearly, the potential socioeconomic consequences of reduced or discontinued Sealaska logging operations are significant. Perhaps the best measure to mitigate these impacts would be phase-out over time rather than full-scale shut down. This would give local residents and business some opportunity to adjust to loss of jobs and income. The impacts would still be significant, but the immediate shock would be reduced.