



ALASKA
 DEPARTMENT OF
 COMMERCE,
 COMMUNITY,
 AND ECONOMIC
 DEVELOPMENT



2011 Alaska Economic Performance Report

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Alaska's gross domestic product (GDP) increased nearly eight percent in 2011 to \$51.4 billion. Total economic output increased from \$49.1 billion (2010) to \$51.4 billion (2011). Strong growth occurred in Alaska's key natural resource sectors including oil, gas, and minerals extraction. Petroleum manufacturing is also a large contributor to Alaska's economy, maintaining steady growth over time. Professional, scientific, and technical services, and health care and social assistance also continued strong growth. Notably, several sectors declined during 2011 including utilities, construction, and real estate.

GDP measures the market value of goods and services produced within a defined geographic area.

WHAT IS GROSS DOMESTIC PRODUCT?

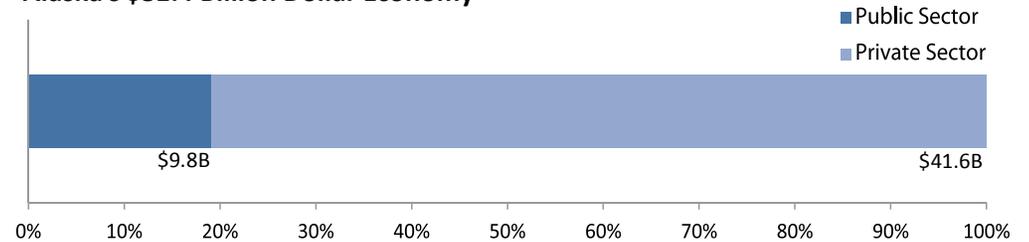
GDP, as reported by the federal Bureau of Economic Analysis, is considered the broadest indicator of economic health because it measures everything private and public sectors produce within a

defined geographic area. State GDP figures provide an important perspective of Alaska's economy. It provides opportunity to measure Alaska's total productivity relative to other states. It also describes Alaska's product mix and compares it to the nation. From a technical perspective, GDP measures gross output (i.e., total sales, receipts, income, and inventory) less inputs (i.e., consumption of domestically-produced or imported goods and services).

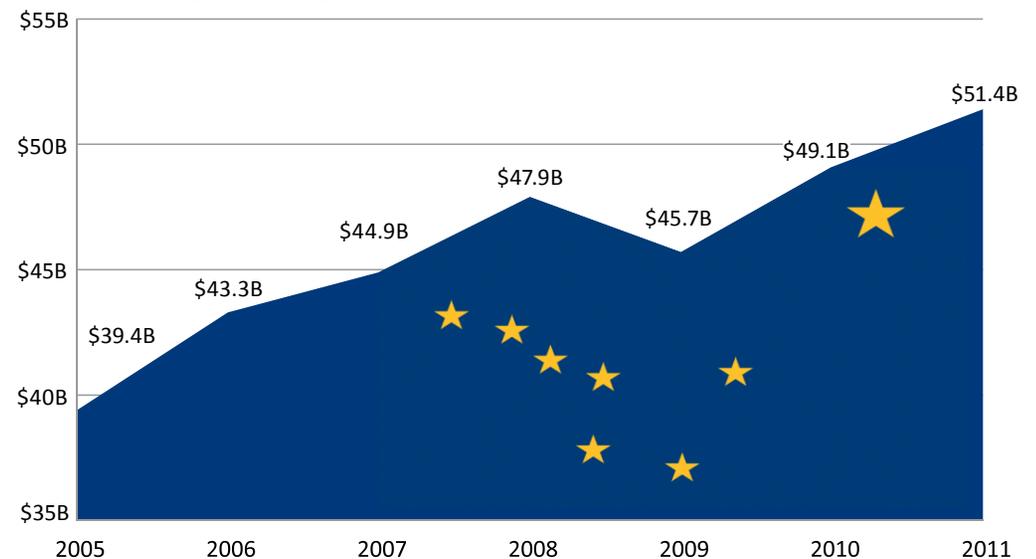
ALASKA'S GROSS DOMESTIC PRODUCT

GDP serves as a consistent annual benchmark of Alaska's economic growth and activity. Based on GDP, Alaska ranks 46th among US states for total economic activity during 2011. Compared to other states, Alaska remains in the bottom ten percent by total GDP; however, Alaska's GDP growth rate is strong, ranking fifth in average annual growth since 2007. During the past decade, Alaska's GDP grew approximately three percent per year compared to two percent national growth.

Alaska's \$51.4 Billion Dollar Economy



Alaska's Gross Domestic Product



GROSS DOMESTIC PRODUCT BY INDUSTRY

The single largest component of Alaska's GDP is minerals and most of that is oil.

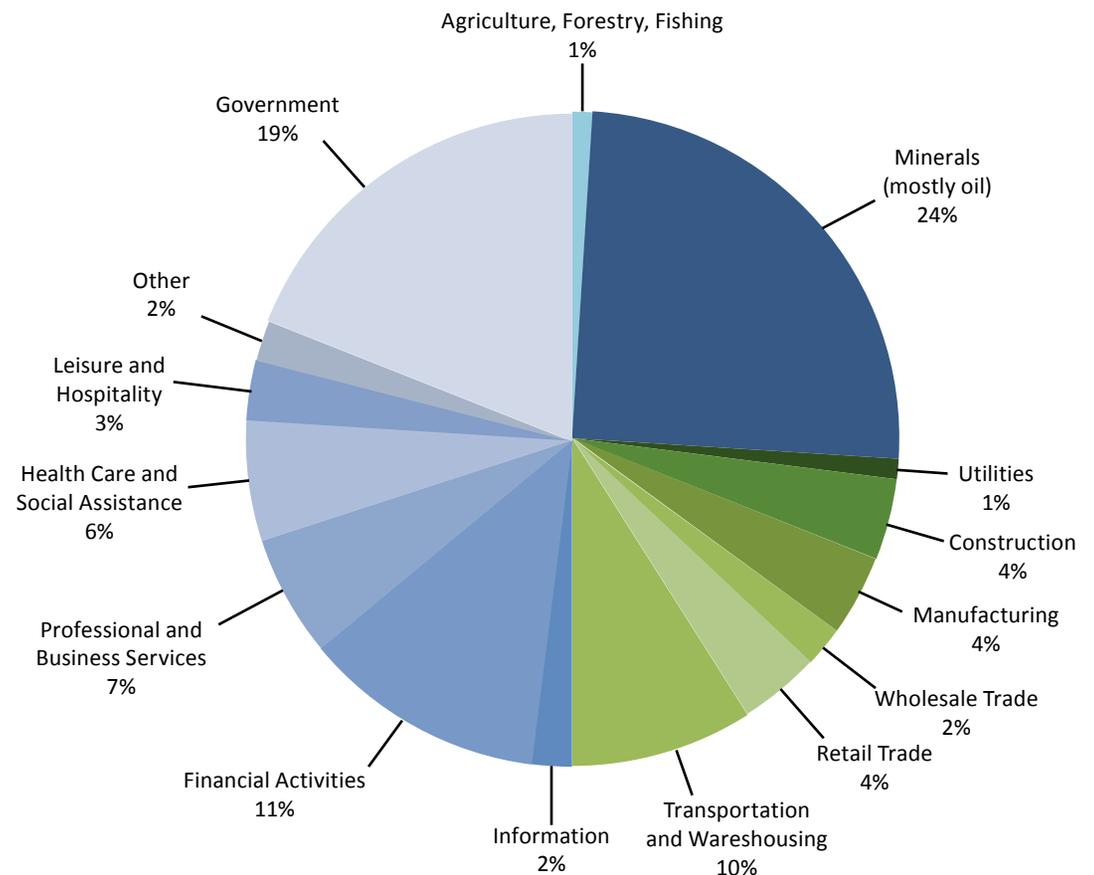
During 2011, Alaska produced \$51.4 billion in goods and services. Consistent with prior years, Alaska's major economic engine is oil and gas, representing approximately one-quarter of Alaska's total GDP. The oil and gas industry is present in several GDP economic sectors

including oil and gas extraction, mining support activities, petroleum and coal manufacturing, and transportation. In aggregate, the oil and gas industry represents over 27 percent of Alaska's economy.

The public sector comprises 19 percent of Alaska's economy, making it the second largest GDP contributor after oil and gas. At 19 percent, federal, state, and local government is a larger part of Alaska's economy compared to the national average of 13 percent. The federal government, dominated by military spending, is the single largest contributor to Alaska's public sector. Alaska's status as a raw material exporter and strategic global location places the transportation and warehousing sector at ten percent of Alaska's economy and third largest GDP component.

Notably, the economic impacts of several important Alaska industry sectors do not necessarily correlate with their position in Alaska's GDP portfolio. Current research indicates Alaska's visitor industry provides an annual economic impact of \$3.4 billion. While the economic impact is significant, the leisure and hospitality industry has limited presence (3%) in Alaska's GDP because many visitor support services are accounted for in other GDP categories including accommodations, services, retail, and transportation. Similarly, while the seafood industry estimates a total economic value of \$4.6 billion, its products and services are aggregated with agriculture and forestry for a combined one percent of Alaska's GDP. GDP calculations also undercount small boat fishing while including significant seafood activities in food manufacturing and transportation GDP economic sectors.

Alaska's Gross Domestic Product Mix

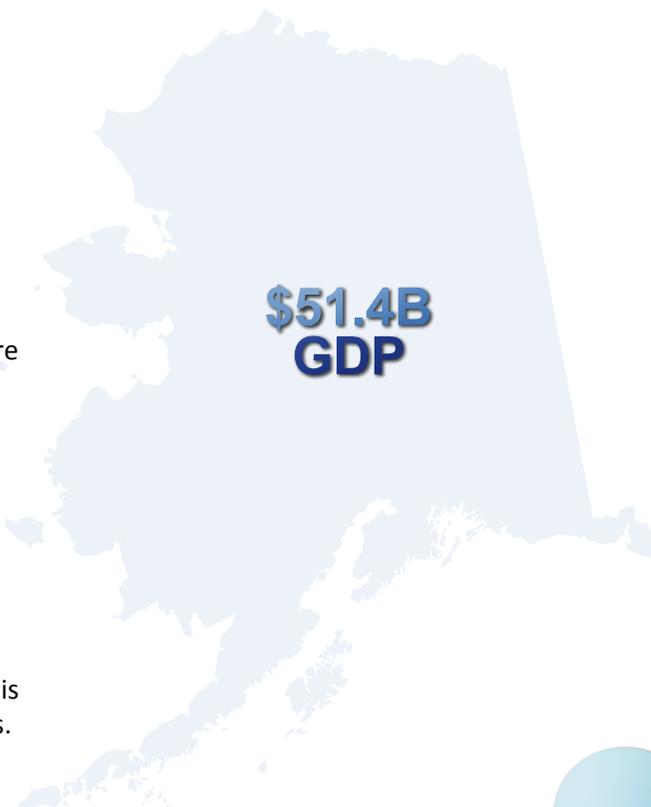


PER CAPITA GROSS DOMESTIC PRODUCT

In 2011, Alaska lost its top rank of having the nation's highest per capita GDP, coming in second to Delaware. Both states have per capita GDPs above \$70,000, or 48 percent higher than the \$48,079 national average. High per capita GDPs are a function of having a small population and high-value industry sectors with strong exports to other geographic areas. Delaware shares Alaska's trait of having a large economy relative to a small population, but instead of oil production, Delaware has a large financial sector, representing approximately 40 percent of the state's GDP.

At \$71,087, Alaska's per capita GDP is second highest in the nation. Although there is typically a correlation between per capita income — for which Alaska ranks eighth in the nation — and per capita GDP, there is also an important distinction. While per capita income is calculated for Alaska residents only, GDP measures the market value of goods and services and per capita GDP is calculated without regard for final destination of profits. The profits — or in GDP terms, “net operating surplus” — of companies operating in Alaska are part of the state's GDP regardless of whether the profits stay in Alaska, to the exclusive benefit of resident incomes. Alaska's high per capita GDP indicates the state's economy is especially productive relative to its population, but much of that is tied to the high value of Alaska's oil and minerals export commodities.

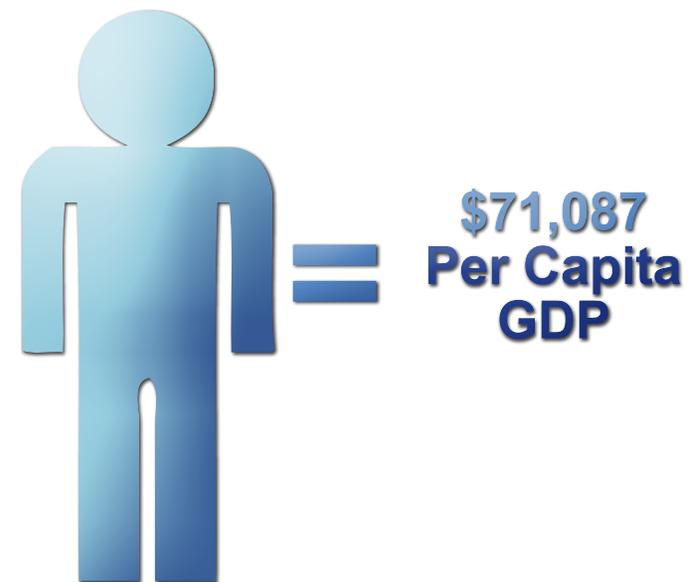
While federal GDP estimates are an important part of assessing Alaska's economic health, they should be used in combination with employment data and economic impact estimates to achieve a full understanding of the value of industry sectors to Alaska's overall economy.



2011 Per Capita GDP by State

Rank	State	Per Capita GDP
1	Delaware	\$72,486
2	Alaska	\$71,087
3	Wyoming	\$66,209
4	Connecticut	\$64,258
5	New York	\$59,489
6	Massachusetts	\$59,472
7	North Dakota	\$58,965
8	New Jersey	\$55,207
9	Louisiana	\$54,148
10	Virginia	\$52,974
United States		\$48,079

Source: US Department of Commerce, Bureau of Economic Analysis, US Census Bureau



According to the US Census Bureau's 2010 census of the population, Alaska's 2010 population passed the 700,000 mark for the first time (710,231). One year later, the Alaska Department of Labor and Workforce Development estimates Alaska's population increased an additional two percent, or an additional 11,959 residents, totaling 722,190.

ALASKA'S GROWING POPULATION

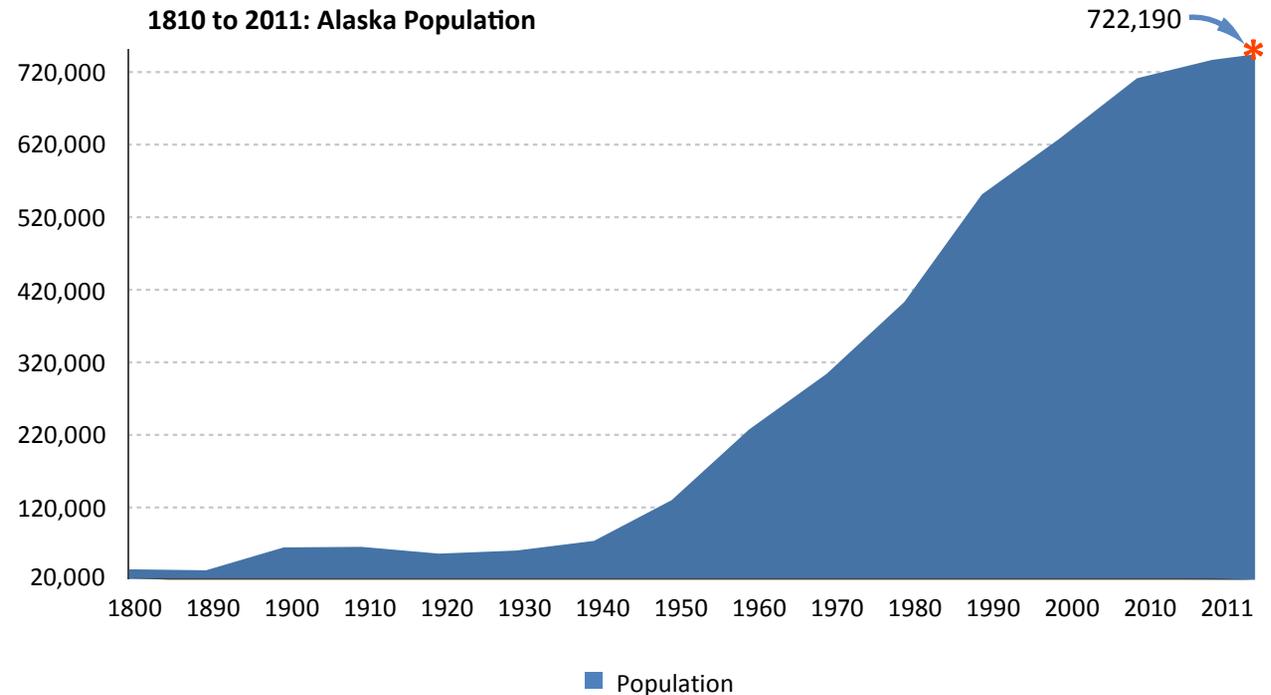
From 2000 to 2011, Alaska's population growth (15%) outpaced the nation's population growth (10%). While Alaska's total population continues to grow, the majority of growth occurs in Southcentral Alaska including the Anchorage bowl and Matanuska-Susitna Valley.

Alaska remains the least densely populated state in the US with approximately one person per square mile. In terms of total population, Alaska ranks 47 of 50 states, outnumbering only North Dakota, Vermont, Wyoming, and the District of Columbia.

2011 Population Indicators



1810 to 2011: Alaska Population



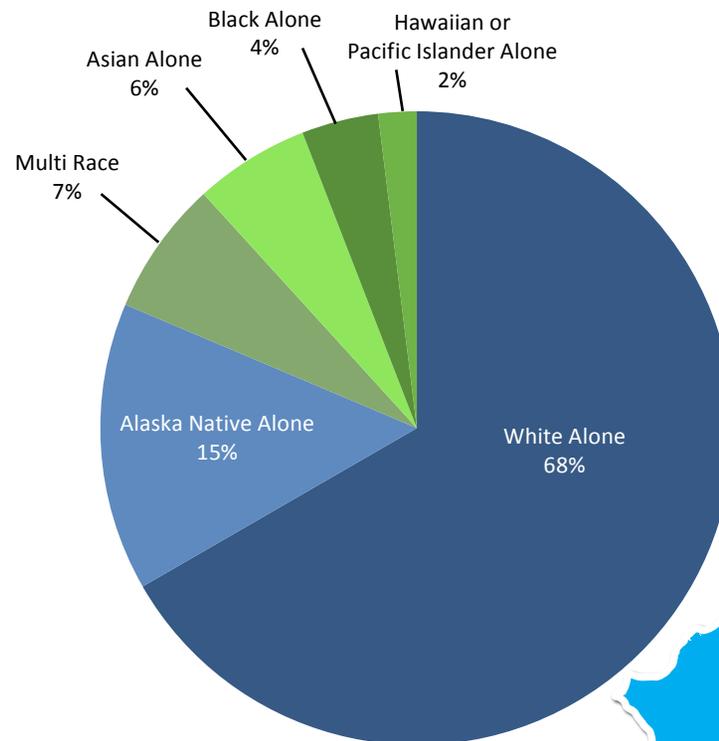
Describing a population's age, race, and gender is one of the most basic ways to understand population change and composition over time. As in prior decades, Alaska's population is relatively young, largely characterized by two races including white and Alaska Native, and almost equally split between the genders.

AGE, RACE, AND GENDER

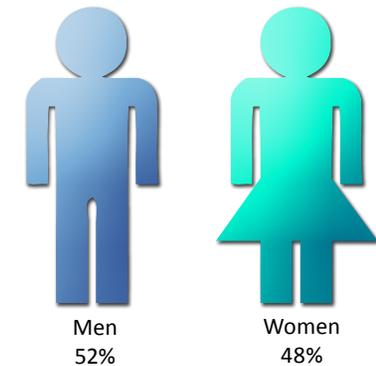
Since the 2000 Census, the nation's population has continued to age, with many states reaching a median age of over 40. Alaska, however, continues to defy national trends with a significantly younger population. During 2011, Alaska's median age was 34, compared to a national median of 37. Only eight percent of all Alaskans were 65 years of age or older, compared to 13 percent nationwide. Alaska is one of a few states where men still outnumber women; during 2011, men accounted for 52 percent of Alaska residents.

Alaska's racial composition continues to be dominated by two categories - white and Alaska Native. During 2011, the Alaska Department of Labor and Workforce Development estimates two-thirds of Alaskans (68%) are white and less than one-fifth (15%) are Alaska Native. The remaining 17 percent of Alaska's population are multi-race, Hawaiian or Pacific Islander, Asian, African American, or other ancestry. Alaskans of Hispanic origin represent approximately six percent of Alaska's population.

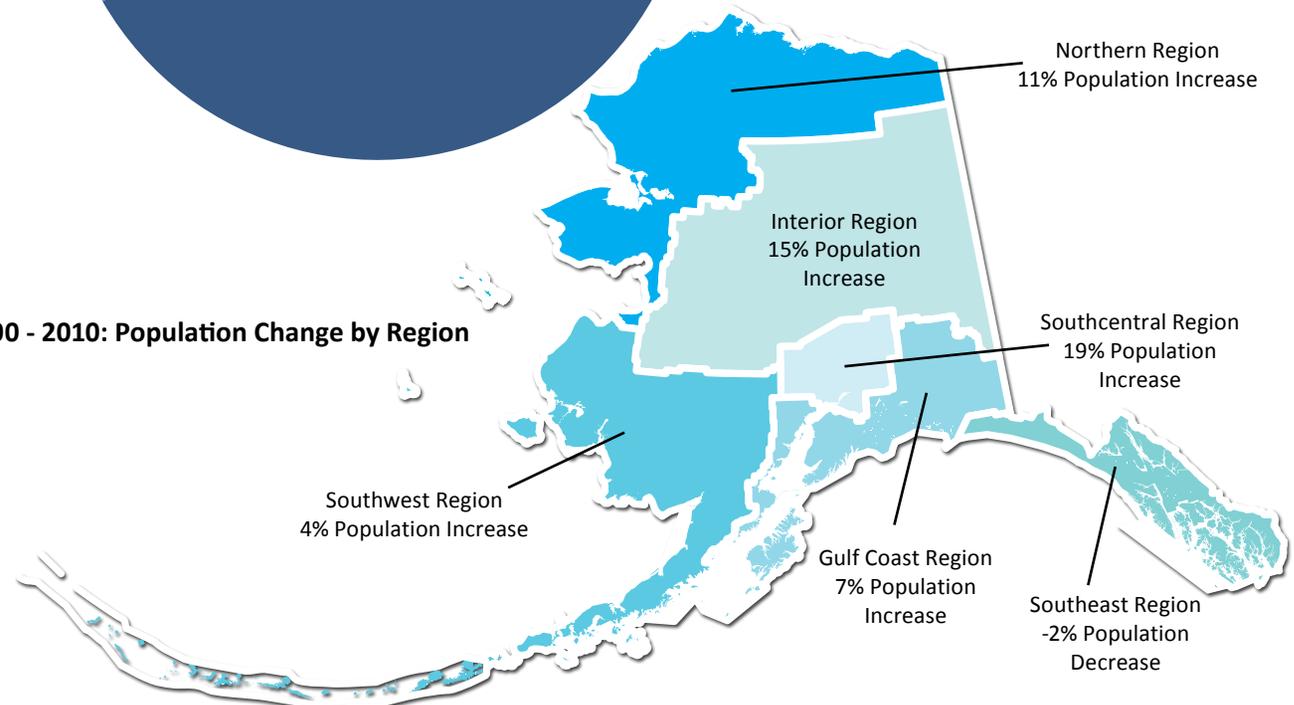
2011 Alaska's Population by Race



Alaska's Population by Gender



2000 - 2010: Population Change by Region



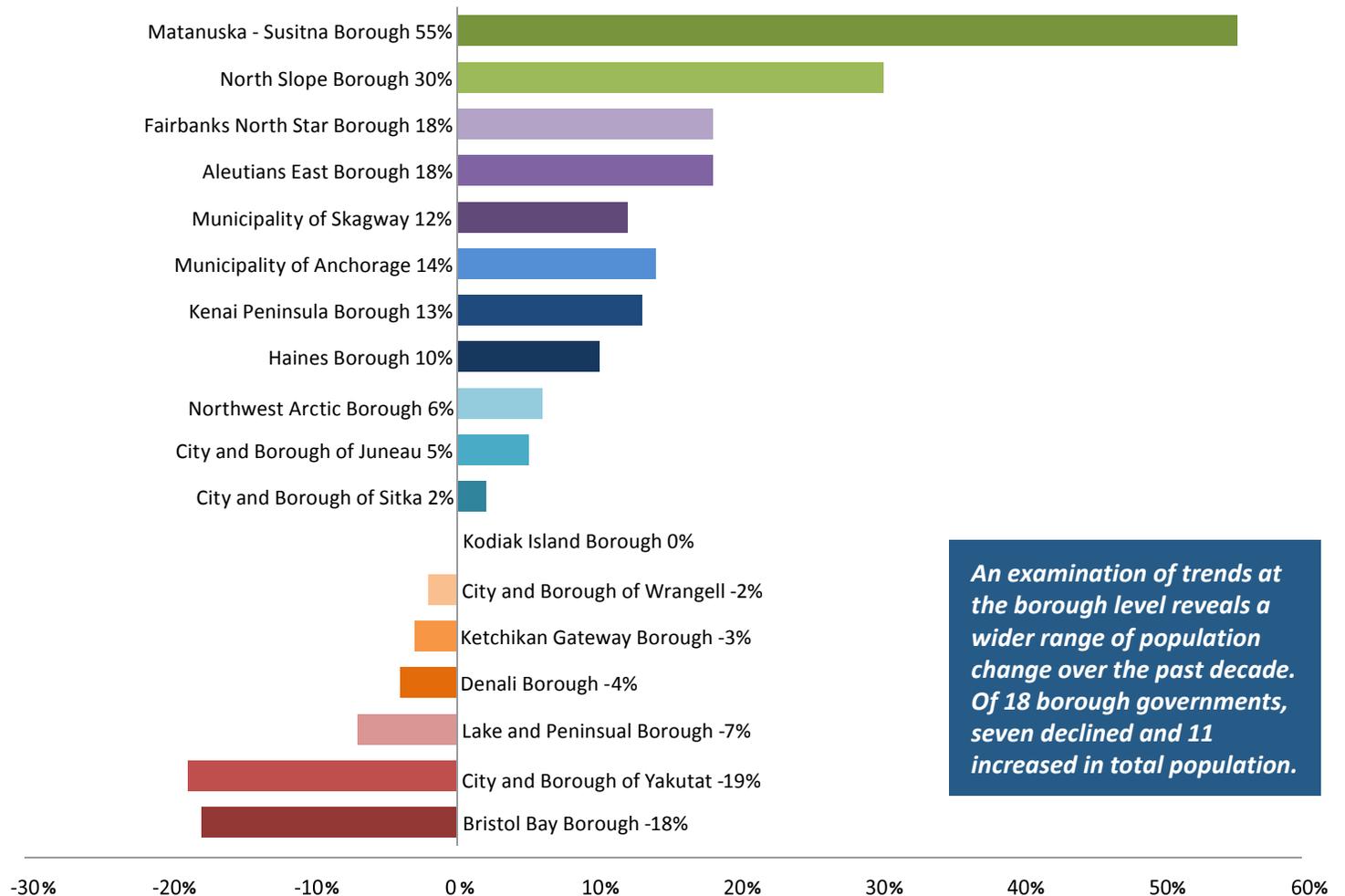
POPULATION CHANGE

Alaska's population growth is a result of natural increase (i.e., births minus deaths) and positive net migration. Population growth rates vary by region. From 2000 to 2010, all regions experienced population growth except Southeast Alaska (-2%), which declined due to net out-migration and lower birth rates. The Southcentral Region, composed of the Municipality of Anchorage and the Matanuska-Susitna (Mat-Su) Borough, continues to be the fastest growing region with 19% population growth over the past decade (2000-2010).

Alaska Department of Labor and Workforce Development estimates indicate Southeast's decade-long population decline halted in 2011 with a gain of 1,862 residents, or a three percent increase from 2010 to 2011. The majority of Southeast boroughs and census areas maintained or increased in population (1% to 5%); only Yakutat declined (-1%). While this is good news for Southeast it is still uncertain whether this trend will continue into the long-term future.

An examination of trends at the borough level reveals a wider range of population change over the past decade. Of 18 borough governments, six declined and 11 increased in total population. Alaska's five most populous boroughs continued to grow during the past decade; however, only the Fairbanks North Star Borough and the Matanuska-Susitna Borough grew at a faster rate than the prior decade. The City and Borough of Sitka's growth was the lowest of all boroughs (2%) while the Mat-Su's remained the highest (55%). Considering overall community population, Anchorage remains the most populous community, with a total population of 296,197. Juneau surpasses Fairbanks as the second largest community, with a total population of 32,290. Fairbanks follows in third, with a population of 30,547.

2000 - 2011: Borough Population Change



An examination of trends at the borough level reveals a wider range of population change over the past decade. Of 18 borough governments, seven declined and 11 increased in total population.

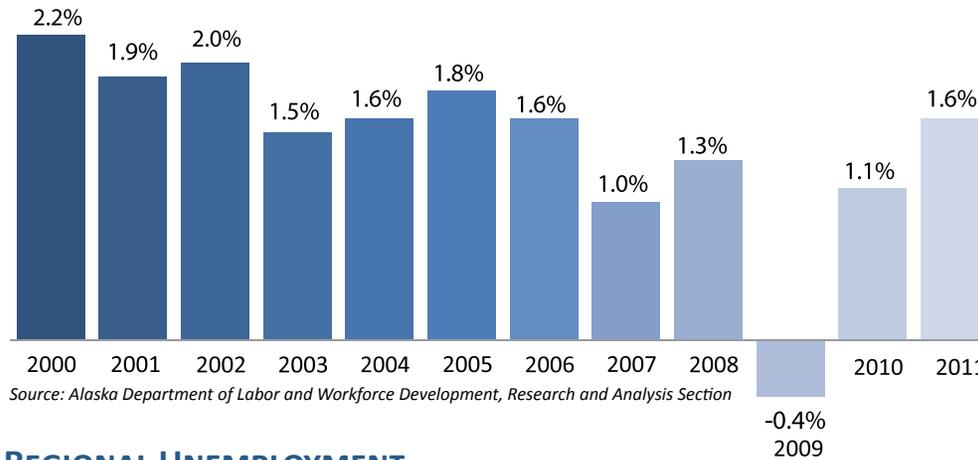
Alaska has fared well during a period of national economic uncertainty. With an economy based on natural resources and a strong export portfolio, Alaska largely evaded the national recession and significant job losses. The past few years, however, have yielded periods of growth and decline for the state's total employment base.

STATEWIDE EMPLOYMENT

During the national recession (2007 and 2008), Alaska's economy and employment base kept growing while the nation shed 7.5 million wage and salary jobs. However, after 21 consecutive years of employment growth through three national recessions, Alaska's employment growth halted in 2009 when the state lost nearly half a percent (-0.4%) of all jobs. One year later, 2010 brought a turnaround as Alaska added 1,800 jobs (1.1%). Fortunately 2011 continued the job growth trend by adding another 2,500 jobs (1.6%) to Alaska's employment base.

Alaska's jobless rate remains lower than the rest of the nation. At the close of 2011, Alaska's seasonally-adjusted unemployment rate totaled 7.3 percent, approximately one percentage point less than the nation's 8.6 percent unemployment rate. Notably, Alaska ranks 23 of 50 states in terms of seasonally-adjusted unemployment. North Dakota ranks first with only 3.1 percent unemployment; Nevada ranks last at 10.8 percent.

2000 - 2011: Employment Change



REGIONAL UNEMPLOYMENT

Unemployment rates vary significantly across the state. Rural regions and communities, as well as those that depend upon seasonal employment in the fishing and visitor industries, typically experience the highest rates of unemployment. At the close of 2011, the Wade Hampton Census Area posted the highest annual average unemployment rate at nearly 21 percent followed by the Northwest Arctic Borough at 15 percent. In contrast, the Bristol Bay Borough, North Slope Borough, and City and Borough of Juneau recorded 2011 annual average unemployment rates of approximately five percent – well below the statewide average (7%). As the capital city, Juneau's economy is largely composed of year-round public sector jobs. The North Slope Borough similarly benefits from year-round employment due to the strong presence of the oil industry and related services.

Similar to other places in the nation, Alaska's actual unemployment rate is likely higher than official unemployment rates as unemployed residents eventually discontinue job search efforts and are not accounted for in official government employment statistics.

2011 Employment Indicators

**Employment Growth
2010 - 2011**
1.6%

**Statewide
Unemployment**
7.3%

**Highest Annual
Average
Unemployment Rate:
Wade-Hampton
Census Area**
20.7%

**Lowest Annual
Average
Unemployment Rate:
Bristol Bay Borough**
4.1%



During the national recession, Alaska's economy and employment base kept growing while the nation shed 7.5 million wage and salary jobs.

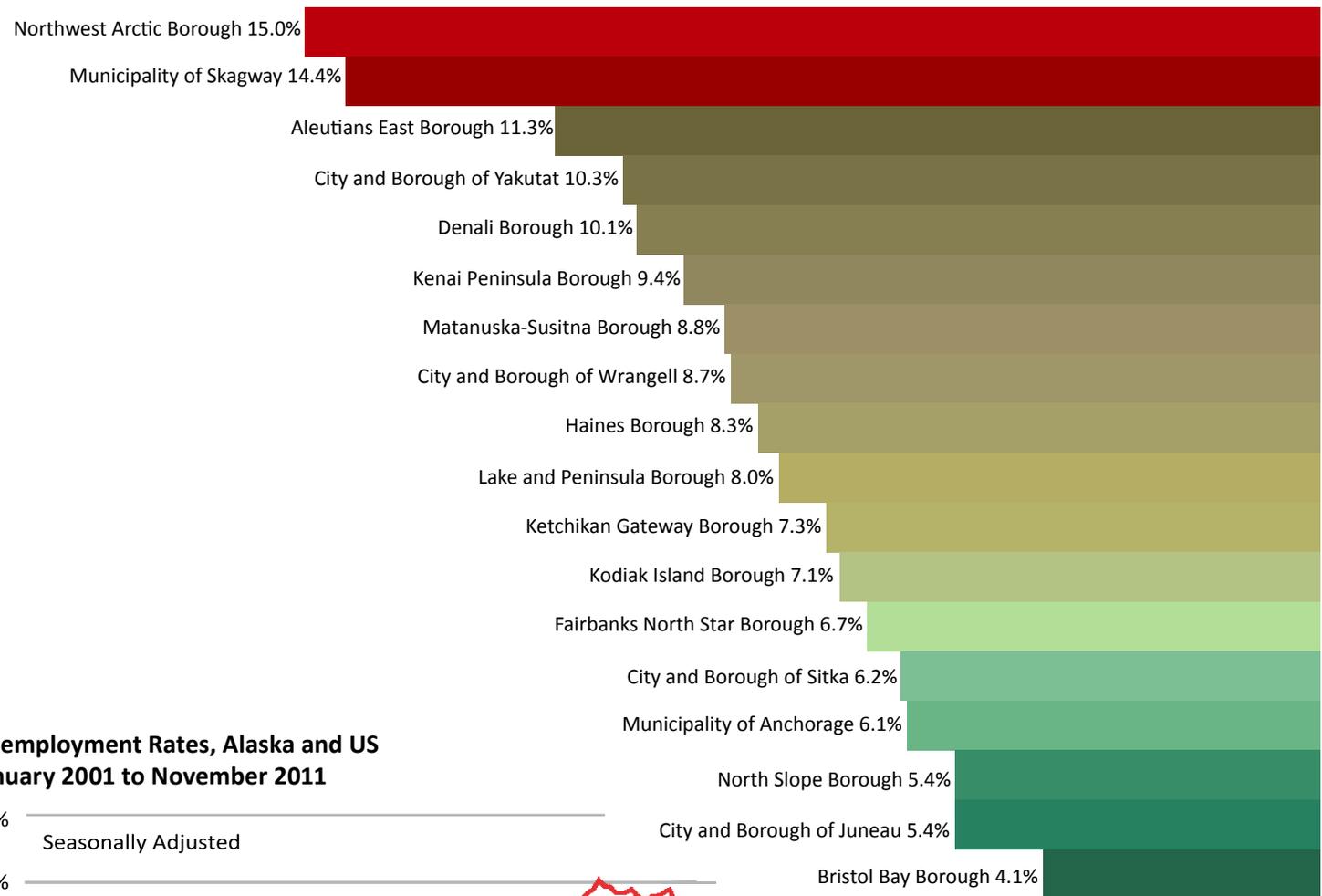
ALASKA'S ECONOMY IS STEADY

Strong oil and commodity prices kept Alaska's minerals, oil, and gas sectors steady with high profits and secure employment during a time of national economic turmoil. Rising fish prices and healthy catches fueled growth in the seafood harvesting and processing sectors, which are mainstays of Alaska's rural economy and family livelihoods.

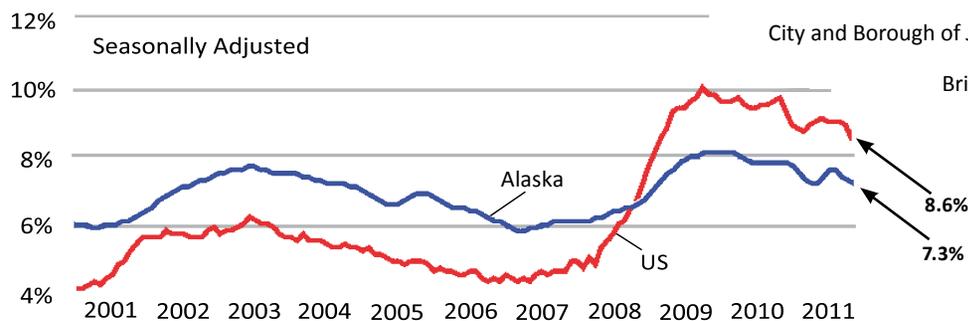
Although future budget cuts to remedy a growing national deficit are likely, the federal government is still a critical employer of Alaskans. It is expected federal spending for military and construction projects will likely remain at current levels, continuing to employ Alaskans in the near-term.

The nation's slow and fragile economic recovery has already yielded benefits for Alaska's employment base as the visitor industry and international cargo sectors continued to pick up the pace during 2011. Research indicates increases in visitors and visitor spending have occurred over the past two years resulting in economic benefit for Alaska's tourism businesses, employers, and employees.

2011 Borough Annual Average Unemployment Rate



Unemployment Rates, Alaska and US January 2001 to November 2011



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

ALASKA'S OIL AND GAS INDUSTRY

Alaska's oil and gas industry is the single largest source of state government revenue and provides some of the highest-paying private sector jobs. The majority of oil revenues come from oil production, providing 92 percent of fiscal year 2011 general fund unrestricted revenue. Oil and gas represented approximately 27 percent of Alaska's GDP in 2011, compared to two percent of the national GDP.

SPOTLIGHT

Industry Investment in New Land Positions

During 2011, media started using phrases like "a Cook Inlet revival" after the State of Alaska's spring lease sale showed significantly increased industry interest in attaining land positions in the area. The 2011 Cook Inlet state lease sale surpassed all prior sales since areawide leasing was implemented in 1998, generating nearly \$11 million in bonus bids to the state. Whether counting by acreage leased, average price per acre, number of tracts leased, or bonus bids received, the sale broke all earlier records. This was an encouraging sign at a time when renewed exploration and investment was necessary in order to develop the supply to meet predicted future gas demand in Southcentral Alaska.

Similarly, lease sales in the northern part of the state also ranked among the top in recent history. The 2011 North Slope and Beaufort Sea lease generated more than \$18 million in bids to the state, with winning bids from large established companies like ConocoPhillips Alaska as well as smaller relative newcomers like Great Bear Petroleum and Repsol.

2011 Oil and Gas Indicators

Revenue
\$8.0B

North Slope Oil Production 2010 - 2011
-6.3%

Average Per Barrel Price
\$94.49

Energy Export Value*
\$387.7M

Restricted Revenue
\$1.0B

Unrestricted Revenue
\$7.0B

* Includes liquefied natural gas (LNG), refined petroleum products, and coal.



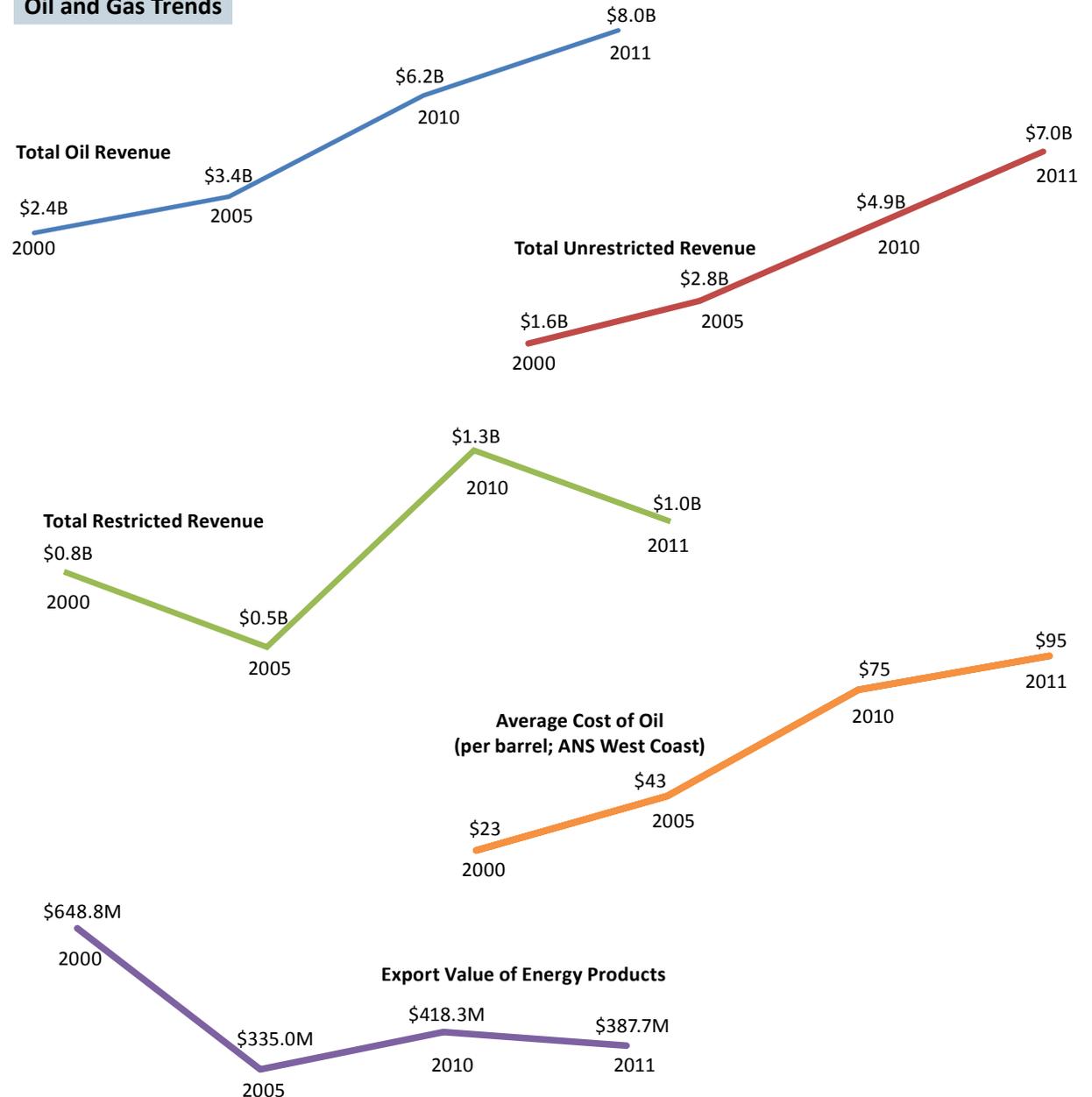
Swans at Prudhoe Bay, photo courtesy Todd Boris, Alaska Department of Transportation and Public Facilities

State of Alaska lease sales indicate both level of industry interest and types of companies interested in Alaska's oil and gas lands. Oil and gas development in Alaska has undergone change in recent years. Existing companies largely maintain their existing land positions, do infill drilling, and refine their recovery methods. Companies looking to establish a presence in Alaska continue to be smaller independents or international businesses. During 2011, companies classified as "active independents" or "small company and individual investors" acquired 282 of the 366 tracts sold in the state's lease sales combined.

OPPORTUNITIES

- The new normal is a field of smaller companies with leaner staffing. As a result, there is an increased need to inform and assist new partners, which requires state staff time. In some cases, state processes will need to be modified to meet the needs of participating companies for maximum efficiency.
- Smaller companies new to Alaska have limited experience in permit sequencing and timeframes, and often have not allotted enough time to address public concerns and local government requirements.
- It is the responsibility of the applicant to independently coordinate projects with local, state, and federal agencies. State agencies are collaborating in an effort to streamline the state's part of the permitting processes, with the goal of shortening the timeframe between lease issuance and development.

Oil and Gas Trends



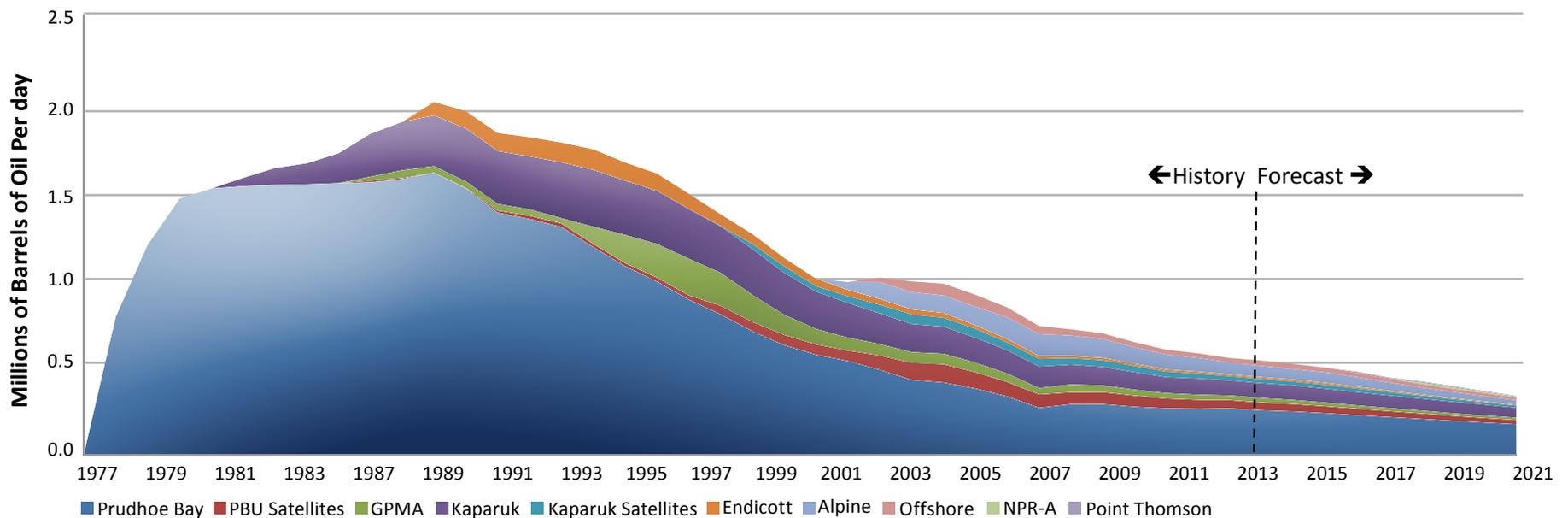
OUTLOOK

Oil will continue to dominate the State of Alaska's revenue, providing at least 85 percent of unrestricted funds through fiscal year 2022, according to the Alaska Department of Revenue. Unrestricted revenues of \$7.5 billion and \$7.0 billion are predicted for the next two fiscal years.

The declining flow of oil through the Trans-Alaska Pipeline System (TAPS) is the largest challenge at present time. Lower flow makes the pipeline system more expensive to maintain and the risk of damage from corrosion increases. Average North Slope daily production in 2011 totaled 600,704 barrels per day, the lowest production level since 1977.

Notably, employment in the oil and gas sector increased three percent from 2010 to 2011. High oil prices and major investments in oil and gas infrastructure are primary drivers of recent employment increases. The Alaska Department of Labor and Workforce Development forecasts continued but slowed employment growth (2%) during 2012.

Annual Alaska North Slope Production by Oil Field



*PBU Satellites = Prudhoe Bay Unit Satellites
 GPMA = Greater Point McIntyre Area
 NPR-A = National Petroleum Reserve, Alaska*

SPECIAL TOPIC

During 2010, Great Bear Petroleum established a significant leasehold on the North Slope with the distinct intention to target shale plays in Alaska. Current shale plays in the Lower 48 have shown the level of drilling, well stimulations, support services, and impact on infrastructure could exceed all activity levels previously experienced in Alaska.

Shale wells are not prolific – after initial high production, wells tend to stabilize at a production between approximately 50 to 100 barrels per day. Consequently, a higher number of wells are needed to maintain production, and with that, a higher number of drilling rigs. The total well count for developing all three shale plays across the North Slope will require additional drilling rigs and support services.

Shale infrastructure will look different than conventional oil infrastructure in Alaska. In Texas and North Dakota, shale plays are often developed from single well pads along established transportation corridors and often on private versus public lands. In contrast, shale plays underneath Alaska's Arctic tundra have significant development challenges including extreme climate conditions and limited transportation corridors. In Alaska, final pad and well placement will be developed by the leaseholder with the authorization of the state.

Shale development is driven at a faster pace than conventional development. To maintain production and cash flow, the State of Alaska together with industry stakeholders need to determine an approach to accommodate fast-paced development, including streamlining permitting to what has been called an “assembly line approach” or geographical area approach for similar developments elsewhere. Year-round operation should be encouraged to maintain development and operations in a shale play, which has been a challenge with limited winter seasonal operations.



Logo, courtesy of Great Bear Petroleum LLC



Prudhoe Bay, photo courtesy Todd Boris, Alaska Department of Transportation and Public Facilities

Alaska's minerals industry continues to grow due to the state's great mineral potential, its strategic location, and strong global commodity prices. In 2011, mineral exploration spending totaled \$365.1 million, an increase of 38 percent over 2010. Development expenditures exceeded \$200 million for the eighth consecutive year. Production value from Alaska mines exceeded \$3.5 billion.

SPOTLIGHT

Hecla Mining Company Continues Investment at Greens Creek Mine

Hecla Mining Company's Greens Creek Mine, located in Southeast Alaska, is the largest silver mine in the US; fifth largest in the world. In addition to silver, Greens Creek also produces gold, lead, and zinc concentrates. During 2011, nearly 6.5 million ounces of silver, 56,818 ounces of gold, 21,055 tons of lead, and 66,050 tons of zinc were produced.

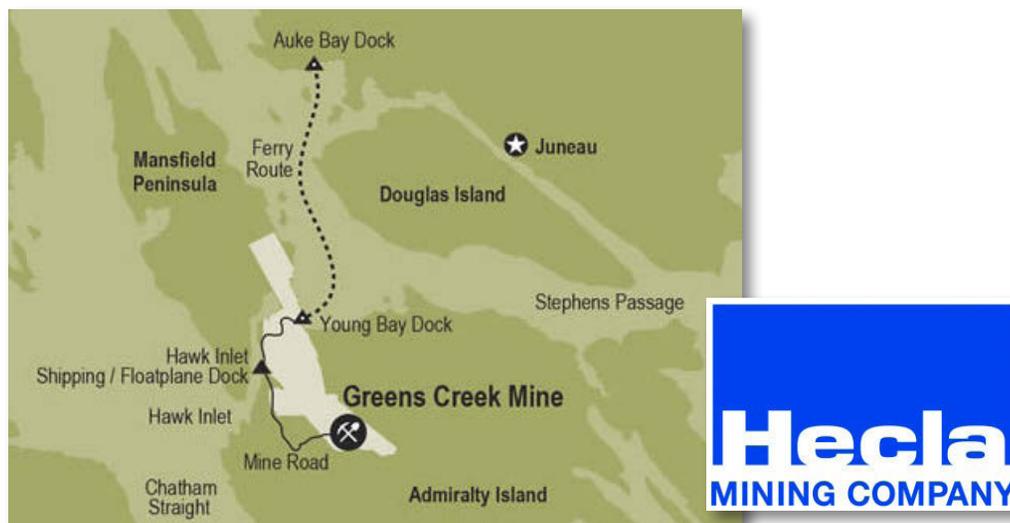
With 370 full-time employees and 75 percent Alaska-resident hire, Greens Creek is Juneau's largest private-sector employer with approximately \$47 million in annual salary, wages, and benefits.

In 2011, Greens Creek also contributed \$1.2 million in property taxes to the City and Borough of Juneau and purchased an estimated \$27 million in goods and services from Southeast businesses.

Hecla invested approximately \$40 million at Greens Creek in a variety of capital improvements during 2011. One year later (2012), Hecla announced plans for an additional \$80 million in Greens Creek capital investments, the single largest investment in the mine's history. Investments include new equipment, additional offices and maintenance shops, new and upgraded camp facilities, cement overlays around the mill, anti-corrosion bridge projects, expansion of tailings storage facilities, and expansion of infrastructure to access ore bodies and provide exploration platforms.

2011 Minerals Indicators

Gross State Product \$1.1B	Jobs 4,087
State Revenues \$118.7M	Production Value \$3.5B
Exploration Expenditures \$365.1M	Development Expenditures \$271.9M
Export Value \$2.0B	



Map courtesy of Hecla Mining Company

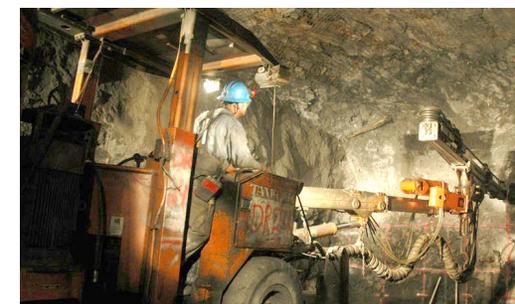


Photo courtesy of Hecla Mining Company

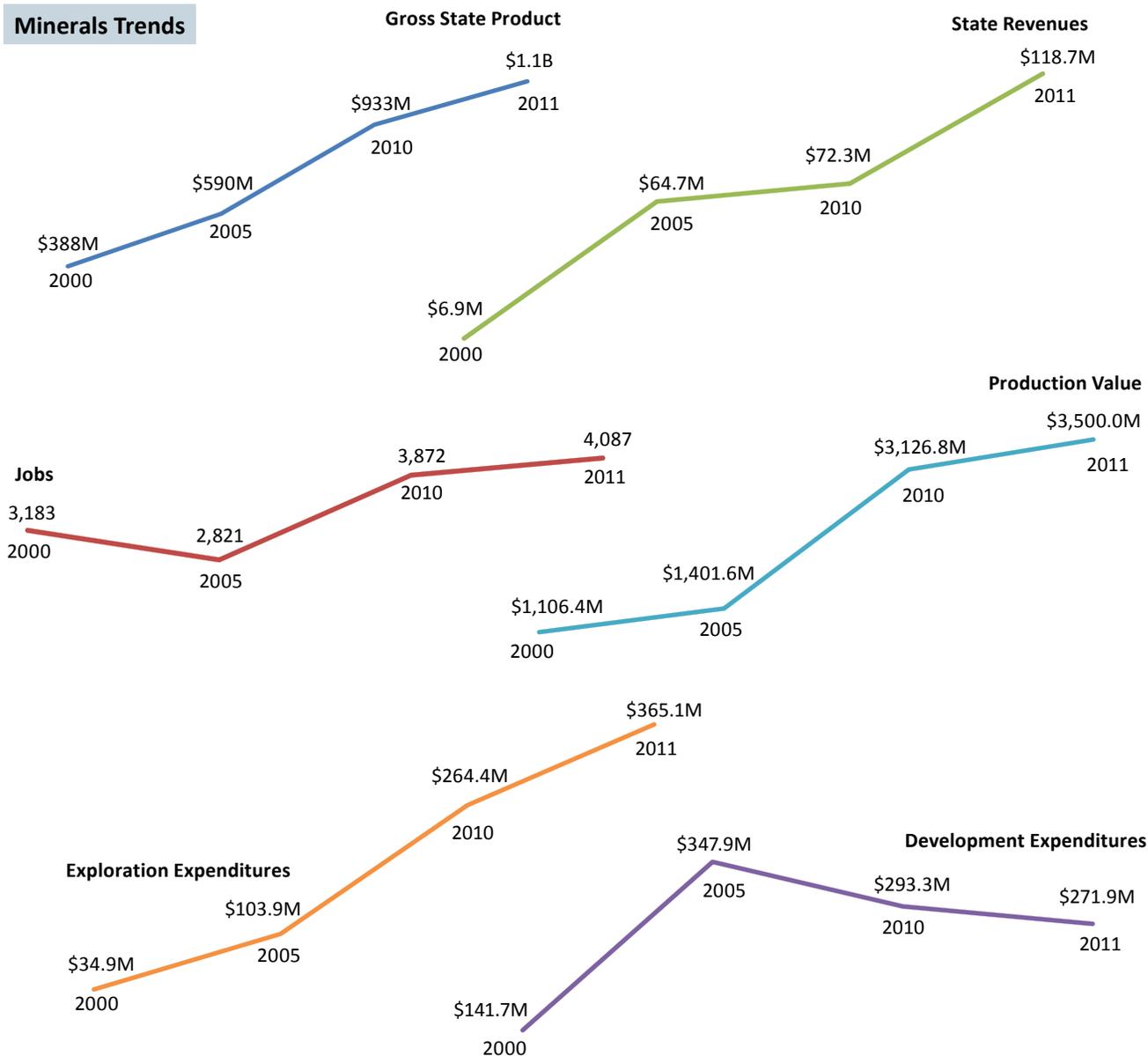
The estimated value of Alaska mineral production in 2011 increased more than 12 percent from 2010, to \$3.5 billion. The value of mineral exports in 2011 totaled \$2.0 billion. Estimated mining employment rose more than five percent in 2011 to 4,072 full-time-equivalent jobs.

OPPORTUNITIES

According to the Fraser Institute's *2011-2012 Annual Survey of Mining Companies*, Alaska ranks fourth highest out of 93 other jurisdictions in a composite index of policy and minerals potential.

- Current gold prices and global demand for base metals, rare earth elements, and coal combined with the state's mineral potential provides opportunity for the mining industry.
- Opportunities to develop cost-effective electrical energy facilities and distribution networks serving Alaska's remote resource extraction operations are abundant and include large-scale state-supported energy projects and local energy source assessment.
- Alaska Industrial Development and Export Authority (AIDEA) supports opportunities for investment in rural areas through infrastructure, power, and transportation project financing.
- The State of Alaska's *Road to Resources Initiative* facilitates transportation corridors that help move fuel and supplies to rural communities at greatly reduced costs and provide increased access to natural resource deposits.
- The State of Alaska funds assessment of state-owned land for strategic and critical minerals resources and opportunities.

Minerals Trends



CHALLENGES

The Alaska Minerals Commission advises the governor and legislature regarding challenges facing the minerals industry and potential strategies the state can implement. The Commission consists of 11 members, with seats appointed by the governor, the president of the legislature's Senate, and the speaker of the legislature's House of Representatives. Each commissioner must have at least five years of experience in the state's minerals industry.

Mines in Alaska, even in more developed areas, face challenges related to the high cost of energy, transportation, permitting, and recruiting and retaining a trained workforce.

- Access to economical energy in Alaska is a challenge for mine development.
- Adequate transportation routes and ports, developed through public-private partnerships, can expand rural infrastructure, reduce the cost of living, and lower energy costs for rural Alaskans, communities, and industries.
- An efficient government permitting process must be maintained for mineral development to occur.
- Support for K-12, technical, and university minerals-related educational programs are necessary to provide students with an understanding of the minerals industry and opportunities for minerals-related employment.

OUTLOOK

The Alaska mining industry is driven by complex and dynamic global factors. Commodity pricing, inflation, labor, energy, materials, technology, public policy, accessibility, permitting, and infrastructure all impact the business environment.

Despite challenges associated with mining in remote and rural regions, the outlook for Alaska's minerals industry is good considering record high gold prices, limited availability of strategic minerals, and a motivated minerals industry.

Record prices and declining availability of strategic minerals, including those containing rare earth elements, will likely fuel mineral exploration in the short- and long-term future. Efforts are underway to begin rare earth mineral production – the most promising is the Bokan Mountain/ Dotson Ridge project located on Prince of Wales Island in Southeast Alaska.



Kensington Mine infrastructure



Kensington Mine portal

SPECIAL TOPIC

Alaska Miners Association's Small Scale Mining Committee Receives 2011 Hardrock Mineral Community Outreach and Economic Security Award

The US Bureau of Land Management (BLM) awarded the 2011 Hardrock Mineral Community Outreach and Economic Security Award to the Alaska Miners Association's Small Scale Mining Committee for coordinating development of an *Alaska Placer Mining Claim Operations Guide* between the BLM, the US Forest Service, and the Alaska Departments of Natural Resources, Revenue, and Fish and Game.

According to the BLM, the award "highlights the component of sustainable development that relates to concern shown for community responsibilities and the economic benefits of mineral development, with an emphasis on successful coordination with local and regional stakeholders."

2011 PRODUCING MINES



Record metal prices and declining availability of strategic minerals (including those containing REEs) continue to fuel mineral exploration in Alaska. Increased exploration and placer activity are anticipated in 2012.



In 2011, Alaska's fishing industry earned \$2.04 billion in fish sales, an increase of almost 21 percent since 2010. Alaska's seafood processing sector sold this harvest for \$4.5 billion, a similar increase of more than 20 percent from 2010. In total, over 55,000 people either fish or work in the processing sector.

SPOTLIGHT

Rural Fisheries

Alaska's commercial fishing industry is relevant to the entire nation. At least one resident in 46 of 50 states owns a commercial fishing permit in Alaska. State permit ownership records indicate a three percent increase in the number of non-rural or non-residents who fished a permit during 2011.

Fishing is also a critical economic engine for Alaska's rural coastal communities and 2011 was a record year for seafood earnings. The increase in rural Alaska resident participants totaled two percent from 2010 to 2011. While it is encouraging to see an increase in rural fishing participation, rural participation remains a major development objective for Alaska as only 38 percent of fishery earnings are retained by rural residents.



Commercial fishing boats, Pelican, Alaska

OPPORTUNITIES

Alaska's seafood industry is experiencing a period of healthy fishing harvest levels, with the exception of halibut and Chinook salmon, and very strong prices.

- With strong prices and the highest earnings in this generation, the seafood industry can use this period of relative wealth to pay down lingering debts, shore up deferred maintenance, look at new investments, and build strong marketing plans for the future.
- The Alaska seafood industry is increasingly successful in managing consistent quality and creating desirable products. These positive industry trends allow Alaska's wild seafood's intrinsic superiority to emerge and sets it apart from aquaculture and other protein competitors. This product differentiation leads to greater price points and stability.
- In a world of increasing populations, environmental degradation, and urbanization, Alaska's sustainable fisheries story is appreciated. Hardworking men and women, carefully harvesting food in a pristine environment with a sustainable fisheries management system, is a winning message.

2011 Seafood Indicators

Jobs
57,000

Taxes
\$89.7M

Export
\$1.98B



Alaska seafood fills consumer demand for high quality sustainable seafood in a select niche category of premium food choices.

CHALLENGES

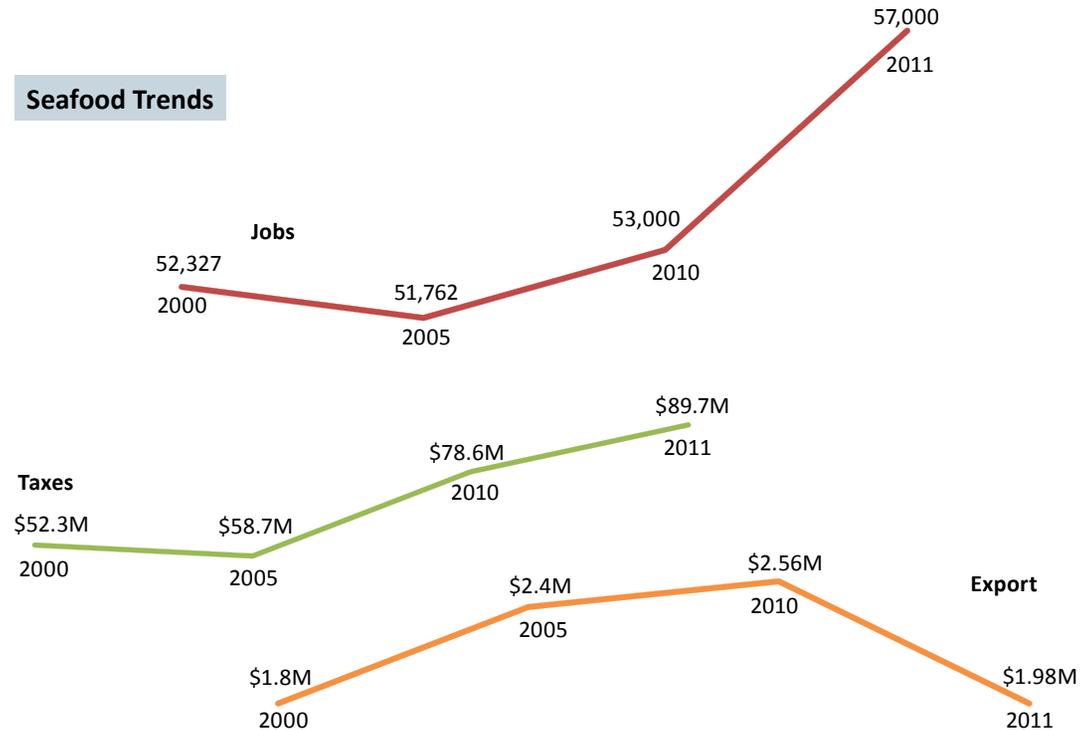
While prices are strong for the industry, there remain formidable challenges for seafood businesses and the public sector.

- Halibut stocks are in decline and fisheries management systems are carefully cutting back allocations to commercial fishermen and charter boat operators. In 2011, the Southeast commercial fishing fleet sustained a decline in halibut allocation of 47 percent from 2010. Over the past decade, Southeast halibut allocations have declined 73 percent (2001 to 2011).
- Fishing vessel consolidation is occurring in many Alaska fisheries. Fewer vessels mean fewer opportunities for young Alaskans to gain a foothold into this valuable industry.
- Workforce development remains a challenge for all sectors of the seafood industry. Business leaders and public sector agencies are currently working to design a workforce development system that will provide a laborforce for this industry into the future.
- As mainstay fisheries like salmon and pollock maintain and gain strength in the market, it is time to turn to smaller seasonal fisheries. Herring and shrimp fisheries, in particular, present growth opportunity. Improvements in the fisheries and marketability of the seafood may prove valuable to participants.

OUTLOOK

The Alaska seafood industry is strong in world markets. Alaska's constitutionally-mandated sustainable fisheries management system has become the world's measure for success and has become a boon for marketing Alaska seafood. As Alaska's wild seafood sector continues to build caché and global growth in aquaculture continues, Alaska has the opportunity to solidify itself in workforce development and marginal fisheries.

Seafood Trends



Shrimp boats and shrimp harvest in Sitka, Alaska, photos courtesy of Alaska Seafood Marketing Institute



Herring in nets, Sitka, Alaska, photo courtesy of Alaska Seafood Marketing Institute

SPECIAL TOPIC

The Southeast Alaska Regional Dive Fisheries Association (SARDFA) serves as a model for private-public partnerships that lead to increasing value for

commercial fisheries. Divers in Southeast Alaska target sea cucumbers, sea urchins, and geoducks. In 1998, SARDFA was created in state law to work in cooperation with the Alaska Department of Fish and Game to develop its fisheries. Unlike most other commercial fisheries that are taxed at three percent, SARDFA elected to tax itself at seven percent. The additional four percent of tax revenues flows back to SARDFA which uses the revenues to complete its annual operating plan.

Over the years, SARDFA increased its range and harvest in Southeast Alaska for the dive fishery, improved the regulatory system for food quality testing and diver safety, and researched shellfish enhancement and new markets.

SARDFA's achievements to date are valuable. From 1999 to 2011, the organization witnessed the geoduck harvest volumes increase over 600 percent. Combining larger harvests with significant price improvements propelled geoduck earnings to increase 30 times.

As SARDFA turns its attention to the future, promoting sustainability and addressing development challenges becomes paramount. The population explosion of sea otters is having a tremendous negative impact on its fisheries. Sea otters and poor market prices plague the sea urchin harvest. While at 3.5 million pounds in 2003, the annual Southeast sea urchin harvest is now less than 500,000 pounds.

Southeast Alaska Regional Dive Fisheries Association
Ketchikan, Alaska USA

(SARDFA) logo, courtesy Southeast Alaska Regional
Dive Fisheries Association, Ketchikan, Alaska



Dive fishery bounty, photo courtesy of SARDFA



Commercial fishing boat, Icy Passage, Gustavus, Alaska

More than 1.8 million visitors came to Alaska during the 2011 visitor season, spending an estimated \$1.7 billion. Adding cruise spending and airline and ferry ticket purchasing, direct visitor industry spending totaled \$2.3 billion. Visitor industry spending generated 37,800 full- and part-time jobs with an annual payroll of \$1.2 billion; peak season employment totaled 45,000 jobs. In total, the visitor industry's economic impact was \$3.7 billion (i.e., direct, indirect, and induced spending) including \$179 million in local and state government taxes and revenues. Compared to the prior season, the 2010 visitor season yielded a three percent increase in visitor volume, the first increase in annual visitation in four years.

SPOTLIGHT

New Guide Training to Keep More Tourism Benefits at Home

Knowledgeable local tour guides are the best way to introduce visitors to a community and increase the value of visitors' experiences. With a goal to increase the number of Alaskans in tourism jobs, the Alaska Division of Economic Development (DED) and the US Economic Development Administration developed and introduced the Alaska Tour Guide Training Program in 2011. The training is geared toward Alaska residents who want to be hired as tour guides or who want to develop their own tours and start new businesses.

To increase access to the training throughout the state, the Alaska Division of Economic Development organized trainer workshops in 2011 for individuals who will train guides in their communities and organizations. Training participants gain a good understanding of customer expectations, as well as the challenges and opportunities in tour guiding. The program is expected to have positive benefits for residents and small businesses by increasing economic benefits throughout the community. Furthermore, overall visitor experience will improve through high-quality interpretation delivered with local perspective.



Southcentral Alaska Guided Tour Group



Saxman Tribal House, Saxman, Alaska

2011 Tourism Indicators

Jobs
45,000
(peak season)

Total Visitors
1.8M

Visitor Spending
\$2.3B

Economic Impact
\$3.7B

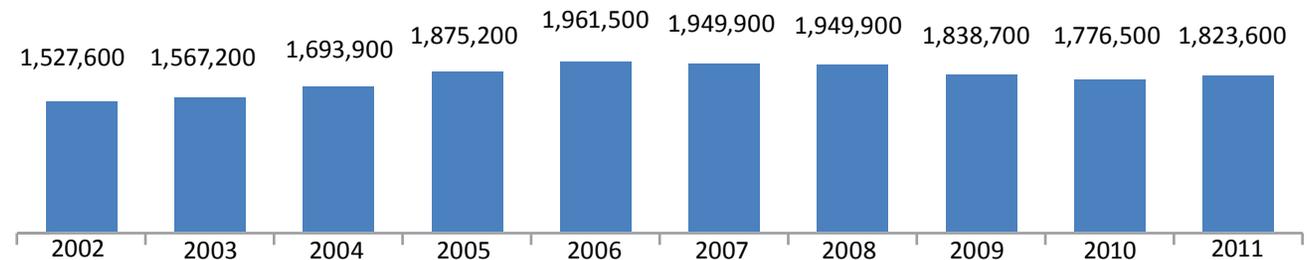
Labor Income
\$1.2B

Taxes and Revenues
\$179.0M



After three consecutive years of decline, Alaska's visitor numbers are on the rise again with 1.82 million visitors during the 2011 season. Total visitation increased three percent compared to 1.78 million visitors in 2010, but remained seven percent below peak visitation of 1.96 million visitors in 2007. During 2011, the percentage of Alaska visitors by major mode of transportation was 48 percent cruise passengers, 47 percent visitors who entered *and* exited by air, and five percent who entered or exited by highway or ferry.

2002 - 2011: Full-Year Visitation Trends



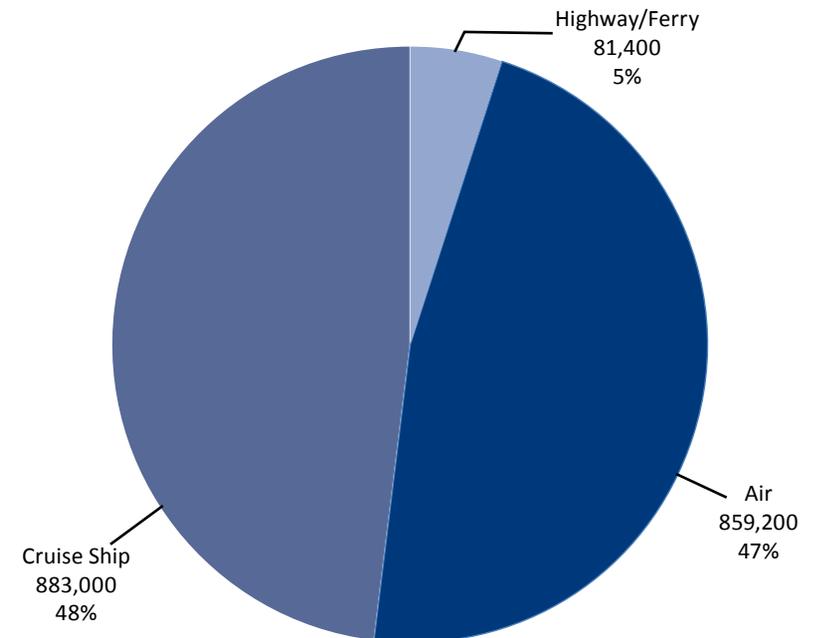
The visitor season for the Alaska Visitor Statistics Program is from May 1 to April 30. For the purpose of this report, the 2011-2012 visitor season is noted as the 2011 visitor season because the majority of visitor activity occurs in 2011.

2009 - 2011: Visitor Industry Economic Trends

Indicator	2009	2011	Percent Change
Visitors	1.84M	1.82M	-1.0%
Direct Visitor Spending (Nominal Dollars)	\$1.5B	\$1.7B	13.0%
Employment (Direct, Indirect, Induced)	36,200	37,800	4.4%
Labor Income (Direct, Indirect, Induced)	\$1.1B	\$1.2B	8.7%
Total Visitor Industry Spending (Direct, Indirect, Induced)	\$3.4B	\$3.7B	8.8%
State/Local Government Taxes and Revenues	\$206.4M*	\$179.0M	-13.3%
Peak Season Employment	40,000	45,000	12.5%

*The figure of \$206.4 million differs from the total in the 2010 Alaska Economic Performance Report (\$208.6 million) because the Alaska Marine Highway System revised prior estimates of out-of-state passenger revenues.

2011 Visitor Volume by Transportation Market



OPPORTUNITIES

Expanding the visitor industry requires business investment and promotion in domestic and international markets. The state continues to fund tourism marketing, providing \$16 million in addition to \$2.7 million in private funding in fiscal year 2011. The nearly \$20 million tourism marketing budget marks a significant increase over the \$11.7 million budget of the previous year and provides the means to commission new photography and develop new television commercials to refresh Alaska's image in the marketplace.

Capitalizing on existing and emerging opportunities will ensure future investment and growth in the Alaska visitor industry. Key opportunities that will benefit the industry overall include:

- Maintain Alaska's positive image in the market by providing sustained funding for tourism marketing programs.
- Grow per person visitor spending by promoting Alaskan products and services.
- Work with communities and the visitor industry to identify and develop Alaska Native and cultural tourism opportunities in rural Alaska.
- Prioritize infrastructure improvements to increase access and provide a solid base for private investment.
- Provide basic visitor services and improve destination management capacity.
- Support a favorable and stable business environment by improving access to public lands, encouraging permitting flexibility, and increasing recreation opportunities.

CHALLENGES

- Threat of another national economic recession impacts consumer confidence, disposable income, and leisure travel.
- A federal 200-mile emissions control area off most of Alaska's coast will require maritime vessels to use ultra-low sulfur diesel by 2015, which will likely increase the price of an Alaskan cruise and may impact corporation decision-making regarding cruise visitation.
- Government permitting processes do not align with business planning timeframes and limit commercial operators' access to public resources.
- Decreasing volumes of fisheries resource, most recently with Southeast Alaska halibut and Southcentral and Western Alaska Chinook salmon, create an uncertain business environment for sportfish guides and charter operators.



North American Emissions Control Area, photos courtesy of US Environmental Protection Agency



Southeast Alaska Guided Tour Group

OUTLOOK

Projections for the 2012 cruise market sector are positive as a total of 30 large cruise ships are scheduled to sail Alaska's waters in 2012. 2012 will see the return of a Disney Cruise Line ship and the addition of a Princess Cruises ship. Norwegian Cruise Line will replace the Norwegian Star with a higher-capacity ship, the Norwegian Jewel, and The World Residences At Sea will also make an appearance for one voyage in 2012. Small-ship cruise line, American Cruise Line, will also sail to Alaska for the first time during 2012.

On the airline front, Jet Blue Airways will again offer seasonal nonstop flights from Long Beach, California to Anchorage in 2012. US Airways will connect Philadelphia to Alaska with nonstop flights throughout the summer, and Condor Airlines returns in May with increased, seasonal nonstop flights between Anchorage and Frankfurt, Germany.

SPECIAL TOPIC

Native cultural tourism in Alaska provides visitors with an opportunity to experience the arts, heritage, and culture in diverse Native Alaska communities. Attractions include museums, cultural centers, historic and archaeological sites, festivals, dance groups, music, theater, subsistence activities, and arts.

Native cultural tourism plays a role in economic and community development, benefiting rural communities, residents, emerging and established artists, cultural centers, and the visitor industry. It provides visitors with a window into indigenous culture and allows them to see and experience life as it has existed for thousands of years.

Opportunities exist to develop Native cultural tourism tours with a specific focus on Alaska Native art in communities around the state. Visitors can interact with local residents, artists, and craftsmen and observe the creation and display of art and culture in an authentic, unprogrammed atmosphere. By merging culture with art, it is possible to appeal to an engaged and focused market, ready and willing to experience the life and culture of Native Alaskans.



DeWitt Carving Center, Saxman, Alaska

Alaska's forest products industry experienced a 50 percent increase in timber volume sold by the State of Alaska from 2010 to 2011. The increase in volume was an effort to provide raw material for the Southeast timber and forest products industry as raw material from the United States Forest Service (USFS) continues to decline across the Tongass National Forest. Statewide, the quantity of timber jobs continues to decline while export volume and total harvest showed little change from 2010 to 2011.

SPOTLIGHT

Superior Pellet Fuels Offers Cost Saving Energy Alternative

Late in 2010, Superior Pellet Fuels (SPF) opened its doors to service Interior Alaska as the state's first large-scale wood pellet manufacturing plant. SPF's start-up launched a new industry providing wood pellets as an alternative fuel option. As demand for wood pellets grows, SPF expects to reach full capacity, employing almost 20 additional full-time positions.

Independent research indicates wood pellets used for home heating are half the cost of traditional heating oil, potentially allowing for a two-year payback on residential investment. SPF and other similar enterprises continue to generate renewable and value-added products, Alaska jobs, support for other industries, and lower household heating bills.



Logo, Superior Pellet Fuels facility, and pellet photos courtesy of Superior Pellet Fuels, LLC

2011 Timber Indicators

Jobs
565

**State of Alaska
Timber Volume Sold**
24.1 Million Board Feet

Export Value
\$119.0M

**Total Alaska Harvest
(federal, state, and private)**
180 Million Board Feet



Economic indicators reflect a continued decline in Alaska's forest products industry. However, as more value-added products are developed, including woody biomass and building material, there is potential to tap into new markets for small diameter timber and raw material waste.

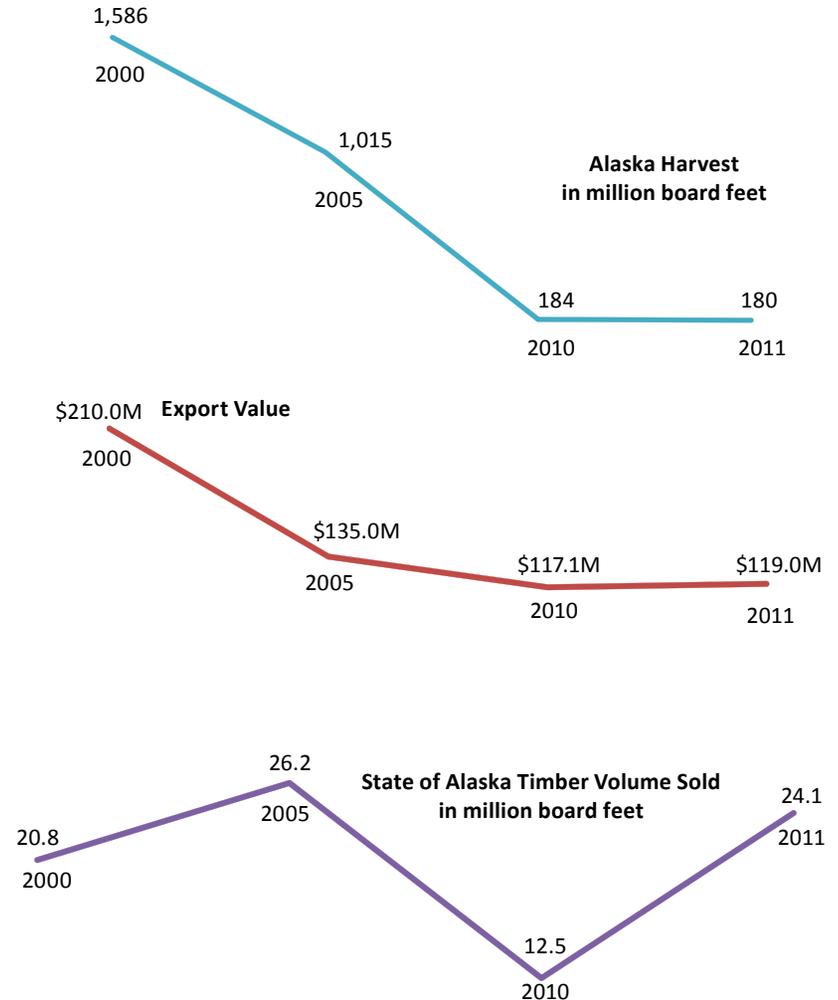
OPPORTUNITIES

- Forest product businesses are requesting timber sales that fit their unique needs. Exporters need large volume sales while smaller producers benefit from micro sales with longer harvesting periods. Specifically, businesses interested in harvesting woody biomass are requesting long-term timber contracts.
- The development and diversification of value-added forest products are critical to revitalizing and expanding Alaska's forest product industry. Fostering renewable energy wood products and supporting the small wood manufacturing sector will improve values for the forest products industry.
- Marketing remains a persistent need for some wood product manufacturers. Greater access to local markets and marketing tools will improve this sector. Increasing awareness throughout Alaska of available wood products will help build and grow the value-added product market.



Icy Straits cabin in Hoonah, Alaska, photo courtesy of Icy Straits Lumber

Forest Product Trends



Along with declining access to public forest resources, regulations, high energy, and transportation costs also hinder business growth. As businesses shift towards increasing value-added production and marketing to in-state needs, access to capital becomes difficult in a business climate that cannot guarantee a source of raw material.

CHALLENGES

- Tongass National Forest timber supply continues to decrease and concern persists the USFS will not increase supply to meet existing forest management plan objectives.
- As access to raw material declines, the cost of doing business becomes a critical issue. Due to the remote location of timber reserves, the industry suffers from high utility, energy, and transportation costs.
- Access to capital is a critical component of transforming an industry from one of round log export driven to more in-state manufacturing. However, with the USFS's reluctance to open harvestable timber reserves for the industry, it remains very difficult to secure needed capital.
- An aging and increasingly distant workforce is becoming the face of the timber industry in an environment that does not present strong opportunities.

OUTLOOK

Alaska's timber industry outlook for round log export is flat with a continued decline in access to raw material. In Southeast, poor access to timber limits the growth potential for export and value-added production. Growing a forest products industry rivaling the industry of the 1990's, when forest products rivaled oil production in total value, will likely not occur in the foreseeable future. However, increasing focus on consumer awareness of sustainable forest practices, greater value-added products and marketing, and use of wood waste through renewable energy will help revitalize the wood products sector.

2011 Harvest Volume in Million Board Feet [MMBF]

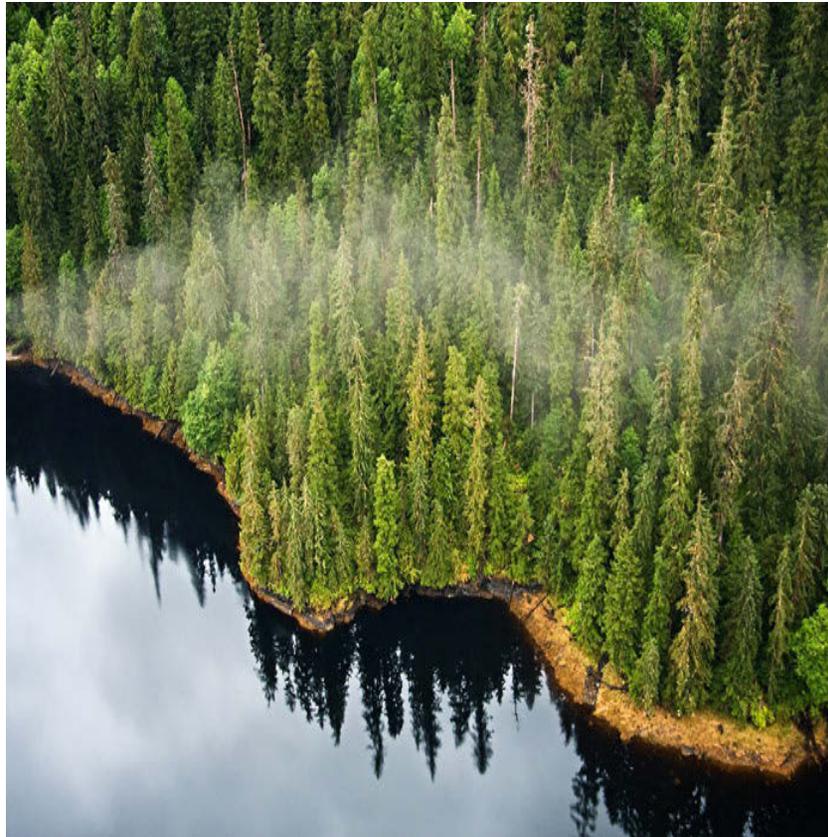
Ownership	Southeast Alaska MMBF	Southeast Alaska	All Other Alaska MMBF	All Other Alaska	Alaska Total MMBF	Alaska Total
Private – Sealaska, Inc.	50	44%	Not Applicable	Not Applicable	50	28%
Private	28	23%	52	88%	80	45%
State Timber Sales	10	8%	7	12%	17	9%
USFS Timber Sales	33	27%	Not Applicable	Not Applicable	33	18%
Total	121 MMBF	100%	59 MMBF	100%	180 MMBF	100%



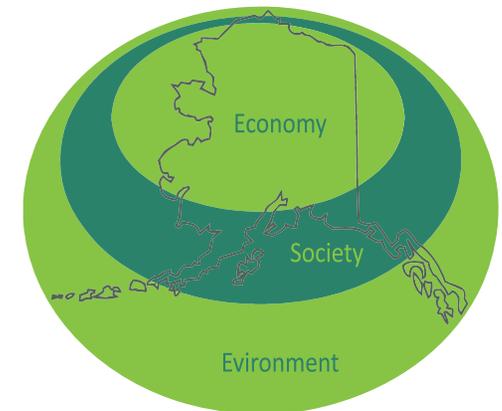
Alaska Timber Jobs Task Force, Coffman Cove, photo courtesy of Alaska Department of Natural Resources

SPECIAL TOPIC

Stemming from “cluster-based” economic development efforts in 2011, the Working Forest Group emerged to initiate a discussion among all Southeast industries and communities regarding the need for a balanced and collaborative approach to community and economic development. Industry sectors have a shared interest in each other’s success. When one industry falters, the prevailing decline in demand for goods and services increases costs for other sectors. Furthermore, sectors rely on best practices of other industries to maintain their own sustainability. Ultimately community quality of life decreases when jobs are lost and higher costs occur due to a downturn of an industry.



Tongass National Forest, photo courtesy of USDA Forest Service



The Working Forest Group is promoting a message of interwoven sustainability for the economy, communities, and the environment. Through active management that promotes sustainability for all sectors, the Working Forest Group advocates it is possible to achieve healthy communities with robust economies.

Alaska's agriculture industry is small compared to the rest of the nation. In total, agricultural products account for less than one percent of the total annual value of US agricultural receipts and only one percent of Alaska's total GDP. The total value of Alaska's agriculture products has remained generally flat for the last decade. Due to high operating costs, Alaska farmers typically sell to the local market, competing against non-Alaska foods produced at a lower cost.

SPOTLIGHT

Juneau's Local Foods Festival



During August 2011, the Juneau Economic Development Council partnered with the Juneau Commission on Sustainability, the Juneau Arts and Humanities Council, Slow

Foods Southeast, and the University of Alaska's Cooperative Extension Service to organize the fourth annual Juneau Farmers Market and Local Foods Festival. The festival was free to the public and featured twenty-eight vendors offering a variety of locally-grown and produced goods for sale including artisan breads, fresh vegetables, handmade pottery, bulbs for fall planting, jams and jellies, pies and pastries, mushrooms, locally-made dog treats, all-Alaska wild-crafted salves and teas, and rugs. The festival also included an "Ask the Expert" corner, where local gardeners were available to answer questions. The schedule included speakers on diverse topics such as growing organic fruits and vegetables, raising chickens, defeating invasive weeds, fish filleting, growing cruciforms, and building a root cellar. The festival continues to grow each year with new vendors and attendees. Notably, over 1,000 Juneau community members attended the 2011 festival.



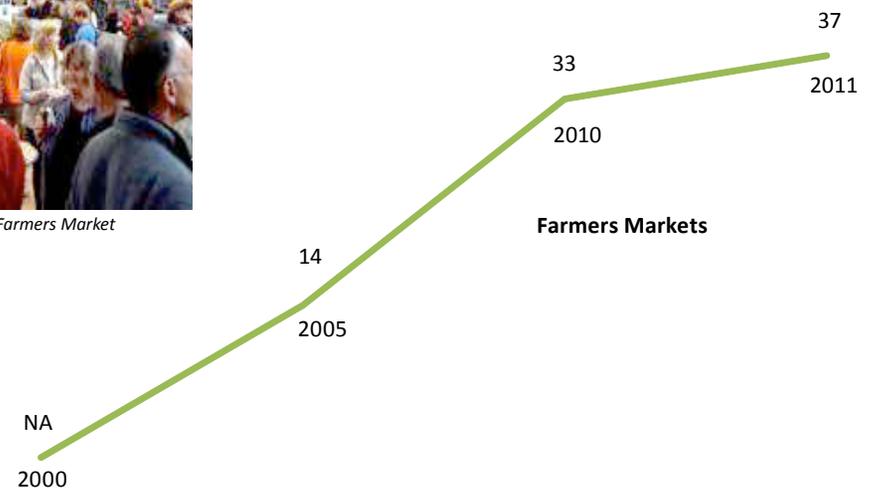
Juneau Food Festival, photo courtesy of Juneau Farmers Market



Juneau Food Festival, photo courtesy of Juneau Farmers Market

2011 Agriculture Indicators

Gross State Product \$31.1 M	Farms 680
Organic Certified Farms 8	Farmers Markets 37
Peony Farms 55	Export Value \$12.4M

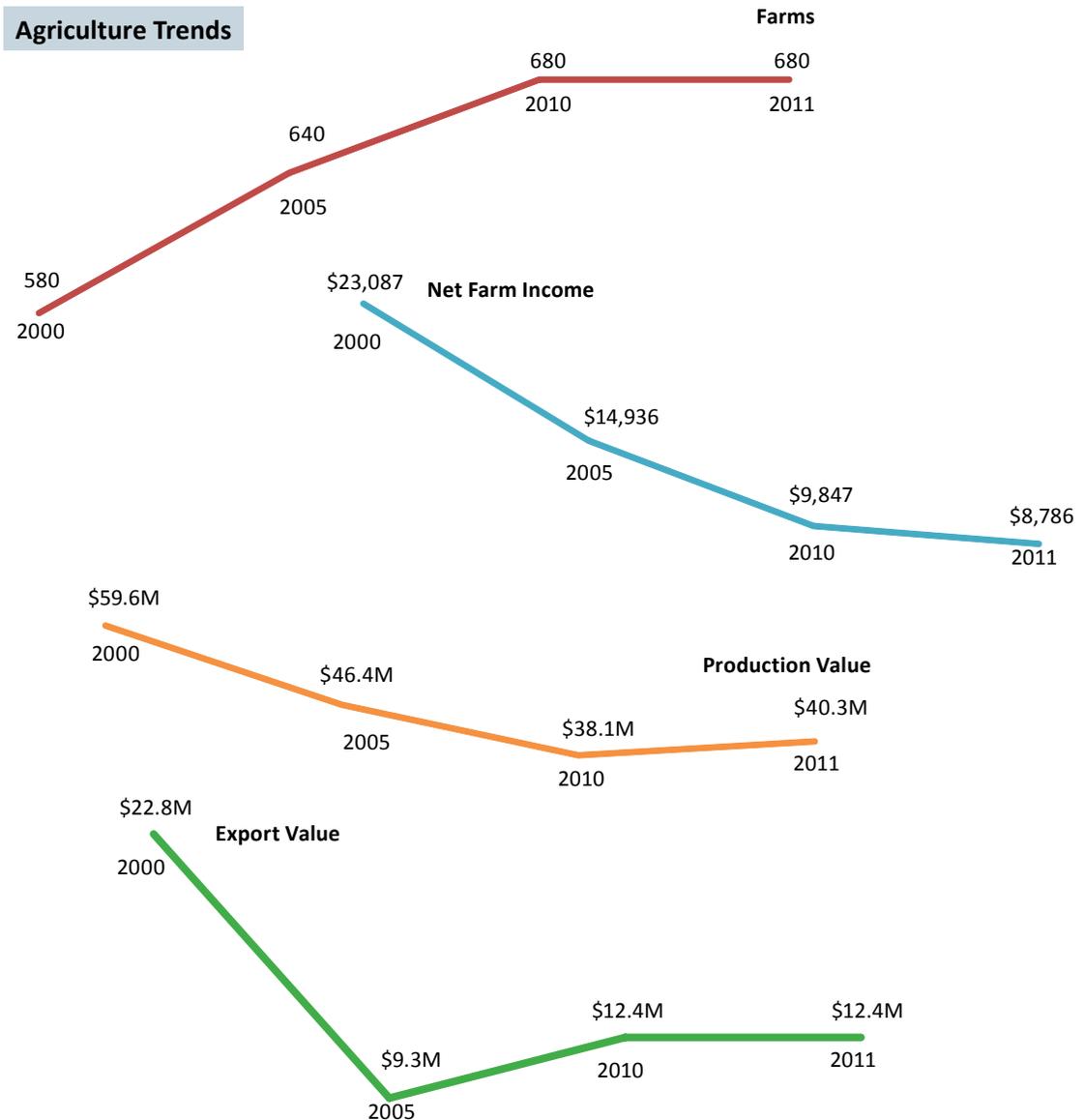


Alaska's agricultural production is mostly crops, which accounts for 80 percent (\$25,005,000) of the state's total agricultural receipts. Livestock and associated products account for the remaining 20 percent (\$6,321,000). During 2011, cash receipts to farmers totaled over \$31.3 million, representing an estimated two to three percent of Alaska's total food needs.

OPPORTUNITIES

- Escalating shipping costs limits opportunity for agriculture exports; conversely, high shipping costs serve as a disincentive for imports, creating potential advantage for local farmers.
- New developments including peony production, value-added products, and a flour mill in Delta Junction open new avenues for growth. Other new products with potential include Rhodiola rosea, a plant that produces a dietary supplement used to reduce fatigue and enhance physical and mental performance. Rhodiola has the potential for becoming a significant source of income for growers large and small.
- Increasing consumer demand for greater access to local foods has increased support for Alaska farmers that are producing more nutritious, less processed foods. The "local food movement" provides a unique platform for entrepreneurial farmers, as evidenced by an increase in farmers markets and community-supported agriculture businesses.
- Increasing research and use of innovative agricultural practices and tools like greenhouses, high tunnels or hoop houses, and salmon fertilizer have the potential to improve yields for farming operations in rural Alaska.
- Alaska remains a relatively pesticide free-zone and can capitalize on its growing environment to seek higher margins for crop and livestock production.

Agriculture Trends



CHALLENGES

- High input costs (i.e. seed, fertilizer) remain a critical problem for Alaska agriculture. Large agri-businesses from the Lower 48 are able to produce and ship food to Alaska at a lower cost than locally-grown food. Agriculture is a relatively undeveloped industry and supporting long-term growth will require strategic planning and investment.
- Lack of local support industries and agriculture infrastructure including fertilizer, pesticides, machinery, and other required durable goods continues to challenge growers. Furthermore, input costs are extremely volatile due to fuel costs and the necessity of importing supplies from the Lower 48.
- Growers indicate more agricultural lands need to be made available in order to increase production.
- Lack of a skilled labor force is also a limiting factor. Encouraging new farmers to enter the industry is critical to the long-term success of Alaska's agriculture industry.

OUTLOOK

Although comparatively small, Alaska's agriculture industry is growing in important areas. During 2010, Alaska led the nation in growth of farmers markets per capita as 33 markets offered the public direct access to over 200 farms and their locally-grown or produced products. In 2011, the number of farmers markets grew to 37. The sector of the industry focused on small-scale production and direct marketing to the consumer is a growing component of agriculture production in Alaska.



Copper Valley hoop structure, photo courtesy of Copper Valley Development Association

Food security is also a growing area of concern for residents and farmers. The majority of food consumed in Alaska is imported from the Lower 48 (95% - 98%). Dependence on outside food sources threatens Alaska's food security and is a topic of discussion among leaders of the local food movement.

SPECIAL TOPIC

State of Alaska Launches New Local Foods Program

During the 27th Alaska State Legislature, a bill passed to make Alaska-grown and harvested foods available to school children while bolstering Alaska's economy. The legislature appropriated three million dollars to establish the Nutritional Alaskan Foods in Schools Program during fiscal year 2013. The pilot program's objective is to encourage Alaska school districts to purchase nutritious Alaska-grown produce, seafood, or aquatic protein, while providing secondary benefit to businesses producing foods.

All Alaska schools are eligible for program funding. Reimbursement is based on enrollment, ranging from \$25,000 for a small single-site school district, to \$210,000 for larger districts such as Matanuska-Susitna Borough or Fairbanks North Star Borough. The Anchorage School District is eligible for up to \$642,000. Qualifying food items include:

- Finfish or shellfish caught or harvested in Alaska waters;
- Livestock raised in Alaska;
- Milk produced from livestock raised in Alaska;
- Native produce including vegetables and berries;
- Poultry and poultry products grown in Alaska; and
- Grains harvested in Alaska.

As Alaska Department of Commerce, Community, and Economic Development Commissioner Susan Bell notes "the program will help Alaska students benefit by being served locally-harvested foods high in nutritional value and quality in school meals, while it helps Alaska build a strong, local, and sustainable healthy food system and increases economic development by creating jobs and diversifying the economy."

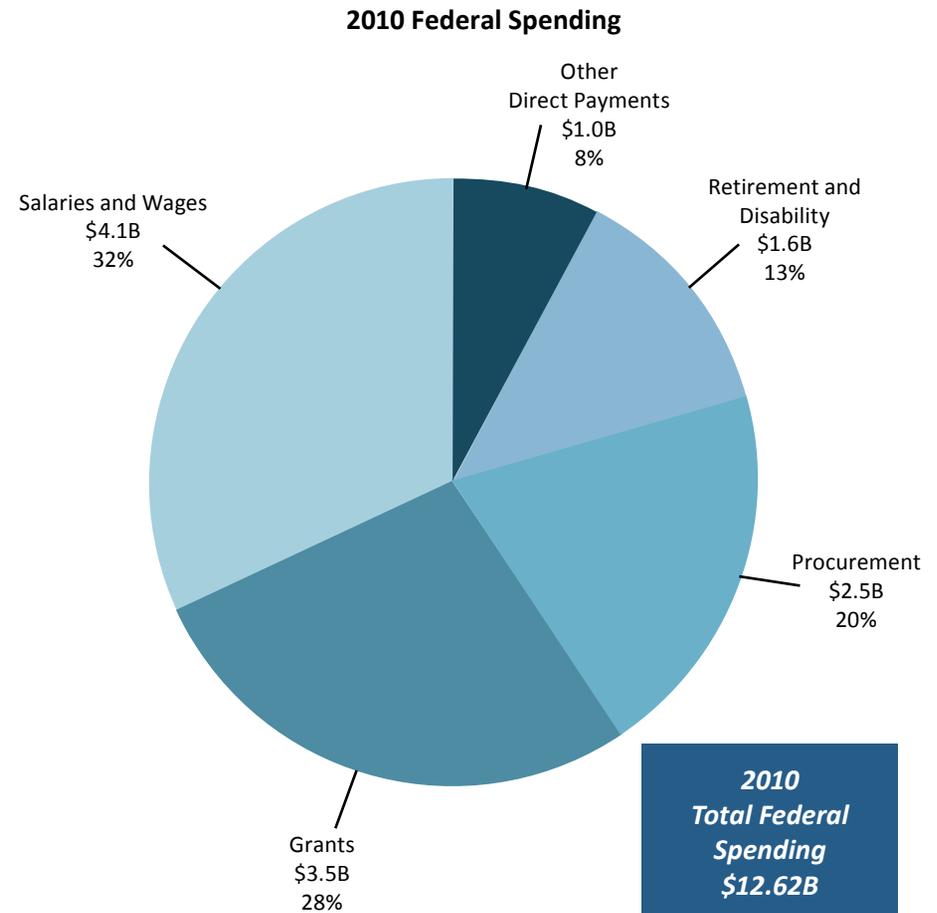
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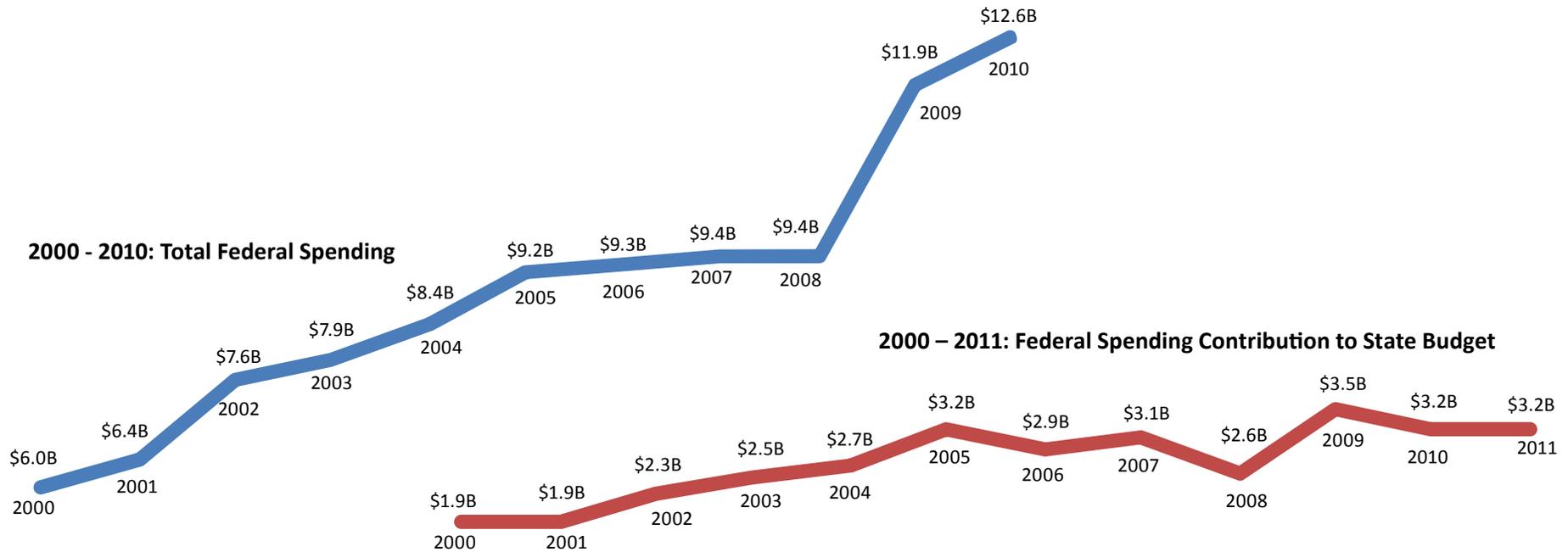
The US Census Bureau's *Consolidated Federal Funds Report (CFFR)* and *Federal Aid to States Report (FAS)* are the most comprehensive, reliable, and comparable annual reports published regarding federal expenditures for all 50 states, municipalities, counties, and other geographic areas. The US Census Bureau discontinued these reports, effective federal fiscal year 2012, citing funding challenges and increasing organizational costs. The last editions of these reports, covering 2010 federal spending, were published during September 2011. Without these reports, tracking federal spending and measuring total impact on Alaska's economy is limited. Due to lack of data, the *2011 Alaska Economic Performance Report* continues to discuss 2010 federal spending while offering limited 2011 data and discussion. Alaska, along with all the other states, is still reacting to the discontinuation of critical federal reports and developing alternative methods of collecting and analyzing federal spending data.

The federal government's impact on Alaska's economy is more than direct jobs – it also includes funding for grants, procurement of goods and services, and retirement and benefits. During 2010, the federal government spent \$17,762 for every Alaskan, ranking the state number one in federal per capita spending – 70 percent above the national average (\$10,460). Federal spending impacts reverberate across rural and urban Alaska including infrastructure projects, government employers, military spending, health care programs, community development services, and social welfare programs.

As depicted in 2010, nearly one-third of all federal expenditures were attributable to salaries and wages (32%). Grant funding accounted for more than one-quarter (28%) of all 2010 expenditures followed by procurement (20%) and retirement and disability (13%) payments. Over the past decade (2000 - 2010), salary and wage expenditures doubled (201%) – the most significant increase by federal spending category.

According to the Alaska Department of Labor and Workforce Development, the typical federal worker earned nearly \$70,000 per year – considerably more than the statewide average salary of nearly \$50,000. The federal workforce in Alaska totals nearly 40,000 employees including members of the military, employees of land management agencies, and federal civilian positions.





Federal spending in Alaska consistently grew over the past decade and received a considerable boost in 2009 with the passage of the American Recovery and Reinvestment Act. Notably, the increase in federal “stimulus” funds during 2009 and 2010 (approximately \$2.2 billion) was only a temporary injection of additional funds into the economy. Federal spending may decline in years to come as the lingering impacts of the national recession, prolonged economic recovery, and increased federal fiscal restraint continue to take their toll and influence national fiscal policy.

For the foreseeable future, economists project federal spending will continue on a flat trajectory. However, the outlook for Alaska’s share of federal funds remains promising. The federal government continues to be Alaska’s largest landowner (60% of total area), indicating an ongoing commitment for funding of military installations, national parks, refuges, forests, federal health care, assistance for Alaska Natives, and federal construction and infrastructure projects. Alaska may not experience record levels of federal funding received during prior years, but a sudden precipitous drop in federal spending is not anticipated to occur during the next several years.

2000 - 2010: Federal Spending Growth

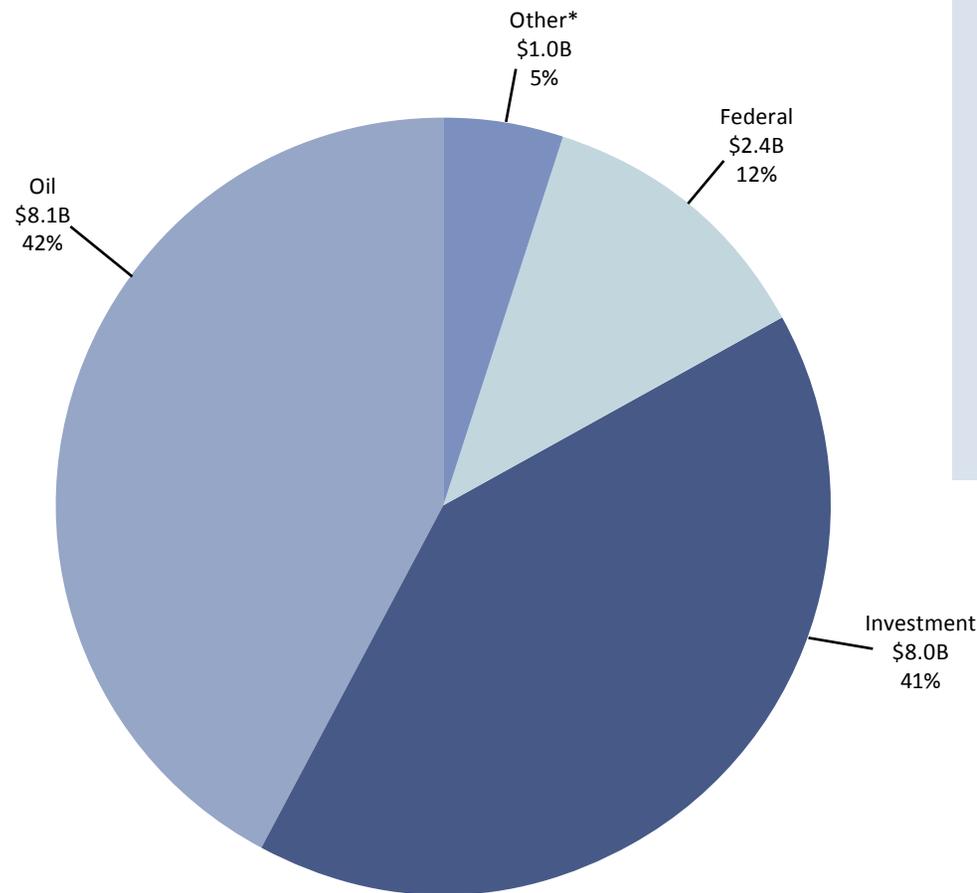
Category	Percent Increase
Grants	54%
Retirement and Disability	88%
Procurement	121%
Other Direct Payments	158%
Salaries and Wages	201%

Nearly all State of Alaska revenue (95%) is generated from three primary sources: oil, investment, and the federal government. For fiscal year 2011, oil tax revenue remained the largest source of state revenue at 42 percent, followed closely by investment-generated revenue (41%). Notably, the Alaska Permanent Fund (Fund) represents the majority of State of Alaska investments, and 2011 yielded the third strongest returns in the Fund's 35-year history. The federal government contributed 12 percent of Alaska's state revenues during fiscal year 2011. Other state revenue (5%) includes a variety of sources: taxes, charges for services, licenses, permits, fines, and forfeitures.

TOTAL STATE REVENUE

Total state revenue reached \$19.5 billion in fiscal year 2011, a significant increase from \$13.9 billion in fiscal year 2010. The impact of high prevailing oil prices continues to insulate state coffers from reduced levels of oil production; oil revenues increased from \$6.2 billion to \$8.1 billion from fiscal years 2010 to 2011. Investment revenue nearly matched oil revenues in fiscal year 2011, as the Fund balance returned a 20.6 percent increase over fiscal year 2010 – the third highest return in history. Federal spending in Alaska remained steady at \$2.4 billion. Other revenue, including non-petroleum taxes, fees, fines, rents, and royalties, increased slightly to just over \$1.0 billion.

Fiscal Year 2011 Total State Revenue



*Includes taxes, service fees, licenses, permits, fines, and forfeitures.

2011 State Revenue Indicators

Total Revenue
\$19.5B

Oil
\$8.1B

Investments
\$8.0B

Federal Government
\$2.4B

Other
\$1.0B



TAXATION

An important source of state revenue comes from tax collections, which totaled nearly \$5.9 billion during fiscal year 2011 – up 37 percent from \$4.3 billion in fiscal year 2010. The main contributor to state tax revenue is the oil and gas industry, which paid \$5.4 billion to the state, accounting for 92 percent of all state tax revenue. Considering non-petroleum tax sources, corporate income taxes provided the largest contribution, with a total of \$158 million (2.7%) followed by tobacco taxes of more than \$73 million (1.3%). Fisheries-related taxes produced a combined \$71 million (1.2%). Tax collections for mining licenses, alcoholic beverages, motor fuel, and other taxes each accounted for less than one percent of total tax collections. The commercial passenger vessel fee and large passenger vessel gambling tax collected \$38 million (.6%), down from \$51 million (1%) in fiscal year 2010.

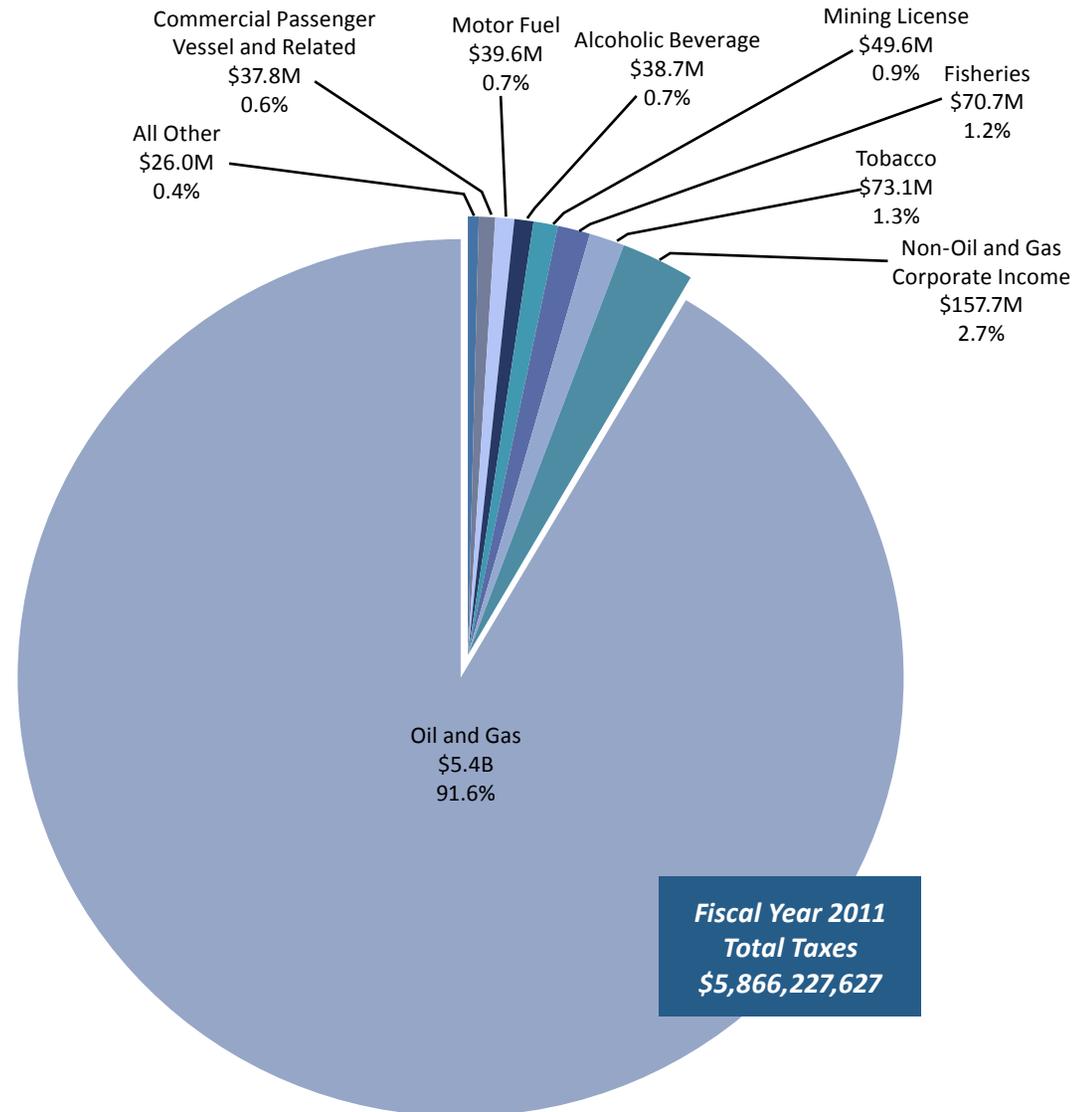
SPOTLIGHT

Oil Revenue

Oil remains the largest revenue source for the State of Alaska at 42 percent of total state revenue and 92 percent of all unrestricted revenue. The Alaska Department of Revenue projects oil will provide at least 85 percent of unrestricted revenue through fiscal year 2022; however, North Slope oil and natural gas production continues to decline. Peak-year production totaled 2.01 million barrels per day during fiscal year 1988, compared to 603,000 barrels in 2011. The Alaska Department of Revenue forecasts an annual average production decline of nearly six percent over the next ten years. High oil prices continue to mask the impacts of declining production. Forecasted oil prices remain above \$100 per barrel through 2022.

Fiscal year 2011 was another outstanding investment year and rebounding oil prices strengthened the recovery of state revenue to pre-recession levels, marking the eighth straight year of revenue surplus. Fiscal year 2011 total state revenue increased 40 percent compared to fiscal year 2010 levels.

Fiscal Year 2011 Taxes Collected by the State of Alaska

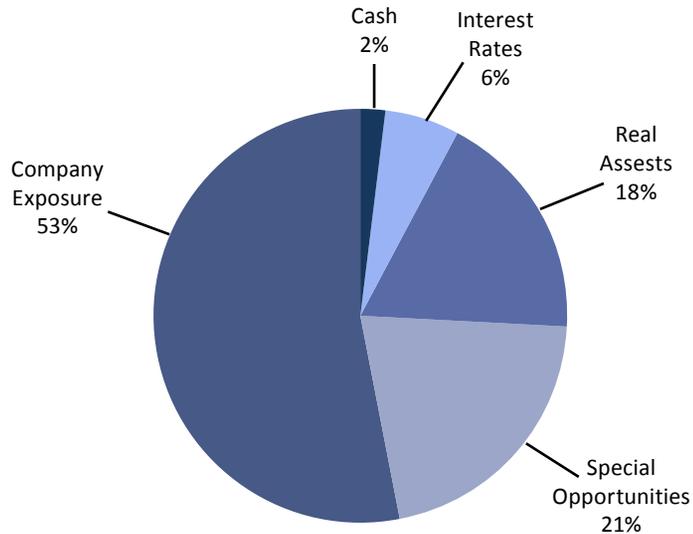


Outstanding performance in fiscal year 2011 returned the Alaska Permanent Fund (Fund) to its pre-global financial crisis value of \$40 billion. The Fund earned \$2.1 billion with a positive return of nearly 21 percent.

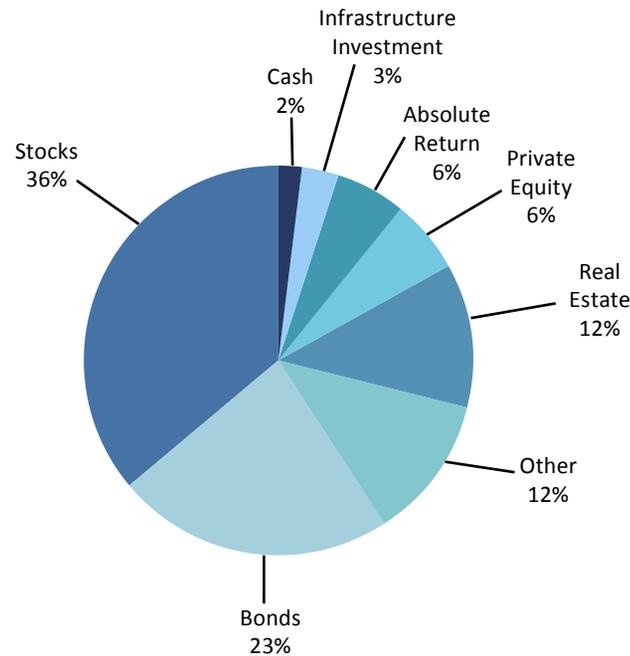
ASSET ALLOCATION

Alaska state law requires the Fund be managed to serve all Alaskans, including future generations. The Fund's portfolio is set up to protect the principal and generate maximum returns. During the past two years, the Fund's Board of Trustees implemented risk management programs that are industry-recognized for innovation. In addition to the standard method of grouping investments by asset class, the Fund is also divided into five investment categories that share similar risk profiles and represent the market condition or liability that assets are expected to address.

Permanent Fund Target Asset Allocation by Market Condition for Fiscal Year 2011



Permanent Fund Target Asset Allocation by Traditional Asset Class for Fiscal Year 2011



2011 Permanent Fund Indicators

Permanent Fund Balance
\$40.1B

Return
20.6%

Dividend Transfer
\$858M



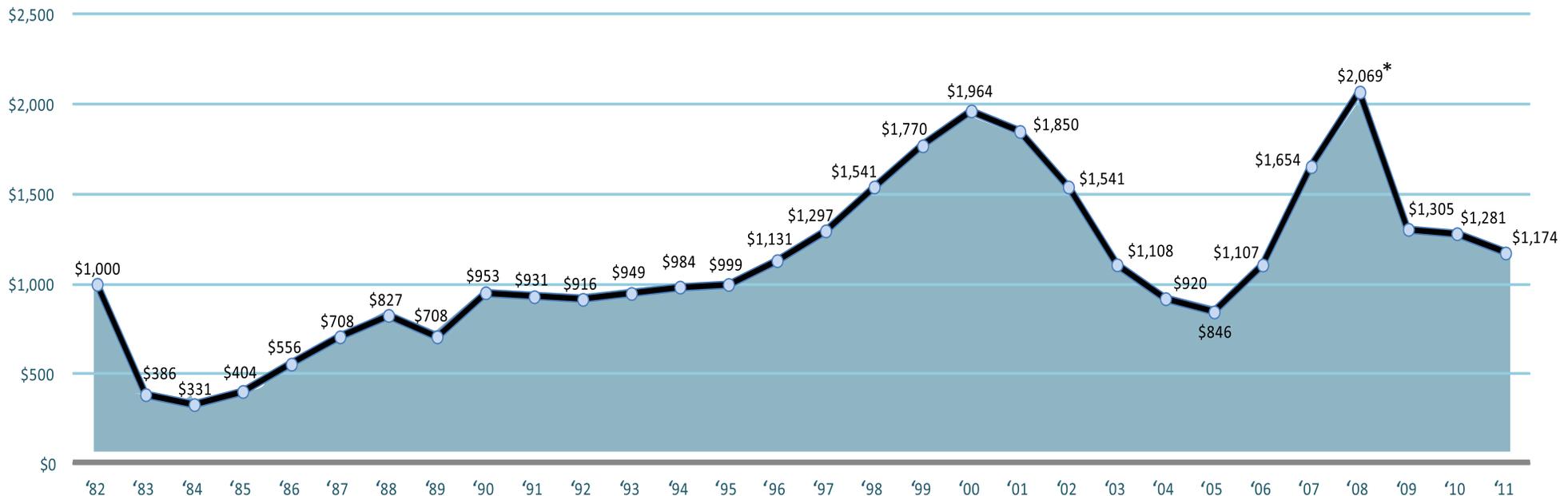
PERFORMANCE

By the end of fiscal year 2011, the Fund balance totaled \$40.1 billion, a 20.6 percent increase over fiscal year 2010 and the third highest return in the history of the Fund. It is the first time the Fund's year-end value closed at over \$40 billion. The Fund's outstanding returns are especially notable in light of current market challenges including a sluggish US economic recovery, high unemployment, the European Union debt crisis, the Japan earthquake, and political unrest in the Middle East.

Stocks were the greatest contributor to the Fund's performance, making up about half of the Fund's total value and earning more than 30 percent. The Fund's real estate and US bond portfolios also gained 16.9 percent and 5.3 percent, respectively. Non-US bonds were essentially flat at 0.6 percent.

During fiscal year 2011, the Fund earned \$2.1 billion in statutory net income compared to \$1.6 billion in fiscal year 2010. A five-year net income average is used to calculate revenue available for dividend distributions. During 2011, the Fund transferred \$801 million to the Alaska Permanent Fund Dividend Division to pay dividends to eligible Alaskans

1982 - 2011: Annual Alaska PFD Amounts



*During 2008, all Alaskans eligible for the PFD also received a one-time additional \$1,200 Alaska Resource Rebate as authorized by Senate Bill 4002, signed by Governor Sarah Palin.

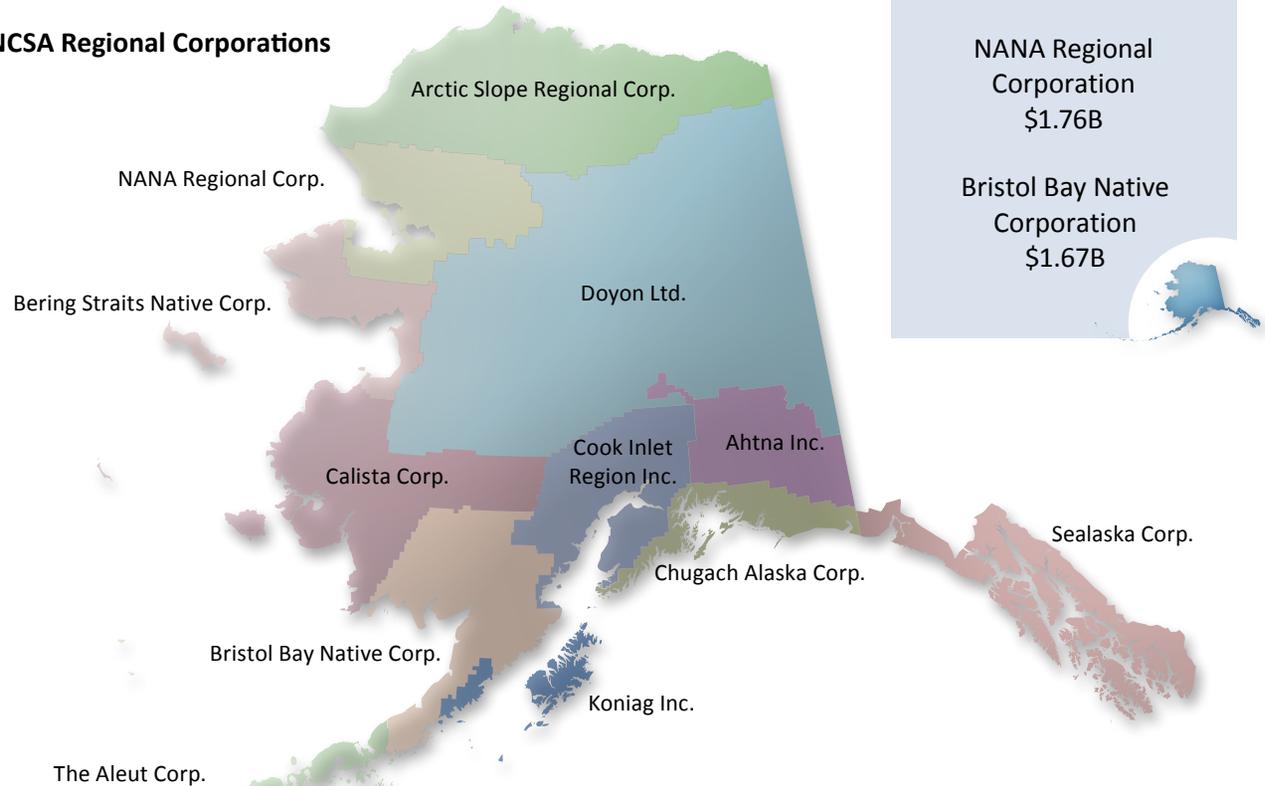
2011 is a milestone anniversary for Alaska Native Corporations as they celebrate their forty-year anniversary. In 1971, the United States Congress passed the Alaska Native Claims Settlement Act (ANCSA), creating 12 for-profit Alaska Native Corporations (ANCs). ANCSA allotted Alaska Natives 44 million acres of land and \$962.5 million, which was divided among 12 regional corporations and over 200 village corporations. These assets were invested, used to develop new businesses, or used to acquire existing businesses for the benefit of Alaska Native shareholders.

ECONOMIC PERFORMANCE

ANCs remain strong economic drivers for Alaska with 2011 total revenue surpassing \$8 billion. Although corporations continue to diversify investments, holdings, and operations across the globe, it is estimated as much as 94 percent of total revenues are attributable to government contracts that provide preference to Alaska Natives.

Nearly all regional ANCs continued strong financial performance with growth from 2010 to 2011. Total 2011 revenue for all 12 corporations increased to \$8.40 billion; net income totaled \$237.76 million. During 2011, the strength of their collective performance was further underscored with only one individual corporation posting a loss – unlike in 2008, when the recession led to investment losses for many corporations. 2008 losses largely occurred due to the devaluation of portfolios, not declines in business operations. During 2011, three corporations exceeded \$1 billion in total revenue, including the Arctic Slope Regional Corporation, Bristol Bay Native Corporation, and NANA Regional Corporation.

ANCSA Regional Corporations



2011 ANCSA Corporation Indicators

Total Revenue
\$8.40B

Top Three Corporations by Total Revenue

Arctic Slope Regional Corporation
\$2.55B

NANA Regional Corporation
\$1.76B

Bristol Bay Native Corporation
\$1.67B

The economic impact of ANCSA goes beyond the 12 regional corporations. Over 200 village corporations were also incorporated for the benefit of local shareholders. It is estimated 169 village corporations are currently active due to mergers, partitioning to regional ANCs, or discontinued operations. Several village corporations have achieved economic success rivaling the largest regional ANCs. Notably, village corporations also play an important role in the rural economy, often as the owner/operators of the local fuel service, the grocery store, and other important local businesses.

SHAREHOLDER RETURNS

ANCSA tasked corporations with providing financial and social benefits for shareholders including dividends, employment opportunities, and preservation of culture. Corporations invested in multiple businesses with the goal of maximizing returns to shareholders. Corporate operations in Alaska and around the globe include government services, construction, real estate, mining, tourism, technology, and energy. During 2011, shareholders received dividends ranging from \$2.02 per share (Ahtna Incorporated) to \$50.84 per share (Arctic Slope Regional Corporation). The continued financial growth of these corporations is beneficial to Alaska's local, regional, and statewide economies.

Alaska Native Claims Settlement Act Regional Corporations 2011 Summary

Corporation	Region	Total Revenue [millions]	Net Income* [millions]	Approximate Shareholders	Dividend per Share
Ahtna Incorporated	Cantwell to Mentasta to Harvard Glacier to Chitina River	\$205.21	[\$2.99]	1,700	\$2.02
Aleut Corporation	Alaska Peninsula to Aleutian, Shumagin, and Pribilof Islands	\$143.05	\$8.38	3,700	\$21.00
Arctic Slope Regional Corporation	North Slope region	\$2,550.0	\$54.14	11,000	\$50.84
Bering Straits Native Corporation	Nome and Seward Peninsula	\$197.71	\$8.85	6,300	\$2.35
Bristol Bay Native Corporation	34 million acres in the Bristol Bay region	\$1,667.20	\$43.02	8,600	\$13.80
Calista Corporation	56,000 square miles in Southwest Alaska	\$300.50	\$15.74	13,000	Not Provided
Chugach Alaska Corporation	Prince William Sound	\$765.81	\$18.05	2,300	\$40.00
Cook Inlet Region Incorporated	38,000 square miles in Southcentral Alaska	\$200.83	\$29.64	8,100	\$34.98
Doyon Limited	Alaska-Canada border, westward near Norton Sound	\$314.01	\$21.97	18,000	\$3.88
Koniag Incorporated	Kodiak Island	\$131.05	\$8.65	3,700	\$10.50
NANA Regional Corporation	38,000 square miles in Northwest Alaska	\$1,760.23	\$25.52	12,500	\$14.70
Sealaska Corporation	Largest private landowner in Southeast Alaska	\$259.49	\$6.79	20,000	\$2.24

* Attributable to corporation.

Note: The 13th Regional Corporation is not included within text or analysis as information regarding 2011 performance was not available at the time of publishing

INTERNATIONAL TRADE

Alaska's 2011 exports reached \$5.2 billion, the state's highest year for exports and the first time topping the \$5 billion mark in annual export value. 2010 and 2011 growth exceeded 25 percent each year, an exceptional recovery from prior years of national economic uncertainty that impacted global markets. Growth, over the past two years, has been driven by demand for Alaska's natural resources, especially seafood, mineral ores, precious metals, and precious metals ore concentrates.

During 2011, Alaska ranked 44th in the US in export value, but was 9th among US states for rate of increase. Notably, Alaska ranks in the top ten exporting states by per capita value. Alaska's 2011 exports were 0.33 percent of the nation's exports of \$1.3 trillion. Both exports and foreign direct investment have been important to Alaska for more than six decades.

Alaska's 2011 exports increased 28 percent from 2010, compared to only 16 percent growth in US exports during the same time period. Notably, Alaska's export performance bettered the national average in both 2010 and 2011. For the first time, Alaska's top 2011 export market was China followed by Japan, Korea, Canada, Germany, Switzerland, and Spain.

SEAFOOD

During 2011, the value of Alaska's annual seafood exports grew 35 percent to \$2.5 billion. China and Japan accounted for \$1.4 billion dollars of the 2011 seafood export. China has been steadily growing in importance in Alaska's seafood exports with 2011 exports totaling \$836.0 million – an increase of 61 percent compared to 2010. Seafood exports to China have increased due to strong domestic demand and the country's role in reprocessing for re-export. Today, Alaska seafood is available in the retail market in more than a dozen cities in China. Japan and China remain extremely important for Alaska's seafood exports.

Over the past decade, Alaska seafood has also found its way into additional countries. In 1999, Alaska seafood exports to Europe accounted for less than five percent of total seafood exports. In 2011, European markets accounted for over 22 percent of the value of Alaska's seafood exports. Demand in Europe for Alaska seafood is linked to the value those markets place on healthy eating, food traceability, sustainability of fisheries, and the strength of Euro currency.

2011 International Trade Indicators

Total Export Value

\$5.2 Billion

US Export Value Rank

44th

Top Three Export Markets

China

Japan

Korea



During 2011, Alaska ranked 44th in the US in export value, but was 9th among US states for rate of export value increase.

MINERALS

The 2011 value of Alaska's total mineral ore exports was \$1.8 billion, an increase of 35 percent compared to 2010. Zinc prices have fluctuated greatly in recent years, driving up value for Alaska's zinc and lead ore exports that account for the majority of mineral export value. Copper ores mined in Canada and exported via the Port of Skagway accounted for \$199.2 million of the \$1.8 billion.

Red Dog Mine, in Northwest Alaska, is the second largest zinc mine in the world and represents five percent of global zinc mine production. Red Dog Mine is the largest zinc mine in the nation and accounts for 79 percent of domestic zinc production. Alaska's mineral ore exports have traditionally gone to multiple international markets. During the past three years, countries importing more than \$100 million of Alaska's ore exports included Japan, China, Canada, Korea, and Spain.

During September 2010, Kensington Gold Mine added 225 full-time employees to the Southeast Alaska's mining industry. Kensington's parent company, Coeur Alaska, has entered into a contract with China National Gold Group Corporation, that nation's largest gold producer, for the purchase of gold concentrates produced at the mine. The agreement is the first of its kind between one of China's state-owned corporations and a US precious minerals mine.

ENERGY

Pacific Rim countries and Canada are traditionally key markets for Alaska's energy exports. The 2011 combined value of Alaska's energy exports

— liquefied natural gas (LNG), refined petroleum products, and coal — totaled \$434.7 million. The value of Alaska's LNG exports to Japan in 2011 was \$198.2 million, a reflection of uncertainties that year regarding the future of Alaska's LNG plant on the Kenai Peninsula. Coal exports totaled \$30.9 million, with major shipments to Chile and additional export to Japan and South Korea.

PRECIOUS METALS

The value of Alaska's precious metal exports, primarily gold, grew 25 percent on rising global prices, to \$265.0 million, with \$250.1 million of gold going to Switzerland and \$14.7 million to Canada. The remaining precious metal exports of nearly \$1 million took the form of jewelry containing precious metals and stones, and silver coin.

FOREST PRODUCTS

Alaska's 2011 export of forest products grew four percent to \$119.5 million. The China market is the largest recipient of Alaska's forest product exports, followed by Japan, Korea, Canada, and Taiwan.

FOREIGN INVESTMENT

For more than 50 years, foreign investment in Alaska has resulted in jobs in the mining, forest products, seafood, visitor, and energy industries. Natural resource development requires a multi-year effort of exploration, permitting, and construction. Businesses in the United Kingdom, Japan, and Canada have invested heavily in Alaska.

An example of significant foreign investment in Alaska is the 12-year, \$378 million development effort from Japan's Sumitomo Metal Mining

Corporation in Pogo Gold Mine. The mine provides nearly 300 local jobs in Interior Alaska.

An economic impact study commissioned by the Consulate of Canada in Anchorage reported nearly three-quarters of all Alaska mining industry exploration and development expenditures from 1981 to 2006 were from Canadian companies.

INTERNATIONAL AVIATION

More than 20 international air cargo carriers operate at Ted Stevens Anchorage International Airport. The State of Alaska's success in expanding regulatory authority from the federal government for international cargo transfer in Alaska provides valuable online and interline hubbing opportunities for international air cargo carriers.

International passenger air service contributes to Alaska's visitor industry at the same time it introduces Alaska to thousands of visitors. During 2011, Japan Airlines continued its winter passenger charter service from Tokyo to Fairbanks, centered around tour packages that highlight northern climate visitor activities, including aurora borealis viewing. Also in 2011, Korean Air operated summer charters linking Seoul and Anchorage. Condor operated seasonal passenger charter service several times per week to Anchorage and Fairbanks from Frankfurt. Condor's seasonal passenger service dates back to the early 1990's.

In 2011, Alaska's manufacturing gross domestic product (GDP) totaled \$2.1 billion with \$207 million in durable goods and \$1.9 billion in non-durable goods. This figure represents less than one percent of the nation's total manufacturing GDP, estimated at \$1.8 trillion for 2011. Among all states, Alaska ranks 49th in terms of manufacturing as a percent of total GDP.

Despite Alaska's relatively low numbers compared to other states, its manufacturing sector has shown strong growth in recent years. From 2010 to 2011, Alaska's manufacturing sector grew 15 percent. Notably, more than 80 percent of Alaska's manufacturing activities are related to food production (primarily seafood) and petroleum manufacturing.

2011 Top Five/Bottom Five States by Manufacturing GDP

States	Rank	Manufacturing GDP Total Value [millions]	Percent of Total US Manufacturing GDP
California	1	\$229,862	12.51%
Texas	2	\$192,024	10.45%
North Carolina	4	\$86,575	4.71%
Illinois	3	\$86,586	4.71%
Ohio	5	\$80,727	4.39%
North Dakota	46	\$2,807	0.15%
Wyoming	47	\$2,589	0.14%
Montana	48	\$2,286	0.12%
Alaska	49	\$2,112	0.11%
Hawaii	50	\$1,368	0.07%

2011 Manufacturing Indicators

Gross Domestic Product
\$2.1 Billion

Gross Domestic Product Rank
49th

Top Manufacturing Sector by Gross Domestic Product
Petroleum

Top Manufacturing Sector by Jobs
Food and Beverage

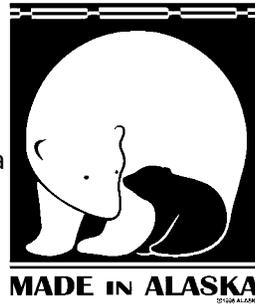


2008 - 2011: Manufacturing Gross Domestic Product



MADE IN ALASKA PROGRAM

The Made in Alaska Program provides support for Alaska's manufactured goods through the mother bear and cub emblem that indicates the product is locally manufactured. Made in Alaska products range from handicrafts to edibles to industrial building supplies. There are over 1,100 Alaska businesses that currently use the Made in Alaska emblem with annual estimated sales totalling over \$130 million.



SPOTLIGHT

Kahiltna Birchworks Wins Award

Kahiltna Birchworks, winner of the 2011 Made in Alaska Manufacturer of the Year, produces birch syrup from its stand of forests in the Matanuska-Susitna Valley. Kahiltna Birchworks recently expanded operations to include another production facility near Talkeetna. This expansion bolsters a growing "certified organic" pure birch and breakfast syrup product line and promotes the sale of Alaska products.

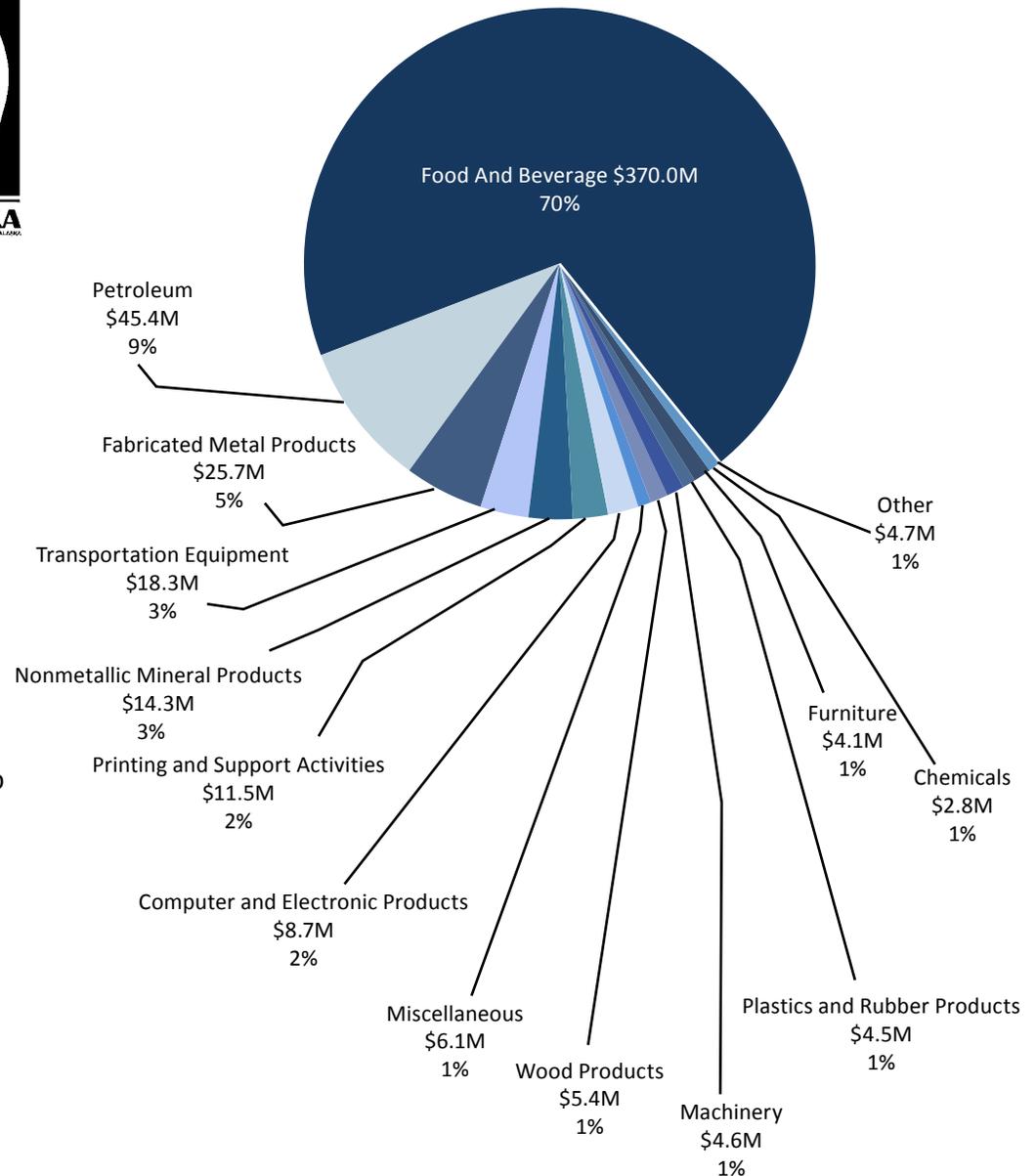


Birchworks sign, photo courtesy Alaska Wild Harvest LLC dba Kahiltna Birchworks

MANUFACTURING WAGES

During 2011, estimated wages earned in Alaska's manufacturing sector totaled \$526 million. The majority of wages are attributed to the food (primarily seafood) and beverage sectors at approximately \$370 million combined. Petroleum manufacturing is the second largest wage payer at \$45 million.

2011 Manufacturing Sector Wages



Alaska offers unique production values and more exotic backdrops than any other location across the globe. The domestic and international film industry continues to produce films featuring Alaska. In the past, however, all too often the actual film production occurred elsewhere.

BACKGROUND

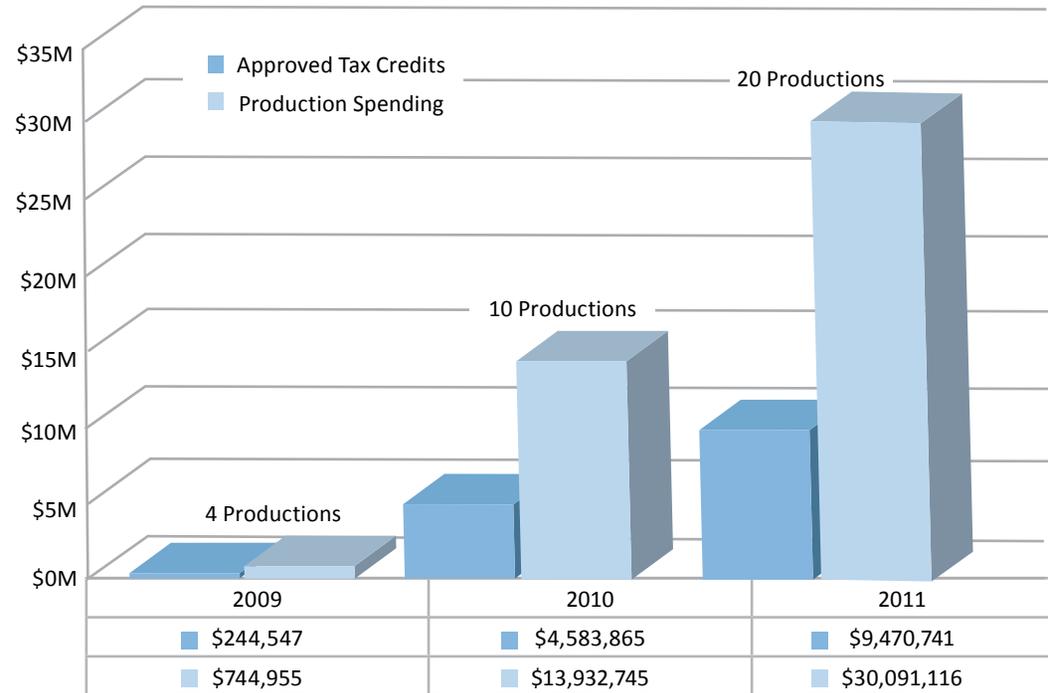
During the 1980s and 1990s, the State of Alaska Film Office promoted Alaska as a location for filming. Several feature films were shot in Alaska including *Runaway Train*, *White Fang*, and *On Deadly Ground*. During the mid 1990s, funding for the Alaska Film Office was eliminated. Without direct promotion, many productions set in Alaska were filmed elsewhere, particularly in British Columbia which currently enjoys over \$1 billion in annual production expenditures. Like many other locations, British Columbia utilizes an aggressive film production incentive program to encourage production within the province. The dramatic growth in their film industry is linked to federal and provincial incentives developed and implemented during the 1990s.

ALASKA'S REVITALIZED FILM PROGRAM

During 2008, the 25th Alaska State Legislature reestablished the Alaska Film Office within the Alaska Department of Commerce, Community, and Economic Development. Emulating the success of other regions, the legislature included a film incentive program. With the incentive in place and a modest marketing effort, Alaska is again experiencing growth in the film and television industry. The incentive program allows a production company to receive a transferable tax credit for up to 44 percent of their CPA-verified, qualifying expenditures. In turn, producers sell the tax credit to businesses with an existing Alaska corporate income tax liability. Producers began qualifying for the incentive program in late 2008. From 2008 to 2011, 69 productions qualified including two in 2008, nine in 2009, 25 in 2010, and 33 in 2011. Once qualified, productions have 24 months to complete production and submit final applications.

The first tax credits under Alaska's incentive program were approved in 2009 with four productions receiving a total of \$244,547 in tax credits based on eligible expenses of \$744,955. During 2010, the Alaska Film Office documented \$13.9 million in eligible program expenses for a total tax credit of \$4.5 million across ten productions. During 2011, 20 productions accumulated nearly \$9.5 million in tax credits approved based on \$30.0 million in eligible spending. Of the \$30.0 million in eligible spending in 2011, almost one-third, \$9.2 million, directly impacted the Alaska economy.

2009 - 2011: Approved Film Tax Credits and Production Spending



PUTTING ALASKANS TO WORK

One of the major goals of Alaska's incentive program is to develop new jobs for Alaskans. During 2009, there were 49 Alaska jobs listed on tax credit applications; 2010 doubled total Alaska jobs to 100 and 2011 yielded 573 Alaska jobs. Wages paid to Alaska residents totaled over \$2.5 million in 2011 and accounted for 27 percent of Alaska production spending. Production spending impacts multiple areas of Alaska's economy, and the indirect or multiplier effects of production spending reverberate throughout transportation, hospitality, construction, and other sectors.

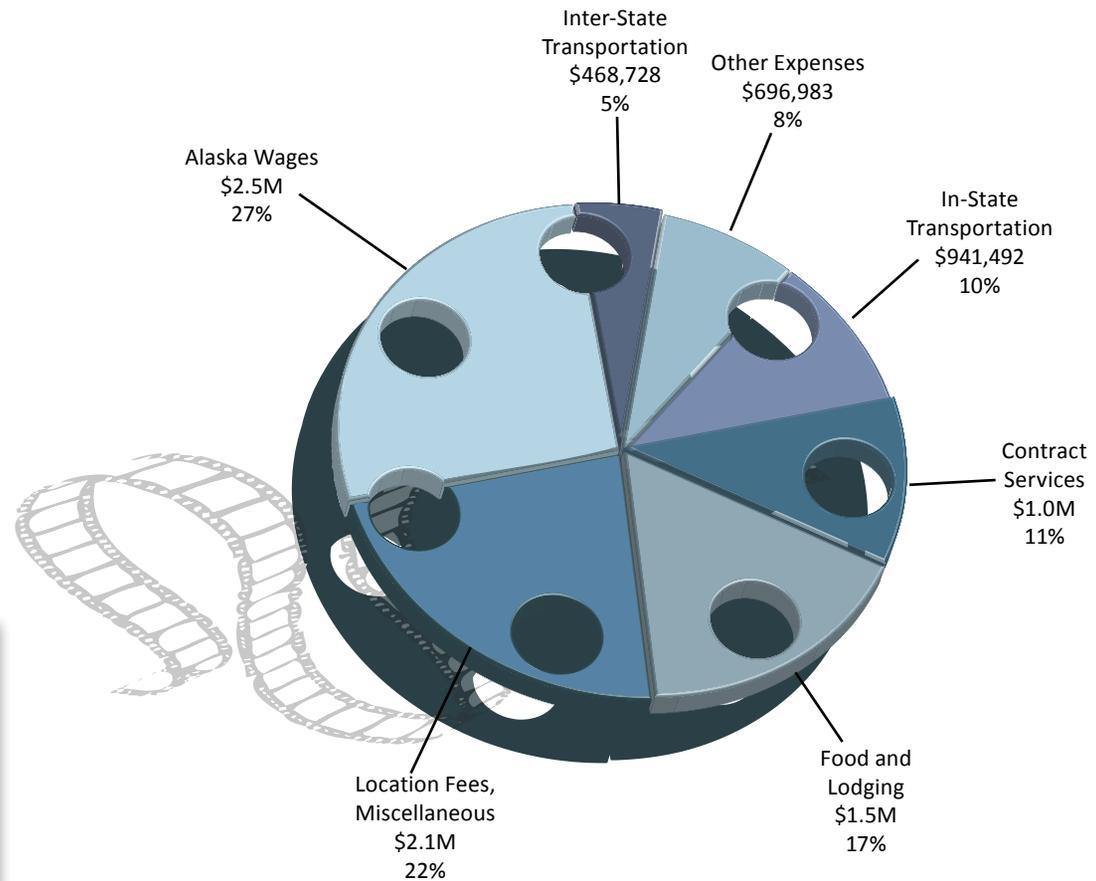
David Linck, a professional publicist who worked on Big Miracle (2010) and Frozen Ground (2011), provides a first-hand observation:

"I know for a fact that the film incentive is working for Alaskan workers, not against them... because of the program, you now have a crew base in Alaska that never existed, and with each subsequent film less people need to be hired from the Lower 48."



David Linck, photo courtesy IMDb.com

2011 Production Spending by Category



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