



ALASKA

DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT



2012 Alaska Economic Performance Report

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After the national economic recession and prolonged period of recovery, 2012 yielded widespread economic growth with 49 of 50 states reporting an increase in gross domestic product (GDP). From 2011 to 2012, US GDP increased nearly three percent with manufacturing, finance and insurance, and wholesale trade leading contributors to national economic growth.

While Alaska's GDP did not keep pace with national GDP growth, Alaska's 2012 GDP did increase approximately one percent from \$51.2 billion (2011) to \$51.9 billion (2012). Alaska's total GDP growth rate has slowed compared to prior years, however, strong growth continues in Alaska's key natural resource sectors including oil, gas, and minerals. Petroleum manufacturing is also a large contributor to Alaska's economy, maintaining strong and steady growth over time. Professional, scientific, and technical services continued growing during 2012, followed by increases in health care and social assistance sectors. Notably, several sectors stagnated during 2012 including utilities, construction, and real estate.

WHAT IS GROSS DOMESTIC PRODUCT?

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

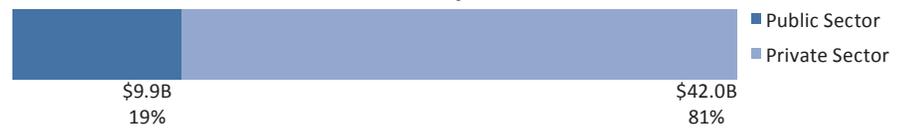
GDP, as reported by the federal Bureau of Economic Analysis, is considered the broadest indicator of economic health because it measures everything private and public sectors produce within a defined geographic area. GDP is calculated as the sum of what consumers, businesses, and government spend on final goods and

services, plus investment, and net foreign trade. 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).

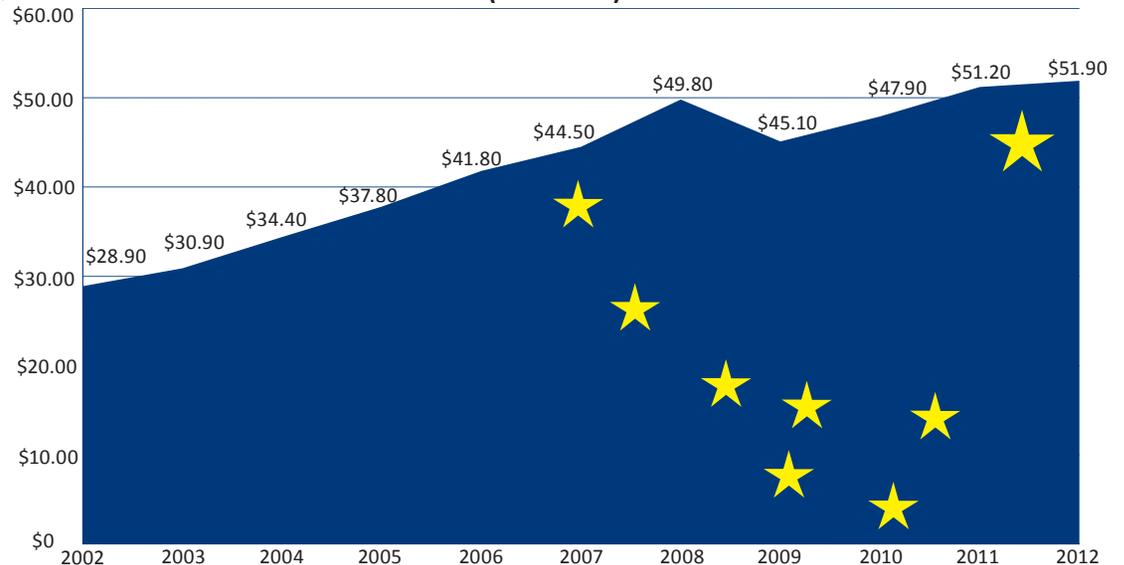
ALASKA'S GROSS DOMESTIC PRODUCT

GDP is a consistent benchmark of Alaska's economic growth and activity. Based on GDP, Alaska ranks 44th among US states for total economic activity during 2012. Compared to other states, Alaska remains in the bottom ten percent by total GDP; however, Alaska's GDP consistently grows and has largely evaded the economic volatility experienced elsewhere. During the past decade, Alaska's GDP grew an average of six percent per year compared to four percent nationally.

Alaska's \$51.9 Billion Dollar Economy



Alaska's Gross Domestic Product (in Billions)



Source: US Department of Commerce, Bureau of Economic Analysis

Note: Annual GDP estimates often change from year-to-year as more complete and accurate data becomes available.

GROSS DOMESTIC PRODUCT BY INDUSTRY

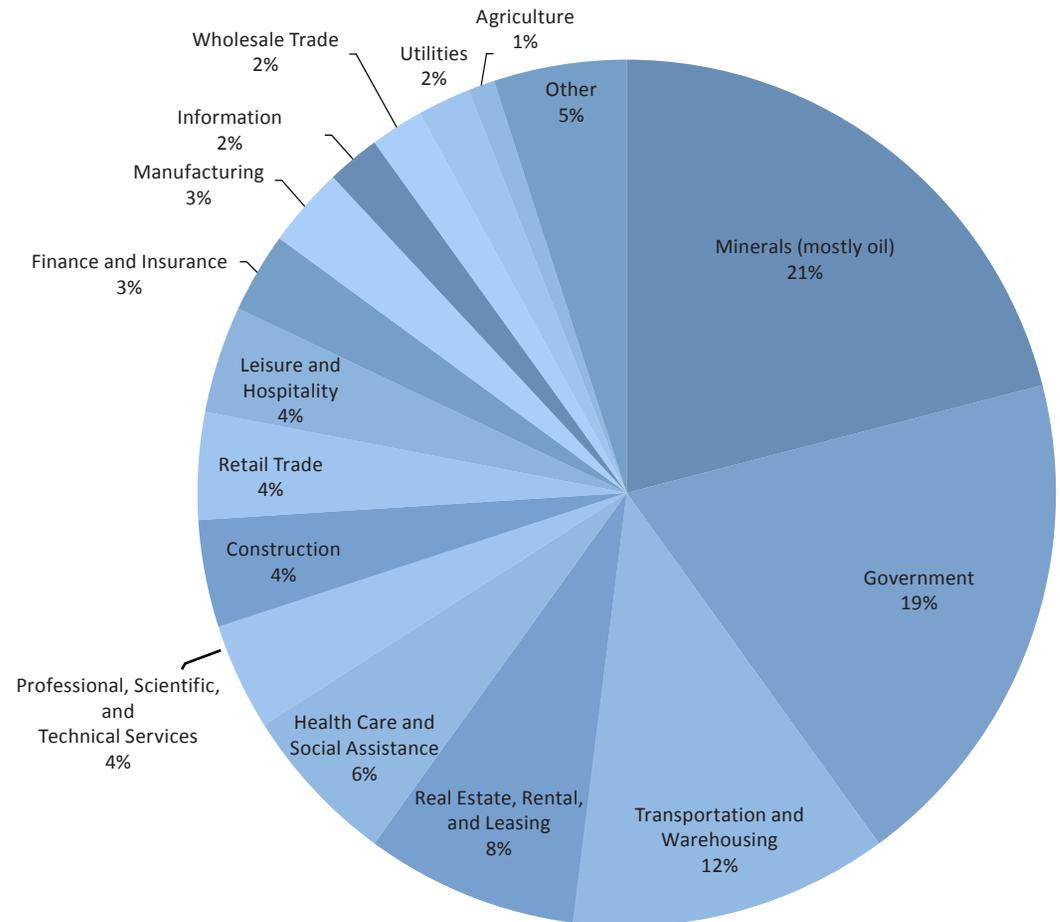
The single largest component of Alaska's GDP is minerals and most of that is oil.

During 2012, Alaska produced \$51.9 billion in goods and services. Consistent with prior years, Alaska's major economic engine is oil and gas, representing nearly 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.

The public sector (i.e., government) 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 as a transport hub places the transportation and warehousing sector at 12 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 rank in Alaska's GDP portfolio. Current research indicates Alaska's visitor industry provides an annual economic impact more than \$3 billion. While the economic impact is significant, the leisure and hospitality industry has limited presence (4%) 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 nearly \$5 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



* Includes management of companies and enterprises, administrative and waste management services, educational services, and other.

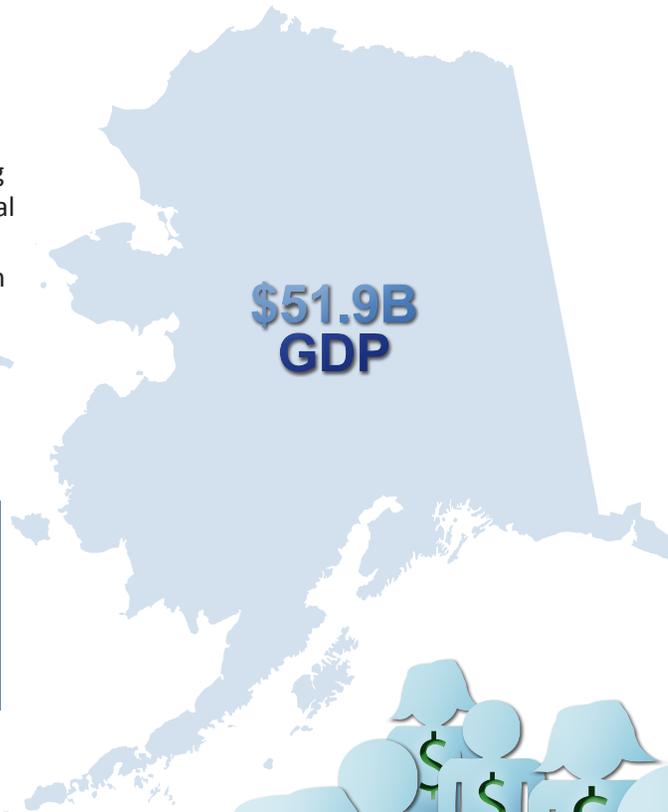
PER CAPITA GROSS DOMESTIC PRODUCT

In 2011, Alaska lost its top rank of having the nation's highest per capita GDP, coming in second to Delaware. During 2012, Delaware maintained its top rank, edging out Alaska. Both states have per capita GDPs exceeding \$60,000, or 40 percent higher than the \$42,784 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 \$61,156, 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 —

At \$61,156, Alaska has the second highest per capita real GDP in the nation.

and per capita real 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.

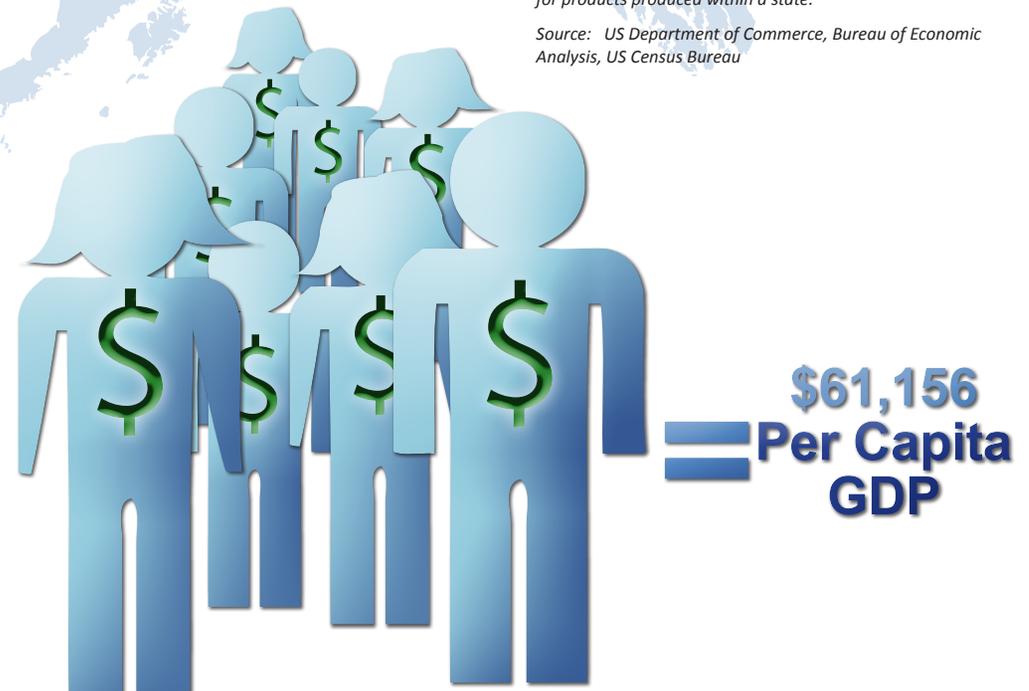


2011 Per Capita GDP by State

Rank	State	Per Capita GDP
1	Delaware	\$61,183
2	Alaska	\$61,156
3	North Dakota	\$55,250
4	Connecticut	\$54,925
5	Wyoming	\$54,305
6	Massachusetts	\$53,221
7	New York	\$53,067
8	New Jersey	\$49,430
9	Oregon	\$48,069
10	Washington	\$47,146
United States		\$42,784

** Real GDP, by state, is an inflation-adjusted measure of each state's production based on a weighted average of national prices for products produced within a state.*

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



According to the US Census Bureau, Alaska's total population passed the 700,000 mark for the first time during 2010 (710,231). Two years later, the Alaska Department of Labor and Workforce Development estimates Alaska's population increased an additional three percent, or 22,067 residents, totaling 732,298 in 2012.

ALASKA'S GROWING POPULATION

Population change is measured by natural increase and net migration. These two measures include three main components: births, deaths, and migration. These components differentially impact Alaska's population growth, from year-to-year, depending on current social and economic conditions.

From 2000 to 2012, Alaska's population growth (17%) outpaced the nation's population growth (12%). 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 with approximately one person per square mile. Alaska continues to rank as the 47th most populous state, outnumbering only North Dakota, Vermont, Wyoming, and the District of Columbia.

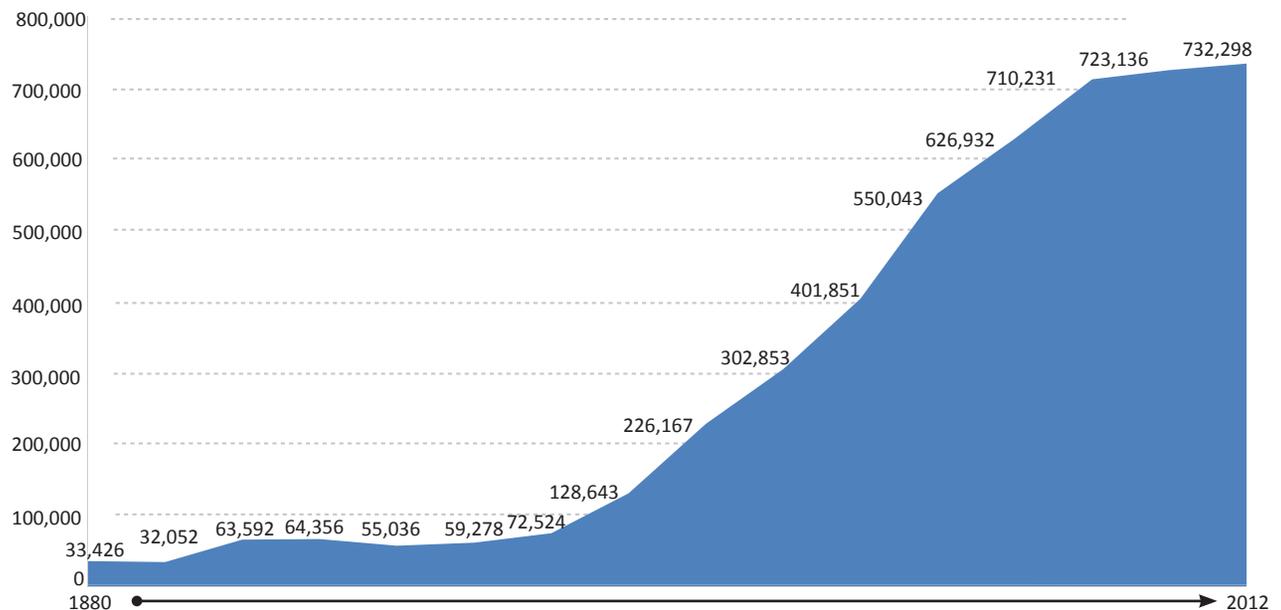
Alaska has one of the highest rates of population turnover in the nation. Regardless of whether Alaska's overall population is growing, contracting, or stabilizing, there are large numbers of people moving in and out of the last frontier every year. Demographers estimate between five and seven percent of Alaska's population enters or exits the state each year. In total, Alaska welcomes approximately 30,000 new residents each year – the majority from Washington, Oregon, California, Texas, Colorado, and Florida.

2012 Population Indicators

Statewide Population 732,298	State Population Rank 47th	Statewide Population Increase (2000 - 2012) 17%
Community Population	Greatest Regional Population Increase (2000 - 2012) Southcentral 21%	Statewide Population Increase (2010 - 2012) 3%
Anchorage 298,842		
Fairbanks 32,070		
Juneau 32,832		



1810 to 2011: Alaska Population



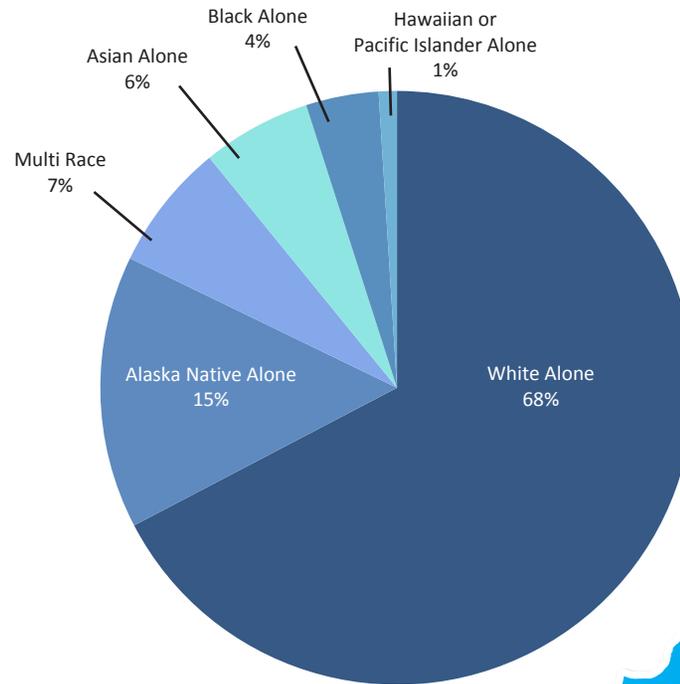
Describing a population's age, race, and gender is one of the most basic ways to understand population change and composition over time. As in prior decades, Alaska's population is relatively young, largely characterized by two races including white and Alaska Native, and almost equally split between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

AGE, RACE, AND GENDER

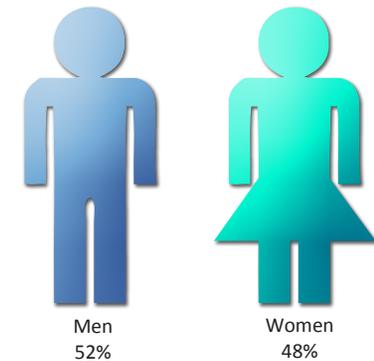
Since 2000, the nation's population has steadily grown older, with many states reaching a median age of over 40. Alaska, however, continues to defy national trends with a significantly younger population. During 2012, Alaska's median age was 34, compared to a national median of 37. Only nine percent of all Alaskans were 65 years of age or older, compared to 13 percent nationwide. Alaska is one of only a few states where men still outnumber women; during 2012, men accounted for 52 percent of Alaska residents.

Alaska's racial composition continues to be dominated by two categories - white and Alaska Native. The US Census Bureau estimates over two-thirds of Alaskans are white (68%) and nearly one-fifth are Alaska Native (15%). The remaining 18 percent of Alaska's population are Asian, African American, Hawaiian, Pacific Islander, or multi-racial. Alaskans of Hispanic origin, representing any race, comprise six percent of Alaska's total population.

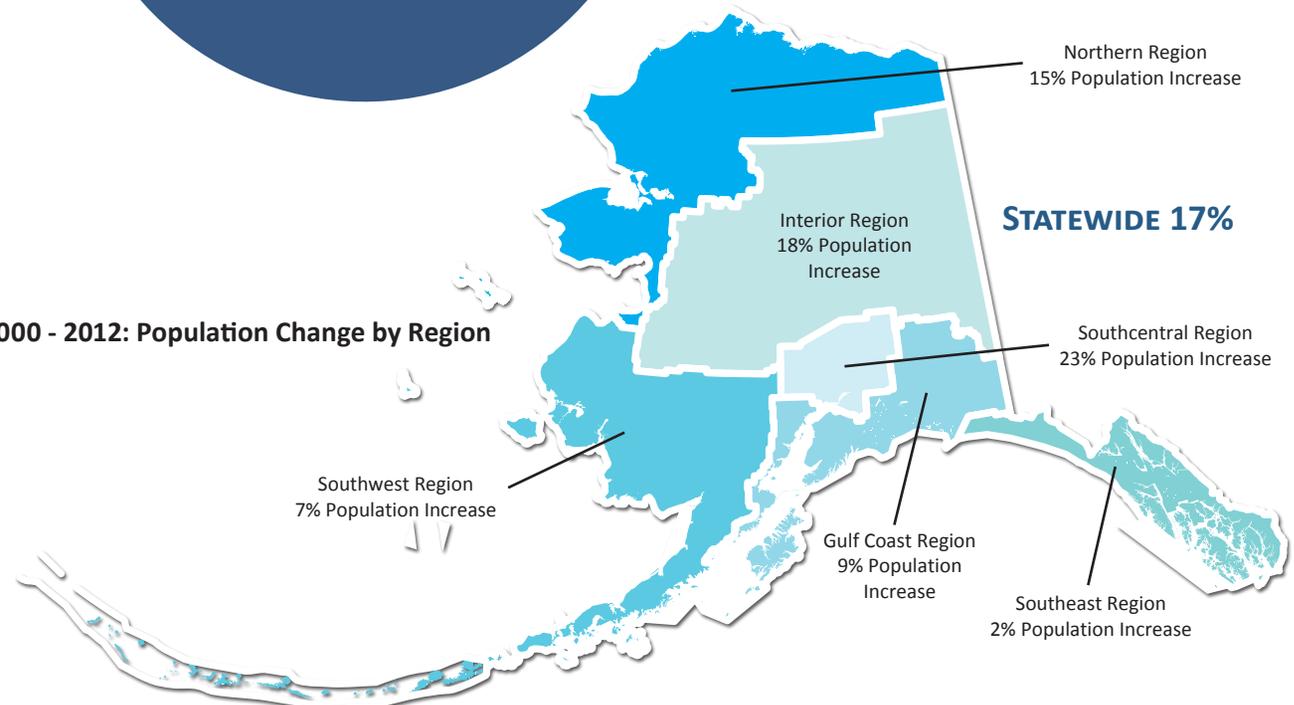
2012 Alaska's Population by Race



2012 Alaska's Population by Gender



2000 - 2012: Population Change by Region



REGIONAL POPULATION CHANGE

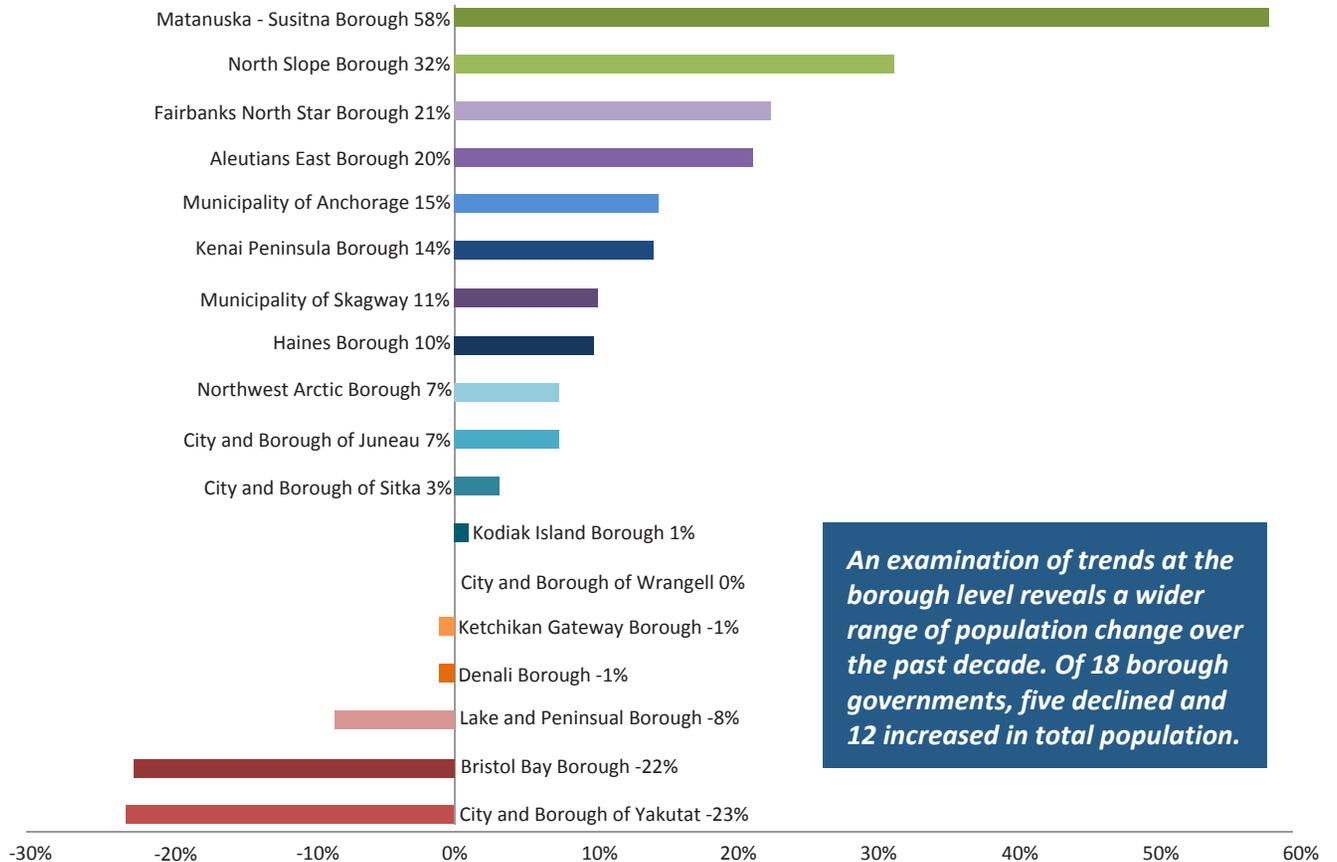
Alaska’s population growth is a result of natural increase (i.e., births minus deaths) and positive net migration – and, population growth rates vary by region. From 2000 to 2012, all regions experienced population growth ranging from two percent (Southeast) to 23 percent (Southcentral); Alaska’s total population grew 17 percent. The Southcentral Region, composed of the Municipality of Anchorage and the Matanuska-Susitna (Mat-Su) Borough, continues to be the fastest growing region with 23% population growth over the past dozen years. More recently, all Alaska regions have grown at least three percent since 2010.

Alaska Department of Labor and Workforce Development estimates indicate Southeast Alaska’s decade-long population decline halted in 2011 with a gain of 1,862 residents, or a three percent increase from 2010 to 2011; growth continued during 2012. From 2010 to 2012, the majority of Southeast boroughs and census areas maintained or increased in population ranging from two percent (Sitka) to five percent (Juneau); only Skagway (-1%) and Yakutat (-6%) declined. While this is good news for Southeast Alaska, it remains uncertain whether this trend will continue into the long-term future.

BOROUGH POPULATION CHANGE

An examination of trends at the borough level reveals a wider range of population change over the past dozen years. Of 18 borough governments, five declined and 12 increased in total population. Alaska’s five most populous boroughs continued to grow during the past 12 years; however, only the Fairbanks North Star Borough and the Mat-Su Borough grew at a faster rate than the prior decade. The Kodiak Island Borough’s growth was the lowest of all boroughs (1%) while the Mat-Su’s remained the highest (58%). Considering overall community population, Anchorage remains the most populous community, with a total population of 298,842. Juneau surpasses Fairbanks as the second largest community, with a total population of 32,832. Fairbanks follows in third, with a population of 32,070.

2000 - 2012: 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, five declined and 12 increased in total population.

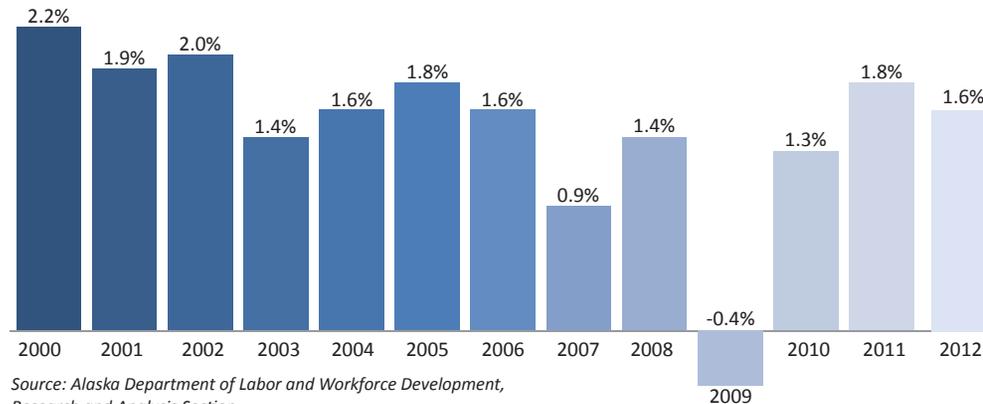
Alaska's workforce has fared well during a period of national economic turmoil. With the exception of one year (2009), Alaska's employment base has maintained steady growth while the nation lost approximately 7.5 million jobs during the economic recession. While national unemployment rates hovered near eight percent throughout 2012, Alaska's unemployment rate was consistently a full percentage point lower. Anecdotal accounts indicate Alaska has maintained its status as a place of prosperity for those seeking employment and willing to relocate to the last frontier

STATEWIDE EMPLOYMENT

During the national recession (2007 – 2008), Alaska's economy and employment base kept growing while the nation shed millions of wage and salary jobs. However, after 21 consecutive years of employment growth through three national recessions, Alaska's employment growth momentarily halted in 2009 when the state lost nearly half a percent (-0.4%) of all jobs. The following two years, 2010 and 2011, brought a turnaround as Alaska added 1,800 jobs (1.3%) and 2,500 jobs (1.8%) respectively. Fortunately 2012 continued the three-year job growth trend by adding another 4,200 jobs statewide (1.6%) to Alaska's employment base.

Alaska's jobless rate remains lower than the rest of the nation. At the close of 2012, Alaska's seasonally-adjusted unemployment rate totaled 6.6 percent, more than one percentage point less than the nation's 7.8 percent unemployment rate. Alaska ranks 18th out of 50 states in terms of seasonally-adjusted unemployment; North Dakota ranks first with only 3.2 percent unemployment while Nevada ranks last at 10.2 percent.

2000 - 2012: Statewide Employment Growth



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

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 most extreme rates. The Bristol Bay Borough rate was at 1.4 percent in June 2012, helping give it the lowest annual rate at 4.1 percent. The Aleutians East Borough has very high rates in the winter peaking at 29.2 percent in December and bringing its annual average to 12.6 percent. The rural Northwest Arctic Borough has consistently bleak job prospects, and had the highest annual unemployment rate among boroughs at 15.1 percent in 2012. In contrast, the North Slope Borough and the City and Borough of Juneau both observed annual rates of 5.3 and 4.9 percent respectively—well below the state average. As the capital city, Juneau's economy is largely composed of stable public sector jobs and the North Slope Borough benefits from year-round employment due to the strong presence of the oil industry and related services.

2012 Employment Indicators

**Employment Growth
2010 - 2012**
1.6%

Statewide Unemployment
6.6%

Highest Annual Average Unemployment Rate: Wade-Hampton Census Area
21.5%

Lowest Annual Average Unemployment Rate: Bristol Bay Borough
4.4%



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

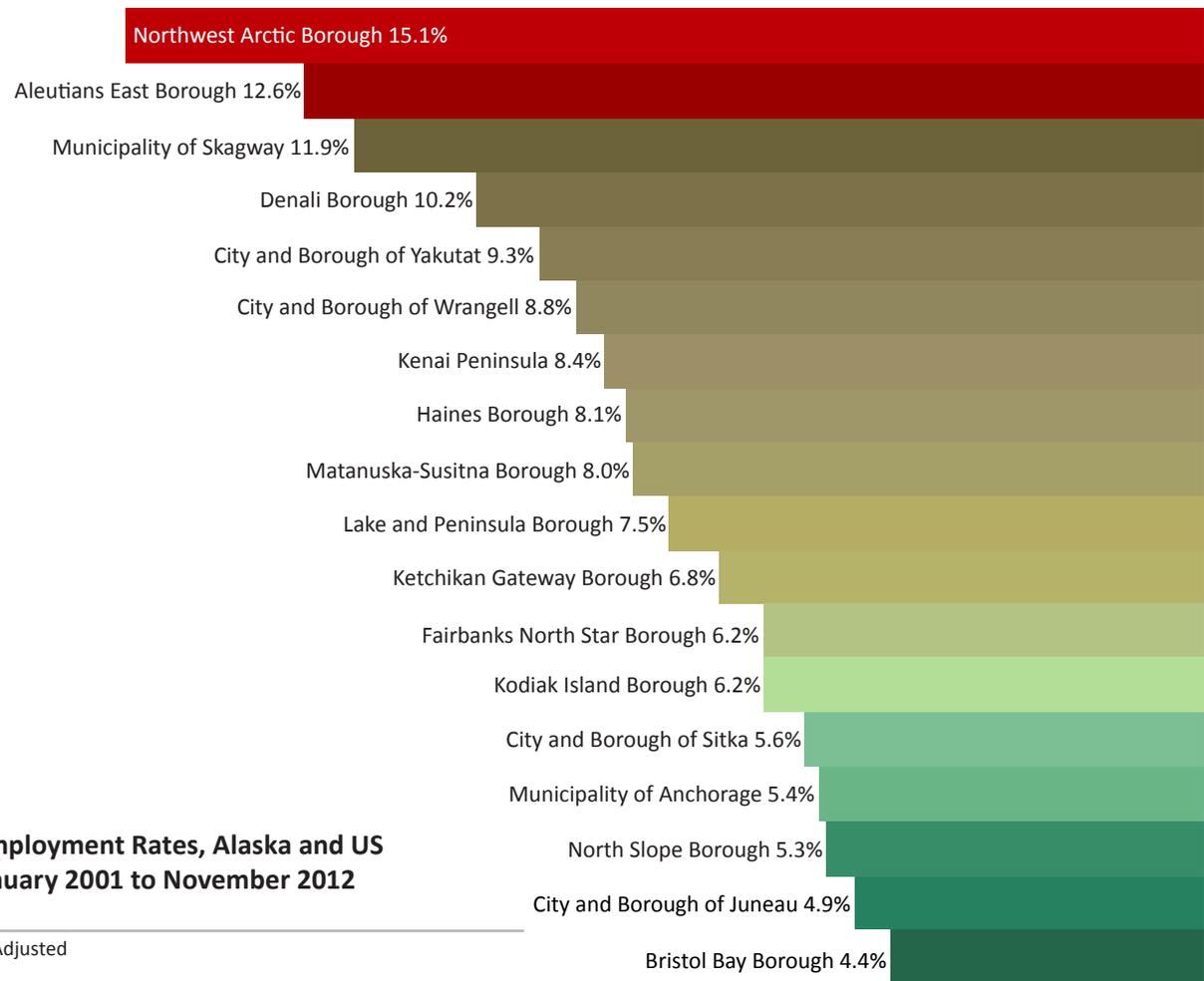
ALASKA'S EMPLOYMENT BASE IS GROWING

Alaska has fared well during a period of national economic uncertainty because the state's economy is significantly different. 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. While the nation shed nearly eight million jobs during the national recession, Alaska's economic and employment base mostly kept growing.

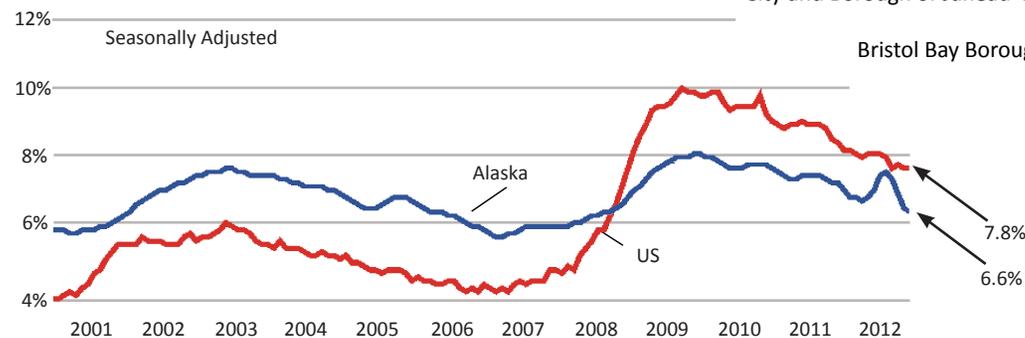
Although future budget cuts to remedy a growing national deficit are likely, the federal government is still a critical employer of Alaska residents. It is expected federal spending for military and construction projects will likely remain at current levels, continuing to employ Alaskans in the near-term.

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 2012. Research, from multiple sources, indicates increases in visitation and visitor spending have occurred over the past three years resulting in economic benefit for Alaska's tourism businesses, employers, and employees.

2012 Borough Annual Average Unemployment Rate



Unemployment Rates, Alaska and US January 2001 to November 2012



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 the state's highest-paying private sector jobs. During fiscal year 2012, the State of Alaska generated \$9.9 billion in oil revenue. Over 93 percent of the state's unrestricted revenue originates from taxes and royalties affiliated with the petroleum industry. According to the US Department of Energy, by end of calendar year 2012, the top four oil-producing states in order of total productivity include Texas, North Dakota, California, and Alaska. For the first time in the state's oil-producing history, Alaska placed below California and North Dakota by total annual production.

During 2012, Alaska provided approximately eight percent of the nation's total domestic production. From January through December, the price of Alaska's oil (i.e., ANS West Coat) averaged \$112.65 per barrel over the twelve-month period. The Alaska Department of Revenue forecasts oil prices will remain above \$100 per barrel to 2022.

SPOTLIGHT

Areawide Lease Sales

State of Alaska lease sales may indicate both the level of industry interest and types of companies interested in Alaska's oil and gas lands. In 2012, 31 bidding groups bid on 165 lease tracts, equal to almost a half million acres. The Division of Oil and Gas processed over 180 bids totaling \$22 million in fees and payments. The tracts leased are in the Beaufort Sea, Cook Inlet, North Slope, and North Slope Foothills. In contrast, 2011 lease sale results garnered 35 bidding groups on 343 lease tracts totaling just over 1.0 million acres. The Division of Oil and Gas processed 418 bids totaling over \$29 million in fees and payments, including tracts leased in the Cook Inlet, North Slope, and Beaufort Sea.

During 2012, the Cook Inlet Lease sale comprised 44 tracks (almost 198,000 acres) with the majority leases awarded to Cook Inlet Energy, LLC and Hilcorp Alaska, LLC. This lease sale and activity demonstrates the continued renaissance of oil and gas development in Cook Inlet which began in earnest in 2011, when the majority of 104 tracts (almost 450,000 acres) were leased to Apache Alaska Corporation.

2012 Oil and Gas Indicators

Oil Revenue
\$9.9B

North Slope Oil Production
2011 - 2012
-3.3%

Average per Barrel Price (ANS West Coast)
\$112.65

Energy Export Value*
\$394.1M

Restricted Revenue
\$1.0B

Unrestricted Revenue
\$8.9B

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



2012 State of Alaska Areawide Lease Sales

Lease Area	Tracts Leased	Total Acres	Majority (Total Tracts Leased)
Cook Inlet	44	197,795	Cook Inlet Energy, LLC (18) Hilcorp Alaska, LLC (18)
North Slope	88	165,179	Repsol E&P USA, Inc. (24) Great Bear Petroleum LLC (17) 70 & 148, LLC (16)
Beaufort	25	80,699	NordAq Energy Inc. (18)
North Slope Foothills	8	45,476	Anadarko Petroleum (8)
Total	165	489,149	

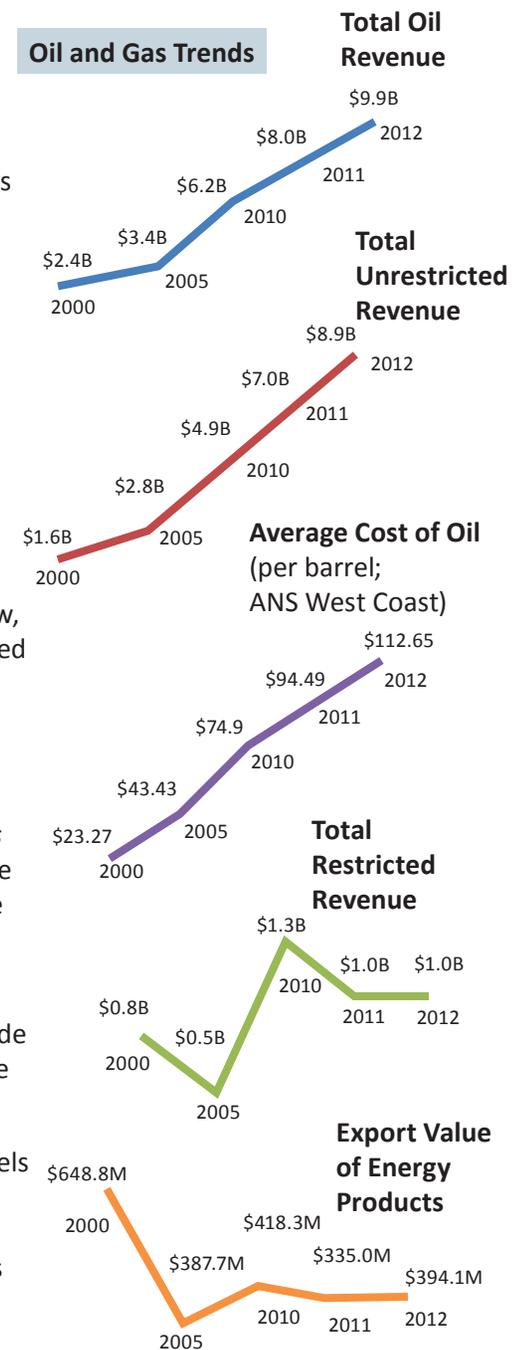
In 2012, the North Slope Lease sale included 88 tracts (almost 165,000 acres) with the majority of the tracts leased to Repsol E&P USA, Incorporated (Repsol), Great Bear Petroleum LLC (Great Bear) and 70 & 148, LLC. In 2011, 161 tracts, totaling over 289,000 acres, were leased in the North Slope with the majority of the leases awarded to Royale Energy, Incorporated and Great Bear. In 2012, Beaufort Sea lease sales included 25 tracts (over 80,000 acres) and the majority of the lease tracts were awarded to NordAq Energy Incorporated (NordAq). In 2011, in the Beaufort Sea there were 78 tracts (approximately 281,000 acres) bid on and NordAq and Shell Offshore Incorporated were awarded the highest number of corporate leases. In 2012, the North Slope Foothills Lease sale included eight tracts (almost 45,500 acres) awarded to Anadarko Petroleum. There were no bids on tracts in the North Slope Foothills in 2011.

The US Bureau of Land Management (BLM) also held a competitive lease sale in the National Petroleum Reserve – Alaska (NPR-A) in November 2012; two companies submitted 14 bids. High bids totaled almost \$900,000 for 14 tracts covering 160,088 acres, or approximately four percent of the total tracts available during the sale. Through revenue sharing, the State of Alaska should receive 50 percent of these NPR-A lease sale bid receipts as well as 50 percent of any subsequent royalties.

All state revenue from the competitive leasing of oil and gas in the NPR-A are distributed through the NPR-A Impact Mitigation Grants Program, administered by the Alaska Department of Commerce, Community, and Economic Development. Eleven submissions in February of 2012, funded through this program, include projects in Atkasuk, Barrow, Nuiqsut, Wainwright, and the North Slope Borough totaling \$4.75 million. An additional thirteen applications were received in November of 2012 from the aforementioned communities, as well as Anaktuvuk Pass, with a combined total of \$7.68 million in awards.

OPPORTUNITIES

- In January 2013, the Division of Oil and Gas published the *State of Alaska Five-Year Program of Proposed Oil and Gas Lease Sales*. This publication describes the 25 lease sales to occur at the rate of one per year for each Areawide Lease Sales Area totaling five lease sales each year from 2013 through 2017. This process provides a stable and predictable schedule of proposed lease sales to further promote development of Alaska's oil and gas resources.
- Along with renewed interest in Cook Inlet oil and gas development, industry is making improvements and increasing expenditures to update aging infrastructure and providing for a resurgence of opportunities for regional and statewide support service companies in Cook Inlet. This investment may provide for the development of a long-term and stable supply of gas for Southcentral Alaska.
- During 2010, the US Geological Survey (USGS) released a report estimating there are approximately 896 million barrels of oil and 53 trillion cubic feet of natural gas within the NPR-A. In a 2011 report, the USGS also estimates nearly 600 million barrels of oil, 19 trillion cubic feet of gas, and 46 million barrels of natural gas liquids are within Cook Inlet. Implementation of a national "all-of-the-above" energy strategy could include the continuation of federal lease sales and expand upon ongoing safe and responsible domestic energy production, utilizing Alaska's natural resources.

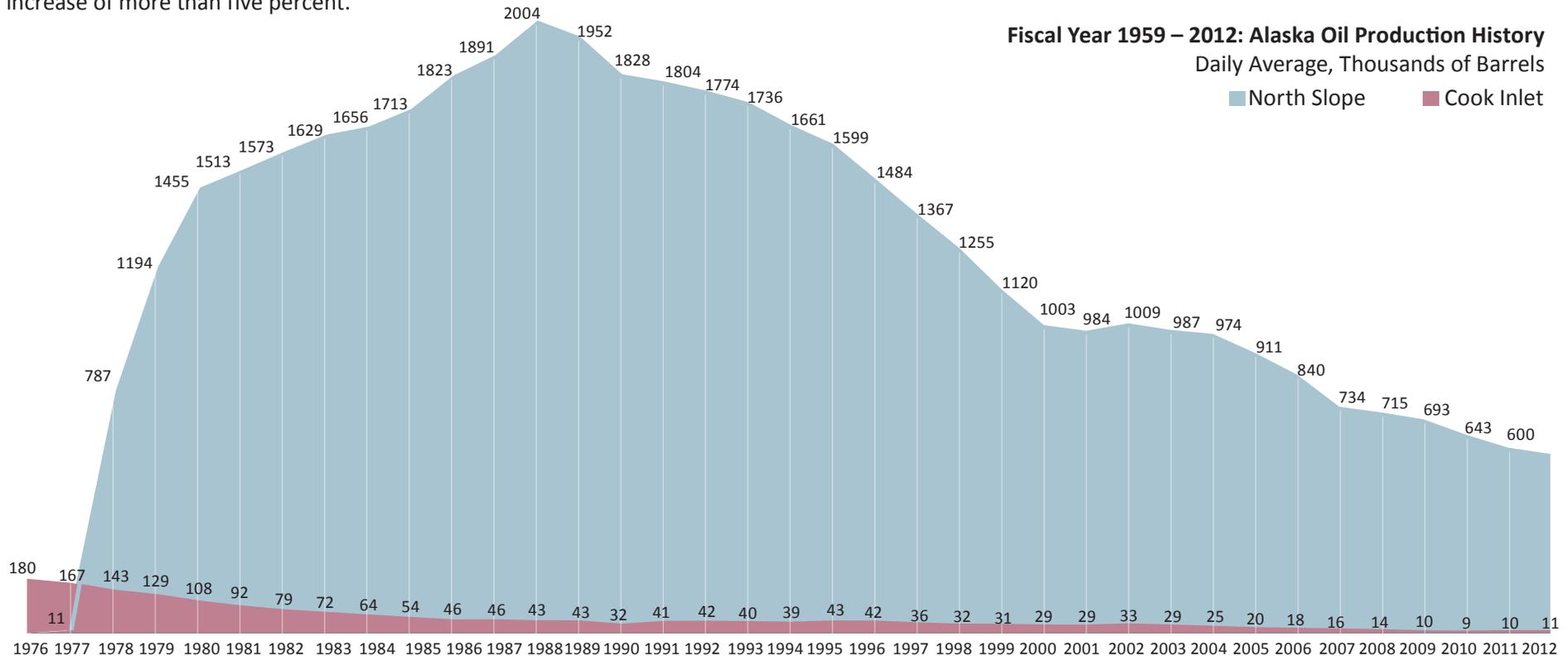


OUTLOOK

Oil will continue to dominate the State of Alaska's revenue stream, providing at least 85 percent of unrestricted funds through fiscal year 2022, according to the Alaska Department of Revenue. However, unrestricted revenues of \$7.5 billion (0.5 percent lower) and \$6.7 billion (4.3 percent lower) are predicted for fiscal years 2013 and 2014, respectively.

The declining flow of oil through the Trans-Alaska Pipeline System (TAPS) remains Alaska's biggest challenge. Lower flow makes the pipeline system more expensive to maintain, increases the risk of damage from corrosion, and decreases the dependence on ANS oil in the West Coast marketplace. Average North Slope production in 2012 totaled 579,100 barrels per day. Cook Inlet oil production was 10,800 barrels per day in 2012, reflecting Cook Inlet's more significant role for natural gas production and local distribution.

Employment in the oil and gas sector increased nearly five percent from 2011 to 2012. The Alaska Department of Labor and Workforce Development reports the oil and gas industry added 600 jobs in 2012 and is forecasted to add an additional 400 jobs in 2013. In 2012, oil and gas industry jobs (including exploration and oilfield services) account for over five percent of the state's wage and salary employment and the average annual salary totaled \$127,148 (254 percent higher than the statewide average). Long-term forecasts indicate a slow increase in sector employment from 2010's estimate of 3,551 to an estimated 3,737 in 2020; an increase of more than five percent.



SPECIAL TOPIC

In 2012, the continued oil and gas renaissance in Cook Inlet was bolstered by a newcomer solidifying their foothold in the region. Hilcorp Alaska, LLC (Hilcorp) describes itself as one of the largest privately-held exploration and production companies in the nation. Hilcorp is in the midst of a five-year plan aiming to double the size of the company by 2015 through the utilization of existing properties, increased acquisitions in new and existing areas, resource plays, and enhanced oil recovery projects. In its short history of working in Alaska, Hilcorp has demonstrated the significant role it is fulfilling in Alaska's Cook Inlet.

In early 2012, Hilcorp purchased Chevron's Alaska assets in Cook Inlet for an undisclosed amount. By February of 2013, Hilcorp also completed the acquisition of Cook Inlet assets from Marathon Oil for a reported \$375 million. These combined assets are spread across ten fields and include two gas storage facilities and five pipelines in the region. Also in 2012, during the state's Cook Inlet lease sale, Hilcorp won 18 lease tracks totaling 82,560 acres for a total of over \$3.1 million. These combined leases play a large role in Hilcorp's resurgence of the industry in the region.

2012 was a busy time for Hilcorp, as they spent \$238 million in Cook Inlet on new project execution, repairs, and upgrades to aging facilities. The company reported an increase in overall oil production of 36 percent, and overall gas production stabilized at their Cook Inlet sites. Hilcorp also received state approval for gas injection at the Ivan River gas storage facility. In early 2013, Hilcorp initiated and completed a three-month-long comprehensive onshore seismic program on the leases in its Deep Creek Unit on the Kenai Peninsula, one of the assets acquired from Chevron.

All of this investment and associated activity may yield good news for Southcentral Alaska and its multiple utility companies. Hilcorp's efforts may lead to the development of increased production of affordable gas for Alaskans from Cook Inlet and address the recent concerns of reliable and affordable energy in the surrounding communities. The company continued improvements and efficiencies in 2013, investing more than \$300 million, making Hilcorp one of the largest investors in the region. The company reports plans to again invest more than \$300 million in 2014, including plans to work with its stakeholders and the Regulatory Commission of Alaska on the consolidation of the Inlet gas pipeline system. Hilcorp's investment and operations are employing more than 300 full-time employees in Alaska. The company acknowledges their role in helping to reinvigorate the local service industry in the Cook Inlet and strives to provide a reliable source of natural gas to meet local demand and allow for social and economic growth.



A caribou lingers around Deadhorse, a local community-base for many of the workers and companies that operate at the nearby Prudhoe Bay oil fields on the North Slope. Photo courtesy USGS.



Signs of progress continue in Cook Inlet. Courtesy of Hilcorp Alaska, LLC

Alaska's mineral industry was relatively stable in 2012. While exploration expenditures declined eight percent from \$365 million in 2011 to \$335 million in 2012, development expenditures exceeded \$200 million for the ninth consecutive year and the production value of Alaska mines exceeded \$3.4 billion.

SPOTLIGHT

Kinross Continues Investment at Fort Knox Mine

Kinross Gold Corporation's Fort Knox mine, located in Interior Alaska approximately 25 miles northeast of Fairbanks, is an open-pit gold mine. During 2012, 359,948 gold equivalent troy ounces were produced at Fort Knox. With 563 Kinross employees and 400 contract employees, Fort Knox was one of the Fairbanks North Star Borough's top private-sector employers in 2012, providing approximately \$72 million in salary, wages, and benefits. In 2012, Fort Knox also contributed \$5.2 million in local property taxes to the Fairbanks North Star Borough and paid another \$18 million in taxes and fees to the State of Alaska.

Kinross produces gold in the form of doré (a semi-pure alloy of gold and silver), which is shipped to refineries for final processing. Kinross also produces and sells silver. Kinross's Fort Knox mine was Alaska's largest gold producer in 2012 and is expected to remain in production until at least 2020.



Fort Knox Mine. Photo courtesy Judy Patrick Photography

2012 Minerals Indicators

Gross State Product \$1.3B (2011)	Jobs 4,300+
State Revenues \$125M	Production Value \$3.4B
Exploration Expenditures \$335M	Development Expenditures \$342M
Export Value \$1.6B*	

* Category includes zinc ores and concentrates, lead ores and concentrates, copper ores and concentrates, precious metal ores and concentrates, precious stones, and coal.



KINROSS

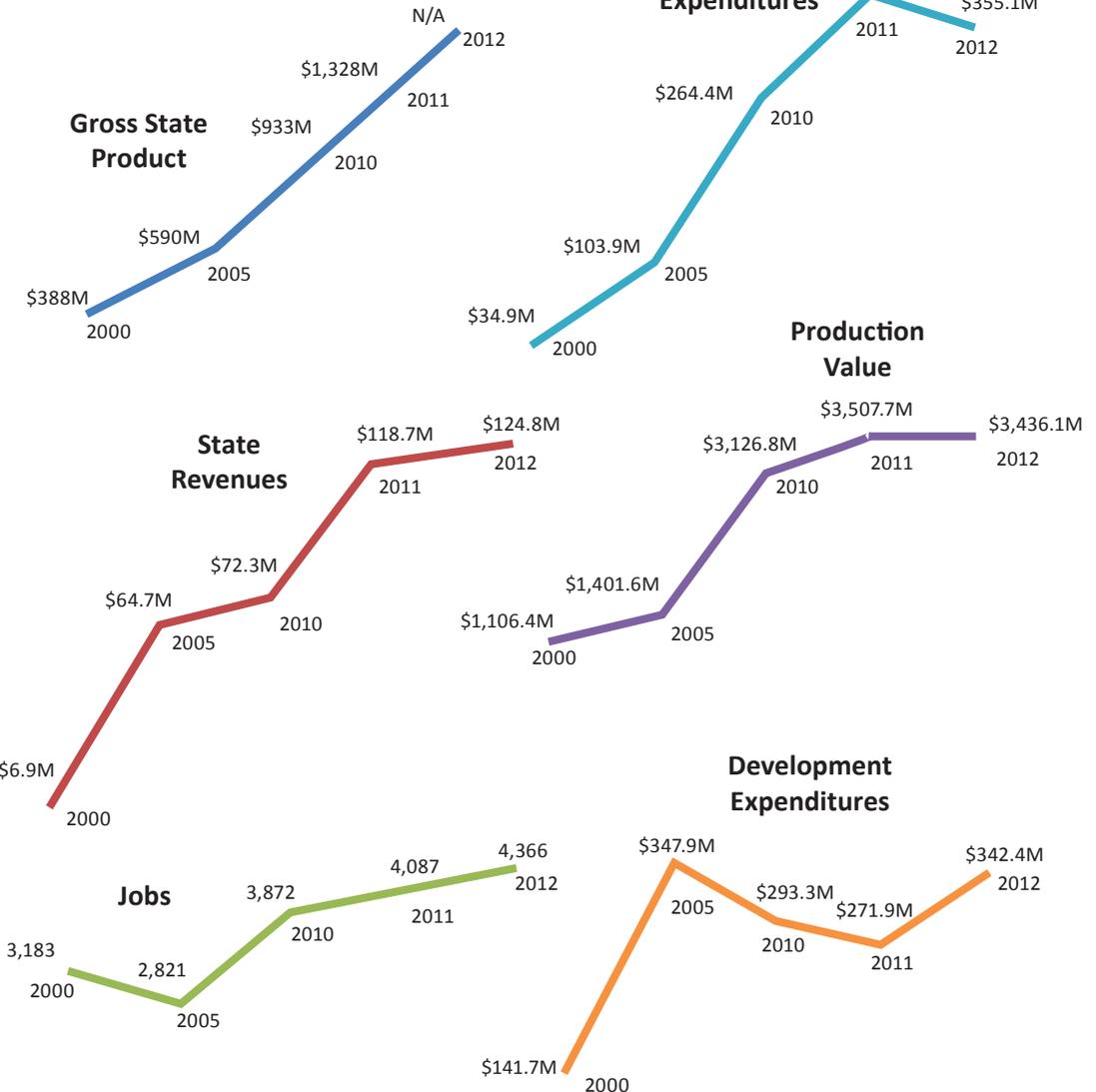
The estimated value of Alaska's mineral production in 2012 decreased two percent from 2011, to \$3.4 billion. The value of mineral exports in 2012 totaled \$1.6 billion. 2012 mining employment is estimated to be more than 4,300 full-time-equivalent jobs, across approximately six large mines and more than 300 placer operations.

OPPORTUNITIES

According to the Fraser Institute's Annual Survey of Mining Companies for 2012/2013, Alaska ranks fifth highest out of 96 other jurisdictions in a composite index of policy and minerals potential and seventh highest in taxation regime. Alaska's composite index rank dropped from fourth in 2011/2012 to fifth in 2012/2013, which may correlate with reduced levels of Alaska mineral exploration spending in 2012 compared with 2011 as well as the exploration focus of a majority of the 2012/2013 Fraser survey respondents. In the 2012/2013 Fraser Institute survey, over half of the respondents represented exploration companies, just over a quarter represented producer companies, and the remainder represented consulting and other companies.

- Alaska's world class mineralogical deposits provide significant 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 resource 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 will help to move fuel and supplies to 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

Mines in Alaska, even in the more developed areas, face challenges related to energy costs, 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 is necessary to provide students with an understanding of the minerals industry and opportunities for minerals-related employment.

OUTLOOK

The Alaska minerals industry is driven by complex and dynamic global factors. Commodity prices, energy costs, infrastructure and access, permitting and public policy, labor supply, and inflation all impact the minerals business environment. Despite challenges associated with mining in remote and rural regions and the challenge of changing commodities prices, the outlook for Alaska's minerals industry is good considering Alaska's abundant mineral resource potential and a motivated minerals industry.

The volatility of metals prices has resulted in decreased funding available for some Alaska mineral exploration and development projects. However, Alaska's mineral potential still ranks Alaska as one of the world's top ten locations for mineral exploration.



Kensington Mine facilities, Southeast Alaska, with Lion's Head Mountain in background. Photo courtesy Coeur Alaska.



Greens Creek tailings area and water treatment pond. Photo courtesy Alaska Department of Natural Resources.



Photo courtesy R. Fredericksen, TLO.

SPECIAL TOPIC

Office of Project Management and Permitting

The State of Alaska Department of Natural Resources Office of Project Management and Permitting (OPMP) coordinates the review of mining and other large-scale projects in Alaska. The use of OPMP's coordination services is voluntary and at the applicant's expense. A project coordinator is assigned to each project to facilitate an interagency, interdisciplinary team and coordinate the interaction between the regulatory agencies, the public, and the project proponent. This coordinated permitting process helps to ensure a thorough, efficient, and timely permitting process



SPOTLIGHT

Wild Salmon Price Explosion

Ten years ago the salmon industry was stuck in a downward spiral of commodity farmed salmon prices. The industry outlook was dire. Valued at over \$500 million in the early 1990s, salmon values fell to \$140 million by 2002.



Much has changed over the past decade. A refocused marketing regime, greater diversity of salmon products, improved quality, and more consumer awareness of the benefits of wild salmon, led to an industry turnaround. In 2012, early reports put the total value of salmon at \$483 million. More amazing perhaps is that per pound values increased two to five times depending on the species of salmon.



Commercial fishing boats, Pelican, Alaska

OPPORTUNITIES

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

1. 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, consider new investments, and build marketing plans for the future.
2. The seafood industry is increasingly successful in managing consistent quality and creating desirable products. These positive industry trends allow Alaska's wild seafood intrinsic superiority to emerge and set it apart from aquaculture and other protein competitors. Product differentiation leads to higher price points and stability.
3. In a world of increasing populations, environmental degradation, and urbanization, Alaska's sustainable fisheries story is valued by consumers. Alaska's hardworking men and women, carefully creating food in a pristine environment with a sustainable fisheries management system, is a winning message that resonates across the globe.

2012 Seafood Indicators

State and Local Taxes	Export Value
\$106.9M	2.2B
Value to Processing Sector	
\$4.5B	



Salmon Ex-Vessel Price per Pound Comparison, 2002 and 2012

Species	2002	2012
Chinook	\$1.35	\$3.99
Sockeye	\$0.60	\$1.16
Coho	\$0.36	\$1.16
Pink	\$0.09	\$0.43
Chum	\$0.19	\$0.75

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

CHALLENGES

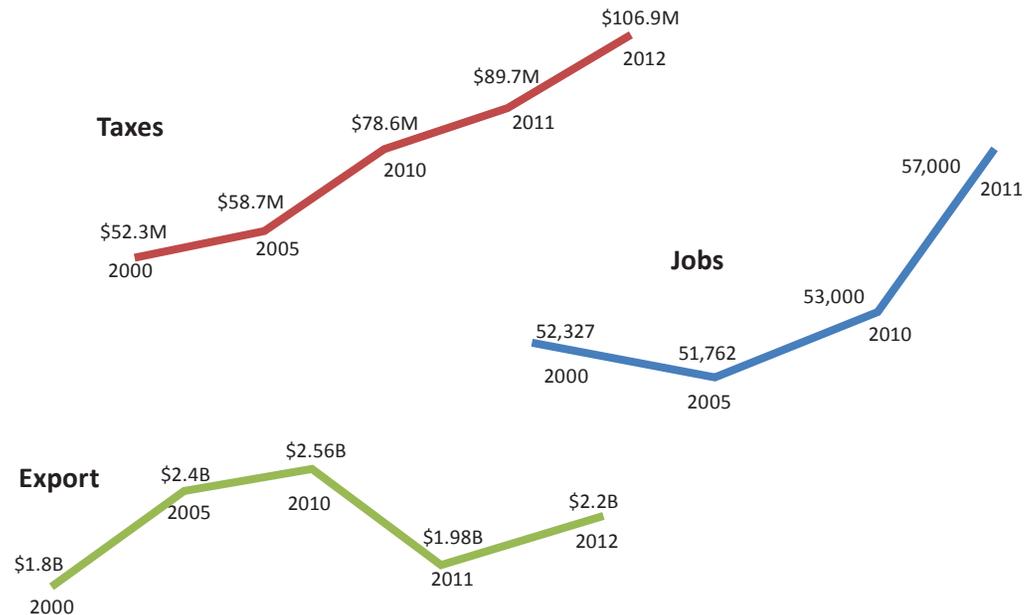
While prices are strong for the seafood industry, retention and expansion challenges still confront seafood businesses, support industries, and the public sector.

1. Alaska's most prized King salmon fisheries sustained significant declines in several river systems, most notably the Yukon and Kenai Rivers. These sharp declines led to federal disaster declarations and a significant curtailing of catch for commercial fishermen, sportfish operators, and personal use harvesters.
2. Workforce development remains a challenge for all sectors of the seafood industry. Through the University of Alaska's *Fisheries, Seafood, and Maritime Initiative*, business leaders and public sector agencies are working to design a workforce development system that will provide a labor force for this industry into the future.
3. As mainstay fisheries like salmon and pollock maintain and gain strength in the market, it is time to turn to smaller seasonal fisheries that are undervalued, such as herring and shrimp fisheries. 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 also a boon for marketing Alaska seafood. As Alaska's wild seafood sector continues to niche itself 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

Supporting the Next Generation of Fishermen

Since 2007, the Alaska Sea Grant Marine Advisory Program hosted four statewide conferences called the Young Fishermen's Summit. The Summit is an opportunity for Alaska's up and coming fishermen to meet for two days and learn first-hand about fisheries management, seafood marketing, business management, and a host of other subjects.



The impetus for the Summit is a growing concern in the seafood industry over the “graying of the fleet”. Permit statistics indicate the age of fishermen is steadily increasing. With fleet consolidation and more lucrative fisheries, the cost of entry steadily rises, making it difficult for the next generation of fishermen to participate and invest in the industry – oftentimes in the family business.

By attending the multi-day summit, participants are provided a variety of learning, networking, and support opportunities.

- Opportunity to meet, network with, and discuss shared issues with other young fishermen, public officials, and well-known fishing industry leaders.
- Multi-day training on the land-based aspects of running a commercial fishing business including marketing, business management, fisheries regulatory process, and the science impacting fisheries management.
- An on-site visit with the Alaska Department of Fish and Game to meet with fisheries managers and researchers to learn about the use of science to better understand the condition of Alaska fisheries and practice of managing stocks.

During 2011, the Alaska State Legislature passed Resolution 18 that supports the examination of university workforce development programs in fisheries and seafood, and their impact on increasing opportunities for young fishermen entering the industry.

To support the growth of the seafood industry, the Division of Economic Development provides commercial fishing loans for Alaskans. Of noteworthy importance, the age of borrowers has also steadily increased over the years, with a slight turnaround from 2011 to 2012. In 2011, the average age of commercial fishing loan borrowers was 44. By 2012, that number fell to 43. Efforts like the Young Fishermen Summit and commercial fishing loans from the Division of Economic Development are helping to create new opportunities for young Alaskans in the seafood industry.



*Vessel to processor fish transfer at Adak.
Photo courtesy Division of Community and Regional Affairs*

2000 – 2010: Fishing Permit Holders Average Age

Year	Average Age
2000	46.5
2001	46.9
2002	47.5
2003	48.0
2004	48.2
2005	48.3
2006	48.6
2007	48.8
2008	48.9
2009	49.2
2010	49.3

Approximately 1.85 million visitors came to Alaska during the 2012 visitor season, spending an estimated \$1.7 billion. Combining cruise spending and airline and ferry ticket purchasing, direct visitor industry spending totaled \$2.3 billion. Visitor industry spending generates 37,800 full- and part-time jobs with an annual payroll of \$1.2 billion; peak season employment totals 45,000 jobs. In total, the visitor industry's economic impact is \$3.7 billion (i.e., direct, indirect, and induced spending) including \$179 million in local and state government taxes and revenues. Full-year visitor volume represents an increase of 1.4 percent over the previous 12 month period.

SPOTLIGHT

Increased Access to European Markets through Icelandair

During August 2012, Icelandair announced it will begin two flights a week (mid-May to mid-September) between Anchorage and Reykjavik beginning May 2013. The new seasonal service will give potential visitors in more than 20 European markets greater access to Alaska.

Icelandair flights are expected to increase total airline seat capacity between Alaska and Europe by nearly 50 percent. Condor Airlines is the only other European air carrier with direct service between Europe and Alaska with a capacity of nearly 22,000 seats per year. Research indicates international visitors spend \$1,013 each per trip during the summer, which is eight percent above the average expenditures of all visitors.

Alaska Department of Transportation and Public Facilities, Alaska Department of Commerce, Community, and Economic Development, Ted Stevens Anchorage International Airport, Visit Anchorage and visitor industry representatives worked closely with Icelandair to establish the new service. The State of Alaska and Visit Anchorage will provide marketing support for flights over the next two years.



Photos courtesy Icelandair.

2012 Tourism Indicators

Jobs
45,000
(peak season)

Total Visitors
1.85M

Visitor Spending
\$2.3B

Economic Impact
\$3.7B

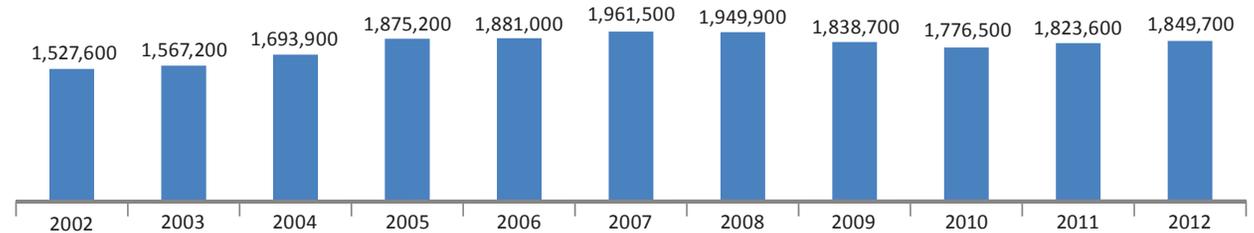
Labor Income
\$1.2B

Taxes and Revenues
\$179M



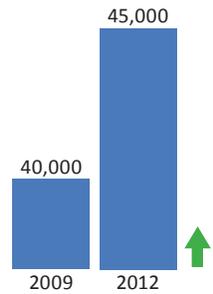
The 2012 visitor season yielded the second consecutive year of growth after recession-related declines during 2009 and 2010. Full-year visitation increased just over one percent compared to 2010, but remained seven percent below peak visitation of 1.96 million visitors in 2007. During 2012 (full-year), the percentage of visitors by major mode of transportation was 48 percent cruise passengers, 47 percent visitors who entered and exited by air, and nearly five percent who entered or exited the state by highway or ferry.

2002 - 2012: Full-Year Visitation Trends

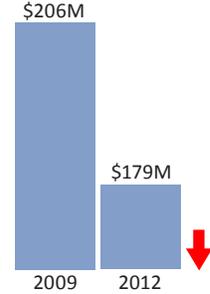


2009 - 2012: Visitor Industry Economic Trends

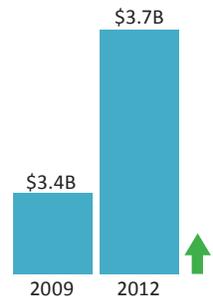
Employment (Peak Season)



Taxes and Revenues



Total Visitor Industry Spending

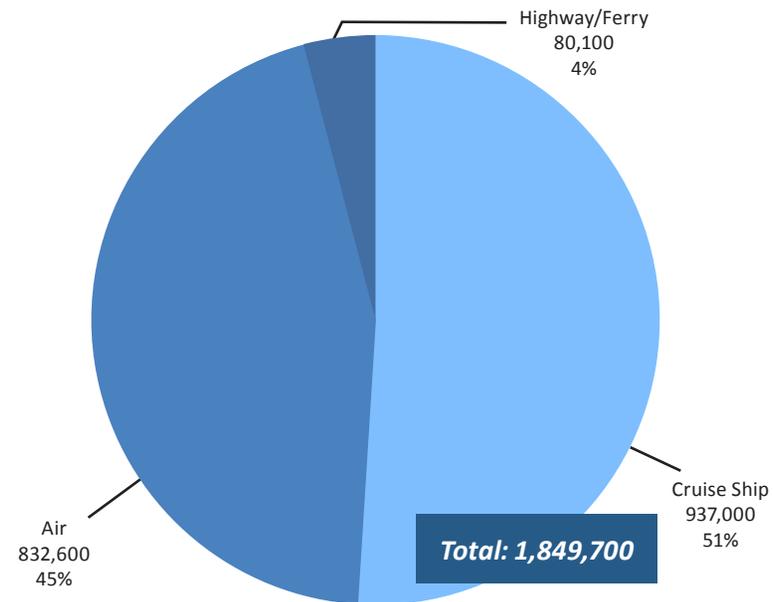


Labor Income



Economic impact estimates are for 2011 visitor season. Since visitor volume increased only one percent between 2011 and 2012, estimates for 2012 assume no significant change in employment, labor income, and total visitor industry spending. The next economic impact estimates will be for 2013.

2012 Visitor Volume by Transportation Market May 1, 2012, to April 30, 2013



OPPORTUNITIES

Maintaining Alaska's positive image in the market by providing sustained funding for a tourism marketing program continues to be an important opportunity for the tourism industry. The tourism marketing budget for fiscal year 2012 is \$14.7 million and includes \$12 million in state investment and \$2.7 million investment in private funding. The investment is significantly higher than the \$11.7 million budgets prior to fiscal year 2011. Fiscal year 2012 is the first year in over a decade that the state tourism marketing programs will be implemented directly by the Alaska Department of Commerce, Community, and Economic Development. In addition to joining public and private funding, the tourism marketing program capitalizes upon partnerships between tourism marketing and other state programs that market Alaska. During 2012, the state vacation planner and the TravelAlaska.com website will leverage marketing activities of state agencies that market Alaska through programs such as Alaska Grown, Made in Alaska, and Silver Hand.

2012 is also a year of anniversaries that provide opportunities to promote visits to Alaska to participate in special events. Noteworthy anniversaries include the 40th anniversary of the Iditarod Trail Sled Dog Race, the 60th annual Golden Days festival in Fairbanks, the 70th anniversary of the Alaska Highway, the 100th anniversary of the eruption of the Novarupta volcano, and the 100th anniversary of the Hoonah Packing Company at Icy Strait Point.

Capitalizing on existing and emerging opportunities will ensure future investment and growth in the Alaska visitor industry. Governor Sean Parnell signed legislation during June 2012 to promote economic development by helping Alaska's small businesses access critically-needed capital to expand and better compete in world markets. An important component of the legislation is the Alaska Microloan Revolving Loan Fund that will provide funding for start-up costs, working capital, and inventory expansion, spurring small business development and viability. Additional opportunities that will benefit the industry overall include:

- Growing per-person visitor spending by promoting Alaskan products and services.
- Working with industry to identify career opportunities in the tourism sector and train individuals to meet business needs.
- Working with communities and visitor industry to develop Alaska Native and cultural tourism opportunities in rural Alaska.
- Prioritizing infrastructure improvements and support services to provide a solid base for private investment.
- Supporting a favorable and stable business environment by improving access to public lands, encouraging permitting flexibility, and increasing recreation opportunities.



Arctic Circle Photo Opportunity.
Photo courtesy Northern Alaska Tour Company



Caribou at Denali National Park and Preserve.
Photo courtesy National Park Service

CHALLENGES

- A federal 200-mile emissions control area (ECA) designated along 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 impact corporation decision-making regarding cruise ship deployment. The State of Alaska filed a complaint seeking exemption from enforcement of the ECA in Alaska because of the disproportionate adverse effect it will have on Alaska's citizens and economy.
- Decreasing volumes of fisheries resources, most recently with Southeast Alaska halibut and Southcentral and Western Alaska Chinook salmon, create an uncertain business environment for sportfish guides and charter operators. Governor Sean Parnell urged Acting US Secretary of Commerce Rebecca Blank to declare a fishery disaster for the Chinook salmon fisheries on the Yukon and Kuskokwim rivers and Cook Inlet region. The request was granted during September 2012. For Southeast halibut charter fishing, a one fish per person per day bag limit remained in effect for the 2012 season.
- While the number of visitors who entered or exited Alaska via highway or ferry remained flat between summer 2011 and summer 2012, they have been on the decline since 2006 (-26%). Highway visitors are also spending less time in Alaska, 13 days in 2012 versus 18 in 2006. Fuel prices have negatively impacted highway visitors, as well as time constraints that do not permit long-haul travel.

OUTLOOK

Despite declines in highway and ferry visitor markets, the outlook for Alaska's visitor industry remains positive as cruise passenger volume is expected to near the one million mark again in 2013. During the 2013 cruise season, a total of 31 large cruise ships are scheduled to call 396 times in Alaska, a gain of one ship and 19 additional trips for a projected total passenger increase of 65,647. The Celebrity Solstice, a larger ship, is replacing the Celebrity Infinity, and the 700-passenger Oceania Regatta is returning to Alaska after ceasing Alaska sailings in 2012. The Grand Princess is replacing the Sea Princess, adding about 700 passengers, and the Amsterdam returns to a seven-day Inside Passage sailing, which will double its visits.

Summer 2013 will also see a strong increase in airline access. In addition to Icelandair's seasonal direct flights between Anchorage and Reykjavik, Alaska Airlines will offer twice-daily flights between Anchorage and Salt Lake City, and JetBlue will add a Seattle to Anchorage service beginning May 2013. United Airlines announced plans for a new seasonal nonstop service between Fairbanks and Chicago beginning June 2013.



Halibut
Photo courtesy Alaska Department of Fish and Game



Passengers on a ferry in Alaska
Photo courtesy Alaska Marine Highway System



Miles and miles of Dalton Highway
Photo by Rebekah Cadigan, Alaska DOT&PF

SPECIAL TOPIC

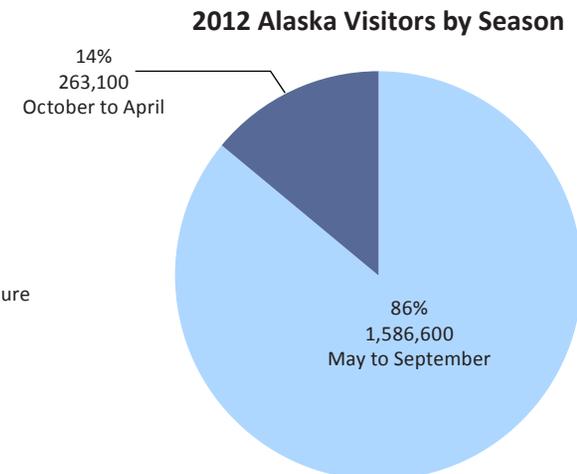
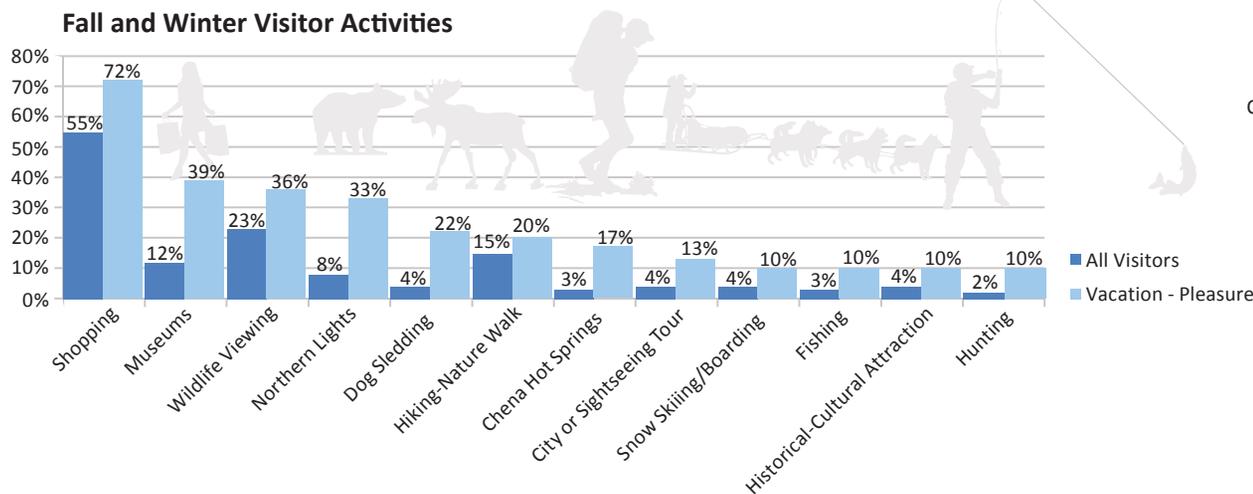
Winter Tourism - The Opportunity Season

Travel guide publisher and website, Lonely Planet, announced its annual “Top 10 US Destinations” series during December 2012. Lonely Planet named Fairbanks as the second best US destination to visit in 2013. Fairbanks’ high rating is largely due to the aurora borealis at the peak of an eleven-year solar cycle that produces Northern Lights displays. While Northern Lights viewing is a top winter attraction in Fairbanks, other popular winter activities include dog mushing, ice sculpting, snow machining, and skiing. Special events include the Yukon Quest, a 1,000 Mile International Sled Dog Race, which runs between Whitehorse and Fairbanks, and the World Ice Art Championship that attracts more than 100 sculptors from more than 30 countries every year.

Fairbanks has achieved significant growth in winter tourism due to strategies implemented over ten years ago including: 1) matching product with appropriate target markets (i.e., Northern Lights – Japanese visitors); 2) selling winter experiences to summer visitors (i.e., operating an ice museum in the summer); and 3) changing the resident and visitor industry mindset regarding winter tourism. Rather than calling the fall/winter visitor season, the “off season”, the Fairbanks Convention and Visitors Bureau encourages targeting it as the “opportunity season.”

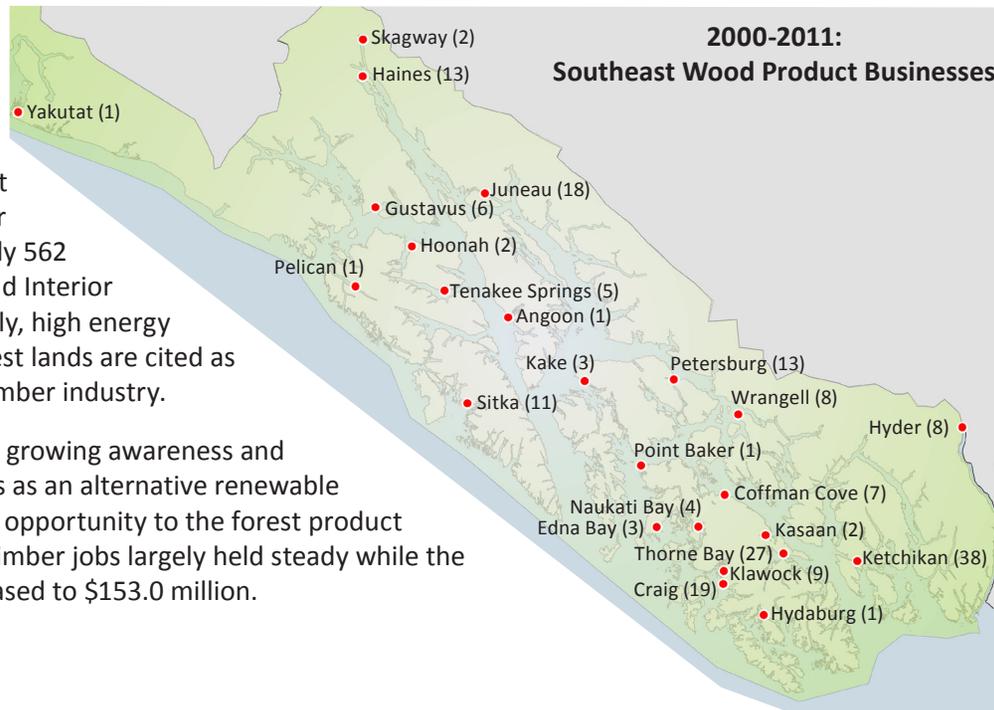
The State of Alaska has also increased its focus on winter tourism, creating a new television spot that will air nationwide and adding new winter content to TravelAlaska.com. A new winter video on the State of Alaska’s YouTube channel provides a breathtaking tour of Alaska’s natural wonders, recreation opportunities, festivals, and activities in the winter months.

Approximately 14 percent of Alaska’s 1.85 million visitors arrive between October 1 and April 30, during Alaska’s fall and winter seasons – otherwise known as Alaska’s “opportunity” season. Nearly all visitors during this period travel to and from Alaska by air. Approximately 13 percent travel for vacation and pleasure, compared to 77 percent during the rest of the year. The primary destinations during the “opportunity” season include the Interior and Southcentral Alaska, with Anchorage receiving 63 percent of all vacation/pleasure travelers and Fairbanks receiving 35 percent. Top visitor activities for vacation pleasure travelers include shopping, visiting museums, wildlife viewing, Northern Lights viewing, dog sledding, hiking/nature walks, and visiting hot springs.



During the early 1990s, the forest products industry was Alaska's second largest industry, employing thousands of Alaskans across multiple industry subsectors including logging, milling, and product manufacturing. Today, Alaska's timber industry has declined to approximately 562 jobs located in primarily Southeast and Interior Alaska. Limited access to timber supply, high energy costs, and management of public forest lands are cited as the largest obstacles facing today's timber industry.

Despite multi-decade industry losses, growing awareness and increased demand for woody biomass as an alternative renewable resource is helping bring new life and opportunity to the forest product industry. From 2011 to 2012, Alaska timber jobs largely held steady while the export value of forest products increased to \$153.0 million.



2012 Timber Indicators

Jobs
562

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

Export Value
\$153 M

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



SPOTLIGHT

Southeast Business Retention and Expansion Survey

On behalf of the Alaska Timber Jobs Task Force, the Division of Economic Development completed a business retention and expansion survey of Southeast Alaska forest product businesses during 2012. The scope of work included studying past and present Southeast wood product businesses to meet four primary objectives: 1) explore wood products; 2) determine current business operating capacity; 3) determine timber supply needed to maintain and grow business activity; and 4) explore challenges to current and future business operations.

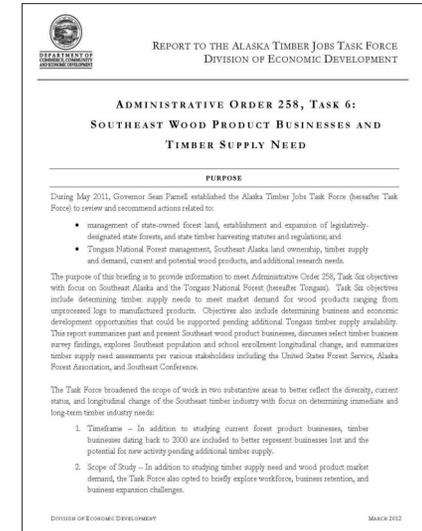
In contrast to traditional community or stakeholder surveys that typically utilize a random sample method to collect input, the Division of Economic Development elected to telephone survey the entire population of Southeast timber businesses, dating back to 2000, to provide opportunity for all past and present stakeholders to provide input including loggers, millers, and wood product manufacturers. In total, 186 direct and indirect Southeast forest product businesses were identified and telephone or in person interviews were conducted from November 2011 through February 2012.

Survey results indicate timber supply is the most significant business challenge and threat to viability for the majority of operational businesses. Businesses that ceased operations over the past twenty years report the inability to economically access timber was one of the most significant factors in their decision to close operations. Despite concerns regarding timber supply and current diminished operations, nearly three-quarters (73%) of all businesses are interested in business growth – many of which are more optimistic about the future than the past.

From 2011 to 2012, economic indicators reflect stability in timber industry jobs, no change in total Alaska harvest, and increase in total export value. With continued declines in access to timber supply on federal lands, many in the forest product industry are beginning to invest in value-added manufacturing facilities. These businesses are working to identify and fill local demand for value-added products. For example, increased demand for woody biomass has been observed as markets for small diameter timber and raw material waste are growing.

OPPORTUNITIES

1. Governor Sean Parnell's Alaska Timber Jobs Task Force reports the singular most important timber industry need is access to economical timber supply. The Task Force provided 34 additional recommendations to grow Alaska's timber industry; however, access to timber supply is directly or indirectly linked to nearly all the recommendations. One notable recommendation details transferring two million acres of Tongass National Forest to the State of Alaska. Transfer of land from the federal government to the state government, to be managed under state law and regulation, will provide economic opportunity for Southeast Alaska for decades to come.
2. A movement is afoot through the Working Forest Group to embrace a "triple-bottom line" concept of actively managing natural resources to serve environment, community, and economic development purposes. The Working Forest Group advocates it is possible to achieve healthy communities and robust economies by balancing environmental concerns while promoting community and economic development. This volunteer working group is providing new energy to an old discussion – that vibrant communities, secure economies, and healthy environments are not mutually exclusive concepts.
3. The 2012 Alaska State Legislature passed legislation establishing a microloan program, administered by the Division of Economic Development. Microloans totaling up to \$35,000 for one person and \$70,000 for two or more persons may be used for working capital, equipment, construction, or other commercial purposes for a business located in Alaska. The microloan, in addition to other public and private financing options, promotes economic development by helping small businesses access needed capital.
4. Continued development and diversification of value-added forest products is critical to revitalizing and expanding Alaska's forest product industry. Fostering renewable wood energy products and supporting the small wood manufacturing sector will increase product values and market demand for the forest products industry.
5. Marketing remains a persistent need for some wood product manufacturers. Programs and projects that promote businesses that manufacture products using Alaska materials are critical to building awareness and growing market demand for locally-manufactured forest products.



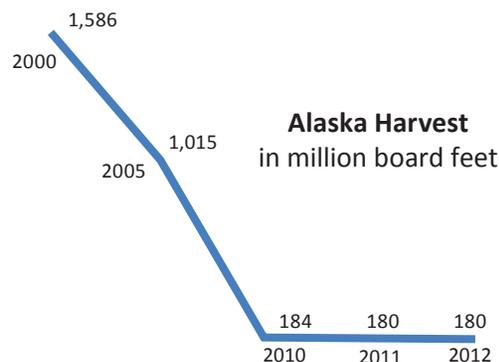
Naukati, a Southeast Alaska community, red cedar nursery signage. Photo courtesy of Division of Community and Regional Affairs

The most important challenges facing the forest products industry include access to timber supply, workforce development, and state and federal forest management practices.

CHALLENGES

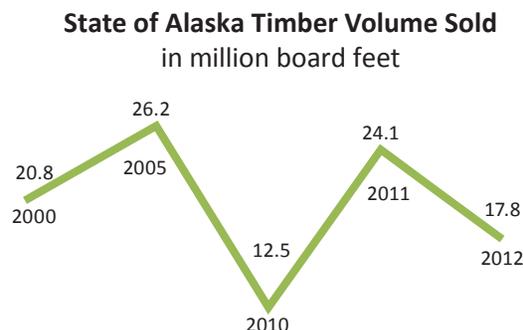
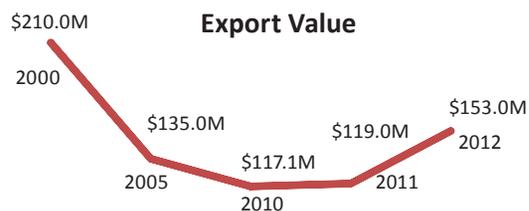
1. Significant threats identified by the forest products industry include high utility, energy, and transportation costs as well as the need for short- and long-term timber supply.
2. The US Forest Service continues to promote a transition from old growth to young growth harvest for the Tongass National Forest. This change presents new challenges to Southeast's timber industry as moving from large-diameter logs to small-diameter logs requires machinery and other equipment conversions.
3. Alaska's skilled forest products industry workforce continues to decline. As businesses continue to lose access to raw material, skilled employees are forced to leave Alaska in search of work in their field of expertise. The exodus of a skilled workforce from Southeast Alaska continues to impact businesses, the industry as a whole, and communities.

Forest Product Trends



OUTLOOK

The effects of a declining timber industry can be observed across Alaska. Key issues that arise from the inability to provide the timber industry with the raw material supply needed to maintain, grow, and stabilize timber-dependent communities result in decreasing populations, school closures, and out migration of skilled labor. Building consumer awareness of sustainable forest practices while working with industry to identify potential value-added products that can meet local demand is critical to sustaining what remains of the timber industry. Educating Alaska residents regarding locally-manufactured wood products available to meet consumer needs and connecting them to available resources can help support and grow Alaska's timber industry.



Whiskey Flats sawmill logs, Pelican
Photo courtesy of Division of Community and Regional Affairs

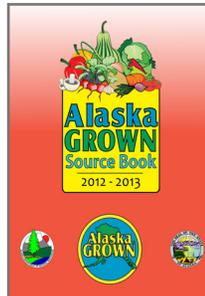
Alaska's agriculture industry is small compared to the rest of the nation, accounting for less than one percent of the total annual value of US agricultural receipts and only one percent of Alaska's total GDP. Less than one percent (.24%) of Alaska's 365 million acres of land is farmed; it is estimated only 15 million acres (4%) is suitable for farming. Alaska's top agriculture commodities include greenhouse and nursery products, hay, cattle and calves, potatoes, and dairy products.

The total value of Alaska's agricultural products has remained generally flat for the last decade. Due to high operating costs, Alaska farmers typically sell to local markets, competing against non-Alaska foods oftentimes produced at a lower cost and sold at lower prices. While Alaska's agricultural industry is small, the size of its products includes many record-holding vegetables: 19-pound carrot, 76-pound rutabaga, 127-pound cabbage, 39-pound turnip, 106-pound kale, 65-pound cantaloupe, 97-pound kohlrabi, and 63-pound celery.

SPOTLIGHT

Alaska Grown

In 1986, the State of Alaska's Division of Agriculture launched the statewide Alaska Grown agricultural products certification program. The program was designed to increase consumer awareness and consumption of Alaska agricultural products. As part of Alaska's food and fiber marketing effort, agricultural producers are encouraged to utilize the Alaska Grown logo in conjunction with sales of Alaska farm products.



The Alaska Grown logo is used on quality locally-produced products that meet established top-grade standards. Products without established USDA or state grades are evaluated on the basis of community or industry association standards.

For 26 years, the Alaska Grown Program has grown in size and success. Alaska Grown products cover a wide range of consumables including vegetables, meat, milk, eggs, nursery products, honey, and wool products. At the end of 2012 there were approximately 500 Alaskan farms listed.

1986 – 2012: Total Producers

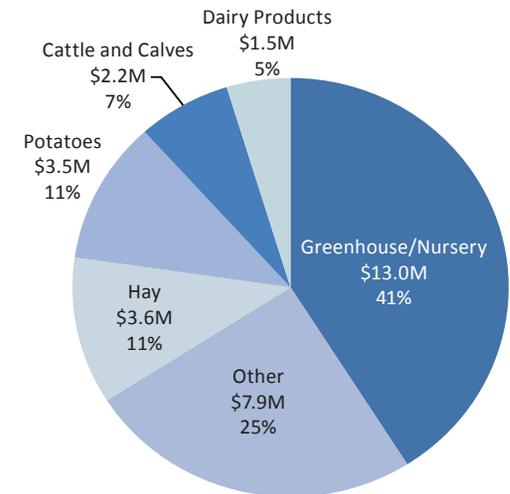
Year	Producers
1986	9
1987	20
1988	36
1989	49
1990	61
1991	70
1992	84
1993	90
1994	101
1995	114
1996	127
1997	135
1998	145
1999	154
2000	171
2001	188
2002	221
2003	246
2004	261
2005	279
2006	204
2007	341
2008	396
2009	423
2010	475
2011	517
2012	580

2012 Agriculture Indicators

Gross State Product \$31.7 M	Farms 680
Organic Certified Farms 8	Organic Acres 442
Farmers Markets 37	Food Insecure Households 14%



Commodities

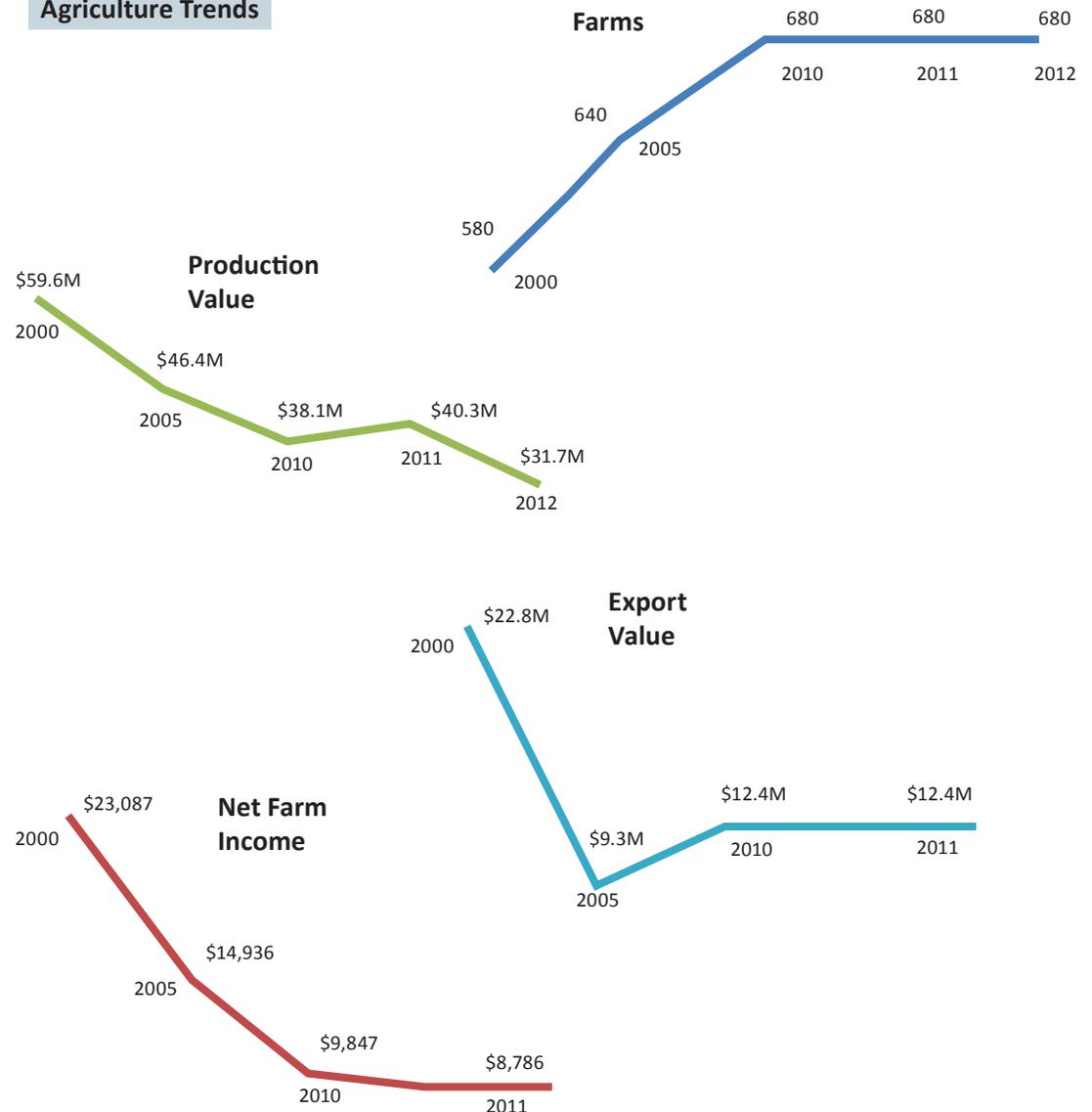


Alaska's agricultural production is mostly crops, which account for 80 percent (\$25,360,000) of the state's total agricultural receipts. Livestock and associated products account for the remaining 20 percent (\$6,340,000). During 2012, cash receipts to farmers totaled over \$31.7 million, representing 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 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. Furthermore, input costs are extremely volatile due to fuel costs and the necessity of importing supplies from the Lower 48.
- Some 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. Alaska continues to lead the nation in growth of farmers markets per capita as 37 markets offered the public direct access to over 200 Alaskan farms and their locally-grown or produced products. The industry sector focusing on small-scale production and direct marketing to the end user is a growing component of agriculture production in Alaska.

SPECIAL TOPIC

Food Security

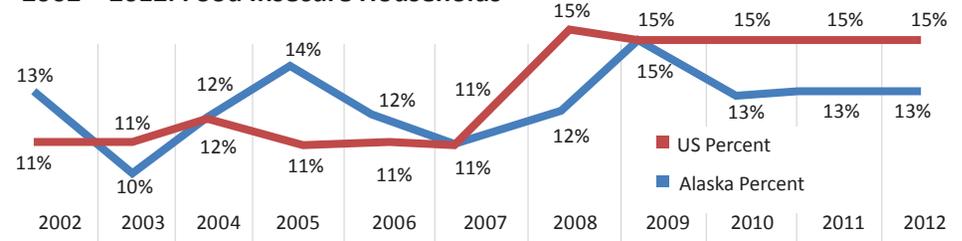
During recent years, discussions regarding food security have swept the nation and Alaska. Most Alaska households have consistent and dependable access to enough food for an active and healthy lifestyle – they are “food secure”. However, a minority of households experience food challenges during the year – and they are considered “food insecure”. Household food

security, at its most basic level, means access by all people at all times to enough food for an active and healthy lifestyle. As one of the most basic household needs, food security impacts the well-being of children, adults, families, and communities.

In 2012, 87 percent of Alaska households were food secure throughout the year; the remaining 13 percent were food insecure. Food-insecure households had difficulty at some time during the year providing enough food for all their members due to lack of resources. Notably, four percent of Alaska households experienced very low food security during 2012. In these households, the food intake of some household members was reduced and normal eating patterns were disrupted at times during the year due to limited resources. Alaska food security and insecurity measures generally follow national trends with approximately one-fifth of all households reporting food security challenges; this trend has remained relatively stable throughout the past decade.

In Alaska, food security is a growing area of concern for residents, community leaders, 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. Demand for local food continues to rise and is expected to drive industry growth in the short- and long-term future.

2002 – 2012: Food Insecure Households



FEDERAL SPENDING DATA

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, it is not possible to measure the federal government's influence on Alaska's economy.

The 2012 *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.

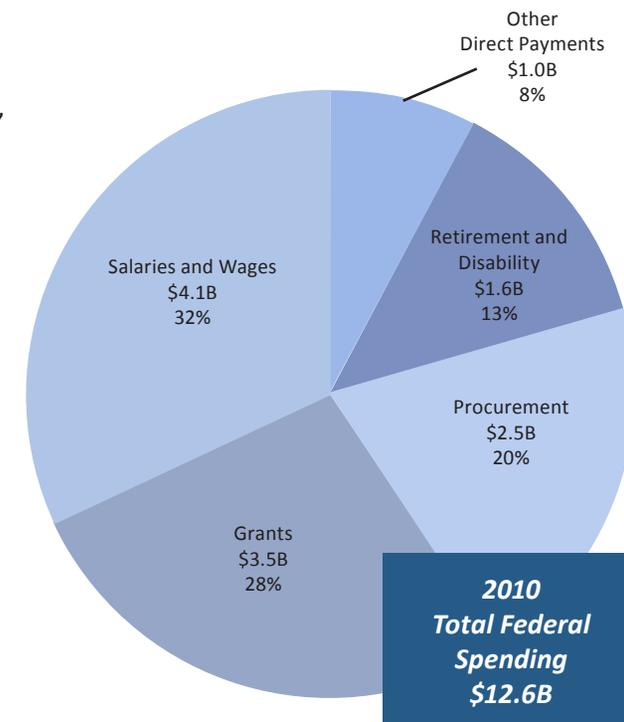
The federal government's impact on Alaska's economy is more than just direct jobs – it also includes funding for grants, procurement of goods and services, and retirement and benefits. During 2010, the federal government spent \$17,762 for every Alaskan, ranking the state number one in federal per capita spending – 70 percent above the national average (\$10,460). Overall, Alaska represents 0.2 percent of the US population, but received 0.4 percent of all federal expenditures during 2010. 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.

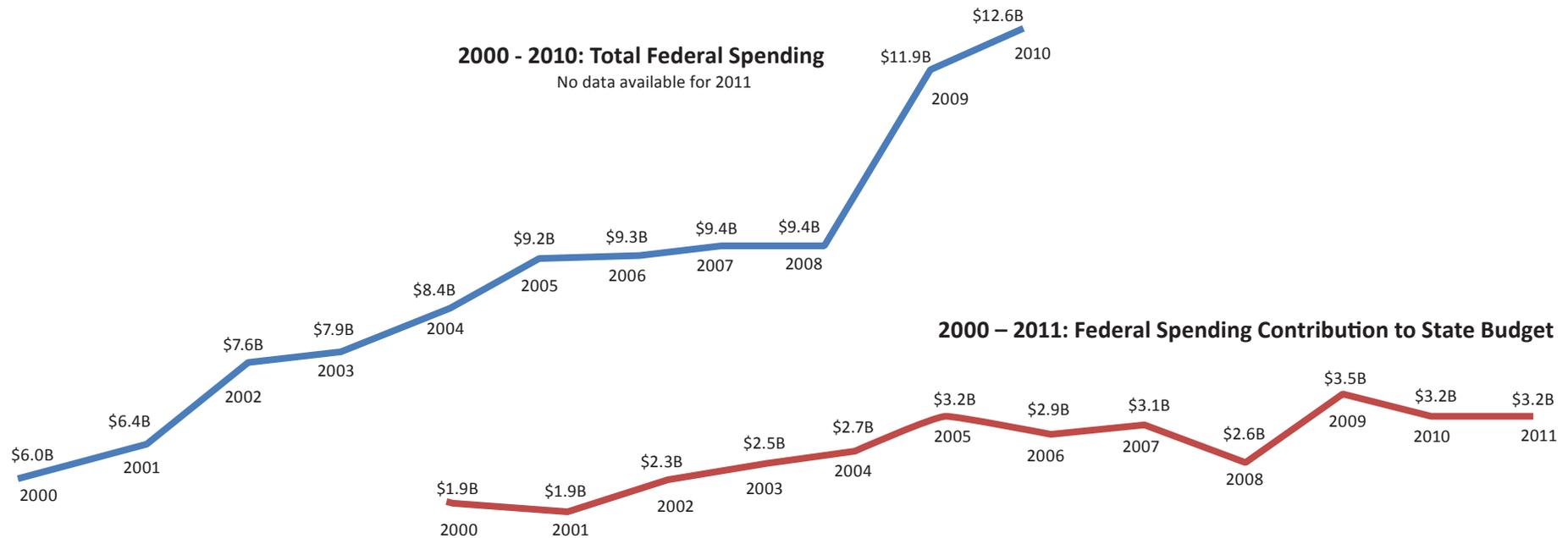
During 2010, nearly one-third of all federal expenditures were attributable to salaries and wages (32%). Grant funding accounted for more than one-quarter (28%) of all expenditures followed by procurement (20%) and retirement and disability (13%).

Over the past decade, 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 (approximately \$2.2 billion) during 2009 and 2010 was only a temporary injection of additional funds into the economy. Federal spending will likely 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.

2010 Federal Spending





As Alaska’s largest employer since before statehood, generating approximately one-third of all Alaska jobs, Alaska has much to lose with proposed federal government budgets cuts over the next ten years. Despite federal budget concerns, economists project federal spending in Alaska will continue on a flat trajectory – and, the outlook for Alaska’s share of federal funds remains stable. The federal government remains Alaska’s largest landowner (60% of total area), requiring continued and ongoing 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 Senator Ted Stevens’ tenure in US Congress, but a sudden precipitous drop in federal spending is not anticipated to occur during the next several years.

2000 - 2010: Federal Spending Growth

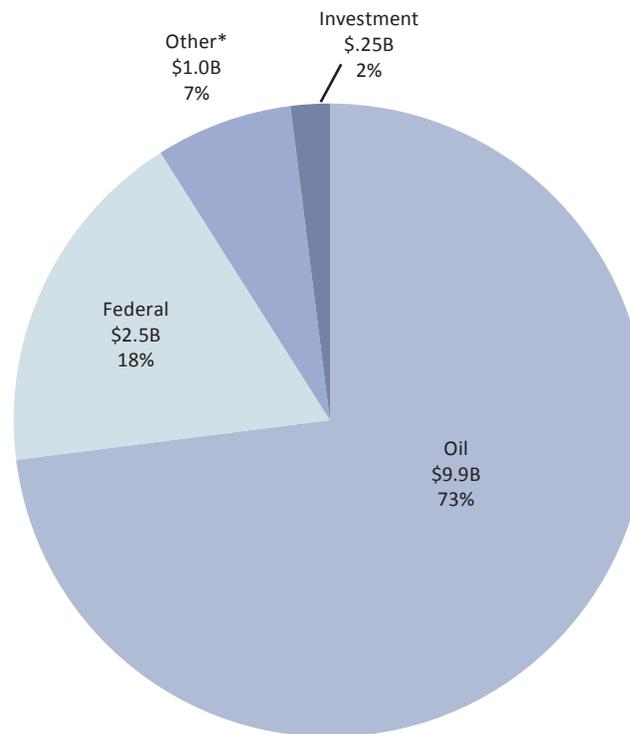
Category	Percent Increase
Grants	54%
Retirement and Disability	88%
Procurement	121%
Other Direct Payments	158%
Salaries and Wages	201%
Total	112%

State of Alaska fiscal year 2012 revenue totaled \$13.6 billion, a notable 30 percent decrease from 2011 total state revenue (\$19.5 billion). During 2012, State of Alaska revenue originated from four primary sources: oil revenue (73%), federal government (18%), income from other sources such as taxes, charges for services, licenses, permits, fines, and forfeitures (7%), and investment revenue, primarily the Permanent Fund and the Constitutional Budget Reserve Fund (2%). The most significant change in the composition of fiscal year 2012 revenue is the 97 percent reduction in revenue generated via investments from 2011 (\$8B) to 2012 (\$0.25 billion). Investments comprised 41 percent of total state revenues during 2011; only two percent during 2012.

TOTAL STATE REVENUE

Total state revenue declined 30 percent in fiscal year 2012, from \$19.5 billion in fiscal year 2011 to \$13.6 billion in fiscal year 2012. Total state revenue declined despite a 22 percent increase in oil revenue from \$8.1 billion to \$9.9 billion during the same time period. The decline in total state revenue is attributable to declines in investment revenue, which decreased from \$8 billion in fiscal year 2011 to \$0.25 billion in fiscal year 2012. The largest contributor to investment revenue is the Alaska Permanent Fund. Volatile global markets during fiscal year 2012 resulted in flat returns, and revenue declined from nearly \$7 billion in fiscal year 2011 to -100 million in fiscal year 2012. Federal spending in Alaska remained steady at \$2.5 billion, while its proportion of the total budget increased from 12 percent to 18 percent. Other revenue, including non-petroleum taxes, fees, fines, rents, and royalties, remained about the same, just under \$1.0 billion in fiscal year 2012.

Fiscal Year 2012 Total State Revenue: \$13.6B

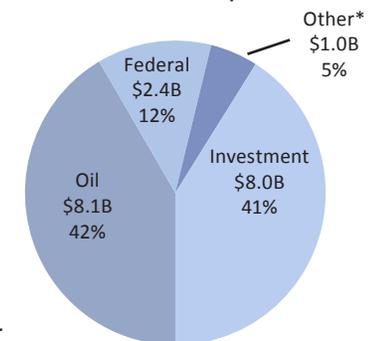


*Includes taxes, service fees, licenses, permits, fines, and forfeitures.

2012 State Revenue Indicators



Fiscal Year 2011 Total State Revenue: \$19.5B



TAXATION

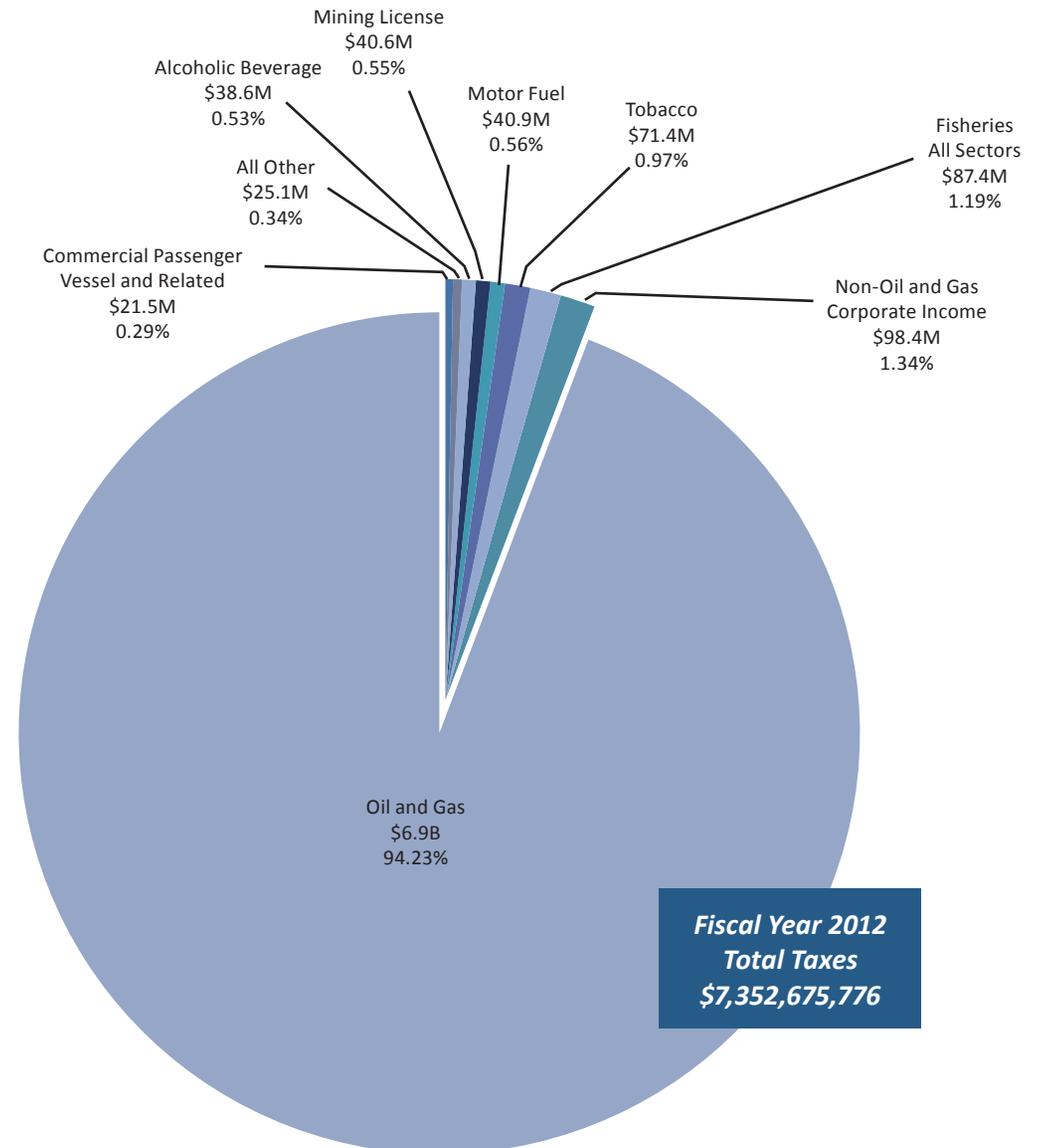
A main source of state revenue comes from tax collections, which increased 25 percent from \$5.9 billion during fiscal year 2011 to \$7.4 billion in fiscal year 2012. The main contributor to state tax revenue is the oil and gas industry, which paid \$6.9 billion to the State of Alaska, accounting for 94 percent of all state tax revenue. Considering non-petroleum tax sources, corporate income taxes provided the largest contribution, with a total of \$98 million (1.3%) followed by fisheries-related taxes that produced a combined \$87 million (1.2%). Tobacco taxes generated \$71 million (nearly 1.0%), and 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 generated \$22 million (.3%), down from \$39 million (.5%) in fiscal year 2011.

SPOTLIGHT

Oil Revenue

With average price per barrel at \$112.65, oil tax revenue remains the largest source of state revenue at 73 percent of total state revenue and 93 percent of all unrestricted revenue (\$9.5 billion). 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 North Slope production totaled 2.01 million barrels per day during fiscal year 1988, compared to 579.1 thousand barrels today. The Alaska Department of Revenue forecasts an annual average production decline of nearly six percent over the next ten years. While Cook Inlet produces an additional 10.8 thousand barrels a day, it does not adequately compensate for the ongoing loss of North Slope oil. High oil prices, which have increased nearly 600 percent since 1998, continue to mask the impacts of declining production. Oil prices are forecasted to remain above \$100 per barrel through 2022.

Fiscal Year 2012 Taxes Collected by the State of Alaska



Created in 1976 by a voter-approved amendment to the Alaska State Constitution, the Alaska Permanent Fund is an investment savings account that belongs to the State of Alaska. As the supporting statement in the 1976 elections pamphlet stated: just as a wise family saves for the future, Alaska should “set aside a rainy-day fund to benefit this and future generations of Alaskans.” The Permanent Fund was designed to turn a non-renewable mineral resource into a renewable financial resource that provides steady returns for the State of Alaska, current generations, and future generations.

The Permanent Fund is comprised of two components: nonspendable (principal) and assigned (realized income). The nonspendable portion of the Permanent Fund is invested permanently and cannot be spent without a majority vote of the people to amend the state constitution. Decisions regarding the assigned portion are made each year by elected representatives – the Alaska State Legislature and the governor. The Alaska Permanent Fund Corporation manages the Permanent Fund.

PERFORMANCE

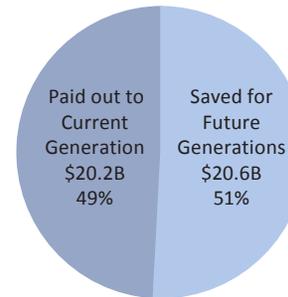
Global markets remained volatile during fiscal year 2012, especially overseas stock markets. Stocks comprise approximately half of the Permanent Fund’s investments; they have the greatest impact on overall performance. The volatility of global stock markets negatively impacted the Permanent Fund during 2012. In contrast, the Permanent Fund’s bond and real estate portfolios performed well during 2012, mitigating the poor performance of stocks. As a result, the Permanent Fund’s returns were essentially flat for the fiscal year.

The Permanent Fund’s investments returned -0.01 percent for fiscal year 2012, outperforming the comparable composite benchmark return of -0.2 percent. After paying the 2012 dividend, the Permanent Fund was up \$193 million compared to fiscal year 2011, closing on June 30th at \$40.3

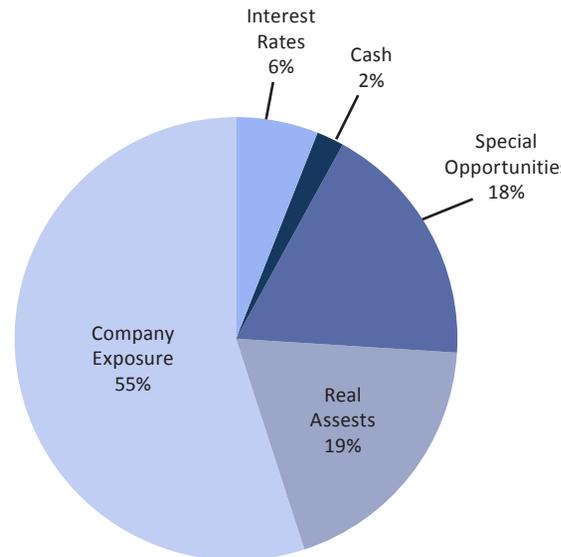
2012 Permanent Fund Indicators



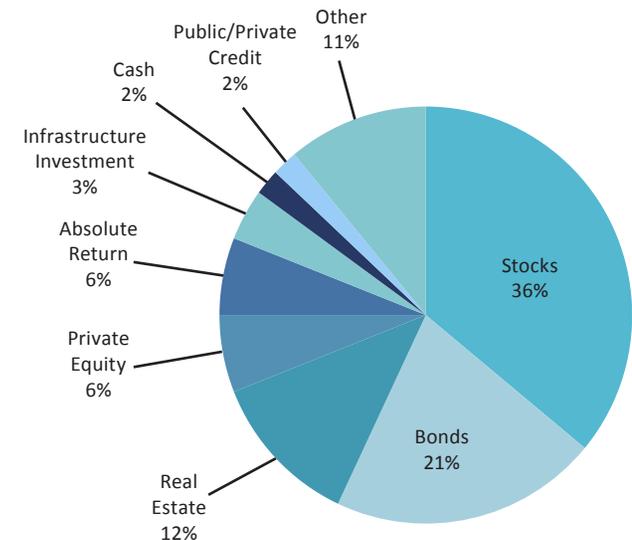
Fund Income Uses Since Inception



Permanent Fund Target Asset Allocation by Economic Condition for Fiscal Year 2012



Permanent Fund Target Asset Allocation by Traditional Asset Class for Fiscal Year 2012



billion. While the returns were essentially flat, the Permanent Fund still closed at over \$40 billion – only the second time in history, after 2011.

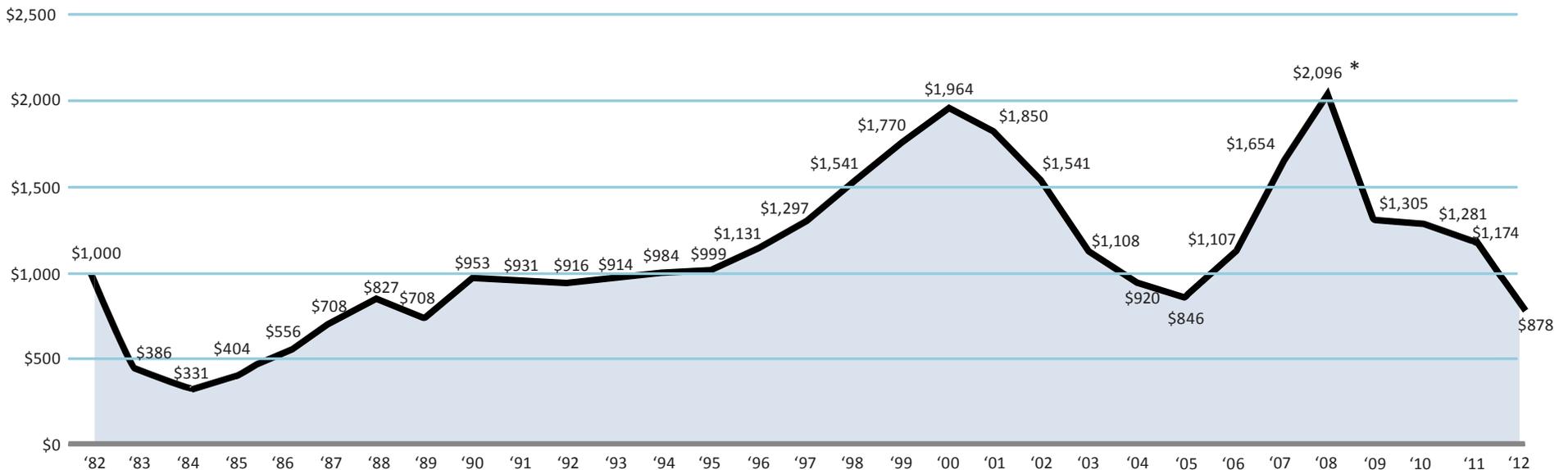
During fiscal year 2012, the Permanent Fund earned \$1.6 billion in statutory net income including real estate rent, stock dividends, bond interest, and any net gains from asset sales. The annual dividend is determined utilizing a statutory calculation based on a five-year average of statutory net income. Based on the calculation, \$605 million was transferred to the Alaska Permanent Fund Dividend Division for the fall dividend payment to all eligible Alaskans.

MANAGEMENT APPROACH

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

With a long-term approach to evaluating Permanent Fund performance, the portfolio structure worked as it was designed during recent challenging market conditions including sluggish US economic recovery, high unemployment, concern over the stability of Eurozone sovereign debt, and political unrest in the Middle East. Despite losses in Permanent Fund’s stock portfolio, solid returns were realized across bonds, real estate, private equity, and real return portfolios during fiscal year 2012. These returns outweighed the low-to-negative returns from the Permanent Fund’s stock portfolios. The result was an overall flat return, which is greatly preferable to a loss – which would have been the likely result if the Corporation chased high returns by heavily-weighting the portfolio toward stocks.

1982 - 2012: Annual Alaska Permanent Fund Dividend Amount



*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.

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.

PERFORMANCE

ANCs remain strong economic drivers for Alaska with 2012 gross revenue totaling nearly nine billion dollars. 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 (Stricker, 2011).

Nearly all regional ANCs continued strong financial performance with growth from 2011 to 2012. Total 2012 revenue, including all 12 corporations, increased to \$8.99 billion; net income totaled \$283.40 million. During 2012, the strength of their collective performance was further underscored with only one individual corporation posting a loss (Aleut Corporation) – unlike in 2008, when the recession led to investment losses for the majority of corporations. 2008 losses largely occurred due to the devaluation of portfolios, not declines in business operations. During 2012, three corporations exceeded \$1 billion in total revenue, including the Arctic Slope Regional Corporation, Bristol Bay Native Corporation, and NANA Regional Corporation.

2012 ANCSA Corporation Indicators

Total ANCSA Corporations Revenue
\$8.99B

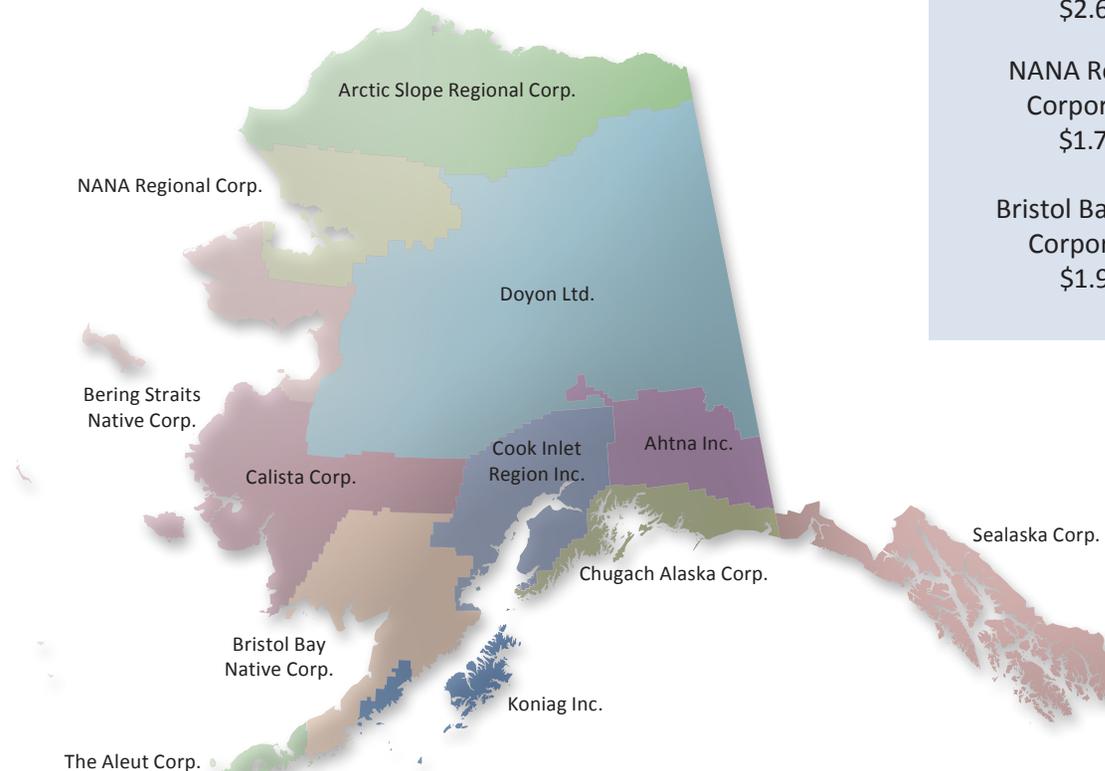
Top Three Corporations by Total Revenue

Arctic Slope Regional Corporation
\$2.63B

NANA Regional Corporation
\$1.76B

Bristol Bay Native Corporation
\$1.97B

ANCSA Regional Corporations



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 2012, shareholders received dividends ranging from \$2.21 per share (Sealaska Corporation) to \$50.38 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 Corporation Performance

ANCSA Corporation	Region	Approximate Shareholders	Total Revenue [Millions]	Net Income (Loss)*	Dividend Paid per Share
Ahtna Incorporated	Cantwell to Mentasta to Harvard Glacier to Chitina River	1,700	\$189.15	\$4.70	\$3.53
Aleut Corporation	Alaska Peninsula to Aleutian, Shumagin, and Pribilof Islands	3,700	\$98.10	(\$8.50)	\$5.00
Arctic Slope Regional Corporation	North Slope region	11,000	\$2,629.0	\$107.20	\$50.38
Bering Straits Native Corporation	Nome and Seward Peninsula	6,300	\$213.42	\$9.59	\$2.35
Bristol Bay Native Corporation	34 million acres in the Bristol Bay region	8,600	\$1,965.51	\$70.23	\$22.00
Calista Corporation	56,000 square miles in Southwest Alaska	13,000	\$404.23	\$21.74	\$3.25
Chugach Alaska Corporation	Prince William Sound	2,300	\$709.06	\$20.25	\$40.00
Cook Inlet Region Incorporated	38,000 square miles in Southcentral Alaska	8,100	\$237.85	\$18.03	\$35.37
Doyon Limited	Alaska-Canada border, westward near Norton Sound	18,000	\$338.28	\$17.38	\$4.15
Koniag Incorporated	Kodiak Island	3,700	\$126.86	\$6.14	\$10.65
NANA Regional Corporation	38,000 square miles in Northwest Alaska	12,500	\$1,762.78	\$5.32	\$7.72
Sealaska Corporation	Southeast Alaska	20,000	\$311.62	\$11.32	\$2.21

* Attributable to corporation.

Note: The 13th Regional Corporation is not included within text or analysis as information regarding 2012 performance was not available at the time of publishing.

INTERNATIONAL TRADE

According to the US Department of Commerce, the nation set a new record for total value of exported goods and services, estimated at \$2.2 trillion in 2012 – supporting 9.8 million jobs. Along with the nation, 29 of 50 states hit record export levels in 2012. In total, 35 states achieved growth in export sales, with 20 of those states experiencing growth of at least five percent.

During 2012, Alaska’s exports reached \$4.6 billion, the second highest year on record for state exports, but a 15 percent decline from 2011. Export values for Alaska’s products are driven by demand for the state’s world-class natural resources, especially seafood, mineral ores, and precious metals.

In 2012, Alaska ranked 42nd in the US in total export value. Alaska’s exports were less than one percent of the nation’s total 2012 exports of \$2.2 trillion. On a per capita basis, Alaska ranks in the top ten exporting states. For the state’s relatively small population size, significant quantities of high-value natural resources are exported. Both exports and foreign direct investment have been important to Alaska for more than six decades.

Although Alaska’s 2012 export value decreased 15 percent from 2011’s record level of \$5.3 billion, 2012 was still the second highest year on record. Compared to prior years, Alaska enjoyed significant growth in exports during 2010 and 2011 – more than 25 percent growth over two consecutive years. In contrast, export growth tapered off during 2012, but still remained strong.

2012 International Trade Indicators

Total Export Value

\$4.6 Billion

US Export Value Rank

42nd

Top Three Export Markets

China

Japan

South Korea



EXPORT MARKETS

For the second time, Alaska’s 2012 top export market was China followed by Japan, South Korea, Canada, and Germany. Combined, China and Japan represent nearly half of all Alaska exports (46%). Canada is also a significant beneficiary of Alaska exports at ten percent of total exports – most of which is gold. Germany is the largest European recipient of Alaska exports at six percent.

During the past year, there has been significant growth in some export markets while other markets have declined. Brazil is Alaska’s fastest-growing export market, increasing nearly 2,000 percent from 2011



to 2012, followed by Singapore at approximately 1,000 percent growth during the same time period. The largest decline was realized in Switzerland (-77%), followed by Mexico (-62%).

SEAFOOD

In 2012, the value of Alaska's annual seafood exports totaled \$2.2 billion. Only two countries accounted for more than 58 percent of 2012 seafood exports – China and Japan. China has been steadily growing as an export market for Alaska's seafood. China's rising prominence as a primary export market for Alaska's seafood is largely due to increasing domestic demand over the past decade. Furthermore, China's ongoing role in reprocessing Alaska's seafood for export has remained steady over the past decade. Today, Alaska seafood is available in the retail market in more than a dozen cities in China.

Although Japan and China are extremely important seafood markets, Alaska's seafood is finding its way into many other countries. In 1999, Alaska seafood exports to Europe accounted for less than five percent of total seafood exports. In 2012, European markets accounted for 20 percent of the total value of Alaska's seafood exports. Consumer demand in Europe for Alaska seafood is attributed to the value Europeans place on healthy eating, food traceability, and fisheries sustainability.

MINERALS

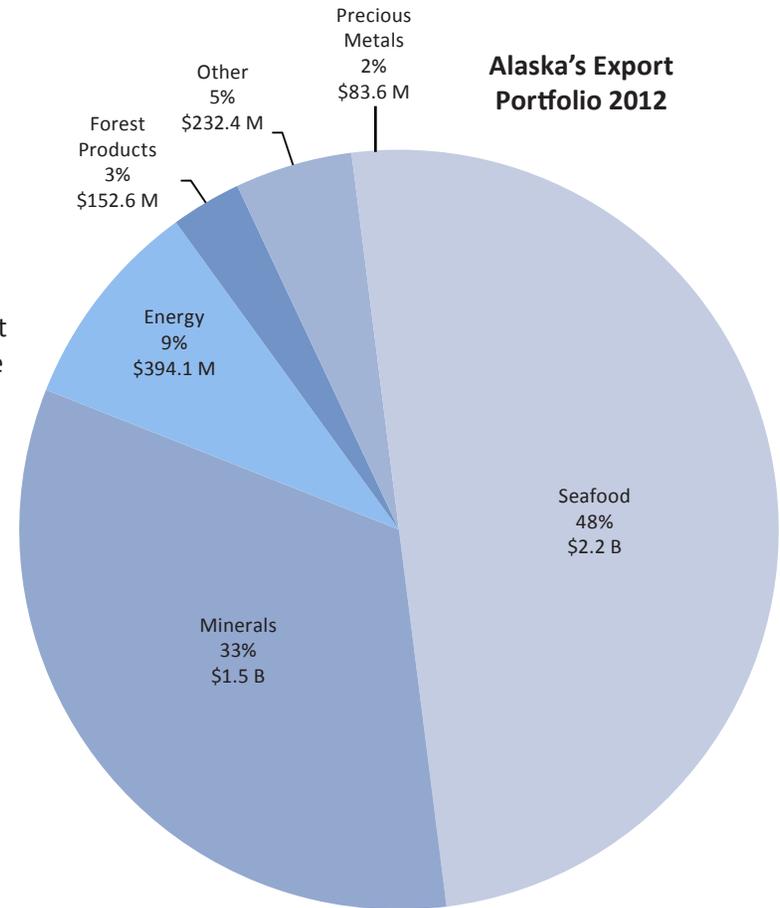
The value of Alaska's mineral ore exports totaled \$1.5 billion in 2012. Zinc prices have fluctuated greatly during the past seven years, driving up value for Alaska's zinc and lead ore exports, which account for the majority of mineral export value.

Copper ores mined in Canada and exported via the Port of Skagway accounted for \$169.5 million of the \$1.5 billion.

Red Dog Mine, in Northwest Alaska, is the largest zinc mine in the nation and accounts for 79 percent of domestic zinc production. Globally, it is the second largest zinc mine in the world and represents five percent of world zinc production. Alaska's 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 Canada, Japan, Korea, Spain, and Australia.

ENERGY

Pacific Rim countries and Canada have traditionally been key markets for Alaska's energy exports. The 2012 combined value of Alaska's energy exports including liquefied natural gas (LNG), refined petroleum products, and coal, totaled \$355.5 million. The value of Alaska's LNG exports to Japan in 2012 totaled \$144.9 million. Notably, Alaska's LNG plant on Kenai Peninsula was idle during the fall of 2012; however, exploration for additional Cook Inlet oil and gas is underway. Coal exports totaled \$30.6 million, with major shipments to Chile and South Korea.



PRECIOUS METALS

The value of Alaska's precious metal exports totaled \$83.6 million, in primarily gold, to Switzerland and Canada. Switzerland is the major long-time international market for the state's gold export.

FOREST PRODUCTS

Alaska's 2012 export of forest products grew 28 percent to \$152.6 million. China is the largest recipient of Alaska's timber, followed by Japan, Korea, Taiwan, and Canada.

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 headquartered 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 recently commissioned by the Consulate of Canada in Anchorage indicates 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 transferring 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 while introducing Alaska to thousands of visitors. In 2012, Alaska enjoyed a second consecutive year of seasonal air service to the Russian FarEast via AirRussia operating Yakutia Air aircraft.

Japan Airlines continued its winter passenger charter service from Tokyo to Fairbanks, centered on tour packages that highlight northern climate visitor activities, including aurora borealis viewing.

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, Germany. Condor's seasonal passenger service celebrated 20 years of service to Alaska during 2012.



Top 20 Export Markets

Country	Percent	2011 – 2012 Percent Change
China	29%	-9%
Japan	17%	-27%
South Korea	15%	8%
Canada	10%	-21%
Germany	6%	5%
Spain	3%	-26%
Singapore	3%	1,137%
Netherlands	3%	-30%
Australia	2%	12%
Belgium	1%	88%
Switzerland	1%	-77%
Finland	1%	-25%
France	1%	-23%
Brazil	1%	1,926%
Portugal	1%	4%
Mexico	1%	-62%
United Kingdom	1%	36%
Ukraine	1%	19%
Chile	< 1%	-2%
Taiwan	< 1%	-15%
Other	3%	NA
Total	100%	NA

During 2012, Alaska's manufacturing gross domestic product (GDP) totaled nearly \$1.7 billion with \$206 million in durable goods and \$1.5 billion in non-durable goods. This figure represents less than one percent (.09) of the nation's total manufacturing GDP, estimated at \$1.8 trillion for 2012. Among all states, Alaska continues to rank 49th in terms of manufacturing as a percent of total state GDP.

Despite Alaska's relatively low numbers compared to other states, its manufacturing sector continues to show strong growth in recent years. From 2011 to 2012, Alaska's manufacturing sector grew eight percent. Notably, more than 80 percent of Alaska's manufacturing activities are related to food production (primarily seafood) and petroleum manufacturing.

2012 Manufacturing Indicators

Gross Domestic Product
\$1.67 Billion

Gross Domestic Product Rank
49th

Top Manufacturing Sector by Gross Domestic Product
Petroleum

Top Manufacturing Sector by Jobs
Food and Beverage



2012 Top Five/Bottom Five States by Manufacturing GDP

States	Rank	Manufacturing GDP Total Value [millions]	Percent of Total US Manufacturing GDP
California	1	\$213,257	11.42%
Texas	2	\$210,968	11.30%
Illinois	3	\$92,382	4.95%
North Carolina	4	\$88,252	4.73%
Ohio	5	\$87,174	4.67%
North Dakota	46	\$3,037	0.16%
Montana	47	\$2,860	0.15%
Wyoming	48	\$2,269	0.12%
Alaska	49	\$1,671	0.09%
Hawaii	50	\$1,274	0.07%

2002 – 2012: Manufacturing Gross State Product

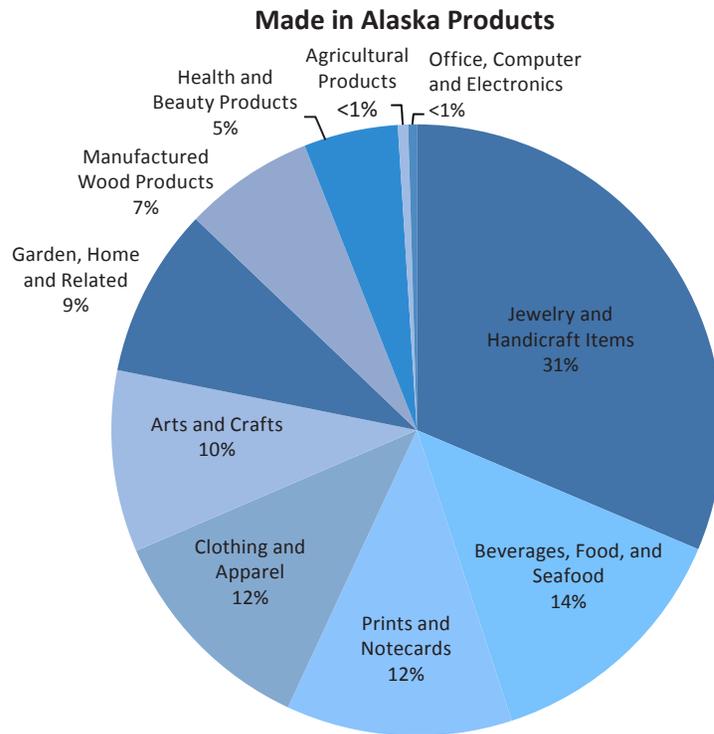


MADE IN ALASKA PROGRAM



The Made in Alaska Program provides marketing support for Alaska's manufactured goods through the mother bear and cub emblem indicating the product is locally manufactured. Only products manufactured 51 percent or more in Alaska qualify for Made in Alaska certification and are eligible to display the emblem. The emblem is used on a wide variety of products ranging from consumables to handicrafts to industrial building supplies.

The Made in Alaska Program provides marketing support for Alaska's manufactured goods through the mother bear and cub emblem indicating the product is locally manufactured.



Owners and employees of Denali Dreams, photo courtesy Denali Dreams

During 2012, over 1,000 Alaska businesses with annual sales estimated at over \$133 million used the Made in Alaska emblem on 1,196 permitted products. Made in Alaska-certified products include both durable (83%) and nondurable (17%) goods spanning 56 product-type categories. Top durable goods include jewelry, handcrafted items, wood products, Alaska prints and notecards, and clothing and apparel. Top non-durable goods include beverages/food/seafood products, body care products, pet food and supplies, coffee roasting, and agricultural products.

SPOTLIGHT

Denali Dreams Soap Company

Denali Dreams Soap Company of Anchorage, winner of the 2012 Made in Alaska Manufacturer of the Year, is an example of what two stay-at-home moms wanting to make a little extra money can do in their home kitchens. Barbara Marsh and Janie Taylor founded the Denali Dreams Soap Company during 1997 with an inaugural production of six soap varieties totaling 1,600 total bars. Over the course of nearly 15 years, Denali Dreams has grown in annual production to 30 soap varieties and 60,000 total soap bars. Quickly outgrowing their small home kitchen with two employees, Denali Dreams Soap Company now employs six people and operates out of a larger commercial factory to fulfill the Denali Dreams mission: *To create and manufacture all natural soap and body products that are good for the skin...and have some fun!*

2012 Manufacturing Sector Earned Wages

Sector	Million	Percent
Food and Beverage	\$376.4	68%
Petroleum and Coal Products	\$46.2	8%
Fabricated Metal Products	\$31.2	6%
Transportation Equipment	\$21.5	4%
Nonmetallic Mineral Products	\$15.3	3%
Printing and Support Activities	\$12.0	2%
Computer and Electronic Products	\$9.8	2%
Wood Products	\$6.3	1%
Miscellaneous	\$5.7	1%
Machinery	\$4.9	1%
Plastics and Rubber Products	\$4.5	1%
Furniture and Related Products	\$4.0	1%
Chemicals	\$2.8	1%
Textile Products	\$2.5	< 0%
Primary Metals	\$1.0	< 0%
Electrical Equipment and Appliances	\$0.8	< 0%
Total	\$544.90	100%

Alaska's diverse and distinct landscapes offer unparalleled locations for a wide variety of film productions. The last frontier's majestic mountains, exotic glaciers, and charismatic wildlife continue to captivate tourists and productions alike, but producers are starting to see Alaska's cities, towns, and villages as fresh locations with a unique twist on American life. Domestic and international audiences are also fascinated by rural Alaska lifestyles and non-fiction television offers a steady stream of Alaska fare that shows no sign of tiring.

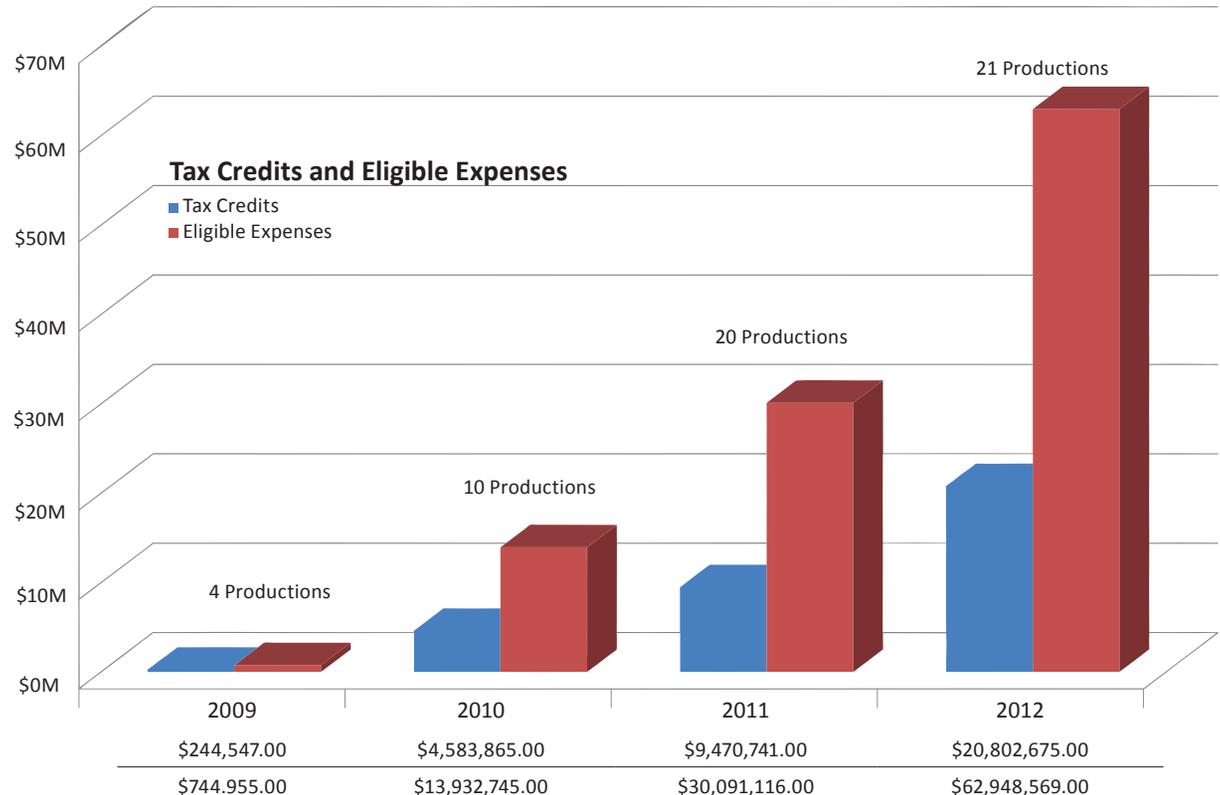
The scripted film and television industry continues to produce projects about Alaska, but all too often actual production occurs elsewhere. The State of Alaska's Film Production Incentive Program is changing the landscape of film production and a new Alaska industry is growing to serve the needs of incoming large-scale productions and smaller home-grown Alaska projects.

HISTORICAL PERSPECTIVE

During the 1980s and 1990s, the State of Alaska Film Office promoted Alaska as a location for filming. Several well-known 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 incentive program to encourage production within the province. The dramatic growth in British Columbia's film industry is directly linked to federal and provincial incentives developed and implemented during the 1990s.

ALASKA'S FILM INCENTIVE PROGRAM

During 2008, the Alaska State Legislature reestablished the Alaska Film Office within the Alaska Department of Commerce, Community, and Economic Development. Following 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 Certified Public Accountant (CPA) verified, qualifying expenditures. In turn, producers sell the tax credit to businesses with an existing Alaska corporate income tax liability. During 2013, the Alaska State Legislature further amended the film incentive program by increasing the tax credit to 58 percent and moving the program to the Alaska Department of Revenue.



The State of Alaska's film incentive process starts when producers submit pre-qualification paperwork. Producers began qualifying for the film incentive program in late 2008. From 2008 to 2012, 106 productions qualified including two in 2008, nine in 2009, 25 in 2010, 33 in 2011, and 37 in 2012.

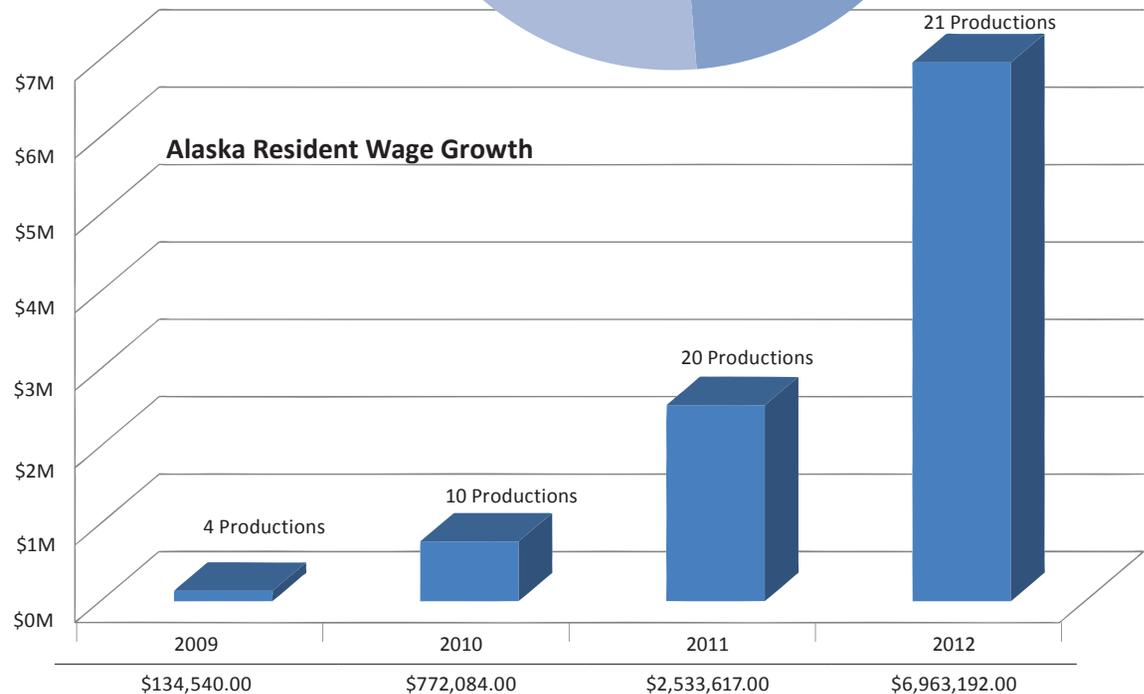
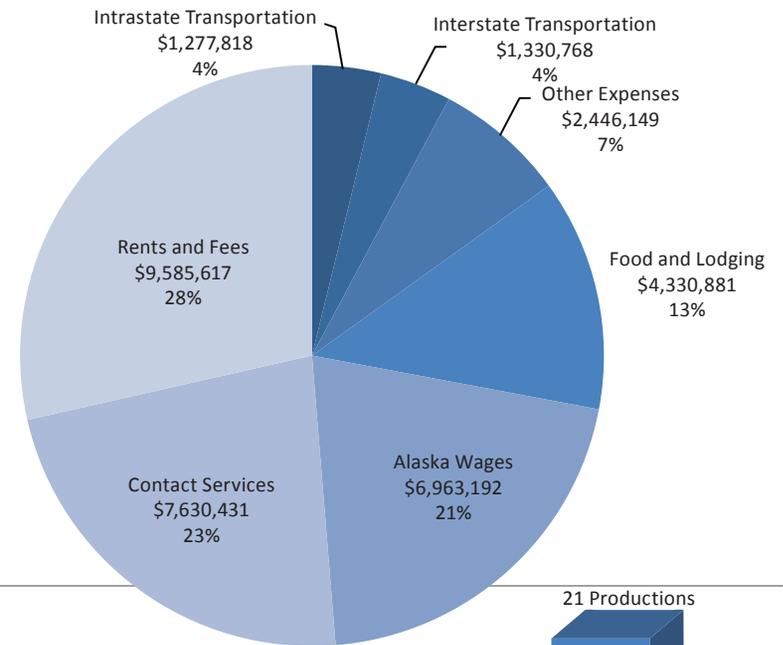
Projects are evaluated for their estimated value to Alaska's economy; productions are required to illustrate positive net economic value and their tax credit must not exceed their direct contribution to Alaska's economy. Once qualified, productions have 24 months of expense eligibility. When production is complete, producers submit final application paperwork. Under the State of Alaska's film incentive program, an independent verification of all claimed expenses by an Alaska-licensed Certified Public Accountant (CPA) is required and ensures only expenditures that meet statutory eligibility criteria are incentivized.

The first tax credits under Alaska's incentive program were approved in 2009 with four productions receiving a total of \$244,500 in tax credits based on eligible expenses of \$744,900. 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 based on \$30.0 million in eligible spending. In 2012, tax credits increased to almost \$20.8 million based on \$62.9 million in expenditures. Of 2012 eligible spending, almost half (\$33.5 million), directly impacted the Alaska economy. The balance included compensation paid to non-residents – particularly well-known actors appearing in major productions including *Big Miracle* and *The Frozen Ground*, both recipients of tax credits in 2012.

PUTTING ALASKANS TO WORK

One of the major goals of Alaska's film incentive program is to develop new jobs for Alaskans – and the program is working. During 2009, tax credit applications documented 49 Alaska jobs. In 2010, Alaska jobs doubled to 100; 2011 yielded 573 Alaska jobs. During 2012, Alaska jobs dropped to 416; however, those jobs experienced a substantial increase in earnings. 2011 wages paid to Alaska residents totaled \$2.5 million, but in 2012 fewer workers earned over \$6.9 million – representing an astonishing 300 percent income growth.

2012 Production Spending by Category



Alaska resident wages account for 21 percent of Alaska production spending, and those were only the direct wages paid by productions. Notably, contract services and the jobs those contractors represent added another \$7.6 million to total production spending.

SPREADING THE WEALTH

Production spending impacts multiple segments of Alaska's economy, and the indirect or multiplier effects of production spending reverberate throughout transportation, hospitality, construction, and other economic sectors.

The hospitality sector, in particular, provides a dramatic illustration of the value of production spending for Alaska's economic well-being. The two largest films shot under the film incentive program to date, *Big Miracle* and *The Frozen Ground*, spent a combined total of over \$3.1 million on food and lodging, most of which occurred in Anchorage during October and November, resulting in a welcomed boost for a highly-seasonal accommodations industry.

Production spending occurs across Alaska, in communities large and small. Often small communities that serve as the location or base-camp for non-fiction television experience a significant economic boost when productions come to town. Even a small production team can stimulate the local economy as the community accommodates production cast and crew. The community may also realize long-term benefits to tourism as the community is showcased to a national audience hungry to experience life in Alaska.

2012* Film Production Tax Credit Recipients

Title	Company	Type	Total Tax Credit	Total Eligible Expenditures	Tax Credit Percentage
Wild Alaska	Red Rock Films	Documentary	\$38,812	\$124,002	31%
2112	Standard Films	Feature Film	\$44,100	\$146,340	30%
Ice Jumpers	Saint Thomas Productions	Documentary	\$71,624	\$238,748	30%
Iditarod 2011: Dream Chaser	Iditarod Trail Committee	Documentary	\$72,568	\$214,788	34%
The 2012 Iditarod Race Documentary	Iditarod Trail Committee	Documentary	\$75,557	\$222,670	34%
Alaska State Troopers, Season 3	PSG Motion Pictures	Non-Fiction Television	\$79,417	\$254,775	31%
Icebound	API Arts and Outreach	Documentary	\$86,210	\$243,501	35%
Art of Flight	Brain Farm Cinema	Feature Film	\$87,057	\$289,917	30%
Ax Men, Season 4	Original Productions	Non-Fiction Television	\$104,516	\$329,677	32%
Homer: Before the Freeze	Discovery Studios	Non-Fiction Television	\$106,217	\$331,916	32%
The Dream Factory	Teton Gravity Research	Feature Film	\$148,010	\$478,276	31%
Mounted, Season 1	Thinkfactory Media	Non-Fiction Television	\$292,381	\$922,496	32%
Bering Sea Gold Rush, Season 1	Original Productions	Non-Fiction Television	\$322,732	\$984,157	33%
Bristol Palin: Life's a Tripp	Helping Hands	Non-Fiction Television	\$354,349	\$995,276	36%
Ice Road Truckers, Season 6	Original Productions	Non-Fiction Television	\$419,125	\$1,255,028	33%
Deadliest Catch, Season 8	Original Productions	Non-Fiction Television	\$690,882	\$2,037,093	34%
Walking With Dinosaurs	Cretaceous Films	Feature Film	\$1,666,271	\$5,209,495	32%
The Frozen Ground	Georgia Film Fund Five	Feature Film	\$6,257,139	\$19,200,749	33%
Big Miracle	Icebreaker Films	Feature Film	\$9,635,706	\$29,469,665	33%
Average			\$1,081,720	\$3,313,083	32%

* Spending and jobs data in this report is based on information provided by productions on their final applications for tax credits under the film production incentive program. Actual production activity may have occurred up to 24 months prior to the projects' tax credit application.

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