



Skagway Development Corporation

2005 Annual Report

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Contents

■ Mission and Goals.....	2
■ From the President.....	3
■ From the Executive Director.....	4
■ Administration and Organization.....	7
■ Organizational Chart.....	10
■ Board of Directors & Resumes.....	12
■ Partnerships and Collaborations.....	16
■ Grant Activity.....	17
■ Business and Economic Development.....	18
■ SDC – Community Development Services.....	33
■ Skagway Mailing Center.....	37
■ Financial Report.....	39

MISSION AND GOALS

Mission

SDC endeavors to enhance and diversify the year round economy of Skagway Alaska. Furthermore, SDC maintains that the quality of life for the residents of Skagway should be fundamentally improved by its work.

What Does SDC Do?

The Skagway Development Corporation serves the business community of Skagway as an advisory, administrative, and technical resource for the purpose of creating ideas and developing initiatives that allow the year-round economy of Skagway to grow and develop into a sustainable process that creates wealth for the community at large.

How Can SDC Help?

The Corporation has become an effective economic planning and development organization. SDC is known as the organization, in Skagway, to seek out when you want to start a business, expand an existing business, or desire assistance in writing business plans, exploring alternative financing options, site selection, developing marketing strategies, and with writing grant proposals.

Goals

To create an effective team approach for economic growth and expansion that targets the needs of the community.

This is accomplished by utilizing a multi-faceted approach to economic development. This approach allows the Board and staff to draw from a wide range of tools and allows for greater success. Some of these facets include:

- marketing the community, its facilities, and assets;
- assisting the business community with its funding needs;
- encouraging the development of local entrepreneurial capital;
- actively recruiting firms and helping them to make informed business location decisions;
- advocating on behalf of the business community and its individual members;
- creating an environment which cultivates and nurtures the entrepreneurial spirit; and
- providing the technical assistance that the business community requires to enhance and expand the existing business base.

FROM THE PRESIDENT

We are pleased to present the SDC Annual Report for 2005. This overview of our 4th year of operation includes an update of our ongoing projects, as well as a look at new ventures SDC has launched. Our mission to enhance the year round economy and quality of life in Skagway continues to be our road map.

The members of our diverse Board of Directors continue to volunteer countless hours of participation, a wealth of business knowledge, and an abundance of energy and enthusiasm. The direction of SDC is clear and deliberate. The need for the many services SDC provides increases each year and our partnership with the City of Skagway has produced results.

SDC's new business venture in 2005, the Skagway Mailing Center, will continue operations in 2006. This up-and-coming business provides a service to cruise ship passengers and crew, local merchants, and local residents. Our program to train and mentor local high school students who are interested in business was implemented with the onset of the Mailing Center's operations. The elementary classroom project "Junior Achievement" was implemented by SDC to foster an interest in business education with younger students. Hopefully, this will continue on to "real world" business experience as employees of the Mailing Center.

SDC will continue to be a driving force in 2006. Through the efforts of our executive director, Mike Catsi, SDC has become recognized around the state as a driving force in Skagway and Southeast Alaska. As the prospects of attracting major energy-related industries and activities to Skagway intensify, the role of SDC will become even more clear and defined. We look forward to the challenges.

Stuart Brown

FROM THE EXECUTIVE DIRECTOR

The long term vision of SDC for itself and Skagway continues to evolve and move towards fulfillment. In 2005 much of SDC's time and collective energy was spent addressing the question of sustainable funding. The City of Skagway, the major benefactor to SDC, has set a mandate on the corporation to avail itself of other sources of funding. With SDC being a non-profit and an organization that produces results not products this mandate creates a logistical dilemma because of the lack of operating funds available either through grants or donations.

The board and staff met weekly in the early part of the year and developed a business concept and plan that they felt would provide a vehicle to sustainable funding. The idea of the Skagway Mailing Center was created and put into action for the 2005 summer tourist season. As with any start-up business profits and viability are often not determined in the first year and often not till much later. The mailing center was a previously untried service and its performance showed that it filled a niche that is sorely needed in Skagway.

The mailing center will over time become more efficient, diversified, and profit oriented as the service continues to establish itself. The business model was successful and with a change in location for the 2006 season, sales are expected to increase significantly, especially in light of the Skagway merchants' general desire to be out of the shipping business. 2006 will see a dramatic increase in the center's market share which will have a positive fiscal outcome and put the organization in a position of profit sharing with SDC in the near future.

With a lot of energy being spent on the mailing center it was difficult, over the summer, to focus on major economic and community development issues. Nevertheless a lot of headway was made and progress continues albeit in a slightly slower manner. SDC continues to develop its multi-pronged approach to economic development because our belief is that this will gain the community the most success. At any one time there may be one or more facets and strategies being utilized depending on the opportunities that arise.

SDC spent considerable energy on developing the marketing side of its overall program. To this end this year saw:

- the finalization of the Skagway Economic Inventory and Profile which was published to the web;
- the rewriting of the Port of Skagway brochure so that it looked professional, contained comprehensive information, and reflected the current state of the port and its facilities; and

- the targeting of seafood, mining, and other resource companies and organizations by sending them the new port brochures and a conceptualized distribution chain that involves exports to Germany and Asia of different resources.

I was fortunate to attend an economic development course at the University of Arizona early in the year. This was a very beneficial experience as it broadened my knowledge of the tools available for economic development many of which were new to me. This has expanded my horizon when looking at different strategies and program developments that can assist in our work. This will help in developing our truly comprehensive economic development program and will ensure that all elements of the core disciplines and tools will be incorporated. I hope to be able to complete further studies to increase the effectiveness of the SDC program.

Some of the successes that accrued to SDC in 2005 include:

- The Revolving Loan Fund which proved to be an reliable performer in allowing businesses to expand and move towards sustainability;
- The Board which continues to be fully committed and engaged in the corporation's program and work. This is a very hard working board and new members will be sought to spread the load more evenly;
- The SDC website was expanded and modified to make navigation easier. This has helped to increase the site's visitation rates;
- Completion of the restoration of the AB Hall façade;
- The corporation moved closer to developing a sustainable source of revenue to supplement the administrative grant from the City of Skagway;
- The business development and assistance program continuing to become more effective in the assistance that it provides;
- As SDC increases its exposure to statewide institutions and agencies its influence is reaching all corners of the state. SDC is slowly becoming a leader in economic development programming throughout Alaska. Our grassroots approach is drawing lots of attention and questions regarding how we accomplish our goals;
- Updating the Port of Skagway brochure and marketing it to relevant companies and organizations;
- Finalizing and publishing the Skagway Economic Inventory and Profile;
- Attending the economic development course in Tucson, Arizona was a significant event and has helped to further refine our approach to tackling economic development; and
- SDC-Community Development Services continues to provide a meaningful service to local community organizations and events.

Some of the frustrations that the organization felt during 2005 include:

- SDC continues to have no results in its attempts to increase the size of its Revolving Loan Fund from government sources. This has meant that many of our clients were sent outside the community to other funding sources because SDC could not accommodate their needs. Not having a match for these fund requests is a major problem as is our demographic make up and economy; and
- Understaffing continues to hamper our activities but this will not be resolved until further funding is identified and secured.

SDC has a long and successful future in front of it. The corporation, as it grows and becomes more complex, will require more staffing which will result in an increase in output each year and successes in more areas. The upshot of this continued growth indicates that the course SDC has chosen is working and is creating positive results. This kind of work is never done but the feeling that you are making positive headway makes going to work each day a pleasure.

Michael Catsi

ADMINISTRATION AND ORGANIZATION

Success begets success. This old adage goes a long way to describing current efforts at SDC and SDC-CDS. 2005 has brought with it a significant increase in activity and work load because of the increasing program responsibilities that these two organizations have assumed. These increases have also been the result of the expansion of the corporation's tools, resources, and responsibilities that have been applied towards increasing the "toolbox" that is at our disposal. As the corporation matures this range of activities has increased to continue meeting community needs and to fill the gaps in development services.

The corporation continues to fund its operations through a generous administrative grant awarded each year from the City of Skagway. The City continues to be a partner and collaborator in SDC's efforts to enhance and diversify the year round economy. The efforts by the City and its officials, working with SDC and in other official capacities, to implement an efficient and effective development program have added considerable breadth to the community's economic potential. This collaboration ensures that ideas, conceptual plans, and leads are evaluated on more than one level and from different perspectives.

Sustainable Funding Strategy

The City's mandate that the corporation access alternative funding sources to supplement funds given by the City has been somewhat successful in terms of identifying a mechanism for those funds. The board met weekly over the winter of 2004-05 to identify and develop a for-profit subsidiary that would, given reasonable start-up time, produce results that would significantly increase SDC's contribution to its own operating revenues.

The Skagway Mailing Center is the mechanism by which these funds will be realized. After a shaky start to the 2005 summer season where everything that could go wrong did, the season ended on a bright note. Although no dividends were realized, which is not unusual for a start-up enterprise in its first year, the mailing center filled a distinct niche in the Skagway market. This will increase as its service base expands and it achieves the efficiencies that will lower its operating costs. This initial success has led to the center moving its operations to a cheaper, larger, more centrally located store front, with higher foot traffic numbers, as well as accessibility.

The corporation utilized and leveraged its own funds for the development of the mailing center and has not used City monies to fund start-up. This has always been an important goal for the staff and board that whatever business venture SDC started, it had to fund its own start-up costs. This has been achieved and it is

expected that the mailing center will begin paying dividends in the near future.

Board of Directors

This year the Board continued with its weekly work sessions during the winter months; both at the beginning and at the end of the year. These meetings are where the nuts and bolts of SDC's work are discussed and work plans developed. The board's commitment to these meetings as well as the corporation's mission is to be commended and has enabled the staff to focus efforts on what is important and effective. The board's breadth of experience is an asset not only to the corporation but to the community as a whole.

There are efforts to increase the size of the board because the workload on individual board members is becoming overwhelming. The search for suitably qualified individuals has been an ongoing process but because of the workload of many people and their current voluntary commitments new recruits are difficult to find. There will be an increase in board members in 2006 as there are already commitments in place. This will relieve the current directors and enable more work to be accomplished more efficiently.

The organization continues to grow in complexity and with that goes the increase in the administrative and regulatory requirements that need to be met. This is all still being done with a staff of two employees: one full-time and one part-time. There have been no increases in staff levels because the board believes that until SDC finds the additional funding for any such expansion it will continue to work within the bare bones budget that it has established. This budgetary restraint also applies to buying new and additional equipment, expanding training opportunities, curtailing travel, and providing workshops and services that require expenditures above the basic operating threshold.

Board Retreat

The 2005 Retreat was held in Whitehorse over a one and a half day period. Most of the time was spent in work and planning sessions which culminated in the basic outline for the 2005 work plan. Going into retreat away from family and responsibilities allows for the level of focus required to accomplish so much over such a short time frame. By scheduling these events in January it better accommodates people's work and vacation schedules – freeing people's minds for the task at hand. This continues to be an effective means of planning and program development and is one of the reasons that SDC has succeeded in achieving its goals.

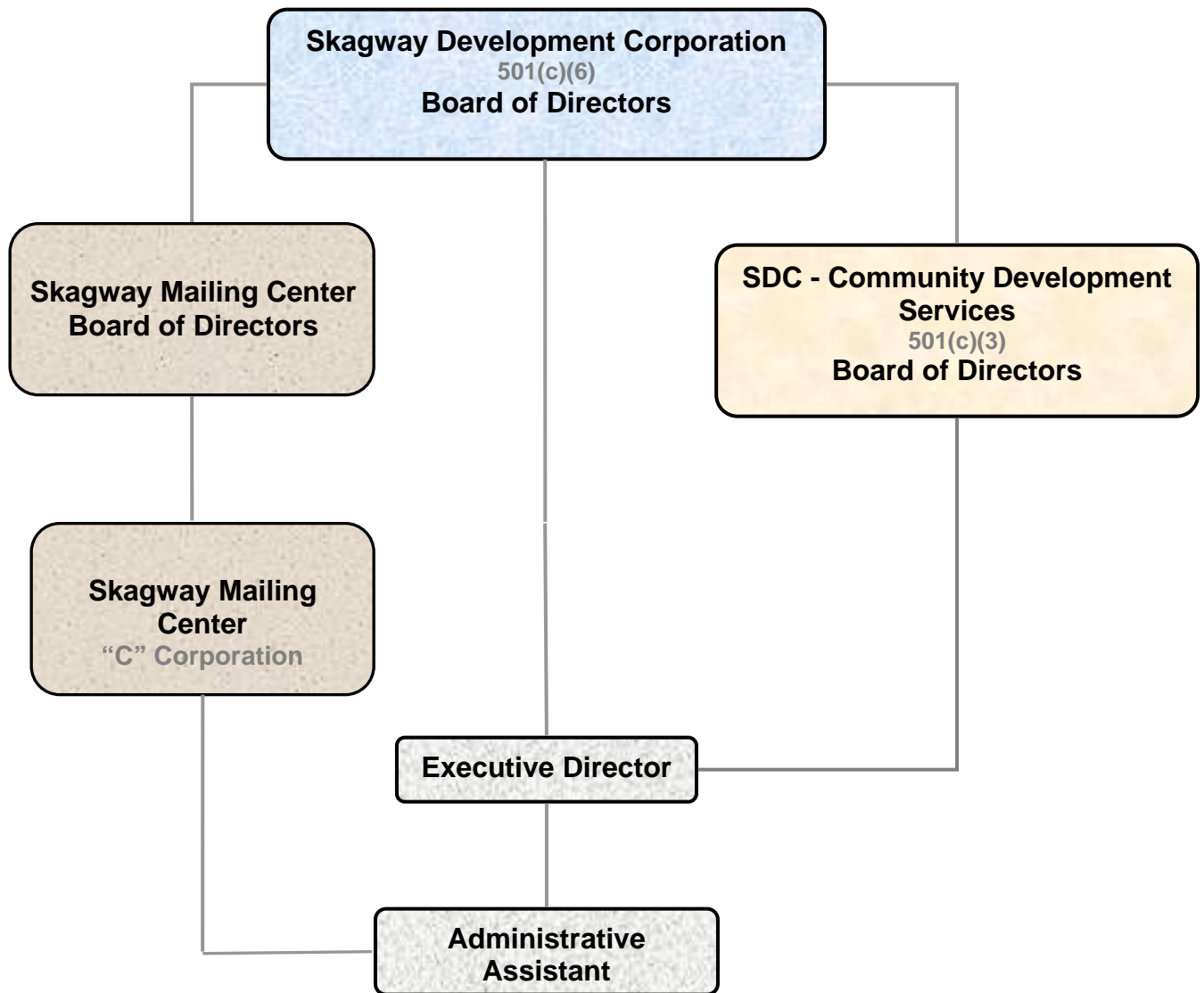
Training

The Executive Director attended the University of Arizona in February for a week long economic development course sponsored by the International Economic Development Council. These courses make up a professional development program that leads to an individual becoming a certified Economic Developer (CEcD). This course was a five day intensive in a broad range of development areas and a lot was learned of the different tools and programs available to a development program. Much of the information gleaned has already been of great help and we will continue to build upon this knowledge.

“Quality economic development programs are nothing if they are not consistent. The best programs have very little board or staff turn-over, and are tenacious in remaining focused on the task at hand.”

International Economic Development Council

**Organizational Chart for
Skagway Development Corporation & Subsidiaries**



**Skagway Development Corporation
Board of Directors**

President – Stuart Brown
Vice-President – Lynn Herbig
Secretary – Kristin Wilkinson
Treasurer – Curt Dodd
Member-at-Large – Jim Jewell
Member-at-Large – Nola Cole

**SDC – Community Development Services
Board of Directors**

SDC Board of Directors
Member-at-Large – John Warder

Executive Director
Michael Catsi

Administrative Assistant
Angelia Cremata

**Skagway Mailing Center
Board of Directors**

President – Kristin Wilkinson
Vice President – Michael Catsi
Secretary/Treasurer – Molly Adams

Store Manager
Mark Lohnes

BOARD OF DIRECTORS' RESUMES

PRESIDENT: Stuart Brown
Managing Partner: S.M.A.R.T.

Stuart's first season in Skagway was in 1997. He and his wife joined his father-in-law in the independent shuttle and tour business. After owning and operating Eagle Tour Co. of Skagway and Leo's Shuttle Co., the three partners were successful in their bid for the City of Skagway's transit contract. They now operate the S.M.A.R.T. city transit. Stuart was a member of the City's Economic Development commission in 2000-01.

Prior to coming to Skagway, he had experience in business ownership and management, including a marketing position with Mountain Bell, and as the general manager of a major Montana Chamber of Commerce. He was co-founder and member of the Northcentral Montana Small Business Development Center, Hi-Line Service Corps of Retired Executives (SCORE), the Taskforce for Urban Reforestation (TURF), and the Ft. Assiniboine Preservation Association; all non-profit organizations.

Stuart has experience in grant writing ranging from a small business revolving loan program to a community wide effort to build a veteran's nursing home. He also has experience as a small business consultant, as well as legislative lobbying in the areas of business and community development, transportation, education and military affairs.

VICE-PRESIDENT Lynn Herbig
Port Agent: Cruise Line Services

Lynn has lived in Skagway since 1988. She worked for TEMSCO Helicopters, Inc for 12 years; starting as a dock representative involved in public relations with the cruise ship representatives and the passengers; ending as tour manager responsible for all dock operations. Lynn worked for two years as a caregiver for the Little Dippers Day Care and also served as an officer for eight years of the Skagway Child Care Council. Lynn is employed by Cruise Line Agencies as a Port Agent coordinating operations between the cruise ships and the port facilities.

She is currently Past Madam President of the Eagles Auxiliary after serving two years as President. She is past Chairwoman of the *Fran DeLisle Breast Cancer Fund*, an organization established to help financially the citizens of Skagway

diagnosed with cancer. Lynn's marketing and management skills, as well as her community involvement are valuable assets in SDC's efforts to encourage new year round businesses in Skagway. Lynn has previously served on the Board of Directors for the Skagway Chamber of Commerce.

TREASURER: **Curt Dodd CPA**
CFO: White Pass & Yukon Route Railroad

Curt arrived in Skagway in January 1995 and has been working for WP&YR Railroad as their Chief Financial Officer since then. In this role he has had the opportunity to learn about tourism and more specifically the cruise industry and its impact on Skagway. Furthermore, he has been involved in many business management decisions affecting the operations of the railroad in the promotion of growth and expansion. Prior to coming to Skagway he worked in other positions which developed his skills in management and business and include Director of Administration and Finance for a non-profit in Barrow, Alaska, General Manager for an ANSCA corporation on the North Slope, and he worked for a public accounting firm in Anchorage serving a host of diversified clients.

Curt graduated from the University of Alaska Fairbanks in 1987 with a Bachelors degree in Business Administration. Curt's experience in business and administration, especially while working for non-profit organizations where he was instrumental in writing small grants and assisting with larger grants is of great benefit to the Skagway Development Corporation. Curt was certified as a CPA in 2005.

SECRETARY: **Kristin Wilkinson**
Interim Tourism Director – City of Skagway

Kristin first came to Skagway in 1993 and worked for 2 years as a seasonal employee for Holland America Line on board the M/V Fairweather. She graduated in 1994 with degrees in Psychology and Social Work from Miami University. In 1995 she began working for the White Pass & Yukon Route Railway as a tour guide and ticket agent. In 1997 when the Railroad expanded their retail operations she was hired as the Retail Manager. She continued in this position until 2002 while she pursued and completed her Masters in Business Administration from Seattle University. Kristin was most recently the Tour Operations Manager for the Red Onion Saloon and Liarsville Gold Rush Trail Camp. Kristin is currently serving as the Interim-Tourism Director for Skagway.

Kristin feels that her business experience combined with her interests in working with the business and local community will help towards the strengthening of Skagway's growing and changing economy.

MEMBER-AT-LARGE: Nola Cole
Owner: Dirty Girls Gardening

Nola first came to Skagway in the summer of 1980 and returned in 1981 and 1982, after which Nola decided to stay in Skagway year around. In 1983, she purchased the "Popcorn Wagon", a Skagway landmark, and operated that business successfully until she sold it in 1986. Nola used the proceeds from that sale and purchased the historic City Library building. In 1989, Nola opened her retail store "Mabel G. Smith's" on a part time basis. In 1992, she expanded her store to include an espresso and bakery counter, and opened on a full-time basis. She ran the business successfully for 9 more years until she sold it in 2000.

After taking one year off, Nola went to work at Go-Go Greenhouse where she worked two seasons. In 2004 she purchased the business, renaming it Dirty Girls Gardening. Nola's success as a businesswoman and experience in different sectors of the Skagway economy makes her a valuable asset to the Board.

MEMBER-AT-LARGE Jim Jewell
Owner: Jewell Construction

Jim has been a long time resident of Skagway working for almost 30 years in the construction industry. Jim is the owner operator of Jewell Construction and has been active in both the commercial and residential construction market. Jim originally came to Skagway to work on the National Park Service's restoration crew in their historic buildings restoration program. Jim and his wife also own several commercial and residential buildings which they lease and are also owners of Jewell Gardens which is a popular tourist stop for visitors to Skagway.

MEMBER-AT-LARGE (CDS): John Warder
Retired: National Park Service (Chief of Maintenance) and Dahl Memorial Clinic (Board Member)

John has lived in Skagway for more than 20 years and recently retired from the National Park Service. John was the Chief of Maintenance and has extensive

experience with budget development, project management and organizational administration. John is currently very busy working on his home and becoming involved in community organizations. John's work on the Dahl Memorial Clinic Board of Directors (Vice President) has been appreciated by the Clinic, Board members, and the City Council.

EXECUTIVE DIRECTOR Michael Catsi

Michael first came to Skagway in 1990 and has experienced work in all of the economic sectors Skagway has to offer. His previous position with a local non-profit allowed him to gain experience in project development and management, grant writing and first hand experience in the difficulties facing non-profits. Michael's time in Skagway has been well spent networking and understanding what the community desires.

He was elected to the Skagway City Council in 2002 and is very involved in the community's affairs. Michael's interest in economic development led him to become involved in the Alaska Municipal League's Legislative Committee where he is currently the Co-Chair and was until recently the Co-Chair of the sub-committee on Land Use, Resources, and Economic Development.

MEMBERSHIPS

- Skagway Chamber of Commerce
- Foraker Group

PARTNERSHIPS AND COLLABORATIONS

- City of Skagway
- Skagway City School
- Dahl Memorial Clinic, Skagway
- Juneau Economic Development Council (JEDC)
- Alaska-Canada Railroad Feasibility Study Workgroup
- Yukon Territory Government, Department of Economic Development
- Yukon Territory Government, Port Access Study Group
- Sirolli Institute
- Alaska InvestNet
- Sitka Business Resource Center
- Alaska Small Business Development Center, Juneau.
- Junior Achievement, Alaska
- Stranded Gas Development Act – Municipal Advisory Group
- Alaska Economic Development Group
- Haines Sanitation Inc.
- SEATrails
- Skagway Yuletide Committee
- Heartbeat Trail

GRANT ACTIVITY - 2005

SDC had few real successes with grants in 2005 not only with those that were actually submitted but with finding suitable projects that would meet the requirements of the grants we were likely to be awarded. Several grants were looked at for people but all decided that they would wait for a more suitable time. SDC assisted the Skagway Child Care Council in writing a grant which was successful in being awarded \$1500 from the \$3000 grant application.

SDC is continually looking for grants that will meet community needs and also looking for community needs that may be met by existing grants. This is becoming more difficult as money continues to tighten up and criteria become more stringent. One hopeful possibility will be the Denali Commission's Denali Access Program which has \$60m for rural roads, and \$40m for waterfront development earmarked for the next five years. Other hopeful sources also include the Denali Solid Waste grants, and the State of Alaska's Mini-Grant, and Recreational Trail Grants programs.

Grant Title	Written For	Amount Requested (\$)	Date Submitted	Status
USDA Intermediary Re-Lending Program	SDC	150,000	12/31/2003 Resubmitted May 25, 2005	Denied
Alaska Association for Historic Preservation	City of Skagway	5,000	March 30, 2005	Denied
2006 Recreational Trails Grant	City of Skagway	3,607	Dec 1, 2005	Awarded Feb 2006
Alaska Marine Highway System	Yuletide Committee	548	Aug 31, 2005	Awarded

BUSINESS AND ECONOMIC DEVELOPMENT

As SDC becomes more integrated into the economy of the community it is developing more sophisticated tools to better understand the current trends that are influencing Skagway's economics. This has resulted in the compilation of a number of economic indicators and their trends over the past 5-7 years. A greater understanding of the trends will allow not only SDC but anyone interested in analyzing Skagway's economy and economic future a better class of tools to garner meaningful results.

These indicators, when looked at as a whole, paint a very positive picture of where the community has been and where it is heading. Winter employment numbers were a pleasant surprise, because anecdotally it is one area where the community perceives that those numbers are decreasing and that Skagway is a dying community. This is not at all indicated in those numbers and the trends which have shown significant increases in winter employment since 2000.

Other indicators include sales tax receipts and revenues, property tax assessments, new construction permits and values, personal income and earnings etc. Most, if not all, show signs of increasing over the five to seven years although school enrollments and new construction permits have dropped. As with most things no matter what the indicators tell us if people are not informed of the level of activity occurring they will continue to believe what they want to believe. It is this concern that has led SDC to begin composing a "Trends" brochure for distribution so that the community can better understand what is actually going on.

Another area of concern for SDC was the need for a comprehensive economic inventory and profile of the community as a tool for site selectors and others interested in re-locating. Over the past 14 months SDC staff worked diligently to gather information and compile such as document. The Skagway Economic Inventory and Profile was completed in June 2005 and was posted on the SDC web site shortly after. This document is the first attempt at collating this much comprehensive information on Skagway for some time. The end result was very satisfactory and now provides a valuable resource to help companies make informed business location decisions. This document will be updated on a regular basis and efforts will be made to compile additional information and to improve the document's formatting.

One of the greatest challenges for SDC is how to implement a comprehensive economic development program with the limited resources at hand. This issue has led to the prioritizing of projects that can be effectively accomplished and that gain the biggest bang for the buck. Therefore projects that have a long term or broad

benefit are the ones that garner the most effort. Unfortunately, this limits the scope of the program but still achieves positive results.

The work plan that the Skagway Development Corporation has developed is one that has evolved as the organization itself has grown. The work plan utilized in 2005 reflected the needs of the community in response to the expansion of resource development in the Yukon, the imminent development of mega-infrastructure projects e.g. the Alaska-Canada and the McKenzie Valley Natural Gas pipelines, as well as the need and desire to upgrade the port infrastructure in Skagway. All of these projects have one thing in common and that is Skagway's history as the transshipment port both into and out of the Yukon.

As described previously, SDC's multi-pronged approach utilizes as many of the disciplines of economic development that are appropriate to Skagway. This approach no matter how well thought out needs to remain flexible and responsive to opportunities that arise unexpectedly. This has occurred especially in the areas of increased mining activity in the Yukon, and the regional interest in fish transportation.

Revolving Loan Fund

The Revolving Loan Fund (RLF) continues to demonstrate the need for alternative sources of business financing in Skagway. Although no additional loans were made in 2005 due to insufficient funds, SDC was approached by several people looking at securing loans for business ventures. The fund was fully dedicated for 2005 which also saw the successful closing of yet another loan. This brings the total number of loans successfully closed to three and the fund has yet to see any loans default. This record not only speaks to the professionalism and due diligence that the SDC Finance Committee screens potential borrowers but to the depth of the integrity and seriousness of the intent of our local borrowers.

Flexibility again remains the key to successful funding of high risk start-ups, especially in a highly volatile seasonal economy such as that in Skagway. While most start-ups are fortunate to be located in year round economies the businesses here in Skagway have little more than twenty weeks to find a niche, establish themselves, and generate enough revenue to fulfill their financial obligations and meet their living expenses throughout the lean winter months. To this end SDC is considering a loan payment system that would fully obligate borrowers during the summer months while eliminating their winter payments altogether.

SDC's main focus with the RLF is to work with entrepreneurs that are unable to secure business loans from regular commercial lenders. This requires that additional due diligence is conducted on each loan applicant to ensure a

reasonable amount of success. Other integral factors that are considered include: whether the business is a year round business or it is owned and operated by a year round resident, whether the business idea has a reasonable chance of success in Skagway's economy, and the borrower's credit history and rating.

SDC has made repeated attempts to secure additional funds for the RLF from the USDA Intermediary Re-Lending Program all of which have been unsuccessful. This is mainly due to the strength of Skagway's economy and "wealth" of its citizens. Skagway's demographics do not meet the critical criteria required to place our applications high on the list of priority communities. Other sources are currently being sought in different areas and some thought has been put to out of the box solutions. There is hope on the horizon but a concerted effort to fund the program is needed to make this possible.

Skagway Business Resource Center

As SDC's program of business development and assistance becomes more widely known and accepted there has been an increasing use of the services provided. People requiring assistance are feeling more comfortable with approaching the staff with business related issues because of SDC's reputation for the quality of help provided and our strict confidentiality policy. Both of which are based on our desire to provide the essential services that the business community requires at a level that it demands.

SDC's approach to assistance has always been based on the principles of "Enterprise Facilitation" developed by Ernesto Sirolli. Meetings with Sirolli in November 2004 further reinforced our commitment to modeling our assistance on this model. This model is a one-on-one approach to business development which provides free, confidential, business management, and networking advice to aspiring entrepreneurs and existing businesses.

This is done by linking clients to programs and resources offered by development organizations and professionals; testing the personal motivation and skill of the client; and developing the client's capacity to assess their own management strengths and weaknesses. The service is available for free, and in confidence to any local individual with an idea for starting or expanding a business.¹ This model is particularly suitable to small, rural communities such as Skagway because of the inherent 'closeness' of the client base and as such has proven to be a successful model in Skagway. The role that the facilitator plays is one of steering the boat rather than rowing it.

¹ Sirolli Institute website, www.sirolli.com 2005

The level of complexity of the assistance required has increased as has the demands on the program's ability to provide those services. As the program expands so must the corporation's ability to satisfactorily provide the assistance requested and will therefore require staff to attend further training to better serve our clientele. Finding suitable and affordable training opportunities is not always easy but efforts will continue to identify affordable sources.

For the business assistance program to grow to its potential increases in staffing will need to take place and a larger facility will need to be found. This will occur when SDC begins to see some of the financial benefits from its for-profit subsidiary. When SDC continues to look for outside assistance with staffing (a possibility through the VISTA program), the ugly ogre of affordable housing always raises its head. This is a major impediment to all business activity in Skagway and hopefully we will see some relief from it as the City releases land from its municipal entitlements.

At present SDC staff continue to utilize agencies and organizations outside of the community in order to ensure that the business community is served by the best assistance available. When SDC is unable to provide the necessary assistance then referrals are made to other entities that have the technical know-how required by our clients. Fortunately this is occurring less and less as SDC's resources are better matched to our client's needs.

"The prosperity of rural regions is critical to America's global competitiveness. As traditional rural economic development strategies have struggled to yield outcomes in an era of increased global competition, increased emphasis has been placed on rural entrepreneurship and innovation."

Economic Development Administration

Business Workshops

Educating the business community and increasing their business skills and acumen is a major goal in our efforts to retain and expand Skagway's current economic base. SDC is planning on finding appropriately qualified individuals to provide workshops on essential business matters. Finding such individuals who can provide the services at an affordable price is difficult but essential if we are to educate our business owners in the most effective business practices. As such no workshops were held in 2005 but efforts are underway to provide computer training, maximizing tax returns, start-up issues, marketing, and others in 2006.

Business Advocacy

SDC continues to play an advocacy role for local businesses by either writing letters of support or acting on their behalf with financial institutions, the legislature, and other local business owners. This role is needed as businesses that interact with institutions outside of Skagway often need help in explaining the economic base and business climate here because in many cases traditional economic models do not fit. Skagway businesses are often penalized because of this and yet all that is needed is a better understanding of the Skagway model of commerce i.e. *Skagway Economics 101*.

SDC has also been working with a local entrepreneur to start a new form of business in the state of Alaska. To do this requires the passage of legislation that would enable the use of the product. SDC has liaised between the entrepreneur and our legislative representatives. At the time of printing the office of Representative Bill Thomas was carrying the bill through the legislative process with assistance from SDC. There is a good chance for successful passage which will hopefully open new opportunities in Skagway and other Alaskan communities.

Other letters of advocacy were written over a wide range of issues such as:

- Comments on the proposed rulemaking regarding passports for US and Canadian citizens crossing land borders. Fortunately this was relaxed but had this measure succeeded it would have created hardship and difficulty for families in Skagway who regularly cross the border for business and recreation. It would have had the same affect on our Yukon neighbors who have a positive economic impact in Skagway on a year round basis.
- SDC requested that the Denali Commission support efforts to create, implement, and sustain a Rural Entrepreneurship Development System. This would have formed the basis for rural small business development which needs to be better coordinated throughout the state. To that extent SDC is also working with the Alaska Municipal League, Alaska InvestNet, and other agencies to promote the notion that small business development should be a major goal of statewide economic development efforts.
- A letter of support was supplied with a grant written by the Skagway Child Care Council's to the Douglas-Dornan Foundation and was successful in their request for equipment and material funding.

Type of Assistance Provided

Although the office did not see as many unique individuals in 2005 there were significantly more repeat visits from individual clients. This indicates that the assistance people are requesting is more complex and time consuming and often requiring multiple visits.

The variety of requests from people is growing and the range includes assistance in naming a new business; state and local business license assistance, general discussions on ideas for new businesses, site selection requests from businesses wanting to re-locate; help with business plans; grant writing; help in securing financing; and help in locating suitable and affordable retail and commercial leases. There have been other instances for assistance but these tend to be the most common.

Most of the requests would not be answered if SDC did not provide this service. This is certainly something that would be very difficult to do well by outside entities. Seeing the demand for such services should indicate quite clearly that there is a need for an entity to provide the types of assistance that the business community is requesting.

Below is listed the types of assistance provided and from where it was generated. For the purposes of recording – only the first visit or request for assistance by a client is recorded all subsequent visits related to the initial request were not recorded.

Stage of Business	Number of Inquiries
Pre-Venture	12
Business Enhancement	3
Business Expansion	2
Buying a Business	5
Selling a Business	3
Web Inquiries	22
Grant Writing Assistance	4
TOTAL	51

Economic Profile & Inventory

In 2005 SDC saw the completion of the first economic profile and inventory developed for Skagway in some time. This document is a vital part of the overall economic development program that SDC has for Skagway. In order to effectively market Skagway it is essential to have a repository of easily accessible information regarding the infrastructure, demographics, utilities, education, health care facilities, housing, transportation facilities and services, recreational opportunities, communications etc. This is vital to site selection consultants, business owners and entrepreneurs considering locating or re-locating to Skagway.

The other important role of economic inventories and profiles is that they help to identify strengths, weaknesses, opportunities, and bottlenecks to further development. The most often recorded impediments to further meaningful growth are:

- Too Expensive and/or Inadequate
 - Transportation
 - Housing
 - Commercial and retail space
 - Utilities

- Lack of land for development
 - Housing
 - Commercial
 - Industrial

- Lack of Affordable Workforce

With these impediments in mind the City, Chamber, SDC and other interested entities will be better able to develop appropriate strategies to counter these problems. The inventory was posted to the SDC website and has received a considerable number of hits.

Port Marketing

The port and waterfront of Skagway have traditionally been the lifeblood of the community from earliest days. Skagway's economic activity and development revolves around the waterfront. With that in mind it was vital that an effort should be made to market the port and its facilities to stimulate additional economic activity especially that which provides year round jobs and other value-added opportunities. All of this is in line with the goals laid out in the City's 1999 Comprehensive Plan.

Using the old Skagway port brochure as a template the new brochure was updated and significantly expanded. The new brochure was redesigned using an eye-catching and professional appearance to attract the attention of potential users. It was also decided to update Skagway's old catchphrase to better reflect this community's global position. The new catchphrase now reads "Gateway to the Yukon, Asia, & Europe". This is firmly based on the port's history of shipping logs and ore to Asian markets, and the potential to move products and people to Europe via the Whitehorse Airport.

Efforts to market Skagway's port included a focused mailing that targeted resource based producers and organizations. In the Yukon and BC, mining organizations including the "2006 Mineral Exploration Roundup" in Vancouver BC (a trade show for prospectors, mining companies, and mining services and suppliers) were sent brochures and additional information because of their potential in transshipping ore concentrates and coal through the port. Packets were also sent to many fishing entities including gillnetters, aquaculturists, general fishermen's organizations, southeast dive fisheries, seafood marketing organizations, as well as fishing and seafood consultants.

Currently there is over one million pounds of fish transshipped through Skagway annually and the potential for a significantly higher amount has not yet been tapped. Chilled seafood shipped directly to Europe and other Canadian and US domestic markets may provide the mechanism for this to occur. Brochures will continue to be sent out to targeted entities in 2006.

Transshipments and Exports

Efforts to secure additional transshipment activity for the port continue to produce valuable leads although at present these have not evolved into on the ground activity. Some of these leads have involved Yukon and BC based forest resource companies contacting SDC to determine the port's accessibility and capability for log shipments to Pacific Rim and West Coast markets. Skagway's strategic location gives it a 3 1/2 day round trip shipping advantage to Asian markets over other traditional west coast ports.

The majority of requests for information regard the movement of base metals, coal, and fish products. SDC continues to spearhead efforts to promote and establish Skagway as the gateway to Europe via Whitehorse, for exports of fish and other products. The twice weekly summer flights of Condor Airlines between Frankfurt Germany and Whitehorse may provide a competitive advantage for northern Southeast Alaska processors and individual distributors to explore new and under served markets in Germany and Europe.

A lot of time has been spent by SDC staff and City officials in determining the capabilities and infrastructure needs for this to become a reality. For much of 2004 and the first half of 2005 the focus has been to ensure that the infrastructure exists to fully support this export opportunity. This has now been determined and there are very few bureaucratic or capacity related impediments to this route. The main concern is Skagway's ability to offload commercial fishing tenders or vessels in order to get the product on its way to Whitehorse.

This problem is being addressed by the City in its efforts to expand and upgrade the small boat harbor. These improvements will allow for the loading/unloading of commercial vessels and possibly a cold storage facility for storage and freight consolidation. It is important to recognize that this is an opportunity for both Skagway and the Yukon to further diversify their economies and an opportunity to develop an infrastructure that may open more than just seafood based markets.

In developing this export route/infrastructure it has been necessary to work in tandem with agencies having expertise in this area. SDC has been working with Glen Haight, Fisheries Development Specialist, Dept. Commerce, Community and Economic Development; Yukon Territory Government Economic Development Department, Chuck Becker, Director US Dept. of Commerce, Alaska Export Assistance Center, Anchorage; World Trade Center Alaska; road transportation firms in Whitehorse; and a variety of Southeast Alaskan entities.

Ore Shipments

SDC is collaborating with the City of Skagway, AIDEA, and the Yukon Territory Government (YTG) to discuss Skagway's role of once again shipping ore from the Skagway ore terminal. Talks so far have focused on efforts by Cash Minerals Ltd. to use the facility for coal storage and shipments. A concern that YTG and City officials share is the availability of ore terminal capacity for other mining concerns if a lease with Cash Minerals moves forward.

Cash Minerals released a press statement regarding the Skagway Ore Terminal feasibility study. The study concluded that the existing terminal at Skagway can be modified (at an economically viable cost) to receive, store, reclaim and load coal into ocean-going bulk carriers. Cash Minerals and Alaska Industrial Development and Export Authority (AIDEA) were negotiating the utilization of Skagway Ore Terminal for the shipping of Division Mountain coal at year's end.

There is a significant amount of mineral exploration occurring in the Yukon at this time due in most part to the increased global prices for base metals and the incredible demand, especially in China and India (often referred to as *Chindia*). This activity has seen mining properties such as Wolverine, Minto Copper, Carmacks Copper, Howard's Pass, and others mobilize quickly to meet this demand while prices make production viable. Some of these mining operations will also be looking at Skagway for year round, tide water access because Skagway is the most accessible port for Yukon enterprises. This puts Skagway in an enviable position if these firms can be accommodated. The bottom line for Skagway is more than likely, five to ten good paying year round jobs in the terminal. There will also be a trickle down to longshoremen, restaurants, hotels, and other retail establishments. Efforts in this area are ongoing.

Alaska-Canada Rail Link Feasibility Study Group

This group's mission is to study the feasibility of linking the Canadian and Alaskan rail systems. Studying the components of this system has led them to look at Skagway as an integral part of the system, both before and after the completion of the link. A conceptual plan has been designed with this in mind and involves developing the industrial side of the port to accommodate more tourist and industrial activity with the aim of eliminating scheduling conflicts. This concept relies on the development of Skagway's port facilities to handle the expected increase in demand for port activity. This could include moving materials and equipment for the construction of the Alaska Highway and the Mackenzie Valley Natural Gas Pipelines, as well as the Alaska-Canada rail link.

This concept involves studying the feasibility of Skagway becoming a part of the CN AquaTrain link which would bring rail barges to Skagway for the movement of goods both north and south utilizing an upgraded rail bed to link with the Alaska Highway or the Alaska-Canada railroad.

A separate Port Access Committee was formed under the same management umbrella as that of the Rail Link Feasibility Group, and involves primarily government stakeholders from the Yukon, State of Alaska, and Skagway. This group has yet to release information on their progress.

Haines Sanitation Primary Reducer Update

In 2004 SDC was approached by Tom Hall of Haines Sanitation Inc. (HSI) to write a proposal for a Denali Commission Solid Waste Management grant. This grant was for \$160,000 towards the purchase of a primary reducer (shredder) that would create efficiencies and economies of scale to solid waste management in Skagway. The grant was awarded in December 2004 and the purchase was approved by the Skagway City Council. The City took possession of the shredder in June 2005 and shortly after HSI provided shredding demonstrations for interested parties. Currently HSI is looking to re-locate much of its Haines composting facility to Skagway and to expand its municipal solid waste operations to include both Haines and Skagway. SDC is working with HSI to provide a comprehensive solid waste program that will generate efficiencies and reduce the cost for the solid waste disposal of Upper Lynn Canal communities.

Website

The SDC website (www.skagwaydevelopment.org) showed a considerable increase in the number of hits it received in 2005. The website is essentially complete although there is constant updating and changes that need to be made. This work is done in-house and allows the organization to move quickly to adapt to changes. The website was used also to promote the Yuletide Weekend, while links

to the Heartbeat Trail and the draft 2006 Cruise Ship Schedule were added to the site.

Since the site went online it has had 9000 visitors and this number is increasing at an ever faster rate. The site has become another avenue to promote Skagway on a national level, and to allow businesses from outside the community to post inquiries regarding the community and opportunities that may exist. The number of these inquiries has also increased over time as the site now rates higher on [web search pages](#).

Winter Employment and Community Vitality

One issue that repeatedly arises is the perception that Skagway is increasingly becoming a seasonal town to the detriment of the year round community. This is mostly attributed to the perception that there is a lack of winter employment opportunities and the declining school enrolment. SDC has not subscribed to this outlook and in fact there appears to be resurgence in winter employment/population numbers.

The school's declining enrolment numbers are perceived to indicate a reduction in families staying in Skagway or re-locating to Skagway. This is a false indicator because during the last five years Skagway has seen a dramatic increase in its home schooled population, which is currently around twelve. Without scientific data to support this it appears that there may be a net zero loss of families and just a redistribution of education choices.

Data from the Alaska Department of Labor from January 2000 to September 2005 shows an increase in employment numbers. This data records wage and salary earners and not those self employed people who do not pay themselves wages. The results summarized below show that winter employment numbers are on a steady rise and indicate healthy growth on a year round basis.

In addition to the employment numbers a series of economic indicators is being compiled to better view the community's economic trends over the last 5-7 years. These indicators should give a clearer picture of Skagway's vitality and potential for the near future. These trends will include: sales tax receipts, employment figures, school enrollment, value of construction permits, bed tax receipts, value of taxable property, per capita income, and total bank deposits, etc. This will be distributed once it is complete.

Winter Employment Numbers 2000-2004/2005

MONTH	2000	2004	2005	Increase (%)
January	379	424	453	19*
February	341	421	446	24*
March	410	443	483	18*
April	494	570	603	22*
October	528	629	▪	19
November	429	506	▪	18
December	418	480	▪	15

Source: AK Dept. of Labor ▪ - Not available * - 2000-2005

SEATrails

SDC coordinated with community members, the City, and SEATrails to assist the SEATrails organization with the development of their Trails & Transportation Master Plan (TTMP) which was released in 2005. SDC's role was to provide maps, trail narratives, and comments on the proposed plan to ensure that Skagway was accurately and adequately covered in the plan.

The TTMP will be used as a marketing tool for the trail system in Southeast Alaska in order to generate economic development, improve transportation and information, enhance the region's quality of life, and to create a world-class trail recreational system with its own identity and market niche.

SDC also worked closely with SAGA, the City of Skagway, and SEATrails to ensure that the 2004 SEATrails Grant work program was successfully completed. The work on the Dewey Lakes Trail Switchbacks was completed early and within the specified budget, and the quality of the construction was better than originally anticipated. This was another instance of SDC's ability to provide project supervision on smaller projects such as this, thus freeing up City staff for other duties.

"Made in Skagway"

The original idea for this came from a desire to promote Skagway as a community of the arts and crafts, and to provide another means of promoting Skagway's many talented artists. The "Made in Skagway" concept was also developed to create a brand recognition and logo that would be used to market products made in Skagway by highlighting those stores that sell them.

The "Made in Skagway" web page that is found on the SDC website has provided an alternative means of marketing artists and their creations in a marketplace type

setting. This has a lot of potential to be better promoted especially when more artists come on board and place their information on the web page. This listing is provided free to all Skagway artists who want to participate.

At present a logo is being developed that will be used in retail establishments and other promotional media to provide visitors an idea where products that are being produced in Skagway are being sold. Hopefully this will raise the public's awareness and encourage sales with the direct benefit of increasing demand for such products.

Frontier Communities Study

SDC participated in a study conducted by the Frontier Education Center (New Mexico) entitled "*Impact of Seasonal Population Variations on Frontier Communities Phase 2: Maintenance of the Healthcare Infrastructure*". This report will be available in the SDC office when it is complete. Other contributors from Skagway were Bob Ward and Dahl Memorial Clinic staff. This is part of a greater study looking at the impacts to healthcare and other social infrastructure by seasonal populations.

Conferences

There were two important conferences that SDC staff attended in 2005. Both were centered on the potential for economic growth in the Yukon Territory and the infrastructure that would allow for the economic cooperation between the Yukon and Alaska. This resulted in many discussions regarding Skagway's role in the Yukon's increasing economic activity, especially in the needs of the natural resource sector.

1. **Business Without Borders** (Whitehorse - February 2005): This conference brought together many private and public entities from both Alaska and the Yukon to discuss cross border trade. Presentations made centered on increasing the trade contacts and collaborations between the two states and for easing some of the border bureaucracies that currently exist. This was an opportunity to gain valuable knowledge of cross-border trade transactions and to meet with Canadian Trade and Customs officials, and Whitehorse and Yukon entities that could assist with and benefit from exports to Germany and the emerging Asian markets. Other Alaskan economic development and export officials were also present and the opportunity to network with them has been helpful in developing future ideas and possible collaborations.
2. **Opportunities North 2005** (Whitehorse - September 2005): The conference provided an excellent summary of the economic activity that is currently occurring in the Yukon and that which may potentially occur in the

near future. The conference attracted people, companies, government agencies and departments from Alberta, B.C., Yukon, NWT, Nunavut, and Alaska including a keynote address by Yukon Premier Fentie and Alaska Governor Murkowski.

The conference provided an opportunity for the new Port of Skagway brochure to be distributed and for advertising the port's facilities and advantages. The City of Skagway provided \$870 to advertise the port in the conference literature and the SDC logo was placed on the materials listing sponsors. With the increasing economic activity in the Yukon it is vital that Skagway continues to promote its port as the strategic export and transshipment facility for the Yukon's resource industry.

Several areas of interest were discussed and these include:

- A. **Mining:** The potential for the transshipment of base metals and coal through Skagway is enormous and we are only limited by access to the waterfront's facilities. Several mines in the Yukon are in advanced stages of development, all of which are looking at Skagway as a transshipment port.
- B. **Infrastructure Development:** With natural gas demand at record highs and shortages of supplies it is now believed that both the Alaska Highway and the McKenzie Valley pipelines will be needed to supply North America's natural gas demands. This means that Skagway is well placed to provide port facilities for the construction of both pipelines.
- C. **2007 Canada Winter Games:** These games will be held from February 24 to March 10, 2007 and Whitehorse is expecting tens of thousands of athletes, supporters, and spectators. The Canadian federal government is spending over CDN\$10 million to promote the games which will provide Skagway an excellent opportunity to piggy-back on that promotional expenditure and capture some of the tourist traffic during the Games.
- D. **Alaska-Canada Railroad Link:** Stage 1 of the study has commenced and involves a Market and Technical Analysis, while Stage 2 will study the Financial and Public Interest Analysis. Skagway's role in this project is significant and in tandem with the Yukon Government's Port Access Study will look at the Port of Skagway's role during the construction phase, and will also conduct

feasibility studies to determine the port's potential for the future movement of goods and people.

- E. **Economic Growth:** The Yukon is seeing a sharp growth in its economic activity which has led to increases in population, employment, as well as land and property values. The Yukon is on the verge of an economic boom, and Skagway has the potential to see some real year round benefits from this activity.

SDC-COMMUNITY DEVELOPMENT SERVICES (SDC-CDS)

It is a major goal of SDC-CDS to improve the quality of life for Skagway's residents, both year round and seasonal, and for our visitors. This can be achieved in many different ways and one of them is to provide support services for the other non-profits in Skagway and to help develop the community infrastructure. The goal is to ensure that the community has the facilities and programs in place to make Skagway a desirable community for people to live, work, play, and raise a family.

Making Skagway a desirable location will ensure that there will be the critical mass required for economic growth and development. As the winter work population continues to increase this will also place added demands on the community's programs and facilities that are currently in place. It is vital that their growth matches that of the community and meets the demands of the residents. SDC-CDS is working with several community groups and events to assist with the continued development of this infrastructure.

One important role that SDC-CDS plays is to provide legal and organizational support for non-profits. In 2005 a couple of non-profits were able to benefit from our experience in legal matters to resolve issues that they were facing. Also our knowledge of non-profit organizational matters was a great reference for a couple of groups trying to organize as non-profits, and for non-profits looking to increase their group's organizational efficiencies.

Rifle Range

In 2005 the City of Skagway's efforts to re-locate the rifle range were as yet unresolved. The City's request for a lease agreement with the Alaska Department of Natural Resources (DNR) for a parcel of land adjacent to the Klondike Highway was unsuccessful and the parcel was leased to a seasonal outdoor recreation company from Haines. Renewed efforts to locate another suitable site have focused on efforts in the AB Mountain area near the 'new' old dump site. Once this site has been surveyed and its suitability evaluated the City can move forward with its development. SDC-CDS still has \$3,000 it was awarded by the National Rifle Association in 2002 for the re-location and development of the new shooting range. This money will be disbursed when the City begins development of the site.

Junior Achievement

SDC-CDS partnered with Junior Achievement, Alaska (JA) to introduce the program to the Skagway school for the 2004-05 school year. JA is an internationally recognized program that *“educates and inspires young people to value free enterprise, business, and economics to improve the quality of their*

lives.” SDC-CDS began requesting funds from Skagway’s business community in 2004 to present the program in April 2005. As this was the first presentation of the JA program in Skagway the results of it were being evaluated to determine if this was a suitable program to continue with in the future. Currently it is only being offered in the elementary school but there are plans to expand this into the middle school as funding and organizational resources allow.

The rationale for introducing such a program into the Skagway School is to nurture an enterprise environment where students are exposed to business concepts and how they directly relate to the health and well being of a community. By exposing our children to entrepreneurial concepts we expand their career horizons and help them appreciate the role that business plays in their lives.

The first Junior Achievement program was very successful with teachers, students, and the volunteers being impressed with the quality and scope of the program. The materials were excellent and easy to use while the students have a hands-on approach to learning about their community, basic civic and economic concepts, as well as how businesses operate.

“Entrepreneurship education is of critical importance. It is important to realize that entrepreneurship education is not a class on “how you run a business”. That is small business management. Entrepreneurship is a way of thinking, tied to creativity, idea generation, and opportunity recognition.”

Erik Page – Entreworks Consulting

The volunteers for the program are picked (when possible) from the business community because it is vital that students learn from people who have the experience and the knowledge to best present the materials. April proved to be a scheduling nightmare for volunteers so it was decided to present the second program in October which allowed greater freedom for the volunteers to work with the schedule set by the school. The second presentation, made in October, was even more successful than the first and proved to be better in terms of logistics. Therefore, future presentations will be made in October or November when there are less scheduling conflicts.

Thanks must go to the School Administration for allowing JA to be presented in the school; the elementary teaching staff who are very supportive of the program; and the volunteer instructors who all gave of their valuable time to help educate our children - Laura Moscatello, Billy Strasser, Craig Cline, Shari Quinn, Angela Hauge, and Mike Catsi.

Of course the program would not have been possible without the support and generous contributions of businesses that pay for the program and materials. These businesses include: TEMSCO, Petro Marine Services, SMART Bus, AP&T, and Holland America Lines. The program currently costs \$1,600 (for 4 elementary programs) each time to buy the materials, curricula, and the training required to successfully implement the program.

SDC-CDS has taken on the responsibility for administering the program, secure funding, recruiting and training the volunteers, and liaising between JA and the school to ensure the smooth operation of the program. SDC-CDS is committed to continuing this all important addition to our children's education.

Yuletide Weekend 2005

The weekend was truly a hit with local residents and visitors alike. Money granted from the Alaska Marine Highway System for their Cooperative Marketing Program was put toward advertisements in the Juneau Empire and Chilkat Valley News newspapers, and for radio ads on KINY and KSUP in Juneau. Unfortunately after these ads went out, the AMHS changed the ferry schedule due to a ferry breakdown. This resulted in a less than expected attendance by residents from other Southeast communities, although, attendance from Whitehorse and Carcross was exceptional. In 2004 the WP&YR added two rail cars to their Santa Train and in 2005 they added another two cars and again there was standing room only.

Yuletide 2005 was an overwhelming success both financially and in terms of attendance. There was also a lot of positive feedback regarding events such as the tree lighting and the exquisitely decorated fire engine (even in the pouring December rain); the free movie ("March of the Penguins") which had standing room only; Santa Train; Yuletide Ball which had over 150 attendees; and the Juneau band *Salsa Borealis*, which managed to get the entire Recreation Center up and dancing the entire night.

SDC-CDS continues to manage the finances for Yuletide as a 100% pass through function. The Yuletide Fund had a carry forward of \$1,490 from 2004 and managed to raise an additional \$3,380 for a total of \$4,870. Expenses totaled \$2,740 with a balance of \$2,740 to carry forward for Yuletide 2006. SDC-CDS operated the bar for the event and raised \$1,026 of which \$200 was donated to the Yuletide fund and \$199 in expenses were incurred leaving a net amount of \$727 for program services. This was the organization's first in-house fundraising event and it proved to be very successful. SDC-CDS is hoping to build on this success at next year's event.

Buckwheat's "Heartbeat Trail"

In September 2004, SDC-CDS signed a Memorandum of Agreement with Carlin "Buckwheat" Donahue and the Heartbeat Trail Oversight Committee to administer the financial activity that the Heartbeat Trail fundraiser would generate. The MOA outlined the responsibilities of all three parties and was created in order to provide accountability for the funds generated. SDC-CDS manages all of the financial transactions, safely deposits all funds, and provides a system for paying the fund's expenses. At the end of the fundraising event the monies raised will be used as a match in grant proposals to buy new heart and other equipment for the Dahl Memorial Clinic in Skagway.

Funds have been received throughout 2005 from corporate sponsors and individual contributors. On December 9 the *USA Today Weekend* ran a short article on Buckwheat and his walk which generated a lot of interest and financial responses from people all over the country. People responding to the article included many previous visitors to Skagway either on cruise ships or by independent travel. Many have stated that they enjoyed Skagway so much that they felt compelled to contribute; others are impressed with Buckwheat's 'great adventure'; and others are diabetics and folks with heart problems who are encouraged by the trip and want to show their support.

Buckwheat attended a small fundraiser in Juneau (August) which generated over \$7,000 and there was also a small fundraiser in Washington DC (December 10) that generated over \$1,000. Donations at December 31, 2005 totaled over \$31,000.

SKAGWAY MAILING CENTER

In 2001, the City of Skagway and the SDC Board of Directors signed a Memorandum of Agreement that guided the relationship between the two entities. A provision was placed in the MOA which stated that “*SDC shall, to the greatest extent possible, avail themselves of other funding opportunities that will, over time, reduce the financial burden placed upon the City for the support of their programs.*”

This provision has been a difficult one to reconcile because of the inherent lack of operating grants currently available to non-profit corporations. One trend that has been occurring to make up for this lack is the formation of for-profit subsidiaries to non-profits. Going in to business is now a major way of staying in business. The Skagway Mailing Center is SDC’s answer to this need.

The mailing center was established after a winter of weekly board work sessions and a lot of research that lead the board to believe that it was a viable project. One of the major criteria for an acceptable business idea was that it could not be in direct competition with any existing business, seasonal or year round, in Skagway. Coupled with the requirement that it be economically and financially viable made the planning very difficult. Once the mailing center idea was agreed upon it was then a race to get all of the relevant details, conduct due diligence, and to secure retail space and employees to have the business up and running for the 2005 tourist season.

SDC utilized its own funds to leverage financing for the start-up costs and has not relied on City funds to cover any expenses. The development and success of this business is crucial to SDC’s ability to provide a significant portion of its own operating budget, a means of financial independence, and an impetus for the growth of the organization.

This process has also provided members of the Board and staff valuable experience, knowledge, and greatly built our capacity to assist our clients with their efforts to open a start-up business or to expand their current ventures.

The start of the season was missed by several days due to start-up issues and problems beyond our control; although most were resolved quickly some took a greater part of the season to figure out. The mailing and postal business is a lot more complex than it would appear on the surface and this was a factor in the slow start to the season. Once the business was running it was a lot easier to see where processes could be made more efficient and where savings could be made without sacrificing the quality of the product and service.

One issue that remained elusive was how to best establish our market niche, especially with a business that was untried in Skagway. Several efforts were made during the season to encourage a greater utilization of the center by the merchants. This proved to be somewhat successful but the real difference was being in business long enough to prove that the quality of the product and service was there and that it was consistent.

The SMC's market presence increased at a regular rate over the summer and significant efforts are underway to better its performance in 2006. A new larger, cheaper retail space has been leased in a location that has a lot more foot traffic and is more centrally located than the previous store. The larger space will allow for a wider range of retail items and considerable more coordination has gone into working with the merchants and resolving their shipping issues.

The end of season review revealed areas of strength, potential, and for expansion of services and products. Efficiencies gained this year will build upon the business community's growing confidence in the Center to deliver a reliable and high quality service. Our staff of year round residents has made a big difference and their commitment to return will make start-up in 2006 that much easier.

Although no profit was realized in 2005, the financial forecasts for 2006 are good and will lay the foundation for a dividend to be paid to SDC in 2007.

FINANCIAL REPORT

The outcome from operations for the year ended December 31, 2005 produced mixed results. Administrative costs of \$88,531 were consistent with last year, down just -1.9%, however costs were down -26.1% from budget. During the period SDC was forced to cut spending in the face of budget shortfalls from funding sources other than the City of Skagway. In an effort to establish sustainable funding opportunities SDC created a startup business, "The Skagway Mailing Center" (SMC), which opened its doors for the 2005 tourist season. As a first year business the venture lost money. This is often the case for startups, but its future looks promising and the organization has designed an aggressive business plan for 2006.

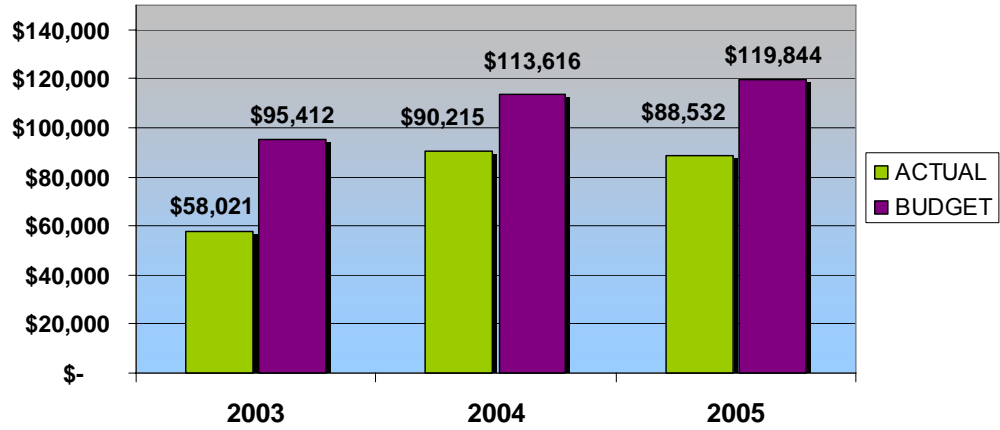
SDC saw growth in its Community Development Services (CDS) funds and realized an increase in total assets of \$32,939 over last year. CDS manages The Heartbeat Walk, Yuletide, and Junior Achievement for local groups on a growing scale. SDC also continues to manage the Revolving Loan Fund with five loans currently under management, all of which are in good standing. Since the programs inception three loans have been retired and fully repaid without loss or expense. New loan applications are continually received from applicants and reviewed by the finance committee.

At year end SDC held \$84,389 in net unrestricted assets, which is represented by our investment in SMC, business loans, and cash. These assets (equity) are carefully utilized to gain the fullest potential for the company and its subsidiaries; balancing growth, budgetary needs, and investment.

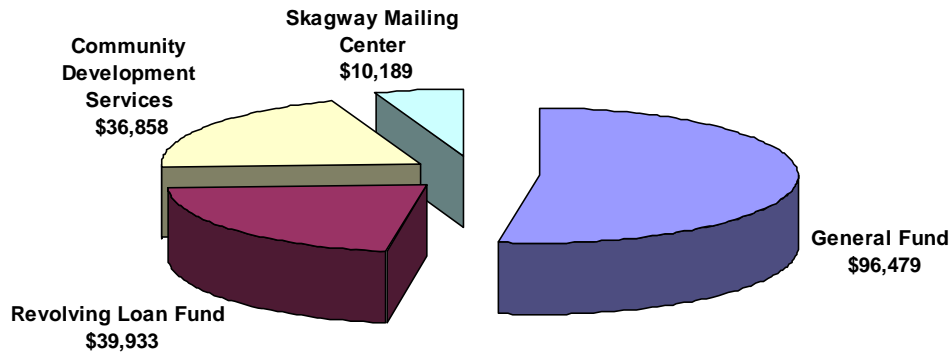
As previously mentioned, it has been necessary during 2005 to cut costs in light of funding restraints. However the Corporation endeavors to develop its resources, which requires further spending. A major objective for the company is to hire a part-time assistant to handle the mounting administrative tasks. This will allow our Director more time for program driven growth fueled by local economic needs. For 2006 the company has designed an aggressive diverse funding strategy to support rising costs, and with continued support from the City, we anticipate measurable success.

Curt Dodd
Treasurer

Administrative Costs - Historical Trend



**Assets By Fund
As of December 31, 2005**

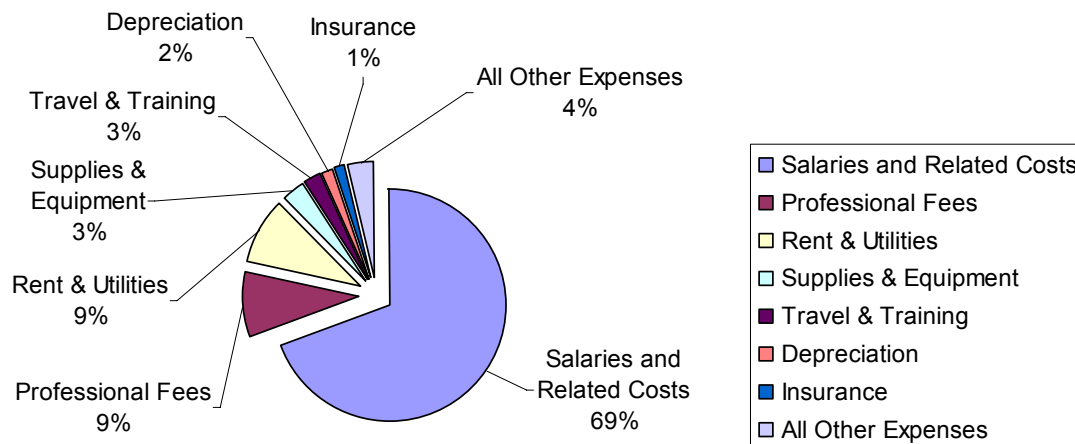


Operating Expenses

Skagway Development Corporation
For the Year Ending December 31, 2005

Salaries and Related Costs	61,252
Professional Fees	8,211
Rent & Utilities	8,130
Supplies & Equipment	2,732
Travel & Training	2,297
Depreciation	1,510
Insurance	1,149
<u>All Other Expenses</u>	<u>3,250</u>
TOTAL	\$88,531

SDC Operating Expenses



MIKUNDA, COTTRELL & Co.

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
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Independent Auditor's Report

Board of Directors
Skagway Development Corporation and Subsidiaries
Skagway, Alaska

We have audited the accompanying consolidated statements of financial position of Skagway Development Corporation and Subsidiaries (a nonprofit organization) as of December 31, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

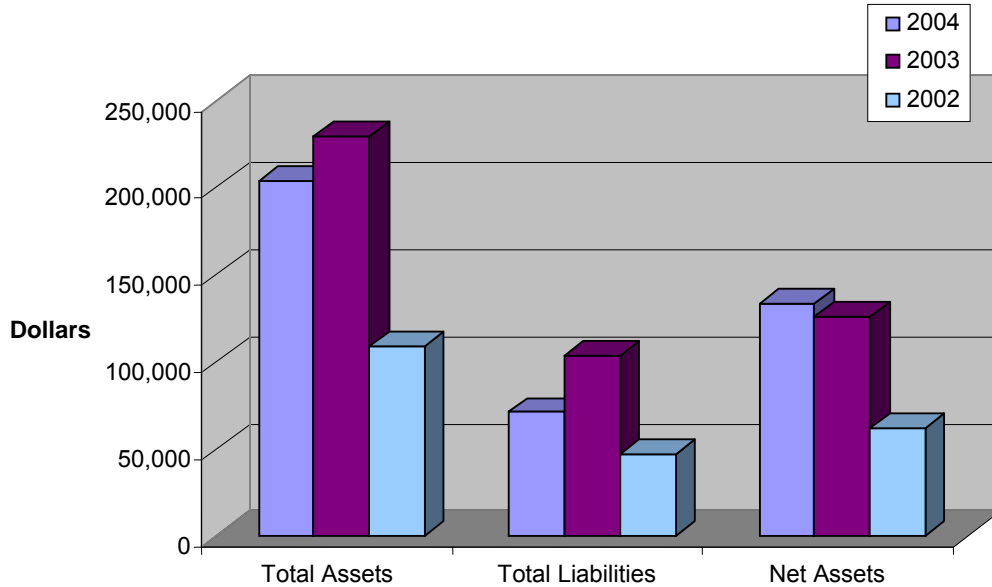
In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Skagway Development Corporation and Subsidiaries as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedule of general and administrative expenses on page 8 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

Mikunda, Cottrell & Co.

January 31, 2006

Growth in Assets & Liabilities



Operating Results Comparison

