

Fruth: Don't put all Hyperion eggs in your economic basket

By Julie Ann Madden

Editor's Note: Of the 60 people present at this forum, approximately 10 were media, 10 were Hyperion opponents and the rest were area business leaders including from Sioux City, Dakota Dunes, Elk Point and Vermillion.

Policom Corporation economist William H. Fruth of Palm City, Fla., painted a dismal picture of the Siouxland metropolitan area's economy, and said Hyperion Refining LLC could be instrumental in improving it.

Each year Fruth ranks metropolitan and micropolitan areas across the United States according to their economic strengths and weaknesses. The Siouxland Initiative organization asked Fruth to rank the Siouxland metropolitan area, which included Woodbury County in Iowa, Nebraska's Dakota and Dixon counties, and Union County, S.D. He gave Siouxland a ranking of 304 out of 363 metropolitan areas.

"This is in the lower 25 percent of economic strength among metropolitan areas," said Fruth, noting the Siouxland metropolitan area had been declining in the rankings for the past five years.

Fruth showed a comparison of Siouxland to other Midwest area metropolitan areas in 2007:

• Des Moines-W DesMoines	11
• Omaha-Council Bluffs	32
• Sioux Falls, SD	84
• Iowa City	144
• Ames	147
• Lincoln, NE	152
• Cedar Rapids	159
• Davenport-Moline-Rock Island	201
• Rapid City, SD	224
• Sioux City-IA-NE-SD	280
• Dubuque	281
• Waterloo-Cedar Falls	331

"You had negative job growth and one of the slowest earnings growth in the country during this five year period," he said, noting Siouxland's ranking of 304 was from data just released the end of April.

"We're flat-lining or declining in almost every industrial sector," said Fruth, adding Siouxland lost 3,000 manufacturing jobs during the past six years and he expected most of that was due to Gateway 2000 leaving the area. There was some growth in retail, health, construction, finance and wholesale industrial sectors. "Your economic development group has had some successes the last couple of years. Unfortunately, the numbers they were able to create did not offset the loss of jobs in other sectors."

He did commend Siouxland officials for keeping local government positions in direct proportion to the economy's growth. Basically, that sector had stayed the same.

Economies grow in size when the area is bringing in more money than is flowing out of it, said Fruth, and the quality of growth depends upon the wages paid by the economy's primary industries. Siouxland's top three primary industries are manufacturing, farming and management.

In comparing Siouxland's economy to the 10 strongest metropolitans' average and the average of the 10 weakest economies in the country over the last 30 years,

Fruth reported that "except for some growth in the 1990s, your growth line is similar to the 10 weakest economies in the country."

Even adjusting earnings for inflation didn't show a better picture, according to Fruth. "The size of your economy hasn't grown since 1998. You didn't grow any better than the 10 weakest areas in the country."

"The quality of an economy's growth depends on what people earn," said Fruth, explaining that he predicts "economic" quality of life. Money is intended to make better housing, better food, better education, more leisure time, better retirement. Money does this better than poverty ever has."

Economic quality growth depends on the number of jobs added that pays more than the average wage. For instance, the 25 strongest economic metropolitan areas had 33 percent of their new jobs with wages more than their area's local average wage while the weakest metropolitan areas had net losses of jobs that paid their area's average wage.

"Siouxland has had a significant drop in the last 10 years, almost to the level of the averaged 10 weakest economies," said Fruth. In fact, Siouxland has been declining in quality economic growth for the past 25 years when compared to the national average wage. Currently, Siouxland is at about 76 percent of the national average wage while the average of weakest economies is at about 74 percent.

Calling Siouxland's path of inflation factored wages "somewhat schizophrenic, erratic" he said it showed Siouxland's inflation factored wages were lower than they had been 30 years ago in 1977.

Fruth told the 60 people present that he'd warned Siouxland officials in 1998 that Gateway 2000 was a wonderful economic contributor but Siouxland would have to continuously diversify, get more companies because no company lasts forever.

"There will be very little growth in the size of the Siouxland economy in the next 10 to 15 years," predicted Fruth, noting he had only "spent about a day" creating projections for Siouxland before presenting this material at the Dakota Valley School auditorium on May 7. He also said his projections were based on his personal experience, the last 10 years and what the economic development climate is in the country. "Siouxland is flat-lining in quality, and will have relatively slow job growth in the next 15 years."

"These are optimistic projections," said Fruth. "When I do projections, I take into account an economy's geographic assets."

Fruth only listed one for Siouxland: the interstate highway system. On the other hand, he said Siouxland has several economic liabilities: no commercial airport, no research university, and the simple fact that the Midwest is shunned by a lot of companies.

"It's really simple to improve a local economy," said Fruth. "Create more primary industrial jobs that pay a wage higher than your area's average wage. By

doing that, you put more money in the economy and the overall quality of economy, standard of living, will begin to improve."

However, nationally there aren't probably more than 10 projects a year that pay more than the national average wage and employ more than 1,000 people, he said. "These companies that pay more than \$45,000 wages and hire 1,000 people are receiving incentives."

"It's going to be very difficult for you to recruit enough companies to try to get that line to grow unless you want to get into the incentives game," said Fruth, explaining that communities are offering companies incentives from \$10 to 100 million to come. "Economic development is a very competitive business. There are some 6,000 economic development groups out there trying to get companies. You're going to need a bunch of cash. We're looking at \$10 to 15 million every other year to successfully recruit to get that line to go up."

"That's the reality in the economic development business," said Fruth, adding one Florida community paid a \$550 million incentive to get 750 jobs in their community.

Four years ago, Fruth began recommending that communities get energy facilities such as power plants and nuclear power plants because:

- The demand for these facilities will increase because of China, India – the worldwide demand for energy will increase.

- The economic impact of energy production facilities is second only to final auto assembly plants. The ripple effect they have on local communities' economies is enormous.

- They don't go away. Once they are constructed, they typically have a life of 30 – 50 years.

- They pay some of the highest wages in any economy. The average wage in Corpus Christi, Texas, refineries is \$75,000 a year. These are highly-paid technical jobs in the modern day petroleum refinery.

Fruth projected the economic impact of the Hyperion Refining LLC's oil refinery and power plant – both during construction and after when it's operational using his own data and that of the economic impact study created by Randall M. Stuefen of Vermillion.

Although Fruth's economic ranking of the Siouxland metropolitan area only included Woodbury, Union, Dakota and Dixon counties, Fruth used a 60-minute drive from the proposed Hyperion site saying a 60-minute commute is pretty much the magic number of economic impact of a local operation.

According to Fruth, the total value of Hyperion's construction is \$10 billion. The local value of construction that would be added locally is \$3.2 billion.

There will be 164,000 jobs created roughly for one year "somewhere" such as software developers in Seattle, Wash., steel workers in Pittsburgh, Pa., and iron workers in Minnesota, he said. Locally, 49,000 jobs will be people working the equivalent of

one year – spread over the four-year construction period. This number of jobs depends on how much the construction workers spend locally. Fruth projected that during the third year of construction when construction workers will peak at about 9,000 workers, it will create another 7,000 positions in the community.

He predicted the number of jobs would grow slowly, then peak at 18,275 jobs in 2013, of which about 8,000 would be "spin-off jobs" needed to support the construction. The number of jobs will decrease during the start-up phase of operations, then level off to about 14,088.

"(Once operational) you could peak at 14,000 local jobs within a 60-minute radius of the plant on an annual basis, depending on support companies for a petroleum plant," said Fruth, adding this is why he recommends energy facilities to communities. He projected 61,000 jobs annually "somewhere," of which 20,000 will be in extracting process to bring the crude oil to the plant.

Fruth recommended Siouxland leaders get workforce training programs in place now because the more local people working at the facility, the better.

During the construction phase, gross sales will range from \$101.6 million additional business in real estate to \$1.8 million for car washes, said Fruth. Once operational, within 60 minutes of the facility will benefit. For instance, food services and drinking places will have an additional \$48 million on an annual basis.

"The three counties will get a huge proportion of the economic impact," said Fruth. "Union County will do very well. It'll also spread (to surrounding areas)."

He warned local businesses and governments to "be very cautious" and "to save money during the construction phase." He explained that during the four years of construction, the economy will soar but it will come down when the construction workers leave. It will take a year or two from the end of construction for the economic impact to stabilize. Once it stabilizes, it will go up gradually for a long time.

"Once it stabilizes, it'll be good but it won't be as high as during construction," said Fruth, telling the audience to remember this because they will think their economy is in a recession at the end of the construction phase. "When this money is gushing in, everyone of you is going to feel this. You'll think it's never going to end. It ends. Plan for it."

Fruth recommended local governments put the money in a "rainy day" fund or spend it on something that won't be recurring. He also suggested businesses be cautious.

"In summary, Siouxland basically your economy has been very lackluster," said Fruth. "That's being kind. Because you've had lackluster growth the past 10 years and the overall quality has been declining, the construction and operations of Hyperion Energy Center will have a significant impact for many years to come."

"Projections for your economic

future are not real strong," he continued. "Basically in order for you to be competitive, you are going to think heavily about giving heavy incentives to companies to come to your area."

"The other side of that is this (Hyperion) project is not asking for incentives," said Fruth. "They are asking for permission to come in and it will give a significant economic boost to the economy to the people for many years to come."

Fruth began his economic development career as mayor of Tiffin, Ohio, from 1980 – 1984. At the time, Tiffin, which was the Seneca County seat, had a population of 22,000 and was surrounded by agricultural crops. It had 15 percent unemployment. He explained that in the 1950s – 1970s Tiffin's economic leaders fought change refusing to be part of a highway turnpike and later an interstate highway system.

"I became mayor of a town, the only one in the state of Ohio without a piece of four-lane highway in it," said Fruth. Adding I warned our community and tried to get them to back an aggressive plan of change but the leaders refused to do it. Its population has declined by several thousand. "If he population of the county is what it was in 1945."

"The people who fought change are dead and gone," he said. "The people remaining have nothing to look forward to. All industry has now left so from a mayor's point of view, you cannot ignore economic progress and you must have it occur or you will gradually slide into economic oblivion."

"Hundreds of northwest communities in Midwestern United States have done exactly that," he said, "and too often it's their own fault because it's their lack of vision and lack of willingness to change. In economies that are growing rapidly, they are not growing by accident. They're growing because the people wanted them to happen."

"I mayored a community that fought change but guess what it changed," he added. "There is hardly any community left because they refused to change."

When asked what the impact of a huge project like Hyperion's would have on existing businesses, Fruth responded there will be competition for labor for a long time even with a "whole crew of migrant workers" coming in. There will also be in an increase in business.

"Every business will feel the effects of this construction phase," said Fruth, adding it will be positive as far as revenue in sales. "As far as the operations, I know these are technical people and I don't know if they even know how they are going to go about hiring them five or six years down the road. Hopefully, you'll have training set up. As many of your people who can get employment there, the better."

Siouxland Initiative Director Debi Durham added that a regional group of community leaders had

met in Chicago, Ill., at the request of Senator Tom Harkin.

“The U.S. Department of Labor is going to work with the region because they understand the huge impact it will have on this region, both temporarily and in growing the workforce for the rest of the employers.”

Shortly after this presentation, Harkin announced \$250,000 was on its way to the area for workforce training.

“There is going to be economic change, competition for labor,” said Fruth. “You’ve got a supply of labor here if you make use of it. Maybe some people will just quit moving away. I don’t think you had negative population growth yet but you’re very close to have population loss in this area, too. That’s a very dangerous situation.”

When questioned about Hyperion’s permanent job figure of 1,825 employees because other comparisons show the number could be lower between 500 and 800 jobs, Fruth felt the lower numbers were just at refineries that were modernizing their facilities but he noted that the number of employees at Corpus Christi, Texas, refineries are one-third of what it was 15 years ago because of modernization. Then he justified the 1,825 figure saying it also included the power plant workers.

“The number is a reasonable estimate,” said Fruth, adding his own “conservative” calculations put the number of permanent workers at about 1,900. Three times the number of employees doesn’t work at refineries but are paid by refineries through support industries. “There is no reason to question the Steufen Report.”

“(During construction) Hyperion will take some of your existing workforce,” said Fruth, explaining employees earning \$22,000 now will take Hyperion’s \$45,000 jobs. “that is going to be an issue for three years. Work a lot of overtime and put it in the bank. It’s going to be really good for your gross sales.”

He reminded the audience that income will come back down once construction is completed.

“My warning is know that it’s going to go down,” said Fruth. “Don’t over-commit yourself.”

For pre-construction costs such as for infrastructure, Fruth said, “Don’t worry. There’s not a bank in town that won’t lend you money because you know it’s coming and it’s going to be an amazing amount.”

He predicted all Union County residents’ property taxes would go down because Hyperion will pay such a huge portion of these taxes. In addition, he assumed Hyperion would pay for infrastructure around their site.

“There will be a growth impact,” said Fruth. “It occurs because of economic growth. If you have economic growth because of people growth, the money is there to pay for the services.”

The county will get what they need through property taxes from Hyperion, he added. Local governments are probably the biggest winners of the whole thing. Union County will have taxable assets for 30 to 40 years. This will be

the single biggest taxpayer in your area, probably for the next 50 to 60 years unless another’s built.

“It’ll be three times the valuation of the county now,” said Fruth. “It will more than exceed the need of services.”

“But don’t put all your eggs in the Hyperion basket,” Fruth cautioned. “You need to diversify.”

“Union County won’t have financial problems unless they spend like drunken sailors,” said Fruth, recommending governments put the revenues in a Rainy Day fund, re-supply their contingency fund. “The sales tax will be huge (during the four-year construction period) but it’s going to end when the construction workers quit buying beer and they go home. Then it’s going to come down, stabilize and to real well.”

Whether real estate values rise or fall depends how fast the economy’s capacity to build is and whether construction phase workers chose to stay here permanently. The permanent workers will buy houses of 2,500 square feet or greater.

“You’re in a community where your housing values are directly proportional to the condition of your economy,” said Fruth. “When your economy gets better, your housing values go up because you’re earning more money. The houses will get bigger or they will pay more money for existing homes.”

When asked what about property values to those living one-quarter mile from the Hyperion site, Fruth said, “You’re going to have 1,500 workers a day, and probably another 500 visitors going by your place. I’d put in a convenience store.”

“Property around these facilities becomes quite valuable because of access to the facility,” said Fruth also suggesting to build a motel there because there will be hundreds visiting this facility for various purposes every week. In addition, he suggested that the property owner wait to build this motel until after construction workers leave so they won’t ruin it.

“I have land that’s in the footprint,” said Ron Bird of rural Union County at Siouxland Initiative’s Economic Impact Forum with William Fruth of Palm City, Fla. “I’ve optioned other land for this project, and I think it’s the greatest thing that could have ever happened to Union County, our town, to our country and to our state.”

“I agree with everything (Fruth) put forward here tonight,” said Bird, quoting the projected tax revenues to each entity. “I think people need to put their self-interests aside and start thinking about our country a little bit and the betterment of all the people instead of just a few.”

“I’m not here to advocate for your project, just give you projections,” said Fruth.