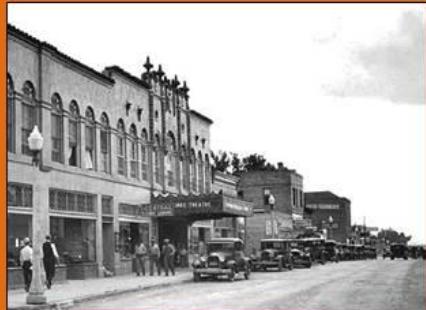


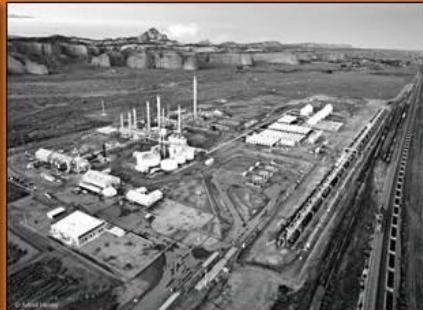
Economic Roundtable



DOWNTOWN



TOURISM



ECONOMIC BASE

El Morro Theater – Second Street Annex | July 12, 2016

ENERGY

An event of the



Greater Gallup Economic Development Corporation

in partnership with



ENERGY

STRATEGIC CHALLENGES IN THE GALLUP/MCKINLEY COUNTY COAL ECONOMY

prepared by

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July 1st, 2016

Perspective

Based on the City of Gallup's establishment as a mining and rail hub, McKinley County has a long history with energy production, including natural gas, oil, uranium, and coal.

Currently, the mining sector, which primarily includes coal production, is one of five identified economic base industries for McKinley County based on "location quotient" analysis. Combined, the mining/oil/gas sector, including coal production, is responsible for generating approximately **42%** of the taxable gross receipts for the local government of McKinley County **(2014)**.

Changes in global markets, the cost and availability of energy resource substitutes and federal policy impacting coal and the energy industry have put considerable pressure on the local mining/oil/gas sector, curtailing investment in production and spawning employment reductions. All available data points indicate continued long-term **downward** pressure on the mining sector.

Changes in the energy sector will have massive impacts on our regional economy. **In addition to workforce dislocation**, changes affecting our economic base industries impact the funding to local government and their ability to provide essential governmental services. In McKinley County and northwest New Mexico, revenues into municipal, county and tribal coffers have largely been dependent and reliant on local economic-base industries in the energy sector.

Federal and State governments will always be an important part of any solution, but without strong local effort they cannot lead this region out of this economic crisis. Solutions, therefore, must be robustly rooted in strong decisive action and collaborative effort at the local level.

As with all critical sectors of the Greater Gallup economy, the challenges and opportunities facing the energy sector have dramatic implications for our workforce. We anticipate that about one-third of workers in the sector, most of them highly skilled and well paid, will retire once they are affected by the layoffs. Another one-third will likely leave the region in search of alternative work. And the final one-third will want to continue to make Gallup and McKinley County their home. Will we be able to re-train, re-tool and re-employ these energy industry workers, and will the jobs be there for them to move into? And will there be new jobs for the up-and-coming cohort of citizens just now entering the workforce?

Energy as an Economic-Base Sector

- The Escalante Generating Station in Prewitt, McKinley County's coal-fired power plant, is aging and vulnerable.
- The Escalante power plant employs over 100 people in McKinley County and provides ~~the~~ McKinley County with \$1.4 million **per year** in property tax revenue.
- Peabody Energy, the biggest coal **mining company** in the U.S. and the largest private-sector coal company in the world, **has had** a large presence in McKinley County. **However, Peabody** has filed for Chapter 11 bankruptcy, citing a drop in prices, weaker demand from China, the rise of competition from fracking and "ongoing regulatory challenges" as reasons for the restructuring.
- Peabody Energy's El Segundo and Lee Ranch mines in McKinley County supply the Escalante plant; over 300 were employed in those mines at the beginning of the year, but in recent months, one-third of that workforce has been laid off.
- McKinley County coal has relatively **high** sulfur content **comparatively**, limiting markets and use.
- Of the \$620 million Navajo Nation budget, from 33% to 50% is supplied by payments derived from coal mining ~~and~~ coal-fired power plants.
- 1,500 members of the Navajo Nation work in the coal and power generation sectors.
- The Four Corners Power plant employs 370, with an additional 430 employed in the nearby mine; layoffs have already begun.
- Coal fired power plants and coal mining **are** responsible for an estimated 11-15% of all wages in Northwest New Mexico, and these jobs are among the **highest** paying jobs.

This assertion needs to be double-checked.
Tom Taylor asserted that our coal has
relatively low sulfur content (8 or 9%), but
that the challenge has been getting 90%
pollutant reductions out of that 9%.

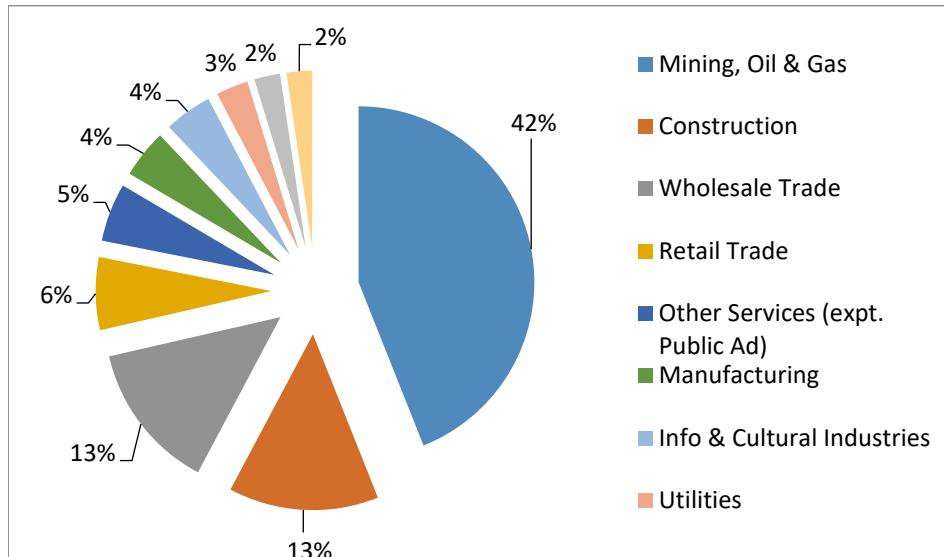
We may need to tighten up these ranges. The
question could legitimately be asked, Well, is it 33%
or 50%? Is it 11% or 15%? If we can't get more
precise, then maybe the language is:

"Over one-third of the Navajo Nation's \$620
million budget is supplied ..."

"About one-eighth of all wages in Northwest New
Mexico come from coal-fired power plants and coal
mining operations ..."

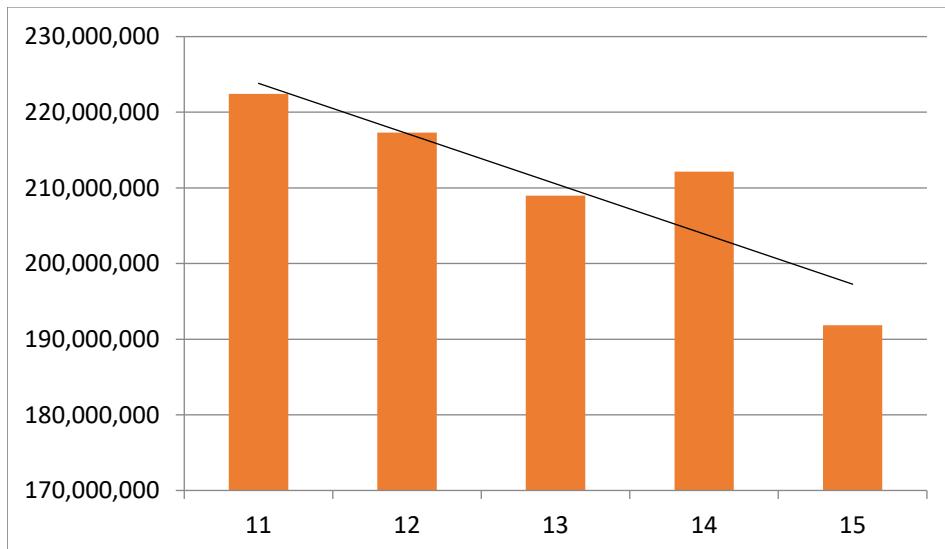
Fast facts Coal mining in McKinley County

McKinley County: Taxable Gross Receipts: 2004 – 2014¹:



In 2014, 42% of all taxable gross receipts for McKinley County **was** derived from the Mining/Oil/Gas sector, which includes Coal.

Mining / Oil / Gas – Taxable Gross Receipts²:

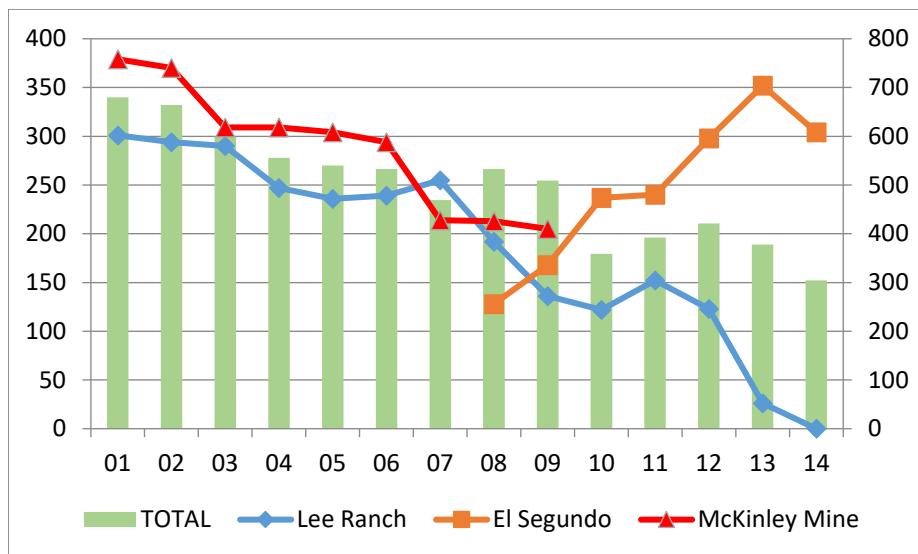


In 2015, for the Mining/Oil/Gas sector, taxable gross receipts equaled approximately \$191 million, down some 14% from \$222 million in 2011.

¹ Source: GGEDC / NM Taxation and Revenue Department

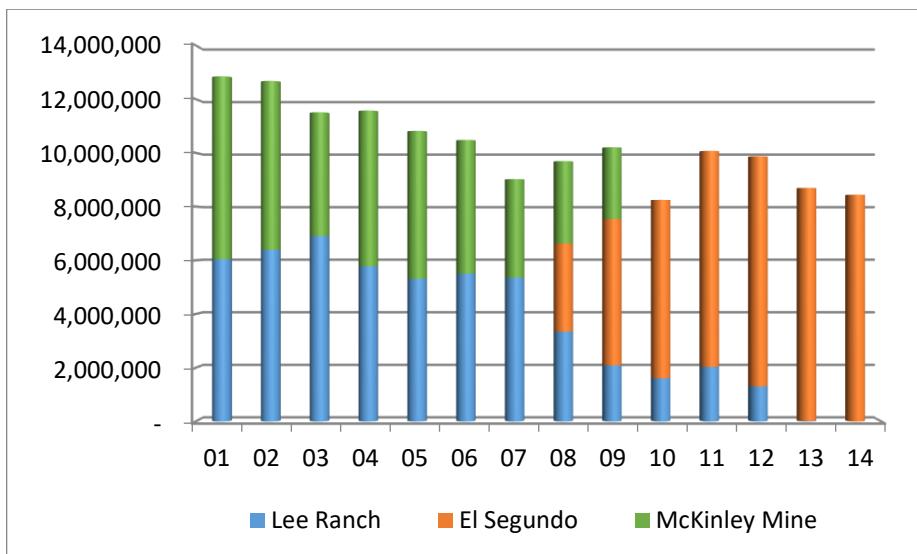
² Source: GGEDC / NM Taxation and Revenue Department

Total Employment by Coal Facility: 2001 – 2014³:



In 2001, 680 people were employed in coal mines in McKinley County. By 2014, coal mining employment had dropped by 55% to 304, a loss of 376 jobs in that 13-year period.

Total Coal Production in McKinley County: 2001 – 2014⁴:

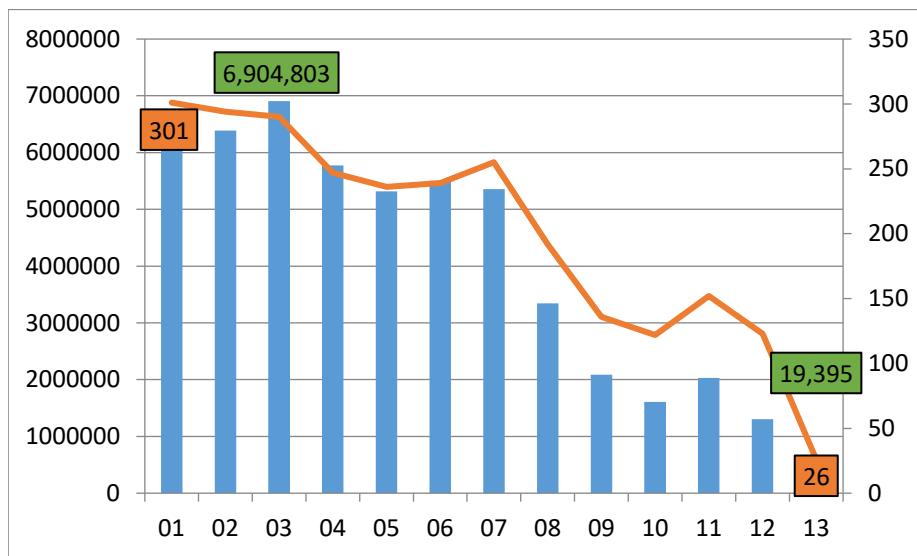


Total coal production in McKinley County peaked in 2001, with approximately 12.8 million tons produced. By 2014, total coal production had dropped about 34%, to 8.4 million tons.

³ Source: GGEDC / US Energy Information Administration

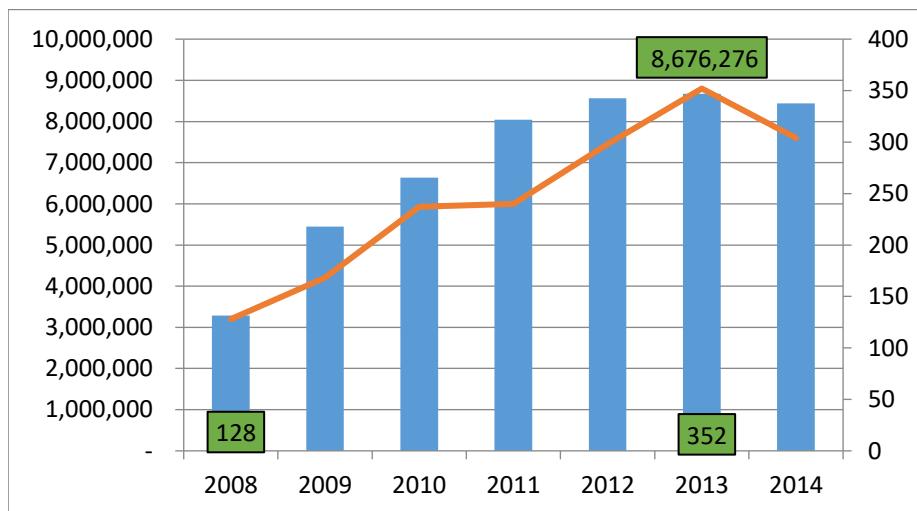
⁴ Source: GGEDC / US Energy Information Administration

Lee Ranch Coal Mine⁵:



In 2001, Lee Ranch employed 301. In 2003, Lee Ranch produced 6.9 million tons of coal. By 2013, Lee Ranch employment had dropped 86% to 26 and annual production had dropped 99% to 19,000 tons of coal.

El Segundo Coal Mine⁶:

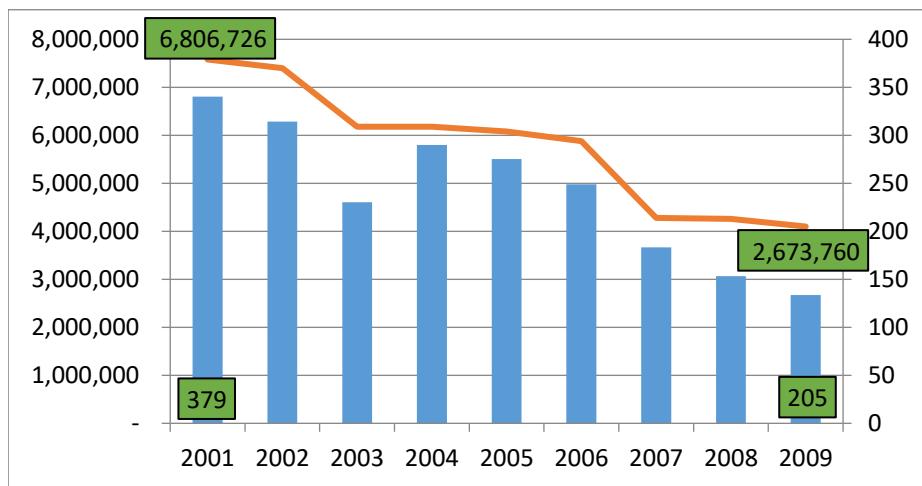


In 2008, El Segundo Coal Mine employed 128 and in 5 years nearly tripled its workforce, reaching 352 in 2013. In 2013, El Segundo produced 8.6 million tons of coal.

⁵ Source: US Energy Information Administration /
<https://www.eia.gov/opendata/qb.cfm?category=769747>

⁶ US Energy Information Administration /
<https://www.eia.gov/opendata/qb.cfm?category=769749&sdid=COAL.MINE.PRODUCTION.2902257-SUB-SUR.A>

Chevron McKinley Mine⁷:



In 2001, the Chevron McKinley Mine employed 379 and produced 6.8 million tons of coal. By 2009, Chevron McKinley employment had dropped by nearly half, to 205, and production had dropped by about 60%, to 2.6 million tons of coal. Just a year later in 2010, the Chevron McKinley Mine ceased operations, and with the exception of a small contingent responsible for reclamation, the majority of the workforce was laid off.

⁷ Source: US Energy Information Administration /
<https://www.eia.gov/opendata/qb.cfm?category=769742>

Investing in McKinley County's economic future

- Assist the coal industry in finding alternative markets and uses **for coal**.

Globally, the coal industry is researching a range of technologies and alternative markets for re-positioning and marketing the coal asset. Partner with the coal companies to find viable alternatives for the industry in the near future.

- Assist the coal industry in addressing or mitigating regulations deemed to be unfair or unreasonable.

Governmental and environmental regulations comprise a major share of the downward economic pressure on the coal industry. Some regulatory issues, including magnitude and timing of required changes, may unnecessarily depress the ability of the industry to adapt and transition. Lend assistance where feasible to address these issues.

- Grow the energy cluster by increasing demand for our region's energy resources through recruitment of new complementary industry.

- Undertake comprehensive site redevelopment and infrastructure planning on existing industrial sites, to position them for recruitment of new economic activity.

- Strengthen Business Retention and Expansion efforts.

Help local businesses to succeed and adapt, to include continuing to implement, expand and refine GGEDC's Business Retention and Expansion Program, supported by cooperative purchase and utilization of BR&E software, and reaching out to and surveying an ever-increasing number of businesses in the region to gain further insights into the needs and goals of the local business community.

- **Transform our talent development system to build workforce skill sets needed by area employers.**

Re-organize and re-tool the area's workforce development system, to include

- **collaborating** with employers, educational institutions and workforce agencies to strengthen, expand and target workforce development services in the Gallup region, including rapid response programming to meet the real-time needs of industry.
- **undertaking a comprehensive labor force analysis and skill-set profile, to be used in attracting industry, developing retraining programs for dislocated workers and aligning workforce services with job skills demands by employers.**

- | | |
|--|--|
| <ul style="list-style-type: none"> ➤ Establish Economic Development as a top goal in Capital Improvement planning. | <p>Prioritize economic development as a primary screening criterion for capital outlay investments in strategic and critical infrastructure.</p> |
| <ul style="list-style-type: none"> ➤ Support and collaborate with economic development goals and initiatives of the area's Native American nations. | <p>Assist, support and cooperate with economic development initiatives on the lands of the area's sovereign tribal nations. This may include the creation of a nonprofit corporation as a mechanism for regional and inter-jurisdictional funding and investment</p> |

Tackling the Challenge

Focus Questions for the Roundtable

1. Do our citizens and leaders really understand the role of the coal and energy industry in our local economy?
2. Do we comprehend the impacts of that industry on every other aspect of the community – government, recreation, education, business, health care? The positive impacts of revenues and employment generated by that sector? The negative impacts of losses in jobs and public tax dollars?
3. Can we see how impacts on any piece of the “energy complex” has a domino effect on all other energy production? What does that mean to us?
4. Are we prepared for the dramatic shifts already in full force in the global energy economy – and the impacts showing up here in our region?
5. What is the role of coal and other extractive industries in our near and more distant future? Is there a window of time, or will the “transition” hit us like a tsunami?
6. Do we have plans, strategies and actions in play for replacing the jobs and revenues being lost in the energy sector? How about those gross receipts tax revenues? Those high-paying jobs?
7. Are we ready to diversify the “economic mix” in our regional community? What alternative sectors and industries stand the best

- chance of succeeding as replacements for the coal and energy industry?
8. Are there new opportunities for growth and prosperity, above and beyond where the energy industry may have taken us over the years?
 9. Can we build and grow a sustainable economy that is not dependent on one or two economic drivers, and that is not as vulnerable to the boom and bust cycles of the energy industry?