

Developing the Logistics Sector in McKinley County



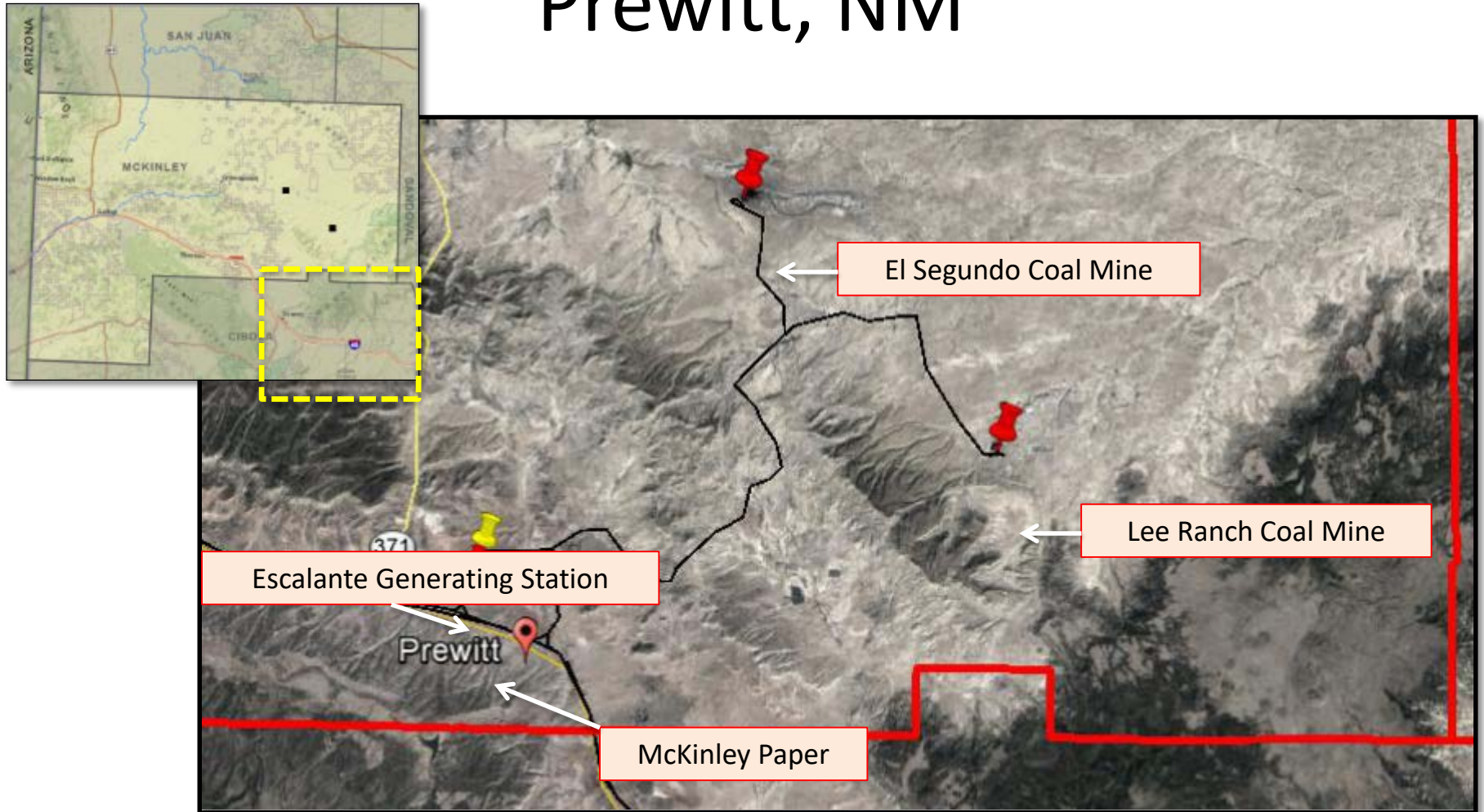
September 17, 2018 | NMTIR Subcommittee | Santa Fe, NM

What is HM72?

- Recognition of Escalante Generating Station as economic anchor for both Cibola and McKinley County
- Proactive leadership based on economic development attraction and retention principles
- Develop a report analyzing:
 - Best practices of cluster developments in other states
 - Workforce development and retooling strategies
 - Expanding industrial growth sectors
 - Tech research opportunities
 - Opportunities for public-private partnerships

Prewitt Industrial Cluster

Prewitt, NM



Prewitt Industrial Cluster

Economic Base Jobs

BUSINESS	2015/2016	2018	Difference
Escalante Generating Station	119	117	-2
McKinley Paper (formerly Bio-Pappel McKinley)	130	129	-1
Peabody Energy: El Segundo Mine	349	240	-109
Peabody Energy – Lee Ranch Coal Mine*	N/A	N/A	N/A
TOTAL	598	486	-112

* Not Operational

Source: Greater Gallup EDC

Purpose of HM72

- HM72 seeks to:
 - Sustain Escalante Generating Station
 - Diversify economies for Cibola & McKinley County
 - Capitalize on skill-sets of existing workforce
 - Capitalize on existing infrastructure assets
 - Capitalize on bi-county regional public-private partnerships

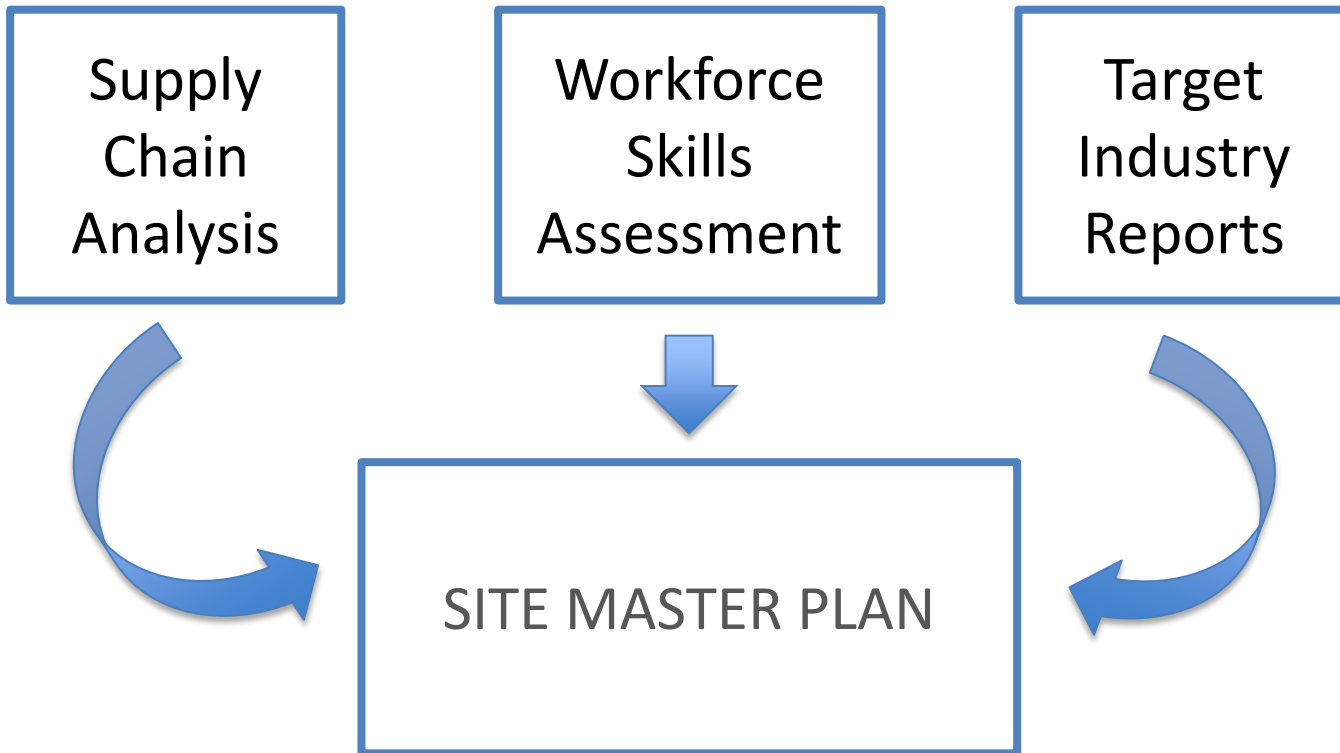
Cibola County Scope of Work

- Identify & document available workforce skill-sets
(Workforce Assessment)
- Identify complementary businesses for recruitment
(Supply-Chain Analysis)

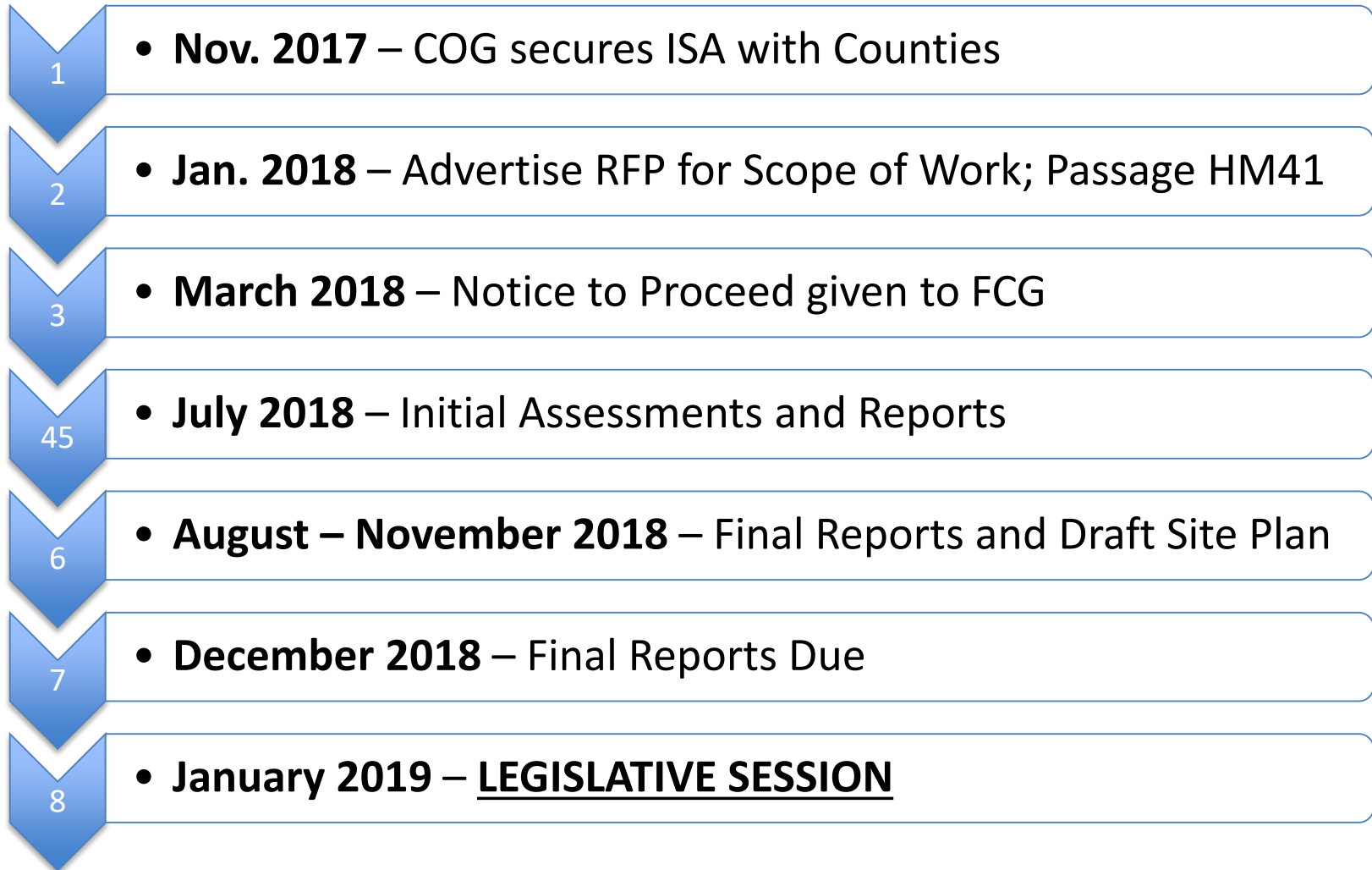
McKinley County Scope of Work

- Identify compatible industries for recruitment
(Target Industry Analysis)
- Identify location for business siting
(Master Site Plan)

Bringing It All together



Current Steps



Introduction

- Looked at important site selection factors:
 - Supply Chains/Freight
 - Preliminary Targets
 - Workforce Factors
- Other critical factors:
 - **Economic Development Assessment**
 - Transportation/Logistics
 - Utilities & Infrastructure
 - Sites & Buildings
 - Taxes
 - Incentives
 - Quality of Life/Cost of Living
 - **“Best Fit” Targets**

Supply Chain Analysis

- **Suppliers:** Understanding your prominent regional industries where most of their work is done elsewhere, but could potentially be done in your region
- **Freight:** Determining the major products that flow through your region and could potentially be manufactured/distributed in your region
- **Locations/Expansions:** Understanding which industries/services have actually located or expanded within the four states around your region, showing clustering trends.

Key Potential Suppliers

<u>Cibola County</u>	<u>Regional Supply Gap (\$M)</u>
Coal Mining	\$10.70
Animal Production	\$3.20
Corporate/Regional Offices	\$2.80
Animal Food Manufacturing	\$2.60
Oil/Gas Machinery	\$2.20
Warehousing	\$1.70
Engineering Services	\$1.60
Logging	\$1.50
Health Insurance	\$1.50
Petroleum Refineries	\$1.40
Crop Production	\$1.30
Computer Equipment	\$0.70

<u>McKinley County</u>	<u>Regional Supply Gap (\$M)</u>
Petroleum Extraction	\$109.60
Gas Extraction	\$34.20
Corporate/Regional Offices	\$22.20
Wholesale Trade	\$4.00
Insurance Carriers	\$3.50
Sawmills	\$3.10
Trucking	\$2.90
Temp Help Services	\$2.60
Cheese Manufacturing	\$2.40
Pipelines/Oil	\$2.20
Telecommunication Carriers	\$2.10
Electronics	\$0.80

McKinley County - \$109M in goods and services consumed in support of petroleum extraction are imported into McKinley County.

Freight: LA to NM

Inbound

- Furniture
- Machinery
- Coal – n.e.c.
- Plastics/rubber
- Other foodstuffs
- Base metals
- Other ag products
- Motorized vehicles
- Electronics
- Nonmetal mining products

Outbound

- Newsprint/paper
- Waste/scrap
- Other foodstuffs
- Milled grain products
- Fertilizers
- Animal feed
- Nonmetal mining products
- Paper articles
- Articles – base metal
- Misc. manufacturing products

Furniture is top item sent from LA to NM

Newspaper/print is top item sent from NM to LA

Freight: Houston to NM

Inbound

- Coal – n.e.c.
- Basic chemicals
- Other foodstuffs
- Articles – base metal
- Animal feed
- Alcoholic beverages
- Motorized vehicles
- Misc. manufacturing products
- Electronics
- Chemical products

Outbound

- Coal – n.e.c.
- Fuel oils
- Crude petroleum
- Fertilizers
- Other foodstuffs
- Machinery
- Other ag products
- Misc. manufacturing products
- Nonmetallic minerals
- Waste/scrap

Coal – n.e.c. is top item sent from Houston to NM

Coal – n.e.c. is top item sent from NM to Houston

Freight: Dallas to NM

Inbound

- Mixed freight
- Coal – n.e.c.
- Other foodstuffs
- Misc. manufacturing products
- Nonmetal mining products
- Base metals
- Meat/seafood
- Machinery
- Articles – base metal
- Crude petroleum

Outbound

- Coal – n.e.c.
- Other foodstuffs
- Waste/scrap
- Milled grain products
- Metallic ores
- Nonmetal mining products
- Fertilizers
- Misc. manufacturing products
- Mixed freight
- Newsprint/paper

Mixed freight is top item sent from Dallas to NM

Coal – n.e.c. is top item sent from NM to Dallas

Freight: LA to Dallas (through Prewitt)

From LA

- Motorized vehicles
- Furniture
- Other foodstuffs
- Nonmetal mining products
- Electronics
- Plastics/rubber
- Base metals
- Articles – base metal
- Misc. manufacturing products
- Machinery

From Dallas

- Waste/scrap
- Other foodstuffs
- Other ag products
- Newsprint/paper
- Chemical products
- Mixed freight
- Plastics/rubber
- Articles – base metal
- Milled grain products
- Pharmaceuticals

Motorized vehicles is top item sent from LA (thru NM) to Dallas

Waste Scrap is top item sent from Dallas (thru NM) to LA

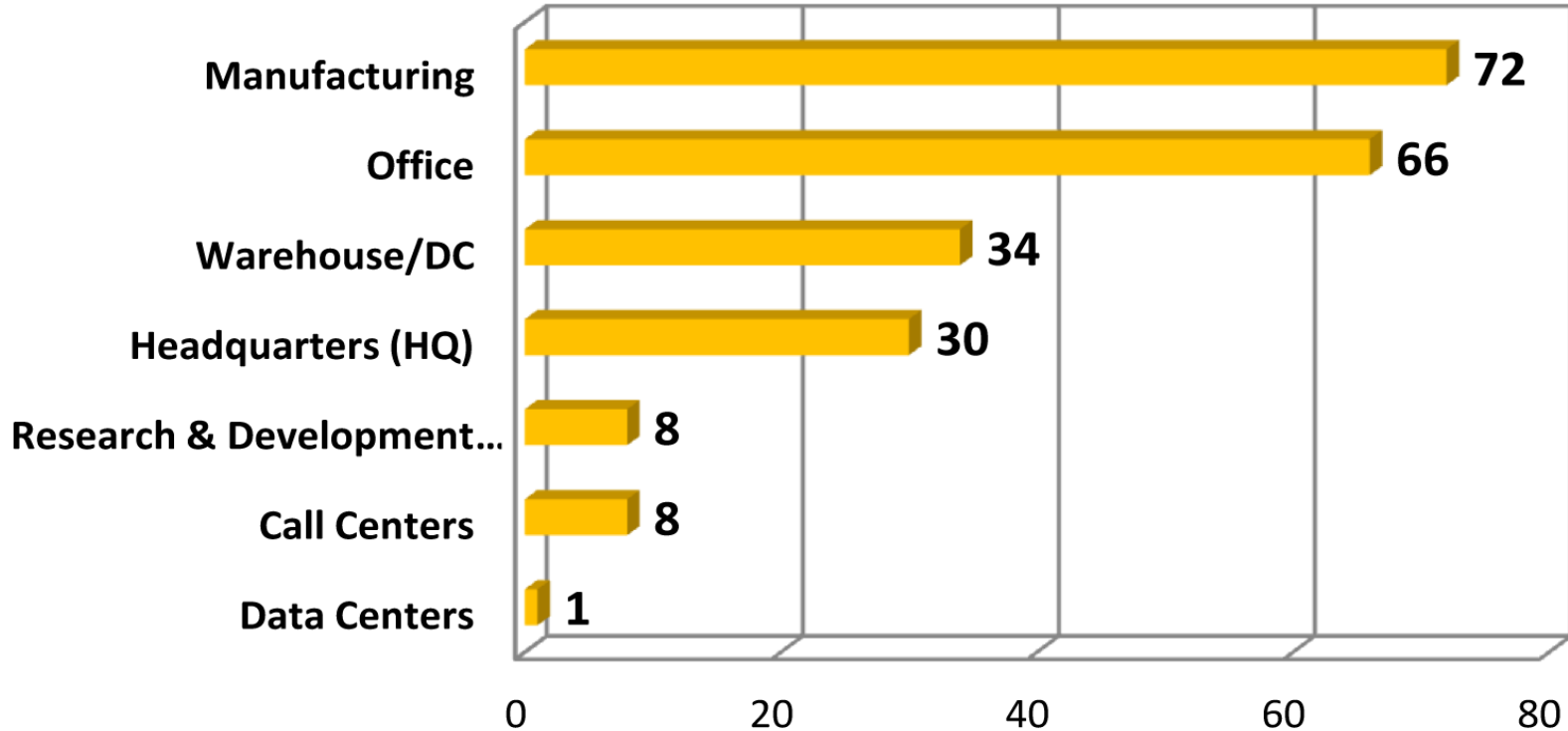
Location/Expansion Analysis

Location/Expansions by Broad Sectors

2017-18 in

NM, AZ, CO, UT

Source : Conway Data

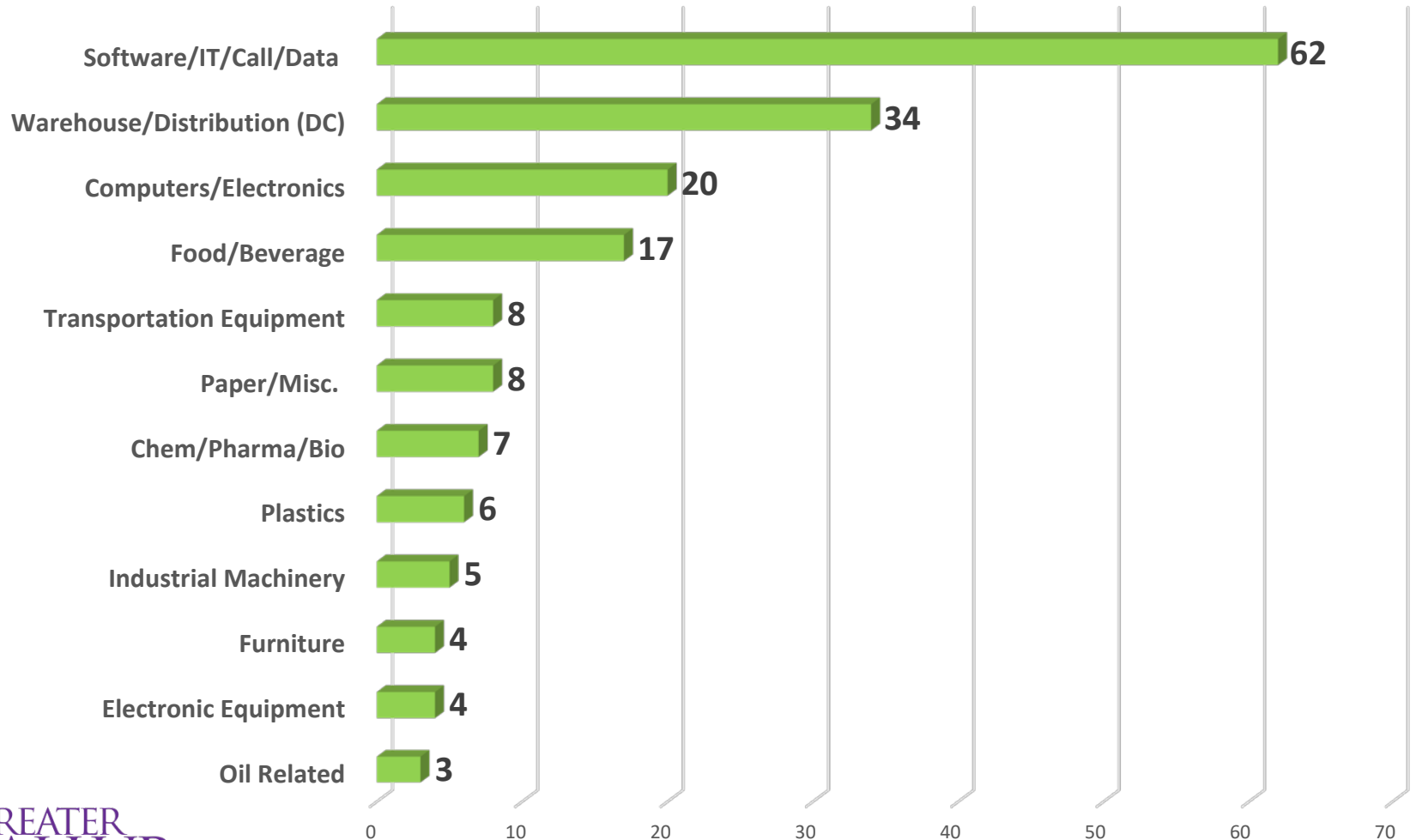


Location/Expansion Analysis

Top 12 Four-State Region* Locations/Expansions,

2017-18 (*NM, AZ, CO, UT)

January 17-February 18; Source: FCG from Conway Data



Preliminary Targets (match all 3)

Food/Beverage

Industrial Machinery

Wood/Furniture

Chemicals/Pharm/Plastics

Paper

Computers/Electronics

Warehouse/Distribution

Software/Related Services

Financial Services

Oil-Related

Economic Development Assessment

- Sites & Buildings
- Transportation/Logistics
- Utilities & Infrastructure
- Taxes
- Incentives
- Quality of Life/Cost of Living

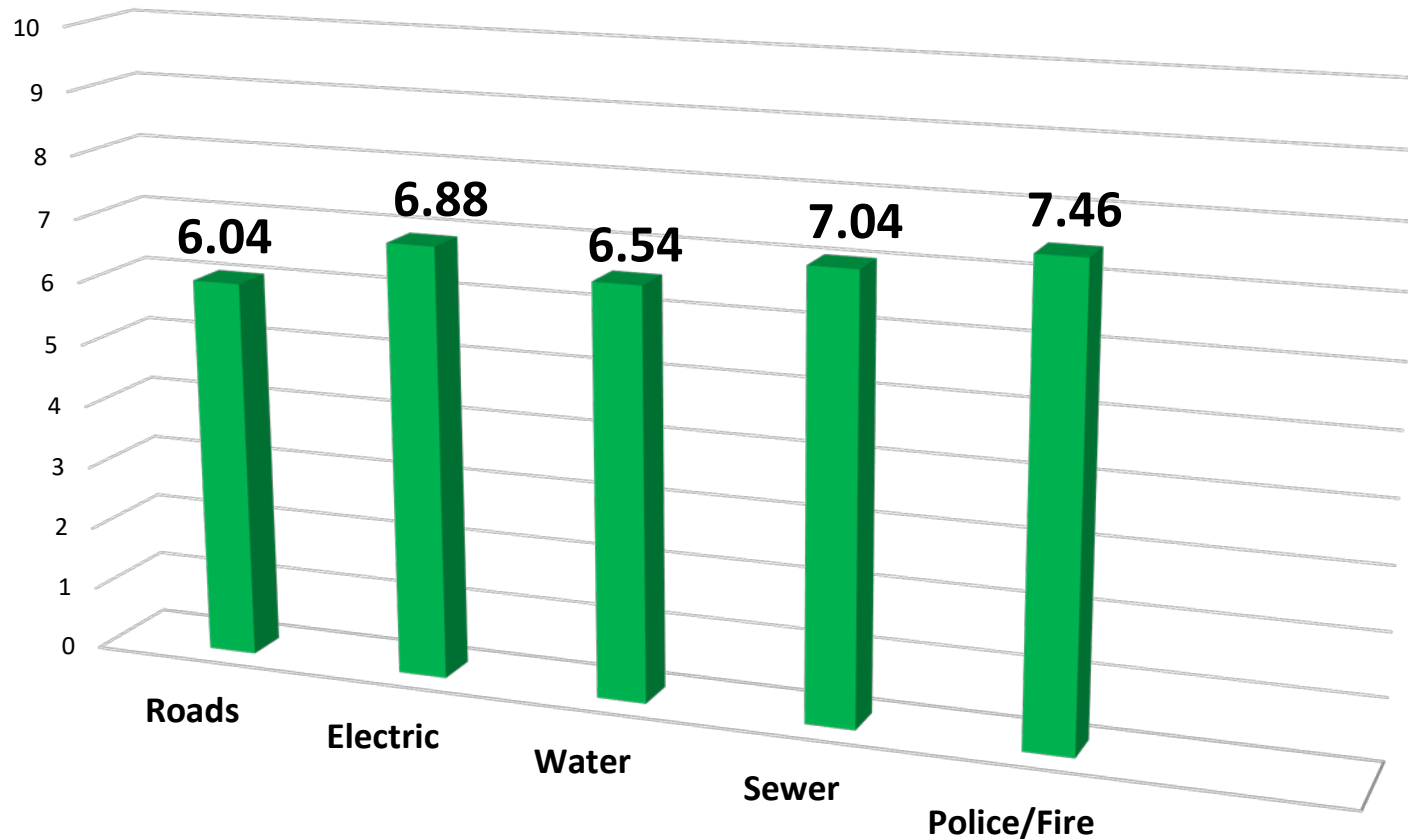
Transportation/Logistics *Strength*

- Excellent for serving Western markets; particularly Albuquerque, Denver, and Phoenix
- Direct access to Interstate I-40 with service from Los Angeles to Dallas
- Outstanding Burlington Northern and Santa Fe (BNSF) rail connections
- Improved access from Farmington to Gallup via US 491

Utilities & Infrastructure

Above Average

Prewitt Region Community Services, 2018
(1=poor; 5=ave.; 10=excellent; Source: FCG fieldwork)



Taxes

Mostly Strengths

Manufacturing Plant

(out of 50 states)

- Arizona: 32
- Colorado: 47
- **New Mexico: 21**
- Utah: 23

Call Center

- Arizona: 17
- Colorado: 33
- **New Mexico: 22**
- Utah: 10

Distribution Center

- Arizona: 26
- Colorado: 43
- **New Mexico: 19**
- Utah: 3

*Source: Tax Foundation and KPMG,
Location Matters, 2015*

New Mexico

- Closing Fund – Local Economic Development Act (LEDA)
- High Wage Jobs Tax Credit
- Manufacturers Investment Tax Credit
- Job Training Incentive Program (JTIP)
- Gross Receipts Investment Policy (GRIP)

Arizona

- Qualified Facility Tax Credits
- Quality Jobs Tax Credit
- Arizona Job Training
- Computer Data Center (CDC) Program

Colorado

- Job Growth Incentive Tax Credit
- Strategic Fund
- Pueblo Sales and Use Tax Capital
- Revolving Loan Fund (Denver)
- Colorado FIRST
- Enterprise Zone Tax Credits

Utah

- Economic Development Tax Increment Financing (EDTIF)
- Industrial Assistance Fund (IAF)

RECOMMENDATIONS

- **Work as a region**
- **Pursue the top five targets**
 - **Cost comparison reports**
 - **Freight model**
 - **Marketing**
- **Market to site selectors**
 - **Site Selectors Guild (SSG)**
 - **Spring Conference – Salt Lake City – March 25-27, 2019**
 - **Plan an Advisory Forum**
- **New marketing piece; improve website (target tabs)**
- **2 missions and 2 trade shows/year**
 - **Phoenix**
 - **Denver**
- **“Spec” building feasibility study**

Logistics Industry trends – U.S.

- Port congestion especially in west coast ports ex. Long Beach and Los Angeles
- Driver shortages – average age is 57 years old
- Security requirements- increased
- Freight and labor costs- drives location decisions
- Regionalization - occurring for distributors
- Companies integrating rail – more flexibility and competitive costs
- Highway access is important
- Inland port expansion – more demand
- E-commerce- increased demand for distribution centers

Source: Foote Consulting

New Mexico Trade - Gateways

- Important to New Mexico's international trade:
 - **Port of Houston** – Europe and Latin American cargo
 - **Los Angeles/ Long Beach** - Asia and other pacific cargo
 - **Border crossing with Mexico** - New Mexico, Texas, and Arizona
 - **Border crossing with Canada** - Illinois, Montana and Washington

Gallup Target Industry Analysis

“Best Fit” industries

- Gallup has competitive advantage in:
 - Oil/gas/mining equipment & services
 - Warehouse/ Distribution (DC)
 - Industrial machinery
 - Plastics products
 - Food processing

Source: Foote Consulting

McKinley County Logistics Assets

- Gallup needs to take advantage of existing infrastructure assets which include:
- Assets:
 - Transportation
 - Lower labor costs
 - Electric power cost/reliability
 - Gallup Energy Logistics park
 - Future container transload capability
 - Potential FTZ sub-zone area
 - No inventory tax
 - Incentives (training)
 - Close to west coast and 4 Corners Region (oil/gas/mining)

Source: Foote Consulting

Regional trends

- Greatest intermodal/transload needs come from oil/gas/mining equipment & food processing /production sectors.
- The oil/gas/mining equipment and service the most important target sector
- Oil/gas/ mining equipment and services will rely more and more on rail transportation to get products to west coast and gulf markets
- Maintenance of SR 491 and related funding should be a regional priority

Distribution center: Site Selection needs

- Top priority first:
 1. Access to market/transportation/freight costs
 2. Labor costs/availability
 3. Electric power (costs/reliability)
 4. Access to interstate highways (“5 to 55”)
 5. Large sites (50 -250 acres) and large buildings
 6. Rail service for select operations
 7. Incentives (infrastructure, training)
 8. Good labor/management relations

Source: Foote Consulting

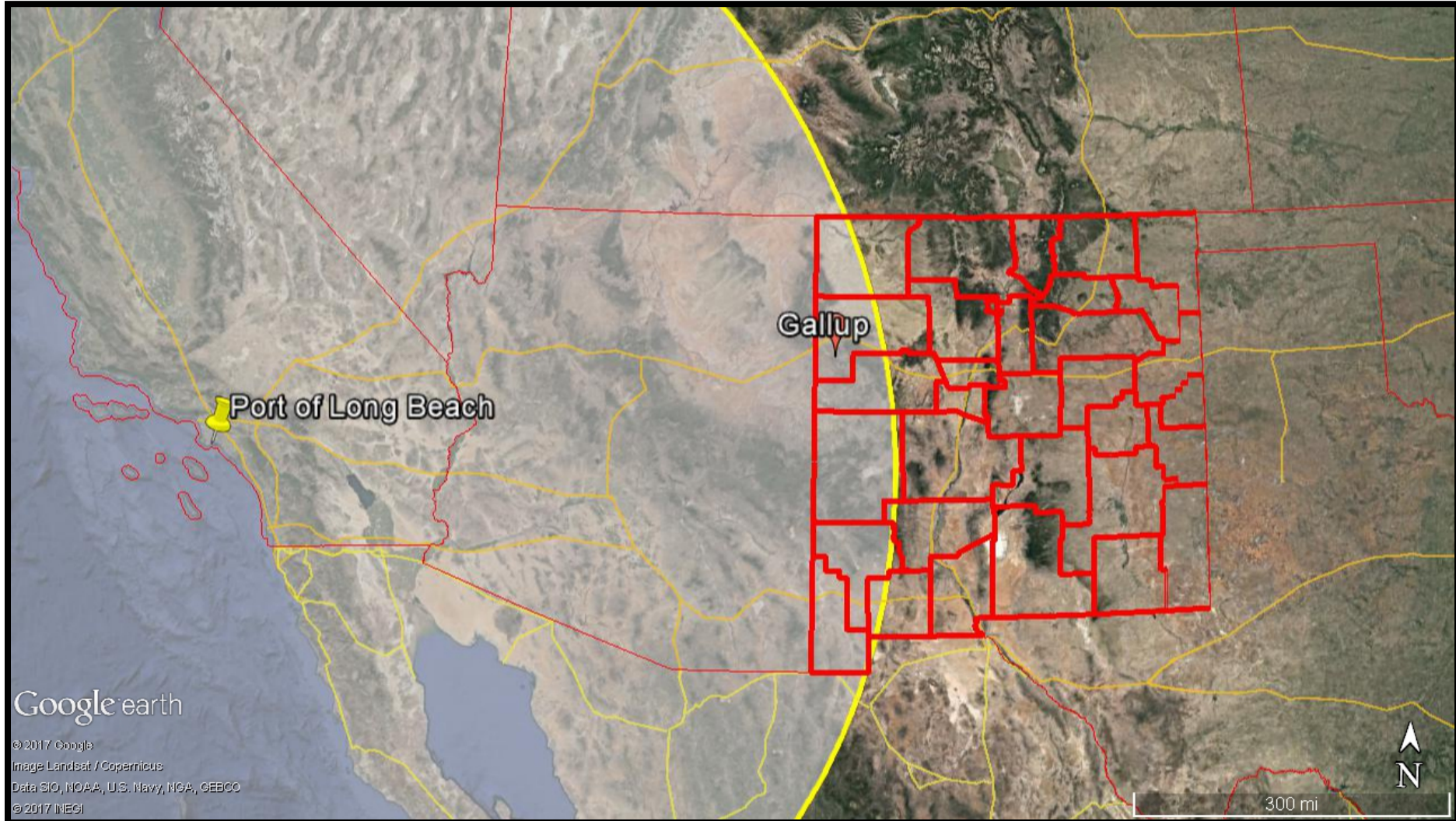
Why Focus on Transportation?

- 7,000 trucks every day on I-40
- 137-year relationship with BNSF Railway
 - Heritage Community Award (2015)
 - Premier Sites Program (2016)

Growth will concentrate in Megapolitans



11-Hour Drive Window



Transportation Assets



Go West or East from Gallup



GLP – LBC | 666 miles | 9h 40min

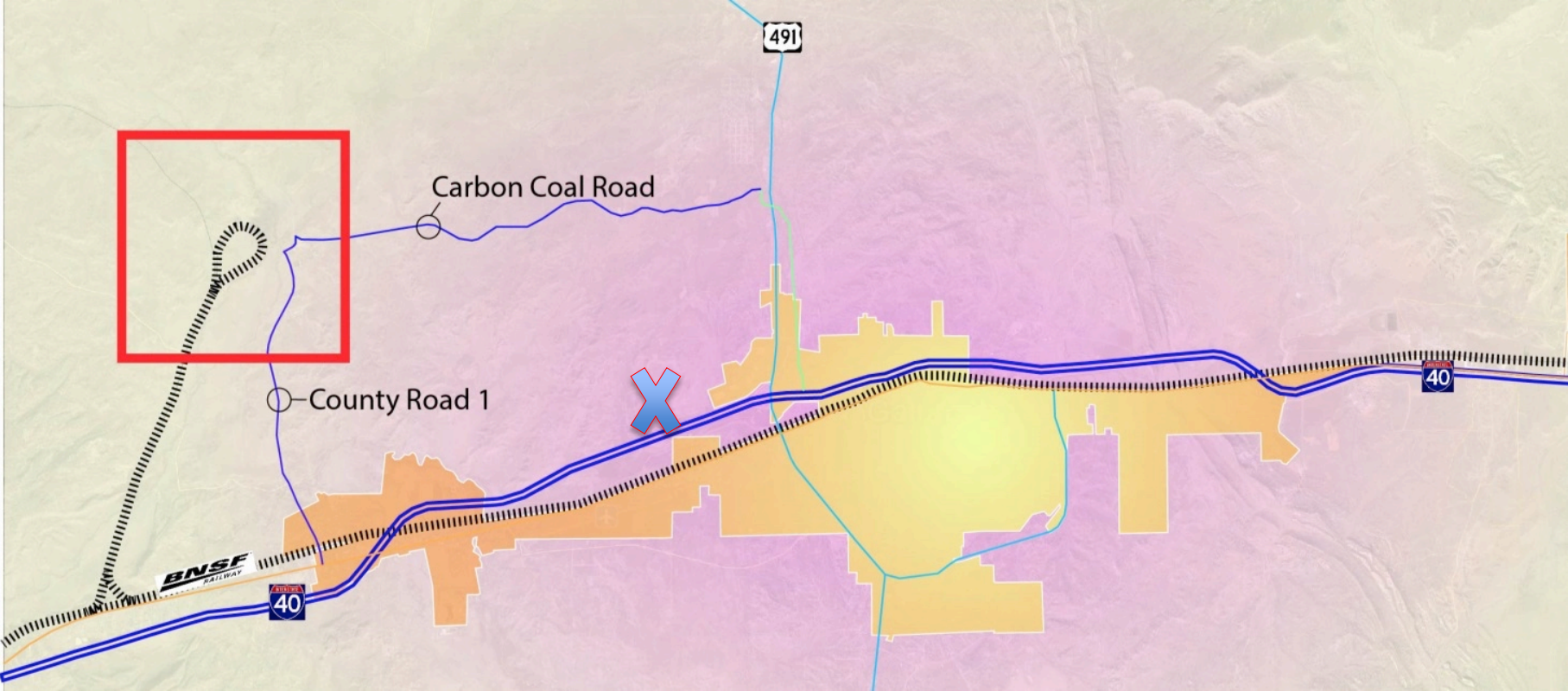
GLP – OKC | 670 miles | 9h 47min



Gallup Energy Logistics Park

- 2,500 acres
- 20,000 ft. rail
- Direct connection to US Hwy 491
- Natural Gas Pipeline
- Navajo-Gallup Water
- BNSF Certification
- 350 certified acres
- Biological Survey
- Geotechnical Report
- Rail Site Master Plan

Energy Logistics Park

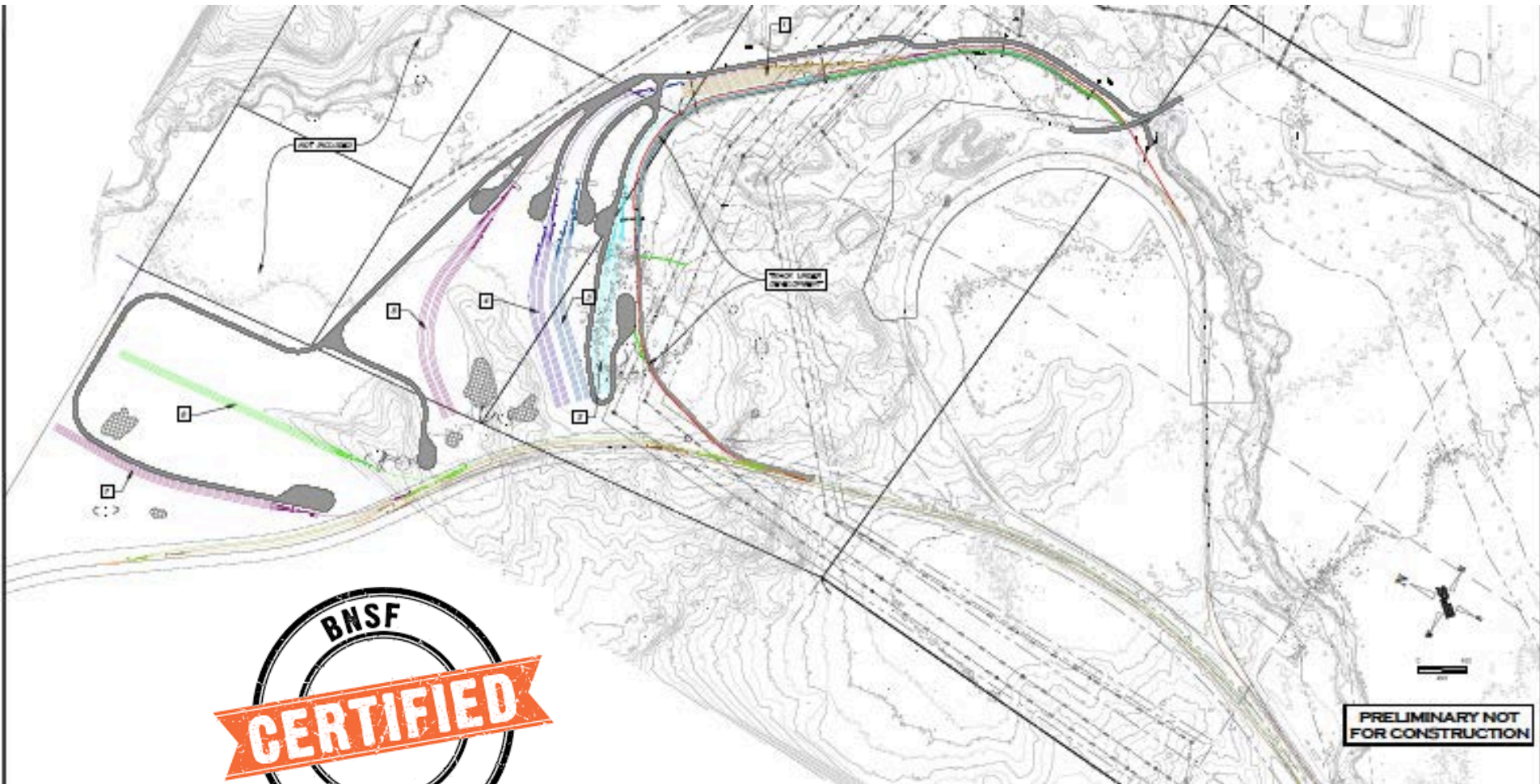


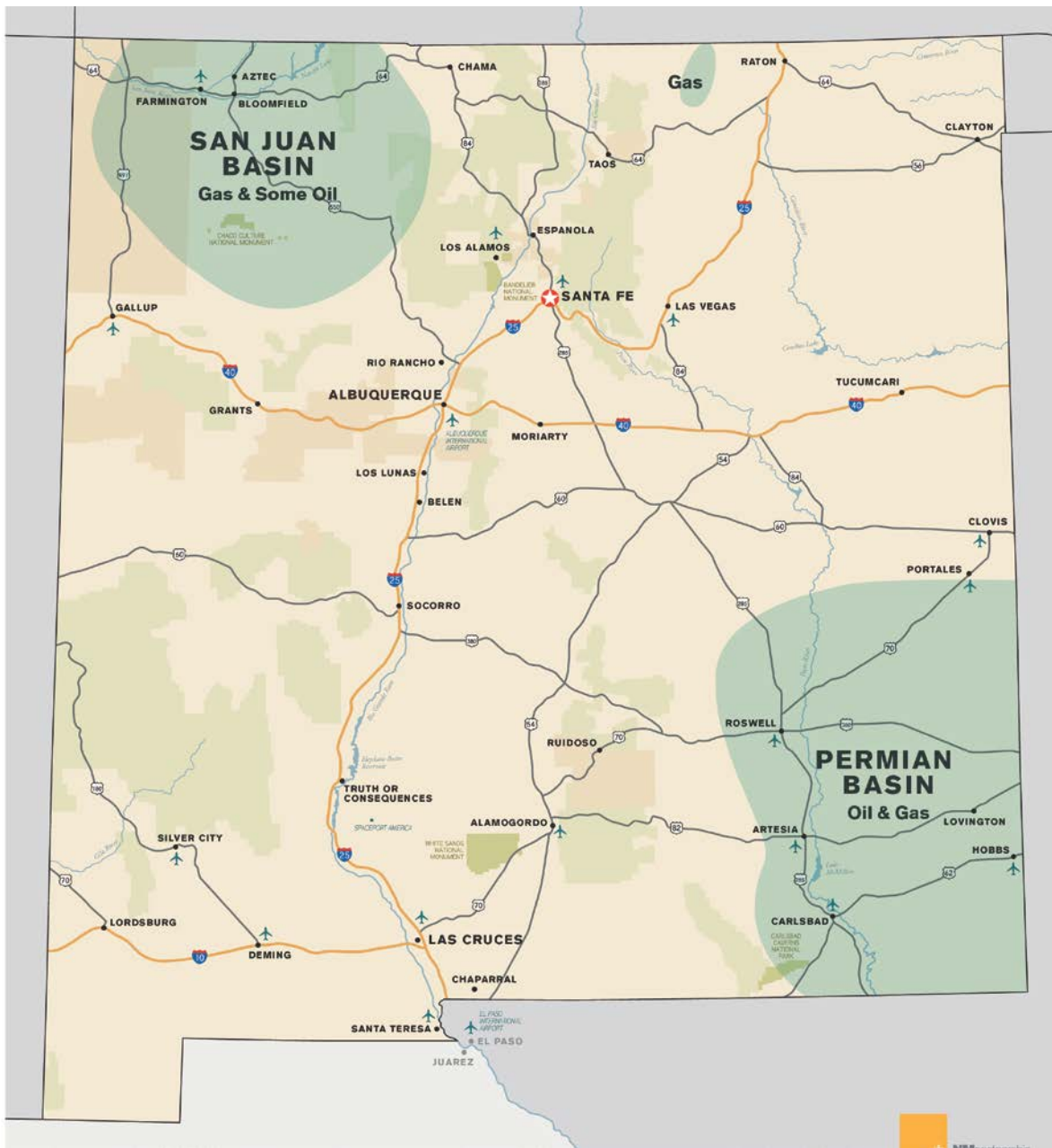
Energy Logistics Park



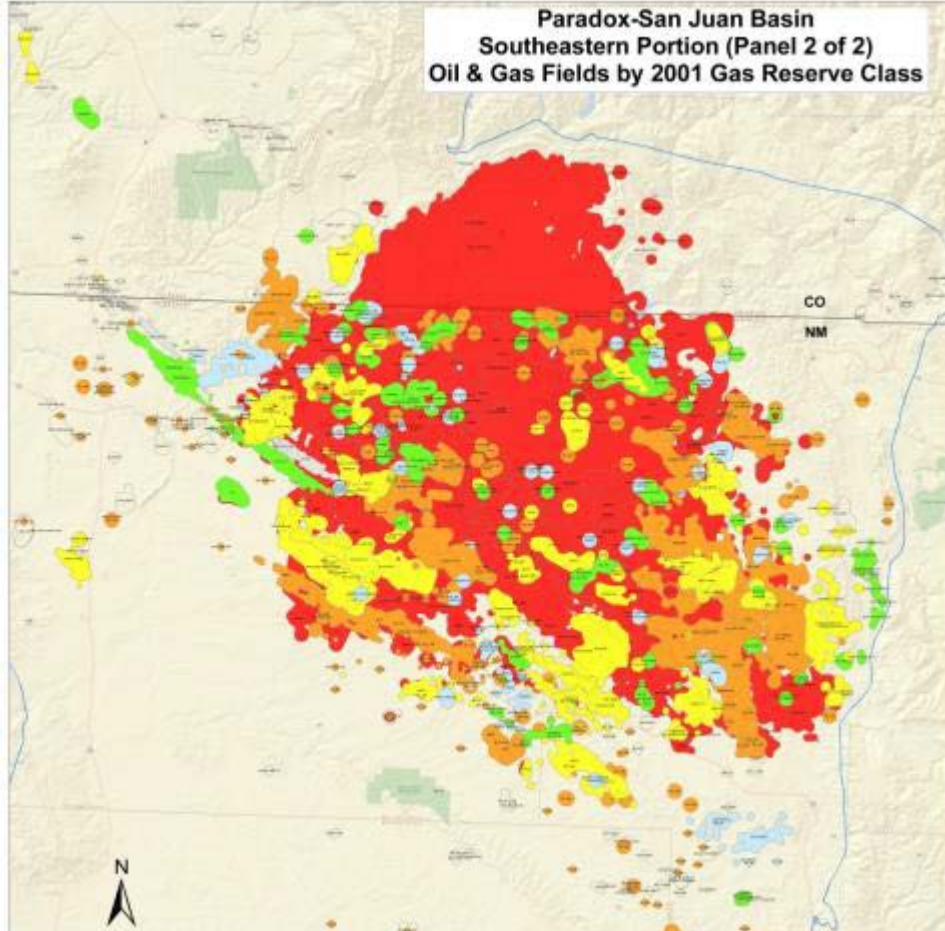


Energy Logistics Park Map- “BNSF Certified”

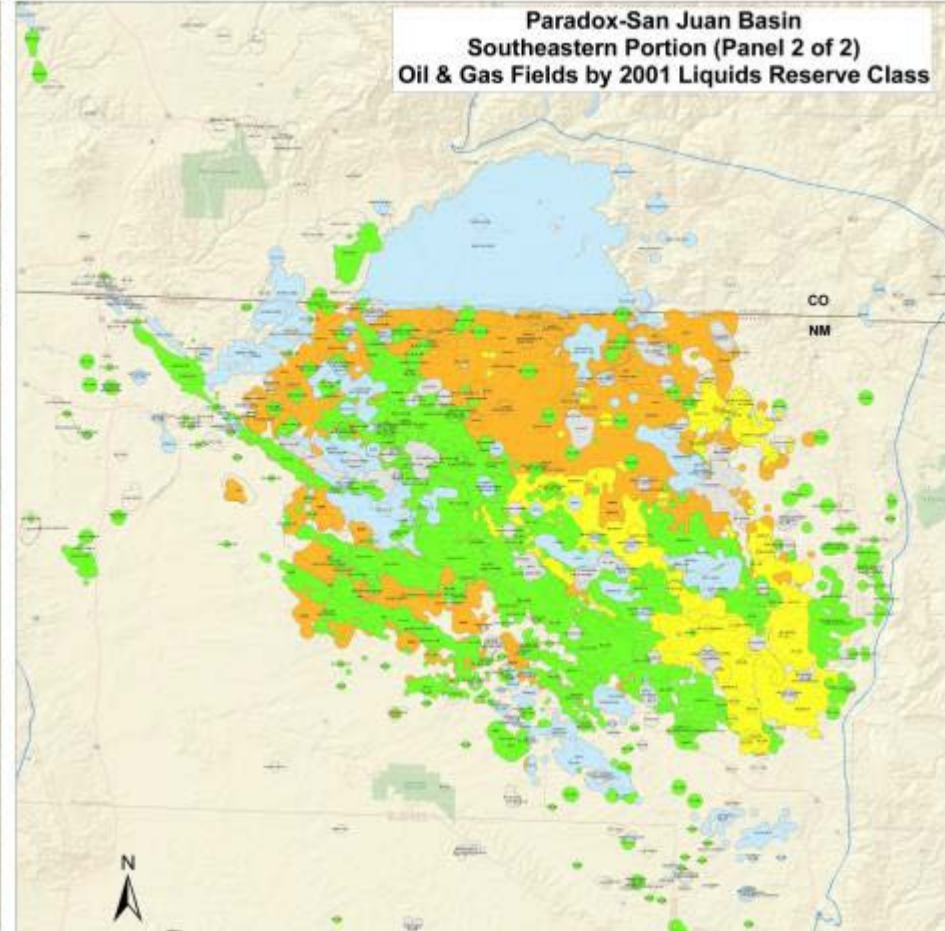




Paradox-San Juan Basin
Southeastern Portion (Panel 2 of 2)
Oil & Gas Fields by 2001 Gas Reserve Class



Paradox-San Juan Basin
Southeastern Portion (Panel 2 of 2)
Oil & Gas Fields by 2001 Liquids Reserve Class



Types of Rail Cars

Tanks Cars



Car Length:
60' 3-1/2" (30.5K gal.)
58' 4-1/4" (28.4K gal.)

Unit Train (100 cars)
5,800 – 6,000 ft.

Crude
Diesel fuel
Chemicals

Large Open-Top
Hopper



Car Length:
Range from 51' to 57'

Unit Train (100 cars)
3,700 – 5,700 ft.

Coal
Sand
Rock

Small Open-Top
Hopper

Car Length:
Range from 37' to 44'

Gondolas



Car Length:
Range from 36' to 65'

Unit Train (100 cars)
3,600 – 6,500 ft.

Scrap Metal
Steel
Sand

Flat Cars



Car Length:
Range from 60' to 89'

Unit Train (100 cars)
6,000 – 8,900 ft.

Pipe
Rail
Machinery
Steel Beams

Covered
Hopper



Car Length:
Range from 42' to 65'

Unit Train (100 cars)
4,200 – 6,500 ft.

Cement
Frac Sand
Fertilizer

Manufacturing Warehouse / Distribution

Foreign Trade Zone – Subzone Designation



U.S. Customs and
Border Protection



Carbon Coal Road



Questions?