KLAMATH COUNTY ECONOMIC DEVELOPMENT
CHOOSE KLAMATH

PREDICTION: Construction is Leading a Recovery for Klamath

By Greg O'Sullivan, Klamath County Economic Development Association

Klamath County's construction industry economy will surge in the next five years. We need a motivated, educated, and drug-free work force to fill the jobs created.

When it comes to predictions, economic development professionals, academia, and government agencies do a great deal of "Monday morning quarterbacking." Often, these predictions are formed using economic data and forecasting models that provide little in the way of useful information to determine where an economy is going. We make wide-ranging assumptions on the performance of our local economies using state and federal reports that examine trends in population growth, unemployment rates and industry characteristics. The problem with these historical "time series" intelligence methods is that they take a "rear-view mirror" approach to economic forecasting.

Economic analysis is more of an art than a science. I was reminded of this early in my career after attending a statewide economic development conference that was sponsored by a major utility agency. Impressed by what I heard, I made my way to the stage to meet the guest speaker. He had just given a speech on where the California economy was going with regards to its business environment. As I shook his hand and complimented him on his remarkable insight, I reached for a business card and phone number. He responded by saying "Don't worry about it, Greg. I'm an economist; I'll *estimate* your phone number." We both chuckled.

That was my first of many lessons that revealed to me how economists and recognized experts use historical data sets, statistical profiles and economic base analysis for wide-ranging planning. Regardless of how much data is analyzed or how science is applied, I still believe that these tools are imprecise, and often wrong, when it comes to the practice of futurism or determining what is in store for a community like Klamath Falls.

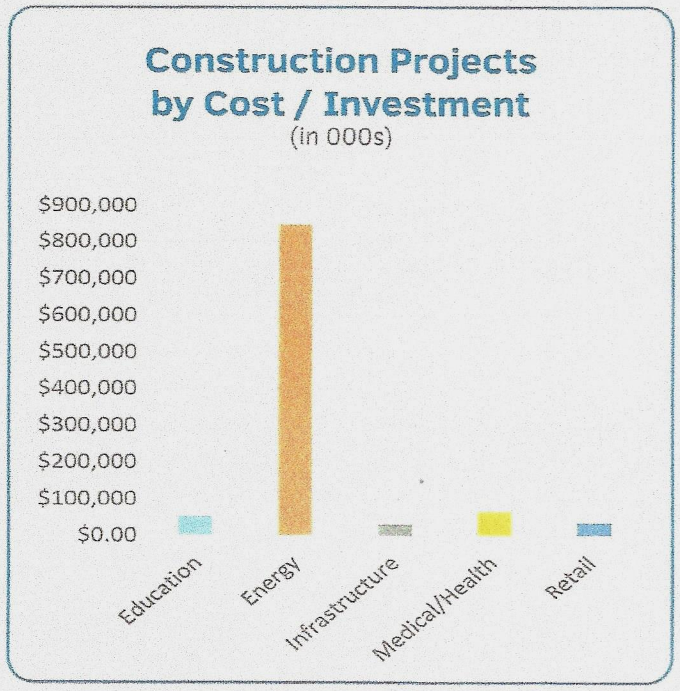
Conducting Our Own Research

Realizing the limitations of economic forecasting, KCEDA decided to take a hybrid approach. The approach combines primary research with qualitative firsthand interviews, to make predictions regarding Klamath County's business and development climate within the next five years. KCEDA staff interviewed local planning agencies, building officials, industry contacts and other informants. The objective was to gather as many projects as possible that were actually slated to be under construction from 2016-2021. Rather than using historical data to predict the future, we look to actual projects, in actual construction or in the actual planning process, to predict our future. Our intention is to use the construction industry as the economic recovery identifier for Klamath County. We identified 19 projects that met our criteria. The criteria we used to identify active development projects included four co-factors:

1. **Status** - Projects that have been submitted for permits;
2. **Capital Investment** – Projects that have a budget assigned to them with a capital investment of $500,000+;
3. **Timing** – Projects under construction within 5 years; and
4. **Funding** – Projects with allocated and/or identifiable funding sources

Construction Industry Project Sectors

Our research fell within five project sectors of the construction industry: education, energy, infrastructure, healthcare and retail.



Progressive Economic Recovery

Our conclusion is that Klamath County is well on its way to economic recovery. More importantly, the county is on its way to the right *type* of recovery: progressive recovery. According to the list of projects, more than $1 billion will be spent to construct, rehabilitate, restore or demolish buildings and infrastructure.

Industry Sectors	Construction Spending (in 000s)
Education	$50,200
Energy	$840,000
Infrastructure	$27,725
Medical/Health	$62,900
Retail	$32,000

Energy Projects

Energy projects lead our construction spending, with over $800,000 million slated for just three projects. The Swan Lake pump storage project represents $700 million in construction spending. Pacific Power is already underway with the Snow Goose substation, which is estimated to invest $60 million to improve distribution and prepare for new energy loads in the Basin. In addition, according to county records, $80 million in solar projects that private energy developers have planned are permitted for construction.

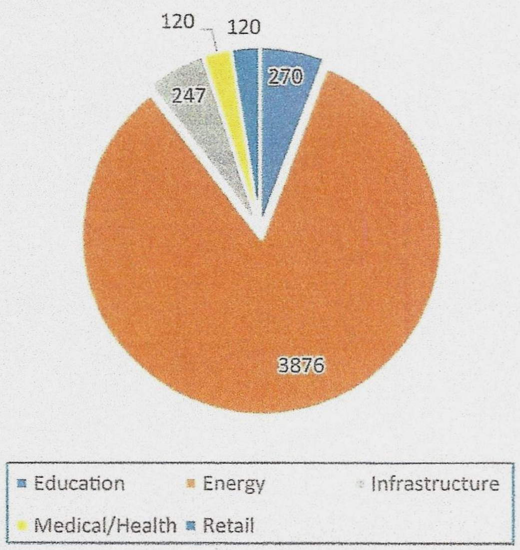
Infrastructure Projects

Klamath County and the Basin are "betting long" when it comes to infrastructure spending. KCEDA identified five significant infrastructure projects in Klamath County, all of which fall under the foundation of modern local economies: roads, airports, water systems and telecommunications. Those five significant infrastructure projects are:

1. Crater Lake – Klamath Regional Airport (Taxiway B)
2. Irrigation System – C Flume Replacement
3. Airport Maintenance Hangar
4. Pelican City Booster/Water Main Phase 1
5. Altamont Main Replacement PHV

These projects have a huge multiplier effect, considering that $1 spent on infrastructure results in $2+ dollars in secondary (indirect) investment. When you invest in power generation facilities or expand airports, employment improves and the industrial base around the infrastructure is expanded. Today's companies want to tap robust communications and build communities with infrastructure ready to connect. It is these communities that get more entrepreneurs and employ more labor. These workers purchase more goods from the markets, creating a virtuous cycle.

Construction Jobs by Project Type



From where I sit, Klamath County and the Basin are both on their way to a significant recovery and economic expansion. More than 4,600 construction jobs will be created by these projects. According to Indeed.com, the average salary of a Klamath County construction worker is approximately $47,000. Therefore, each project represents a significant payroll contribution to the local economy.

The Labor Impact: Pros and Cons

At the same time, these 19 projects provide a significant amount of full time employment (FTE) after the build-out. Our projections show that over 500 FTEs will be created in the next five years in education, healthcare and retail. These too carry significant benefits for the economy, as the education and healthcare industry sectors average $55,000 and $46,000 respectively in annual salaries. Even lower paying retail positions are important, as they often provide the first rung on the career ladder for youth, college students and those returning to the labor force.

While this research and subsequent report paint an optimistic recovery, there are threats on the horizon. Locally, Klamath suffers from a skill shortage to meet the demand of employers. The recession took its toll on construction laborers, tradesmen and specialized skilled workers. For example, many of these projects require journeyman-level electricians. However, throughout Oregon these jobs remain difficult to fill. Other threats come in the form of policies that are conceived in the urbanized lamaseries of Oregon. Legislatively, elected officials look at planting "magic beans" by raising the minimum wage, worker's compensation rates, or enacting costly taxes like IP28.

Fortunately, we have the foundational elements necessary to address the "skilling up" of our workforce. Klamath Community College fills the gap with career technical education (CTE) programs that include skill-building and certification in construction trades. The newly formed East Cascades Workforce Investment board may also be a resource. The Klamath Promise continues to work hard and make progress towards achieving its objective to have a 100% graduation rate. The ten county consortia will receive significant funding and resources through the Federal Workforce, Innovation, and Opportunity Act. Local representation and strong leadership will assure that these resources are directed toward meeting the labor and training challenges of the projects we have cited.

The next decade is looking to be a very exciting time for Klamath County. It is the leadership and efforts of Klamath's private and public sectors that has allowed it to make a transition into a post-recession economy, positioning it for success. But for us to take advantage of this opportunity, it is critical that the leadership throughout the community, together with our state partners, invest in Klamath's future through a dedicated collaboration. Klamath is an area with abundant sunshine, low humidity, magnificent natural resources, and so much more. It possesses the ability to be a strong economic driver for Oregon, capable of serving as an area that offers industrial strength and diversification.

To become this, it will require establishing a "culture of support" that demands us to work hard and together. By having this support for such projects, it will ultimately result in more investment, jobs, wealth creation, security, and funding power. I believe in Klamath County, and further believe that if we can do this, a very promising future is on the horizon.

PROJECT	LOCATION	TYPE	STATUS	START	FINISH	CAPITAL INVESTMENT (IN 000s)	JOBS CNST	PERMANENT JOBS FTE
Orgis Energy (All projects Dairy, Malin, Sprague River, Merrill, Bly)	Bly - Ivory	Energy	Permitted	2016	2017	$80,000	150	10
Pump Storage	Swan Lake Valley	Energy	Permitting in Process	2019	2023	$700,000	3,300	30
Dollar General	Chiloquin	Retail	Under construction	2016	2017	$1,000	25	5
Dollar General	Merrill	Retail	Under construction	2015	2016	$1,000	25	5
Badger Flats	Klamath Falls	Retail	Permitting in Process	TBD	TBD	$30,000	70	400
KCC	Campus Central Building	Education	Permitted	2016	2017	$6,500	30	10
KCC	Work Skill Building	Education	Permitted	2017	2018	$7,000	40	5
OHSU Rural Health Clinic	Klamath Falls	Medical		2016	2017	$60,000	100	40
Oregon Tech Engineering Building Phase I	Klamath Falls	Education Facility	Permitted	2017	2018	$1,200	100	
Oregon Tech Engineering Building Phase II & III	Klamath Falls	Education Facility	Planning	TBD	TBD	$35,500	100	
Pacific Power Snow Goose Substation	Klamath Falls	Energy	Under construction	Underway	2018	$60,000	426	0
Crater Lake - Klamath Regional Airport (Taxiway B)	Klamath Falls	Infrastructure	Bidding	2016	2017	$6,500	42	
Gospel Mission	Klamath Falls	Medical facility	Bidding			$2,200	15	
Irrigation System C Flume Replacement	Klamath Falls	Infrastructure	Bidding	2016	2018	$10,000	71	
Sky Lakes Sobriety Station	Klamath Falls	Medical facility	Bidding	2016	2017	$700	5	8
Airport Maintenance Hanger	Klamath Falls	Infrastructure			2017	$4,000	48	
Pelican City Booster/Water Main Phase 1	Klamath Falls	Infrastructure			2016	$715	79	
Altamont Main Replacement PH V	Klamath Falls	Infrastructure			2016	$510	7	
Crescent Sanitary District (Waster Water facility)	Crescent	Infrastructure		2018	2019	$6,000		
TOTAL (OVER $1 BILLION)						$1,012,825	4,633	513

Greg O'Sullivan is Executive Director of Klamath County Economic Development. Greg has spent over 25 years as an economic development professional in Arizona, California and Oregon. Serving on statewide task-forces, working as a consultant and managing EDO's he has earned the respect of his peers as a pragmatic, results oriented leader.