BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Noranda Aluminum, Inc.'s Request for Revisions to Union Electric Company d/b/a Ameren Missouri's Large Transmission Service, Tariff to Decrease its Rate for Electric Service	))))	Case No. EC-2014-0224

SUMMARY OF FINDINGS OF MISSOURI ECONOMIC RESEARCH AND INFORMATION CENTER (MERIC) ECONOMIC IMPACT ANALYSIS OFFERED BY MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

COMES NOW the Department of Economic Development, by and through counsel, and offers the following summary of findings of economic impact in regard to this case.

The Missouri Department of Economic Development (DED) conducted an economic impact study through MERIC (Missouri Economic Research and Information Center), a subdivision of DED, related to the Noranda aluminum smelter in New Madrid County incident to the company's request for rate relief for electrical utility services and statements relating to possible cutbacks or closure of the facility. DED desires to present the MERIC findings of this study to the PSC to assist with its current deliberations.

Introduction

Noranda has a significant influence on the economy of Southeast Missouri. Noranda pays excellent wages. Noranda is the largest employer, not just in New Madrid County, but in a larger six-county area that approximates the Bootheel. This area includes New Madrid County plus the five adjoining counties: Dunklin, Mississippi, Pemiscot, Scott, and Stoddard. These counties have the largest number of workers commuting into New Madrid County; accounting for about 35% of the total of those reported working in New Madrid County. The facility employs more than 900 people. By comparison, only eleven companies in the entire Bootheel region employ more than 500 persons (based on MERIC data).

Noranda has indicated it could lay off 150-200 workers soon and eventually close the plant under its current financial situation (St. Louis Post Dispatch, Feb. 13, 2014, see also Testimony of Kip Smith, page 3-4). MERIC used these assumptions as the basis for its study.

DED/MERIC uses an economic model calibrated to the state's annual budget to calculate the economic and fiscal impact of a plant closure over time to both the region and the state. Economic models follow the flow of income that moves around an economy through the primary relationships between businesses and consumers. Models take into account the typical purchases made by companies to produce products or services, where those companies are, and how workers spend the income that is made. The models follow these spending patterns within the economy to understand the larger impacts that circulate within a region and measure what income leaks out due to purchases made outside of the region.

The specific model used by MERIC and DED is a proprietary model known as REMI (Regional Economic Models, Inc.). This model is used nationwide by private consulting firms, educational institutions, federal, state and local government agencies, and utility companies. Because the model is proprietary and because the data used is protected by confidentiality agreements, the exact data and methodologies cannot be disclosed in this report. However, the findings are presented herein.

It was assumed that if the Noranda smelter plant shut down it would do so in a relatively short period of time, in order minimize long-term production supply issues. The model assumes the shutdown will commence in 2015 and conclude in 2018 and that a 10 year period will be used to measure the impact to the state of Missouri. The DED/MERIC model examines what a typical business in a particular industry would buy and consume and how much of that would be spent in the area and the in state. It attempts to calculate income flows and effects of spending.

Regional impacts

MERIC has found that there would be a significant regional impact based on commuting patterns, wages and spending, job loss, loss of personal income, and reduction in gross domestic product.

This plant is located in one of the most economically disadvantaged areas of the state. The economy of the six county Bootheel Region generally lags behind the economy of Missouri as a whole and can be said to be impoverished. There has been a varied amount of economic growth in this region during the last ten years, with the western half of the region seeing good progress, while areas in the eastern half of this region struggled. The poverty rate for this area is 24.3%, much higher than the state's poverty rate of 14.4%. The unemployment rate in New Madrid County is currently 7.5%, much higher than the state's rate of 6.6% or the national rate of 6.3% (June 2014 data, not seasonally adjusted). Home ownership rate in the six county area ranges from 56.6% to 70.5% compared to a statewide average of 69%. While statewide 87.2% of the population has obtained a high school education, in this area the number ranges from only 69.5% to 79.2%. Likewise, the statewide percentage of advanced degrees is 25.8% while in the six county area it ranges from 10.4% to 15%. Per capita income in the region was only $32,750 during 2012, compared with $39,897 for the state (U.S. Bureau of Economic Analysis). By way of comparison, the per capita income in the region is less than that of Mississippi, the lowest state in the country.

Other general demographic data on the area are worthy of noting. For example, minority populations in the area range from 12.9% to 28.9% while Missouri’s overall non-white population is 16.3%. The percent change in population from 2010 to 2013 declined in all but one of the six counties, while Missouri as a whole increased in that same time frame. The percentage of persons over 65 exceeds the state average in all six counties.

Wages, spending, and commutating patterns will increase the economic impact of the Noranda Plant closure to the region. While DED cannot disclose specific information about Noranda, the 2013 average annual pay in New Madrid County was just over $36,000, higher than any other county in the Bootheel region. Manufacturers paid a much higher wage of $54,561 in New Madrid County, helping lift the overall wage level. The combined factors of high employment and manufacturing wages likely result in New Madrid County's average wage being higher than in the adjoining counties. The influence of the New Madrid manufacturing plant, however, extends outside the county. Thirty-five percent of workers in New Madrid county commute from the adjacent surrounding counties, according to the latest labor shed analysis.[1i] Close to half (48.7%) of goods-producing workers, mostly in manufacturing, employed in New Madrid commute in from these same counties demonstrating how important these jobs are to the surrounding area[2]. These workers will spend much of their income in their home communities, helping to support local businesses in counties outside New Madrid.

These commuting patterns also mean that the loss of a major manufacturer would be felt more broadly in the Bootheel region than in a larger metropolitan area especially given the high number of commuters and good pay this industry represents for the region.

The direct and indirect job losses felt throughout the region, as a result of this plant closure, would be significant. It can be expected that layoffs start at about 200 and will increase over the ten year period. Job losses would include both those working for Noranda (direct losses) and those who provide support services or who rely on the income spent by the workers (indirect and induced losses). Based on this a Noranda shut down would result in an average annual job loss of 1423 in the six county region.

The average annual loss of 1423 jobs in the six county region every year for ten years will have a significant impact on economic indicators such as personal income and gross domestic

[1] A labor shed analysis is a study of from where an employment center draws its workers. Data is based on U.S. Census data.
[2] 2011 Local Employment Dynamics, U.S. Census Bureau. http://onthemap.ces.census.gov/

product (GDP). Personal income is a combination of wages, interest rents and other sources of income. Personal income is an indicator of wealth and helps determine the standard of living that citizens can afford. Gross Domestic Product is the final value of goods and services produced in a region. It is the broadest measure of the economy. It is the commonly used indicator of economic health of a region. The estimated impacts on regional economy as predicted by MERIC would be as follows:

Personal Income. The region would realize a $97 million loss in annual personal income.

GDP: The region would suffer a $154 million loss in annual GDP.

Budgetary Impact: The six counties, and the municipalities, fire districts, school districts, ambulance districts, library districts and other special purpose districts within them would experience losses in property taxes, sales taxes, use taxes, and utility taxes.

State Impact

The impact of the closure to the state would be broader than the impact to the region. Additional job loss outside of the six county region can be expected. The predicted impacts on the state economy (including the region) as predicted by MERIC's modeling would be as follows:

Job Loss.   It can be expected that layoffs start at about 200 and will increase over the ten year period. Based on this a Noranda shut down would result in an average annual job loss of 1,599 statewide (including direct, indirect and induced).

Personal Income.   The state would realize a $109 million loss in annual personal income, or $1.09 billion in cumulative losses over 10 years.

GDP. The state would suffer a $174 million loss in annual GDP, or $1.7 billion in cumulative losses over 10 years.

Budgetary Impact. The closure of this plant would also adversely affect state budget revenues. The state would experience a loss of $4.98 million in annual net general revenue or $49.8 million in cumulative losses over 10 years.

WHEREFORE, the undersigned, on behalf of the Department of Economic Development respectfully submits this Statement.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been emailed on this 5th day of August, 2014 to all parties on the Commission's certified service list in this case.

/s/ Jeremy Knee

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