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Economics

Keystone Seen as No Local Job Starter Along Prairie Route

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If the Keystone XL oil pipeline gets built, Rick Balcom doubts he'll see many construction workers at the bar of his No. 3 saloon in Buffalo, a remote town in the northwest corner of South Dakota.

Balcom, 44, knows most of the workers building the Canada-Nebraska pipeline will stay at a catered "man-camp" seven miles away and won't be hoisting brews under the stuffed mountain lion that adorns his bar. On their days off, they'll probably travel to places such as Deadwood and Spearfish an hour-and-a-half drive south that offer gambling and other attractions, he said.

"I can't think of anybody who would be hugely disappointed if it didn't go through," Balcom said. "It's kind of a deal right now where we could take it or leave it."

His views reflect the hard-to-measure economic impact of a \$5.3 billion project that would result in a surge of hundreds of short-term construction jobs, and be followed by a skeletal staff to tend the buried pipe and associated pumps.

It would be among the country's largest building projects, though one centered in states that already have low unemployment and where competition is fierce for skilled workers.

Supplies and materials will have to be purchased, though many of the big-ticket items -- such as the steel -- will be sourced from overseas. TransCanada Corp., which wants to build the line, is based in Calgary and about two-thirds of the company's shareholders live in Canada.

Tax Revenues

Tax revenues would rise substantially in the counties along the route though the gains would represent only a sliver of the general funds of Montana, South Dakota and Nebraska, the three states Keystone would cross. TransCanada has already donated about \$85,000 to communities in the path, for such things as emergency equipment, park improvements and swimming pools.

Some locals say they're concerned, though, about the truck traffic and the potential for crime and oil leaks if the pipeline were to be built.

A journey through the small towns where the pipeline would travel shows a level of indifference that contrasts to the vehemence of the arguments over Keystone in Washington, where the project has spawned a multimillion dollar lobbying fight over climate change, energy security and job creation.

"I think we'll get some of the business," said Ronnie Coyle, 56, the owner of the SuperValu grocery store in Philip -- population 770 -- about 90 minutes east of Rapid City.

Risks Vs. Benefits

Others are more ambivalent, saying they aren't sure the benefits outweigh the risks.

"It really doesn't affect me much," said Tim Olson, whose construction company in Buffalo, South Dakota, is about half a mile down Highway 85 from Balcom's No. 3 saloon. He says he already has as much work as he can handle. "We're busy."

At Steele City, Nebraska, Keystone XL would link to an existing pipe to Cushing, Oklahoma, and then to a southern leg already under construction, carrying bitumen, a type of heavy crude, from the oil sands of Alberta to refiners on the U.S. Gulf Coast.

Much of the area it would cut across is pasture land where the people are as sparse as the trees. That's by design: the fewer residents, the fewer safety risks to houses and communities.

It also means little of the skilled labor needed to construct the 875-mile line will be found locally, though keeping the work camps up and running may employ as many as 60 people, according to TransCanada.

3,900 Jobs

About 90 percent of the workers who will dig the ditches and lay the pipeline will come from outside Montana, South Dakota and Nebraska, according to a draft environmental impact statement prepared by a contractor for the U.S. State Department.

The department is reviewing TransCanada's application for a permit to build the pipeline because it would cross an international border. A final decision

could come late this year or early next.

The State Department's draft analysis, released in March, said the pipeline would generate the equivalent of 3,900 full-time jobs in each of the two years of construction. The figure is based on a formula that accounts for the temporary nature of the work. More workers would be employed at times, though not over the course of a full year.

After that, Keystone would create 35 permanent jobs, according to the State Department review.

President Barack Obama has cited those sparse jobs estimates to question the economic impact of the pipeline.

Obama's Doubts

"Republicans have said that this would be a big jobs generator," he said in a July interview with the New York Times. "There is no evidence that that's true."

TransCanada says 7,000 jobs were created to make the equipment needed to build Keystone XL and the southern leg to the Gulf Coast. About 9,000 workers will be hired to construct the Canada-Nebraska portion, the company says.

The project represents about 0.5 percent of all non-residential, U.S. construction spending, according to Ken Simonson, chief economist for the Associated General Contractors of America, an Arlington, Virginia-based group that represents general contractors. It would be about 3.5 percent of construction spending in the power and energy sector -- "a meaningful bump," Simonson said in an interview.

The construction workers will operate from self-contained camps that will function essentially as temporary towns that are often bigger than the permanent settlements nearby.

Food, Pingpong

Grady Semmens, a spokesman for TransCanada, said between 700 and 900 construction workers will stay at the camps, plus another 100 managers, inspectors and camp staff. About 1,250 people live in Harding County, according to the 2010 census. Of those, about 330 reside in Buffalo, the county seat.

Camp-based workers will get catered meals. They'll also be able to play pool or pingpong, surf the Internet, watch their favorite shows on flat-screen televisions, and play volleyball or basketball on site, according to Shawn Howard, a spokesman for TransCanada.

Of the 32 counties the pipeline would cross or pass near, 23 had unemployment rates lower than the state average in 2010, according to the State Department's analysis.

The unemployment rate in Harding, which has a labor force of 835, was 2.8 percent as of July, according to state figures. South Dakota's rate was 3.9 percent, second lowest in the nation, behind North Dakota at 3 percent, according to the U.S. Labor Department. Nebraska was next, at 4.2 percent. Montana was 11th at 5.3 percent.

If jobs aren't in short supply, money is: the towns and counties are poorer than other parts of the state. Of the total, 27 had lower median-household incomes than their statewide average.

\$817 Million

Keystone means more money for local hotels, auto-repair shops, restaurants, hardware stores and other businesses that make up small-town economies, said Ernie Goss, an economic consultant based in Omaha who wrote an industry-funded economic analysis focusing on Nebraska.

Goss, an economics professor at Omaha's Creighton University, said Keystone would generate about \$817.4 million in economic activity in Nebraska during the two-year construction period.

Keystone is significant though not a "game-changer" like the energy boom from the Bakken formation in North Dakota, he said. That state has surpassed Alaska to become the nation's second biggest oil producer. The total economic activity Goss projects from Keystone would represent less than half of one percent of Nebraska's annual \$99 billion gross economic output.

Crete Lumber

Terry Dittmer, who owns Crete Lumber & Farm Supply Company in Nebraska southwest of Lincoln, is one potential beneficiary. He sold about \$900,000 worth of 2x4s, nails, plastic sheets and other supplies when TransCanada built the original Keystone pipeline in 2010, which cuts down from Saskatchewan through the eastern half of North Dakota, South Dakota and Nebraska.

That represented about a 20 percent increase in revenue, he said. Dittmer said he plans to bid for work on the new pipeline too.

Ron Kaminski, business manager for the Laborers International Union of North America's local 1140 in Omaha, said the project will help reduce his union's unemployment, which at around 12 percent is higher than the national average

of 7.4 percent.

“This project is important to us and our members,” Kaminski said in an interview in his office, where one wall is adorned with photographs of himself and Democratic luminaries including Obama.

India Steel

Much of the material to build the pipeline came from overseas, however. The steel came mainly from companies in Canada, Europe and China.

Half of the 400,000 tons of pipeline in the U.S. portion of the line was manufactured by Welspun USA in Little Rock, a subsidiary of Welspun Corp. Ltd. in Gujarat, India, according to Grady Semmens, a spokesman for TransCanada.

About 650 workers were employed at the U.S. unit when it fulfilled the Keystone order, said Dave Delie, president of the subsidiary. Now the company has 800 workers. Delie said the Keystone helped the company’s reputation. “It’s a big deal,” he said.

The company would also have to hire at least 30 workers to load the 400 miles of Keystone pipe that now sits in its yard, Delie said.

German Pumps

Siemens AG, based in Munich, is manufacturing high-powered pumps to be used on Keystone at its Norwood, Ohio, factory, Semmens, TransCanada’s spokesman, said in an e-mail.

TransCanada has already spent about \$1.9 billion of the \$5.3 billion it will cost

to build the line, he said.

John Meyer, who owns Office Products Center in Winner, South Dakota, near the Nebraska border, said the project offers a variety of spinoff benefits to communities like his that struggle to attract new businesses.

“In the Midwest, we rarely get a home run,” Meyer said in an interview at his office. “We talk about economic development, it’s somebody that builds a new store or adds two or three employees. This is a bonus.”

Winner is in Tripp County where TransCanada plans two pumping stations. The electricity lines that will have to be built could entice other factories to the area, he said.

Property Tax

The county could see \$3.27 million in new property tax revenue in Keystone’s first year of operation, about 44 percent of the \$7.4 million it collected in 2010, according to the State Department review.

In total, Keystone would generate about \$34.5 million in property tax receipts in its first year. That’s about 7.8 percent of the total the counties collected in 2010, according to the State Department review.

Sales tax on the materials, equipment and services would also provide income for cash-strapped communities along the route. The revenue could equal about \$45.6 million for South Dakota over the two-year construction period, just about 0.6 percent of the state’s total general revenue, according to the State Department draft report.

In Nebraska, sales tax on materials would generate about \$16.5 million, about 0.2 percent of total general revenue in 2009, according to the State Department analysis.

Baker's Mayor

Montana doesn't collect a general sales tax. But Clayton Hornung, the mayor of Baker in the east central part of the state, says Keystone is already paying dividends.

TransCanada paid for a new water tower and a water line out to the proposed man camp west of town in anticipation of its needs. Hornung said the company plans invest \$2.5 million to upgrade the city's water and wastewater systems.

"We certainly appreciate that because some of these things wouldn't have got done," Hornung said.

Even so, he says he doesn't expect the pipeline to have a long-term impact. More development is likely to come to the town of about 2,500 residents from the expanding oil and gas industry in the area as development from North Dakota's Bakken fields spreads further west and south, he said.

Baker's elementary school has a new gym, the high school a new AstroTurf football field, the local furniture store is expanding and a new hotel will open in September, Hornung said.

Truck Driver

Jay Beach, 40, a truck driver in eastern Montana, says the pipeline project doesn't make much sense.

“Once it’s in the ground, that’s the end of the jobs,” he said. “Why do we have to take Canadian oil all the way through our soil and refine it, when we have oil right under our own soil?”

The “Thee” Garage and Steakhouse already does a brisk business on weekday lunch hours. Proprietor, Brenda Uecker, 50, remembers an even busier time in the 1970s when an oil boom in pushed Baker’s population up to more than 3,000. She still remembers the hard-drinking workers who came in to her father’s bar on Baker’s main street.

“I would hide under the pool table because I knew if they got down on the ground they couldn’t get back up,” she said.

While she said she doesn’t have an opinion on Keystone because it wouldn’t cross her property, having new people in town would be “fun,” she said.

Asked if she looked forward to more business, she said: “Money isn’t everything.”

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