



## **The Ponca City Economy**

Fall, 2018

### **Overview**

The local economy in Ponca City, Oklahoma, can best be described as an economy that has transformed from the boom and bust days of an oil town to a modern, globally connected economy which today experiences sustainable, steady growth. The area is characterized by a significant cluster of manufacturing companies, one third of which supply components and equipment to the oil and natural gas industry both in the Mississippian Lime Play oil and gas fields, within which Ponca City is located, and to oil and gas companies throughout North America and the world. The recent drop in the price of oil has had an impact on the local economy and is discussed below.

In addition to oil and gas companies, however, Ponca City manufacturers also produce products for the food industry, commercial and residential building industry, agriculture, as well as durable equipment for numerous industries. As one of the very few cities in the world which provides a wireless network free of charge throughout the city, the business service companies in the community also continue to grow. The University Multispectral Laboratory which opened in Ponca City in 2008 and is contractor to government agencies in growth areas of national defense and homeland security, and Log10 a company that conducts food safety testing in addition to manufacturing nutritional additives, are examples of emerging technology companies in the region as well.

Ponca City maintains its connectivity to natural resources, both from an extraction and value added perspective. As noted above, Ponca City companies are heavily involved in manufacturing products used in the extraction of oil and natural gas. This compliments Ponca City's geographic position in the middle of North Central Oklahoma. In addition, Ponca City is surrounded by some of North America's most productive wheat country, and there are companies in the community who support the agricultural industry as well. A new addition to the landscape is the presence of seven different wind farms within 45 minutes of Ponca City. These farms contain 725 turbines and produce 1.31 gigawatts of power, which represents 20% of the total wind production of the state of Oklahoma. As with most resource work in the area, this production is largely exported outside the region.

### **Trends**

Ponca City's emergence from the Great Recession was gradual but definite. Beginning in 2011, job growth returned to Ponca City due to significant growth in manufacturing and in the oil and gas industry. As of the summer of 2014, Ponca City had regained the jobs lost during the recession, although the larger Ponca City Micropolitan Area, (Kay County) is still below pre-recession levels.

The current unemployment rate for the Ponca City Labor Market is 4.9% while the rate for Kay County is 5.3%, as of June 1, 2018. This compares with a jobless rate which topped out at 10.2% in January of 2010. This high rate, however, was below the historic high reached in February, 1994 when the rate was 11.3%.

The historic low for the Ponca City MSA was 2.7% reached in April of 2008, just prior to the recession. Subsequent to this, however, there were two major negative economic events to impact Ponca City during the Great Recession of 2009. The first was an announcement in February of 2009 by ConocoPhillips that they would relocate all non-refinery jobs outside of Ponca City. One month later, Tyson Foods announced that it would close the Ponca City plant and lay off all 588 employees. Both announcements resulted in significant relocation away from Ponca City, creating a high unemployment rate and an immediate “glut” of homes on the housing market.

The timing of the two announcements presented obvious challenges to the Ponca City economy. In addition to the fact that the closures occurred at the height of the recession when Ponca City, like most global communities, had few extra jobs to go around, they also resulted in the exodus of thousands of people immediately before the decennial census of 2010. Remarkably, the Census, which was taken in April of 2010 after all of the relocations were completed yet before the re-opening of the former Tyson Food plant, showed that the Ponca City population remained relatively stable during the first decade of the 21<sup>st</sup> Century.

### **Advanced Manufacturing**

Clearly, another economy was emerging while the former company town model was declining. That new economy has resulted in significant recent growth, more fully described below. The growth was largely based in the advanced manufacturing sector as Ponca City became the fifth largest manufacturing center in the State of Oklahoma, first largest on a per capita basis.

Evidence of this second and growing economy was very clear when Dorada Foods announced that they would re-open the former Tyson Foods plant, making chicken products for McDonald's Restaurants. This was followed by other announcements including the move to Ponca City and the construction of new facilities by Consolidated Oil Well Services (now Questa Energy System or QES) K&C Manufacturing, Log10, MJ&H Fabrication and Epic Energy. In addition, several local companies announced new facilities and expansions including Mertz Manufacturing and Albertson's Distribution. Dorada completed a further expansion in 2015.

In addition to these larger projects, notable other expansions included Bliss Industries relocation to a plant on Oakland Road, followed by an expansion at the same location 12 months later. CSE Bliss also expanded their operations at their plant on Summit. Lindsay Manufacturing, Centerline and CME and Cookshack also expanded their operations in the community.

Ponca City's largest employer also experienced change. In May of 2012, ConocoPhillips, the owner of the Ponca City Refinery, announced that it was transferring ownership of the Ponca City Refinery to a new company with an old name, Phillips 66. Phillips 66 became the world's largest independent refining company with more than a dozen former ConocoPhillips refineries worldwide. Today, the Ponca City Refinery is at a stable employment level of over 700 full time employees and a daily average of 250 contractors on site and was recently identified by the company as the most profitable refineries owned by Phillips 66.

As noted above, Ponca City is located in the Mississippian Lime Play, a formation of natural resources which contributes both oil and natural gas to America's burgeoning energy inventory. The growth of the Mississippian has provided a growing customer base for area manufacturers, who also supply the industry in the Bakken Region of North Dakota to the Eagle Ford region of Texas and all parts in between. In addition, Ponca City manufacturers sell internationally to Europe, Asia and throughout the Americas.

In 2017, Phillips hosted a large "turnaround," a large construction project that updated areas of the refinery. This project had as many as 1,000 contractors to town during at one time during the six month project.

Phillips was not the only company that invested in their facility in 2017. Continental Carbon completed a \$125 million in their plant just south of Ponca City. That project bought approximately 300 temporary workers to town and created 30 new permanent jobs. The Sooner Power Plant, located 20 miles south of Ponca City, also completed a major renovation project. That two year project, nearing completion has had up to 1,000 contractors to the area at the same time.

### **Applied Research**

Several Ponca City companies are invested and active in the emerging economy. This includes the development of new products and services to meet needs that were simply not present ten years ago. These proprietary projects involve technical know-how that includes resident PH.D. level people, skilled technicians and motivated support staff.

Applied research is supported by the community's proximity to Oklahoma State University, 45 miles to the south, as well as Northern Oklahoma College, 12 miles to the west, and Pioneer Technology Center which is located in Ponca City. These institutions provide students, academic support and training that allows local companies to actively and successfully compete in the global marketplace. Ponca City's 100% free and available wireless network and the new fiber to the home project also provide among the finest connectivity in the world, allowing companies and their employees to stay connected in a manner that is simply not possible in other communities.

Ponca City is also home to world class laboratory space, some of which is currently available, that attracts talent and produces results.

### **Business Services**

Ponca City is served by a significant backbone of lit and unlit fiber. This infrastructure, originally put in when the former Conoco Oil Company was headquartered here, may very well be the most extensive fiber network on a per capita basis in the United States. It is only natural that a business services sector should develop to take advantage of this network.

As with any endeavor, however, there are set backs. A major source of business sector activity, the 71,000 square foot City Central building, suffered from deferred maintenance in the recent past, due in large part to impacts from the decline in the price of oil and the impact upon the building's former owners. Those same owners, seeking to minimize their losses and not burden Ponca City with an abandoned building, donated City central to the Ponca City development Authority (PCDA) in late 2016.

In 2017, PCDA was awarded a federal grant to renovate and restore this 1975 building to class A status. That construction project, currently underway and due for completion in early Spring of 2019, will offer first class facilities for the business services sector. In addition, the facility is being fitted for a conference center and a shared work center for emerging business enterprises which are expected to make it a magnet for commercial activity beginning next year.

## **Challenges**

There is no question that the drop in the price of oil in 2015 created a dampening effect upon the Ponca City economy. Approximately 35% of the local economy is invested in the oil and gas industry. The primary areas of involvement in the industry is in the Phillips refinery, mentioned above and local manufacturers who produce components used in oil and natural gas extraction. In addition, there are crews and companies that had been performing the actual extraction of oil in the region. In 2014, there were approximately 80 active rigs working the Mississippian Lime Play. This number dropped to 44 in 2015, to five in 2016 before “rebounding” to seven in February of 2017 and that counts stands at nine today.

Ponca City’s proximity to the Mississippian Lime Play and the rigs working the fields made it a key “base camp” during the recent oil boomlet (2012-2015). This resulted in a significant boost to hotel occupancy and other hospitality venues including restaurants, gas stations, casinos and retail stores. Hotel occupancy spiked in 2013 and began dropping in 2014 (page 8). Restaurants saw near double digit increases from 2012 through 2015, a city wide trend that reversed last year as city wide year over year restaurant sales dropped 7.35% through December of 2016. Hotel revenues began to decrease in 2015 and appear to be returning to pre-boomlet levels.

The prospects for renewed drilling in the Mississippian are mixed. This particular play is a relatively inexpensive formation from which to extract oil and natural gas. The formation, however, also produces a significant amount of water, more so than competitive formations. As a result, the issue of water disposal, a particularly difficult issue for wells in Oklahoma, is high and will likely require a sustainable answer to how wells engaged in hydraulic fracking dispose of water prior to any significant growth of new wells in the area.

This is not to say that there are not indications of potential for the wells in the area. Recent purchases of land and rights by White Start Energy suggest that the industry still believes in the potential for the area. In addition, the international march towards the use of more natural gas, rather than coal, works strongly in Ponca City’s favor as Northern Oklahoma in particular has a very, very sizeable amount of natural gas waiting to be mined. This resource could power the nation for many decades to come when natural gas prices rebound, which they are likely to do sometime in the foreseeable future as demand for the commodity continues to grow.

The past difficulty in filling open jobs in recent years highlighted the need for the area to grow its population base. The biggest challenge to doing so has been the creation of new housing. While the downturn in the price of oil has made this less pronounced, it continues to be a concern. The community recently added the Hampton Heights and Waverly Manner housing developments which will collectively will add over 50 houses. In addition, one new and one renovated apartment developments in downtown Ponca City will add dozens of rental units to the city’s inventory.

## **Workforce Solutions**

As far as workforce recruitment is concerned, companies have a powerful ally in the PCDA “PoncaWorks” workforce recruitment program. This unique program, launched in 2012, provides local companies with a personnel recruiter or head hunter at no charge. The program, which is unique to Ponca City, has been responsible for the placement of over 250 employees in Ponca City. The program connects with social media, established networks, workforce training programs available through Pioneer Technology Center, (see below) as well as with various state and federal workforce training programs to ensure that companies have every opportunity to meet their workforce needs.

Ponca City is also home to one of the 29 campuses of the Oklahoma Department of Career and Technology Education. Pioneer Technology Center is one of those “Career Tech” campuses and has been recognized as one of the leading providers of customized workforce training in the United States. The institution has a celebrated history of ensuring that area companies can turn good employees into great ones. The services are generally provided at low or no charge. In addition, PTC trains local residents to prepare them for the careers of tomorrow in state-of-the-art facilities in the middle of the Ponca City Airport Industrial Park.

Attracting new residents to the community through PoncaWorks or more traditional means has been greatly aided by the recent addition of two significant community assets. The Ponca City WiFi network covers the entire community offering free internet connectivity everywhere in the community. This allows businesses to stay connected, school children to learn more effectively, friends to stay in touch and it makes mobile connectivity a breeze.

In 2009, the new Ponca City Aquatic Center opened on the city’s west side. This large recreational center offers two indoor pools, a climbing wall, several gymnasiums, racquetball courts, weight rooms, exercise equipment, classrooms for customized classes and a number of ball fields and outdoor recreational opportunities.

Cultural and entertainment options are available in Ponca City. First run movies can be viewed at AMC’s Northpark theaters. The need for a larger theater with more screens has been identified but as of this writing, no commitments have been made. In addition to the AMC theater, the Poncan Theater and the Ponca Playhouse offer live entertainment, community plays, musical events and summer children’s acting workshops. Ponca City artists enjoy a welcome home in the Ponca City Art Center and there are numerous community events throughout the year that promote community artists.

Global competitiveness and quality of life is served by a very affordable business environment. The cost of living in Ponca City has been consistently rated at 90% of the average American community by the Cost of Living Index (COLI), the leading experts in the field. Oklahoma’s top ranking as the most affordable state in which to live is further bolstered in Ponca City by extremely favorable utility rates at the city’s municipally operated electrical, water and sewer authorities. The City also offers enhanced bandwidth for companies with that requirement.

## **Opportunities**

Moving forward, Ponca City’s economy is well positioned for continued growth. The drop in the price of oil discussed above had an impact on economic velocity in the community but Ponca City has fared well due to efforts to diversify the local economy which have been going on for the past

twenty years. Non-oil and gas companies, which now represent the majority of companies in Ponca City are doing well with numerous expansions and continued hiring.

Industrial development in Ponca City is poised to continue in the Ponca City Airport Industrial Park. In 2013, voters renewed the economic development sales tax providing the community with a resource to attract industrial companies. This resource is extremely flexible and requires only one vote of the Ponca City Development Authority Board of Trustees. This simple process is one of the main reasons why PCDA has done 63 deals since 2003.

Phillips 66 is now the owner of several buildings that formerly housed the headquarters of Conoco Oil, prior to the merger of Conoco and Phillips in 2002. These buildings include a state-of-the-art 600,000 square foot laboratory that is currently 80% vacant. The first lease of space in that laboratory building to a non-Phillips 66 tenant, following the acquisition of the facilities by Phillips 66, was completed earlier this summer. The company informed PCDA that they would now be interested in leasing space in those buildings, although for several reasons they do not wish to pursue a highly publicized marketing campaign to do so. Companies seeking high end laboratory space can now have immediate occupancy after coming to terms with Phillips 66. In addition, Oklahoma State University owns laboratory space in Ponca City that is among the finest and most up to date in the world. There are both labs and office space connected to those labs that OSU would consider leasing.

The City central facility will provide several significant advantages to Ponca City. The most obvious is attractive class A office space at a price well below that of larger metro areas. The "Summit" conference center at City central will also be the community's largest such venue and can seat over 400 people for regional trade shows, social events and other business functions. The "Link" shared work center will enhance collaboration among the city's best thinkers and energetic business startups, and the front courtyard, already used for civic events, will become an important part of the downtown cultural and civic scene offering additional public space for a variety of uses and gatherings.

The Northern Oklahoma region will continue to be one of North America's leading areas for oil and gas extraction through the use of horizontal wells. While these commodities tend to be cyclical, as recent events have illustrated, the region's strong inventory of both oil and natural gas provides a foundation for continued economic strength in the future.

No discussion of natural resources would be complete without a continued focus on the importance of agriculture not only to Ponca City but to North Central Oklahoma. This industry remains critical to the local economy. Moreover, the location of Oklahoma State University, one of the world's premier agricultural institutions, the strong agricultural infrastructure in the region and the worldwide decline in arable acres all increase the value of agriculture to the Ponca City area and position the region very well going forward.

As noted above, the Ponca City economy, which began its diversification over twenty years ago, has spawned a new economy that is quietly but unquestionably replacing the former company town economy of the past. Companies making products for new economy, world famous businesses and ventures dot the Ponca City landscape and have produced the jobs that continue to replace oil and gas extraction. Companies providing services with a global customer base have also grown locally and have hosted events that bring people into the community on an ad hoc but regular basis. Phillips 66, still the community's largest private employer, remains a stalwart and vital part of the community and their investment, noted above, is further evidence that this economic engine will be in place for generations to come.

2018 is on track to be a year of continued recovery and modest growth for the Ponca City economy. Sales tax collections are rebounding slightly, and occupancy rates in local hotels are stabilizing. The region is looking beyond oil and gas to such diverse industries as advanced manufacturing, aerospace, business services and more. This will continue the twenty plus year march towards diversification and the emergence of an economy that will include oil and gas, but will no longer ride the cycles of that industry as it has in the past.

Finally, the Ponca City region is home to six tribal nations with a presence in Kay County. These tribes contribute significantly to the local economy through gaming, retail, industrial and other establishments. The tribes employ hundreds of tribal members and local residents and represent a resource upon which Ponca City, and those seeking opportunity, can build.

### **Structure of Economic Development in Ponca City**

The Ponca City Development Authority (PCDA) is a stand-alone public trust responsible for the development of economic base jobs in the community. PCDA was the first economic development organization in the State of Oklahoma to be accredited by the International Economic Development Council. PCDA is governed by a seven member board of trustees appointed by the City Commission. The board of trustees makes or delegates all decisions of the organization with no additional authorizations needed.

Primary jobs refer to those jobs that export a product or service in return for the importation of money. There are other important components of economic development handled by other organizations in the community. Tourism is handled through the Chamber of Commerce. Retail is the responsibility of the Chamber and the City of Ponca City. Housing and community development are under the jurisdiction of the City of Ponca City. Workforce development is the responsibility of Pioneer Technology. All of the above organizations take great pride in being seamless with respect to the delivery of services in these areas.

PCDA is funded through a half cent sales tax dedicated to economic development. This tax was originally approved by the voters of Ponca City in 1994. It has been renewed by the voters in 2003, 2008, 2013 and 2017. The current tax expires on December 31, 2023. Incentives *may* be available to primary job creating companies if they meet a strict set of guidelines. These include specific industry targets, wage levels, job creation and retention guarantees, written agreements and regular reporting/monitoring to insure the incentive is being properly used. In general, PCDA prefers “performance based” incentives where a company does not get an incentive until it is earned. There are exceptions made on a case by case basis. “Prefers” in this context, means that a larger incentive base is available for performance-based incentives and that performance-based incentives are more available than up front incentives that are smaller and more difficult to get.

## **RECENT ECONOMIC MILESTONES**

Population (City of Ponca City)

2018:	25,525 (PCDA estimate)
2010:	25,387 (U.S. Census)
2000:	25,919 (U.S. Census)

## Unemployment Rate (Ponca City, LLM)

October, 2018:	4.0%
February, 2018:	5.1%
January, 2017:	5.7%
January, 2016:	6.0%
January, 2010:	10.2%
Historic High:	11.3% (February, 1994)
Historic Low:	2.7% (April, 2008)

Cost of Living: 88.8% of the National Average (COLI, 2018)

## Tax Rates

Total Sales Tax Rate:	8.67% (includes all local and state sales taxes)
Property Tax Rate	1% (approximate rate of assessed value annually)
Corporate Income Tax Rate:	6%
Personal Income Tax Rate:	5.25%
No local Income Taxes	

## Retail Sales (City of Ponca City-Fiscal year ending June 30<sup>th</sup>)

2017	-1%
2016	-4%
2015:	+1%
2014:	+4.4%
2013:	-2.3%
2012:	+5.2%

## Hotel Occupancy (Estimates based upon guest tax fund collections-Fiscal Year ending June 30<sup>th</sup> from the City of Ponca City)

2017:	-24%
2016	-17%
2015:	-18%
2014:	+9%
2013:	+18%

## School Enrollment (Source-Ponca City Schools Budget)

2017:	4,927
2016:	5,060
2015:	5,096
2014:	5,050

## Building Permits (City of Ponca City)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Housing	5	40	8	21	12	6
Multi-family	1	0	0	1	0	1
Commercial	16	7	8	18	11	9
Value	\$26.3m	\$14.0m	\$19.8m	\$42.8m	\$32.1m	\$26m

## Housing (2017 estimates)

Total Housing Units:	11,871
Average price:	\$108,486
Homes on the Market 09/01/17:	120
Owner Occupied:	67%

## Recent Industry Additions/Significant Expansions

- Bliss (2018)
- Epic Energy (2018)
- Continental Carbon (2017)
- Cookshack (2017)
- Custom Mechanical Equipment (2015)
- Dorada Expansion (2015)
- Log10 (2014)
- K&C Manufacturing (2014)
- Consolidated Oil Wells Services (2017)
- MJ&H Fabrication (2013/2016)
- Mertz Manufacturing Expansion (2013/2017)

## Recent Industry Closings

- Modern Investment Castings (2017)
- Smith Drill Bits (2017)
- Cascade Tank (2015)

## Recent Retail Additions

- Boomerang Diner (2018)
- Popeye's Chicken (2018)
- Family Furniture (2017)
- Brickhouse Grill (2017)
- Golden Chick (2016)
- Sakura (2016)
- Rib Crib (2015)
- Atwoods (2015)

## Recent Retail Closings

- Hallmark Gold Crown (2018)
- JC Penny's (2017)
- Rue 21 (2017)
- Payless Shoes (2017)
- Hastings (2016)
- Cherry Berry Frozen Yogurt (2016)
- Zinos Italian Restaurant (2016)

## Recent Hospitality Additions

- La Quinta (2018)
- Hampton Inns (2016)

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