

***THE ECONOMIC IMPACT OF
AGRIUM KENAI NITROGEN OPERATIONS
IN ALASKA, 2001***

EXECUTIVE SUMMARY

PREPARED FOR:

***RESOURCE SOLUTIONS
ANCHORAGE, ALASKA***

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EXECUTIVE SUMMARY

Agrium Kenai Nitrogen Operations contracted with Resource Solutions and the McDowell Group, Alaska research and consulting firms, to quantify the economic impact of Agrium Kenai Nitrogen Operations on the Kenai Peninsula Borough and the Alaska economy during calendar year 2001. This report details the study findings of the economic impacts of Agrium's production on the Kenai Peninsula and Alaska. Findings are expressed in terms of direct, indirect, and induced impacts, which are explained below.

Agrium Kenai Nitrogen Operations is one of Alaska's few major manufacturing operations and contributes to Alaska's economy by adding value to Cook Inlet natural gas production. The Agrium complex is located near Nikiski, 10 miles north of Kenai and directly employs close to 300 people. The plant is the United State's second largest producer of ammonia and urea. It consists of two urea and two ammonia plants, a tidewater port facility, and a power cogeneration facility. The Agrium Kenai Nitrogen Operations complex has an annual production capacity of nearly 2 million tons. In 2001, the Kenai plants produced 1.4 million metric tons of anhydrous ammonia and urea. For feedstock, the plant uses approximately 155 million cubic feet of Cook Inlet natural gas daily. Virtually all of Agrium's Kenai production is destined for overseas markets. Agrium's total gross sales in 2001 were \$210 million.

Direct economic impacts. Direct impacts are the initial expenditures by Agrium Kenai Nitrogen Operations. These initial impacts include the amount directly spent by Agrium to purchase goods and services (such as materials, utilities, construction services, and transportation), payments to government (such as taxes and fees), cash contributions to membership organizations and charitable organizations, and the wages paid to Agrium employees.

Indirect and induced economic impacts. Indirect impacts result from Agrium's spending on goods and services that in turn circulate through the economy as Agrium's suppliers in the Borough and in Alaska conduct their business with Agrium's initial dollars. Induced impacts result from the spending of Agrium (and suppliers') payroll dollars by employee households. For instance, when Agrium employees and employees of Agrium suppliers spend money in the regional economy, induced impacts accumulate as these dollars continue to circulate. These indirect and induced impacts are estimated using econometric model multipliers developed specifically for Alaska and refined by McDowell Group for use in this study.

Summary of Economic Impacts

Agrium's total economic output in Alaska was \$333 million in 2001. Economic output is the gross sale value of Agrium's production (\$210 million) plus the impacts of spending in support of Agrium's operations (\$123 million). Total impacts include 1,000 Alaska jobs (292 direct plus 700 indirect and induced jobs), \$50 million in Alaska payroll (\$25 million in Agrium payroll plus indirect and induced payroll), and charitable support by Agrium of 87 organizations and programs, almost all of them in the Kenai Peninsula Borough.

The Kenai Peninsula Borough receives \$2.4 million in industrial property tax from Agrium, an estimated minimum of \$212,700 in residential property tax from Agrium employees' dwellings and \$1.4 million in state funding support for Agrium family school-age children's education - a total of \$4.0 million in direct revenue. The Agrium operation also accounts - directly and indirectly - for an estimated 5 percent of the population, 6 percent of employment, and 9 percent of wage and salary income in the Kenai Peninsula Borough.

Table 1
Summary of Agrium Kenai Nitrogen Operations Economic Impacts, 2001

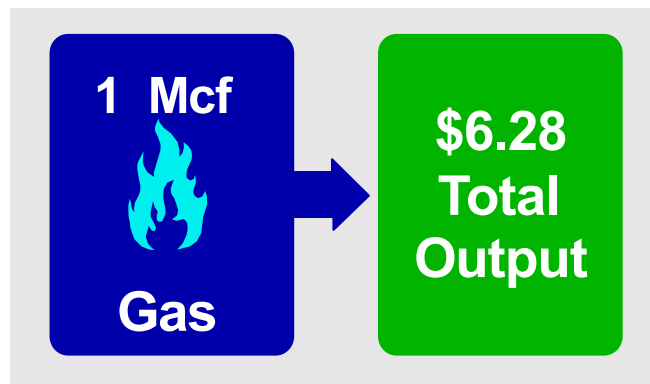
Economic Activity	Direct Impacts	Multiplier Effect	Indirect and Induced Impacts	Total Impacts
Economic Impacts				
Output	\$210 million	1.6	\$123 million	\$333 million
Economic value of Agrium production per Mcf of natural gas feedstock				\$6.28/Mcf
Employment	292 jobs	3.5	700 jobs	992 jobs
Payroll	\$25 million	2.0	\$25 million	\$50 million
AK goods & services purchased	\$95 million			
Employment (% of KPB total)				5.5%
Wage and salary income (% of Kenai Peninsula Borough total)				8.8%
Revenue to Kenai Peninsula Borough (KPB)				
Agrium industrial property tax	\$2.4 million			
Agrium employee property tax	\$212,700			
State revenue to KPB School District for Agrium dependents	\$1.4 million			
Total revenue to KPB	\$4.0 million			
Social Impacts				
Total population impacts (direct and indirect)				2,150 total 4.5% of KPB
Student enrollment (Agrium children as % of total KPB District enrollment)	3.3%			
Number of charities supported	87			

Major Findings

By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value-added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact.

Per one thousand cubic feet (Mcf) of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$6.28 in total Alaska economic output is generated.

Figure 1
Total Output Impact per One Thousand
Cubic Feet (Mcf) of Natural Gas Used, 2001



Source: Agrium U.S. Inc., McDowell Group compilations

Agrium Kenai Nitrogen Operations is the Kenai Peninsula’s third largest private employer with direct employment of 292 in 2001. Only Peak Oilfield Services Company (367) and Safeway/Eagle Stores (342) employ more.

- If Peak Oilfield Services employees under contract to Agrium are included in Agrium’s employment figures, Agrium becomes the #1 private employer in the Kenai Peninsula Borough. In terms of payroll (not available for individual private companies), Agrium has either the largest or the second largest private payroll in the Kenai Peninsula Borough.
- All of Agrium’s employees live in the Kenai Peninsula Borough, increasing their local economic impact.

Multiplier impacts of Agrium Kenai Nitrogen Operations account for an additional 700 jobs in the Alaska and Kenai Peninsula Borough economies.

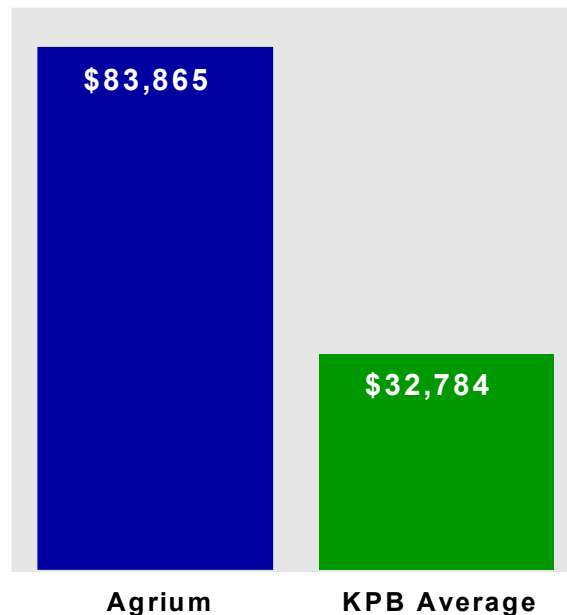
- Agrium spending on goods and services generates an additional 700 indirect and induced Kenai Peninsula Borough jobs. The secondary impacts of Agrium employee payroll spending bring the total employment impact to approximately 1,000 jobs.

- Agrium’s total direct, indirect, and induced employment impacts account for 5.5 percent of the Kenai Peninsula Borough’s total employment, and 8.0 percent of jobs in the Central Kenai Peninsula area (the area north of the Kasilof River and west of Skilak Lake).

Agrium Kenai Nitrogen Operations provides high-paying jobs in the value-added manufacturing sector.

- Agrium payroll average of \$83,865 per employee is more than double the average regional salary.
- Agrium Kenai Nitrogen Operations’ \$25 million in direct payroll generates additional indirect and induced earnings of \$25 million, a total of \$50 million in salaries and wages in the Kenai Peninsula Borough economy.
- Agrium’s total direct, indirect, and induced earnings account for 8.8 percent of Kenai Peninsula Borough’s total wage and salary payroll, and 13.4 percent of payroll in the Central Kenai Peninsula area.

**Figure 2
Comparison of Average Annual Earnings,
Agrium Kenai Nitrogen Operations Employees vs.
Kenai Peninsula Borough Average, 2001**



Source: Agrium U.S. Inc., Alaska Department of Labor and Workforce Development

Virtually all of Agrium’s vendor spending in Alaska (95 percent of the amount purchased) is spent with companies based in the Kenai Peninsula Borough.

- In 2001, Agrium spent \$90.5 million on goods and services provided by 118 Kenai Peninsula companies. The remaining purchases of goods and services in Alaska (\$4.7 million) were made to 129 companies in Anchorage, Fairbanks, Wasilla, and Palmer. The variety of the almost 250 businesses from which Agrium made its purchases include gas producers, construction contractors, engineering firms, environmental service firms, utility companies, retail and wholesale businesses, and other types of businesses.

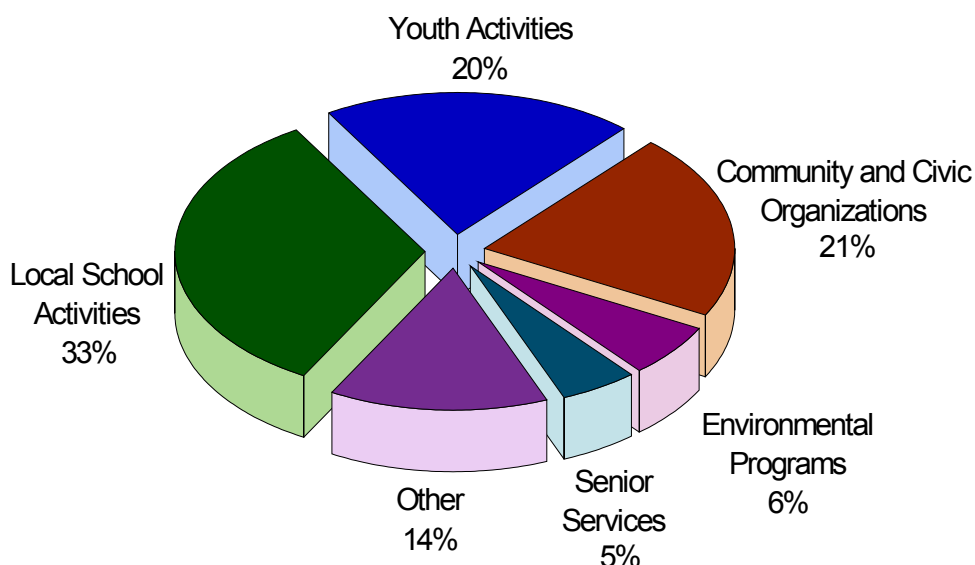
In 2001, the Kenai Peninsula Borough received \$4.0 million in Agrium-related revenues.

- In 2001, Agrium paid \$2.4 million in industrial property taxes to the Kenai Peninsula Borough, representing 8.8 percent of the Borough’s total property tax receipts.
- Agrium families pay at least \$212,700 in residential property taxes exclusive of service area and city taxes on property (assuming an average KPB dwelling value of \$112,000). Because of the high average wage for Agrium employees, the actual figure, if known, likely would be significantly higher.
- Children of Agrium employee families account for \$1.4 million in state school funding support received by the Kenai Peninsula Borough School District.

Agrium is highly involved in the local community, supporting 87 membership and charitable organizations and events.

- In 2001, Agrium contributed \$138,329 to 87 non-profit organizations or programs, most of them located in the Kenai area.
- Charitable giving was provided to local schools athletic and academic programs, youth activities, community services and civic organizations, environmental programs, senior services, and other health and economic development programs.

Figure 3
Agrium's Charitable Contributions,
by Type of Organization or Program, 2001



Note: Percentages do not add up to 100 percent due to rounding.
 Source: Agrium Kenai Nitrogen Operations

Agrium household incomes are supported by year-round, full-time, high-skilled, and professional positions.

- Home ownership and real estate value tend to be significantly higher among families with an income profile enjoyed by Agrium households.
- Higher salaries tend to attract stable, long-term, skilled professionals to the region.
- The high amount of discretionary income translates into a wider variety and volume of local expenditures on local household goods and services.
- Agrium's work force is 100 percent resident in the Kenai Peninsula area. This fact, in turn, directs household spending locally, as opposed to other income sectors that have significant non-resident components. According to the Alaska Department of Labor and Workforce Development, in 2000, non-residents held 19.7 percent of the private sector jobs in Kenai Peninsula Borough.

Based on the relationship between the employment and population on the Kenai Peninsula Borough, the 1,000 Agrium-related jobs support a population of 2,150.

- This population impact accounts for 4.3 percent of the Kenai Peninsula Borough's total population and 7.0 percent of the Central Kenai Peninsula population.

Agrium's families accounted for 3.3 percent of Kenai Peninsula Borough School District student enrollment and \$1.4 million of the \$42.5 million in state revenue support to the District in the 2001/2002 school year.

- Agrium dependents account for approximately 4.9 percent of student enrollment in the Central Peninsula area.