

ECONOMY

Chapter of the Marquette County Comprehensive Plan



Adopted __, 2012 by the Marquette County Planning Commission

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Marquette County, Michigan

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Summary

While Marquette County has suffered along with the rest of the country in the recent “Great Recession,” the effects so far have been less serious than in the rest of Michigan. A combination of strength in mining, lack of dependency on the auto industry, and diversification have helped to insulate Marquette County from the worst of the recession. The insulation, however, is relative. Marquette County fared well by Michigan standards, but performed poorly compared to counties in Wisconsin. Additional concerns lie ahead, as Marquette County remains vulnerable to some long-term economic and demographic trends.

Demographic trends, while reversible, represent the greatest current threat to Marquette County’s economic well-being.

Demographic trends, while reversible, represent the greatest current threat to Marquette County’s economic well-being. While the entire U.S. population is aging, the effects are more pronounced here. Birth rates have dropped across the Upper Peninsula, to the point that existing populations cannot be sustained without in-migration. International migration to the Upper Peninsula is miniscule, and domestic migration is generally out of the region. Michigan was the only state to suffer a population loss between 2000 and 2010.

Mining remains a volatile industry, and is now much more exposed to changes in demand and global competition. Iron mining success through the recent recession has been sustained because of global demand for iron ore from China and India less than by North American demand. The Kennecott Eagle project, meanwhile, is projected to be much shorter-term than the ongoing mining of iron ore.

Hope for Marquette County can be seen in its consolidation as a regional center. Regional institutions like Northern Michigan University and Marquette General Hospital are major employers. The access provided by Sawyer International Airport enhances opportunities for economic growth. Marquette County has only 26 per cent of the Upper Peninsula’s population, but Sawyer accounts for 53 per cent of the airline passenger traffic in the region.

Introduction

At the time of the last update of the Economy chapter, in 1980, Marquette County was in the midst of economic change. The mainstays of the economy were mining, Northern Michigan University, forestry, and K.I. Sawyer Air Force Base. Only K.I. Sawyer was seen as a relatively stable economic base at the time.

In 2012, K.I. Sawyer is 16 years past closure, and the County is still involved in economic redevelopment of the former base. The Republic Mine closed in the early 1980s, and the Empire Mine is scheduled to close in 2014. Increased competition from overseas mines has given way to unprecedented global demand for iron ore. Development of a new nickel mine in the northern part of the county is generating great controversy. Northern Michigan University, having increased its enrollment over the last ten years, now faces a decline in the number of graduating high school seniors entering its programs. What will the future bring?

Marquette County's economic future is intimately tied to its demographics. Three of the County's major employers, Northern Michigan University, area school districts, and Marquette General Hospital, are directly affected by changes in the age structure of the local population. Already, the population has seen the changes created by a declining number of people, combined with an aging population. The changes are even more pronounced in other counties of the Upper Peninsula. In order to maintain the status quo, let alone prosper, we need to import people.

While planning staff do track monthly statistics on employment and unemployment, the purpose of this plan chapter is to focus on the long-term patterns. How should we be positioning Marquette County for future economic security?

Options:

1. Do nothing, see decline in population and in standard of living
2. Change economic structure, see decline in population, but maintain or improve standard of living
3. Change economic structure, see stable to increasing population, improve standard of living
4. Change economic structure, become victim of runaway population growth

The costs of shrinkage include:

- Crumbling infrastructure, with no funds to maintain or repair
- Fewer workers to support dependent population
- Services that move away to other areas, leading to more travel to meet essential needs
- Increasing isolation, as there are fewer interactions between the local area and the rest of the country

With fewer services, people in the area would have to travel to other places to receive those services. Costs of goods would increase, because more products would have to be trucked in from elsewhere. Where the county's economy is dependent on shipment of goods, energy costs will drive the overall cost of living upward.

A recent report by Andrew Isserman of the University of Illinois examined the common qualities of prosperous rural counties. His measure of prosperity incorporated four factors:

1. low high school dropout rate
2. low poverty rate
3. low unemployment rate
4. low rate of housing problems, combining lack of complete plumbing facilities, lack of complete kitchen facilities, more than 1.01 occupants per room, and housing that costs more than 30% of owners' or renters' income.

These measures do not include the typical measures of growth and income. Thus, a prosperous county does not need to be wealthy or growing.

A few other factors also seemed to correlate to prosperity. These included a diverse population and strong support for education. Significantly, some of the factors that counties cannot change (such as mountainous topography or extreme climate) do not seem to negatively affect prosperity.

Demographic Background

Marquette County has lost about 12 per cent of its population since the peak of 74,101 in 1980. Much of that loss came with the closure of K.I. Sawyer Air Force Base in 1995. The population has since stabilized at around 65,000 to 66,000 people.

Like much of the rest of the country, Marquette County has seen a shift in the structure of its population. As the "baby boom" generation ages, so does the overall population. Not only are increasing numbers of people entering retirement age, but a declining number of births means that there are fewer people to replace the retirees.

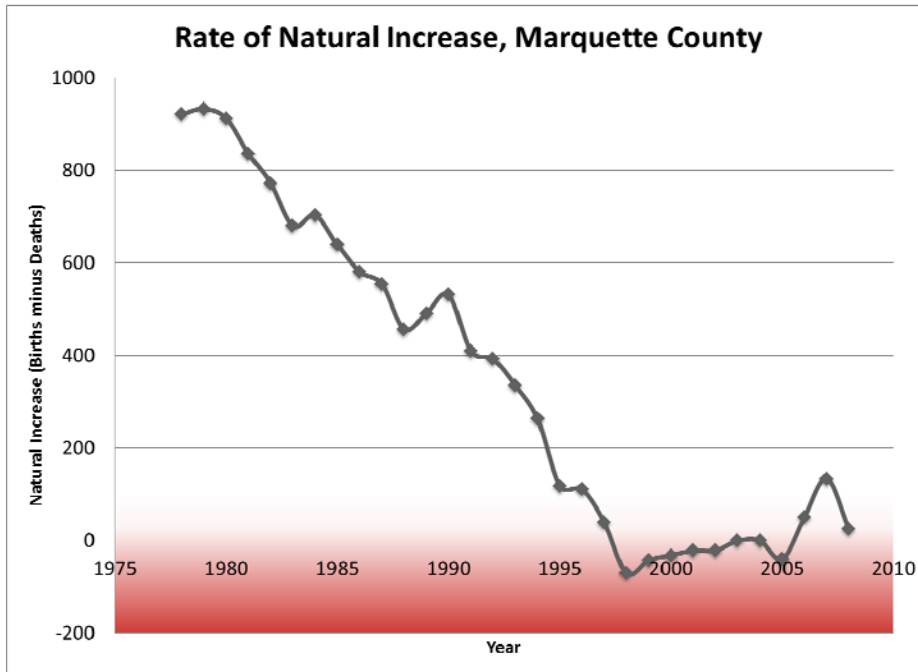


Figure 1. Rate of natural increase, Marquette County.

Demographics and the Future of Economic Development

The population of the Upper Peninsula has held relatively stable for several generations (Figure xx, below). In recent years, like the rest of the United States, the region has aged considerably, a pattern that is expected to continue as the “Baby Boom” generation reaches its senior years while the birth rate simultaneously declines. In much of the country, the population decline associated with this aging has been offset by immigration. Very few immigrants, however, settle in the U.P. Thirteen of the region’s fifteen counties are now declining in population. Iron County’s death rate is double its birth rate, accelerating a decline in population that began with closure of the iron mines there in the 1960s. Only Marquette and Chippewa counties have shown consistent population growth. Somehow, in this setting, Marquette County must maintain the ingredients it needs to not only survive, but prosper.

Much of the economic development in Marquette County has come in the form of large projects that require massive outside investment and extensive development of infrastructure. Mining and the former K.I. Sawyer Air Force Base are prime examples of this model, as is Northern Michigan University. This kind of development is a particular problem in an environment of decline. As the County’s experience with K.I. Sawyer has shown, infrastructure built for a specific purpose is not always easy to maintain or convert when that purpose has reached an end. We should be careful in future development not to create white elephants for the future.

Decline is not merely a reversal of growth. Historically, growth has occurred as an expansion from a core area. Marquette and Chocloy townships, for instance, grew as people moved

there from the City of Marquette. The patterns of decline, however, are distinctly different than patterns of growth. The infrastructure, such as roads, put in place during times of expansion do not automatically go away during periods of decline. As a result, the costs of maintaining extensive infrastructure with a dwindling resource base place a heavy burden on a community. Marquette County should be using its planning tools to reduce unsustainable growth in outlying areas away from supporting infrastructure.

Decline is not merely a reversal of growth.

Economic Sectors

Mining

Mining has long been a mainstay of the Marquette County economy. Its impact on the county, while still significant, has diminished over time. In the early 1900s, there were __ mines operating in Marquette County, mainly underground operations. Today there are two large open-pit iron mines and a quarry. Even with the Kennecott Eagle project coming online, mining will employ many fewer people than in the past.

Iron Mining

The first economic development of Marquette County began with the discovery of iron ore near Negaunee. The effects of that discovery and the subsequent growth of the mining industry remain clear in Marquette County today, from the old mine pits and buildings of long ago to the very settlement patterns of the county. Today, the Empire and Tilden mines and their associated tailings basins are the human impact on Marquette County most visible from spacecraft.

Iron mining began in the 1840s with the Jackson Mine in Negaunee. The discovery of iron ore there set off over a century of underground mining for iron ore. As production costs increased, and other sources of iron ore were found around the world, mining companies found it increasingly difficult to operate profitably. The underground mines were old and labor-intensive. Iron mining in the Lake Superior region appeared to on its way out.

In the 1950s, University of Minnesota researchers developed a way to extract iron from lower-grade ores. This new taconite pellet production system involved more processing of ore, but many of these ores were near the surface and could be extracted from open-pit mines. The Republic, Humboldt, Empire, and Tilden mines operated in this way for many years. Republic and Humboldt were shut down in the 1980s, though the Humboldt pit is seeing new use in non-ferrous mining (see section below).

Cliffs Natural Resources (formerly Cleveland Cliffs Incorporated, or CCI) operates two iron ore mines, the Empire and the Tilden. The two mines are adjacent and lie south of the cities of Negaunee and Ishpeming. Their development as open-pit mines represents a change from the historic underground mines that once could be found throughout the Marquette Range. The

Empire Mine, near Palmer, has an annual capacity of 5.5 million tons, with 12.6 million tons in proven reserves. Reserves are currently estimated to run out in 2014. The adjacent Tilden Mine, south of Ishpeming, has an annual capacity of 8.0 million tons, with proven reserves of 214 million tons. Current estimates show a 30-year supply of ore.

Demand for iron ore is currently driven by global forces. The recession hurt North American demand for steel, but China and India are growing rapidly. Ore produced at the Empire and Tilden mines, however, is destined for North American steelmakers.

In an effort to extend production at its Michigan and Minnesota mines, Cliffs Natural Resources is experimenting with iron nugget technology. The resulting nuggets are 97% iron ore, as opposed to 65% iron content in current pellets. Nuggets can be used directly at "mini mills," and can offset the rising costs of scrap iron.

At the moment, commodity prices for iron ore are high, and Cliffs Natural Resources is prospering. The company reported record revenues in 2010. There are, however, some risks that the company faces, detailed in their annual report:

- North American steel producers may be effectively put out of business by foreign competition.
- North American steelmakers might change their production methods, and no longer need iron ore in the form supplied by Cliffs.
- The mines' production is currently destined for a small number of companies with exclusive supply contracts. Trouble at any of the companies could spell trouble for Cliffs.
- An increase in production costs, particularly energy, could make the mines unprofitable to run.

Non-Ferrous Mining

Gold mining has occurred sporadically in Marquette County since 1881, when the Ropes Gold Mine was first opened near Deer Lake. The mine was reopened in 1983, but has been closed since 1991.

In 2006, Kennecott Eagle Minerals submitted an application to the Michigan Department of Environmental Quality for permission to develop an underground mine on the Yellow Dog Plains to extract a nickel and copper deposit discovered there. The projected mine would be in operation for ten years, producing an estimated \$1 billion worth of minerals. Kennecott Eagle is a subsidiary of international mining conglomerate Rio Tinto. The mine announcement was met by immediate controversy. Many area residents hailed the prospect of new jobs in a part of the county where jobs were badly needed. Others rued the possible environmental impact of a mine miles from any other development, alongside and under the Salmon Trout River, a certified trout stream.

At present, the Kennecott operations consist of the mine site in northern Michigamme Township, ten miles southwest of Big Bay, and a crushing plant at the site of the old Humboldt Mine in Humboldt Township. Kennecott has leased additional lands from the State of Michigan and is believed to be exploring other potential deposits, both in Marquette County and in neighboring counties to the west. The Humboldt plant could eventually serve multiple mines. If so, its economic impact could be significant and regional. A county road has been proposed to connect the Eagle mine site with the Humboldt mill, and this would have an impact both on Kennecott's operations and on area forestry.

Exploration by other companies is also taking place. Aquila Resources and HudBay joined forces to explore for gold north of Ishpeming, not far from the Ropes mine.

Forest Products

Forestry has a long history in Marquette County, and like mining, had an impact on the settlement of the area. Big Bay, for instance, was founded in 1875 as a sawmill community. For many years, it was dominated by operations of the Brunswick company, which manufactured bowling pins there. After the plant closed, Henry Ford purchased it in the 1940s and manufactured wood siding for "woody" cars.

Capital investment in the forestry industry is more diffuse than in the mining industry. While there are no family-owned mines in the area, there are many family-owned logging companies throughout the Upper Peninsula. The startup costs are fairly small when compared to the startup costs for a mine. Another key difference is that loggers do not typically own the lands where they are harvesting timber.

For many years, the largest timber harvesters were also among the state's largest landowners. Historically, forestry and paper companies owned large tracts of land, from which they harvested trees to supply their mills. In recent years, many of these companies have sold off their holdings, focusing their energies on production rather than land management. In their place, a few landholding companies have emerged, most notably Plum Creek Timber. The land management practices of the new companies are different than those of the previous owners. Waterfront properties are being developed for recreational and residential use wherever feasible, while forest management cycles are being shortened.

Loggers also face the difficulty of increased fragmentation of the land base. Permission must be received from more owners in order to log an area that was once held by one large landowner. The individual landowners may have different land management strategies from one another, making it difficult to manage sustainable forestry practices.

The industrial side of forestry in Marquette County is concentrated at K.I. Sawyer. Potlach operates a sawmill there, in the former weapons storage facility. A new development is RenewaFUEL, a subsidiary of Cliffs Natural Resources, that makes fuel briquettes from waste wood. The Board of Light and Power in Marquette already has a contract to use the briquettes as part of its fuel stream.

Agriculture

Marquette County's first zoning plan, adopted in 1939, was concerned with limiting agricultural development to areas served by existing roads and schools (Van Riper, 1941). The Great Depression made many farms economically unsustainable at that time. Zoning was used as a tool to prevent new unsustainable farms from developing.

Today, zoning is used as a way to protect farms from the encroachment of urban development. Part of the reason for this shift is the decline in numbers of farms, particularly family farms, in the last several decades.

Agriculture in Marquette County is concentrated in the Skandia-West Branch area, Wells Township, and Ewing Township. The soils of much of the rest of the county are not well-suited to farming, except for hobby farms. Although it has been purchased by an Illinois firm, a dairy still operates in Marquette.

Education

Demographic Setting

Education is strongly tied to demographics, particularly K-12 education. Without a major influx of young families, it seems that enrollments will continue to decline in the area. The birth rate dropped significantly through the 1980s and 1990s, finally stabilizing in 2000. As more students born before 2000 leave the school system, enrollments will continue to drop (Figure 2).

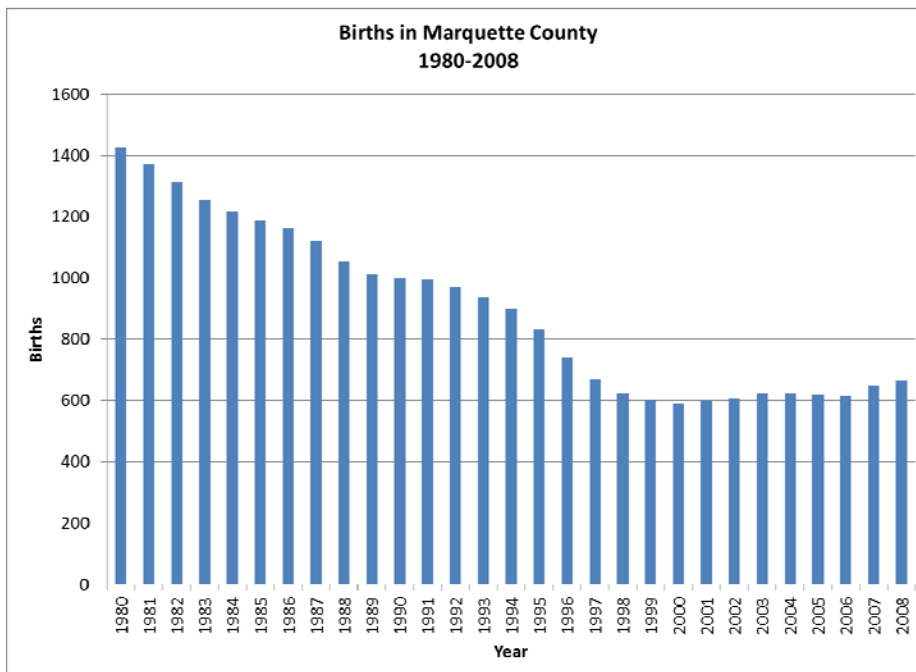


Figure 2. Births in Marquette County, 1980-2008.

Northern Michigan University Northern Michigan University was founded in 1899 as Northern State Normal

School. Over time, it evolved from a center for teacher training to a comprehensive regional university. Today, NMU boasts over 9000 students, including 680 graduate students. Roughly half of these students come from the Upper Peninsula, a region with a declining college-age population. To make up for this, NMU has actively recruited students from lower Michigan,

Wisconsin, Illinois, and Minnesota. This recruitment has helped to offset the decline of U.P. students. It has also brought more money into Marquette County from outside the region.

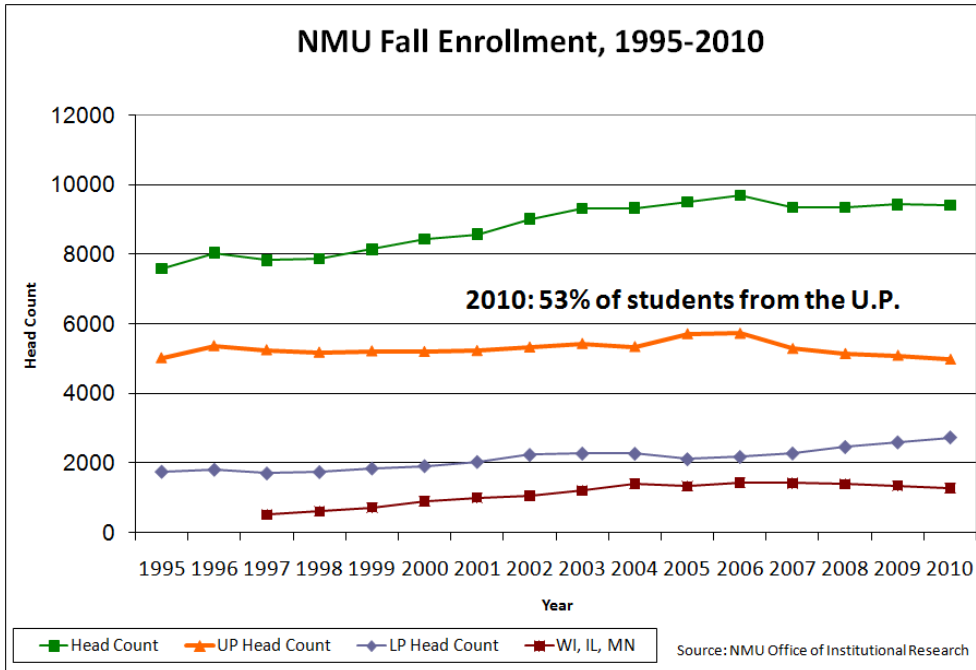


Figure 3.
NMU
enrollment
from 1995
to 2010.

Local
School
Systems
Marquette
County is
home to six
K-12 school
districts
and two K-
8 districts.

In addition, small portions of the county send students to the Mid-Peninsula and Escanaba districts in Delta County. All of the area's school districts are suffering from declining enrollment. State funding of local schools is based on numbers of students, and as enrollment declines, so does state funding. To make matters worse, the state's budget woes mean that fewer state dollars are available for schools.

Marquette County K-12 Public School Enrollment

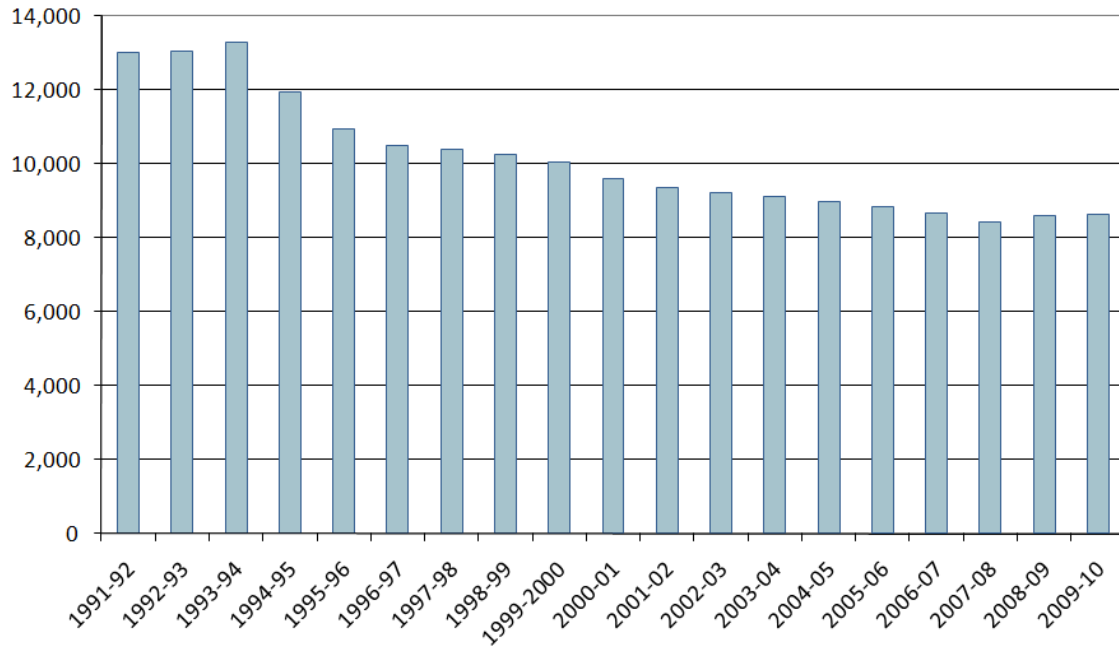


Figure 4. K-12 public school enrollment in Marquette County, 1991-2009.

Health Care

The health care industry is the largest category of employment in Marquette County. Major employers include Marquette General Hospital, Bell Memorial Hospital, and Upper Peninsula Home Health, Hospice, and Private Duty.

Marquette was once home to two hospitals. In 1973, they were consolidated into the Marquette General system. Today, Marquette General Health Systems operates facilities in thirteen of the fifteen counties in the Upper Peninsula. Its main campus is in the north side of Marquette, next to Northern Michigan University.

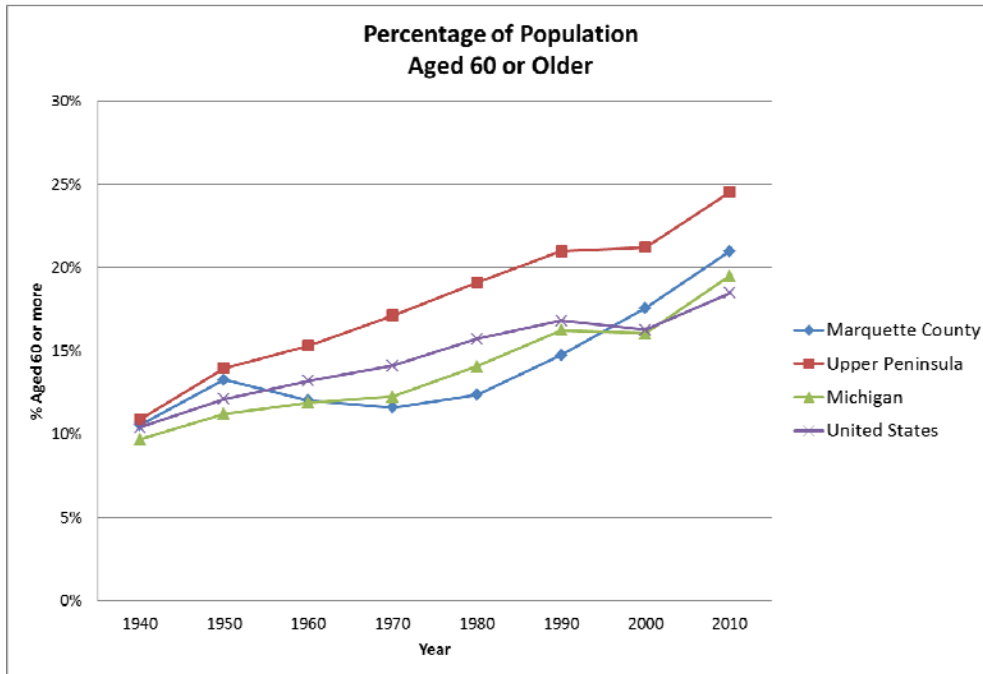


Figure 5. Population aged 60 or older.

Bell Memorial Hospital serves the western part of Marquette County and is historically tied to the Cliffs mining operations. In 2008, the hospital moved from downtown Ishpeming to a suburban location not far from US-41. The hospital also owns a medical clinic on the Negaunee-Ishpeming city line on US-41.

In 2009, Marquette General Hospital and Bell Memorial Hospital announced the formation of the Superior Health Alliance, designed to attract doctors to the area by joining forces.

Tourism

Tourism has long been important in the local economy. While the natural scenery of Marquette County is equaled or exceeded in neighboring counties of the Upper Peninsula, Marquette County offers amenities close to the scenery. As a result, many tourists eventually become part-time or full-time residents of the area. This is perhaps best encapsulated in the slogan of the Marquette County Convention and Visitors Bureau: "Come see how civilized our wilderness can be."

Most tourists in Michigan come from within the state. Marquette County sees many tourists from Wisconsin, Minnesota, and Illinois. Fortunately, those areas have not been hit as hard by the recession as Michigan. While the "push" factors of tourism rely on the state of the economy in other places, the "pull" factors are more influenced by local activity.

Construction

Construction in the area is focused on three areas: (1) the mining industry, (2) retail construction, and (3) residential construction. The construction industry's impact on the local economy can be seen in the seasonal fluctuations of area unemployment rates.

Figure 6 below shows the pattern of building permits in Marquette County over the last decade. Both the number of permits and value of construction dipped steeply with the onset of the recession. Some commercial construction in the US-41 corridor helped to raise numbers somewhat in 2010. Residential permits increased, but the value of residential construction declined from 2009 to 2010, indicating that people are focused more on home renovation than new home construction. The graph shows permits for all types of construction.

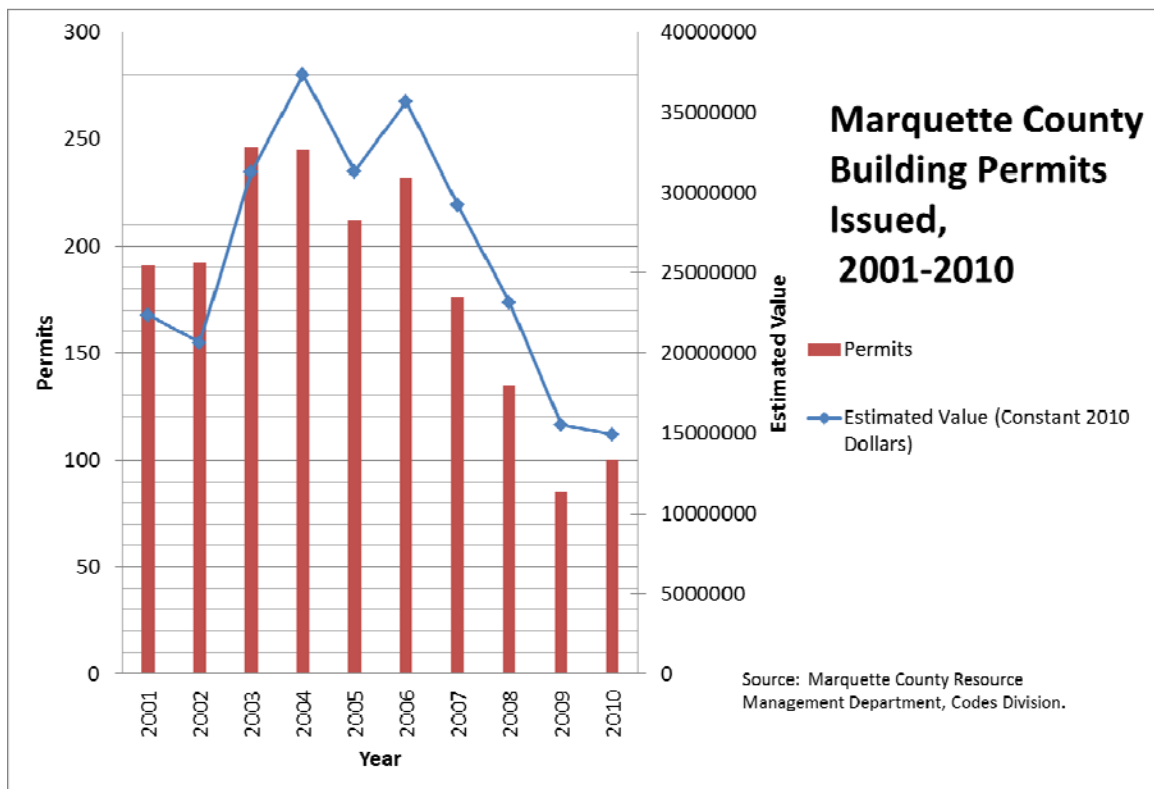


Figure 6. Building permits issued by Marquette County, 2001-2010.

Retail Trade

Marquette has become a regional trade center for the Upper Peninsula. The development of “big box” stores along the US-41 corridor in Marquette Township has made a drive to Green Bay unnecessary for certain goods. At the same time, the character of area's downtowns has changed dramatically. Faced with shuttered storefronts, there has been a movement of downtown areas toward specialty stores and entertainment. Downtown Marquette has remade itself in the last twenty years, earning “Cool City” status from the governor. The downtown areas of Negaunee and Ishpeming have made some movement in the same direction, but, without a similar population base and the draw of Lake Superior, have

faltered in their redevelopment. Strip development can be found along US-41 in or near all three cities.

Summary

Workers in Marquette County earned more than \$1.2 billion in 2009, according to the Bureau of Economic Analysis. Marquette County's economy, while more diversified than other Upper Peninsula economies, nonetheless is concentrated in a few areas. Government (including publicly-funded education), health care, and mining are the three most important.

Labor Force

Migration of the Labor Force

Among forces that bring people to Marquette County, three institutions are especially important. First is Northern Michigan University. Approximately 6200 students from outside the County attend NMU, 1700 of them from other states. Although the majority of these students leave after graduation, some stay, and many others leave but eventually come back. Second is Marquette General Hospital. As a regional medical center, the hospital draws patients from beyond the Marquette area. It also imports doctors, nurses, and other staff from beyond the County's borders. As Marquette County's largest employer, the hospital has a pronounced economic impact. Third is the Marquette Branch Prison. Although the prisoners brought to Marquette County do not contribute much economically themselves, they do cause the employment of many local residents. Their movement between Marquette, other prisons, and the judicial system also is large enough to skew data on migration to and from Marquette County.

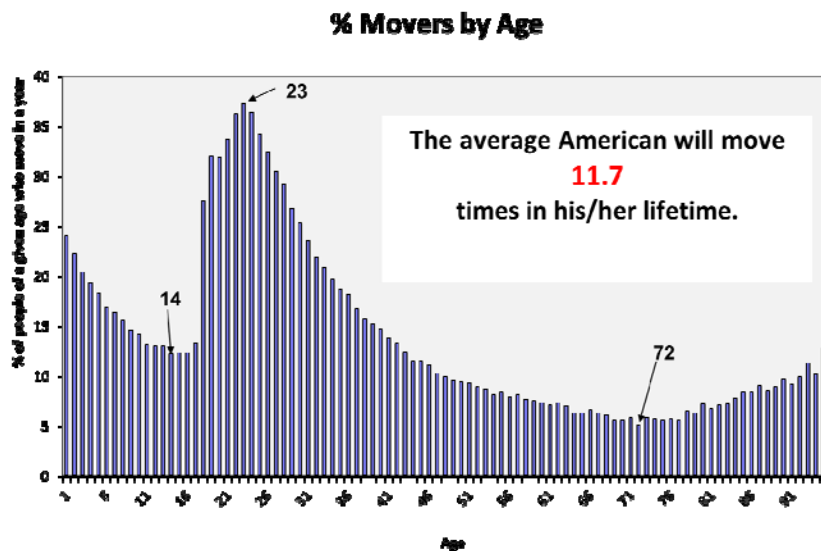


Figure 7. Percentage of people of a given age who move.

Many people also leave Marquette County. This is common among people in their teens and twenties throughout the country. Nearly one-third of Americans move at age 23, and the average American moves 11 to 12 times in a lifetime (Figure 7). While some people lament the “brain drain” that occurs, Marquette County is not unique in this regard. Nearly every state, including destination states like Illinois and New York, has a problem with students leaving home. The key is to get young migrants back after they finish school or get disillusioned with city life. In most cases, wages in Marquette County are not competitive with wages in urban areas, but “intangibles” can make lower wages acceptable. Housing costs are also generally lower in Marquette County than in metropolitan areas.

An underlying value of tourism may be that many tourists are “shopping” for where they want to live in retirement. It also sometimes leads to direct investment. Some investments at K.I. Sawyer came about because of people who had positive associations with Marquette County after visiting here.

Jobs

During the decade from 2000 to 2010, Marquette County made steady gains in the number of jobs, until the recent recession. For much of the decade, the County increased its number of jobs even as Michigan was losing jobs. The County’s ties to the auto industry are limited, demand for iron ore has remained strong, and the health care industry has continued to expand.

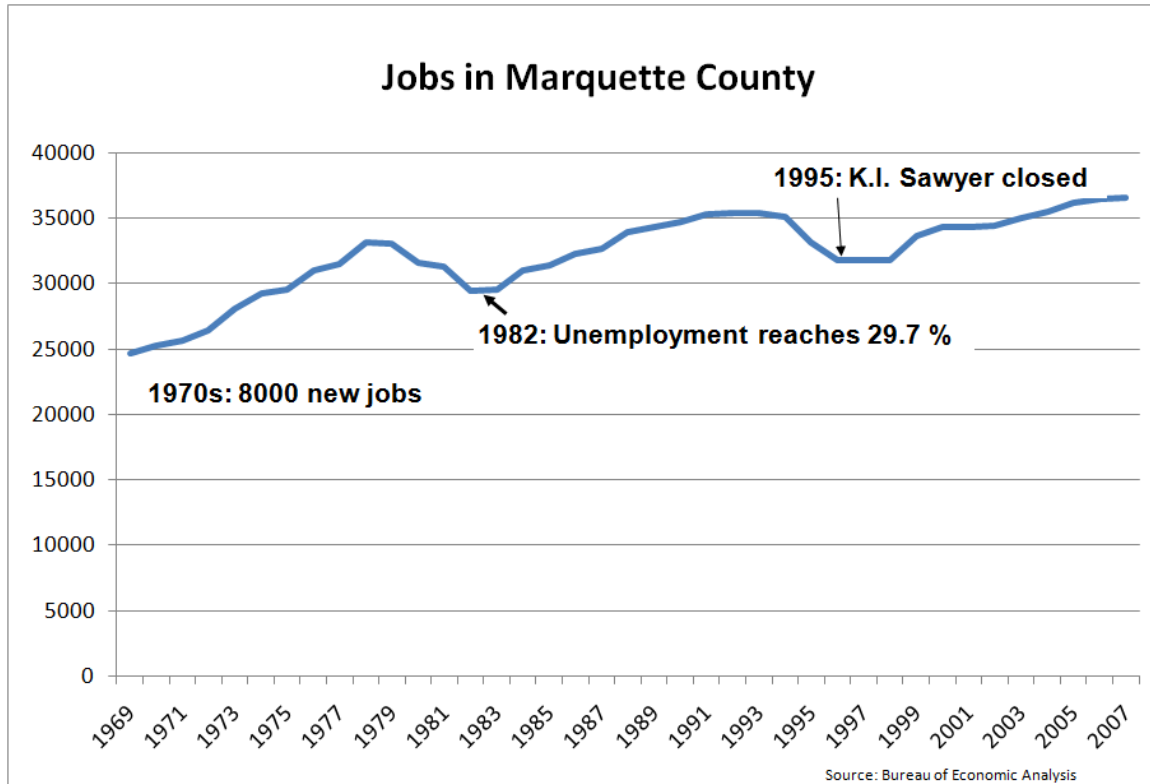


Figure 8. Marquette County job growth, 1969-2007.

Marquette County reached its peak population in 1980, with current population about 7,000 people lower than at that time. The number of jobs, however, has increased over the same period. One explanation for this apparent contradiction is the increasing participation of women in the workforce. Figure xx shows the proportion of men and women who were employed, from 1960 to 2009. The graph shows that women have been joining the workforce in increasing numbers. In 2009, a higher percentage of women were employed than men. This may be in part because men were more likely to be in sectors of the economy with layoffs or temporary work, such as construction.

Marquette County Employment Trends by Sex

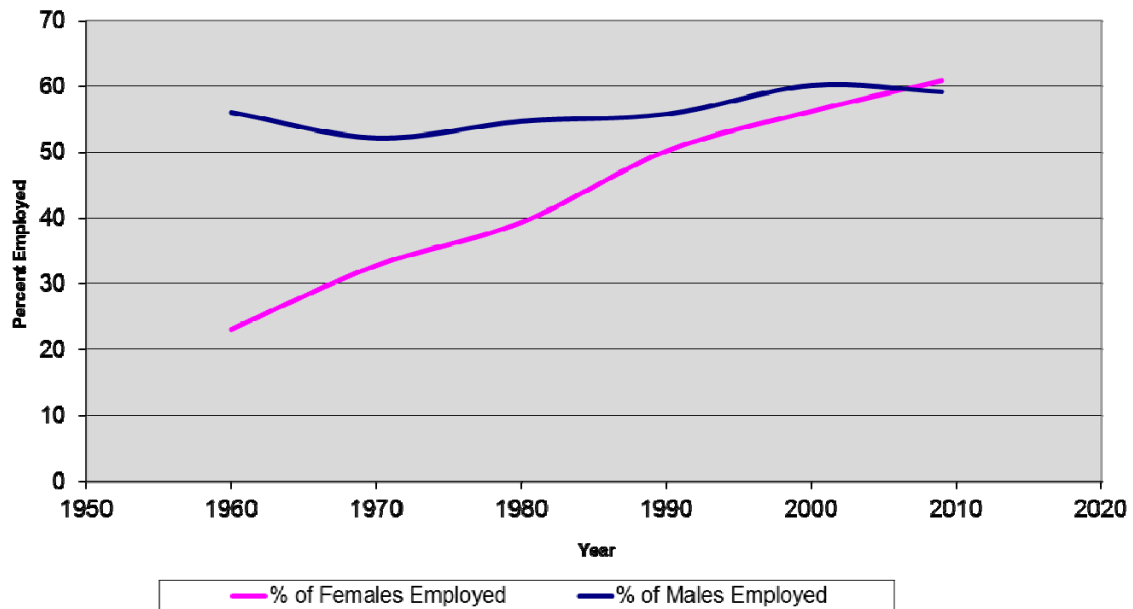


Figure 9. Marquette County employment trends by sex. Source: U.S. Census, decennial censuses and American Community Survey.

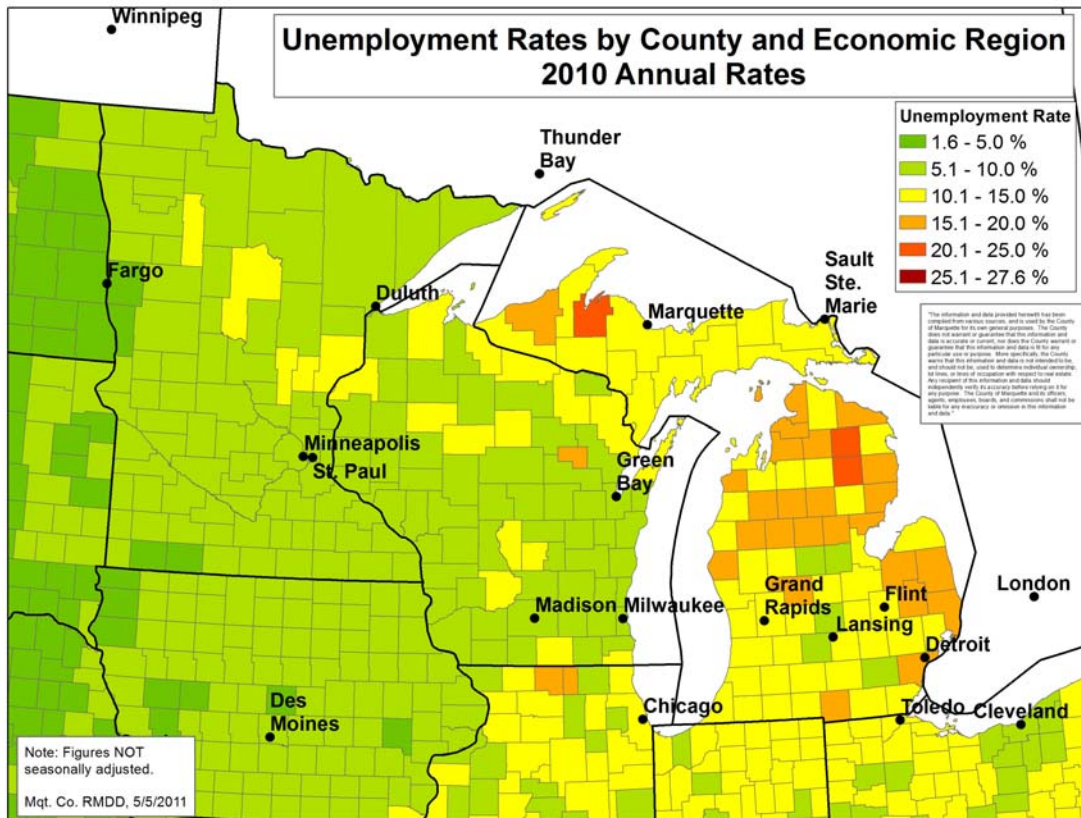


Figure 10. Annual unemployment rates by county, 2010.

Income

Inflation-adjusted personal income has risen over the past four decades, as shown in Figure 11. Dips in personal income occurred during the 1980s recession, the loss of K.I. Sawyer Air Force Base, and the current recession. In general, Marquette County has been steadily improving its situation relative to other counties in Michigan. In 1969, Marquette County's per capita income ranked 55th out of the 83 in Michigan. By 2008, Marquette County's rank had risen to 29th.

Total payroll has risen most rapidly in the Government and Health Care categories, which are also the two largest categories of jobs in Marquette County. "Government" includes teachers, police officers, fire fighters, college professors, and other people not traditionally thought of as government workers. "Health Care" also encompasses a wide variety of support personnel beyond the highly visible jobs of doctor or nurse.

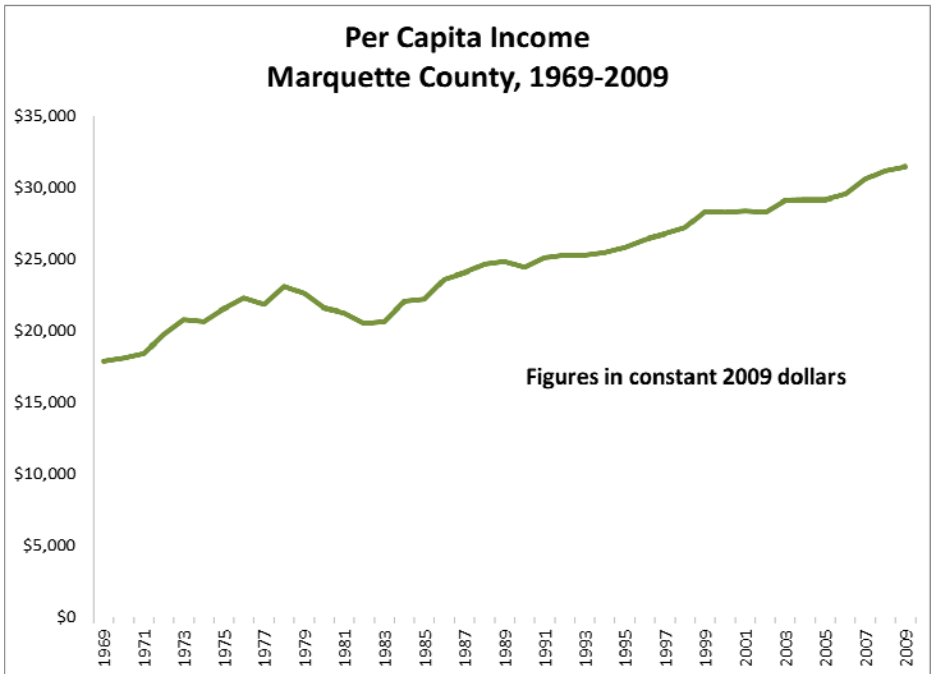


Figure 11. Per capita income, Marquette County, 1969-2009.

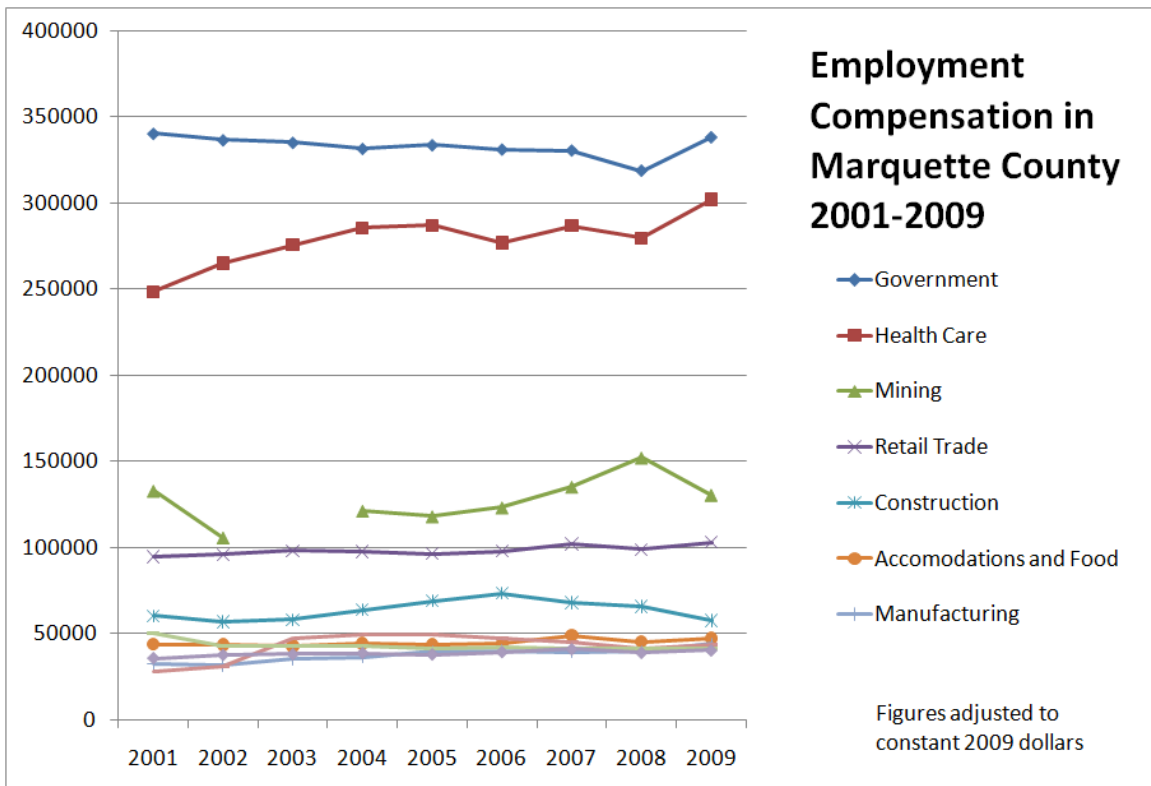


Figure 12. Employment compensation in Marquette County, 2001-2009.

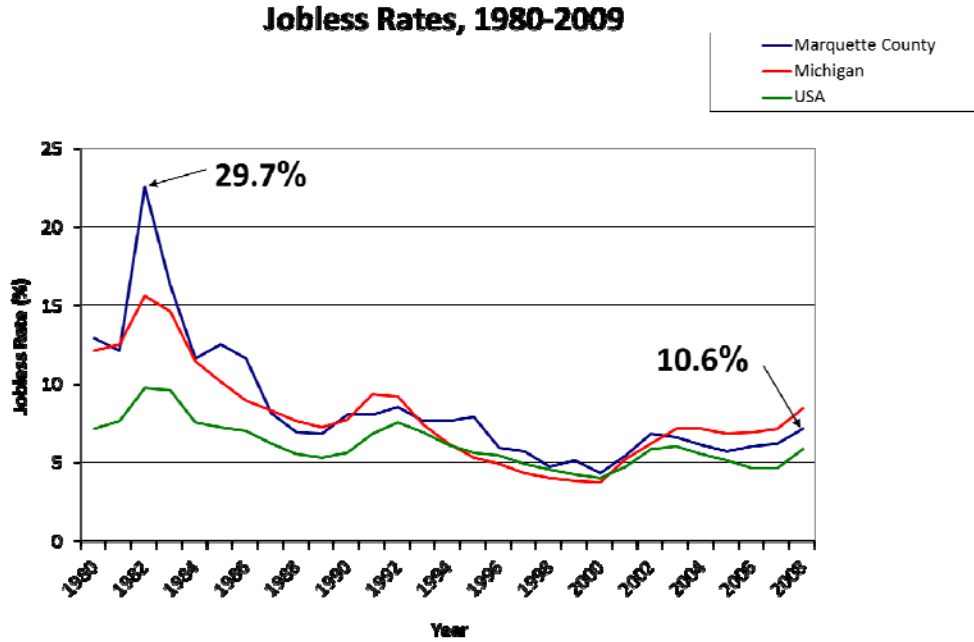


Figure 13. Jobless rates, 1980-2010.

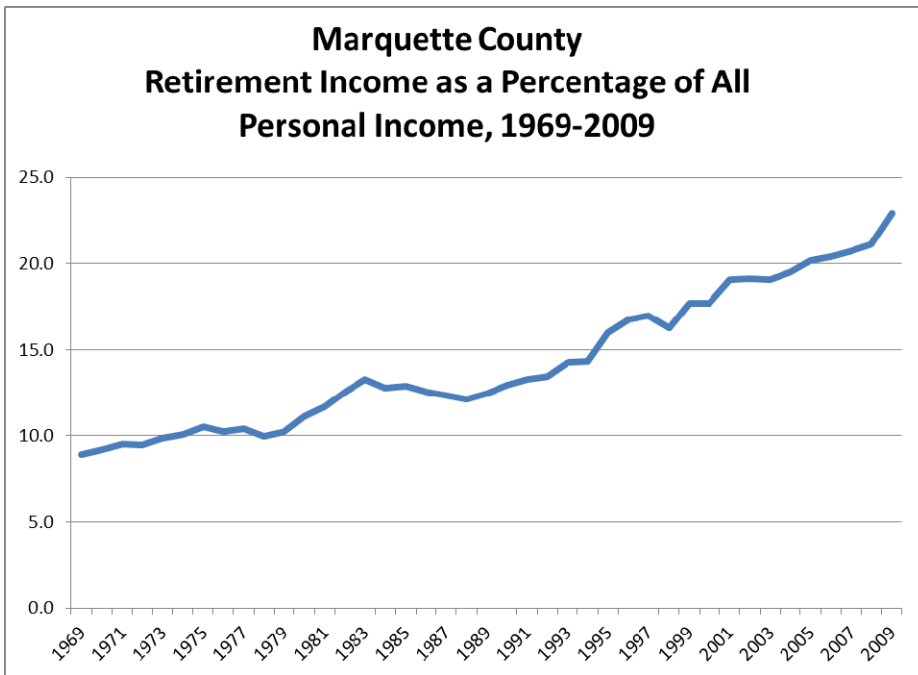


Figure 14. Marquette County retirement income as a percentage of all personal income, 1969-2009.

As the area population ages, the proportion of income from pensions, Social Security, and other retirement sources will increase. As Figure 14 shows, this trend has been continuing for

decades. Depending on the financial health of the various funds, retirement income can either have a stabilizing effect on the county's economy, or it can represent another vulnerability.

Economic Development

Economic development in Marquette County has focused on luring a large employer from outside the area, as opposed to "gardening" a locally-grown business. Governor Snyder, himself a former CEO of a large company, Gateway Computers, has advocated putting emphasis on economic gardening. Locally-grown firms are less likely to leave the area than firms that locate to an area looking for tax breaks and other government-financed incentives.

Marquette County as a "Quality of Life" Provider

The County of Marquette's immediate impact on the local economy is somewhat limited, beyond the direct employment of its workers and contractors. Indirectly, however, the County can influence the local economy through its various functions. Marquette County provides numerous services that help to make the quality of life in the area better, including:

- Law enforcement
- Transportation services
- Judicial services
- Health, safety, and welfare
- Information and records services
- Recreation
- Water and sanitary sewer services

Together, the services provided by Marquette County and other area service providers contribute to economic development by:

1. Providing direct employment of area residents
2. Provision and improvement of physical infrastructure
3. Providing recreational and tourist facilities
4. Ensuring an orderly business environment
5. Enforcing rule of law

Recommendations

In a time of budget difficulties, there is relatively little that Marquette County as an organization can offer in the way of incentives to lure businesses to the area. There are, however, three major areas in which the County can help to spur economic development in the area.

1. While difficult times tend to increase competition between neighbors, this is the time to foster even better regional alliances. Fortunately, the Upper Peninsula has a long tradition of regional cooperation, often made necessary by isolation from the rest of Michigan. As recent contracts stemming from new work at Marinette Marine demonstrate, the effects of economic development can be felt far beyond a single operation.
2. The redevelopment of K.I. Sawyer remains a major County focus in economic development. While the site presents some unique challenges, it also provides critical infrastructure adjacent to the largest airport in the region.
3. Economic developers, local officials, grant writers, and the general public require good information about the state of their communities. Over the last few years, a wave of communities have begun web sites centered on “community indicators.” These are a range of statistics providing a snapshot and trends in the well-being of communities, covering factors ranging from population growth to poverty rates to new home construction. Michigan’s new governor has adopted a variation of the community indicator concept with his “dashboard” web site.
4. Marquette County’s major impact on economic development is to help maintain its part of the services that make the area a good place to live. The County should, within the limits of available funds, continue to provide services that enhance quality of life.

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