

Elk Valley Regional Economic Outlook



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Executive Summary

The Elk Valley is known for its high grade, metallurgical coal. The Valley boasts significant reserves, a long mining history, well established and efficient logistics, and a cost of production that is very competitive on the world stage. There are several proposed expansions and there are approvals in place to maintain current production levels for the next 20 to 25 years. From this strong foundation the economy continues to diversify – spurred on by private sector investments that complement the new public infrastructure development that is supporting the Valley’s growth.

The economic foundation of the mining sector is complemented by an established forestry industry and an expanding two-season tourism economy. With its solid base of local amenities and activities, the Elk Valley has attracted many individuals and families to live, work and establish businesses in the area. Regional investment in Broadband connectivity is further enticing lifestyle conscious entrepreneurs and adding to the robust and growing small business sector that is supported by the above average wages in the coal sector.

Long-term confidence is illustrated by the recent capital investments of Fernie Home Building Centre and SMS Equipment totalling \$26 million, and the four-fold growth of Fernie Brewing Company. Real estate development and plans for small scale manufacturing increase local employment opportunities and strengthen the foundation built by coal.

Resiliency in the face of commodity cycles, the ability to successfully navigate an increasingly complex global marketplace and continued growth through innovation and investment attraction shape the business climate in the Elk Valley and positively impact our Economic Outlook.

Elk Valley Economic Outlook

1. Introduction

The Elk Valley follows the path of the Elk River from the Continental Divide, down the western slopes of the Rocky Mountains to the Kootenay River Valley joining the Kootenay River in Lake Koocanusa just north of the British Columbia-Montana border. This south eastern corner of B.C. is rich in natural landscapes and environments, natural resources, and history.

The Valley is the traditional territory of the Ktunaxa Ksanka First Nation. They currently reside on a 4,280 hectare Reserve located 12 km south of Grasmere, and 60 km southeast of Cranbrook near the Roosville Border Crossing. The current Ktunaxa Ksanka population is just over 200. The Ktunaxa Ksanka is part of the Ktunaxa Nation.

David Thompson travelled through this area in 1811 on his search for a river route to the Pacific Ocean. Many others followed his path. European settlement started in the mid-1800's, based on mining and forestry.

Today, B.C. Highway 3 passes through the upper Valley on its route from the Alberta border and Crowsnest Pass through to Cranbrook. Along the way, Highway 3 provides access to the communities of Elkford, Sparwood, Hosmer, Fernie, Morrissey, and Elko.

Access to the lower Valley and Lake Koocanusa is by Highway 93, which turns off Highway 3 at Elko, 66 km east of Cranbrook. Highway 93 provides access to the communities of Grasmere and the Ktunaxa Ksanka, or Tobacco Plains First Nation, and to the Roosville border crossing into Montana. Kalispell, Montana is located 127 km south of the crossing.

The Valley has played an important part in the coal mining history of British Columbia. The first operating mine was established at Coal Creek, near Fernie in 1897. By 1908 there were four active mines and over 1,400 coking ovens operating. Today, the coal resources are managed and mined by Teck Resources, and coal remains the economic foundation of the regional economy.

The natural amenities of the area have added tourism to the economic base. The natural beauty of the landscape, and the ease of access to it, has also attracted many new residents and entrepreneurs who came for the small town, outdoor lifestyle the region offers.

The Elk Valley region has a population of approximately 15,000. The main municipalities are Sparwood, Fernie, and Elkford. All have full municipal services and excellent recreational facilities. Fernie is the largest community with a population of 4,528 in 2014. Sparwood and Elkford have populations of 3,844, and 2,557 respectively. Hosmer, Elko, Grasmere, Jaffray and Sweetwater are part of the East Kootenay Regional District. Those communities and the rest of the rural areas of the Valley have a population of approximately 4,000.

Regional retail and public services are available at Cranbrook. These services include the regional hospital, the primary campus of the College of the Rockies (Ferne hosts a satellite campus), and the Canadian Rockies International Airport. The closest major urban centre is Calgary, approximately three hours away by highway.

2. The Economy of the Elk Valley

Coal

Steelmaking coal is the foundation of the economy in the Elk Valley, and the long-term fundamentals are sound. Last year, Teck produced approximately 26.7 million tonnes of metallurgical, or steelmaking, coal, all for the export market. Unlike thermal coal, steelmaking coal is a critical part of the steel making process. As long as steel is being used to build infrastructure and products, there will be a demand for metallurgical coal.

Teck has five active mine sites in the Elk Valley: Line Creek, Fording River, Elkview, Greenhills and Coal Mountain. Permitting and/or other site development projects are underway at each operation to extend mine life and maintain existing production and employment. Together these expansions represent 20 to 25 years of mining at current production levels. Additional reserves could support over 100 years of mining at current levels.

The market for steelmaking coal is currently faced with oversupply and slowing demand, which has led to low prices. This market weakness has challenged producers like Teck to control costs and manage production and inventories. However, the long-term fundamentals of the industry remain strong. Increasing urbanization and a growing middle class – particularly in Asia – will continue to fuel demand for steel and the steelmaking coal needed to produce it for many decades. In the short term, Teck will continue to focus on reducing costs and improving efficiency to ensure they are well-positioned when markets improve and the Elk Valley's future is positive, with significant reserves, a long history, well established and efficient logistics for mining and moving coal, and a cost of production that is very competitive on the world stage. As coal is marketed in US dollars, Teck also benefits from the current value of the Canadian dollar.

The coal mining industry has an employment base of over 4,000 in the Elk Valley coal operations. That number does not include those employed as contractors and in support businesses and services. Based on National Household survey data (2011), approximately one half of these employees live in the Elk Valley. Because of the region's mining operations, average employment income in the Valley is approximately 18% higher than the BC average.

The economic fundamentals of the Valley are perfect. Coal will be there for the next 100 years. There will always be solid business prospects and investment opportunities. Property values are good. Employees make really good wages compared to other rural areas. It's absolutely beautiful here, a vacation, tourism, quality of life mecca. World Class. Steve Droste, Regional Manager, Joy Global, Sparwood

Compared to the last few years, coal prices are down. But there is still a very strong economy in the Elk Valley. There are many small and home-businesses here in Elkford ...[and] a lot of people moving here. Katherine Russell, Artist, Elkford

Forestry

Another key natural resource sector in the region is forestry. The current annual allowable cut in the Cranbrook TSA, of which the Elk Valley is a significant part, is approximately 900,000 cubic metres per year. This does not include harvest from private lands. Timber harvest supports 160 employees at the Canfor sawmill in Elko and 60 employees at the Galloway Lumber Company in Galloway. There are also two smaller custom mills, Agnes Creek Sawmill and Trading Company in Elkford, and McDonald Ranch and Lumber Ltd. in Grasmere.

Tourism

A relatively new aspect of the Elk Valley's economy, compared to mining and forestry, the tourism sector is vibrant and growing. The focal point is Fernie Alpine Resort, one of North America's premier ski destinations. The resort boasts five alpine bowls, the most in North America, and normally receives up to 10 metres of annual snowfall. In the summer season, the resort is the centre for a rapidly growing mountain biking industry. The resort employs approximately 800 people in the winter, and 200 in the summer. Winter activities attract over 300,000 visitors to the Elk Valley annually.

The positives are pretty obvious: scenery, location, the ski hill - that's huge! And those other attributes, the hiking, mountain biking, golf - we have an abundance of choice. Simon Howse, General Manager, Parastone Developments

Mountain biking is supported by approximately 465 kilometres of non-motorized trails that have been developed by local groups throughout the Valley. Winter biking on "fat tires" is a growing part of that activity. Last year there were nine events for bikers, attracting over 1,200 competitors, with more than half from other areas of the B.C., Alberta region, and from across Canada and the US.

Our trail network has expanded significantly here in Fernie, and we're seeing lots of different kinds of biking - trail riding, BMX, mountain biking, fat tire biking in the winter. Biking plays a huge role in our tourism. Krista Turcasso, Publisher, The Fernie Fix

Lake Koocanusa is a major summer attraction. Formed in 1974 in the Kootenay River basin as the retention area behind the Libby Dam in Montana, the Lake extends approximately 67 kilometres into Canada. Today Lake Koocanusa is a destination vacation area for boating, fishing, and other on-water and shoreline experiences.

Fly fishing on the Elk River is legendary and draws fishermen from around the world. Westslope cutthroat and Bull trout are the attraction. Fly fishing as a recreational tourism opportunity was first developed in late 90's and has grown rapidly. Since 2005, a management plan has been in place that classifies waters and uses a fixed number of guides and classified waters. Eight local guiding companies provide up to 3,000 guided "rod days" of fishing on the Elk River, and another 2,000 on other regional streams and rivers. There are no restrictions on fishing days for people who don't use guides, and those numbers are increasing.

Our fresh-water fishing is one of those things that help make Fernie a destination. Simon Howse, General Manager, Parastone Developments

The Elk River is one of the most popular fly fishing destinations, attracting people from around the world. Katherine Russell, Artist, Elkford

Additional activities and infrastructure are also helping put Elk Valley tourism on the map. The region has six Provincial Parks, with five for day-use. Overnight camping is available at Mount Fernie Provincial Park. The Valley hosts three golf courses, one in each of Fernie, Elkford, and Sparwood. River rafting, hiking, snowmobiling and/or ATV'ing on the logging roads, hunting, and wildlife viewing are among the other popular activities enjoyed by tourists and residents.

The Valley has established a strong two-season tourism economy. There is a good balance in visitation throughout both the winter and summer seasons, and the number of visitors is increasing. Crossings at the Roosville border have are up by 42% over the last eight years to approximately 700,000 annual trips. Visitors to the "Big Truck" Visitors Centre in Sparwood are up 35% over last two years to approximately 80,000 in 2014. The Fernie Visitors Centre has approximately 12,000 visitors a year.

On the events side, we have more events happening in town every year, drawing people to our community, especially in the summer months. Bike festivals, music festivals, a weekly music festival in the summer. The farmers' market. Endurance trail riding in the summer months. It seems like every summer something new is on the scene, a different kind of sport or festival attracting different kinds of people to our community. Krista Turcasso, The Fernie FIX

Small Business

The strong base of local amenities and activities in the Elk Valley has attracted many people and families to live and work in the region. Mining and related work supports many households, however, small

business development represents a growth sector in the region. Artists, craft people, technology-based services, and local retail and professional services represent some of the new businesses in the Elk Valley. Some businesses have started here. Many have been “imported” by new residents bringing their businesses with them, choosing to live in the Elk Valley for its lifestyle and outdoor amenities.

This attraction will be enhanced as Telus upgrades local connection services to fibre optic in Fernie with 100mbps speed. This will be a potential benefit to both technology-related businesses in the region. Perhaps more important, it will directly benefit businesses that rely on online sales and marketing, an increasingly important sector of the economy for businesses in relatively remote communities like the Elk Valley.

There are very good programs for developing small businesses here in the Elk Valley. The Kootenay Rockies Innovation Council (KRIC) offers a lot of good programs, programs that I've used. The Chamber is very also very active. I think the Elk Valley very much wants to support and grow small business.
Katherine Russell, Artist, Elkford

I've been in business for 19 years, and had to make my own opportunity. The first 10 were tough and the main advantage was the Elk Valley lifestyle. ...Diversity is key, as is being competitive and offering same day services. There's going to be a lot of change over the next five years. We'll need to keep up with change, but I'm seeing lots of opportunity. Ryan Doehle, Owner, Isosceles Business Systems, Fernie

3. Recent Investment

In spite of a sluggish economy in Canada and around the world, and more recent downturns in both the coal sector, the economy of the Valley remains a positive focus for investment.

Fernie Brewing Company is a local micro-brewery that recently built a new storage facility and brew house to increase their capacity fourfold. The business plans to both increase market share in existing B.C. and Alberta markets, and expand their market into Manitoba and Saskatchewan.

While the small town of Fernie itself could not sustainably support a mid-sized craft brewery, the company has done a great job of finding other markets for its products. ... the brewery enjoys a lot of popularity in the Calgary area, and its excellent, diverse range of beers is also available throughout B.C. in government liquor stores. Joe Wiebe, Author, Craft Beer Revolution, 2015

The Fernie Brewing Co. is putting Fernie on the map, and it's really important for Fernie. It expands our reach into different markets, people that are not necessarily part of the ski/ bike tourism crowd. Krista Turcasso, Publisher, The Fernie FIX

SMS Equipment in Elkford recently invested \$22 million in a new 50,000 square foot building on a four hectare site, custom built to suit the needs of heavy equipment sales and services to the mining industry in the region. The new facility features specially equipped shop bay with crane lifts, and state of the art 15,000 square foot warehouse and parts management system.

The Fernie Home Building Centre recently invested approximately \$4 million in expanding from 6000 to 20,000 square feet of retail space. They also increased the number of staff by about 25% and now employ 31. Home building and renovation has been the driver of this expansion.

The last time the real estate market crashed, Fernie prices stayed the same. A lot of the development that's happening is people who already live here. They're selling their homes and building new ones. Properties are being sold at a reasonable price. This gives young people an opportunity to buy in, for new families to move up, from the older miners' houses to new and larger family homes. Krista Turcasso, Publisher, The Fernie FIX

Fernie Ford recently built a new dealership, doubling its retail and service space. They will be adding three to four new employees in next six months, primarily in sales, and plan on adding two new mechanics in the future.

In early 2015 Telus announced that Fernie is one of a handful of small communities selected for a pilot program that will connect approximately 90% of households and businesses in the community via fibre optic cable. The multimillion dollar project is expected to be completed by end of August.

With the roll out of the Telus fibre network, there's going to be an exciting investment opportunity in the Elk Valley. Simon Howse, General Manager, Parastone Developments

4. Public Investments

There is collaboration happening between the Fernie Trail Society, Elkford, and Sparwood to create a community connector trail, a project that also involves the Trans Canada Trail Society. Funding support will be provided by the community directed funds program of the Columbia Basin Trust (CBT) and the provincial Resort Municipality program. The main section of the trail will connect communities between Elko and Hosmer, and is for non-motorized use only. There will also be a motorized-use connector from Hosmer through to Elkford. The estimated cost is \$1.2 million over a three year timeline. Some of the trail is already in place.

Sparwood is investing in land and infrastructure to support business development east of the highway. Expenditures for land and services to the end of 2014 were \$4.4 million, and a further expenditure of \$9 million is anticipated for intersection improvements and tunnel work.

Elkford recently completed construction of a \$220,000 multi-use heliport. This year the District is investing approximately \$2.5 million on diking along Boivin Creek to provide flood protection for town centre and municipal facilities. A new footbridge will be included (\$50,000 to \$100,000).

Fernie is developing a secondary water source with a new well project valued at \$2.5 million, and upgrading the sewage treatment facility (\$1.5 million) to meet requirements for the next 20 years. The City will also be making renovations to the Visitor Information Centre (\$250,000) this year.

The Columbia Basin Broadband Corporation, or CBBC, is investing \$10 million over five years in a 724 kilometre fibre optic backbone, connecting communities in the Columbia Basin. This year that backbone will be extended into the Elk Valley. The three municipalities are now looking at how they can best use that infrastructure to more effectively deliver their services and programs.

The Columbia Basin Trust (CBT), Teck Resources and BC Hydro, also recently invested \$1.6 million in development of a two-hectare site on Lake Kooconusa, designed to improve recreational access to the lake. The site is located on the northwest side of Kikomun Bridge, and includes a new boat launch, floating breakwater, floating dock, outhouse, garbage receptacle, and parking for up to 60 vehicles and trailers. The land was made available by the Ktunaxa Nation and the Province of B.C.

CBT has approved funding of \$3 million in the East Kootenay Fish and Wildlife Compensation Program. This is a one-time amount to be expended over five years. A Watershed Action Plan was completed in May 2014. The funding will support both habitat restoration and recreation and the first project funding will be awarded this year.

5. Developing and Planned Investments

Joy Global, a mining equipment and service company in Sparwood with 70 employees, is planning on consolidating their local shops and offices into one major new facility. They have already purchased the land, and the estimated value of the proposed new development is approximately \$35 million. That consolidation will also free up current rental space that can be utilized by new businesses.

Tobacco Plains First Nation is currently exploring feasibility of small-scale manufacturing that would employ up to 8-10 full-time employees, or more during high season. They are looking at the feasibility of a pre-manufactured home facility focused on affordable, good quality housing units of a manageable size and cost. Part of the project feasibility relies on the ability to access locally-milled lumber. It is expected that construction of the manufacturing site will start by end of July.

Our product will sell across North America. It'll be affordable, good quality housing. Access to the transportation hub is key. Hugh Moore Tobacco Plains Band, Economic Development Manager

Tobacco Plains First Nation is also negotiating the purchase of an existing greenhouse business, and looking to expand on band lands, with a focus on small plot agriculture. The proposal would see production of native plants and herbs, to meet demands in both retail and production facilities. Target markets include beverage manufacturing and health-care producers. A decision on whether to proceed is expected by June 2015.

Cummings Western Canada in Sparwood is anticipating buying land and building new sales and service facility within the next six months. They estimate that this expansion will be sufficient to meet their needs for the next 5-10 years. They are building on the premise that there will be increased activity in forestry and mining, primarily mining.

Sweetwater is a self-contained retreat and vacation community located on the West side of Lake Koochanusa approximately 50 kilometres north of the Roosville border crossing and 90 kilometres south of Cranbrook. Much of the 120 hectare site backs onto crown land. Sweetwater is the only major development on the Canadian portion of Lake Koochanusa.

The proposed development includes 550 single family and 280 multi-family homes, 148 recreational vehicle sites and a marina with 740 slips. The amenities will include a water park, gym and an arena, along with commercial development with a restaurant. The marina services are already up and running along with approximately one-third of the slips . There are two subdivision approvals completed. The first subdivision is along the waterfront and consists of 122 single family lots and the second is for 64 single family lots. Overall the investment in this development to date is about \$60 million This is anticipated to be a 10 year development project, depending on the market.

Parastone Developments is a locally-owned construction and development company operating in the Elk Valley and located in Fernie. Over the last decade, Parastone has managed or completed numerous commercial real estate projects, including two with particularly innovative features. One of these is the 1908 Schoolhouse, completed in the fall of 2009. A former three-storey high school in downtown Fernie, it is now a mixed use residential-commercial development. Parastone also led an approach to develop Veneto Place, an attainable housing project with 45 units, in collaboration with BC housing, the City of Fernie, Columbia Basin Trust and the local housing society. The development includes three buildings in the historic downtown area, and is targeted at seniors and the disabled, along with lower and middle income families in the community. Parastone has built homes in two residential development sites in Sparwood, Vantage Point, a 119 lot development, and Cherrywood, a 36 lot development.

Over the last eighteen months Parastone has built eight new homes. They also recently started a new 100 hectare development project in Fernie. Projected build out of the “Montane” development is 200

homes, with three already built, and 30 lots sold to other builders. Parastone expects to build 5-10 homes per year for the next 10 years in Montane.

This year alone we'll generate somewhere between \$5-10 million in spinoffs Simon Howse, General Manager, Parastone Developments

In Fernie, the former 12 hectare wrangler rodeo grounds is in the process of being developed as an R.V. Park. When it is completed in the spring of 2016, this \$7 million development will have 275 fully serviced recreational vehicle sites including 50 amp electrical, 30 to 40 tenting sites and 20 platform sites with rental yurts or wall tents. The new "Fernie R.V. Resort" will also include a store, club house with a gym, a pool, wash room facilities and a feature garden focusing on regional plants and shrubs. The Resort will be open all year for daily or seasonal site rental. This development will triple the number of serviced overnight recreational vehicle sites available in the Fernie, Sparwood, Elkford area, and will add over 30,000 user days of visitation to the region.

6. Why Invest in the Elk Valley?

A relatively stable demand for metallurgical coal, consequent high wages in the mining sector, an abundance of outdoor recreation amenities, family-friendly community services, and a rich trove of historic features the Elk Valley is seen as a positive investment opportunity. Business owners have some great insight on prospects for the Elk Valley market.

There are competitive areas, such as the Comox Valley and Okanagan, but they have lower wages. For people moving here, better wages are good. The cost of living is reasonable here. For businesses, there are higher labour costs but lack of competition means better opportunities to make money. Rick Pater, Re/Max Elk Valley Realty, Sparwood.

It's God's country! The area is underdeveloped, and costs are relatively lower, less competition than in other areas, like the Sushwap Lakes, for example. If you can make it work here now, it will only get better, it's a young market. Deborah Kotulak, Tobacco Plains Development Corporation

Business owners and other organizations have identified investment opportunities including:

- The food and accommodation sectors,
- Tourism services and outdoor activity supplies and rentals,
- Health care services for seniors,
- Small engine repair, and related storage for boats, snowmobiles and ATV's,
- Commercial industrial facilities for the contractors and services supporting Teck Coal operations, and
- Smaller scale affordable housing for seniors, students, local labour and contractors.

I think the Elk Valley is a good place to invest. There are a lot of steady, strong incomes here. People work here. Krista Turcasso, Publisher, The Fernie Fix

The market has bottomed out so it's a good time to invest. Housing is still developing. The long term outlook for employment is good. There is not a lot of slack in the labour force, so any expansion will need new labour. Rick Pater, Re/Max Elk Valley Realty, Sparwood

7. Why Live in the Elk Valley?

The Valley is a place that can offer the unique combination of outdoor recreation and activities, and small town lifestyle. Compared to most other rural small town areas, it has a strong economic base and good wages, there are an abundance of community services and facilities, and the region has a unique sense of history and place.

Everything "outdoors" is on the doorstep. It's easy to link work and play.

Jude Smith, Business Development Liaison, Sparwood

Lifestyle, recreation facilities, are great, taxes, house prices /all low or competitive, and Town maintenance and sense of community great in Sparwood. Norma McDougall, Chamber of Commerce Manager, Sparwood

The people are great. There are lots of well-educated people with diversity of skills, both living in the community and as visitors. The "Fernie experience" works in your favour as a business person and the small town, outdoor lifestyle is attractive. Abi Moore, Fernie Brewing Co.

We're a young demographic. There's a lot of "me" – people around 30, raising young kids here in the Elk Valley. I think this represents a lot of opportunity. ... There is so much going on! Loads of recreation activities for our family.... It's been how we imagined. Katherine Russell, Artist, Elkford

8. The Elk Valley, Making it on our own ..together

Outdoor lifestyle and amenities and a strong economic foundation are ingredients for long term success. But the Elk Valley has a little something extra, a hard to define combination of sense of place, community pride, and willingness to work together to make individuals and businesses successful.

Fernie has advantages over other small communities in B.C. It's already on the world stage as a ski town. It's close to Calgary, but still being in BC. It's close to the biggest mining company in Canada, the second biggest metallurgical coal mining company in the world. There are a lot of synergies possible right now. Not a lot of communities have our advantages. Simon Howse, General Manager, Parastone Developments

The community is vital to our success and vice versa. Everything is tied together. A rising tide floats all boats, we win together. Andy Cohen, Fernie Alpine Resort