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New Deal or No Deal

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Minden's city officials hope their ethanol plant will spark long-term economic growth.

BY LUCAS JAMESON

Four years ago, Dave Cavanaugh — then a chemical salesman — was in an uncomfortable position.

“The chemical business was up and down and up and down, and I didn't know where it was going to be from month to month. That's a lot of stress on a person,” said the single, 44-year-old father of one who sold herbicide, fungicide and pesticide to local farmers.

But in 2003, he opted out of the chemical business in favor of a production job at a newly constructed ethanol plant seven miles west of Minden, Neb.

“I knew that the plant could probably offer me some stability,” Cavanaugh said. “I could see the writing on the wall that the chemical business is looking at the perspective of ‘get big or get out.’ And it's like that now with farming, cattle or anything.”

Cavanaugh is not alone. Across the Midwest, many rural communities and their citizens face similar dilemmas. Small-town residents keep leaving in droves, favoring bigger cities and bigger incomes. Meanwhile, farmers and agricultural businesspeople, like Cavanaugh, are forced to “go big” or find another career somewhere else.

The ethanol industry has been touted as an invaluable alternative. In fact, its many proponents claim that corn-based ethanol can revive rural America and that it can become an almost magical potion capable of curing much of what ails today's agricultural communities.

NEW DEAL OR NO DEAL WEM DEVT OB WO DEVT

“Producing ethanol fuel in the U.S. generates jobs and wealth by processing domestic resources into clean-burning transportation fuel. Thousands of jobs, increased farm income, and tax receipts in the hundreds of millions of dollars follow,” a report published by the Clean Fuels Development Coalition said.

Others are more concerned about the longevity of the fuel’s economic effects.

“The end of the ethanol boom is possibly in sight and may already be here,” Iowa State University economics professor Neil E. Harl warned in a September 2007 New York Times article. “This is a dangerous time for people who are making investments.”

In 2000, when KAPPA [Kearney Area Ag Producers Alliance] Ethanol proposed building an ethanol plant in Minden, most residents, farmers and government officials believed it would bring more citizens to Minden and increase enrollment for Minden Public Schools.

Chuck Woodside, the KAAPA Ethanol general manager, also offered rosy predictions.

“I think it will provide some great jobs. It will improve the entire area, as good jobs will raise everybody’s standard of living,” Woodside told The Minden Courier.

Four years later, Minden has benefited from the ethanol plant, but it has not injected new life into the city. The mixed report card, according to numerous articles, studies and interviews with residents, economists and agriculture experts, reveals a number of findings. Among them:

THE POPULATION of Minden has declined slightly since the ethanol plant was built.

PUBLIC SCHOOLS have shown no significant boost in enrollment.

PROPERTY VALUES haven’t been affected by the plant.

However, a detailed analysis of the plant’s impact also reveals that:

LOCAL BUSINESSES have received direct and indirect boosts from the plant.

PHOTOGRAPH BY KATE VEIK

AT LEFT: Four ground-water wells with a storage capacity of 2 million gallons provide most of the water for 3,000 people in Minden, Neb.



PHOTOGRAPH BY KATE VEIK

Dave Cavanaugh opted out of the chemical business in favor of a production job at the newly-constructed ethanol plant west of Minden, Neb.

MORE JOBS and job stability for local residents have been provided by the plant.

A HANDFUL OF STOCKHOLDERS have made a lot of money from the plant.

Although the plant hasn’t lived up to some expectations, it has clearly had a positive overall effect on the city, according to several local businessmen, farmers and government officials. But others remain skeptical of the plant’s impact and believe it has made only modest changes to the area’s economy. And with the possible waning of the corn-ethanol boom, no one can say for sure what lies ahead.

In 1995, a group of Kearney County farmers formed the Kearney Area Ag Producers Alliance, or KAAPA. Five years later, KAPPA proposed the idea of an ethanol plant to roughly 300 local farmers. The proposal passed, and KAAPA Ethanol became a limited liability company with its profits paid out to the owners.

Once the plant proposal went through, a committee reviewed 40 potential plant sites, which were eventually whittled down to two.

“We basically went to the cities of Minden and Gibbon and asked, ‘What will you give us?’ ” said LaMoine Smith, vice president of the KAAPA Ethanol board. “Minden added up to have the best incentive package.”

The city offered KAPPA tax-increment financing, a good location next to the Burlington railroad and the blessing of the Southern Power District; the plant offered Minden growth opportunities.

Lewis said Minden wanted the plant for economic reasons.

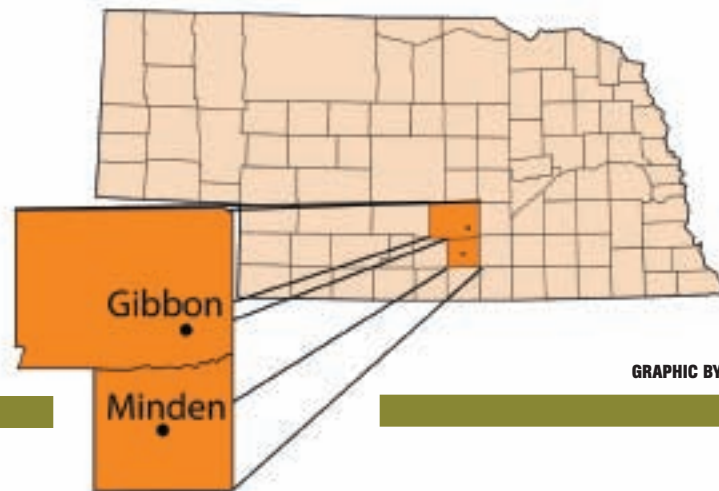
The plant initially cost about \$50 million to build, and KAPPA spent 18 months raising money from local farmers and businesses. Construction began in fall 2001 on a plot that was annexed by Minden in May 2002. The plant initially produced 40 million gallons of ethanol per year but has since expanded to produce 59 million gallons annually.

A TALE OF TWO SITES

In 2000, the Kearney Area Ag Producers Alliance had whittled its possible locations for an ethanol plant down to two possible central Nebraska communities, Minden and Gibbon. Minden offered KAAPA public financing and a location next to railroad lines. The plant was supposed to help boost Minden's population, but despite the plant, the town's demographics follow trends similar to the rest of Kearney County and its nearby competition, Gibbon.

MINDEN KEARNEY COUNTY	GIBBON BUFFALO COUNTY
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2,964	Population (2000)	1,759
2,877	Population (2006 estimate)	1,775
3.2%	Unemployment rate - County (Feb. 2002)	2.9%
2.7%	Unemployment rate - County (Feb. 2008)	2.1%
\$40,092	Median household income (2000)	\$34,955
\$41,900	Median household income (2005)	\$36,600
\$74,300	Mean home and condo value (2000)	\$72,200
\$79,200	Mean home and condo value (2005)	\$77,000



GRAPHIC BY ALEX HAUTER

During construction, there were obvious effects on Minden's economy.

"There was a noticeable boost in business during the building of the plant," said Bill Huenemann, Fifth Street IGA manager and Minden Chamber of Commerce board member. "Sometimes there's a small boost still."

But the plant has not led to a population increase. According to the U.S. Census Bureau, the population of Minden in 2000 was 2,964. In 2006, 2,877 people lived in the city. Kearney County's population shows a similar decline.

Minden Public School enrollment wasn't affected by the ethanol plant, either.

"It's hard to show any definite increase in students," Lewis said. "But some of the employees at the plant may have kids that aren't school age yet."

However, Lewis said he isn't discouraged by the numbers.

"It has still been a good thing for the city," he said.

The ethanol plant itself has certainly been successful for its 480 stockholders, about half of whom are farmers in the Kearney County area. Smith said since the plant went into production in 2003, it has paid roughly \$66 million in dividends to those owners.

Because about half of the stockholders reside in Kearney County, "That means there's about \$33 million added to the county that farmers can spend that wouldn't have been spent if the plant wouldn't have been built here," Smith said.

Stockholders are not the only ones who have seen direct benefits. The ethanol plant requires about 34 full-time employees, who make a combined \$1.8 million a year. That steady salary is appealing to many area residents who are tired of unstable farm markets.

Before the ethanol plant was constructed, Brad Carlson split his time between farming and working at the Eaton Corp. factory just outside of Kearney, about 30 miles north of Minden.

When the plant came online, Carlson applied and now works in the distillation and evaporation process department. He sold all of his farmland and equipment. He also quit the Eaton factory.

“I guess I just wanted something more stable,” he said. “I got a pretty good job out of it.” Carlson is among the roughly 50 percent of the plant’s employees who live in Kearney County. Dave Cavanaugh — the former chemical salesman — said he thinks the plant has helped Minden attract new jobs.

“I’m not going to say it supplied a lot of jobs, but it supplied a few jobs around the community,” he said. “I think, all in all, it has been very good for Kearney County.”

However, not everyone in Minden has seen benefits. Linda Larsen, the Kearney County assessor, said that although Minden’s property values have gone up in recent years, the rise has little to do with the ethanol plant.

“Some people would like to believe that people at the plant would be buying homes and cars from Kearney County,” Larsen said. “But most of the vehicles at the plant are from different counties. We haven’t seen them buying the property that we thought was going to happen.”

Larsen added that she expects both residential and commercial property values to continue to rise in the area, although she’s not sure why.

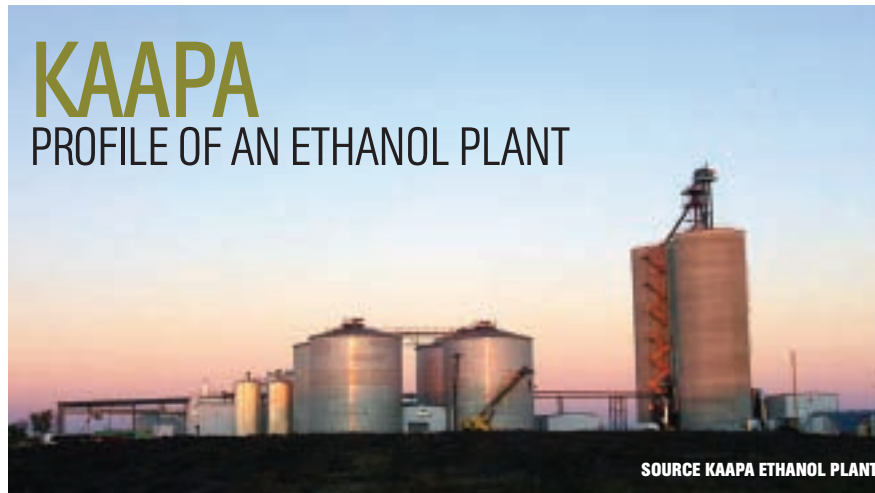
Even with healthy property values, the plant has not spurred housing sales in the city.

“I think we only sold one house to someone who worked at the ethanol plant,” said Annie Jacobsen, broker and owner of McBride Realty in Minden. “Most of the people that work there already live in this area; and if they didn’t, then they moved to Kearney instead.”

John Saathoff, who has owned Big John’s Ford dealership in Minden for 38 years, said he has not sold more vehicles because of the plant.

“The plant has helped the community, but I don’t know about us directly. I don’t think they’ve helped our sales go up,” he said.

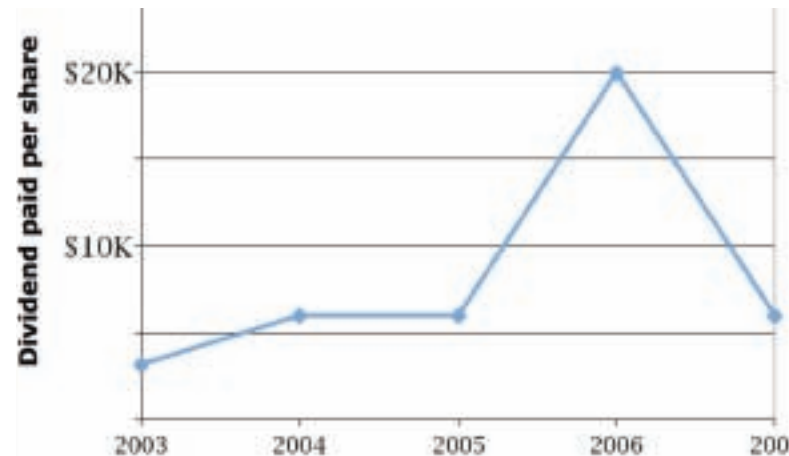
Other Minden businesspeople say the plant has had an indirect impact on the town’s economy. Local agriculture businesses have had relatively busy years since the ethanol plant opened, but business people said it’s hard to draw any direct correla-



The KAAPA Ethanol LLC plant opened in Minden in 2003. Here's a look at some statistics about the plant's inputs, outputs, comings and goings. The plant:

- 🌾 has an annual payroll of \$1.8 million
- 🌾 operates around the clock and has 34 full-time employees
- 🌾 makes 5 million gallons of ethanol per month
- 🌾 uses 96 billion BTUs of natural gas per month
- 🌾 uses 2.1 million kilowatts of electricity per month
- 🌾 uses about 1.7 gallons of water per gallon of ethanol produced or 8.5 million gallons per month
- 🌾 receives 90 truckloads of grain every day
- 🌾 ships 90 truckloads of distillers grain every day
- 🌾 produces 8,000 gallons of ethanol every day, which is shipped in 20 train cars
- 🌾 is scheduled to be completely paid off by 2018

This chart shows dividends paid by KAAPA. In 2008 shares are worth \$58,000, up from \$12,000 originally.



GRAPHIC BY ALEX HAUTER



PHOTOGRAPH BY KATE VEIK

LaMoine Smith, vice president of KAAPA Ethanol Board, said the 2006 spike was the “perfect storm” of high ethanol prices and low corn prices.

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tion to the plant.

Brent Stewart, manager and crop-duster with Pioneer Aerial Applicators in Minden, said he had so much land to spray in 2006 that he brought in extra pilots to help with the workload. However, Stewart said he equates most of the extra work to the fact that many area farmers are using no-till farming techniques. This type of farming can help keep soil fertile, but it also requires more chemicals to keep weeds and fungi in check, resulting in business for crop-dusters like Stewart.

Stewart did give some credit to the ethanol plant.

Genesis on

In spring 2007, when the Genesis ethanol plant at Mead, Neb., started producing, it was supposed to be the birth of a new breed for the ethanol industry. The \$77 million plant, owned by E3 BioFuels, was touted as the prototype for at least 15 similar so-called “closed-loop” systems in the U.S. Its creators championed the plant’s unique features.

“There isn’t much difference in energy efficiency between a traditional ethanol plant and a gasoline plant,” said Dennis Langley, president of E3 Biofuels. “I wanted to see something that was a dramatic step forward. This does that,” he told the Fremont Tribune in June 2007.

The closed-loop process sounded a little dirty. At the Mead site, about 27,000 cattle produced about 1.6 million pounds of manure a day, which was stored in pits adjacent to the ethanol plant. The methane gas obtained from the manure was then used to power the plant, which produced ethanol from corn.

The cattle, in turn, ate the leftover distillers grain — a protein-rich byproduct of the ethanol-production

The Genesis plant filed for bankruptcy in November 2007, leaving millions of dollars owed to companies and local farmers.

BY LUCAS JAMESON

process that makes good feed for cattle. Some of the unused manure was used to fertilize nearby cornfields, closing the loop from field, to factory, to feedlot and back to the field. The entire process created an efficient, energy-saving system.

The plant was embraced by local residents, congressmen and the Nebraska governor alike.

“It is a priority of mine to advance Nebraska’s success story in the ambitious and positive vision of energy security,” Congressman Lee Terry told Southwest Nebraska News in June 2007. “I believe the methods employed at Mead’s facility should be encouraged and expanded.”

Gov. Dave Heineman echoed Terry’s optimism.

“This plant sets a new standard for ethanol pro-

duction in Nebraska and our nation,” he told the Fremont Tribune.

But less than a year after it started producing, the Genesis plant experienced some growing pains. On Nov. 30, 2007, the plant filed for bankruptcy, leaving millions of dollars owed to companies and local farmers. Months later, the plant remains idle.

“We’re still in Chapter 11 and still working on obtaining the financing it will take to restart the facility,” said John Curran, the Genesis manager, in early March 2008.

Initial blame for the bankruptcy focused on the relatively new closed-loop technology, but plant officials insisted that the technology had nothing to do with the rocky start. Instead, they pointed to a boiler

“Commodity prices for corn are up, so indirectly it has helped. I think farmers did plant a little more corn,” he said. “Our entire community is hinged on agriculture, and the ethanol plant is bound to help the local economy.”

LandMark Implement, located just east of the city limits, sells machinery parts and combines. The company had an excellent year in 2006.

“It definitely has to do with the increase in grain prices. Especially in the last six months, it has picked up considerably,” said Jeff Pettz, a salesman at Landmark. “We sold more tractors, combines,

planters — everything really. And I think ethanol played a role in that.”

Still, it’s hard to make a definitive connection between the Minden ethanol plant and the company’s above-average sales.

“I know the ethanol plant has been paying good dividends, but I don’t know which of our specific customers have stock in the company,” general manager Jim Mach said. “I’m sure there’s been some effect, but it’s just hard to say how much.”

Other local agriculture businessmen are a little more skeptical about the plant’s effects so far. Tom

Madsen, a Pioneer seed dealer, said he does not think Kearney County has seen much change since the plant opened. Madsen said he has had a profitable year but doesn’t give much credit to the ethanol plant.

“My sales have been on a steady increase for the last 10 years, before this ethanol plant was even built,” he said.

Madsen said the market could look a lot different in a few years if five or six ethanol plants are operating within a 40-mile radius of Minden.

“I think what you’re going to see is guys who can home-store their corn — they’re the ones who are going to benefit the most,” he said. Madsen explained that the ethanol plants will want corn that can give them the most gallons of ethanol per bushel. The farmers will have the advantage to sell their corn to the highest bidder.

“As time goes along I think the farmers will have a better deal,” he said.

But Madsen isn’t the only person looking to the future. Smith said KAAPA has plans for another expansion, but is moving cautiously.

“There are a lot of plants on the drawing board; and as a lot of plants come online, that’s one thing we’ll look at before making any decisions,” he said.

KAAPA is also aware that the ethanol wave may crest soon.

“We actually expected things to slow down already, but it hasn’t happened yet,” Smith said.

With so many ethanol plants either under construction or proposed in the Corn Belt, almost every agriculturally-minded farmer or businessman agrees on one thing about the Minden plant. Brent Stewart summed it best: “They hit the perfect time.”

And although the plant hasn’t rejuvenated Minden, it definitely came along at a good time for many Kearney County residents, including Dave Cavanaugh. The plant provided him a stable, well-paying job that has helped him support his daughter. Now, instead of the uncertain months of chemical sales, Cavanaugh gets a steady paycheck from the plant.

“It’s been good for the county,” he said, “and it has been good for me, too.”

Hold

explosion that forced the plant to produce at about 50 percent capacity, according to Ethanol Producer Magazine.

Whatever the cause, the bankruptcy made many Mead-area farmers, who were listed as creditors, a little uneasy.

“We could end up with 2 cents on the dollar, or 50 cents. Nobody knows,” Ashland farmer Randy Bundy told the Omaha World-Herald in December 2007.

Meanwhile, David Hallberg, who invented the closed-loop system and patented it in 2002, did his best to reassure the locals.

“We’re going to do what we can to put together something that will keep the community intact and take care of the employees,” he said.

The only thing the people of Mead could do was wait.

“Right now (the plant is) just sitting here, cold iron, and the owners are working with various financial resources to try and put together a start-up plan,” Curran said, adding that there was no definite date for the plant to come back online.

“The owners are working with various financial resources to try and put together a start-up plan ... there is no definite date for the plant to come back online.”

John Curran

Genesis manager

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