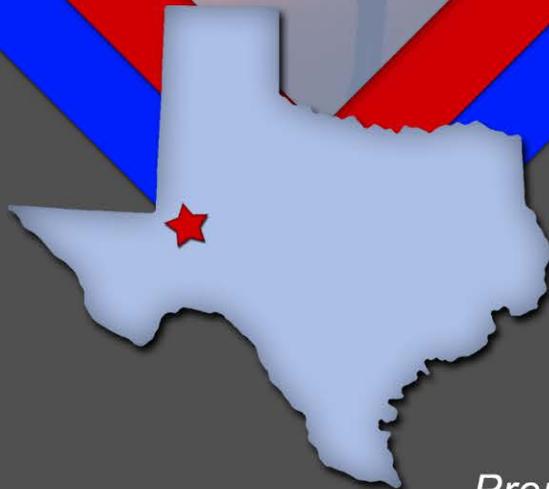


WAGE/LABOR OIL INDUSTRY ANALYSIS 2017

Prepared for the

ODESSA

**Development
Corporation**



Prepared by



**WAGE/LABOR OIL INDUSTRY
ANALYSIS, 2017
for
ODESSA, TEXAS**

PREPARED FOR THE:

ODESSA DEVELOPMENT CORPORATION

PREPARED BY:



October, 2017

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INTRODUCTION

The Odessa Development Corporation (through CVA Advertising & Marketing) contracted with Foote Consulting Group, LLC (FCG) to update a wage/labor analysis for the oil industry. FCG is an experienced site selection and economic development consulting company in Phoenix, Arizona. The approach here is to help to understand recent wage and labor force changes in the oil industry that have occurred since October 2016, when the original study was done.

The study is also designed to help the reader to better understand regional workforce issues in Odessa from a real site selection perspective. It is quite clear from our recent site selection work that labor force issues, particularly current wages, availability of skilled labor, and quality of the work force are all very important.

In 2016, we learned that wages had fallen quite a bit since the recent high point in 2011. Now in 2017, we have seen that wages have risen some again. This analysis will document these changes and update information regarding the labor force.

We designed this study so that it provides the most important wage and labor force site selection information possible. In essence, we are providing you with information that you can give directly to a company seeking a location in Odessa.

Therefore, we incorporated a proven methodology that we use for our site selection projects. It relies on the expert opinions of area employers. From these we have developed detailed recommendations designed to help you develop successful work force and economic development solutions.

FCG conducted ten (10) face-to-face and telephone interviews with employers in August 2017 in order to determine these needs (see Appendix for list). The objective of these interviews was to determine current salary/wages for select positions; hiring trends; labor availability; labor quality; and quality of life issues.

In determining wages, availability and quality, we used the identical methodology that we use in our site selection work. It is through one-on-one interviews with local employers that we are able to determine the labor situation in the area, now.

Our objective here is to determine:

- Current base wage of select oil related occupations with comparisons and trends
- Overtime amounts and trends
- Our estimation of the current “wage threshold” for this sector and the comparison to 2016. This is the ideal wage for a prospect to consider for entering this market.
- Understand local employer’s viewpoints (and 2016 comparisons) and their needs regarding the existing workforce, including availability, quality, and quality of life.
- Determine ways to better attract/retain businesses.
- Improve your economic development program regarding workforce issues.

ODESSA OIL/GAS WAGE ANALYSIS

Introduction

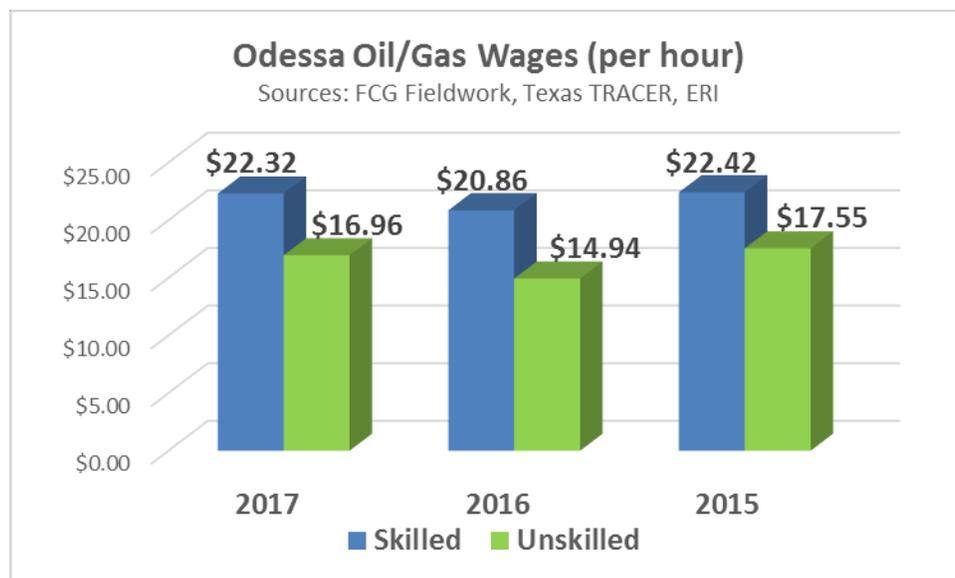
The oil industry has experienced dramatic improvements since 2016 (please refer to our October 2016 report). Although the price per barrel is currently around \$48, the industry has “locked in” the price at \$55 per barrel and this number is set for near-term business. At this level, oil production is proceeding briskly.

The Permian Basin is now looked at as the “Center of the Universe” for oil production. They are out performing all other areas in fracking production, including the OPEC nations, the Bakken in North Dakota, Louisiana, and other regions of Texas and Oklahoma.

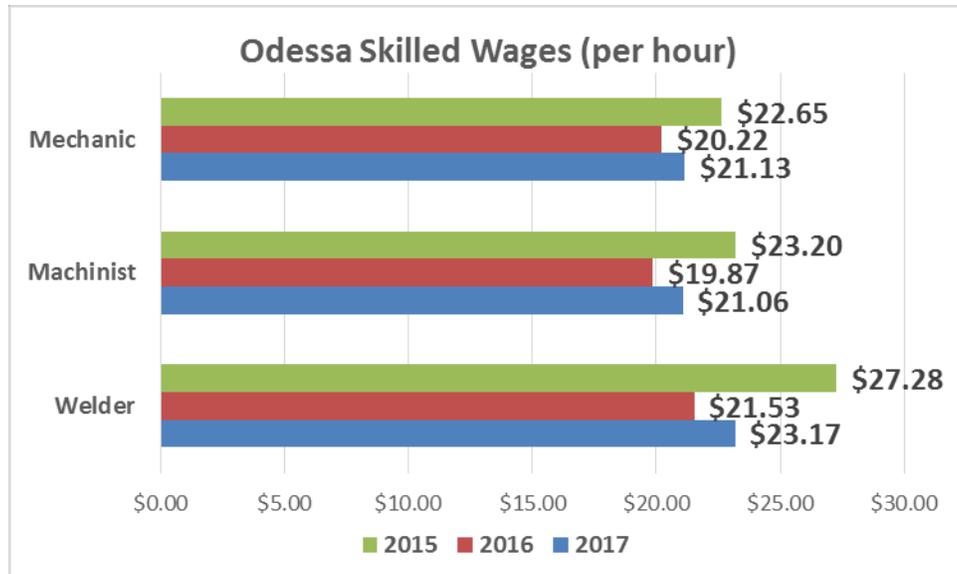
Due to vast technological improvements in fracking, production has risen without the need for dramatic employment increases. Therefore, it appears, the number of workers and their wages have risen only modestly.

Odessa Wages

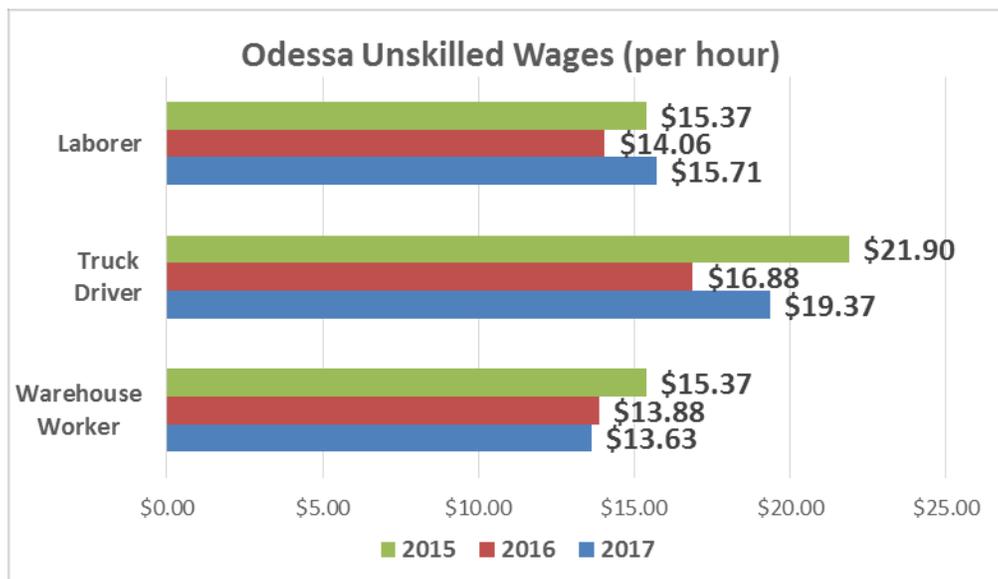
Here are wages that we found in select (see below) skilled and unskilled workers:



- **Odessa skilled and unskilled wages in 2017 are up significantly from 2016, but slightly below 2015 levels.**



- Machinists wages are up about 6% in 2017 from 2016.
- Welder wages are up 7.6% in 2017 from 2016, but still way below 2015.

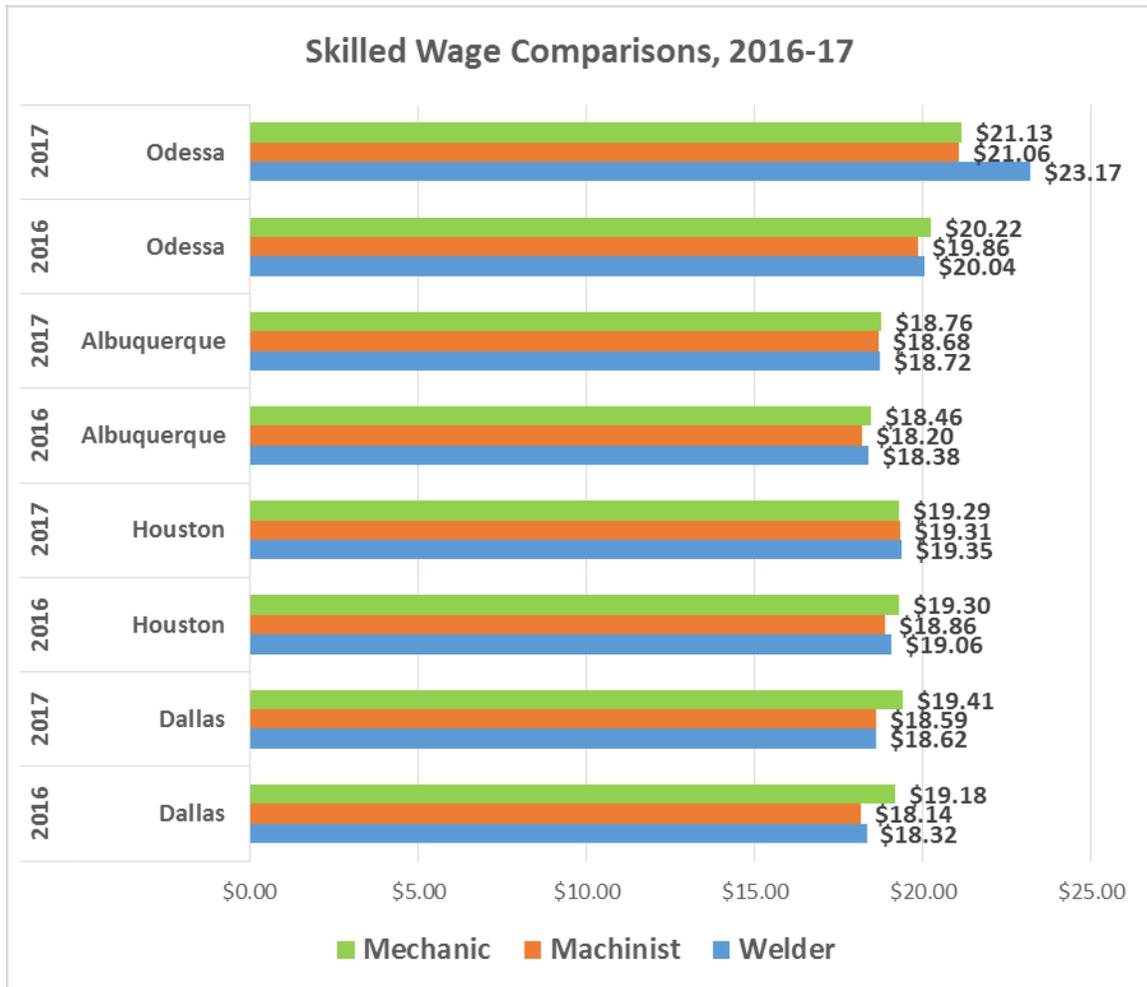


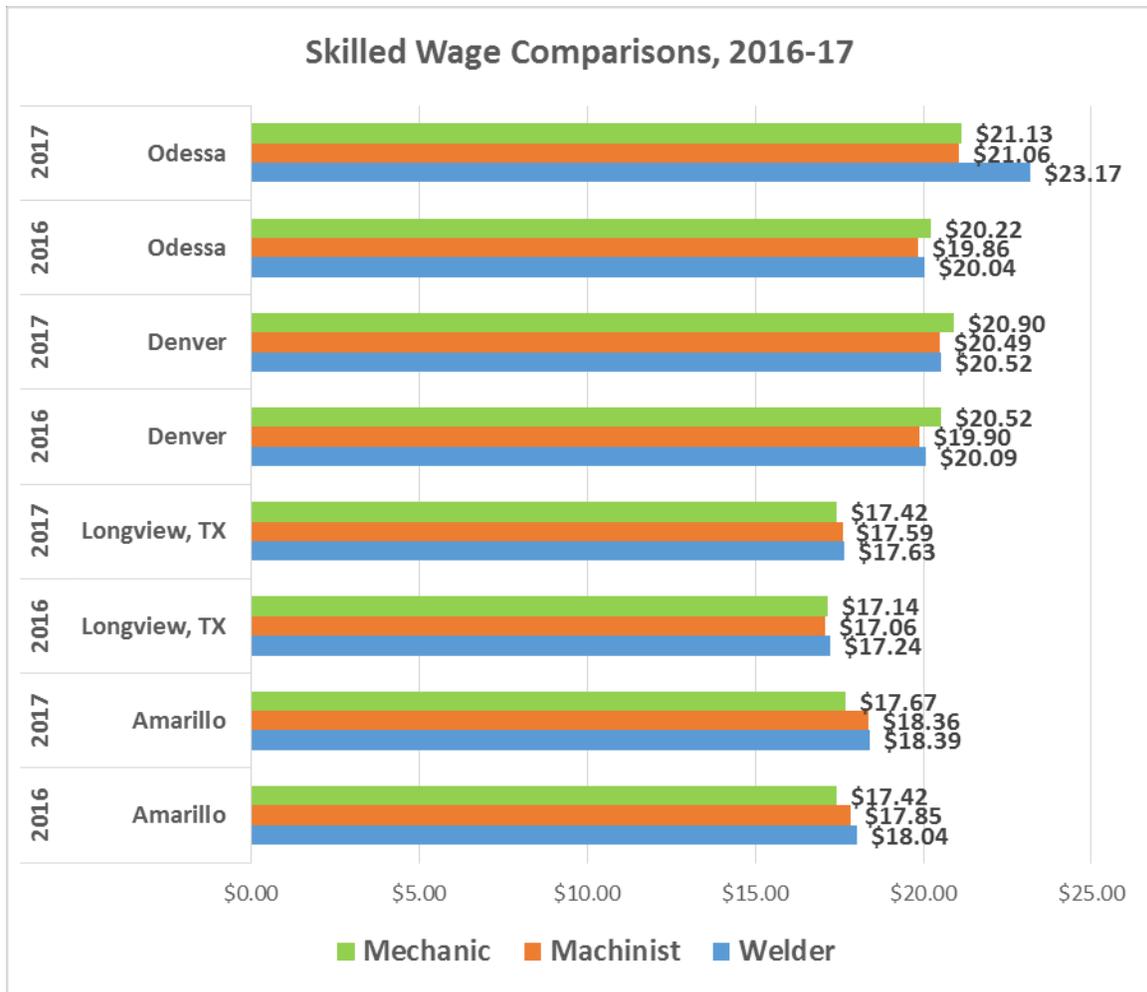
- Warehouse worker wages are below 2016 and 2015 totals.
- 2017 truck driver wages are up almost 15% from 2016, but still below 2015.

Skilled Wage Comparisons

FCG next compared Odessa skilled wages against other regional locations:

- Albuquerque, NM
- Amarillo, TX
- Dallas, TX
- Denver, CO
- Houston, TX
- Longview, TX





- **Skilled wages are higher in Odessa “across the board” (particularly welders); even higher than Denver.**
 - The hot oil/gas market has driven wages up!

Overtime (OT)

Our fieldwork has determined that due to the improving business climate, overtime is up from 2016. This is another form of compensation increase.

- **Overtime is running an average of over 30 hours per week in 2017.**

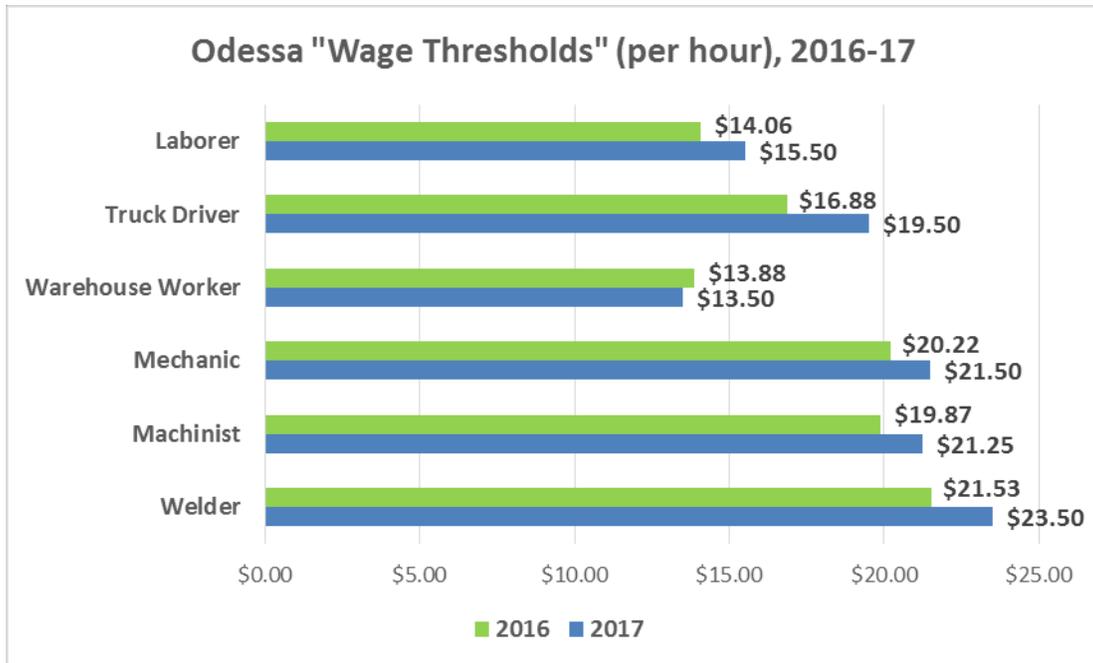
Sample employer quotes regarding wages/business include:

- *“OT is way up!”*
- *“Up 20% in 4 months!”*

“Wage Threshold” – the Ideal Wage

FCG calculated the “Wage Threshold” or ideal wage for which a company should seek to enter the Odessa market, in 2017 and compared it with 2016:

- “Wage Threshold” – the ideal wage. Offering below this wage will result in poorer recruiting (and loss of employment to better paying local companies). Offering above this wage will result in improved recruiting (including “pirating” from other local companies) and retention, but it will cost the company too much money.



- The “wage thresholds:”
 - For machinist, welder and truck driver are up substantially due to the tight labor market
 - Are down for warehouse worker and laborer due to good availability.

ODESSA WORKFORCE ANALYSIS

The next objective of the study is to understand what employers in Odessa are saying, as it relates to labor availability, labor quality and quality of life/services.

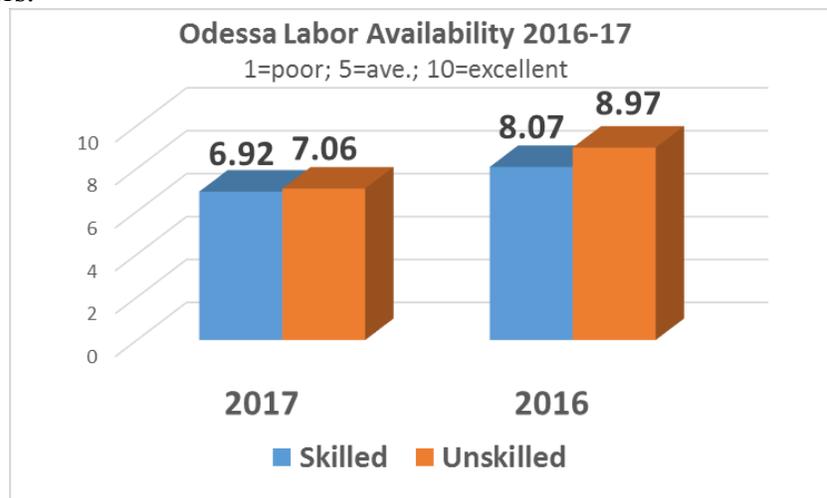
FCG measures select labor availability/quality factors nation-wide which gives us a good “apples-to-apples” comparison of one labor market versus another. From these interview results, we created the *FCG Index*, which measures labor availability and quality on a one to ten point scale (1=very poor; 5=average; and 10=excellent). Generally, scores of 3 to 4 are below average, 5 to 6 are average; 6 to 7 above average; 7 to 8 are good, 8 to 9 are very good and 9 to 10 are excellent. The index measures:

- Availability – what skills are in the market now
- Labor quality characteristics include:
 - Turnover
 - Absenteeism
 - Attitudes – on-the-job
 - Trainability – employees response to training
 - Basic skills – math, English, grammar, blue print reading, etc. of applicants
 - Communications – Employer/employee and employee/employee on-the-job
 - Alcohol/drugs – Perceived situation
 - Productivity – Employer’s measure.

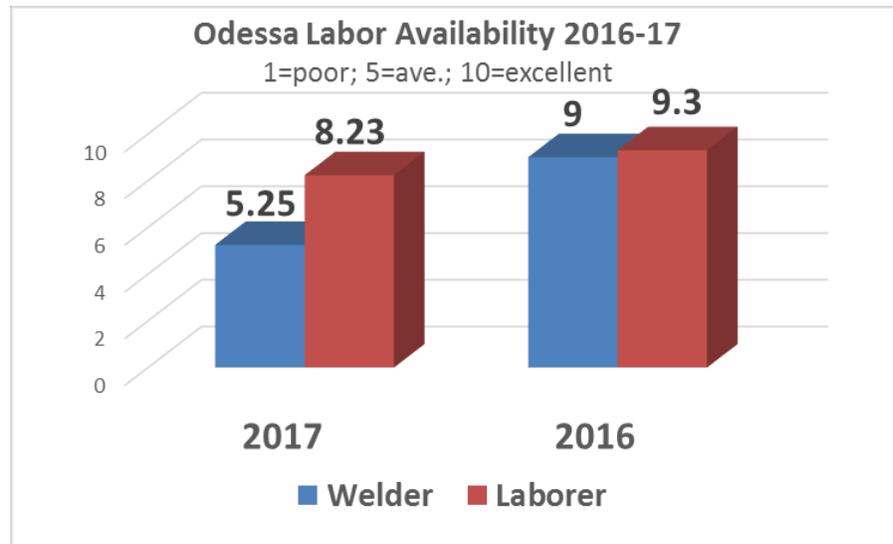
Labor Availability

The ability to attract the right skills is critical to the success of any project. Unskilled and skilled workers are essential for high-end manufacturing and service-oriented projects.

- **The 2017 labor availability in the Odessa market has slipped since 2016 to “above average” to “good” from “very good” and “excellent”.** This is due to the current booming business and companies expanding and adding needed workers.



- **Skilled welder availability has dropped significantly from “excellent” in 2016 to only “average” in 2017.**
 - Unskilled laborers are still easy to come by, rated “very good.”



- **Positions that are easy to fill today include:**
 - Laborers (unskilled)
 - Warehouse workers (unskilled)
 - Pipefitters (unskilled to skilled)
- **“Hard to fill” positions include:**
 - Welders (skilled)
 - Machinists (skilled)
 - Engineers (skilled)
 - Truck drivers (skilled)

Sample employer quotes regarding availability include:

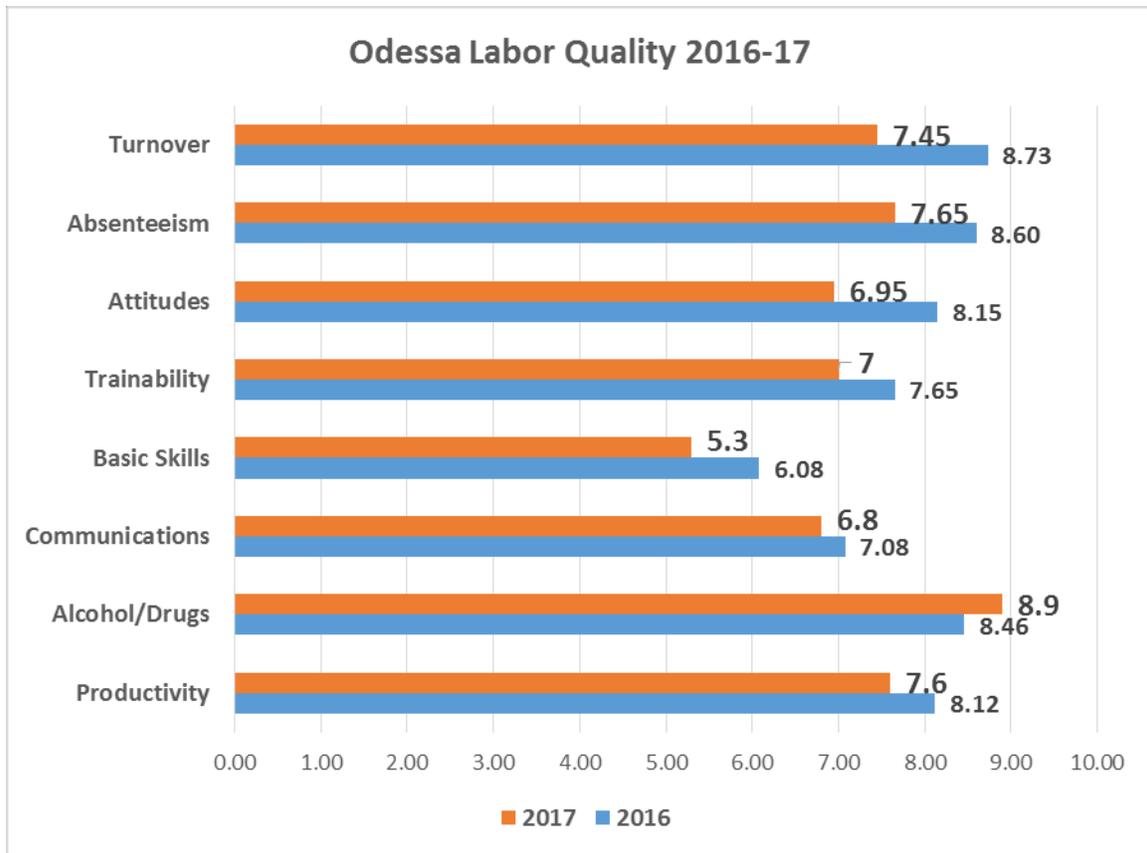
- *“Best recruitment technique is word of mouth... I know a guy who is unhappy...”*
- *“Easier to find a welder than we thought”*
- *“Hard to find the experienced (5-7 years) machinists that we need”*
- *“I couldn’t find 2 engineers next week...”*
- *“Labor is not coming back big yet, trickling in...”*
- *“Need 20 welders...can’t find them”*
- *“No problem finding skilled pipefitters”*

- *“No problem finding unskilled...but will they work?”*
- *“Not putting too many frackers back on due to new technology; availability is excellent”*
- *“Pay more! And expect wages to run higher...hot market”*
- *“Pirating going on...primarily from start-ups”*
- *“Plenty of labor here...drilling is down, but companies are keeping these guys at lower positions for the future”*
- *“Relatively easy to hire here (blue collar, not white)”*
- *“They will ‘hop for a quarter (\$.25)’ increase”*
- *“Truck drivers are ‘in demand’”*
- *“We have had a ‘new hire’ work shop every week since April”*
- *“We need 30 in Pecos, but can only find 10”*
- *“Welders are hard to come by, I’m told”*
- *“Welders will ‘jump for \$2 to \$3.’”*

Labor Quality

The ability to find quality workers is critical. Expanding and locating companies generally seek communities with above average to good quality workers.

- **2017 Odessa labor quality is rated “good” (7.20 overall), but most factor scores have dropped since 2016** (except alcohol/drugs).
 - All factors were rated “good” or “very good”, except basic skills, communications and attitudes.
 - Alcohol/drugs may be under closer scrutiny due to increased hiring and the need for careful drug testing.
 - Basic skills has dropped meaning that the potential work skills are thinner.
 - Attitudes are stretched due to tighter schedules and deadlines.



Here is what employers told us about quality:

- *“Basic skills are an issue but we are hiring a number from Mexico and Cuba”*
- *“Everyone drug tests now...getting rid of any problems”*
- *“High skills are transient”*
- *“Of 20 hired, we lose 30-50% through attrition”*
- *“Poor ‘labor participation’ here”*
- *“Productivity? Room for improvement here”*
- *“Turnover has improved”*
- *“Turnover is an issue here”*
- *“Turnover is much worse when things are hot...they will leave for a buck”*
- *“We have had no turnover”*
- *“Younger workers are difficult to work with...won’t give up the cell phone.”*

Quality of Life

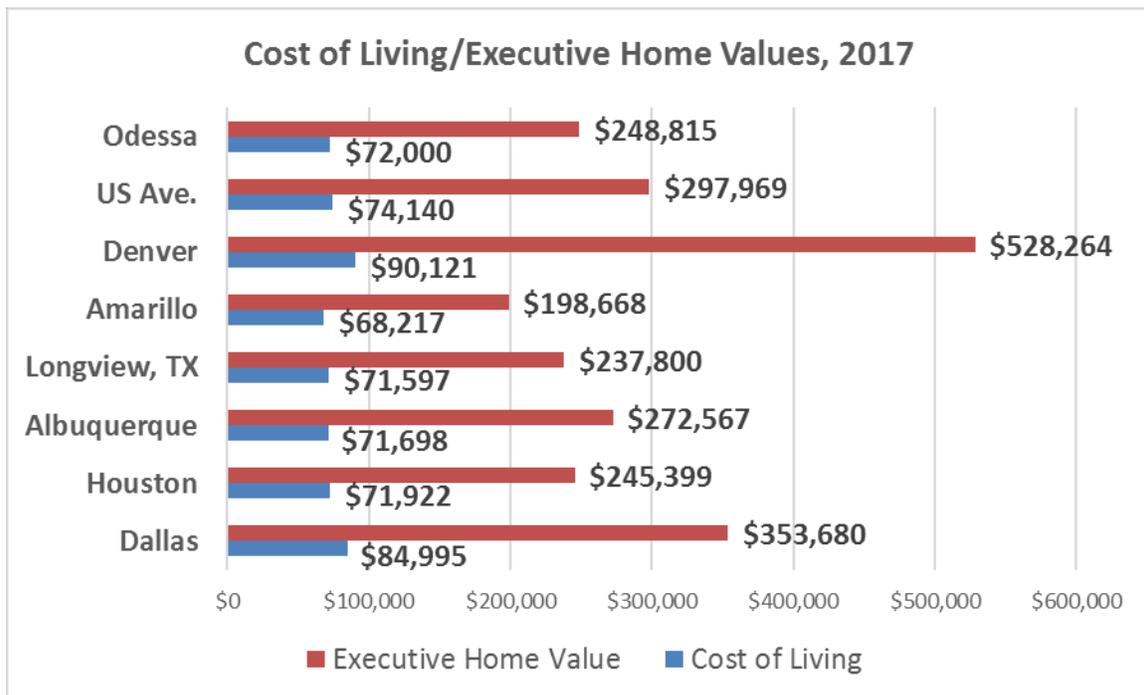
Quality of life aspects of a community (cost of living¹, schools, housing, medical services, utilities, recreation, shopping, culture, etc.) are all important for attracting investment and in hiring, relocating, and retaining employees. A project could be in jeopardy if key employees refuse to move because of poor housing and/or education. On the other hand, lower housing costs could attract some employees and be a wage advantage to employers.

Cost of Living

In a site selection project we typically look at cost of living and home values. We turn to an excellent source, Economics Research Institute (ERI), which tracks cost of living items such as: consumables; transportation; health services; housing/utilities/property taxes; and miscellaneous items.

Cost of living measures against a family of 4 in Odessa making \$72,000 per year. The family owns a home of 2,207 square feet and owns two cars.

- **Odessa remains an affordable place to live.**
 - Less expensive than the U.S. Average and all cities, except Amarillo, Longview, and Houston.

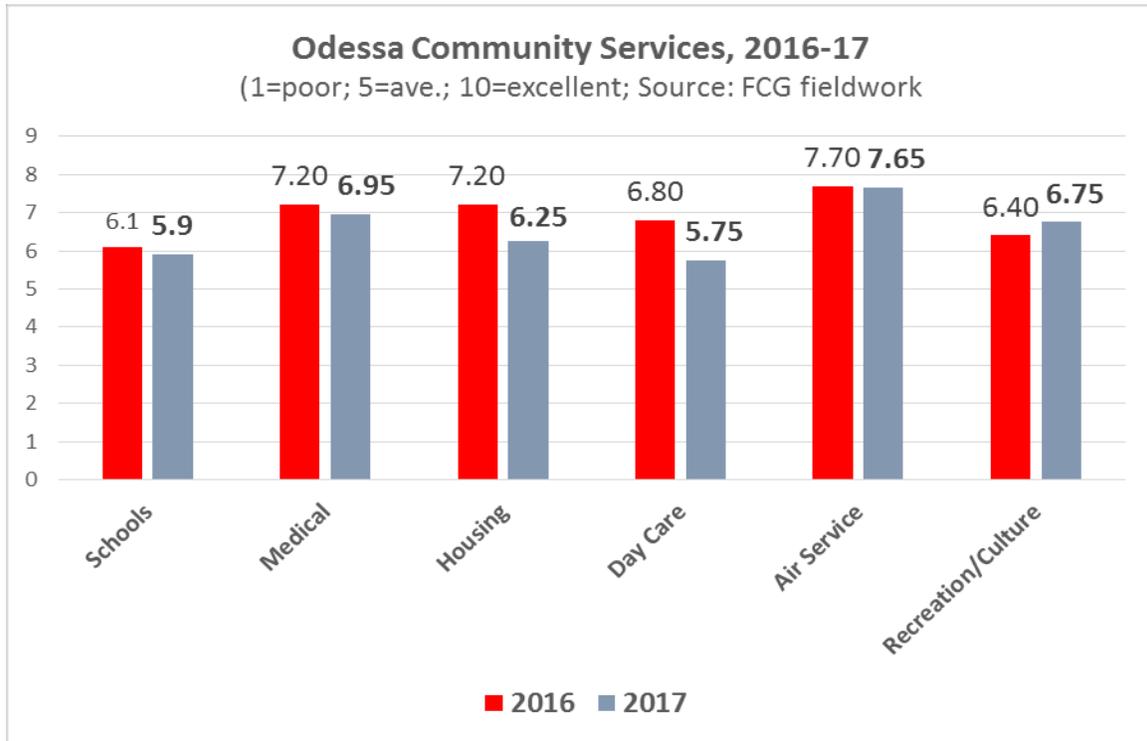


¹ Economics Research Institute (ERI) Assessor, 2017

Community Services

FCG asked questions regarding select community services in order to get a better understanding of how it is to live in Odessa. The 2017 overall rating was 6.54, “above average”. The following graph depicts the comparisons between 2017 and 2016.

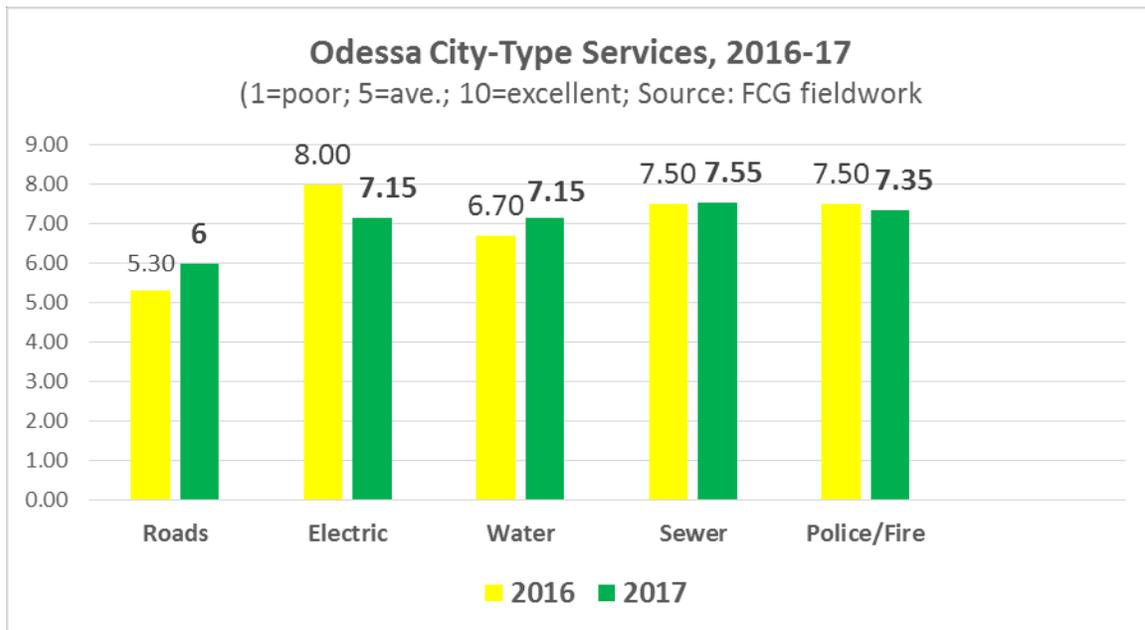
- Community services in 2017 were similar to 2016, except that housing perception and day care were poorer, primarily due to the hot economy.



City Services

FCG also asked questions regarding select city services in order to get a better understanding of how services are delivered in Odessa. The 2017 overall rating was 7.1, “good”. The following graph depicts 2017 and 2016 comparisons.

- **City-type services are about the same in 2017 versus 2016.**



CONCLUSIONS

The following are the important conclusions drawn regarding Odessa wages/labor.

Wages

- **2017 skilled wages are up 7% from 2016.**
- **2017 unskilled wages are up 13.5% from 2016.**
- **Skilled wages are higher in Odessa versus all other competitors.**
- **The “Wage Threshold” or ideal wage is up for machinist, welder, and truck driver, but down for warehouse worker and laborer.**
- **Overtime is up since 2016.**

2017 Workforce Availability and Quality

- **Labor availability has slipped since 2016 to “above average” to “good”.**
 - Skilled welder availability has dropped significantly from “excellent” to only “average”.
 - Unskilled laborers are still easy to come by, rated “very good.”

- Easy availability: Laborers (unskilled); Warehouse workers (unskilled); Pipefitters (unskilled to skilled)
- Difficulty finding: Welders (skilled); Machinists (skilled); Engineers (skilled); Truck Drivers (skilled)
- **“Good” labor quality**
 - Since 2016:
 - Basic skills have worsened.
 - Alcohol/drug issues have improved.

Quality of Life

- **Odessa is still an affordable place to live.**
 - Executive home prices are 112% below Denver.
- **Community services are rated “above average”.**
- **City-type services are rated “good”.**

RECOMMENDATIONS

The following recommendations are designed for Odessa Development Corporation officials to help to improve your economic development and workforce programs in the future.

Research/Marketing

- **Get important data from this report into the hands of local companies and prospects.**
- **Continue to market to targeted metal-working, medical, and related manufacturers.**
 - A second and then regular trips to California make sense. This is the best place to market since manufacturers cannot afford to do business there now (cap and trade regulations, lengthy permit processing, high costs of labor/land, etc.)
 - Other marketing trips should be planned for Dallas, Houston and a second trip to Chicago (Illinois’ business climate is still not good).
- **Market to site selectors** (up to 30% of all deals are handled by them)
 - Meet with Site Selectors Guild members (www.siteselectorsguild.com)
 - Attend the 2018 spring conference in Cincinnati, Ohio (March 19-21) and the 2018 Fall Conference in Greenville, SC (September 10-12).
 - Continue to plan an Advisory Forum which would bring members to Odessa

- Meet with site selectors on your marketing trips.
- **Update this report annually.**

Skill/Training/Education Needs

- **Encourage the recruitment and training (and/or relocation) of new skilled workers where needs exist (those “hard to fill” positions):**
 - Welders
 - Machinists
 - Engineers
 - Truck Drivers
- **Explore and implement the ACT / National Career Readiness Certificate Program and engage business, government, economic development, and education in the entire process to enhance the current workforce by ensuring that the civilian labor force is workforce ready and employable.**
 - The development and promotion of the ACT WorkReady System (includes ACT Work Keys) which offers a common language to identify skills gaps and provide training to improve scores and enhance employability by leveraging the National Career Readiness Certificate (NCRC), issued by ACT. The certificate is a portable, evidence-based credential that certifies essential skills needed for workplace success.
- **As a part of the above, explore again the formation of a Business Workforce Roundtable.** As mentioned last year, this could be a working (“roll up the sleeves”) committee of the Chamber. The Roundtable should address workforce issues and future employment needs and current gaps.
 - The Roundtable should be made up of business leaders, educators, guidance counselors, human resource managers, and workforce providers and elected and appointed officials.

FCG is available to assist with any or all of these recommendations.

For More Information Regarding This Report, Please Contact:

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APPENDIX

Companies Interviewed

- City Pipe
- Dover Lift
- Energy Coil & Rigging
- J-Hobbs Machine
- Lago Petroleum
- Rush-Overland
- Saulsbury Industries
- Select Energy
- Shamrock Steel
- Sivals