

July 6, 2010

MFRC hosted Roundtable discussion

Participants: Bruce Fox – *USFS*, Chuck Roady – *Stoltze Land and Lumber*, Dale Harris – *Great Burn Study Group*, Gordy Sanders – *Pyramid MTN Lumber*, Bruce Fox – *R1 Forest Service*, Ellen Simpson – *MWPA*, Jason Todhunter – *MLA*, Tom Coston – *MT Rail Link*, Mike Halligan – *Washington Corps (by phone)*, Todd Morgan – *BBER*, Bob Harrington – *State Forester*, Matt Arno – *Woodland Restoration*, Lauren Caldwell – *Senator Baucus Office*, Shawn Thomas – *State Trust Lands*, Julie Kies – *DNRC – Forestry Division*, Julia Altemus – *DNRC Forestry Division*

Guests: Mike Ployhar – *Sales Manager for Modern Machinery*

Ryan Abraham – *U.S. Finance Committee*

Pat Wise – *Governor's Office of Economic Development*

Facilitator: Marcia Hogan – *Hogan Facilitation Services*

Notes: Julia Altemus – *DNRC Forestry Division*

Introductions and Welcome: Gordy Sanders and Dale Harris, co-chairs of the MFRC gave a brief background as to the reason the Roundtable group was formed.

Guest Presentation:

Pat Wise: Status of the state revolving loan established during the 2009 legislature as a result of a broad stakeholder group working to stabilize the forest products industry during the economic downturn. The MAEDC in partnership with the Department of Commerce pulled together \$11 million dollars in RLF funds through authorizing legislation ~ HB645. HB669 created the statutory provisions for the RLF. The fund has helped approximately 18 employers in the state. The return has been great along with the partnership. Also, set aside \$1 million to cover the accounts receivable from SSCC closure. Future of the program, ARRA funds was one time only. Have a statutory vehicle to continue the program and could potentially put state monies into the fund. There is about \$15-\$17K in remaining in the fund until loans are paid back. Next generation of loans possible early 2011. **Pat will provide detailed information to Julia and she will forward to the group.** Is there clarification of how that money will get allocated in the future? Will it go to support forest products industry? Pat, statutorily the funds are designated for forest products industry.

SSCC came out of bankruptcy July 1st. The Governor sent a letter early in January and followed up with phone calls, but response has been challenging. There seems to be better lines of communication recently. There was early discussion about keeping the site as paper production, however that changed later as SSCC moved through bankruptcy. MAEDC hired McKenzie to solicit nationally potential buyers of the site. It looks like there might be a short list of 5 by the 16th of July with a turnaround

announcement by July 23rd as to who they are seriously willing to pursue. There are discussions around paper production; however it looks like SSCC may keep the paper production machines. There may be a residential conversation going on and demolition potential to take the plant apart and selling it piece by piece. We should know by the end of the month what is possible and **can then search if there are public assistance incentives that may available.**

Biomass feasibility studies for Northwestern Energy and Porterbench. Supply doesn't seem to be the issue. NWE and PB were the 2 contractors that received grant funding from DOC. The feasibility study suggested cogeneration could be sustained at the mills but we still need the federal side of this equation. Continued dialogue with long-term stewardship contracts on landscape level projects. Analysis of the study suggested that if all the residuals were utilized there would be enough biomass for CHP, but a lot of the material is presently spoken for and sitting waiting for co-generation. Mill waste is being utilized, but the slash piles are much larger and more of them. **It was suggested that if extra federal dollars arrive that they go into RLF.**

Ryan Abraham: Maintain and encourage new jobs through tax legislation, i.e. woody biomass utilization. Two broad areas that congress is trying incentivize within current law. 1) Woody biomass for biofuels with a \$1 tax credit to companies that will convert biomass into biofuels provision from the 2008 Farm Bill that expires in 2014. 2) Generating electricity Section 45 production tax credit 1 cent per KW of electricity generated that is to be sold. Wind and solar get 2 cents per KW generated, they get twice the incentive. The argument has been how clean is it to burn wood for electricity which is why the difference in the incentive and ultimately how much money do we have to pay for these programs. Also clean renewable energy bond (CREBs) (has to be owned by a municipality or rural electric coops) deliver a tax credit on the interest instead of just a credit. Looking forward, majority leader Reid would like to get energy tax legislation done this month before the August recess. A smaller energy bill might contain a National RPS. Renewable as part of the solution will include woody biomass. The finance committee could add a Tax Title to the bill. Meeting with Senator Tester's office regarding his forestry bill, there may be some tax incentives that could become part of that bill. There was a Forest/Fish Conservation bond model (Legacy Project) that they are looking at to see how to modify to fit the legislation. It was suggested that a combination of ITC and PTC would be helpful for mills looking at CHP. Section 48 pertains to ITC. Solar and geothermal came with the request for 30% ITC (Section 48). Wind didn't need ITC. Solar can't get 45 and 48. Ryan wanted to know what is best for the industry. Reduced tax credit up front or is the interest all in section 48? Biomass parity at 2 cents will be expensive but it is important to close the gap. Combination of ITC and PTC would help. Refundable and tradable credits are important as well. SSCC never received the section 48 credit. BPA is the cheapest energy in the US because of the subsidy by the government which makes it hard to compete. Woody biomass asks for parity. Economists at the joint committee on taxation, when comparing ITC and PTC, at the 1 cent is almost a 30% investment tax credit for open loop biomass in the tax code. Closed loop gets 2 cents. Question now whether beetle killed trees even qualify under open loop because of the definition. Ryan asked Department of Treasury to clarify. **Received a favorable response, but they want a formal guidance letter from treasury. Ryan will get the information to Julia to distribute to the group.** The 2007 Energy Bill definition didn't change the treasury definition. Shouldn't they be the same? It should be

simplified. Congress is looking at extending the grant in lieu of tax credit, where businesses can get an up-front grant without showing a tax liability until the end of the year. Questioned was raised about a tax credit for heat? Ryan No, just CHP tax credit. Most efficient use of woody biomass is to create heat and is the lowest hanging fruit. **Julia will get the Roundtable participant list to Ryan. (completed)**

Mike Ployhar: Financing logging contractor equipment is a problem now, which is the reverse of 3-4 years ago. To buy a \$450K machine, one finance company says you have to be in business 8 years and show a profit for the last 3 years. Have to have prior loans equal to what you are borrowing and have it paid off in order for the lending institution to even considering a loan. Interest rates for new equipment 9 to 9.5 percent. Manufacture has a finance arm, it can go down to 6% for even an “A” customer – in business for 8 years and 2 years of financial statements with no losses, debt ratio 1 to 1. Hard to do in this economy. Most companies will lend for 5 years and most are only lending for 3 years. Payments can double, making it very difficult. Another trend on account receivable is the repair bills are larger, not buying new equipment, repairing their own. Repair bills are asking for terms instead of just paying it. Probably 5 – 6 more going out of business this year. Manufacturers are taking money out of their company to subsidize the sale to keep people in business. The state RLF could maybe help through the second tier of loans. **Ryan, congress can offer creative financing through bonds, but can't just tell banks to finance loans.**

Status of critical items

- **Sort yard and transportation** Tom Coston, updated activities of MRL. Looking for a couple customers in the Asian market as they didn't think that domestic markets would be enough. Are talking to Japanese and Chinese companies to provide a sustainable supply of wood chips. Haven't run into anything yet that tells them to stop pursuing this effort. Demand is going up pulling prices up. So far it looks like Asian markets are will to pay \$150 – 200 per bone dry metric ton. Meeting next week in BC about long-term contracts (7 – 10 years).
- **Long-term watershed projects** Bruce, long-term stewardship contracts as potential pilot in Tester bill.
- **Biomass Directory** should be completed and Julia will get with Tracy to get the link or document out to the group. **(distributed to the Roundtable group)**

Next meeting – 3rd Friday is August 20th 1 – 3 PM, DNRC – Forestry Division 2705 Spurgin Road, Clark Fork Conference Room