



Department of Commerce

Dore Schwinden: Director

Wood Products Revolving Loan Fund

Report on Outcome Measures as required in
MCA 90-1-503

Economic Affairs Interim Committee

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Please contact:

**Montana Department of Commerce
(406) 841-2830 or TDD (406) 841-2702
State Relay System 711**

Carolyn Jones, Wood Products RLF Program Manager
Business Resources Division
Montana Department of Commerce
301 S. Park Avenue, P. O. Box 200505
Helena, Montana 59620-0505
<http://commerce.mt.gov/businessresources.mcp>

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Executive Summary

The 2009 Legislature approved HB669 which created the Montana “Distressed Wood Products Industry Revolving Loan Program” – now referred to as the *Wood Products Revolving Loan Fund*.

Section 1 of HB669 conveys the legislative purpose of the bill by stating the following;

“Due to the current, well-documented decline in the wood products industry in Montana, the legislature finds that there is a need to assist the Montana wood products industry as a whole through a revolving loan program.”

The passage of HB645 provided the bulk of the funding that was used to capitalize the revolving loan fund. The three sources of funding for the fund include:

1. \$7.5 million from State General Fund, via HB645;
 2. \$1.5 million from the Community Development Block Grant –American Recovery and Reinvestment Act (CDBG-R) via HB645; and,
 3. \$2.7 million grant from the Economic Development Administration (EDA).
- \$11.7 Million in Total Funding**

Outcome Measures

MCA 90-1-503 requires the Department to report on outcome measures for the program in several specific areas. The following provides the measures, cited in statute, the Department of Commerce is required to report on and has been able to quantify with additional information provided in the full report.

“the uses of the loan funds that provide the best overall results”

- 99.7% of the \$11.3 million available for lending has been lent
- 20 private Montana companies and one Montana economic development organization received Wood Products RLF loans
- 14 additional private Montana companies had outstanding Smurfit-Stone accounts receivables purchased by a Montana economic development organization with a loan from the program
- By providing businesses with long term loans at a low interest rate with deferred payments, most companies have been able to continue covering current operating expenses, while at the same time, not depleting their cash flow by having to make immediate payments

"the number of jobs created or retained"

- At the time of application¹, 20 private businesses employed 752 workers. By keeping these workers employed, it is estimated an additional 1,153 jobs were supported. In total, it is estimated that the 1,909 workers paid over \$4.7 million to the State of Montana in individual income taxes on wages received.
- As of June 30, 2010, 779 wood products jobs have been retained or created in 18 companies, representing \$26.3 million in wages and salaries and \$1.1 million in individual income taxes on wages received. (Two companies had not completed their reports by the reporting deadline.)

"pay levels"

- At the time of application, the average annual wages for all 752 employees was \$34,833. Managers were the highest paid at an average of \$57,897 per year. Unskilled workers received \$24,200 on average annually.
- As of June 30, 2010, the average annual wages for all 779 employees was \$33,786. Managers were the highest paid at \$58,207 per year. Unskilled workers received \$24,782 annually.

"financial status"

- All 34 Montana companies who have benefitted from the Wood Products RLF Program are still operating.
- At the time of application, 42% of the companies receiving loans were profitable.
- As of June 30, 2010, 10 of the 18 companies improved their bottom line from the date of application to their most recent quarter ending report.

"project activities"

- Of the \$32.7 million in total spending by the 20 companies who received Wood Products RLF loans, 79.2% of the money was used for working capital such as inventory and payroll. The remaining funds were used to purchase equipment, restructure existing debt, and remodel facilities.

¹ Refers to the date the companies first submitted financial and company information as part of the loan application process.

"Impact on the local economy"

- From the time of application compared to the period ending June 30, 2010, the number of wood products industry employees increased from 752 to 779. By continuing their operations, the 18 companies supported an additional 951 workers. In total, the 1,730 workers earned \$106.8 million in wages and paid \$4.4 million in individual income taxes.
- By spending their wages on groceries, gasoline, health care, banking activities, entertainment and other services, 264 jobs were supported. These employees paid over \$283,000 in individual income taxes.
- In total, the \$2.0 million spent on construction and equipment supported 14 employees who earned nearly \$470,000 in wages and salaries. Their contribution to the state tax coffers was over \$19,000.

"taxable value of property or equipment"

- The most current market and taxable value of the commercial property for the 20 businesses were requested from the Montana Department of Revenue. Data from three businesses were not available. In total, the market value of the 17 companies was \$32,424,450 while the taxable value was \$926,648 as of tax year 2009. Wood products manufacturing companies account for 84.9% of this taxable value.

Current Status of and Feedback on the RLF Program

- All 20 wood products businesses and all Smurfit-Stone creditors are still operating
- In a survey conducted by the Department of Commerce with the loan recipients,
 - 100% of the businesses stated that they benefited from the loan program
 - 83% stated that the loan was very important to their business.
 - 17% stated it was important to their business

Recent Economic History of the Wood Products Industry in Montana

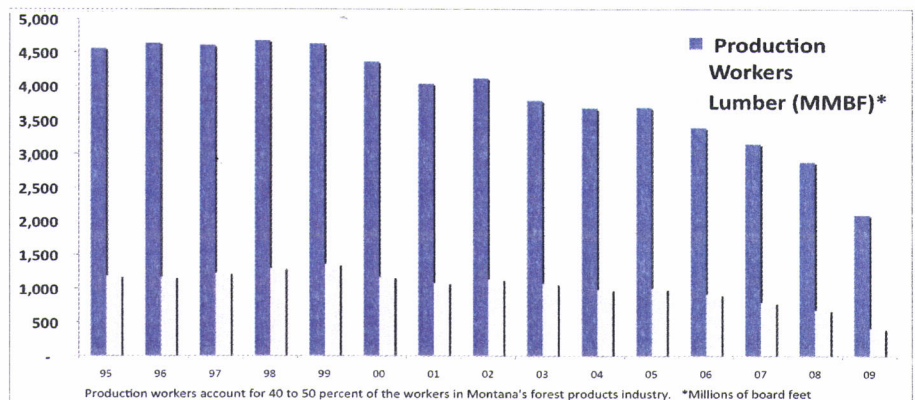
Federal timber harvest in Montana fell more than 70 percent during the 1990s. As a result, 15 Montana sawmills closed between 1990 and 2000. After low prices, wildfires, declines in the federal timber program, and a spike in electric rates in 2000, operating conditions actually worsened for Montana's forest products industry² in 2001. There was a brief recover in wood products prices in the second half of 2003 in response to increased domestic and global demand for wood products.

However, due to court decisions (WHAT YEAR) related to federal lands and severe wildfire seasons, harvest activity was restricted causing shortages of logs at many mills and rendering them incapable of taking advantage of the improved market conditions. Then, the last quarter of 2006 saw a decline in the U.S. housing market that led to sharp decreases in prices for most wood products. This deterioration in market conditions coupled with high fuel prices caused a number of mills to start curtailing production in late 2006.

Chart 1.

Wood Products Related Employment and Lumber Production

The collapse of the housing market and recession in the general economy in late 2008 has now pushed most of the Montana forest industry to the brink of insolvency. In some cases, owners are no longer drawing salaries and others have loaned money to their company to help it stay afloat.



Source: Bureau of Business and Economic Research, University of Montana

With companies closing and smaller and smaller lumber harvests, wood products related employment declined, as seen in Chart 1. Production workers comprise 30 to 40 percent of the employment in Montana's wood products industry. According to the Bureau of Business and Economic Research, total wood products employment in 2008 was about 9,070 workers, down by about 9 percent from the revised 2007 estimate of 9,927 workers.³

² The wood products industry is comprised of businesses in the forestry, logging, forestry support activities, solid wood products, and paper manufacturing.

³ Source for worker estimates is the Bureau of Business and Economic Research, "Montana's Forest Products Industry: Current Conditions and 2009 Forecast" report.