



Wood Products Revolving Loan Fund

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

Economic Affairs Interim Committee

8/19/2010

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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

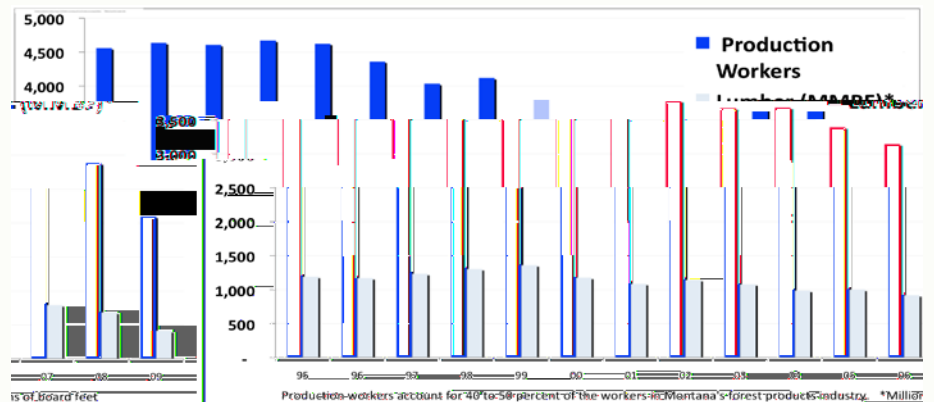
Recent Economic History of the Wood Products Industry in Montana

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 recovery 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 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 In 2009, only 7,070 people were employed in the wood products industry, a decline of 28% over 2008.

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.

To determine whether Montana's wood products industry could be saved, the Montana Department of Commerce funded a study in 2008⁴. This study concluded that:

- A revolving loan fund could help retain many of the direct jobs employed in the wood products industry
- A revolving loan fund might prevent closures and the loss of industry infrastructure helping to ensure the ability to manage our State forests

Legislative Remedy to Address Industry Difficulty

The 2009 Legislature approved the Distressed Wood Products Industry Revolving Loan Program (now referred to as the *Wood Products Revolving Loan Fund*) by funding it in HB645 and by passing HB669 which provided the statutory mechanism to implement the program. HB669 passed the House of Representatives on a 43-7 vote. It passed the Senate on a 96-4 vote. The program became law in early May 2009.

With the passage of these bills, one of its main goals the legislature hoped to achieve was to assist the wood products and timber businesses affected by the recession. Furthermore, through the administration of the program, the legislature anticipated the Montana Department of Commerce would be able to support its goal of creating or retaining long-term employment opportunities for Montanans.

The wood products industry had not only employed over 9,000 people in 2008, it provided the needed expertise and knowledge for sustainable forest management. Through partnerships between private and public land owners, land management functions such as fire hazard reduction, ecosystem restoration, and post-fire rehabilitation are possible. If this industry disappeared, these activities would either not be performed or workers from out of Montana would have to be hired, at a potentially higher cost.

Program Capitalization

In order to leverage the \$7.5 million provided by the State of Montana in HB 645, the Montana Department of Commerce applied for and was awarded a \$2.7 million grant from the U.S. Department of Commerce Economic Development Administration (EDA) to be matched by state funds. The Department also put \$1.5 million of U.S. Department of

⁴ The Bureau of Business and Economic Research, located at the University of Montana, conducted the study.

Housing and Urban Development Community Development Block Grant (CDBG) American Recovery and Reinvestment Act (ARRA) funds into the loan account. For a brief overview of each funding source, see Appendix A.

Loan Fund Sources and Leverage

- \$7.5 million from State General Fund, via HB645
- \$2.7 million from EDA
- \$1.5 million from CDBG-ARRA

Since June of 2009, the Montana Department of Commerce has been administering the Wood Products Revolving Loan Fund (Wood Products RLF). A total of **\$11.3 million in loans to 15 private businesses and one economic development organization has been disbursed.** The economic development organization, the Missoula Area Economic Development Corporation (MAEDC), purchased accounts receivables from 18 companies from the Smurfit-Stone bankruptcy⁵ **and approved loans to an additional five companies.** In total, 20 private wood products companies received loans and 18 had their outstanding accounts receivables purchased. For a list of the companies and the funding they received, see Appendix B.

Most of the loans made were for permanent working capital. Several loans also included equipment with favorable terms. Most of the principal and interest payments on the loans have been deferred enabling the companies to remain in business without draining cash from operations. Because of this deferment, most of the principal payments to the Wood Products RLF will not begin until the fall of 2011.

Wood Products RLF Program

Within HB669, the Montana Department of Commerce was directed to develop reasonable outcome measures⁶ to determine the success of the Wood Products RLF program. Data was collected from the companies at the time of their application and June 30, 2010.

The data was compared to determine the success of the Wood Products RLF program in providing loans “to sustain and grow the wood products industry in Montana.”⁷

⁵ The purchase of the accounts receivables was a one-time payment with no additional reporting required and was not tied to continued employment.

⁶ Some of the performance measurements included: number of jobs retained or created, pay levels, growth of the local economy and the financial status of the companies.

⁷ 90-1-501, Montana Code Annotated (MCA)

By June 2009, one month after the program became law, the Department of Commerce had developed the application guidelines. The disbursement of the funding began in June 2009. By March 2010, 99.7% of the \$11.3 million had been expended.

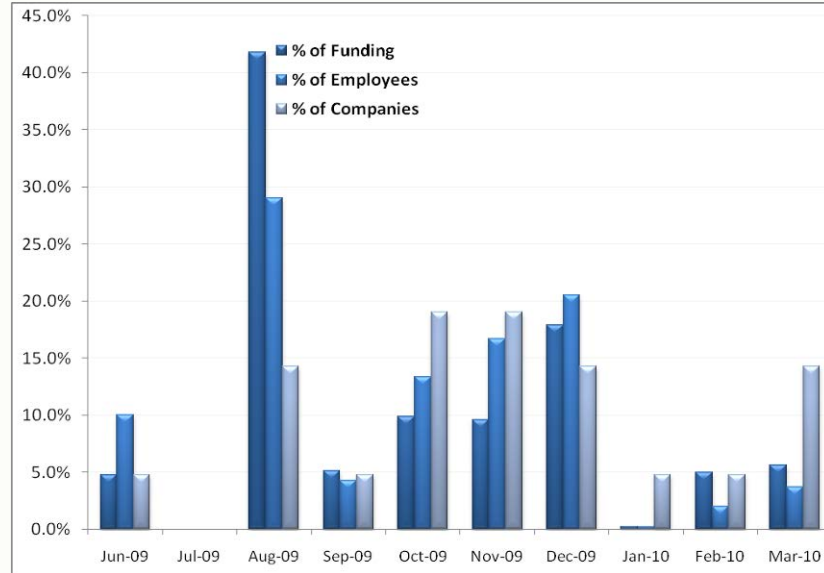


Chart 2. Percent of funding, employees, and companies by month affected by loans from the revolving loan fund.

Table 1 shows the flow of funds, number of employees, and companies receiving funding by month.

Table 1: Listing of Funding, Employees, and Participating Companies by Month

Date	Amount	Employees	Companies
Jun-09	\$ 539,000*	84	1
Jul-09	\$ -	0	0
Aug-09	\$ 4,705,000	243	3
Sep-09	\$ 580,000	36	1
Oct-09	\$ 1,110,000	112	4
Nov-09	\$ 1,081,250	140	4
Dec-09	\$ 2,013,300	172	3
Jan-10	\$ 26,000	2	1
Feb-10	\$ 565,000	17	1
Mar-10	\$ 630,199	31	3
Total	\$ 11,249,749	837	21

*Disbursed to the MAEDC

Overview of Companies

Through the Wood Products RLF, 20 private businesses received funding, with 15 loans managed by the Montana Department of Commerce and five loans managed by the MAEDC. MAEDC, acting as a pass-through agent, received \$1 million in funding. Over half of that

Map 1. Location of Recipients



amount was used to purchase the accounts receivables from 18 additional Smurfit-Stone creditors.

The wood products industry is comprised of those companies that log the trees, those that transport the logs to the manufacturing mills, and the mills that transform those logs into lumber, survey stakes, posts and log homes. Of the 20 companies with loans through the Wood Products RLF, six are logging companies, four are trucking, and 10 are manufacturers. See Map 1 for the location and type of industry. For these 20 private businesses, 752 employees were working at the time of application.

Forestland represents 24% of all land in Montana. The majority of the forestland is found in the western counties of the state. Not surprisingly, more wood products businesses operate in heavily forested counties

such as Missoula, Flathead and Ravalli. Table 2 below shows the number of businesses per county that received Wood Products RLF loans. Appendix C shows Montana's National Forests and the county outlines.

Table 2: Number of Companies Receiving RLF Loans by County

County	Number
Missoula	5
Flathead	4
Ravalli	3
Mineral	2
Lincoln	2
Granite	1
Broadwater	1
Beaverhead	1
Powell	1
TOTAL	20

Outcome Measures at Time of Application (Starting May 2009)

Use of Funds at the Time of Application

Legislation required that the funds from the State-funded Wood Products RLF could be used for the following:

- Purchase or lease of land or equipment
- Updating infrastructure, including retrofitting of infrastructure to facilitate new uses
- Working capital
- Debt service
- Matching funds for grants or other loans that comply with the intent of this funding program; or,
- Any other use the Montana Department of Commerce determines would sustain and grow the wood products industry.

The use of funds from the EDA and CDBG-R Wood Products RLFs are primarily for working capital and equipment loans, and other activities that do not include contracted labor or construction.

Number of Jobs at the Time of Application

The 20 private businesses employed 752 workers at the time of their respective application date⁸. By keeping these workers employed, it is estimated an additional 1,153 jobs were supported. In total, 1,909 workers paid over \$4.7 million to the state coffers as individual income taxes.

The types of jobs supported by the wood products industry are shown in Table 3. Indirect jobs are from business to business transactions such as the mills purchasing electricity from the local power company. Not surprisingly, the Manufacturing sector has the most direct employees since both sawmills and wood products manufacturers are the main industries analyzed. Logging employment is classified under Agriculture. However, more logging workers are supported indirectly than directly, 350 and 73 respectively. This indicates the interdependence of the wood products industry: sawmills and wood product manufacturers demand logs, which is an indirect impact. The second largest direct jobs are truck drivers hauling logs and other wood products such as lumber.

Induced jobs occur when direct and indirect employees spend their wages. The largest induced sector was Health Care followed by Retail Trade. Employees and their families

⁸ The total of direct jobs in Table 3 is 756. The four additional jobs take into account the accounts receivables purchased by MAEDC.

visited physicians and dentists plus hospitals. Wages were spent on auto repair, groceries, auto parts, and general merchandise bought at such stores as Wal-Mart, all of which is classified as Retail Trade.

Table 3. Impact on Employment by Industry at the Time of Application
For Companies Receiving RLF Loans

Industry	Direct	Indirect	Induced	Total
Agriculture/Logging	73	350	2	425
Mining	0	0	0	0
Utilities	0	4	2	6
Construction	0	8	5	13
Manufacturing	570	45	3	617
Wholesale Trade	0	54	16	70
Retail Trade	0	6	91	97
Transportation	113	53	9	176
Information	0	8	8	16
Financial Services	0	12	23	35
Real Estate	0	18	29	47
Professional Services	0	37	18	55
Management of Companies	0	4	1	5
Administrative Services and Waste Management	0	41	19	60
Education	0	0	10	10
Health Care and Social Assistance	0	0	103	103
Arts, Recreation and Entertainment	0	5	17	22
Accommodations and Food Service	0	13	51	64
Other Services	0	27	46	73
Public Administration	0	8	6	14
Total	756	694	459	1,909

Source: IMPLAN

Note: May not add due to rounding

Pay Levels at the Time of Application

To operate a wood products facility requires workers with different levels of skill. The five skill categories analyzed in this report are:

1. Managers/Professional/Technicians
2. Skilled
3. Semi-Skilled
4. Unskilled
5. Office/clerical

Skilled workers include sales representatives, mechanics, millwrights, electricians, and other jobs that require a high level of training. Semi-skilled workers include truck drivers, dispatchers, and equipment operators. These employees account for the largest share of total employment of the loan recipients at 39.4%. General laborers make up the unskilled category. Office and clerical personnel include employees who handle data entry, correspondence, answering the phone and other similar tasks.

The average pay for each skill category was calculated. Not surprisingly, managers⁹ were the highest paid at an average of \$57,897 per year. Unskilled workers received, on average, \$24,200 annually. The average annual wages for all 752 employees was \$34,833. Table 4 below, displays the number of employees, percentage share of total jobs and the average annual wages for the 20 companies receiving RLF funding.

Table 4. Annual Wages by Skill Level
For Companies Receiving RLF Funding at the Time of Application

Skill Levels	Number of Employees	% Total	Annual Average Wages
Managers/Professional	88	11.7%	\$ 57,897
Skilled	235	31.3%	\$ 36,780
Semi-skilled	296	39.4%	\$ 30,569
Unskilled	80	10.6%	\$ 24,200
Clerical	53	7.0%	\$ 31,655
TOTAL	752	100.0%	\$ 34,833

Financial Status at the Time of Application

To analyze the financial status of the companies receiving loans, the confidential profit/loss statements were examined. As shown in Chart 2 on page 10, the disbursement of funds was staggered between June 2009 and March 2010.

- For the four companies that received their loans in the third quarter of 2009, three were operating at a net loss.
- Of the eleven companies that closed in the fourth quarter of 2009, five were operating at a net loss, five were operating at a net profit and one had its business records destroyed in a fire.
- Of the five companies receiving their funds in the first quarter of 2010, one these five companies was operating at a net loss while two others were operating at a net

⁹ There are several managers and owners of companies who are not drawing any salaries.

profit. The remaining two other companies out of the five had also been operating at a net loss based on past financial statements.

Impact on the Local Economy at the Time of Application

To determine the programs' benefit to Montana's economy, the Montana Department of Commerce used economic modeling software called IMPLAN¹⁰ to analyze the impact of economic development activities. The types of impacts produced by the model are:

- Employment – Number of jobs
- Employment Compensation – Wages and salaries
- Economic Output – Amount of goods and services produced¹¹
- Taxes – Individual, property and business equipment

The impacts are direct¹², indirect¹³, or induced¹⁴. The indirect and induced impacts are commonly referred to as the ripple or multiplier effect. Total impacts are the summation of all three impacts.

The number of employees and their wages in each wood products industry, and the payment to the Smurfit-Stone creditors were input into the economic model.¹⁵

The biggest impact of the Wood Products RLF was the retention of the 752 employees. By continuing their operations, the 20 companies supported an additional 887 workers. In total, the 1,639 workers earned \$105.5 million in wages..

As businesses continue operating, they use more electricity, need maintenance on their equipment, and require accounting and payroll services. Table 5, below, shows the number of jobs in all industries by each impact: direct, indirect, and induced. Direct manufacturing jobs comprise 76% of the 752 employees. For indirect employment, the largest sector is Logging, indicating the integration of the wood products industry. The induced jobs are in Health Care (21.6% of all 194), Retail Trade (20.6%), and Accommodations and Food Service (11.3%).

¹⁰ IMPLAN is an input-output model developed by the Minnesota IMPLAN Group. See www.implan.com.

¹¹ Economic output is another name for Gross Domestic Product, a measurement of the production of goods and services in an economy.

¹² The number of retained employees plus the money spent on construction, equipment, working capital and other expenditures are called direct impacts.

¹³ Indirect impacts represent business-to-business purchases, such as sawmills buying logs from logging companies and electricity from power companies.

¹⁴ Induced impacts are generated when the direct and indirect employees spend their wages on goods and services in the state.

¹⁵ For the model, payments to Smurfit-Stone creditors were treated as part of the company's spending pattern. The number of employees was not input since their employment was not tied to the purchase of the accounts receivables.

**Table 5. Impact on Employment By Industry
For Companies Receiving RLF Funding at the Time of Application**

Industry	Direct	Indirect	Induced	Total
Agriculture/Logging	70	350	1	421
Mining	0	0	0	0
Utilities	0	3	1	4
Construction	0	8	2	10
Manufacturing	569	45	1	615
Wholesale Trade	0	54	7	61
Retail Trade	0	6	40	45
Transportation	113	53	4	170
Information	0	8	3	12
Financial Services	0	12	10	22
Real Estate	0	18	12	29
Professional Services	0	37	8	44
Management of Companies	0	4	0	5
Administrative Services and Waste Management	0	41	8	49
Education	0	0	5	5
Health Care and Social Assistance	0	0	42	42
Arts, Recreation and Entertainment	0	5	7	12
Accommodations and Food Service	0	13	22	35
Other Services	0	27	19	46
Public Administration	0	8	3	11
Total	752	693	194	1,639

Source: IMPLAN

Note: May not add due to rounding

The 752 workers employed directly in the wood products industry earned nearly \$26.2 million in wages and salaries. By spending their wages on groceries, gasoline, health care, banking activities, entertainment, and other services, 264 jobs were supported. It is estimated these 264 employees paid over \$283,000 in individual income taxes on wages received.

MAEDC received a \$1 million loan to purchase the accounts receivables from Smurfit-Stone's creditors¹⁶. A total of \$536,908 was used to settle these debts as the pulp and paper mill was in bankruptcy. Payments to creditors ranged between \$2,368 and \$179,939. Sixty percent of the creditor companies receiving funds employed less than 10 workers.

¹⁶ A listing of the Smurfit-Stone creditors can be found in Appendix B.

The creditors of Smurfit-Stone were geographically wide-spread, reaching from Wheatland County in Central Montana to near the Idaho border in Mineral County. Table 6, below, illustrates the number of companies by county.

Table 6. Smurfit-Stone Creditors by County

County	Number
Missoula	9
Flathead	2
Lewis & Clark	2
Gallatin	1
Granite	1
Jefferson	1
Mineral	1
Wheatland	1
Total	18

The Smurfit-Stone creditors were concentrated in the Logging and Forestry Support sector with 10 companies. Next was Sawmills at five (See Table 7 below.)

Table 7. Industries of Smurfit-Stone Creditors

Industry	Number
Logging/Forestry Support	10
Saw Mills	5
Transportation	2
Other	1
Total	18

Outcome Measures as of June 30, 2010

Use of Funds as of 6/30/10

Based upon the information and data provided by the Wood Products RLF recipients, the use of loan funds that provided the best overall results was for working capital loans. 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. This type of loan has also provided businesses the flexibility of using the funds in the manner that is most beneficial to the business at a specific time in their business cycle.

Loans Administered by the Montana Department of Commerce:

Centennial Wood Products, Inc. has used approximately 65% of their loan funds. The funds have been used for debt restructuring and building working capital to help with anticipated business needs.

F.H. Stoltze Land & Lumber Company: Contingent upon the receipt of the RLF funds, the company received an increase in their existing bank line of credit. The RLF funds were deposited to their bank account to be applied against their current operating loan, used to fund mill operations, and to purchase raw materials for the sawmill. According to F.H. Stoltze Land & Lumber company officials, there has been a decrease in the cost of gatewood logs, a slight uptick in wholesale lumber markets, and better management of lumber inventory on hand. A gatewood log is one that come in (through the gates) on trucks from independent logging contractors. Company officials indicate they expect that “June will see a resumption of logging activity as the annual cycle starts over again, and correspondingly, a greater demand for cash.”

Hanson Trucking, Inc. has used part of their loan to repay previous debt. In addition, they have covered payroll and used funds for general business operating expenses. To date, they still have funds available to draw on for working capital needs.

J & R Planing, Inc. has used part of their loan funds to purchase a new planer and put up a building to house the new equipment. They have used some funds to upgrade some existing equipment. In addition, they have used funds for working capital and still have some funds available.

John Jump Trucking, Inc. plan to use their loan funds for working capital, to purchase machinery and equipment, and to complete an office remodel, using current employees.

Kelly Logging, Inc. used the majority of their loan funds for immediate pay-off of an existing line of credit. By March 2010, the company had expended the balance of their funds for working capital.

Luck-E-G of Montana, Inc. has used their loan funds to clear up a bank credit line. This line of credit is available for the remainder of 2010 to purchase inventory.

Neville Log Homes, Inc. has used a portion of their loan funds to bring their debt service current. In addition, they have expended some funds for working capital and still have funds available for additional working capital needs.

Parke Logging, Inc. used their loan funds to pay off a loan on some equipment and still have working capital funds available.

Pyramid Mountain Lumber, Inc.'s expressed purpose for their loans was to buy enough saw logs to be able to run the sawmill and planer all winter. The funds were received by Pyramid Mountain Lumber, Inc. in August 2009. By December 2009, 100% of their loan funds had been expended to increase their log inventory, which was more than enough to get through spring break up.

Rocky Mountain Holding Company has used 100% of their loan funds through June 2010 to retain their key employees, most with over 10 years of experience, at their crafting and manufacturing facilities.

Smith Logging, Inc. has expended approximately 60% of their loan funds since their loan closing in February 2010. They anticipate using the balance of their funds by the end of the year. The funds have been used to cover general business expenses, such as payroll and costs associated with bidding on future projects.

Sun Mountain Lumber, Inc. expended 100% of their EDA and State Wood Products RLF loan funds by the end of December 2009. The funds covered their cash needs for log purchases and wages from August through December 2009. According to Sun Mountain Lumber officials, "as a result we were able to keep the mill running and our employees working during the worst lumber market in over 50 years." Sun Mountain Lumber plan to use their CDBG-ARRA Wood Products RLF funds to assist with other working capital expenses.

Timber Solutions, Inc. used their loan funds to pay off existing debt. By paying off their outstanding debt, they have been able to reduce their monthly debt service

amount by 61%. In addition, they have been able to use the balance of their funds as cash flow and to pay off some other outstanding business trucking costs.

Tricon Timber, LLC has used almost all of their loan funds to increase their inventory two fold. The company does have a small balance left to help cover some operational costs.

Loans Administered by Missoula Area Economic Development Corporation:

Gary Bailey Logging, Inc. has used their loan funds for working capital. The company has recently been the successful bidder for some timber and post and pole sales; and, they are currently awaiting the results regarding other outstanding bids.

Jubilee Transport LLC has repaired some commercial vehicles with their loan funds. The company is seeing a variety of indications that the trucking business is looking up.

McFarland Logging, upon receipt of their loan funds, used approximately 90% to pay off existing equipment loans. The company retained the balance to assist with other monthly debt service payments. Unfortunately, this company was significantly impacted by the closure of Smurfit-Stone Container Corp in Missoula, and is still trying to recover.

SACS Trucking, Inc. used their loan funds to refinance business debt. While 4th quarter 2009 was slow, the 1st quarter of 2010 has shown significant improvement. SACS Trucking has begun to haul chips that are now being purchased by Roseburg Forest Products, after the closure of Smurfit-Stone Container Corp. According to the company officials “most sawmills that we haul out of are running two shifts five days a week. Last year they were running three or four days a week and only one shift.”

Wedge Wood Products LLC had planned to use their loan funds for working capital. Unfortunately, just as the company was gearing up to re-open after installing new equipment over the winter, a fire destroyed their business. The building and all business equipment was a total loss.

Number of Jobs as of 6/30/10

As of June 30, 2010¹⁷, 18 of the 20 private businesses employed 779 workers.¹⁸ This is an increase in 27 jobs from the time of application. By retaining and creating new positions, it

¹⁷ Two companies' June 30, 2010 employment reports were not submitted at the time this report.

¹⁸ Besides the 779 wood products industry workers, an additional 78 direct employees are supported through the companies' expenditures on equipment, working capital, etc. This spending requires bankers,

is estimated an additional 1,363 indirect and induced jobs were supported. It is estimated these 2,143 workers paid nearly \$4.9 million to the state coffers as individual income taxes on wage and salary income.

Through June 30, 2010, these 18 companies had spent their funding on equipment, retirement, or restructure of debt services, and for working capital expenses such as inventory and payroll. With the \$11.3 million in loans and other support from the Montana Department of Commerce, plus matching expenditures, over \$32.7 million in funding is percolating through Montana's economy. Appendix D shows all the funding the businesses received from the Montana Department of Commerce plus their match. Also shown in Appendix D is the project totals for each private business.

The types of jobs being supported by the wood products industry are shown in Table 8. As was the case at the time application, the analysis of the data as of June 30, 2010 shows more workers are supported indirectly than directly, 405 and 82 respectively. Health Care continued to be the largest Sector with Retail Trade second.

Table 8. Impact on Employment by Industry of
RLF Loan Recipients as of June 30, 2010

Industry	Direct	Indirect	Induced	Total
Agriculture/Logging	82	405	2	488
Mining	0	0	0	0
Utilities	0	4	3	7
Construction	4	10	5	19
Manufacturing	637	51	3	691
Wholesale Trade	7	63	16	85
Retail Trade	1	6	96	103
Transportation	109	59	9	177
Information	1	10	9	20
Financial Services	2	15	24	41
Real Estate	1	21	30	52
Professional Services	4	43	19	65
Management of Companies	1	5	1	7
Administrative Services and Waste Management	6	47	20	73
Education	0	0	12	12
Health Care And Social Assistance	0	0	109	109
Arts, Recreation and Entertainment	0	5	19	24
Accommodations and Food Service	2	16	53	70
Other Services	2	32	48	81

accountants, administrative services, wholesale traders and even communications services to complete these transactions.

Public Administration	0	10	6	16
Total	857	799	486	2,143

Source: IMPLAN

Note: May Not Add Due To Rounding

Pay Levels as of 6/30/10

Semi-skilled workers such as truck drivers, dispatchers, and equipment operators continued to account for the largest share of total employment of the loan recipients at 35.6% as of June, 2010. The average managers¹⁹ pay had risen to \$58,207 per year compared to \$57,897 at the time of application. The average for unskilled workers was \$24,782 annually compared to a mean of \$24,200 at the time of application. The average annual wages for all 779 employees was \$33,786 as compared to an average of \$34,833 at the time of application. Table 9, below, displays the number of employees, percentage share of total jobs and the average annual wages for the 20 companies receiving RLF funding as of June 30, 2010.

Table 9. Annual Wages by Skill Level
For Companies Receiving RLF Funding as of June 30, 2010

Skill Levels	Number of Employees	% Total	Average Annual Wages
Managers/Professional	85	10.9%	\$ 58,207
Skilled	232	29.8%	\$ 35,519
Semi-skilled	277	35.6%	\$ 29,658
Unskilled	137	17.6%	\$ 24,782
Clerical	48	6.2%	\$ 31,683
TOTAL	779	100.0%	\$ 33,786

While there has been a decrease in the annual average wage, it is important to remember that at the time the companies applied for the Wood Products RLF funding, they had been operating at minimum employment. As times get tough, companies retain their more experienced employees and reduce their workforce by letting their unskilled laborers go. This tends to skew, at a higher number, the average wage of the smaller workforce. Then when companies are able to add to their workforce, they hire employees at the unskilled laborer level, bringing the average wage back in line with what would normally be expected during full employment.

¹⁹ There are several managers and owners of companies who are not drawing any salaries.

Financial Status as of 6/30/10

Ten of the 18 companies²⁰ have improved their bottom line from the date of application to their most recent quarter ending report (June 2010). In fact, two companies realized a complete turnaround, from a loss to a profit of nearly the same amount.

Impact on the Local Economy as of 6/30/10

The biggest impact of the Wood Products RLF was that 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 companies²¹ supported an additional 951 workers. In total, these 1,730 workers earned \$106.8 million in wages and paid an estimated \$4.4 million in individual income taxes on this wage amount.

As businesses continue operating, they use more electricity, need maintenance on their equipment, and require accounting and payroll services. Table 10, below, shows the number of jobs in all industries by each impact: direct, indirect and induced. Direct manufacturing jobs comprise 79.8% of the total of 779. For indirect employment, the largest sector is Logging, again indicating the integration of the wood products industry. The induced jobs are in Health Care (21.8% of all 202), Retail Trade (20.3%), and Accommodations and Food Service (11.4%).

Table 10. Impact on Employment by Industry
For Companies Receiving RLF Funding as of June 30, 2010

Industry	Direct	Indirect	Induced	Total
Agriculture/Logging	53	381	1	435
Mining	0	0	0	0
Utilities	0	4	1	5
Construction	0	9	2	11
Manufacturing	622	50	1	673
Wholesale Trade	0	59	7	65
Retail Trade	0	6	41	47
Transportation	104	56	4	164
Information	0	9	4	13
Financial Services	0	13	10	23
Real Estate	0	19	12	31
Professional Services	0	39	8	47
Management of Companies	0	5	0	5

²⁰ One company lost their records and building in a fire while another one just received their loan in the first quarter of 2010 therefore there was not an additional financial report to compare to.

²¹ Two companies June 30, 2010 employment reports had not yet been submitted at the time of compiling all data for this report.

Administrative Services and Waste Management	0	43	8	51
Education	0	0	5	5
Health Care and Social Assistance	0	0	44	44
Arts, Recreation and Entertainment	0	5	8	44
Accommodations And Food Service	0	15	23	37
Other Services	0	29	20	49
Public Administration	0	9	3	12
Total	779	749	202	1,730

Source: IMPLAN

Note: May not add due to rounding

The 779 workers employed in the wood products industry as of June 30, 2010 earned over \$26.3 million in wages and salaries. Their spending in turn supported another 264 jobs. It is estimated these employees paid over \$283,000 in individual income taxes on their wages.

Only one company undertook any construction activity during the leverage period²² of the loan program or once the loan was received. Six companies purchased equipment such as a planer or commercial vehicles. In total, the \$2.0 million spent on construction and equipment as of June 30, 2010 supported 14 employees who earned nearly \$470,000 in wages and salaries. It is estimated, their contribution to the state tax coffers was over \$19,000 for this wage amount.

Of the \$32.7 million spent by the 20 companies as of June 30, 2010, 79.2% of the money was used for working capital. The 129 employees supported by the use of loans for working capital earned an estimated \$3.6 million in wages and paid nearly \$148,000 in individual income taxes on this wage amount. Companies used their loans for buying inventory such as logs, for payroll and other basic operating expenses.

As of June 30, 2010, seven of the 20 companies had used some of their loans for debt service. Some companies were able to pay off loans while other refinanced. For example, one company's monthly loan payments were reduced by 61%. These seven companies reported \$3.0 million in debt at their respective application dates. In total, 41 workers in the Financial Services sector, which includes banks and insurance companies, were supported by the wood products industry.

²² Leverage expenditures could have occurred up to 18 months prior to the application date.

Taxable Value of Commercial Property as of 6/30/10

The most current market²³ and taxable value of the commercial property²⁴ for the 20 businesses were requested from the Montana Department of Revenue. Data from three businesses were not available.²⁵ Table 11 below lists the data by business within the Logging, Manufacturing, and Trucking Industries. In total, the market value of the 17 companies was \$32,424,450 while the taxable value was \$926,648. Manufacturing companies account for 84.9% of all the taxable value.

Table 11. Market and Taxable Value of Property by Industry
For Companies Receiving RLF Funding

Industry	MV 2009	TV2009
Logging Businesses	\$3,869,950	\$116,100
Manufacturing	\$27,753,450	\$786,519
Trucking Businesses	\$801,050	\$24,029
TOTAL	\$32,424,450	\$926,648

Source: Montana Department of Revenue

Documented Success of the Program

One measure of success of the Wood Products RLF is that all 20 private businesses and all the Smurfit-Stone creditors, whose outstanding accounts receivables were purchased, are still operating.

To further assist with the compilation of this report, the Montana Department of Commerce recently sent a survey to the Wood Products RLF recipients (See Appendix E for the complete survey). One of the survey questions asked if the businesses benefitted from their loan. One hundred percent of the respondents said yes. Another question on the survey asked how important the loan was to the immediate support of their business. Eighty-three percent deemed the loan “very important” and the rest stated “important”.

Parke Logging, Inc. declared that the loan assisted their company “by providing working capital to keep personnel employed and allowing lower interest rates to be paid, freeing up financing to continue maintenance and other business expenses.” Others responded that

²³ Market value is an estimate of value of property based on adjusted sales of comparable properties as defined by the Montana Department of Revenue.

²⁴ For all the businesses, only Class 4 commercial property was examined.

²⁵ Some companies operate out of their residences, therefore they have no commercial property.

the benefits from the loan program included: access to capital during a time of highly restricted credit availability, low interest rates, longer repayment terms, and the ability to defer repayment which allowed the companies to continue to cover current operating expenses.

Summing up the survey responses, F.H. Stoltze Land & Lumber Company commended the program for “recognizing the significance of the wood products industry to the economy of Montana.” Furthermore, Tricon Timber, LLC stated that the program was responsible for “helping to ensure the stability of our industry.” Hanson Trucking, Inc. stated the program “provided hope to our employees that could have potentially been out of work.”

To date, the Wood Products RLF recipients have shown the commitment to make tough business decisions with the hope of surviving the current economic downturn. Due to the availability of the Wood Products RLF funds in assisting in the implementation of those decisions, Montana’s wood products industry hopes to survive these tough economic times.

Appendices

Appendix A. Comparison of Wood Products RLF Sources

Wood Products RLF	CDBG-ARRA	EDA	STATE GENERAL FUND, via HB645
Funding Amount	\$1,495,199	\$5 million	\$4.8 million
Applicant	Local Government	Business	Business
Interest Rate	5% - flexible	Not less than 4%	Generally 4% but not less than 1%
Match/Leverage	1:1 match	2:1 match (private only)	1:1 match
Funding Limits	\$400,000 per program year No more than \$2 mill per request – all sources	\$2 million No more than \$2 mill per request – all sources	\$2 million 2 years after first loan approved No more than \$2 mill per request – all sources
Terms	Standard loan terms Mach/Equip 5-10 yrs Real Estate 15-20 yrs Work Cap 7 yrs	Standard loan terms Mach/Equip 5-10 yrs Real Estate 15-20 yrs Work Cap 7 yrs	Up to 15 years, Department of Commerce will determine terms.
Deferral	2-year	1-year	1 year
Funding Type	Loan	Loan	Loan
Amount Per Job	\$25,000 per job	\$20,000 per job	\$20,000 per job, in general, Commerce discretion
Admin	Up to 8% Admin	No Admin	No Admin
Jobs	Tracked – Monthly	Tracked – Monthly	Tracked – Monthly
Permanent Year-Round Jobs	Yes	Yes	State preference for full time, permanent, year-round jobs.
Loan Payments	Payments to MDOC	Payments to MDOC	Payments to MDOC
Eligible Assisted Business	Non-profit and for-profit	Non-profit and for-profit	For-profits

Appendix B. Wood Products RLF Recipients

Administered by the Montana Department of Commerce

Company	EDA Funding	State Funding	CDBG Funding	Total Funding	Employment at Time of Application
Centennial Wood Products, Inc.	\$0	\$0	\$271,796	\$271,796	5
F.H. Stoltze Land & Lumber Company*	\$721,250	\$0	\$0	\$721,250	111
Hanson Trucking, Inc.	\$0	\$175,000	\$0	\$175,000	50
J & R Planing, Inc.	\$0	\$580,000	\$0	\$580,000	36
John Jump Trucking, Inc.*	\$0	\$0	\$258,403	\$258,403	22
Kelly Logging, Inc.	\$250,000	\$830,000	\$0	\$1,080,000	21
Luck-E-G of Montana, Inc.	\$0	\$30,000	\$0	\$30,000	6
Neville Log Homes, Inc.	\$250,000	\$380,000	\$400,000	\$1,030,000	18
Parke Logging, Inc.	\$300,000	\$0	\$0	\$300,000	21
Pyramid Mountain Lumber, Inc.*	\$1,000,000	\$1,000,000	\$0	\$2,000,000	113
Rocky Mountain Holding Company	\$750,000	\$0	\$0	\$750,000	88
Smith Logging, Inc.	\$0	\$0	\$210,000	\$210,000	17
Sun Mountain Lumber, Inc.	\$1,625,000	\$0	\$355,000	\$1,980,000	109
Timber Solutions, Inc.	\$0	\$80,000	\$0	\$80,000	2
Tricon Timber, LLC*	\$80,000	\$703,300	\$0	\$783,300	81
MAEDC - Contract	\$0	\$15,716	\$0	\$15,716	--
TOTAL APPROVED FUNDING	\$4,976,250	\$3,794,016	\$1,495,199	\$10,265,465	700

* Also were Smurfit-Stone creditors

Administered by the Missoula Area Economic Development Corporation

Company	Amount	Employment at Time of Application
Gary Bailey Logging, Inc.	\$100,000	4
Jubilee Transport LLC	\$26,000	2
McFarland Logging	\$180,000	5
SACS Trucking, Inc.	\$125,000	39
Wedge Wood Products LLC	\$30,000	2
TOTAL APPROVED FUNDING	\$461,000	52

Smurfit-Stone Creditors

Company	State Funding	Employment at time of Settlement
Benson Logging	\$17,772	3
CNF (Merged with Cheff Logging)	\$5,918	0
Ed Cheff Logging LLC	\$13,344	10
F.H. Stoltze Land and Lumber Comp.	\$2,368	*
Fire Solutions, Inc.	\$6,317	2
John Jump Trucking, Inc	\$21,431	*
Johnson Brothers Contracting, Inc.	\$90,188	19
Miller's Trucking, Inc.	\$42,828	15
Mote Lumber	\$21,933	1
Northey Forestry Consulting, LLC	\$8,540	1
Northwest Management, Inc.	\$33,280	6
Opportunity Resources, Inc.	\$16,324	9
Osler Logging, Inc.	\$37,381	10
Ottman Forestry Consultants, Inc.	\$12,455	5
Pyramid Mountain Lumber, Inc.	\$16,879	*
Smith Forestry Consulting	\$6,728	1
Tricon Timber LLC	\$179,939	*
Woodland Restoration, Inc.	\$3,284	2
TOTAL OF CLAIMS PURCHASED	\$536,908	84

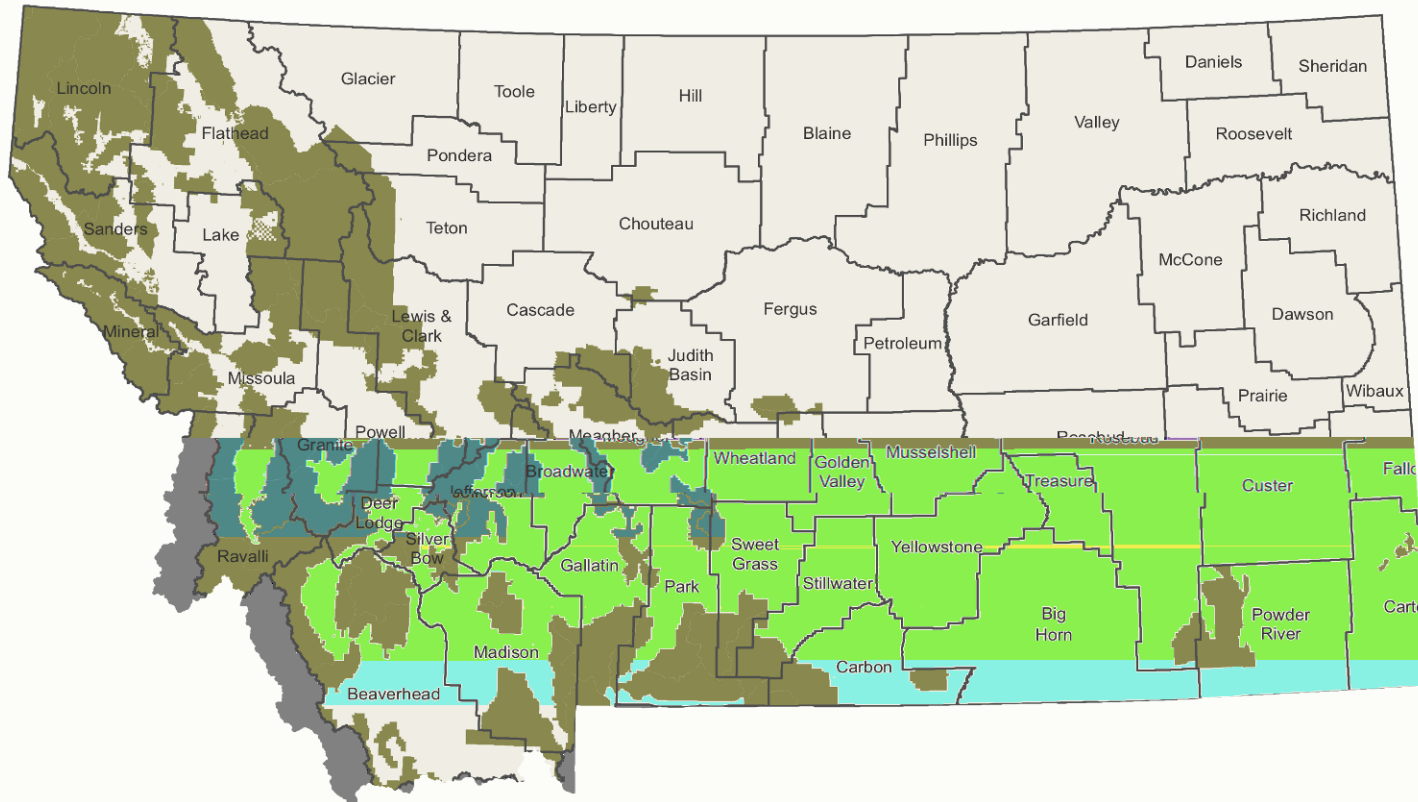
* Numbers of employees included in other table for loans received from the Department of Commerce

Wood Products RFL

Organization	Amount
Administered by Commerce	\$10,265,465
Administered by MAEDC	\$461,000
Smurfit Stone Creditors	\$536,909
Funds Available - MAEDC	\$2,092
Funds Available - Commerce	\$29,734
TOTAL	\$11,295,199

Appendix C. Location of National Forest Lands in Montana

National Forest Lands in Montana



There are over 19.1 million acres of National Forest lands in Montana.

Map by:
Census & Economic Information Center
Montana Department of Commerce
301 S. Park Ave, Helena MT 59601
406-841-2740 email: ceic@mt.gov
<http://ceic.mt.gov>

Source: Montana, State Library, Montana Natural Heritage Program, National Forests and Ranger Districts in Montana, 2002

June 2010 - Forest_lands.mxd

Appendix D. Wood Products RLF Project Totals

Administered by the Montana Department of Commerce

Company	Total Wood Products RLF Funding	Other Commerce Funding	Total Commerce Funding	Leverage Amounts	Total Project Amount	Employment on June 30, 2010
Centennial Wood Products, Inc.	\$271,796	\$13,590	\$285,386	\$574,944	\$860,330	5
F.H. Stoltze Land & Lumber Company	\$721,250	\$0	\$721,250	\$1,523,239	\$2,244,489	111
Hanson Trucking, Inc.	\$175,000	\$218,000	\$393,000	\$175,000	\$568,000	63
J & R Planing, Inc.	\$580,000	\$0	\$580,000	\$580,319	\$1,160,319	33
John Jump Trucking, Inc.	\$258,403	\$91,670	\$350,073	\$720,000	\$1,070,073	NA
Kelly Logging, Inc.	\$1,080,000	\$0	\$1,080,000	\$1,048,687	\$2,128,687	22
Luck-E-G of Montana, Inc.	\$30,000	\$0	\$30,000	\$30,000	\$60,000	7
Neville Log Homes, Inc.	\$1,030,000	\$0	\$1,030,000	\$1,280,572	\$2,310,572	21
Parke Logging, Inc.	\$300,000	\$0	\$300,000	\$645,600	\$945,600	20
Pyramid Mountain Lumber, Inc.	\$2,000,000	\$0	\$2,000,000	\$2,415,000	\$4,415,000	140
Rocky Mountain Holding Company	\$750,000	\$0	\$750,000	\$5,500,000	\$6,250,000	84
Smith Logging, Inc.	\$210,000	\$0	\$210,000	\$235,000	\$445,000	NA
Sun Mountain Lumber, Inc.	\$1,980,000	\$0	\$1,980,000	\$3,850,000	\$5,830,000	108
Timber Solutions, Inc.	\$80,000	\$0	\$80,000	\$80,335	\$160,335	3
Tricon Timber LLC	\$783,300	\$0	\$783,300	\$2,300,000	\$3,083,300	111
MAEDC - Contract	\$15,716	\$0	\$15,716	\$0	\$15,716	--
TOTAL	\$10,265,465	\$323,260	\$10,588,725	\$20,958,696	\$31,547,421	728

NA = Not available

Administered by MAEDC

Company	Total Wood Products RLF Funding	Leverage Amounts	Total Project Amount	Employment on June 30, 2010
Gary Bailey Logging, Inc.	\$100,000	\$350,000	\$450,000	7
Jubilee Transport LLC	\$26,000	\$93,000	\$119,000	2
McFarland Logging	\$180,000	\$100,000	\$280,000	1
SACS Trucking, Inc.	\$125,000	\$125,000	\$250,000	39
Wedge Wood Products LLC	\$30,000	\$30,000	\$60,000	2
TOTAL	\$461,000	\$698,000	\$1,159,000	51

Project Totals	Amount
Administered by Commerce	\$31,547,421
Administered by MAEDC	\$1,159,000
TOTAL	\$32,706,421

Appendix E. Wood Products RLF Program Questionnaire

Montana Department of Commerce Wood Products RLF Program Questionnaire

Company Name: _____

Date: _____

Respondent's Name: _____

1. Has your business benefitted from receiving a Wood Products RLF loan?
 - A. Yes
 - B. No
2. If additional Wood Products RLF funding became available, would you be interested in applying?
 - A. Yes
 - B. No
3. How important has your Wood Products RLF loan been to the immediate support of your business?
 - A. Very important
 - B. Important
 - C. Fairly important
 - D. Not important
4. By receiving a Wood Products RLF loan, has this enabled your business to continue operations?
 - A. Yes
 - B. No
5. How has your experience been working with the Montana Department of Commerce Wood Products RLF program?
 - A. Extremely positive
 - B. Positive
 - C. Fair
 - D. Not positive
6. Do you think it is essential for the Wood Products RLF program to continue in the future?
 - A. Yes
 - B. No
7. How important do you think it is that the Wood Products RLF program continues to provide assistance to Montana's wood products industry and its supporting business partners?
 - A. Extremely important
 - B. Important
 - C. Fairly important
 - D. Not important
8. Would you recommend Montana Department of Commerce programs to other businesses in need?
 - A. Yes
 - B. No

Fill In (optional):

1. What are the strengths of the Wood Products RLF program?

2. How has the Wood Products RLF program assisted your company? (Briefly describe)