

DRAFT Minutes
SE Region Timber Industry Task Force
Hardings Sourdough Lodge
Wrangell
November 14, 1996

The Task Force Chairman, Wrangell Mayor Doug Roberts **Called the Meeting to Order** at 9:30 am.

At **Roll Call** all **Task Force members** were present except Bob Loescher. Owen Graham and John Sportsman were representing Ralph Lewis of Ketchikan Pulp Corp. Brian Brown was representing Errol Champion of Silver Bay Logging. Some were weathered out and arrived later in the morning.

Those connected by phone: Karl Ohls of the Resources Section of the Department of Commerce and Economic Development; Saul Atkinson of Metlakatla; John Sturgeon of Koncor Forest Products; Alaire Stanton from the City of Ketchikan; Mayor Pete Hallgren of Sitka; Ginny Tierney from the City of Thorne Bay; Marty Welbourn of the Division of Forestry, Department of Natural Resources; and Marilyn Heiman, Special Assistant to Governor Knowles for Natural Resources and Transportation; Veronica Slajer Special Assistant to the Commissioner of the Department of Commerce & Economic Development; Randy Simmons of AIDEA; and Jamie Kenworthy of ASTF.

Jim Caplan and Fred Walk were present and representing U.S. Forest Service Regional Forester Phil Janik.

Johnny Ceffalio of the Governor's office; Kathleen Morse of the Department of Commerce and Economic Development; and, Ruth Tadda of the Department of Natural Resources were present and serving as Staff.

Others present: Tom Saville of NBA in Wrangell; John Scoblic of NBA in Ketchikan; Pete Crandall Southeast Administrator of NBA; Fred Angurman, Jr., of Southeast Stevedoring in Wrangell; Scott Seabury and John Baker of the City of Wrangell; Dave Hought of Pacific Rim Cedar in Wrangell; Chuck Oliver of Woolly Mammoth Construction in Wrangell; Walt Sheridan of Juneau, representing himself; Jodi Stephens of the Wrangell Sentinel Newspaper; Austin O'Brien, Randy Hojen, and Steve Brady of the USFS in Wrangell; Joel Hanson of the Wrangell Resource Council; Jim DeHerrera of the USFS in Ketchikan; Bruce Morrison and Forrest Cole of the USFS Stikine Area in Petersburg; Chris Nelson and Jim Pierce of Ketchikan.

There were no objections or changes, and the **Agenda Was Adopted.**


Chairman Roberts welcomed everyone back and moved the meeting on to **Review of Priorities.** He acknowledged all those who had spoke to the group at the previous meeting. In regards to state timber supply, he said there will be a draft resolution proposed at the upcoming mayor's meeting in December. Priorities for discussion at this meeting included the conceptualization of a regional sortyard and discussions, questions, and solutions to the USFS supply issue.


He invited the group to be sure to add suggestions to the meeting and moved forward

to the **Draft Letter to the Forest Service**. It was faxed to those attending by telephone. The edits were received back from the membership later during the meeting. In the meantime, Steve Seley explained the details behind the main points of his outline (included in the packet). They were fiber supply, infrastructure, and funding.


Fred Walk and Jim Caplan provided some guidance on the circumstances behind the TLMP to assist in the drafting of the letter. They said the specifics are not now available but that current standards in EIS's can be made available now. Jim Caplan voiced the concern that it could possibly be subject to over-interpretation by the media.

The Chairman reminded the group that these items are draft and shall be treated accordingly rather than as a media release.

After receiving everyone's edits, Kathleen Morse said she would fax the resulting draft out but everyone should get any final edits back to her by Friday, the 15th. Then she would send that version out for the final review. (Copy attached) 

There was discussion around the issue of public perception and of marketing Alaska. Mayor Roberts suggested some expense sharing in the effort from the communities. The subject was added to the agenda of the next mayors meeting scheduled for December 6 - 8. 

Chairman Roberts invited Fred Walk of the USFS to address issue and questions on regulations. Fred Walk said he had not come prepared to address questions regarding barriers in meeting statutory and regulatory requirements. However, he said there are 3 or 4 law suits against EIS offerings and in Ketchikan for the long term contract. He added there is a mixed bag of concerns around whether the USFS is meeting it's legal obligations. In outlining the barriers, he said there is room in the interpretations of regulations such as maintaining a viable population and in what real estate. He said there are regulatory responsibilities regarding the Clean Water Act, the Clean Air Act, and Antiquities, just to name a few problem areas to work through a timber sale.

There were questions regarding whether the discretion lies in the Regional Forester's Office or in Washington, D.C. on the TLMP ASQ numbers. The group decided to add Congressional Discussions as a separate agenda item for the next meeting in order to establish better direction in communicating with Washington D.C.. 

The meeting moved to the **Draft Business Plan**. The Chairman thanked Kathleen Morse for her work and asked for comments from the group. For those members who were connected telephonically, Kathleen reiterated the factors itemized in the draft business plan:

1. Reliance on federal timber
2. High proportion of pulp wood in timber supply
3. Inability to make capital investment

4. Lack of clear state policy and program funding
5. Public sentiment is working against industry
6. Competitive disadvantages
7. Small scale of individual businesses

Appendix A: Timber Supply Outlook

Appendix B: Business Inquiries

There was one suggestion to adopt a target level of ASQ's to number of jobs looking at 100 mmbf from federal sales and 100 mmbf from other landowners. There was another suggestion to look at a tiered approach from different levels as well as community-based perspectives rather than limiting the group's thinking.

Kathleen Morse said she would keep the draft plan focussed on 2 or 3 scenarios with an "economy of scale" of ranges.

Since the group is looking at participation from the USFS and with the holiday season, Chairman Roberts projected the final outcome of the plan to be by March.

Before breaking for lunch, Chairman Roberts suggested setting the next meeting date, time and place. Ketchikan Gateway Borough Mayor [redacted] offered to host the next meeting. The **Next Meeting** was set for 10:00 a.m., Thursday, October 12, in Ketchikan. Mayor Shay will confirm the location for either the Civic Center or the Cape Fox Hotel in Ketchikan.

The meeting broke for **Lunch** at 12:00 and resumed at 1:30.

Jamie Kenworthy of the **ASTF** discussed their financial programs, technical services for manufacturing and investment opportunities, plus information on overseas markets and potential establishment of a grading service in Alaska. He said he would be available with the telephone. For more information, his number is 272-4333. He welcomed the group to call and to add to their mailing list.

He said there are things going on in the Southcentral and Interior Alaska in regards to treated wood projects with Alaska Wood Products. There are funding mechanisms available for the wood products industry. They are interested in working with any manufacturer interested in expanding their business and looking at their production, storage and training.

He clarified that the funding assistance available is \$200-K per year for 3 years to be provided by ASTF. He said it is highly subsidized to do assessment and the grading project. ASTF projects use their earnings from the reserve appropriated. They offer loans from those earnings with repayment provisions. Instead of collateral loans, they offer a small portion of the earnings to be repaid to them over time.

Representations from **AIDEA** addressed the group next. He said packages of

information are available to anyone who is interested by giving them a call.

Randy gave a brief overview of the two funding programs available: the Credit Program which has two sub-programs - a loan participation program and a loan guarantee program; both deal directly with the bank.

The loan participation program can buy up to 80% of the bank's originated loan not to exceed \$10 million for infrastructure or equipment. The bank is their client.

The loan guarantee is similar, except instead of buying a participation in the loan, they guarantee a portion of the loan to the bank for up to \$1 million. Here, too, the bank is their client. It is a little more flexible in that they can do "working capital guarantees." The rate is between 2.6 - 2.75% over the rate of a 30 year Treasury. The benefit is that right now financial institutions only like to go to 10 year terms. AIDEA can go to 25 years - so a blended rate could be about 18 years.

The other program is the Development or Owner Operator Finance Program. Under this program, AIDEA owns the development project with a long term operating agreement or lease where the developer operates for the life of the project. The benefit is during economic downturns where other capital leaves the state. They fill that void. Another advantage is that most of the projects qualify for tax exempt financing. This means depending on where the market is, you can save up to 2% of the cost - on a very large project that can make or break the project.

They have statutory findings to make under that program: First that the project is economically feasible, the applicant must be financially responsible, they have to find that the project will retain or create employment commensurate with the size of investment AIDEA puts into the project. If they sell bonds for the project they need local government concurrence. He said there are 3 or 4 other findings that are not as big.

An applicant or proposer comes in to talk with them about the project, and they bring in their business plan. AIDEA does an in-house feasibility and, if it has merit, it then goes for an outside feasibility review, and is finally taken to their board. The quickest this process takes is 8 - 10 weeks.

The Chairman moved the meeting to **Forest Service Progress on Log Sort Yard** and Fred Walk who introduced Jim DeHerrera from the Ketchikan Ranger District. He distributed his letter proposing a timber sale where the harvest would be accomplished by the government and the fiber sold at a log yard. He said it is a new concept and will be a learning experience. Only one other had been initiated and so far responses have been favorable. It shall allow small buyers equal footing with larger firms, not always true under traditional timber sale techniques. They plan to develop testing, modifying and learning from their successes and failures in this process. There will be opportunities for partnerships and cooperative agreements with state, local and other entities in harvesting, log yard operations, etc., and it will have no limits. They will be looking to form partnerships to work through this. Their long term objectives are twofold: (1) To assess the viability of a sustained operation of log yard disposal of timber from the national forest in southeast Alaska; and (2) to assess which needs of the local

timber process economy are better met with logyard sales rather than traditional timber sales. More specifics are included in the scoping letter which was handed out, or by calling him at the Ketchikan Ranger District of the USFS.

Fred Walk addressed the **Review of FY 1996 SBA Sale Program**. He said they are not yet up to the 107 mmbf that had been planned to be offered September 30. Instead they offered 22 mmbf in the Ketchikan area, 25 mmbf in the Stikine area, and 45 mmbf in the Chatham area. It was not necessarily sold. Some of it was offered but not bid. Another large sale (King George) was incomplete because they had not done the field work which has been moved into the next fiscal year. This was due to personnel being sent to fight fires on the West Coast during August and September. They hope to move that within the next few months. Another hurdle is approval under the Clean Water Act, 404 permitting and interpretations for silvicultural permitting and exemptions. As of September 30, the volumes under contract on the Tongass can be made available upon request. He will forward Kathleen a copy.

The 1997 program totals up to 147 mmbf including King George and the Shamrock Sale. The other sales available under the program is the Chatham area which has five different sales scheduled for FY97. Outback Gallagher is 16 mmbf as a result of the AWRTA lawsuit. It should be advertised late in the calendar year. Indian River sale of 15 mmbf is coming up from the same EIS and is scheduled for August or September of 1997. It is unencumbered of lawsuits, so far. But, Lisa Creek, Water World and Duckfield under the Baranof EIS has two lawsuits which they are attempting to resolve before they are advertised. The total of these three is 36 mmbf. A quick summary of 1996 included some no bid sales, and some larger sales of 24, 12 and 16 mmbf, plus some smaller sized ones which did sell. Appraisals were the main reason as to why some sales were not bid upon. Fred said the limiting factor to the appraisal issue is that they can't establish costs more frequently than what the participants in the process can prepare and close their books on. So, if operating on a monthly basis, it gets into the end of the month before they can access that data. Obviously, from the public interest it has to work both ways - when the market is increasing and when it is decreasing to make those adjustments promptly, too.

He said the 1997 budget is inadequate to finish the preparation of the 1997 program and prepare the 1998 program. He said they are \$7 - \$8 million less this year than last year in the timber program alone. Copies of their budget will be distributed.

There is no special funding to build a pipeline now. To accomplish that, ideally, there would be 2-1/2 to 3 years of timber for contract. They would have to get sales through all the processes, on the shelf, ready to go, offered and under contract. But too many things change in 2-1/2 years - court decisions and other things keep the shelf life of a timber sale very variable. It is not going to improve.


Some members of the financial community were at the meeting and addressed the question "What does the banking community need to invest in southeast Alaska?" Pete Crandall, NBA's representative for Southeast Alaska and John Scoblic of NBA's Ketchikan branch said it is difficult to invest into "infrastructure" loans when dealing with a changing market, lawsuits, and lowered supplies. They have to know what kind of

industry there will be for at least the next decade.

Kathleen reminded the group that the packet contains various funding mechanisms and moved the meeting on to **Other State's Programs**. Her outline covered programs in Washington and Oregon.

The **Group Discussion of Objectives for the Next Meeting** included

- the priority issue of fiber supply
- setting examples in the mission statement
- how to foster stability
- how to get the project off the ground
- congressional discussion for better communications with Washington D.C.
- an update from the Ketchikan Gateway Borough on their \$1 million RFP for a public relations campaign look at grant options from the State and Private Forestry Section.
- questions for the USFS
- model industry (John Sisk and Steve Seley)
- EPA and DEC on the risk level to new business owners
- update on community support
- infrastructure development - what is the problem or hold up? permitting?
(Kathleen Morse)

Kathleen will work at getting the task force members to fill in the blanks between now and the next meeting. She will send out the framework and asked members to be specific as mill operators, to list potential sites for development, on getting communities to support the infrastructure, power issues profiled and recognized. What would be optimum operators conditions, what does the industry need to come to town? 

She asked timber industry members Kirk Dahlstrom and Steve Seley what it would take to keep them in business. Their answer was they need a long term timber contract.

The fourth Southeast Region Timber Industry Task Force **Meeting Adjourned** at 4:30 pm.

Note to Kathleen from Ruth: I think it would be useful to include something covering Marty Rutherford's meeting of 11/20 regarding State supply and potential economic assistance.