

**Task Force to Increase Primary and Secondary  
Forest Products Manufacturing.  
Final Report  
May, 1999.**

**(Abridged)**  
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Established by the Legislature of the State of Maine (H.P. 1478-L.D. 2077). Approved by Governor Angus J. King, April 16, 1998.

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## **I. Summary of Major Issues, Incentives and Proposed Legislation.**

The principle purpose of the task force, as identified by the legislature, was to examine tax incentives and credits, grants, loan guarantees, tax expenditures, revenue bonds and other assistance to the State's primary and secondary wood products industry.

### **A. Major Issues of Concern to Primary and Secondary Wood Products Manufacturers**

During the tenure of the task force, four public meetings were held and commentary was heard from over 300 small and large forest products business owners or their representatives. Additional commentary was heard from industry trade associations, legal representatives and specialists who provided details related to national and international issues affecting the industry. The task force has synthesized the commentary into nine specific areas that are impediments to industry growth and viability in the State of Maine. They are as follows:

1. **Stability-** Comment from both task force member and the public clearly indicated that the stability of existing legislation and State government policies were of concern. The principal concerns centered on the Tree Growth Tax Law and the Business Equipment Tax Reimbursement (BETR) program. While both programs were seen as essential to industry competitiveness, constituents felt that the potential for changes to these and other programs was high. As such, planning and forecasting for the future is hampered.
2. **Log Exports (Raw Materials)-** Between 40 and 60 percent of the sawlogs harvested in the State of Maine are exported each year. The majority of exports are to the Province of Quebec which manufactures construction lumber for the U.S. market, directly competing with manufacturers in Maine and assisted by the currency exchange rate and other direct or indirect incentives.
3. **Sawmill Residue disposal.** Sawmill residues consist of sawdust, chips and bark that require disposal either by placement in a landfill or by burning. A common method of disposal is to burn the residues in facilities where the heat energy can be converted into electrical energy for use by consumers. Primary and secondary wood products manufacturers generally receive a small amount of compensation for the residues. Under the Federal regulatory restructuring of the electricity providers and distributors, it is likely that wood-burning plants will not be competitive. Therefore, the commonly used avenue for residue disposal will be lost, creating additional costs for primary and secondary manufacturers and reducing competitiveness.
4. **Energy Costs.** The cost of electrical energy in Maine for primary and secondary processors is two or three times higher than in competing areas. The disparity is a major impediment to competitiveness.
5. **Raw Material Availability.** The export of wood from Maine to Canada and elsewhere has made the procurement of wood for use in all aspects of primary and secondary manufacture difficult. Moreover, the competition for wood with Canada, particularly in the Northern part of Maine has hampered growth and reduced competitiveness.
6. **Taxes.** The combination of taxes imposed on the primary and secondary wood products

manufacturers in Maine is among the highest in the nation. The business climate in Maine generally considered poor due to the tax structure.

7. Cohesive Government Policy with respect to outcomes.
8. Recognition of the Diversity of the Industry. Approximately 70 percent of the primary and secondary wood products manufacturers in the State of Maine are small businesses and employ nine persons or fewer. Only about 7 percent of the primary and secondary businesses in Maine employ more than 50 persons. However, those employers account for nearly 50 percent of the employed persons in the sector. The nearly bimodal industry structure suggests that the needs of the industry vary, particularly with respect to tax and related legislation.
9. Support to Strengthen Competitive Position. The existing small businesses in Maine are generally risk averse. Small businesses have long complained about their inability to establish new markets and new products due to a lack of financial resources or expertise. The taskforce has introduced LD 1884 to assist with this situation. Large businesses are also hampered in that the tax structure appears onerous and the instability of existing legislation makes planning difficult. Further, constituents felt that assistance should be given to help the states primary and secondary processors maintain their competitive positions.

These issues are discussed in the sections that follow. Often several topics are addressed in a section.

## **B. Effective Incentives**

Constituents found that a number of programs were beneficial to the State's industry. Included among the programs specifically cited we the following:

### **1. Business Equipment Tax Reimbursement (BETR)**

The BETR program is a state economic development tool that allows eligible businesses, including primary and secondary forest product manufacturers, which pay property taxes on qualified business property, to get financial support from the state. Once property taxes are paid by businesses, all of the taxes on qualified property are returned to them.

### **2. Municipal Tax Increment Financing (TIF)**

TIF is a local economic development tool that allows businesses, including primary and secondary forest product manufacturers, which are making significant capital investments within a municipality, to seek financial support from the municipality. The funding source is the property tax; once taxes are paid by a business, some or all of the payment is returned to it.

### **3. Employment Tax Increment Financing (ETIF)**

ETIF is a state economic development tool that allows qualified, for-profit businesses, including primary and secondary forest product manufacturers, which are hiring fifteen net new employees within a two-year period, to seek financial support from the state for an investment

project. The funding source is state income tax; once taxes are withheld from qualified employees and paid to the state, businesses are eligible to be reimbursed a portion of the amount withheld.

#### **4. Tree Growth taxation incentives (36 M.R.S.A. § 571 et. seq.)**

Maine's Tree Growth Tax Law was enacted in 1972 and became effective January 1, 1973. The Tree Growth Tax Law implements a 1970 amendment to the Maine Constitution, adopted by state-wide vote, that allows for valuation of timberland and woodlands according to their current use. 36 M.R.S.A. § 572. The legislative history indicates that the purpose of the law was to put forest taxation on a uniform economic productivity basis throughout the state in order to motivate good forestry practice, to maximize forest growth, to maximize the economic productivity of Maine's forest lands and to reduce pressures to develop forest land. It was also intended to provide the foundation for a strong growing forest industry.

#### **C. Proposed Legislation**

Based on the identified needs and the written and oral comments of the constituents, four pieces of legislation were proposed. They are as follows:

1. **LD 800** An Act to Create a Tax Credit for Licensing Fees Paid for the Use of University Patents on Wood Fiber Reinforced Products.
2. **LD 1606** An Act to Make Manufacturing Real Estate Eligible for Business Equipment Property Tax Reimbursement.
3. **LD 1882** An Act to Include in the Business Equipment Tax Reimbursement Program those Energy Facilities that Burn Production Residuals from Maine's Primary and Secondary Wood Products Industries.
4. **LD 1884.** An Act to Create a Matching Grant Fund to Provide Technical Assistance to Small Wood Products Manufacturers.

## II. Structure and Actions of the Taskforce

### A. Charter Of The Taskforce As Identified By The Legislature

The task force was established (H.P. 1478 - L.D. 2077) with the following charter:

Resolve, to Establish the Task Force to Increase Primary and Secondary Forest Products Manufacturing.

**Sec. 1. Task force established. Resolved:** That the Task Force to Increase Primary and Secondary Forest Product Manufacturing, referred to in this resolve as the “task force,” is established; and be it further.

**Sec. 2. Task force membership. Resolved:** That the task force consists of 14 members as follows:

1. The State Tax Assessor;
2. The Director of the State Planning Office;
3. The Commissioner of Economic and Community Development or the commissioner’s designee;
4. One representative of a college or university who has expertise in economic development, appointed by the Governor;
5. Two members of the Senate, appointed by the President of the Senate;
6. Two members of the House of Representatives, appointed by the Speaker of the House;
7. One representative of the Finance Authority of Maine, appointed by the Governor;
8. Two representatives of primary forest products manufacturing, appointed by the Governor;
9. Two representatives of secondary forest products manufacturing, appointed by the Governor; and
10. One person representing the Maine Congressional Delegation, appointed jointly by the members of the delegation.

The task force members serve terms that expire April 1, 1999 or when their task is completed, whichever occurs first. Vacancies must be filled in the same manner as the original appointments were made; and be it further

**Sec. 3. Convening of task force. Resolved:** That all appointments must be made no later than 30 days following the effective date of this resolve. The Executive Director of the Legislative Council must be notified by the appointing authorities once the selections have been made. The Executive Director of the Legislative Council shall convene the first meeting of the task force no later than 60 days after the effective date of this resolve. The task force shall select a chair from among its members; and be it further

**Sec. 4. Duties. Resolved:** That the task force shall hold 4 public meetings. The public meetings must be held in 4 of the following counties: in Aroostook, Washington, Piscataquis, Somerset, Franklin and Penobscot. The task force shall:

1. Identify and examine tax credits and incentives, including, but not limited to, grants, loan guarantees, tax expenditures and industrial or economic development revenue bonds that may succeed in retaining forest products in this State for primary and secondary manufacturing;
2. Examine proposals for new credits and incentives and any limitations imposed by existing laws that hinder the use of these credits and incentives by primary and secondary forest product manufacturers;
3. Examine the impact of the North American Free Trade agreement on the forest products industry; and
4. Explore any other proposals or strategies that may benefit the State's forest products industry; and be it further

**Sec. 5. Staff assistance. Resolved:** That the Department of Economic and Community Development shall provide staffing assistance to the task force; and be it further

**Sec. 6. Reimbursement. Resolved:** That the legislative members of the task force are entitled to the legislative per diem and expenses for each day's attendance at meetings of the task force upon application to the Executive Director of the Legislative Council. All members of the task force who are not state or federal employees are entitled to mileage and other necessary expenses for each day's attendance at meetings of the task force upon application to the Executive Director of the Legislative Council; and be it further

**Sec. 7. Report. Resolved:** That the task force shall submit its report to the First Regular Session of the 119<sup>th</sup> Legislature, the joint standing committee of the Legislative having jurisdiction over taxation matters, the joint standing committee of the Legislature having jurisdiction over economic and community development matters and the Executive Director of the Legislative Council no later than January 1, 1999. If the task force requires an extension, it may apply to the Legislative Council, which may grant the extension.

## **B. Taskforce membership and Affiliations**

## **Appointed by the Governor**

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## C. Meeting Structure and Locations.

The introductory meeting was held in Augusta on October 29, 1998 with 15 taskforce members or their representatives in attendance. At that time, it was decided by the members of the taskforce that four public meetings would be held at various locations around the State. The dates and locations were as follows:

Location	Date
Bangor- One Cumberland Place	November 10
Presque Isle- Northern Maine Tech. College	November 19
Farmington- University of Maine	December 8
Machias-University of Maine	December 17

Prior to each meeting, public notice was given regarding the time and location of the meeting. The format of each public meeting was for the taskforce members to meet privately during the morning and to discuss specific problems related to the industry or to have specialists in particular areas address the taskforce. At approximately 1 pm, the public was invited to comments and to discuss specific issues. Details of the discussions and specific comments by primary and secondary processors at each meeting are found in the appendices.

The final meeting of the taskforce occurred on January 15, 1999 at the Department of Economic and Community Development, Stone Street, Augusta.

#### **D. Community and Media Response.**

The taskforce heard, directly or indirectly heard from over 300 primary and secondary processors from every county of the State. A number of citizens came to the public meetings while others telephoned with comments. Constituents also sent letters to the task force. Both the public comments and letters are included as an appendix to this report.

Generally, media response was muted. Although at least three newspapers carried brief stories about the workings of the taskforce and a Bangor television station interviewed some members of the taskforce, media coverage, in general was scant.

### **III. Overview of Primary and Secondary Wood Products Manufacturers in Maine**

#### **A. Definitions Related to the industry.**

Primary forest products manufacturers are principally engaged in the conversion of logs into lumber. Few true primary forest products manufacturers exist due to the fact that most sawmills have added operations beyond the primary stage in an effort to increase product value. Commonly, sawmills are considered primary forest products operations in the State of Maine. There are approximately 350 primary forest products operations in the State.

Secondary forest products manufacturers are those that add value to wood or wood fiber beyond the primary conversion stage. Included in this classification are furniture and fixture manufacturers, paper mills, panel manufacturers and similar manufacturers. There are currently approximately 500 secondary forest products manufacturers in Maine.

Among the issues of concern to constituents who spoke with the task force was the disposition of residues. In this context, sawmill residues consists of bark, sawdust, swarf (dust from abrading operations), mill trim and burnable mill waste related to either primary conversion or secondary processing operations.

#### **B. Number of Businesses and Trends During the period 1993-1997**

The data reported here are taken from the 1993 to 1997 editions of the Maine Employment

Statistical Handbook published by the Maine Department of Labor. Data include all “covered employers” subject to the Maine Employment Security Law based on quarterly tax filings required under that law. These data do not include Federal government employees, self-employed individuals (sole proprietorships), unpaid family members, railroad workers, and certain farm and domestic workers. According to the Maine Department of Labor, covered employers account for more than 97% of the total nonfarm wage and salary employment in Maine and all of the goods producing industries in the industrial sectors. While it is likely that a small percentage of sole proprietors and unpaid family members benefit from employment and earnings generated in the wood products industry, this number is assumed to be a relatively small and not likely to bias the reported data.

These data reflect employment trends in those businesses that fall under the Standard Industrial Classification Codes 24 and 25, respectively entitled Lumber and Wood Products (SIC Code 24) and Furniture and Fixtures (SIC Code 25). The Code 24 description includes establishments engaged in cutting timber and pulpwood; merchant sawmills; lath mills; shingle mills; cooperage stock mills; planning mills; plywood and veneer mill engaged in producing lumber and wood basic materials; and establishments engaged in manufacturing finished articles made entirely or mainly of wood or related materials. SIC code 25 includes establishments engaged in manufacturing household, office, public building, and restaurant furniture; and office and store fixtures. All are referred to herein as wood products manufacturers. We do not include manufacturers of paper and allied products.

Table III.B. shows the number of Maine woods products companies operating during the five-year period between 1993 and 1997. It also shows the relative importance of these numbers as a percentage all manufacturing firms and as a percentage of firms from all business sectors in Maine.

In 1997 the Department of Labor reported 850 total employers in the wood products sector (SIC Codes 24 and 25). The number of wood products companies has grown 9% over the last five years from 780 in 1993 to the 1997 level of 850. Growth in the number of companies in this sector was relatively slow at about 1.5% per year from 1993 to 1996 but increased by 4.8% in 1997, rising from 811 to 850. The 1997 number represents 33% of total manufacturers, and 2% of all employers.

Although the number of companies producing wood products has shown growth over the last five years, wood products manufacturers have declined very slightly as a percentage of total manufacturers. In 1993 wood products companies comprised 34.1% of manufacturers. By 1997 this share had fallen to 33.1%. As a percentage of all employers it stayed nearly constant at 2.2% during the entire period. The decline as a percentage of manufacturers may not be statistically significant, but the trend points to the likelihood that the rate of new company formation in the wood products industry is slightly lower than that of other manufacturers.

<b>Table III.B. Lumber and Wood Products Employers in Maine 1993 to 1997</b>					
	1993	1994	1995	1996	1997
Number of Lumber and Wood Products Manufacturers	780	791	806	811	850
Percentage of All Manufacturers	34.12%	33.70%	33.51%	33.39%	33.15%
Percentage of All Employers	2.20%	2.17%	2.19%	2.18%	2.16%

### C. Number of persons employed by the industry and trends over the past 5 years.

Table III.C. shows the number of people employed by the wood products sector during the five-year period between 1993 and 1997. It also shows the relative importance of these numbers as a percentage of all manufacturing employees and as a percentage of all covered employees in Maine.

In 1997 the Department of Labor reported 11,715 total employees working in the wood products sector (SIC Codes 24 and 25). This number represents 13.5% of total persons employed by manufacturers in Maine, and 2.7% of covered employment for all Maine employers. During the five-year period from 1993 to 1997, the number of employees has varied from a low of 11,200 in 1996 to a high of 11,715 in 1997. The variance may be due in part to reporting problems in 1995 and 1996 when the Department of Labor could not disclose the number of employees in firms with more than 250 employees. It is not clear how much of an impact the lack of those data have on the trends for this period. However, as Table III.C shows, the number hit a high in 1997. It is of special interest to note that, contrary to the trend shown above in Table III.B., the contribution to overall employment by the wood products sector has increased relative to manufacturers as a whole. So while new company formation has not exceeded that of other manufactures, the latest data show that job formation by wood products companies outstripped that of other manufacturers in 1997.

As a percentage of all employers, jobs in the wood products sector have held nearly constant, ranging between 2.9% and 2.7% over the five-year period we studied.

	1993	1994	1995	1996	1997
Number of Person Employed by Lumber and Wood Products Manufacturers*	11346	11474	11461	11210	11715
Percentage of All Manufacturers	12.71%	12.80%	12.65%	12.38%	13.54%
Percentage of All Employers	2.89%	2.83%	2.74%	2.68%	2.73%

\* In 1995 and 1996 the number of employees for companies having more than 250 was not available.

### D. Comparison of contribution to employment by size class within the industry.

As might be expected, wood products companies vary greatly in size when compared on the basis of the number of employees per company. As reported over the last five years, the number of companies within a given size class is inversely proportional to the number of employees per company. In other words, the number of companies declines as the number of employees per company increases. Of the 850 companies reporting in 1997, 55% employed four people or less and 70% employed 9 people or less. Companies with over 100 employees accounted for less than 5% of the total. This trend holds true for the prior four years as well.

While most wood products companies are small, one should not assume that most workers

are employed by the companies that have less than 10 employees. In fact, in 1997 companies with over 50 employees accounted for 49% of the jobs in this sector. This trend also holds true for the prior four years

Graph III.D compares total jobs by size class in 1997.



If we define companies with less than 50 employees as “small” and companies with 50 or more employees as “large”. The 1997 data allow us to say that the employment in the industry is nearly equally divided among small and large companies. However, the per company contribution to employment by the large companies is very important. While this group comprises only 7% of wood products companies in Maine it accounts for nearly one-half of the jobs in this sector. Relatively speaking the loss of a single large company will greatly impact overall job count in the industry.

At the same time, the case for maintaining a dynamic population of small companies is strongly supported because this group accounts for half the employment base in the industry and is less affected when a single company goes out of business.

### E. Location of the Industry by county within the State.

The Table below shows the breadth of the primary and secondary processing within the State of Maine. Every county within the state is affected by the industry. The total value of products in 1996 was in excess of \$4.9 billion.

County/Industry	Value of Product (\$MM)	Gross Wages (\$MM)	Avg. wages	Workers
<b>Androscoggin</b>				
Lumber & Wood Products	80.40	13.10	\$21,446	611
Furniture	5.73	1.80	\$25,426	71
Pulp and Paper	376.68	39.24	\$45,924	854
<b>Aroostook</b>				
Lumber & Wood Products	227.76	36.76	\$21,370	1720
Furniture	2.32	0.70	\$23,689	29
Pulp and Paper	314.77	74.90	\$54,872	1365
<b>Cumberland</b>				
Lumber & Wood Products	90.30	21.40	\$23,242	921
Furniture	2.38	0.59	\$17,194	34
Pulp and Paper	368.74	85.39	\$56,838	1502
<b>Franklin</b>				
Lumber & Wood Products	86.44	20.72	\$20,724	1000
Furniture	0.07	0.02	\$15,693	1
Pulp and Paper	421.51	103.38	\$60,469	1710
<b>Hancock</b>				
Lumber & Wood Products	44.90	6.09	\$17,268	353
Furniture	0.25	0.07	\$20,228	3
Pulp and Paper	310.82	81.54	\$66,306	1230
<b>Kennebec</b>				
Lumber & Wood Products	8.96	1.82	\$15,821	115
Furniture	0.17	0.04	\$13,080	3
Pulp and Paper	253.61	54.60	\$48,197	1133
<b>Knox</b>				
Lumber & Wood Products	3.23	0.83	\$20,152	41
Furniture	3.59	1.08	\$23,558	46
Pulp and Paper	0.00	0	\$0	0
<b>Lincoln</b>				
Lumber & Wood Products	3.70	0.77	\$12,076	63
Furniture	2.84	0.81	\$21,489	38
Pulp and Paper	0.00	0	\$0	0

<b>Oxford</b>				
Lumber & Wood Products	148.50	29.58	\$17,349	1705
Furniture	1.51	0.40	\$19,255	21
Pulp and Paper	340.50	83.53	\$60,483	1381
<b>Penobscot</b>				
Lumber & Wood Products	169.37	29.55	\$21,101	1400
Furniture	3.09	0.72	\$15,844	45
Pulp and Paper	758.93	175.42	\$54,239	3234
<b>Piscataquis</b>				
Lumber & Wood Products	47.48	10.80	\$21,496	503
Furniture	21.05	5.50	\$18,870	292
Pulp and Paper	0.00	0	\$0	0
<b>Sagadahoc</b>				
Lumber & Wood Products	1.12	0.10	\$6,448	15
Furniture	0.91	0.23	\$18,327	13
Pulp and Paper	0	0	\$0	0
<b>Somerset</b>				
Lumber & Wood Products	127.24	27.89	\$16,711	1669
Furniture	0.19	0.05	\$21,190	2
Pulp and Paper	333.39	89.86	\$72,510	1239
<b>Waldo</b>				
Lumber & Wood Products	69.76	12.68	\$19,679	645
Furniture	2.91	0.90	\$24,922	36
Pulp and Paper	0	0	\$0	0
<b>Washington</b>				
Lumber & Wood Products	71.00	11.40	\$28,485	400
Furniture	0	0	\$0	0
Pulp and Paper	133.63	32.09	\$58,134	552
<b>York</b>				
Lumber & Wood Products	43.20	8.61	\$20,443	421
Furniture	3.95	1.01	\$18,149	56
Pulp and Paper	55.48	10.53	\$33,916	310

Data from 1996 Implan Database

Compiled by David B. Field, Department of Forest Management, University of Maine.

## **IV Current Programs and Incentives Determined to be of Benefit to the Industry.**

### **A. Business Equipment Tax Reimbursement (BETR)**

BETR is a state economic development tool that allows eligible businesses, including primary and secondary forest product manufacturers, which pay property taxes on qualified business property, to get financial support from the state. Once property taxes are paid by businesses, all of the taxes on qualified property are returned to them.

The program normally reimburses, for up to 12 years, all local property taxes paid on eligible business property. Once the business pays its taxes, it has 60 days in which to file for BETR. Once the Maine Revenue Service (MRS) receives the BETR form, a check will be issued within 180 days.

The definition of eligible business property is defined by law, but generally means personal property first placed in service in Maine after April 1, 1995. Eligible property includes certain property affixed or attached to a building or other real estate if it is used to further a particular trade or business on that site, and so may include property which would be classified as real property for other purposes. Starting with property tax year April 1, 1997, office furniture, lamps and lighting fixtures are not eligible for reimbursement and are excluded from the program.

#### **Program Example**

Cote's Plywood Mill purchased \$100,000 of eligible production machinery on July 7, 1997. When the town assessed the new machinery on April 1, 1998, they valued the property at \$95,000. Based on the town's mil rate of 15, the company paid an equipment property tax of \$1425 on the eligible equipment. The company then filed an application with the MRS for the BETR program within 60 days of paying the equipment property tax. The company received full reimbursement of the \$1425 it paid in equipment property tax.

### **B. Municipal Tax Increment Financing (TIF)**

TIF is a local economic development tool that allows businesses, including primary and secondary forest product manufacturers, which are making significant capital investments within a municipality, to seek financial support from the municipality. The funding source is the property tax; once taxes are paid by a business, some or all of the payment is returned to it.

The first TIF district was designated in 1985. In the early years of the program, new property taxes generated by capital investment within TIF districts were used primarily to retire debt incurred by municipalities for site and infrastructure improvements related to the development project.

In 1993, the State expanded the TIF program to include the use of "Credit Enhancement Agreements (CEA)." With a CEA between a municipality and a business, new property taxes can be used to fund a number of allowable project expenses, including direct payments to businesses to help offset development costs.

TIF districts may be designated for a period of up to 30 years. Bonds may be issued under this

program for up to 20 years. The designation of a TIF district requires a local public hearing, the majority vote of the municipal legislative body, and approval by the Maine Department of Economic and Community Development.

### **Program Example**

A sawmill expects to invest \$900,000 in buildings and site improvements on vacant land presently valued at \$100,000, and install \$1,100,000 in machinery and equipment. The municipality's property tax mil rate is \$10 per \$1,000 of valuation, so the business will have a tax obligation of \$21,000 per year once the investments are recorded on the tax rolls. Of this tax obligation, \$20,000 is "incremental," i.e. an increase above the \$1,000 tax collected on the pre-investment property, and therefore available for TIF activities.

Scenario 1: Credit Enhancement Agreement. The municipality contracts with the sawmill and agrees to "capture" 75% of the incremental tax revenues for a period of fifteen years; it will return the funds to the business to assist in financing the new building. The business would receive \$15,000 in the first year of TIF, though subsequent payments might be adjusted for equipment depreciation, real estate appreciation, and future capital investments. All things being equal, however, the business would receive approximately \$225,000 over the life of the TIF district.

Scenario 2: Municipal Bond Financing. The sawmill needs a road and utilities installed for \$150,000. The municipality agrees to pay this cost, issuing a 20-year TIF bond in the amount of \$150,000. Annual debt service on the bond will be \$12,338, which the municipality will retire with new revenues "captured" from the new business investment.

### **C. Employment Tax Increment Financing (ETIF)**

ETIF is a state economic development tool that allows qualified, for-profit businesses, including primary and secondary forest product manufacturers, which are hiring fifteen net new employees within a two-year period, to seek financial support from the state for an investment project. The funding source is state income tax; once taxes are withheld from qualified employees and paid to the state, businesses are eligible to be reimbursed a portion of the amount withheld.

The first ETIF application was approved in 1996. Originally, businesses could be reimbursed 30% or 50% of taxes withheld depending on the level of unemployment in the labor market area where jobs were created. In 1998, a 75% rate was established to target the areas with the highest unemployment rates. The ETIF benefit may be received for up to ten years.

The amount of annual payment is based upon the actual number of qualified employees above the company's base level of employment. New jobs created must pay wages that exceed county per capita income levels, and provide access to group health insurance and retirement benefits.

### **Program Example**

A furniture manufacturer is considering adding 30 jobs and investing \$1 million in Oxford County. The new jobs will be equally divided in pay at \$8, \$10 and \$12 per hour. All employees are

provided with group health insurance and a retirement program. The company is looking at other states also, and will base its location decision upon the projected return on investment. Oxford County's average annual per capita income is \$17,401, i.e. \$8.37 per hour, and the labor market area unemployment rate is above the state average (i.e. 50% reimbursement). In this scenario, 20 of the 30 new employees would be considered "qualified" by virtue of their wages (those above \$8.37/hr) and benefits, entitling the company to seek ETIF approval.

When the business demonstrates that ETIF provides a return that will result in the investment being made in Maine, the application will be approved. Assuming: 1) an average state income tax withholding rate of 3.5%, 2) employment levels and wages that do not change, and 3) the company remaining qualified, the annual reimbursement would be \$8,008. Total reimbursement for the ten year period would be \$80,080.

#### **D. Tree Growth taxation incentives (36 M.R.S.A. § 571 et. seq.)**

##### **History and Operation**

Maine's Tree Growth Tax Law was enacted in 1972 and became effective January 1, 1973. The Tree Growth Tax Law implements a 1970 amendment to the Maine Constitution, adopted by state-wide vote, that allows for valuation of timberland and woodlands according to their current use. 36 M.R.S.A. § 572.

In order to qualify for Tree Growth Tax, a parcel of forest land must be in excess of 10 acres and must be used primarily for the growth of trees to be harvested for commercial use.

The Tree Growth Tax provisions value the land based on the present value of the future growth of the trees. In essence, under the Tree Growth Tax Law, forested property is taxed at a value which reflects the eventual value of the wood products which will be produced or gathered from these properties .

Under the provisions of the Tree Growth Tax Law, the State Tax Assessor determines the 100% valuation per acre for each forest type by county or region on an annual basis. These valuations are published by the State Tax Assessor and are used by tax assessors to determine the property tax for forest land taxed under Tree Growth Tax.

##### **Purpose**

The legislative history indicates that the purpose of the law was to put forest taxation on a uniform economic productivity basis throughout the state in order to motivate good forestry practice, to maximize forest growth, to maximize the economic productivity of Maine's forest lands and to reduce pressures to develop forest land. It was also intended to provide the foundation for a strong growing forest industry.

The 113<sup>th</sup> Legislature created a Commission on Forest Lands Taxation to study taxation of Maine forest lands. The Commission's report, "A Report of the Forest Lands Taxation Commission," was submitted to the Legislature on January 15, 1988.

The Commission summarized the purpose and effectiveness of the Tree Growth Tax Law, stating that the special characteristics of forest land make the traditional method of assessing property value undesirable in part because assessment of timberlands using market value based on uses other than growing trees results in a tax burden that can be too high to be supported by timber uses. Higher tax values applied to forest lands encourage premature timber harvest and, in some cases, the conversion of land from productive forest to non-forest uses in order to pay the higher tax costs. (Report, page 6)

The Report also notes that the adoption of the Tree Growth Tax Law followed amendment to Maine's Constitution. The amendment was designed to address the "increasing concerns for lands at the margin of development being taxed so heavily that they would be converted from their traditional uses simply to pay the taxes." (Report, pages 8-9) For this reason, the enactment of the Tree Growth Tax was supported by environmental groups.

The Commission concluded that the Tree Growth Tax accomplishes what it was intended to and avoids the worst disincentives to forest ownership and management of the *ad valorem* property tax. The law also shields land from development to some extent. (Report, page 25)

The Commission further concluded that "the tree growth tax is not a 'subsidy' to the landowner. It is simply a method of taxation that reflects the underlying economic characteristics of the forestry treatment. It is the proper method of taxing such land, rather than special treatment." (Report, page 26)

Finally, the Commission recommended that the Tree Growth Tax not be modified and that future proposals to modify the tax be accepted only if they improve the administration or effectiveness of the tax as an incentive to the maintenance and growth of a productive forest. (Report, page 25-26)

## **Recommendation**

We concur with the findings of the Commission on Forest Land Taxation and its recommendation that future proposals to modify the Tree growth Tax be accepted only if they improve the administration or effectiveness of the tax as an incentive to the maintenance and growth of a productive forest.

## **V. Impediments to Growth, Innovation and Competitiveness**

### **A. The Export of Raw Materials**

It's unlikely there is a more controversial issue within the Maine wood products industry than the export of raw materials that are harvested in Maine forests. Many citizens believe it would be far better for the state economy if these sawlogs were processed here. If this were to occur, more residents would be employed and current mills could expand, and new mills would be constructed. Industries supporting these expanded or new mills would benefit. More income taxes would be paid to the State and local communities would receive more property taxes. Some environmental benefits could occur if less trucking took place, and there might be less pressure put on the land.

Few mill owners, however, can begrudge landowners, businessmen like they are, from getting the highest value for their products. After all, this is what they try to do with their own products. Some mills even purchase raw materials in species they don't use and then make some income by selling them to export.

Market prices are always better when there is good demand, and the substantial export market has most likely increased prices for Maine raw materials. Sawlog exports go to a number of states and countries, but the wood volume and controversy are by far greatest with the bordering provinces of Quebec and New Brunswick. The controversy is fueled by perceived inequalities in government policies. Asian purchases of our high-grade sawlogs have temporarily dried up because of their economic crisis, but they are sure to return once their situation improves.

In 1997, 1.5 Bbf (billion board feet) of timber was harvested from Maine forests and 481 million board feet (32%) were exported, of which 463 Mmbf (million board feet), 96% of the total, went to Canadian provinces. This large percentage of logs exported to the provinces started when the Spruce budworm epidemic hit Maine and it has continued unabated since. Maine did import 181 Mmbf of sawlogs and 61% of that came from the provinces. In the US, New Hampshire is Maine's largest trading partner. That relationship has decreased, however, as the Canadian markets have increased and is now only 24% of our imports and 1% of our exports.

### **The Canadian Factor**

Anybody who observes the many trucks hauling sawlogs into Quebec and the huge amount of lumber returning has to wonder why this is happening. In 1997, 481 Mmbf of both softwood and hardwood sawlogs were exported from Maine and 89% of that went to Quebec. In return, virtually no Quebec softwood logs came to Maine. The total softwood component export amount to Quebec was 390 Mmbf. 355 Mmbf or 90% of the State's Spruce/Fir total sawlog exports went to the province. The provinces' soft wood lumber production has gone up substantially as it is reported to have increased from 3.6 Bbf in 1991 to 6.6 Bbf in 1997. Hardwood sawlog exports to Quebec in 1997 were listed at 34 Mmbf, but with a return of only 1.5 Mmbf. After Crown land, imports have provided the second largest source of wood for Quebec's mills. On the other hand, a huge amount of lower valued biomass and some pulpwood and chips did come from the province to supply Maine mills.

New Brunswick is a different story. In 1997, that province imported only 18 Mmbf of Maine softwood logs (mainly Pine), but it exported to Maine 73 Mmbf of softwood (mainly Spruce/Fir) logs. Maine hardwood sawlog exports to New Brunswick were 16 Mmbf and the province exported 30 Mmbf (88% Aspen) of hardwood sawlogs to the State. They also exported a huge amount of pulpwood, biomass and chips to Maine.

Listed below is some about what is known and what is suspected about the advantage Canadian mills may have. They include:

- Exchange rate. This may be their greatest advantage. The Canadian mills' value-added costs are in effect discounted by the exchange rate, when they purchase US sawlogs and return their finished products to the US.
- Lower average cost of softwood timber. Most Canadian border softwood mills get part of their needs from Crown lands at lower than market prices and use Maine timber to fill the remainder of their production capacity.
- Lower utility costs.
- Efficient back haul system. Since so much Canadian lumber is trucked to the US, the back hauling of sawlogs from bordering states in what could be an empty truck, is an efficient method of delivering raw materials to their mills. There are numerous reports of trucking cost rebates for Canadian truckers.
- Socialized health care. Most Canadian mills pay for extra health and workers compensation insurance for their employees, but the Canadian government covers most of the basic expenses.
- Employee training. Canadian mills are reported as having to set aside an amount equal to 1% of their labor costs for employee training. This most likely helps improve efficiencies and outputs.
- Better sources of technical information. The Canadian government has funded organizations such as "Forintek" to provide technical assistance to its mills.
- Government aid. There are persistent reports Canadian mills get more government aid for such things as equipment purchase, employee training and interest free loans for expansions. This may have been more prevalent in the past.
- Mill locations. Canadians built mills at strategic times in strategic locations just across the border.

The situation in bordering states that make it easier for Canadian mills to purchase Maine sawlogs include:

- Land-use regulations. Ever increasing regulations make it more difficult for landowners to make a reasonable return on their investments. This puts added pressure on them to go for the highest price. Land use regulations also decrease the amount of wood the land can grow.
- The recent proliferation of sawlog concentration yards both in Maine [43] and in the bordering states. This "one stop shopping" makes it easier for Canadians to buy Maine raw materials.
- Selling method change by many large landowners. Traditionally logging contractors have purchased stumpage from landowners and sold the timber to local mills. Today most large landowners sell their own timber, usually to the highest bidder and that frequently is the Canadian mill.
- Maine mills are finding it increasingly difficult to sell their by-products. This was precipitated by

the buyout of power plant contracts by electric utilities.

- Canadians can buy federal (east of 100<sup>th</sup> Meridian) and state timber in the US, while US firms can't even bid on Canadian government timber.

On the other hand, Canadian mills aren't so sure they have an advantage. They cite:

- Higher taxes for companies and citizens. This may be more so for the lower paid and closer to being equal for the higher paid.
- More government interference. Recently, primary processors are being told they need to produce more value-added products, if they want to continue receiving subsidized wood from government owned lands.
- Higher fuel costs. Canada's fuel taxes are higher.
- Higher trucking costs due to added distance in obtaining their raw material imports and delivering their products to market.
- Some Canadian mills insist they see little government aid. They sight a system for the government to partially guarantee loans, similar to our SBA guarantees and help with research expenses.
- Hardwood mills along the US border don't usually benefit from cheap Canadian government timber. Rather, most are highly dependent on US wood.
- Canadian culture. Their timber industry may be better established and their workforce is said to enjoy a higher societal status.

### **Log Export Ban?**

Some have suggested a log export ban to achieve the goal of increasing primary wood products manufacturing in the State. The market place is complex and has developed over a long period of time by shrewd businessmen going after opportunities they see. The selling price of timber and the volume produced is considered a perfect example of the basic "Supply and Demand" concept. A Maine log export ban, if allowed by Congress, would greatly upset many landowners, some mill owners and certainly our neighboring Canadian provinces. Some paper company landowners may be selling sawlogs to Canadian mills so they can get the biomass and chips.

Some Canadian border towns could become severely economically depressed, and a ban would temporarily depress Maine stumpage prices, and many landowners would delay harvests. With time, however, it is likely that some, if not all, of the lost Canadian demand would be satisfied with new or expanded Maine mills. As long as there is a demand for products and the raw materials are available, it is likely that demand would be met and Maine raw materials would be used. It is interesting to note that other occurrences, such as pest control or a dramatic change in exchange rates can have a similar effect to an export ban.

### **Conclusions**

Increasing primary wood products manufacturing at the expense of sawlog exports seems to be in Maine's best economic interest. After all, this is what the Canadian government seems to be doing. They do not allow their government-owned wood to come to the US, and they appear to encourage raw material imports.

It is unlikely Maine legislation can do anything to affect the exchange rate between the US and Canada. It is still unknown what utility deregulation will do for Maine mills. Few Maine businessmen would like to see us get the same socialized medical system Canada has. It is more difficult for US firms to develop an efficient back haul system since they count on local wood for their supply. Maine already has already done much to help businesses expand and doing even more would help. It is likely most Maine landowners and concentration yards would prefer to sell to Maine firms, if only Maine firms could match the usually higher prices Canadians offer. Some of the things Maine could do to help reduce exports are:

- Develop a financial incentive system (possibly a rebate) for Maine landowners to encourage them to supply Maine mills. This could be seen as an investment to obtain a greater return that would come with the expansion of Maine mills. It wouldn't keep all the wood in Maine, but it should reduce exports and help set the tone.
- Encourage Canada to open up their Crown lands timber to open bidding by Maine companies.
- Find a mechanism to encourage Maine companies who import mill by-products to accept the excess by-products Maine sawmills generate first.
- Expand on programs to train workers.
- Promote new technology in engineered wood products.
- Promote wood as an environmentally preferable raw material.

## **B. Energy Costs**

Energy expenditures are an important part of total manufacturing cost. Ample and secure supplies of energy are important to maintaining a production schedule. Stable, predictable energy prices are needed to control costs and hence assure competitiveness. The ability to mix energy sources and fuel switch are of key strategic value. And on-site utilization of waste products for energy is essential to maintain production and operational success.

Energy, in the form of electricity, diesel, and other fuels, is used to operate production and handling equipment; to heat, condition and light the work space; to operate dry kilns; and to power ancillary equipment. Additional energy inputs may be required to self-generate electricity on-site. The total amount of energy consumed in Maine's primary and secondary wood products industry is unknown, but the energy demand between mills will vary widely depending on the type and size of the plant. Larger commodity oriented production plants like saw mills producing spruce and fir studs or pine lumber, turneries, and furniture stock plants will have a substantial energy requirement. In contrast, many smaller secondary and value-added producers will have much smaller energy demands.

Maine wood products mills use electrical energy to power motors that turn saws and handling equipment, to light work spaces, and to run other equipment. Oil is typically used to heat water and work spaces, and produce the steam needed to run dry kilns. In many cases, waste wood is used to provide heat, heat water, and produce steam and in a few cases wood is used to generate electricity for on-site use and sale to the local utility. Electricity is usually the largest energy input to the manufacturing process.

Task Force members provided some examples of the magnitude of energy cost as a percentage of sales. In the case of softwood spruce and fir lumber manufacturing, one large producer in northern

Maine reports that electric power cost make up 3.7% of their production cost. In another case, the utility cost are 3.9% of production costs. In contrast, similar cost for a Canadian competitor are 4% of total cost, and for a southern US producer utility cost if 2.2%. While these cost seem to be a relatively small percentage of the total, they are large enough to make a considerable difference on the bottom line success of the operation.

In the case of one hardwood products manufacturer in western Maine the cost of utility power comprises 3.6% of costs, varying from a low of 3% to a high of 4.8%. Again, a variable production cost that influences the bottom line competitiveness of the company.

## **Issues:**

Wood wastes and energy comments offered during the public testimony periods pointed out the importance of maintaining and enhancing the existing biomass power companies as a cost effective opportunity to sell or use their wood waste stream for energy. See Randy Caron piece.

Stable, competitive utility rates are vitally important to small and medium sized wood products firms do not qualify for special industrial rates and can not self generate. These plants may be especially vulnerable to electricity rate increases when they have not alternative than to pass on what cost they can and absorb the rest. Some additional public policy consideration may be warranted to study the plight of these firms, especially in the face of on coming electric deregulation.

Great uncertainty exist about the effects of electric utility industry restructuring. Smaller, more remotely located firms may face price volatility and increases as the competitive price of electricity finds a new equilibrium in a fully competitive environment. Some companies will be forced to consider self-generation as an alternative, or seek other forms of motive power to run the mill.

As the Task Force considered existing and potential tax incentives in the energy area a number of possible ways to support and encourage the use of the wood waste and by products produced by wood products manufacturing were considered. The Task Force concluded that biomass energy utilization, both in the form of the existing industry and with the potential to self-generate is an important component in the future success of this industry.

### **C. The Importance Of Stable Governmental Policies**

Stable and consistent governmental policies are vital to Maine's economic growth and prosperity.

A business considering whether or not to make a major investment in Maine must engage in long range planning to determine whether the investment will have an acceptable rate of return. Effective long range planning is impossible when the State's policies are inconsistent from year to year. A business that cannot effectively plan, because of a constantly changing regulatory or tax environment, will not want to invest substantial amounts in Maine.

Furthermore, a company that decides to make a major investment in Maine does so in reliance on the economic incentives, tax structure and regulatory policies that are in place at that time. For a state to induce a company to invest substantial amounts by offering various tax incentives and then, after that investment has been made, to scale back, under-fund or even eliminate those very same incentives, is a "bait and switch" and is unfair. If companies perceive that they cannot rely on the State's promises, they will invest their money elsewhere.

In addition, from the State's perspective, the various tax incentives and economic development programs were enacted in order to stimulate economic growth. If companies cannot

rely on the continuance of these programs, they will not make investment decisions based on those programs. When that happens, these programs fail to achieve their goals and the taxpayer dollars spent on them is wasted.

Unfortunately, Maine has gained a reputation for inconsistency in both the legislative and administrative spheres. A few examples are:

- The BETR program was enacted in 1995. BETR was then scaled back in each subsequent legislative session. In each legislative session, it has also been threatened with both underfunding and elimination.
- The Pulp & Paper Environmental Investment Fund was enacted and never funded.
- The Machinery and Equipment ITC and the Industrial Energy Sales Tax Exemption were both enacted and then repeatedly deferred prior to implementation.
- Retroactive changes in longstanding tax policies are routinely made during field audits by state auditors or by administrative hearing officers, with no prior notice to the taxpayer. The taxpayer must then engage in expensive and needless litigation just to get back to the status quo.
- Even announced changes to longstanding tax policies are sometimes made with no opportunity for public hearing or comment, no rulemaking process and no legislative involvement.

These are all examples of inconsistencies that lead to taxpayer distrust and ultimately harm the State's ability to attract new investment.

State policy has also been inconsistent in important non-tax areas. For example, the Department of Environmental Protection will soon propose Elementary Neutralization licensing and substantive management regulations. These regulations, which impose both licensing and substantive management requirements, are inconsistent with Maine law, with Federal requirements and with the requirements of other States. Again, this will make it more expensive for Maine manufacturers to compete.

## **Recommendations**

- Both the Legislature and administrative agencies should have long term consistency and stability as one of their guiding principles in carrying out their functions.
- Once a tax benefit or a beneficial regulatory policy has been enacted, it should be adhered to and funded for a significant amount of time to permit the program to achieve its anticipated purpose.

- State regulatory agencies should not alter established policies without public notice and an opportunity for public input.
- Regulatory agencies should not implement internally developed, unannounced policy changes through audits or other enforcement activities.

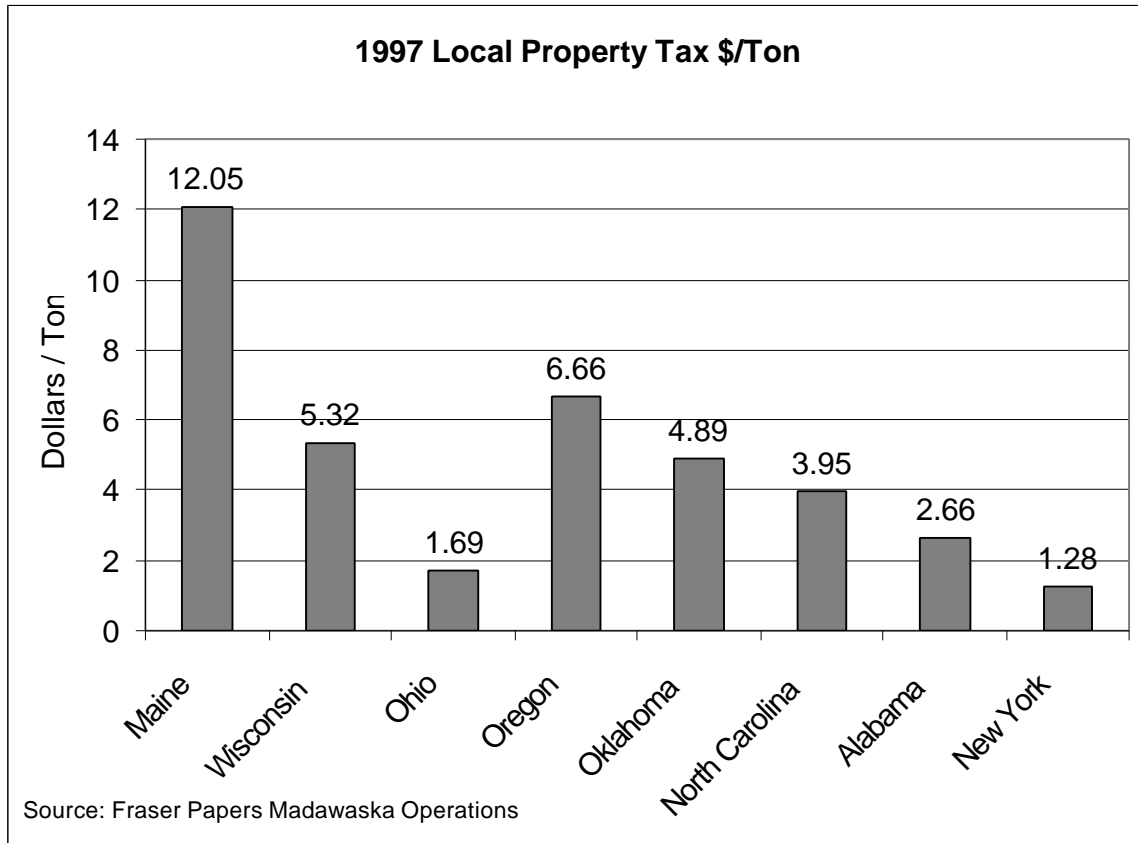
## **D. Taxation**

### **1. Property Tax**

Property taxes impede economic growth because they penalize companies for investing capital in badly needed modernizations or expansions. Failure to undertake capital investment eventually results in economic stagnation. Capital investment should be encouraged, not discouraged.

Property taxes, of course, must be paid regardless of whether the Company is making a profit. A major capital investment often does not yield a profit for several years. Property taxes during the loss years can be a severe drain on cash flow and can negatively influence capital investment decisions.

To make matters worse, Maine's local property tax burden is very high. In 1997, the average property tax burden on Maine paper mills (net of BETR payments) was more than *triple* the average of mills in 12 competing states (Chart below). While the BETR program has been a significant policy initiative, it has not been in place long enough to significantly reduce Maine's overall property tax burden relative to other states.



Because BETR does nothing to reduce property taxes on equipment placed in service before April, 1995, BETR will not accomplish its desired goal unless it continues in place on a fully funded basis for an extended period of time during which companies replace property that does not qualify for BETR with property that does qualify.

If Maine is to successfully compete with other States, ways must be found to reduce the property tax burden.

### **Recommendations**

Because of the severe competitive disadvantage that Maine manufacturing companies currently face due to high property taxes, it is critical that:

- The BETR program be maintained and fully funded.
- All existing property tax exemptions that benefit business be maintained.
- State-wide valuation procedures are adopted to ensure that business properties are not unfairly valued.

- Reliance on the property tax be reduced, but not shifted to other Maine taxes which are also quite high. This can only be accomplished through limiting the growth of, or reducing, overall state and local spending. Methods should be developed to ensure that the local property tax burden drops in accordance with reductions in state and local spending.

## **2. Other Tax Issues**

The task force reviewed competitive data on State Corporate Tax, Personal Income Tax, Personal Property Tax, Unemployment Insurance Taxes, Workers Compensation Taxes etc. In all cases, the State of Maine was in the top 10% of highest taxed citizens and businesses. This is a serious impediment to further expansion at the Maine facility versus other locations.

The 1995 Development Report Card for the states that was presented to the task force by Dr. Dennis McConnell of the Maine Business School, University of Maine, ranked the State Of Maine 49th out of 50 states in new business job growth. A direct correlation can probably be drawn between the tax levels in Maine and this lack of new development.

## **E. Transportation Issues**

Transportation limitations impede growth of the Maine wood products industry. Our wood in the northern territory goes to Canada not only because many Canadian mills are closer but also because overweight trucks are permitted to travel on an extensive network of non-public roads through the northern woods directly to Canada. These roads accommodate trucks whose size and weight are not permitted on public highways. The trucks on these roads carry the wood north directly to Canadian mills without ever entering upon public systems.

Our state highways limit trucks to 100,000 pounds. But on federally funded highways the limit is only 80,000 pounds. Even though federal highways are much more capable of bearing the load, heavy truck traffic in many sections of Maine is regulated to state highways, local roads, and municipal streets.

Eastport has potential to be a prime thoroughfare for trade. However domestic markets are reached through Route 9 and 1 which continue to need much upgrading and improvement. Route 11 in northern Maine also needs reworking.

Rail connections in eastern Maine are bizarre. Georgia Pacific must access five railways and six border crossings to go from Woodland to Plattsburg. Several manufacturers complained about the difficulty and cost of transferring product from one rail system to another.

## **F. Risk Aversion by Small Businesses.**

This issue may be approached from two different perspectives. The first is a descriptive piece outlining what many small businesses ought to avoid or consider as they contemplate expanding their enterprises. This section is not intended to be an exhaustive litany of reasons for small business

failure, but is intended to represent those issues that have been experienced most commonly in Maine. The second segment deals with more general policy issues the public sector should emphasize in the development/expansion of new and existing small business assistance programs and services for the Maine business community.

Small businesses face all kinds of potential adversity. Some kinds are unpredictable, others much more so. The saddest failures are the predictable ones, the ones that could and should have been avoided.

The following recommendations are the product of working with a number of small businesses in many sectors, and entrepreneurial pursuits.

## **1. Small Business Issues**

### **Develop and Maintain a Realistic Business Plan**

Proper planning is essential for the success of any business venture. The business plan should serve two functions; to lay out a path to eventual business success; and, should be periodically reviewed and updated to accurately represent current needs, goals, etc.

### **Insufficient start-up capital**

Assuming a small business has prepared a cash flow projection before their startup, history shows that 90% of the time, first year sales and gross margin do not reach expectations. Both affect cash needs negatively. Individuals should not start a company if they cannot assuredly come up with more capital than they think they will need.

### **Inadequate Pricing**

In Bill Stolze's book entitled Start-Up<sup>1</sup>, he notes "there is no start-up strategy more likely to fail than one predicated on being the lowest price competitor. The message: Price to market. Gross margins are a small business's best friend.

### **Failure to Look at the Downside**

Looking at the downside possibilities in advance, monitoring actual performance against budget and developing fallback plans is just about the only effective medicine for failed assumptions in the initial business plan.

### **Failure to Look at Industry Norms**

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<sup>1</sup> Stolze, William J. 1996. Start up: An Entrepreneur's Guide to Launching and Managing a New Business, 4<sup>th</sup> Edition. Career Press, 288 pages

Many failed small businesses claim "under-capitalization" as the culprit. More often the truth is that performance did not match the capital available. Over-optimism in a different form is the villain.

Counting on industry-unrealistic performance has drained many small businesses of much needed and appropriately dedicated capital.

### **Lack of focus**

A small business's most precious resource is its talent. Doing one thing well from scratch is an enormous challenge. Tackling three or four at once is inviting across-the-board mediocrity or worse.

Carefully sorting through ones opportunities before one starts is critical. Focus on the marketplace and the competitive environment. Then pursue the daylights out of the best of them.

### **Avoid "Overindulgence"**

Both private and public finance professionals are not seduced by fancy space with lots of glass and chrome, all new furniture and equipment, and a management team drawing salaries at least equal to their old ones. That is regarded as a prescription destined for failure. This is analogous to throwing a graduation party for oneself in the first semester of one's freshman year.

Most of the best entrepreneurs we have seen have been able to spend a nickel in six places. They not only know that cash is, they also realize that lack of cash is death. They part with it only when it makes a true difference, only when it stands to directly affect their objectives.

### **Inadequate Market Research**

Many books have been written on this phenomenon alone. Suffice it to say that a failure to do adequate market research, including getting out into the marketplace and talking to many prime customer targets before committing to a product development, is asking for trouble.

### **Failure to Identify and Segment Market**

A recent report stated that the U.S. tent market is \$100 million annually. Traditional thinking would suggest that if one plans to sell high-end backpacking tents and expects to be shipping \$5 million worth of them in five years, all one has to get is 5% of the tent market.

On closer inspection, shrewd small business persons will discover that circus, funeral and special event tents make up 30% of the tent market; moreover, the military represents 20% and backyard family tents 20%. Finally, the two largest backpacking retailers, representing 20% of the market, own captive suppliers. That leaves 10% of the \$100 million. The truth is that the original \$5 million sales objective represents 50% of the actual, segmented market...

## **No Reason for Customer to Change**

The best entrepreneurial efforts have flowed from the development of a competitive evaluation; a comparison by vendor (competitor) of all the major factors which buyers consider when making a purchase decision. If, in reviewing such a matrix, one cannot reach the conclusion that any fully informed buyer would be crazy not to seriously consider purchasing your product, the buyer has no reason to switch vendors.

## **Payback Can't Be Calculated**

Many small businesses sell their products on the basis of cost savings. While acceptable, many make the mistake of not making sure that these savings are clearly calculable.

## **Failure to Admit a Mistake**

One of the most common death traps are the ones which might be titled "we have too much invested in this initiative to walk away from it now" - in other words, the good money after bad judgment. For all kinds of reasons (fear, ego, etc.), these judgments are tough to make objectively.

The greatest difficulty is for a small business to ask itself one question: Would one invest the needed funds in this project today if it was presented to us as a fresh opportunity?

## **Manage Company Growth**

Perhaps the greatest feeling of success is measured by increased sales growth. Unfortunately, many small businesses fail to add the remainder of the equation. It is critical for companies to develop a cash flow analysis at least annually to determine if there are adequate working capital reserves.

## **Maintain a System for Evaluating the Competition**

Holding on to traditional ways, continuing to rely on original assumptions in the face of increasing competition has taken many healthy companies down in a short period of time.

## **Control Increasing Production Costs**

Many small businesses will eventually expand from garage-quality space to an industrial park. Such moves often require more staff, a new computer system, and additional production equipment, COGS will invariably increase. Because many small businesses are more sensitive to market fluctuations and economic downturns they should develop fallback plans well before they need to implement them.

## **2. Public Policy Recommendations**

While the purpose of this segment may have been to highlight recommendations specifically tailored to the needs of small businesses involved in the wood products industry, it is also intended to serve a greater audience as well.

### **Avoid Sudden Policy Changes**

Small businesses are often reluctant to make a significant investment for fear that policies may suddenly be altered with little or no opportunity for input. Sorting through the myriad of programs and policies is enough of a challenge. State policy leaders should be very cautious about encouraging changes before thoroughly evaluating their impact on the small business community.

### **Employee Training**

Maine has achieved a level of employee training services that is the envy of many New England States. This has been accomplished in a remarkably short period of time. While this is certainly to be applauded, small businesses are often confused about the many various programs that exist and that are perceived to be sponsored by too many State agencies. One major step would be to encourage the amalgamation of two very popular State programs. The Governor's Training Initiative and the Quality Centers Programs could better serve the small business community by combining its services, delivery system, and its administration.

On a related matter is the recommendation that Maine create a Business Management Training Program specifically designed for small business people. More often than not, simple mistakes or lack of management knowledge could avoid many small business catastrophes. The SBDC, with direct assistance provided by the University of Maine System for example should be provided with the resources to accomplish this important element.

### **Periodic Evaluation of State Business Assistance Programs**

Small businesses must adapt quickly and effectively to many changes in the marketplace in order to ensure success. To that same end, Maine ought to improve that manner used to evaluate program effectiveness and to better adapt itself to the changing needs of small business.

### **Continued Marketing of State Programs Available to Small Business**

This issue has probably been the most often heard criticism of State business initiatives and assistance programs. It should be noted however that within the past 5 years, the organizational efforts and achievements of the Maine Department of Economic and Community Development have been remarkable. For example, Maine now has a state-wide protocol for the collection and dissemination of business information that is both responsive and efficient. In addition DECD has developed a tailor-made business development/expansion proposal that is aimed at bringing all appropriate services, programs and incentives to the table. These are regarded as positive steps and must be even further

refined to better address the needs of specific business sectors such as primary and secondary wood products manufacturing.

### **Further Improve the Time Required to Provide Small Business Financing**

Another often if not occasionally over-used criticism is the time many small businesses must wait in order to obtain financing. While often extremely difficult to achieve, public policy makers and State officials alike who must rely on Federal funding to support business loan programs should strive to reduce the time required to financing to further support business expansion. Simultaneously, Maine should encourage the development of small business assistance services currently provided by such organizations as the SBDC.

Maine should endeavor to empower small business people with the skills and knowledge required in today's business world.

Related is the need for Maine to continue to seek opportunities to provide additional subordinate financing for small business. Too often, small businesses are reluctant to provide their homes as collateral for financing. Other, more acceptable methods for collateralization ought to be sought if at all possible particularly by public sector financial organizations.

### **Conclusion**

The success of any business should first be measured by its ability to adapt, to avoid common mistakes, and to follow its own strengths. The role of public policy makers should be to continually sound the client, namely the small business person to determine what in the way of direct services or programs would best serve their clients' needs.

### **G. Sawmill Residues**

Sawmill facilities generate wood residue during the production of lumber. These residues consist of green chips, bark, sawdust, dry chips, shavings, and yard clean up. The disposal of these residues can impede the growth of the industry and impair its ability to compete in the market place. Following are some of the problems and possible solutions for each of these byproducts.

**Green Chips** are produced from what remains of the debarked log after usable lumber is removed. The chips have to meet the specifications of the paper mill that uses them in the production of paper and are usually easy to sell.

**Bark** makes up approximately 12% by volume of the log or 600# per cord and is mechanically removed prior to processing the log in the sawmill. The disposal of this residue has been a problem since the elimination of the teepee burners.

#### **Problems:**

- Economically favorable disposal method that meets environmental standards.
- Dependable purchaser who will agree to a long term contract that is economically beneficial to

both parties.

- Transportation and tipping costs when the generator has no alternatives for disposal.
- The introduction of “cheap” natural gas will further reduce the economics of using bark as a fuel for power generators.
- Land Fill is cost prohibitive.

#### **Solutions:**

- Incentives to utilize all or a portion of the bark onsite for process steam and/or electrical power.
- Incentives for outside power producers to utilize the bark for power production. This could be promoted by requiring the utilities to furnish a percent of their power production from “green” or biomass fuel with a certain percent of that being sawmill residue from within the state.
- Incentives, such as tax breaks or low interest loans, to construct facilities to produce value added products, i.e.; fuel pellets, landscaping mulch, etc.

**Sawdust** amounts to approximately 12%-16% of the log and is produced during the sawing operation. This product is usually marketed to a paper mill and presents minimum disposal problems. It is currently treated as a waste for tax purposes and this must be allowed to continue if the product is to remain economically viable to the end user. If the paper market for this product dried up it would present the same problems as bark.

**Dry Chips and Shavings** are generated at the planer mill and are either sold for fuel which present the same problem as bark, for paper making, or used by farmers for bedding.

**Yard Clean Up** is generated from wood debris from the mill and log yard. This material is contaminated with soil and isn't easily or economically usable as fuel or wood fiber. Landfill costs are approximately \$50 per ton when the initial engineering and permitting cost for the landfill are accounted for. Permitting is usually a long and drawn out process. The costs of landfills are long term due to the potential liability they present to the owner. They require items such as monitoring wells around their perimeter which must be inspected regularly. The appearance of the landfill must also be maintained to specifications.

A dependable, long term, economically feasible market could initiate separating the contaminants from the wood fiber, allowing it to be used as fuel.

## **H. Applications for State Permits**

Although improvements have been made in the process of applying for state permits for new construction [environmental permits] the process is still very time consuming and cumbersome. Several business people testified to the task force during the public forum section that they had recently gone through the process and it need not be as restrictive and time consuming as it is. Two problems were identified. Timeliness and control.

**Timeliness.** It was pointed out that the severe nature of our winter weather made it critical that a speedy review process be in place or a year could be lost over the seasonality of construction.

**Control.** Too many different offices and desks were involved with approving a permit. No one office or individual had responsibility to see that the documentation moved through. This could be easily remedied by appointing both a time frame and an officer to handle each case-load in a timely manner.

## **VI. Legislation introduced to assist primary and secondary processors.**

As a product of the Task Force's work four items of legislation were developed and have been introduced.

1. **LD 1882-** An Act to include in the BETR Program those Energy Facilities that Burn Production Residuals from Maine's Primary and Secondary Wood Products Industries.

Forest product manufacturers generate large volumes of sawdust, bark, chips and shavings which must be disposed of daily. Because this waste is clean and burnable, a great deal of it is sold to energy generating facilities and burned to produce electricity. If these opportunities were not available, then these wood wastes would have to go to landfills which are very costly to maintain.

By selling to energy facilities, the manufacturers produce a stream of revenue out of what would otherwise be a substantial cost. Several manufacturers told us that their survival depends on being able to sell the waste. With the advent of electrical restructuring and the coming of new natural gas lines, there is much concern about whether waste burning energy facilities will continue to operate.

As a general rule, property taxes on newly purchased business equipment are reimbursed by the state to the owner for up to 12 years after the property is first placed in service. This law is called the Business Equipment Tax Reimbursement program. Utility companies that generate electricity are not included in the program.

This bill would include within the BETR program an energy production facility if 80% of its energy output is generated from production residuals that are a by-product from Maine's primary and secondary wood products industries. Production residuals would not include bio-mass materials that are taken directly from the land.

2. **LD 1606-** An Act to Add Manufacturing Real Estate to the BETR Program

The state's present program for property tax reimbursement applies only to personal property, that is, machinery and equipment, and not to real estate. This bill would extend the program to real property that is used for manufacturing.

3. **LD 1884-** A Act to Create a Matching Grant Fund to Provide Technical Assistance to Small Wood Product Manufacturers

Small wood products businesses often do not have the technical, managerial or marketing expertise to compete effectively. They often tend to be risk averse. This proposed matching grant program

would assist these small businesses by linking them with the technical, managerial and marketing expertise found among employees of the University of Maine System. The purpose of the program is to reduce the risk of developing new products, marketing or major process improvements.

Under the bill, small wood products businesses would be eligible for up to \$10,000 in funding from the state for projects that will increase competitiveness, technical innovation, marketing penetration, product development, or business plan enchantment. The applicant must provide matching funds.

The program is open to wood product businesses with fewer than 150 full time employees. Applicants may apply for one grant during a five year period. Salaries are limited to 30 percent of the grant request. Routine testing services, marketing and management activities are excluded from funding.

4. **LD 800- An Act to Create a Tax Credit for Licensing Fees Paid for Use of University Patents on Wood Fiber Reinforced Products**

This bill would establish a Maine income tax credit for 100% of the amount paid by the taxpayer as licensing fees paid to the University of Maine System for use of patents on wood fiber reinforced products. The credit may be carried forward for up to 5 years.

## **VII. Conclusions**

A number of issues have been identified that reduce or impede the competitiveness of the State's primary and secondary processors of wood products. Interviews with constituents, the testimony of experts and discussions with practitioners were synthesized into nine areas of concern that either are affecting or will affect the viability of the State's largest industry. They are as follows:

1. The stability of Government policy
2. The export of logs
3. The disposal of sawmill residues
4. The cost of energy
5. The availability of raw materials.
6. Taxes.
7. The lack of cohesive Government Policy
8. The failure to recognize the diversity of the industry.
9. The lack of support to strengthen competitive position.

Each of these issues has been addressed in detail in the preceding sections and multiple topics have been addressed in several sections. Several of the most important areas of concern are either directly or indirectly within the control of the State's legislature. Specifically, property taxes, stability with respect to incentives and legislation, the State's permitting process and the reduction of risk aversion for small businesses. Other areas of concern require State and Federal cooperation. Specifically, the export of raw materials, residue problems and energy costs.

