

Discussion Notes from the Wood Industries Network (WIN) and USDA Rural Development Meeting

May 9, 2011

Milan, NM

→ See Forest Guild/RD Powerpoint presentations for information provided in the slideshows

→ See the Sign-in sheets to see who attended the meeting

Both can be accessed at www.forestguild.org/CibolaCLFRP.html

Points from Elizabeth's presentation not in the Powerpoint:

- 1) Start applications and get ideas to RD early
- 2) Make careful note of deadlines; RD has no set application cycle so due dates for particular programs may change from year to year

Barriers/limits to successful forest-based business

- 1) Federal tax definitions – e.g. exclusion of woody biomass removed from federal lands from tax credits
 - a. Solution: engage with USDA before next Farm Bill; build strategic package; businesses should engage with congressional representatives
 - b. Solution: engage with national groups who are promoting restrictive definition of woody biomass to move dialogue forward similar to how NM Forest Restoration Principles effort engaged industry and environmentalists
- 2) Public land being made unusable for industry (e.g. through wilderness designation)
 - a. This may not be a big problem in the Zuni's due to their low wilderness eligibility; is more of a regional-scale issue
- 3) Need infrastructure (roads) to access and remove woody biomass
 - a. It used to be the responsibility of timber sale purchasers to maintain roads, but with the decrease in timber sales this form of maintenance has been reduced
 - b. The real issue is how to get infrastructure investment—it is a cost that could serve as a barrier for purchasers to material removal; this would reduce the overall value of the product
 - c. Need to know how to leverage infrastructure funding—e.g. BCAP, tax credits—to help offset these costs
 - d. Also need to consider the value of a truckload of product—e.g. \$70-80K (molding) vs. \$3K (biomass)

The market side

- 1) The end user is key to this industry—for example, Europe is currently 30-35 years ahead of the U.S. in terms of pellet-based energy production, which could represent a valuable market to tap into
- 2) A local market could be established through retrofitting government buildings, schools, businesses, etc. with biomass heating and cooling systems
- 3) The REAP program can be used to fund feasibility studies
- 4) Under REAP, energy audits are typically followed by feasibility studies and then by production (primarily for businesses)

- 5) The wood products industry has been dropping off and other forests are “decades behind” the Cibola; projects on the Cibola should tap into lessons learned and existing momentum to be able to successfully fill the supply vacuum when the economy improves

Financial considerations

- 1) Although RD provides 100% loan guarantees, banks still need to look at the underlying projects independent of these guarantees and analyze the benefits and costs of supporting the projects. A guarantee, however, may allow banks to alter the terms of loans—e.g. by providing a better interest rate, a longer amortization period, etc. Banks will still consider supporting projects without a loan guarantee; projects are typically assessed independently of the guarantee anyway.
- 2) A viable project is a must in order to secure bank assistance
- 3) USDA loan guarantees can prove to be “difficult” for banks—for example, a greater than one year turnaround time was experience for a particular hotel project
- 4) RD programs can help businesses get loans for otherwise risky ventures
- 5) Banks need to look for good investments (e.g. a sawmill in a supply-limited market) that represent good opportunities

Components of economic development strategies

- 1) Supply – how to improve product availability in forests
 - a. Barriers: NEPA/NHPA; existing treatments projects
 - b. Funding opportunities: CFRP, IDIQ, stewardship contracts, Collaborative Forest Landscape Restoration Project (CFLRP)
- 2) Market – refine; look at opportunities for value added products
- 3) Business plan for producers – generally good projects get funded
 - a. Do we have a reliable source of raw material? How can we improve the chances that we do?

CFLRP Discussion

- 1) Some environmental groups’ opinions of forest biomass removal have changed, and these groups have reached a degree of understanding with industry regarding the need for biomass removal
- 2) CFLRP funding would secure restoration treatments for 10 years and provide 10 years of wood supply to businesses.
 - a. How can we ensure that CFLRP funding comes through?
 - i. Talk to congressional staffers
 - ii. Need to make sure industry is available to process material removed from restoration projects
 - iii. Current status of Zuni CFLRP proposal: submitted to Washington Office; review will happen sometime later this summer
 - iv. Continued funding for CFLRP is the responsibility of legislators
 1. CFLRP is not yet fully funded; we need to try to secure full funding
- 3) Look for existing solutions in other agencies—e.g. NRCS, Soil and Water Conservation Districts, Bureau of Land Management, NM Forestry Division

- 4) The question of whether providing evidence of market studies/business planning to indicate existing local capacity to CFLRP funding deciders would be beneficial was asked. The response was that the application was already in, so additional information will not be needed unless it is asked for
- 5) FY 2011 CFLRP projects are being held for FY 2012; it is not yet known if additional applications will also be accepted for the FY 2012 funding cycle
- 6) Opportunities to strengthen forest-based businesses: be proactive, potentially create an umbrella plan, target places with no planning in place
- 7) Assistance is currently available, but lenders and agencies want to see strategies in place as well as a coordinated effort

Other opportunities

- 1) Community Development Block Grants (CDBGs) have been tapped in the area
 - a. An example of use of this funding source is its use in Roswell's aircraft sector—a \$75 million CDBG grant was received for the expansion of a hangar
 - b. CDBGs are available annually, but awareness of their availability appears to be low
 - c. Existing CDBG-funded projects probably need to be completed prior to application for additional CDBG funding
 - d. Include \$50K/year for planning
- 2) Wood pellet production from the byproducts of a higher-yielding product (vs. harvesting for just pellet production) is a creative business strategy; this allows for upfront value to be created in a sawmill

RD program notes

- 1) Need to recognize that RD programs are not short-term solutions; instead they are intended for medium- to long-term business development
- 2) RD has a range of programs to fund different aspects of projects – funding seekers should utilize the full networks

Other notes

- 1) Need to develop a regional strategy for WIN
- 2) NM and the West have lost wood products industry; a challenge is finding trained people or the resources to train in-house
 - a. A rising need is finding the necessary labor force and where to go/what to do for employee training
- 3) Mount Taylor was not explicitly included in the Cibola CFLRP proposal because NEPA clearance on a watershed scale has not been completed; focus was placed on where NEPA compliance has been completed
 - a. NEPA requires project specificity
- 4) The Cibola CFLRP briefing paper will be posted to www.forestguild.org/CibolaCFLRP.html.