

# WSFPI: report recommends significant investment in mill

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The strategy group found that different interpretations of IRMP guidelines, a cumbersome timber sale planning process, competing interests, and lack of sufficient forestry data were all hampering WSPFI on the raw material side.

The report pointed out that these problems have a long history. Two prior studies, conducted in 1990 and 1995, have undertaken to solve them with very limited sustainable success.

"Even if the tribe had no mill, it would still want to manage its timber holdings in the most efficient way consistent with its environmental and cultural standards," said Tomjack in an interview after giving the team's report.

"There's quite a bit of room for management to improve and get more revenue from the tribe's timber."

According to Tomjack in giving the report, none of the agencies involved in reservation forestry were keen about the team's recommendation to create a new timber management enterprise with sole responsibility for the working forest.

"Nobody likes this proposal," he said. "But the tribe needs to have one entity in charge, one entity that answers to the tribe for executing its policy. Then if that enterprise does a bad job, you know who's responsible and you can hold them accountable."

## Mill Operations

The strategy team had shared its forest management findings with Council in an interim report in late November. Consequently, the bulk of its final report dealt with the mill.

Over the past 20 years, WSPFI has fallen through the ranks, from being one of the



Flood Johnson, journeyman millwright, is among the 120 people who work at the mill. (Also pictured are Dave Reynolds, Gerald Sampson and Emerson Culpus.)

most technologically efficient mills in the Northwest to one of the least efficient, according to the report.

In six of the past seven years WSPFI has lost money, averaging \$2 million in each of the two previous years, and another \$2 million through October 2007.

These losses are in addition to approximately \$2 million per year of tribal support through reduced log prices.

The poor market conditions that have prevailed since the end of 2006 have worsened throughout 2007 and have outpaced operational improvements.

More fundamentally, however, failure over the years to reinvest capital into new equipment for the mill is coming back to haunt the tribe.

WSFPI's machinery was not designed to efficiently process today's small-diameter logs. And the number of small-diameter logs keeps increasing.

"The small logs have been killing the mill," said Tomjack. "Even a one-inch shift down in diameter size costs about a million dollars a year, and they're getting more and more small logs. Without the machinery to process those logs efficiently, WSPFI will not be able to com-

plete.

Last spring CEO Mark Jackson formed a WSPFI Technology Team and engaged LD Jellison, Inc., an engineering consulting firm, to assist the mill with new technologies, equipment configurations, and suggested improvements.

Working closely with Jellison, the team came forward with a proposal for a new small log line anchored around a Comact DDM-12 single-pass saw.

"The new mill would almost double our productivity," said Jackson. "We would go from processing less than 5 small logs per minute on the existing small log mill to over 15. A second shift at the planer would be needed to handle the increased output. We'd have challenges related to purchasing more non-reservation logs, longer hauls, and the sale and marketing of larger lumber volume. But in our area, most mills don't have large forest holdings and they purchase logs for their entire shifts."

The new log line is estimated to cost \$15 million to purchase and install, with another \$5 million needed to cover related costs such as financing, log yard improvements, additional rolling stock, and so on.

"The new mill looks good on paper," said Tomjack in his report. "The financial projections show that it would be profitable under most circumstances." But the team was not prepared to recommend the new mill just yet.

"There are a number of important business considerations that the tribe needs to address before deciding to go ahead with an investment of this size," said Tomjack. "You'd be changing the business model of your mill, moving away from specialty products and committing yourself to competing more in the commodity market. That requires aggressive management and very tight operating standards. You'd need a lot more logs to wood this mill and you'd have to go get them off-reservation. It's all doable, but it's not easy."

Other business considerations that Tomjack said should factor into the investment decision had to do with managing the more complicated logistics of higher log and lumber volumes, stepping up sales and marketing efforts, negotiating a new working capital arrangement with the bank, intensifying management of all aspects

of the mill, and getting financing.

He also pointed out that the tribe could not then sit back and let this new mill go for 20 years without further investment.

"Additional investment in the near future will be required to maintain the competitive edge you get from the DDM," he said. "That's the ballgame you'll be playing in."

The strategy team recommended that the tribe proceed with care in making this investment.

The report advised that if the tribe considers the investment seriously, it should be prepared to supply WSPFI with 50 MMBF of logs in 2008-09 of a diameter size that maximizes the operating results of the existing mill.

"That's the only way the mill has a shot at breaking even," Tomjack explained. WSPFI would also have to bring back a plan that provides for cash flow breakeven during 2008-09, and prepare a thorough capital request and financing plan.

At the conclusion of Tomjack's report, Council members asked several questions and made comments that showed they were ready to give thoughtful consideration to the issues surrounding the mill. A workshop session was planned for late January to go over the strategy report in more detail.

In the meantime, Council asked Jackson to begin work on the bridge plan to stabilize existing operations, consider other revenue generating opportunities, and assess near term business options or market conditions until a longer term strategy and plan is adopted.

"We have developed a business strategy that matches the mill to our forest, and those around us," said Jackson. "It will lead us to become a profitable company. Yes, it is a change from how we have operated in the past, but it also provides far greater opportunity for success and profit for the mill and tribe. Through the entire year WSPFI employees and loggers have worked extremely hard, brought in new ideas that have improved our company. I continue to be impressed by them. These are very difficult times, requiring very thoughtful decisions. This Christmas season and throughout the year, I pray the Lord guide us along our way. Merry Christmas and God bless."

## Commercial Code

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Secured transactions on personal property might be thorny, but they're also a pivotal part of the overall code.

The absence of a personal property section has caused difficulties for tribal members who try to get consumer financing, open and operate small businesses on the reservation, access banking services, or find steady employment.

Among the benefits expected from the personal property secured transactions code are that it will:

Create more and better borrowing opportunities for tribal members for items such as cars, appliances, and small business inventory.

Provide an adequate remedy to creditors (such as banks, car dealerships, wholesalers) in case a tribal member borrower defaults on a loan, making lenders more comfortable and more likely to lend money to tribal members.

Enable banks and car dealerships to locate on the reservation.

Help tribal members and small business owners establish good credit and become better able to borrow additional funds from other sources for expansion or other projects.

Help eliminate usury (high interest rates compared to market rates off the reservation) when creditors lend money to tribal members.

### Cases at tribal court

Despite the potential upside to members, implementing a personal property secured transactions code has been controversial.

The tribe has hesitated to exercise the jurisdiction of its court over non-tribal members. Another issue has been that some members view the reservation as a safe haven when they default on personal debt.

The new code will allow off-reservation creditors to make, and possibly win their case in tribal court.

"Tribal members need to know that these secured transaction laws will be applied fairly and consistently," said Jeff Anspach, chief executive officer of Warm Springs Ventures and a member of the Advisory Committee.

"No matter how good this code is, if it's not administered fairly it won't work," he said. "Lenders will learn not to trust it and we'll be right back where we started, unable to borrow money at reasonable rates."

That said, the advisory committee took care to protect people on the reservation.

"We did our best to draft this code in the most beneficial way for tribal members," said Anspach. "For instance, our law will not allow creditors to just come on the reservation and repossess whatever they think they have a right to. Instead, they'll have to go to tribal court and get an order for the return of secured property."

In developing the commer-

cial code, the advisory committee looked to similar laws used by the United States and by other tribes, and in particular the Model Tribal Secured Transactions Act that was developed by the National Conference of Commissioners on Uniform State Laws.

The BIA contributed funding to review the Model Tribal Act for use at Warm Springs.

"The Model Tribal Act shortens and simplifies the federal law, making an easier-to-use version," said James. "But the one we ended up with was even shorter and easier to use than the Model Code. We adopted the approach that we can add provisions later if we need to. Let's start with something everyone can understand and get used to easily."

The advisory committee tested the new Warm Springs code by asking selected lenders to review it and determine whether they would be comfortable making loans based on it.

"That didn't work out the way we hoped," said Anspach. "Basically they told us, the proof is in the pudding. What matters is not what the law says, but whether it's applied fairly by the courts. I have confidence our courts will follow the rules, but only time will tell whether this code really works for the tribe."

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