

Project Overview

Western Juniper Industry Facilitator and Central Oregon Kiln-Dried Juniper Lumber Inventory Project

Organized By
Ad Hoc Western Juniper Commercialization Steering Committee

Submitted By
Klamath County Economic Development Association

1. Purpose of Project

The purpose of this project is two-fold:

- 1) Establish a reliable supply of consistent-quality, kiln-dried (KD) western juniper lumber; and
- 2) Support and strengthen existing juniper manufacturing flexible networks (flexnets), as well as businesses which target markets for lower-grade material and manufacturing falldown.

2. Need for Project

An informal survey of a sample of juniper manufacturers was recently conducted by Bill Breedlove, Industry Facilitator, at the request of the ad hoc Western Juniper Commercialization Steering Committee. Questions focused on what was holding back development of a value-added juniper industry and what could be done about it (see Appendix A, *Letters from Juniper Manufacturers and Local Economic Development Service Providers*).

Lack of KD Lumber Inventory - Major players in the nascent western juniper industry consider lack of *reliable and consistent-quality KD lumber inventory* a key factor holding back further development of the value-added industry segment. None of the businesses with the interest and experience to accumulate and sell juniper lumber have the capital and credit necessary to build and maintain sufficient inventory to meet current and projected demand (for example, an estimated \$250,000 Line of Credit appears necessary to develop an economically viable operation).

Quality control is also a critical issue. It is only recently that sufficient information has become available to institute meaningful quality control standards at each step in the manufacturing process, from log selection to dry kiln schedules. Basically, juniper lumber has to be treated and sold at price breaks similar to higher-value, higher-grade hardwoods instead of commodity, low-grade softwoods.

Lack of reliable and consistent-quality inventory affects both the ability of current manufacturers to increase sales and reduces the prospects of recruiting new manufacturers. Mike Connolly, Connolly Wood Products, estimates his company could have increased gross sales at least 50% given more reliable juniper lumber supply and quality. Mr. Breedlove reports that at least three manufacturers are known to have dropped plans to add juniper product lines due to uncertain supply and inconsistent quality. Total lost sales are estimated in excess of 600 MBF/year, equivalent to about 10 full-time equivalent (FTE) jobs (half of which would have been "family-wage").^[1]

The KD Lumber Inventory portion of this project also addresses a critical concern of some

manufacturers that *air-dried or poorly-kiln dried juniper is being sold to manufacturers and the public without notification of potential problems*. For example, air-dried lumber was recently sold in the Bend area to make furniture and architectural doors. Claims resulted because woodborers later emerged, and the wood split and cracked excessively. Situations such as this perpetuate the stereotype that juniper is impossible to work with, and hurt public and private investment and attempts to position juniper as a unique, higher-end raw material.

All lumber for the KD Inventory project will be carefully manufactured and graded, stamped with a unique trademark (emphasizing the *Brand Oregon* concept), and marked and packaged so as to clearly position the material as kiln-dried and higher-end.

Lack of Markets for Lower Grade Lumber and Manufacturing Falldown - Another need emphasized by manufacturers was help in developing *markets for lower grade lumber and manufacturing falldown*. Juniper is inherently full of what is commonly-perceived by manufacturers as defect (large knots, rot pockets, bark seams, and voids), which means that more material than normal is discarded during the manufacturing process.

For example, even when logs are carefully selected, primary processors report 20% to 30% less recovery off the saw than traditional species, such as pine and fir. Secondary manufacturers report similar results. Even if no stumpage is paid for juniper, more time and labor is required to extract and process the same amount of raw material, which results in higher costs. The only way to recover costs is to find markets for material which otherwise goes into the chipper or hog.

Industry Facilitator Activities - Mr. Breedlove's survey of manufacturers and local economic development service providers highlighted the fact that rural juniper manufacturers continue to face an up-hill battle. The basic needs expressed were:

- Help in *recognizing and accessing appropriate markets*;
- Help in recognizing opportunities to form *cooperative marketing and manufacturing relationships with other businesses*;
- *Information referrals and up-to-date knowledge* about what is happening in the industry;

Flexnets appear to satisfy some of the needs expressed. Mr. Breedlove has created over 15 flexnets, of which at least eight are still operating after more than one year. Flexnets help isolated rural manufacturers access markets which they otherwise could not service. Given the start-up and isolated nature of many of these businesses, it is unlikely they will expand without the outside assistance of the Industry Facilitator.^[2]

The strategic oversight and input of the ad hoc Western Juniper Commercialization Steering Committee has been critical to the success of the Industry Facilitator over the last three years. Steering Committee participants represent a cross-section of the juniper industry (from landowners to manufacturers) and various communities in Eastern Oregon. This is especially important since the project is multi-regional in scope. It is proposed this arrangement continue even though it requires additional funding for project management (estimated at \$4,300 per year).

The letters attached in Appendix A (*Letters from Juniper Manufacturers and Local Economic Development Service Providers*) represent a cross-section of the juniper industry and economic development interests. These letters strongly support continuation of the juniper industry facilitator activities similar to what was funded by three Eastern Oregon Regional Strategy Boards last year (South Central, Central, and North Central).

3. Financials

A three-year, \$250,000 low-interest (3%) Line of Credit is requested as well as a grant for \$92,073. The grant covers the portion of Western Juniper Facilitator costs which is not covered by revenue generated by inventory sales.

Total project value is about \$2.2 million. A cash match of more than \$2.1 million is provided by sales revenue generated by the KD Juniper Lumber Inventory portion of the project, and liquidation of remaining inventory at the end of Year 3. The cash match will cover about 80% of the cost of Industry Facilitator activities over a three-year period. One result of the project will be to make most of the Industry Facilitator activities self-sustaining by using the inventory business as a funding mechanism (see Appendix B, *Financial Summary - Western Juniper Industry Facilitator and Central Oregon KD Juniper Lumber Inventory Project*).

Klamath County Economic Development Association has committed to be the fiscal and reporting agent for this project. All cooperators on this proposal remain open to other arrangements to facilitate timely implementation of project activities.

4. Job Creation and Retention

The financial goal of the KD Juniper Lumber Inventory portion of this project is to generate sufficient sales (850 MBF) to establish a track record and create a viable business opportunity. Six "trackable" FTE manufacturing jobs will be created, of which four are family-wage. Six other FTE family-wage jobs will be retained. At least three "non-trackable" jobs will be created to handle the increase in need for handling and transportation services.

Past experience with Juniper Industry Facilitator activities indicate that job creation and retention numbers will probably be exceeded. Given current growth trends (over 250% increase in FTE jobs related to juniper manufacturing within the last two years), it is reasonable to project that total western juniper-related employment and business could increase up to 100% over the next two years, creating up to 40 new jobs. Many of these jobs will be an indirect result of Industry Facilitator industry promotion activities, and cannot be accurately tracked.

5. Project Location

The KD Juniper Lumber Inventory portion of this project is centered in Central Oregon. The warehouse facility itself is located in Prineville. Western Juniper Industry Facilitator activities will take place through-out most of Eastern Oregon, and west of the Cascades and into other states as needed. The primary Eastern Oregon counties affected are all classified as "distressed", with the exception of Deschutes and Klamath. However, all incorporated cities within Klamath County are considered distressed, as well as Redmond and Sisters in Deschutes County (per telecon. with Art Ayre, OEDD Economist, April, 1999).

6. Unique and Special Circumstances

Combining Economic Development and Watershed Restoration Goals - There is probably no other project in Oregon which has demonstrated such clear results and progress in combining watershed enhancement goals and economic development. Since Industry Facilitator activities began in 1996, over 35 FTE jobs have been created in at least 13 rural distressed communities in Eastern Oregon. Many of the jobs can be directly attributed to Industry Facilitator assistance or Mr. Breedlove's involvement in juniper industry promotion activities. In addition, over 1,000 acres of juniper woodlands have been restored.

Local Community and Regional Support - The Western Juniper Commercialization Project and Industry Facilitator are able to leverage private and public investment due to strong support from Eastern Oregon Regional Strategy Boards, local economic development organizations, Agriculture Industry (e.g. Cattleman's Association), Forest Products Industry (e.g. NW Wood Products Association), and various quasi-government conservation organizations (e.g. Soil and Water Conservation Districts, and Resource Conservation and Development Councils).

The Oregon State Legislature also supports juniper commercialization activities, as indicated by overwhelming bipartisan support of the Oregon Senate for a bill designed to clarify juniper harvest regulations and taxation issues.

7. Background Information Available

1. Business Plan - Central Oregon KD Juniper Lumber Inventory Project (25+ pp);
2. Background Briefing Paper - Western Juniper Industry Facilitator (5 pp);

8. Contacts for More Information

Larry Swan, U.S. Forest Service

Voice: 541/883-6708

Email: lswan/r6pnw_winema@fs.fed.us

FAX: 541/883-6709

Bill Breedlove, Juniper Industry Facilitator

Voice: 541/850-4317; Cell 541/891-4506

Email: junipfac@cdsnet.net

FAX: 541/884-7472

Terry Anthony, KCEDA

Voice: 541/882-9600

Email: kceda@cdsnet.com

FAX: 541/882-7648

APPENDIX A

**Letters from Juniper Manufacturers and
Local Economic Development Service Providers**

APPENDIX B

Financial Overview

Western Juniper Facilitator and Central Oregon KD Juniper Lumber Inventory Project

Financial Summary

Western Juniper Facilitator and Central Oregon KD Juniper Lumber Inventory Project

Activity	Pubic Funds Requested				Total Project Value
	Year 1	Year 2	Year 3	Total	
1. Personal Services	\$48,000	\$48,000	\$48,000	\$144,000	\$144,000
2. Travel	\$18,000	\$18,000	\$18,000	\$54,000	\$54,000
3. Communication	\$1,200	\$1,200	\$1,200	\$3,600	\$3,600
4. Miscel. Office Supplies & Services	\$1,200	\$1,200	\$1,200	\$3,600	\$3,600
5. Project Mgt. ^[3]	\$12,620	\$12,620	\$12,620	\$37,860	\$37,860
5. Admin. @ 9% of Items 1 to 4 ^[4]	\$6,156	\$6,156	\$6,156	\$18,468	\$18,468
Subtotal	\$87,176	\$87,176	\$87,176	\$261,528	\$261,528
6. Lumber Inventory Operational Expenses (not including personal services & travel, which are in Items 1 & 2)	\$537,395	\$663,604	\$734,716	\$1,935,715	\$1,935,715
7. Lumber Inventory Sales (Cash Match)	(\$499,550)	(\$698,400)	(\$907,220)	(\$2,105,170)	N/A
Subtotal	\$37,845	(\$34,796)	(\$172,504)	(\$169,455)	\$1,935,715
TOTAL	\$125,021	\$52,380	(\$85,328)	\$92,073	\$2,197,243

^[1]The need for KD juniper lumber inventory is not something new - what is new is private industry's recognition of its inability to finance and manage substantial inventory on its own. Bruce Laird, OEDD, first proposed financing and building a substantial (100 MBF) inventory of KD juniper lumber in 1992 for the very same reasons cited here.

^[2]The Industry Facilitator involvement with flexnets as one approach to help small rural businesses began in 1996, when there was still a state Flexnet Broker Program. At the time this strategy was adopted and grant approved by the state, it was envisioned that a regular flexnet broker would take over once the Industry Facilitator helped the companies through their first year,

^[3]Additional project management assistance is required to coordinate the oversight and input of the ad hoc Western Juniper Commercialization Steering Committee, and ensure a cross-section of industry and various communities in Eastern Oregon are represented (rather than just one or two). The additional project management assistance also includes scheduling and facilitating monthly conference calls, taking notes and sending them out to participants, tracking commitments to assist Industry Facilitator activities, maintaining a web site, and four face-to-face meetings (normally in Bend). There is also more reporting and tracking than normal because of the multi-year nature of the project and multiple participants.

^[4]Administrative costs are for accounting and administrative support to maintain compliance records and

submit reports required for the grant. Additional accounting will also be required for whatever kind of financing arrangement is eventually settled-on for the "Line of Credit" request because of the need for numerous disbursements and deposits.