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The Woodland Workbook

Business Management

Financing Forestry in the Pacific Northwest

M.D. Willhite and N.E. Elwood

Contents

It takes many different resources to grow trees. Soil, water, sunlight, and nutrients come to mind most quickly. On any site, timber production is limited by the availability of these resources. Some, like rainfall, soil depth, and climate, are beyond our practical control. Others, like soil fertility, timber species, and stocking levels, we can manipulate.

Money is also a resource needed to grow trees. It can be a limiting factor, but through the wise use of credit (borrowed funds), money is also one of the resources within our control.

When properly used, credit may ease some of the financial limitations and increase your tree farm's efficiency and profitability. Greater business and financial efficiency may be realized by using credit to solve cash flow problems, enable larger operations to realize economies of scale, or provide capital to begin a project.

Financing can be a tool. A good analogy is the lever (figure 1). Using borrowed money as leverage will enable you to do things easier—or just do them at all. For example, financing creates leverage by providing the additional money that allows you to manage a larger or more sophisticated operation than was previously possible with the same assets. Hence, you can multiply profits—and losses!

If financing is the lever, the lending institution (or other source of funds) is the fulcrum. The basics of financing remain constant, but because each source of credit blends the basics differently, you should examine all sources to get the best fit with your needs.

All lenders use guidelines and specific, written criteria to govern what kind of program they will offer. Through

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Oregon State University Extension Service

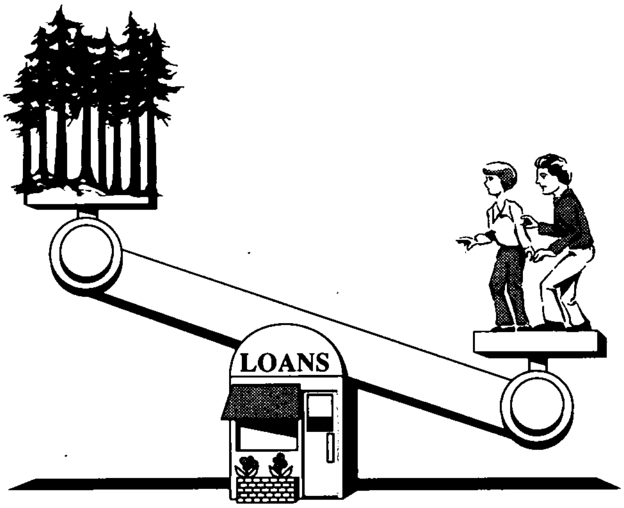

Figure 1.—The lever helps us understand forest financing.

researching and talking with various sources, you can pick the most appropriate program for you.

This publication will explain the basic principles of forest financing, give you some tips on how and where to get assistance when seeking financing, and give examples of financing sources available. Because financing often comes from a variety of sources and in forms other than the usual "loan," we discuss not only sources of loans, but also sources of government cost-share money, and the services and resources of bank trust departments and private financial services.

Basic principles

The loan process

When you seek a loan, there are certain things that both you, the applicant, and the prospective lender must do. The lender will expect you to clearly describe what you'll do with the money: What are your needs, and what is the purpose of the loan? You must, therefore, begin by identifying your plans and explaining how they demonstrate the need for a loan.

Even before meeting any lenders, you'll want to learn more about the potential lenders available. You'll want to learn something about their:

- style of operation,
- loan policies,
- experience in making "your type" of loan,
- overall reputation, and
- ability to meet your size of loan.

Use this information to identify those lenders who seem to be best suited to meet your needs.

You must prepare some general documentation that nearly every lender requires. This will include such things as a written proposal for the use of the borrowed money, a balance sheet, an income statement, and past tax returns.

After collecting or preparing this initial documentation, you're ready to meet the loan officer to present your proposal. If *both* you and the loan officer agree to proceed, you'll then be ready to complete and submit any specific documentation required by the lender. This will always include a loan application.

Next, the lender will review your proposal, all the material you have supplied, other personal information (credit rating, credit and/or character references, etc.), and will, most likely, visit your tree farm or woodland operation.

Finally, the lender will offer or deny the loan. If it's offered, you'll accept, negotiate, or reject the loan's terms.

Identifying these steps makes it sound more complex than it really is. Most of us have obtained loans before and know that there's no great mystery to it. Sometimes, the situation is very clear-cut and the process goes very quickly. Other times, the applicant's or the lender's situation is more involved, slowing the process while both parties carefully evaluate everything.

What lenders look for

When evaluating both you and your situation, all lenders will consider what are frequently called the five C's of credit:

- *Capital,* referring to your liquidity and solvency.
- *Capacity,* meaning your repayment ability and profitability.
- *Collateral,* what can you offer to secure or "back up" the loan.
- *Conditions* for granting and repaying the loan.
- *Character,* referring to your honesty, integrity, and management ability.

Lenders will have different approaches to obtaining the information they need, but nearly all lenders will ask for a current balance sheet outlining your assets (property, investments, cash, etc.) and liabilities or debts (figure 2).

My Woodland
Balance Sheet
January 1, 19XX

Assets			
Current			
Cash		$ 2,748	
Decked logs		2,345	
Accounts receivable		2,000	
Stocks and bonds		12,600	
Supplies		3,500	
Total current assets			$23,193
Long-term			
Equipment (at cost)	$ 7,000		
Less accumulated depreciation	− 1,015		
Equipment (net depreciated value)		5,985	
Buildings (at cost)	5,000		
Less accumulated depreciation	− 2,300		
Buildings (net depreciated value)		2,700	
Land (at cost) and timber		29,300	
Total long-term assets			37,985
Total assets			$61,178
Liabilities			
Current			
Accounts payable	$ 1,000		
Annual mortgage principal due	5,800		
Accrued expenses payable	800		
Total current liabilities		7,600	
Long-term			
Mortgage (less current portion)		25,000	
Total liabilities			$32,600
Owner's equity			28,578
Total liabilities and equity			$61,178

Figure 2.—Hypothetical balance sheet

Nearly all lenders will also want an income statement (figure 3), which is an analysis of both your personal and the proposed project's income-generating potential.

The detail required on these financial statements is dictated by your operation's size and complexity and by the lender's approach to loan analysis. Often, the loan officer can and will help you complete these statements. Be aware that you may need recent tax returns, and bank and investment statements or account numbers, to support your financial outline. Be sure to ask the loan officer specifically what documentation you'll need.

Selecting a lender

As hinted above, the loan process is a two-way street, involving mutual decisions of the applicant and the lender to work together. How do you choose a lender? Your evaluation of the lender can be very similar to the lender's evaluation of you. In fact, you can consider the same five C's of credit:

- *Capital.* Does the lender have sufficient capital/reserves to meet your current, and possibly future, needs?
- *Capacity.* Does the lender have the staff and experience to service the needs surrounding your type of loan?
- *Collateral.* What is the lender's policy regarding collateral? Is the amount of collateral reasonable relative to the loan size? Is all collateral released promptly on full repayment of the loan?
- *Conditions.* What terms does the lender require to make your loan?
- *Character.* What is the lender's overall reputation? Do you want to work with the lender and his/her staff?

These are some of the major questions you'll want to answer when you select a lender. Remember that despite all of the factual information you gather, much of the success in obtaining and then carrying a loan depends on the personal, working relationship developed between you and your lender. Mutual trust and confidence is essential.

The projection

When you seek financing, a critical step in planning is making a projection of your project's operational and financial prospects. Not only will the lender require a projection, but you can also use it in your forest management planning process. In the projection, the lender will evaluate such things as cash flow, relation of debt to equity, and proposed project profitability. Formulating the projection requires thinking through a project and listing realistic estimates of all anticipated costs and revenues from beginning to completion.

You must examine all pertinent factors affecting your operation. To accommodate risk, it's helpful to evaluate several projections, including the most likely, the worst, and the best-case scenarios. You can find help in making these types of projections in other publications that describe forestry financial analysis (EC 1146, EC 1147, and EC 1148).

Despite varying scope and complexity, all projections will include two key elements, anticipated income and expenses. For example, a simple projection for a year's logging might look something like this:

500 MBF logs harvested

Log revenue (500 MBF @ $275/MBF)		$137,500
Costs		
Logging (500 MBF @ $100/MBF)	$50,000	
Severance tax (500 MBF @ $175/MBF × 6.5%)	5,688	
Surveying	2,000	
Reforestation	12,000	
Miscellaneous	1,000	
		70,688
Net income		$ 66,812

Forestry projections often include several operations done over many years. The purpose of the projection is to forecast cash income and expense during the project, and net income at the end of the project. The projection serves as a planning tool for both the borrower and the lender. This projection, for example, could go on to show that $5,000 is needed "up front" to begin this logging job ($2,000 for surveying, $2,000 for road construction, and $1,000 for consulting services).

Once you obtain your financing and implement the operation, you should regularly compare actual results with the projection. Comparing what you thought would happen with what is actually happening will help expose problems early, will possibly prevent serious consequences, and will provide valuable information for subsequent planning.

Although prospective lenders are not likely to make the projection for you, they may have some helpful suggestions. Most loan officers have seen many plans implemented and can suggest areas where you might strengthen your project.

My Woodland
Income Statement
for period January 1, 19XX, to March 31, 19XX

Log sales		$16,979
Variable expenses		
Logging	$ 6,196	
Fuel	500	
Cruising	1,200	
Trucking	1,047	
Administrative	50	
Surveying	200	
Supplies	200	
Repairs and maintenance	30	
Total variable expenses	9,423	
Fixed expenses		
Property taxes	$ 1,000	
Insurance	500	
Depreciation	585	
Accounting and legal	100	
Utilities	300	
Other	35	
Total fixed expenses	$ 2,520	
Total operating expense		−11,943
Net operating income (before interest)		5,036
Interest expense		− 750
Net income (before tax)		4,286
Income taxes		− 1,371
Net income (after-tax cash basis)		$ 2,915

Figure 3.—Hypothetical income statement

Equity

Equity represents what you as owner have invested in the financing proposal. In some cases, the equity is your good name alone. However, equity generally consists of capital and collateral; in forestry, we often add timber, timberland, and equipment. A typical example is the purchase of real estate where the down payment represents the equity, a loan makes up the balance of the purchase price, and the real estate serves as collateral.

Collateral

Collateral is the property or other items you pledge to guarantee loan repayment. Most timber-management financing requires collateral to secure (protect) the lender's interest in case the loan is not repaid. The value, quality, and condition of the collateral affects how much you can borrow. Of course, the most critical attribute of collateral is its value.

Using timber and timberland as collateral is complicated because it may have a variety of values, depending on your viewpoint. Property owners, loggers, and land and timber buyers often have different opinions about the land and timber value. Thus, a cruise by an independent and reliable third party is usually required.

If collateral is necessary, you'll have to provide documentation to verify the property's location and ownership (a legal land description and timber cruise are appropriate). Some lenders do their own appraisals or have them done by fee appraisers.

Lenders must evaluate the collateral as if they owned it—because if the financing plan goes awry, they will. Assets pledged as loan collateral become the lender's reimbursement if scheduled loan payments can't be made.

The loan amount in relation to the collateral value, calculated as a percent, is called the "loan-to-value ratio." For example, \$50,000 borrowed and secured by \$100,000 collateral generates a 50% loan-to-value ratio (\$50,000 ÷ \$100,000). Loan-to-value ratio is an important concept affecting both the loan's terms and interest rate. Loan-to-value ratios of between 50% and 70% are quite common today.

If the collateral is timber or timberland, and you are harvesting the timber, the lender normally requires that you apply part of the harvest revenue to the loan's principal balance. The actual percentage required is highly variable.

This is often in *addition* to your regularly scheduled payments because the value of the collateral (property) is reduced after logging. These are important considerations when you make cash-flow projections and forest-management plans. It's helpful to find a lender who is accustomed to working with forestry operations.

Leverage

Leverage is the financial term referring to the use of money with the *preconceived* idea of increasing profit or conducting an operation previously impossible without having borrowed the money. The more a project is leveraged (that is, the higher the borrowed amount in relation to the collateral value), the higher the risk to both borrower and lender. Thus, *any increase in leverage* increases the potential for profits *and* losses.

The important point is that the wise use of leverage is critical. Several years ago, high leverage was commonly recommended. Today, however, the approach is more conservative. Having realistic cash flows to make loan payments is emphasized instead of depending on the historical increase in real property or product value.

Constructive use of leverage can be illustrated in the following example:

W.W. owns 300 acres of timberland from which he realizes about \$10,000 annual net income, after taxes and all other expenses. The 300 acres is worth about \$300,000 and has no debt against it.

The 160 acres adjacent to W.W.'s tree farm is now for sale. Its expected net income is \$5,000 a year, and the asking price is \$122,500. Unfortunately, W.W. doesn't have that much cash. He may, however, be able to use the combined incomes and values from the two tree farms to get a loan and buy the 160 acres.

The combined value of the tree farms is \$422,500 (\$300,000 + \$122,500). If W.W. borrowed \$122,500 to buy the 160 acres, using both tree farms as collateral, the resulting loan level would be 29% (\$122,500 ÷ \$422,500).

If W.W. borrowed the \$122,500 for 30 years at 10% interest, his annual payment would be \$13,000. If W.W. combines the net incomes of the two properties (\$10,000 + \$5,000), he could meet the payments. He has solved two important aspects of financing timberland purchases: achieving an acceptable loan-to-value ratio, and providing sufficient cash flow to cover loan payments.

Getting assistance

The best avenue of loan information is through the lenders themselves. Because an organization's programs change, it's best to obtain current, accurate data directly from the source.

No one wants to go through the loan process needlessly. Considerable time and trouble can be avoided by using the phone to do some initial "screening" of lenders. Then, as possibilities develop, you can arrange appointments to meet the lender in person.

Giving lenders organized and accurate information will smooth the loan and interview process. Loan officers make their living analyzing projects and are adept at verifying information. They can quickly determine if a projection is realistic and sound. Your written plan for managing your forest property will be useful in preparing the projection. Be sure to take it with you when meeting the loan officer.

Loan fees, closing costs, and appraisal fees all affect the annual percentage rate (APR) you'll pay on a loan. Lending institutions are legally required to provide applicants with all pertinent information about the loan. It should be obvious that your complete understanding of the proposed loan terms is essential.

When applying for a loan, you should realize that lenders will follow *their* guidelines and policies rather than yours. Although your proposal may be excellent, it may not fit what the lender can finance. It's to your advantage to find the lender who understands timber and whose loan program best fits your needs.

Examples of funding sources

This section gives some examples of available sources of financing. We do not endorse the institutions or programs we mention here over others that are not represented. We solicited information from many financial sources, and we asked those who chose to contribute to avoid "advertising."

"Where can I get financing and services?"

- Loans
- Government cost-sharing programs
- Bank trust departments
- Private financial services

Loans

The Farm Credit Organization

Who to contact	*Area served*
Local Farm Credit Service Center Farm Credit Services West 601 1st Ave., Box TAF-C5 Spokane, WA 99220 (509) 838-9536	Oregon, Washington, Idaho, Montana, Alaska

The Farm Credit Bank is a nonprofit, nongovernment, member-owned financing cooperative. It provides agricultural and forestry financing to food and fiber producers. Loans are made for, but not limited to, real estate purchase, debt consolidation, building construction, estate planning, capital improvements, and refinancing.

Bank foresters appraise the timber and timberland. Loan level is based on appraised value and depends largely on the property's condition and desirability. A loan officer's analysis determines the applicant's financial position and expected cash flow. Normally, past records are needed to support repayment capability.

Loan funds are obtained on the open market through the sale of Farm Credit Bonds and are subject to influences of the national economy. Thus, most Farm Credit loans are billed on a variable-interest rate that fluctuates with market conditions.

Payments under these variable rate loans will, therefore, also fluctuate. Any or all of the loan's principal may be paid at any time with no penalty on variable rate loans. Timber loans vary in duration from 1 to 35 years.

Farm Credit loans are secured by real property (land, timber, reproduction, buildings), and the mortgage must be in first-lien position (Farm Credit gets paid first in case of default). Using the land and timber as collateral, Farm Credit has developed a logging permit system that gives landowners flexibility in managing timber stands, while protecting both borrower and lender.

Douglas County Loan Program

Who to contact	*Area served*
Woodland Assistance Forester Oregon Dept. of Forestry 1758 NE Airport Rd. Roseburg, OR 97470 (503) 440-3412	Douglas County, Oregon

The Nonindustrial Private Woodland Management Ordinance of Douglas County, Oregon, authorizes a loan program for eligible owners in the county. Forest management practices must be approved. Currently, they include site preparation, tree planting, eliminating grass to help conserve moisture, animal damage control, vegetation control to release seedlings, precommercial thinning, and fertilization.

Eligibility requires owning 5 to 5,000 acres of commercial forest land and owning less than 10% interest in a forest products business. Loans usually extend from 5 to 20 years at 4% simple interest.

Mortgage companies

Investors Lending Group

Who to contact	*Area served*
Investors Lending Group 868 Commercial St. NE, Suite 2 Salem, OR 97301 (503) 585-7886	Oregon; limited activity in Washington and Idaho

Representing nearly 250 private investors and several large pension plans, the Investors Lending Group is a real estate and financial firm that provides a market for selling existing real estate contracts and unconventional real estate loans.

Investors Lending Group is registered with the State of Oregon, Securities Division, as a mortgage broker/dealer.

Insurance companies

The Travelers Insurance Company

Who to contact	*Area served*
Timber Investments Manager The Travelers Insurance Co. 570 Liberty St. SE, Suite 220 Salem, OR 97301 (503) 585-7011	Western U.S. and Alaska

To the greatest extent possible, The Travelers treats each situation on its own merit, and a program is developed to meet the borrower's objectives. Loan considerations include:

- $1,000,000 minimum loan size,
- 1- to 15-year loan duration,
- no limitation on use of loan proceeds,
- considerable flexibility in repayment plan, and
- competitive interest rates.

John Hancock Mutual Life Insurance Company

Who to contact	*Area served*
Senior Agricultural Investment Officer John Hancock Mutual Life Insurance Co. South 176 Stevens St., 2nd Floor Spokane, WA 99204 (509) 747-5126 *or* Forestry Investment Officer John Hancock Mutual Life Insurance Co. 1394 Skye Court West Linn, OR 97068 (503) 636-5370	Western U.S.

Each loan is tailored to meet the borrower's financial needs and forest management plans. Loan considerations include:

- loans on timberlands supporting any age of tree,
- $1,000,000 minimum loan size, and
- 3- to 10-year loan duration with amortizations to 50 years.

John Hancock also leases most types of equipment, including logging, wood processing, and computers.

Commercial banks

Several Oregon commercial banks finance forestry operations. Banks may also have more flexible loan terms than long-term lenders. Banks are a common source of funds for operating lines and short-term loans.

Operating lines are smaller, prearranged loans to finance a business' day-to-day or yearly financial "operating" needs. Short-term loans are often used to buy intermediate assets like equipment, timber, and vehicles.

Land sales contracts

These contracts provide the most common type of financing for agricultural and timberland real estate purchases. Just as commercial banks make loans, land sales contracts involve loans. However, under a land sales contract, the owner/seller makes the loan by accepting the purchase price in installments rather than lump sum upon sale.

Contract terms, of course, must be agreed to by both buyer and seller. Land sales contracts are frequently more flexible than conventional loans. The land deed passes to the buyer only after the contract terms are fulfilled.

Timber requires special consideration in a land sales contract. The seller will want to protect the collateral, and the buyer may need to harvest the timber to generate cash flow. To facilitate both parties' interests, the contract will specify the agreed-on harvest restrictions. Legal and other professional assistance is advised when dealing with land sales contracts.

Land sales contracts are often used for a property's initial purchase. Then, after a few years, the buyer refinances the contract through a long-term real estate lender. This can benefit everyone—the seller is paid, the deed passes to the buyer, and the lender gets to make a loan.

Government cost-sharing programs

Forestry Incentives Program (FIP)

Who to contact	*Area served*
Agricultural Stabilization and Conservation Service (ASCS) Oregon State Office 1220 SW 3rd Ave. Room 1524, Federal Bldg. Portland, OR 97204 (503) 326-2741	Designated counties in Oregon (in other States, check with local ASCS offices for program availablilty)

Farmers, ranchers, and other nonindustrial forest landowners in designated counties may obtain cost-share assistance to implement approved practices that increase wood production. Application is made by filing a request with the county Agricultural Stabilization Conservation (ASC) committee before beginning work. Service foresters from the Oregon Department of Forestry provide technical assistance, prepare project specifications, and certify project completion.

Congress allocates money to ASC committees on the basis of conservation need, number of eligible landowners, and potential productivity. Oregon was allocated $503,000 in 1989 for forestry. The U.S. Government reimburses up to 65% of the practice's eligible cost. Landowners with less than 1,000 acres of forest land (exceptions may be granted in special cases) can receive up to $10,000 per year. Projects must be at least 10 acres in size, with a minimum cost-shared amount of $3,500.

Currently, two FIP practices are approved:

- *Tree planting* includes cost of site preparation, tree planting, and moisture control. The land must be capable of growing 120 cubic feet of wood per acre per year.
- *Timber stand improvement* includes precommercial thinning, releasing a young conifer stand from hardwoods or brush, site preparation for natural seeding and erosion control. The land must be capable of growing 86 cubic feet of wood per acre per year.

Agricultural Conservation Program (ACP)

Who to contact	*Area served*
Agricultural Stabilization and Conservation Service (ASCS)	All counties in Oregon (in other States, check with local ASCS offices for program availablilty)

Farmers, ranchers, and other nonindustrial private forest landowners may obtain cost-share assistance for approved practices to conserve soil and water. Application is made by filing a request with the county Agricultural Stabilization and Conservation (ASC) committee before beginning work. Service foresters from the Oregon Department of Forestry provide technical assistance, prepare project specifications, and certify project completion.

Congress allocates money to ASC committees strictly on the basis of conservation need. Oregon was allocated $462,000 in 1989 for forestry projects. U.S. Government contributions range from 65% to 75% of the practice's cost. Any farmer, rancher, or nonindustrial private forest landowner (owner, landlord, tenant, or sharecropper) can receive up to $3,500 per year. Cost sharing under long-term agreements (up to 10 years) is also possible under certain circumstances.

Currently, two forestry practices are approved, each requiring a 3-acre-minimum project (some counties have a larger minimum acreage):

- *Tree planting* includes cost of site preparation, tree planting, and moisture control.
- *Timber stand improvement* includes precommercial thinning and releasing a stand of young conifer trees from hardwoods or brush.

Conservation Reserve Program (CRP)

Who to contact	*Area served*
Agricultural Stabilization and Conservation Service (ASCS)	All counties in Oregon (in other States, check with local ASCS offices for program availablilty)

CRP is a voluntary land-retirement program designed to reduce erosion on eligible cropland by planting permanent vegetative cover, including trees. CRP goals are to improve water quality, increase wildlife habitat, reduce surplus commodities, increase the Nation's future supply of forest products, and reduce erosion.

Applicants submit requests for eligibility determination to the ASCS during nationwide signup periods. The ASCS determines *cropping eligibility* (land must have been annually planted to produce an agricultural commodity in 2 of the crop years, 1981 through 1985, and must still be available for crop production). The Soil Conservation Service (SCS) then assesses *soil eligibility,* based on soil erodability.

If both ASCS and SCS determine the land to be eligible, the applicant then offers the land to CRP in a bid process to determine annual rental payments. If the bid is accepted, applicants for the tree-planting practice (CP-3) in Oregon work with the Oregon Forestry Department service forester to prepare practice specifications and maintenance plans. CRP contracts last for 10 years, during which the practices must be maintained for the entire time period.

Payments will be made annually by the ASCS, after October 1. There is a $50,000 personal payment limitation for the CRP. The trees or other vegetative cover can't be harvested or grazed during the 10-year contract period. Landowners may receive up to 50% of eligible establishment costs for their trees or vegetative cover in addition to their annual rental payments.

You can obtain information about specific cost-sharing programs by contacting your local ASCS office or the service forester of the Oregon State Department of Forestry, or by reading EC 1119.

Bank trust department services

Commercial banks offer many services, including those of trust departments. Many forest landowners use trusts for estate planning. The trust puts the bank in a position to manage the woodland for your beneficiaries. Forestry expertise comes from the bank's own staff or by hiring independent specialists. The following are two examples of trust departments that work specifically in forestry and agriculture.

First Interstate Bank of Oregon, N.A.

Who to contact	*Area served*
Timberlands Manager First Interstate Bank Tower Agribusiness Dept. T-12 1300 SW 5th Ave., PO Box 2971 Portland, OR 97208 (503) 225-3748	Oregon, Washington, Idaho, and British Columbia

Typically, trust department services include one-time management studies; consulting on management alternatives; advising on technology; and full-service, direct-operational management of tree farms.

Management is oriented toward maximizing biological yield and financial return on timber and agriculture projects. Timberland management services include, but are not limited to:

1. Timber cruising, valuation, and appraisal
2. Regeneration analysis and implementation
3. Application of intermediate forest operations:
   - precommercial thinning
   - commercial thinning
4. Marking and harvesting of forest products:
   - timber sale preparation
   - bid solicitation
   - sales compliance
5. Complete accounting system by timber stand
6. Road engineering and construction administration
7. Timberland acquisition and disposal
8. Land development to highest and best use
9. Christmas tree farm management
10. Forest taxation and special use valuation for estate planning

In addition to technical management services for timberland real estate, the bank offers a team approach to estate planning. Each account receives the technical expertise from a trust officer, an attorney, an investment manager, a tax analyst, and a timberland manager.

Generally, assets are managed to maximize income while improving the real property. Reducing or eliminating large inheritance and estate tax liabilities is a *primary* goal of the bank's estate planning.

United States National Bank of Oregon

Who to contact	*Area served*
Trust Forester United States National Bank of Oregon 811 Willamette St., PO Box 10308 Eugene, OR 97401 (503) 687-7772	Oregon

Complete planning is available to safeguard principal with minimum financial impact on the owner's estate. The following services are oriented toward generating cash flow and profitable timber operations:

- Complete tree farm management
- Timber cruising, evaluation, and appraisal
- Reforestation, stand marking, and marketing
- Growth projections and land capability determination
- Timberland acquisition and disposal
- Forest taxation
- Total asset management, including cash and other investments

Private financial services

The Campbell Group

Who to contact	*Area served*
The Campbell Group One SW Columbia, Suite 1720 Portland, OR 97258 (503) 275-9675; FAX (503) 275-9667	Western Oregon, western Washington, and northern California

The Campbell Group is an investment firm specializing in locating, acquiring, and managing timber in the Pacific Northwest. Clients include domestic and international institutions, pension and trust funds, individuals, and woodland owners.

The Campbell Group uses in-house timber, investment, and financial expertise to develop and manage investments tailormade to match the clients' objectives. It can also arrange financing for a transaction and has experience with various financing methods, such as limited partnerships, joint ventures, leveraged purchases, and cash transactions.

Limited partnerships

A limited partnership (LP) is another type of privately owned source of financing. In the right situation, LP's can be attractive arrangements for woodland owners. Forestry LP's typically purchase timberland as investments for their clients. But—and this is more useful to woodland owners in generating financing capital—they also purchase the rights to grow and harvest timber.

Thus, given the right situation and the right LP to work with, you might exchange the right to part of your timber for some investment capital from the LP. Forestry LP's can also provide woodland owners with realistic opportunities for investment and a form of ownership to consider during estate planning (see Howard and Lacy, "Forestry Limited Partnerships," page 11).

In a limited partnership, at least one partner is a "general" partner responsible for management, and at least one partner is a "limited" partner not involved in management and operation of the firm. In a forestry LP, the general partner is responsible for on-the-ground management of the property.

Limited partners' liability for partnership debts is restricted to their contribution to partnership assets. Partnership creditors can't touch the personal assets of limited partners.

Forestry has often been looked on as yielding rather low, often "uncompetitive," rates of return. Nonetheless, investors are attracted to forestry LP's primarily because of the investment value. Total returns from appreciated land and timber values, plus income from resource sales, may make a project competitive with other investments. Because better investment vehicles exist for tax-sheltering, Federal income-tax advantages from timber transactions are secondary considerations.

For any investor who pays taxes, the future of LP's depends on tax reform. Limited partners in all types of investments may be allowed deductions of operating losses only to the extent of net income from LP investments. Interest charges associated with LP's will be deductible only to the extent of interest income from other sources.

Operating losses and interest payments in excess of net income from LP's or interest income may no longer be deductible. (Check with your attorney or your nearest Internal Revenue Service office.)

By providing additional money, financing works like a lever to enhance project efficiency. A key to successfully obtaining financing is to match your situation and needs to the financing source's policies and guidelines.

Summary

There are many types and sources of financing for forestry operations. The basic principles of acquiring and using financing remain constant, however, regardless of source.

"Where can I get financing and services?"
- Loans
- Government cost-sharing programs
- Bank trust departments
- Private financial services

For further reading

The following publications may be helpful.

OSU Extension publications

In July 1992 the OSU Extension Service publications warehouse was destroyed by fire. We are replacing our supplies. The publications listed below may be available in the office of the OSU Extension Service that serves your county. Check with that office for the current prices.

You also may call Agricultural Communications at Oregon State University, (503) 737-2513, to learn the availability and current prices of the publications.

Elwood, Norman E., and Robert O. McMahon, *Forestry Financial Analysis I: An Introduction for Landowners,* Oregon State University Extension Service Circular 1146 (Corvallis, 1983). $.50

Elwood, Norman E., and Robert O. McMahon, *Forestry Financial Analysis II: Worksheets for How-to-Do-It,* Oregon State University Extension Service Circular 1147 (Corvallis, 1983). $2.00

Elwood, Norman E., and Robert O. McMahon, *Forestry Financial Analysis III: How to Compare Two (or More) Investments,* Oregon State University Extension Service Circular 1148 (Corvallis, 1983). $1.50

Fletcher, Richard, *Cost Sharing and Woodland Management,* Oregon State University Extension Service Circular 1119 (Corvallis, 1983). $.25

Woodley, Elizabeth, and Larry Burt, *Managing A New Business: A Beginner's Guide to Financial Concepts and Tools,* Oregon State University Extension Service Circular 1222 (Corvallis, 1985). $1.00

Other publications

Howard, Theodore E., and Susan E. Lacy, "Forestry Limited Partnerships," *Journal of Forestry,* 1986. 84(12):39-43.

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The Woodland Workbook is a collection of publications prepared by the Oregon State University Extension Service specifically for owners and managers of private, nonindustrial woodlands. *The Workbook* is organized into 11 sections, containing information of long-range and day-to-day value for anyone interested in wise management, conservation, and use of woodland properties. It's available in a three-ring binder with tabbed dividers for each section.

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