Skowhegan Board of Assessors
Minutes
Special Meeting
April 2, 2015
Town of Skowhegan – Municipal Building – Council Room

Present:	Ronald F. Blaisdell, Chairman David G. Summers, Vice Chairman John F. Grohs
Assessor's Agent:	William "Bill" Van Tuinen
Asst. Assessor:	Leisa D. Emery
Others Present:	Christine Almand, Town Manager William Knowles, Verrill Dana LLP Mike Haws, SD Warren/Sappi James Cohen, Verrill Dana LLP Briana O'Regan, SD Warren/Sappi Cheryl Gwadowsky, SD Warren/Sappi William Dale, Jensen Baird Gardner & Henry Mark Simzyk, Duff & Phelps Donald Skillings, Selectman (3:30pm) Betty Austin, Selectman (4:00pm)

I. Call to order:
The meeting was called to order at 3:00 PM by Chairman Ronald Blaisdell.

II. Minutes to be approved and signed:

1. March 26, 2015, Special Meeting:

David Summers made a motion to approve and sign the minutes, seconded by John Grohs. – Vote 3 yes – 0 no

III. Items by the Public: None.

IV. Unfinished Business: None.

V. New Business:

1. S. D. Warren/Sappi – abatement request:

Ronald Blaisdell asked Bill Van Tuinen if he would like to start the proceedings.

Bill Van Tuinen stated that he thought it would be a good idea, if everyone introduced themselves. Everyone was introduced.

Bill Van Tuinen said the purpose of the meeting today is for S D Warren to present its appraisal and we can respond with any questions that may come up about the appraisal.

William Dale stated when we left the last meeting there was some questions preliminarily as to that some of the information in the appraisal is confidential, and that some of it is not. SD Warren's attorneys were going to provide a redacted copy of the appraisal. Bill Dale said some of the information that may be reviewed today will be confidential, if S.D. Warren wants to go over that information, they can ask that we go in to executive session to keep that information confidential. Bill Dale asked if the property owner or their attorneys had a redacted version of the appraisal.

Mark Simzyk said they would go over the appraisal without getting in to the specifics of the information that was redacted. If we need to get into the details that are confidential we will need to go into executive session.

William Dale said that if we need to have answers to questions or if some of the confidential information needs to be discussed the property owner's attorneys or appraiser can identify the confidential information and we will go into executive session.

Bill Van Tuinen said that we are ready to hear the appraisal presentation.

Bill Knowles asked if he could shut the door because of noise. There were no objections.

Bill Van Tuinen said that we are not in executive session.

Christine Almand said she wanted to take the do not enter sign off the door, so people would know they could come in.

Jim Cohen stated his role here today is basically introductory. Most of the presentation would be given by Mark, Mike and Bill. Jim gave a little background on the fact they feel they have worked with the Town to see that a just value is placed on the mill. There were several meetings with the Town, and in the end the Town did lower the value some, but the mill does feel it still was not the appropriate value, in their opinion. Jim said the next step was the abatement request. Mr. Mark Simzyk will be going over the appraisal. Jim said the paper industry is facing hard times worldwide and in the State of Maine.

Jim Cohen introduced Mark Simzyk from Duff & Phelps.

Mark Simzyk said he was hired by Verrill Dana to appraise the mill to find the just value for tax purposes. Mark gave his background on appraisal work. Mark said they did the three approaches to value with most of the emphasis on the income and cost approach. Not much time was spent on the sales approach; it was used primarily as a sanity check. The assessment value was roughly $587.3 million for what is in Skowhegan, it is located on about 2,700 acres, and it supports an annual production of approximately 800,000 metric tons per year of paper and about 500,000 metric tons per year of pulp. Pulp operation has been around since 1976, and paper operation started about 1982. Date of value is April 1, 2014; they visited the site in November 2014, and completed the appraisal March 4, 2015. The income and cost approach came within $20 million of each other. The concluded value came in at $450 million for the subject assets. Duff & Phelps tried to understand why there is a gap between the appraised value and the assessed value. Paper mills are not a one size fits all assets. Mark went over two charts that he stated shows historically that there has been a drop off in demand and capacity with the operating rate remaining high. In other words there's a lot of paper out there with not much demand. There have been cut backs and mills that have closed. Many people are now using media devices.

Mark said if anyone has any questions, just jump right in and ask them as he is reviewing the appraisal.

Mark explained the income, cost and sales approaches to value. When looking at the sales comparison approach, various transactions across the country were reviewed but there wasn't enough publically available data to make enough adjustments to have a gainful indicator of value, however there was enough data on two transactions so a sanity check could be done for the cost and income approach.

For the income approach – financial information was gathered from the mill, such as income, operating costs and sources of revenue. Then information was researched from comparable companies with similar assets as the Skowhegan mill like Verso, Catalyst, Domtar, MeadWestvaco, Neenah, PH Glatfelter and Resolute. Mark explained how he came up with the Enterprise Value. Mark said he deducted the assessed value of the assets in Fairfield to come up with the implied tangible value of the property in Skowhegan.

Mark Simzyk asked William Knowles if he needed to stop.

William Knowles said it was all right to continue.

Mark stated that on page 25 there is the last three years of operations. It does project a downward trend. The mill has done what it can to maintain earnings by doing a number of things. Mark said he wanted to point out the EBITA adjustment and the adjustment for corporate overhead. The reason for this adjustment is because when reviewing the mills financials the one thing that became apparent was they had a very high percentage of corporate overhead.

Page 29 shows the average EBITDA for the comparison companies that were used in their analysis. Mark said page 30 is a summary of that analysis. Two year and three year average historical EBITDA was used. The subject EBITDA was multiplied by the average multiples from the previous page and that gave an Enterprise value EV range from roughly $430 million to $589 million, less 4% intangible value, less inventory value of $67 million, less the assessed value of the assets in the Town of Fairfield of almost $9 million. This gave them an indicated value of roughly $340 million to $490 million using the income approach to value. They took the middle range value of $443 million.

Mark Simzyk asked if there were any questions.

No questions, so Mark went on to discuss the cost approach to value that they used.

They developed reproduction cost new and replacement cost new, which figured about $2.7 billion new. Then they took into consideration physical depreciation (incurable), economic obsolescence (curable), external obsolescence which amounts to about $240 million, last before land is an adjustment of necessary environmental capital expenditures. Mark went over the life of certain equipment for physical depreciation on page 36. Page 37 summarizes the effective age of the assets. It was explained how they came up with the concluded average physical depreciation of 65%. Industry Economic Obsolescence - when doing this an analysis was done on Gross Margin, EBITDA, and Return on capital. They looked at the Industry's peak average and recent average of these and came up with an average percent of obsolescence of 23.5%. Next is the curable functional obsolescence. The wood-yard section of the mill was identified as nearing the end of its life. It has extremely high maintenance costs and is older technology. Wood chips have to be transported in to the mill, how inefficient and costly it is to have people just sitting out in the trucks waiting for things to idle while waiting to transport the chips into the mill. The one thing that was talked about is putting in a new chipper that is larger. That would increase reliability, reduce manpower, and energy to run it and it would reduce unnecessary transportation costs.

Bill Haws said this is one thing that was questioned before. Duff & Phelps came to the mill and looked at their 5 year capital plan for what the major projects were that the mill had planned. This is something that the mill is actually working on, trying to put together the project because of the issue. It's not something they are dreaming about or something they would like to do; it is something they are putting in plans to do because they have an issue. The numbers that are shown are what the mill has in their 5 year capital.

Bill Van Tuinen said he had a question of - this is not just to add on to the existing wood-yard, but it is to replace the entire wood-yard.

Bill Haws said it is to replace the drums which are worn out, the chipper and the distribution system.

Bill Van Tuinen said then it is just a rebuild of parts of the wood-yard.

Bill Haws stated it is a replacement of all those components not putting in a reclaim stacker to bring the chips back into the mill. Everything in the wood-yard from the processing, debarking and chipping of the wood is what they are focusing on. There are several other projects that are not included in the five year capital plan and are not included in the appraisal, but Duff & Phelps decided to include this one because it is in process.

Bill Van Tuinen asked if this would eliminate bringing in chips and if they would make all of their own chips out of long wood.

Bill Haws said right now they make 75% of their chips today. If you don't do projects like this you will end up buying all your chips? It doesn't force you to shut down but you have to outsource and change your business strategy. They wanted to come up with a project to meet all their chip needs.

Bill Van Tuinen asked what it would do.

Bill Haws stated it would support all their needs.

Bill Van Tuinen stated you will make all your own chips as opposed to buying 25% of your chips.

Bill Haws said it is less than 25% now.

Mark Simzyk said there a couple of ways to address the issue. Is the impact to value less if you cure the problem and you make the $25 million investment or if you incur the excess cost to bring chips in, incurring the cost of transporting those chips to the mill and then all the manpower to work out in the wood-yard to handle the chip process. If you look at the difference between the modern state of the art chipping operation or if you incur the expense the way it is set up now, the $25 million pays for its self. They would not do it if there wasn't the return of investment. So it is cheaper to fix the problem than to continue to incur the penalty to buy chips. The last significant adjustment that was made is the $240 million adjustment. This is a location specific issue that is impacting the mill and that is the fact they have to go out further and further to get the right type of fiber they need to make the quality of paper that they are making for their clients. That cost in addition to the fact there is a strong competition for truckers is bringing up the cost substantially for mills in the area. That's a tremendous amount of cost. If you compare the Skowhegan mill to other mills in Maine they still have a larger cost for transportation and distribution, so they are not level with their peers. They are the outlier, the extreme on the outside. However the other issue is dealing with how to cut expenses and cost. Delivery charges were compared with their peers; they were about 15% higher on cost of delivery, getting materials in to the mill. Under manufacturing costs they were at 6% over their peers, the operations in the Northeastern part of the country. Not including Wisconsin or Washington where their operations are closer to their sources. This was looking at other mill operators up and down the Northeast. Looking at the information it shows they had $85 million in delivery charges and another $580 million in manufacturing costs. They say the competitors have an advantage over them in these areas; at least it appears that in a region. This is how they arrived at the $240 million adjustment. These approaches are being a check and balance against each other. The last adjustment before the land is the necessary capital expenditures. The replacement of the wet well and lime kiln shell, the fly ash reinjection at hog fuel boiler #2 and the Maximum Achievable Control Technology MACT compliance for hog fuel boiler #1. This equates to about $9.3 million in necessary expenditures. After all the adjustments that is how they came up with the $463 million in just value of the Somerset Mill.

Mark said that in the sales approach they looked at transactions, and there were three of them. Two occurred before the valuation date and one was after. The one that was after was the Verso sale, which involves the mills in Maine. It was included because from the time the deal was announced to the time it closed the financial terms didn't really change. What changed was what assets were included, whether they got SEC approval and financing, but at the end of the day what they said they would pay for it and what they did pay for it was roughly the same. You don't get a lot of single plant sales. You have here a couple of individual plants that were acquired. These are not numbers that they created they are numbers put out by the investors. Sale #1 was Kapstone paper acquired Brookfield Capital mills in Washington a container board site and a couple kraft paper machines in Michigan. They had some excess pulp capacity and a little more assets than we are dealing with our subject but they are similar assets. Sale #2 is Kps Capital acquiring Wasau Paper. EBITDA is not known, revenues were not known. Sale #3 is Verso acquiring NewPage; they had $2.5 billion in sales. Mark said they calculated an implied replacement cost new on each of these sales. They figured the percentage of replacement cost new on each sale. Their summary of sales was Sale #1: sale price reflection of 29% of RCN likely speaks more to the economics of the brown paper manufacturing industry. Sale #2: appears to corroborate and support the value derived for the subject assets via the cost approach. Sale #3: also corroborates and supports the value derived for the subject assets via the cost approach. Their cost approach result is approximately 17% of RCN. This was a sanity check for the cost and income approach that was used.   The income approach gave a value of $443 million, the cost approach gave a value of $463 million – a reconciled just value of subject assets was $450 million.

Bill Van Tuinen said on the cost approach there are a few inventory categories that are taxable property in the State of Maine. Capital spares and mill supplies. Bill said he couldn't see where Mark had specifically added anything for those when doing the cost approach.

Mark Simzyk said he did not have that number broken out discreetly in the listing you see on page 34. The capital spares are typically included with the assets. Paper machine one has its own capital spares with it. Paper machine number three has its own. That's in the total cost, but he did not have a straight line item for capital spares. It is in there, just not shown as its own separate item.

Bill Van Tuinen said likewise in the income approach Mark deducted for an inventory number that's not specifically categorized to what items are included in those inventory items. Does that exclude capital spares and supplies or does it include capital spares.

Mark Simzyk said it excludes. That is just the paper and pulp and logs and what's on site, it is not any capital equipment. No capital equipment is included in it.

Bill Van Tuinen stated no supplies.

Mark Simzyk said no supplies; they are also excluded from that number. It should just be raw materials and paper or pulp.

Bill Van Tuinen stated that on the mill operating costs in the narrative component of the obsolescence adjustment for the wood-yard needing a $25 million refurbishing or retrofit or addition it mentions excess operating costs. On the $240 million adjustment did you deduct the excess operating costs attributable to the excess operating costs in the wood-yard?

Mark Simzyk said the way that he rationalized that was there was a substantial difference that was greater than the 6.6% that they ultimately utilized for excess operating costs and the excess delivery charges. He felt conservatively that he had accounted for the excess operating costs associated with the wood-yard assets and they are identified in the $25 million – yes.

Bill Van Tuinen said he wanted to know how the mill operating costs compared to the peer mills operating costs. Bill said Mark referenced RISI and Bill believes that when it was described today Mark mentioned this was for other Northeast pulp and paper mills that the peer companies were. Bill asked if Mark could explain the source of the RISI reports and the particular mills that were considered peer mills.

Mark Simzyk said the source of the report as noted by Bill is RISI. The paper mills included depending on the line you were looking at or the type of product you're making included most of the mills in North America. So it can be sorted by location of be filtered to location however you wanted to do that, so they did that because as he mentioned there was a significant cost differential for the mills located in the Northeast and not just when compared to the mills in the Midwest or on the West coast. Mark said he has a sense of why most of that exists but doesn't know why that needs to be drilled down here. One of the big issues is the mills in the Midwest and West coast are closer to their sources of fiber, they don't have the same issues impacting those locales as they do here and having to go further and further out to get product. The demand for drivers here in Maine impacts their costs.

Bill Van Tuinen asked what mills were considered peer mills.

Mark Simzyk said the Verso mill, there was the Rumford mill. He stated he would have to go back and look, but basically he took the whole universe of Maine, Virginia, the Eastern seaboard if you will. He went as far West as maybe Pennsylvania. Basically any that reported to RISI that was part of the line segments that he was looking at.

Bill Van Tuinen asked what specific RISI report Mark looked at.

Mark Simzyk stated he looked at a couple of them, but they were consistent. He didn't say the specific one they looked at, he did not recall exactly.

Bill Van Tuinen said the RISI reports; they are independent estimates of operating costs, is that correct? They are not exact operating costs.

Mark Simzyk said that was correct.

Bill Van Tuinen stated they are RISI projections of what the likely operating costs of mills based on more generic information that they gather.

Mark Simzyk said that was correct.

Bill Van Tuinen said on the transportation costs, does Mark think there is a problem with this mill in terms of delivery costs from the mill to the customers and for delivery of raw materials and other items that go into the making of paper.

Mark Simzyk said it is his understanding that it is on both ends, they are not exactly able to necessarily recover the cost of delivery of paper to market, as you can see the paper prices are maintaining pretty consistently despite the increased cost of fiber, delivery and other operating expenses. It is on the front and the back end.

Bill Van Tuinen asked Mark if he thought it even applies to fiber.

Mark Simzyk said he believes that it is actually the primary source if he remembers correctly because they have to go out further and further out to get the specific paper fiber that they need to make the quality of paper they are making for their customers.

Bill Van Tuinen thanked Mark. Bill said that was all the questions that he has at this point and time.

William Knowles said that he had one question, which was a question Bill Van Tuinen raised at the last meeting. William Knowles said that at the beginning of the report it mentions the exempt assets were not appraised, but accepted $123,656,574.00. William Knowles asked Mark Simzyk why he did not separately appraise those exempt assets.

Mark Simzyk stated that he actually didn't accept that value, he just valued everything. So, you are talking about the pollution control assets and the BETE assets. Those are components of other assets that they did value; he did not discreetly value individual components of larger assets. So he did not apply a value to those BETE or pollution control assets. Mark said he believes for the application that was a decision that other parties were involved in, that was not part of the appraisal. Mark said he would say though that from what he knows about those assets, they are newer assets and are something that was put in over the last ten years. Mark said given his background the pollution control assets have become routinely more and more valuable because if you don't have them you can't operate. If you do operate you are subject to penalties.

William Knowles said that one other question is what the USPAP standards are.

Mark Simzyk explained what the USPAP standards are and what his qualifications are.

Ronald Blaisdell asked if anyone had anything else.

VI. Chairman's Items: None

VII. Member's Items: None

VIII. Assessor's Agents Items: None

IX. Asst. Assessor's Items: None

X. Adjournment:

David Summers made a motion to adjourn, seconded by John Grohs. - Vote 3 yes – 0 no

The meeting adjourned at 4:30 PM

____
Ronald Blaisdell, Chairman

____
David Summers, Vice Chairman

____
John F. Grohs

BOA:lde