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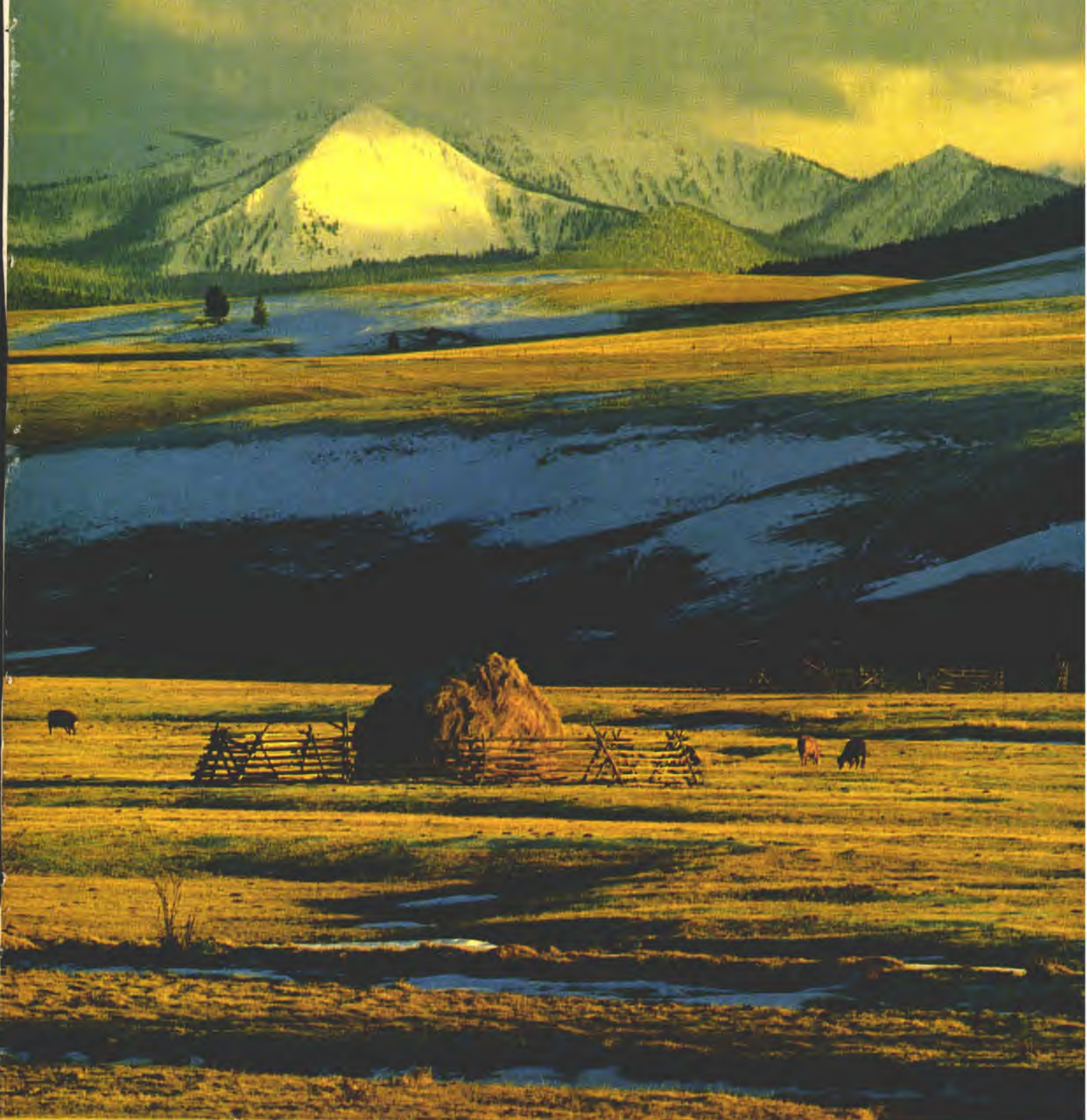
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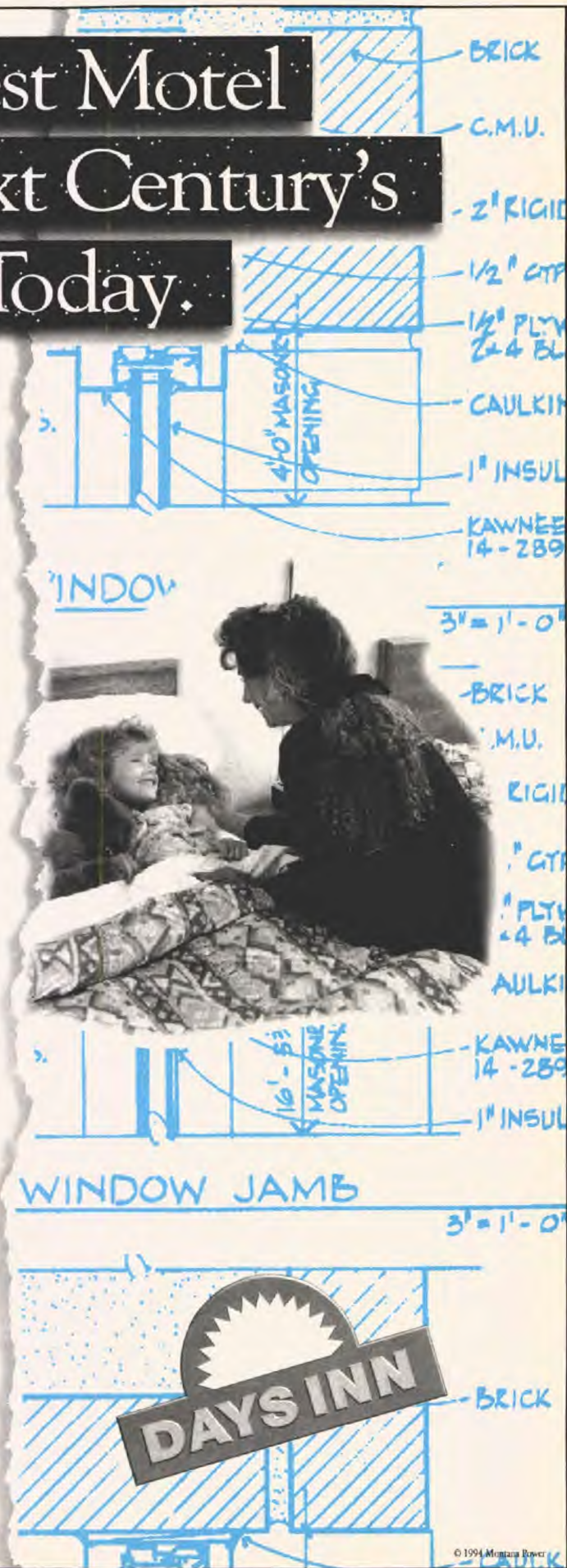
But perhaps even more important is the cost and energy savings the system will accrue for years to come. The new Days Inn has an energy bill about half the cost estimated for a traditional system. And, the energy saved can be used to meet the growing needs of other Montana Power customers.

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Partnerships — such as this one between Montana Power and Bob Leipheimer, owner of Days Inn of Butte — are a key to adopting the most energy efficient technologies available. We congratulate Days Inn and HVQC Systems for saving electricity and money. Call your Energy Services Representative to learn more about partnerships for energy efficiency.

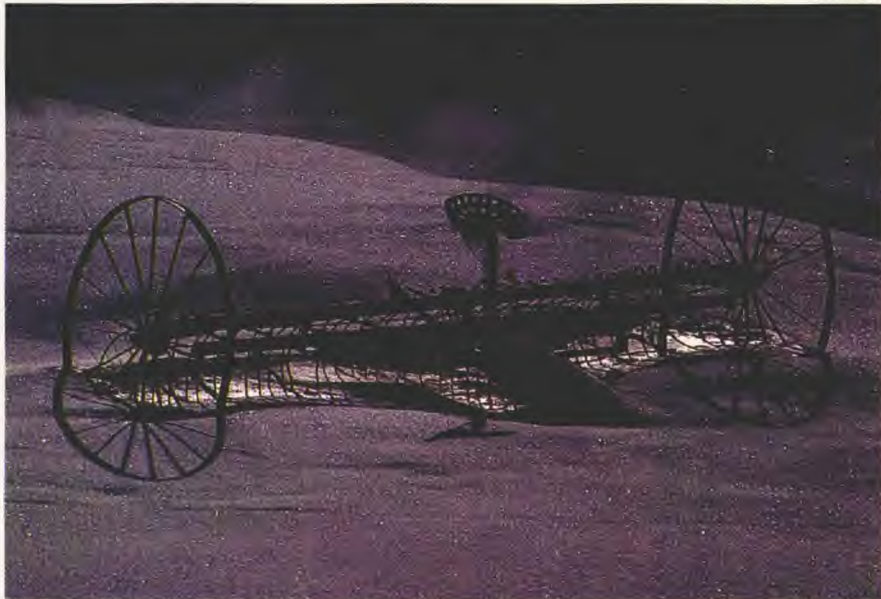


TOGETHER WE SAVE



M O N T A N A
BUSINESS ANNUAL

JANUARY/FEBRUARY 1995



GUS WOLFE PHOTO

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Cover photo: Pintler Range viewed from the Skalkaho Highway WAYNE MUMFORD PHOTO

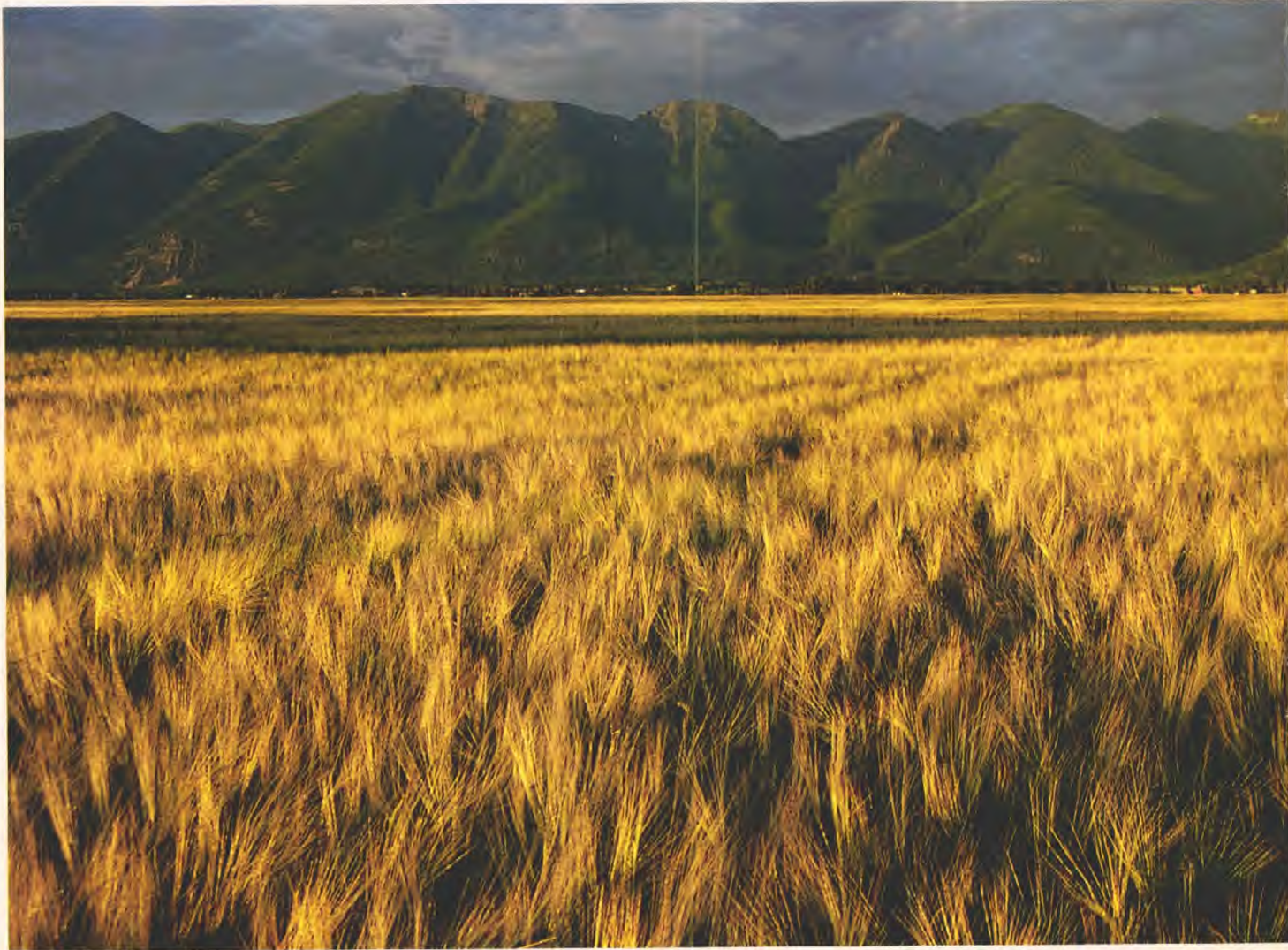
ECONOMIC '95 CHALLENGE

Q. *What is the biggest economic challenge facing Montana in 1995?*

THE BIG PICTURE

Montana's Major Industries

by Christine Lyall



Spring wheat field below the Swan Range

AGRICULTURE

There are big bucks in Montana, and we're not talking deer. Agriculture brings in \$2.5 billion a year, accounting for 40 percent of the state's economy and yielding an average gross annual income of \$102,500 per producer. The agriculture industry invests in innovative approaches to raising livestock, wheat and barley, Montana's primary agricultural products. The

industry also facilitates efforts to diversify into alternative crops in alternative regions, such as growing mint and seed potatoes in the drier, eastern half of the state where cattle and wheat have ruled the plains for a century.

Increasing competition from the global market, mounting operating costs, and a gradually shrinking base of people who work the land

culture, believes that the answers are education and flexibility. Despite its peaks and valleys [and plains], he said agriculture is thriving in Montana.

WHEAT

The growing world population and the increased ability of other countries to purchase more food have boosted the wheat industry, according to Randy Johnson, executive vice president of the Montana Grain Growers Association. Along with that growth, however, has come plenty of competition—again mostly from Canada. In 1993, wheat accounted for more than \$1.7 billion of Montana's agricultural economy.

Giacometto foresees at least two new market possibilities emerging for that revenue to multiply. Plans are laid for constructing two grain-processing plants in Great Falls that would extract gluten and produce ethanol from wheat. Yes, wheat. Giacometto said the gluten could be used to enhance the baking qualities of inferior grains, while the remainder of the grain could be used to make ethanol. He said the cost of processing wheat will actually be less than processing corn for ethanol because wheat is a dryland grain. "If we start making ethanol in Great Falls," Giacometto said, "that would be a whole new market for Montana wheat producers."

BARLEY

Agronomists are exploring diversified markets for agricultural products. For example, Herb Karst, who represents Montana on the National Barley Growers Association, said there has been increased interest in developing a hull-less barley that can be used as an economical, nutritious rice substitute. Growing this special barley does not require as much water as rice and is therefore less expensive to grow. Karst said the Japanese Food Agency signed an agreement last spring, contracting for a number of acres in northern Montana.

Montana's 1993 barley harvest was 54 million bushels, second behind North Dakota. About half of the harvest went to beer makers, while the other half went to Saudi Arabia and China for cattle feed. Barley production in Montana has waned over the years, Karst said, and the future is bleak. Nationwide,

barley prices declined 10 to 15 percent per bushel since 1992, from about \$3 to \$2.50. Beer consumption in the United States was stagnant and Canadian barley imports increased. In fact, the U.S. imported more barley (83 million bushels) in 1993 than it exported (60 million bushels). Karst said efforts are under way to strike a compromise with Canadian grain growers.

BEEF

Responding to a national shortage of cattle last year, ranchers kept their replacement heifers and built up their herds, creating a flooded market. As a result, cattle prices dipped and ranchers were forced to sell their herds at 10¢ to 15¢ per pound less than they did in 1993. There are promising indications, however, of a long-term market rebound. The consumption of beef has increased two percent a year, largely because of openings into international markets such as China, Japan, and Mexico. Additionally, Montana cattle ranchers have perfected delivering a wide range of



MICHAEL JAVORKA PHOTO

for a living pose serious challenges to agriculture in Montana. People across the globe still have to eat, though, including Montana's 24,500 farmers and ranchers who netted an average \$31,200 each last year.

The big question is, "How will Montana remain a viable part of the market?" Leo Giacometto, director of the Montana Department of Agri-

ECONOMIC '95 CHALLENGE

Q.

What is the biggest economic challenge facing Montana in 1995?

A.

"In Montana, we must find ways to diversify an economy that has for too long relied almost exclusively upon extractive processes. To do so will require the active involvement of our best talent, with a vast pool of expertise existing in the state's colleges and universities.

"Specifically, I believe we must begin to use the available resources to develop a sustainable future economy that will support the quality of life that virtually all citizens want."

—George M. Dennison,
president of the University
of Montana, Missoula

THE FARM PROGRAM – MIXED BLESSINGS?

If it weren't for the federal government, Havre farmer Jeff Hockett would not have made a profit in the last three years. Hockett raises wheat, barley, grass seed, safflower, and cattle. He has been farming since 1978—that's when he was relatively independent and farming his land as he saw fit. During the 1980s, however, market prices for wheat and barley bottomed out because of a surplus of grains. Farmers were going broke.

The federal government moved in and offered farmers "deficiency payments" to cut back production. The payments are based on target prices the government sets for wheat and barley, in accordance with the Farm Bill of 1977. The government determines each farmer's acreage reduction. Participating in the program is voluntary.

Today, for example, the target price on wheat is \$4 per bushel. If a farmer can get only \$3.15 from his reduced acreage, then the government will pay the extra 85¢ per bushel.

This system of market control is commonly known as the government farm program and it has been a sore spot for many Montana farmers. Hockett joined the program during the 1980s. He recently checked his tax returns from the last three years and found that the federal government has kept him afloat: "If I'm making a profit of \$25,000 to \$35,000 a year and the government's payments were \$35,000 to \$40,000 a year, then my profit was from the government. I'm making a living because I'm getting government farm program payments."

Hockett didn't beam with pride as he spoke. In fact, he described the farm program as a "short-term solution to low market prices that has eaten away at farmers' market share."

Hockett said it's hard to decide if the program is strictly good or bad. Although it strips farmers of their operation control, it has maintained the nation's and the world's food supply and kept farmers in business. Hockett's brother, Greg, got out of the agriculture business a few years ago because of frustrations with the farm program. He changed his career once he realized agricultural policy in America was "more like a political game" than a help to the industry; instead of encouraging technology and challenging farmers' business savvy in the free market the government controls the market by freezing assets. "The farm program has taken almost all of the risk and incentive to be creative out of the process [of raising crops]," he said. "Agriculture is very dependent on the government. Farmers don't like that, but they're stuck."

Bruce Nelson, executive director of the Agricultural Stabilization and Conservation Service (ASCS), said government subsidization of farming started in 1936 with passage of the Agricultural Adjustment Act, in an attempt to control production. "When you're a farmer,"

Nelson stated, "it is never in your individual interest to reduce your production because the wheat market is a perfectly competitive market. No individual farmer can influence the price of wheat by selling or not selling when production in this country ranges from 2.2 to 2.4 billion bushels a year."

Every time the government has tried eliminating its subsidy programs, the market has flooded, prices have plummeted and farmers have lost money, he said. Some outside regulation is therefore necessary to avoid a market bust. In 1993, the Montana ASCS's wheat deficiency payments exceeded \$145 million, and it paid \$38.1 million to control barley production.

The ASCS administers the federal farm program in Montana. Nelson pointed out that total payments made through ASCS programs in 1993, including such operations as producing mohair and wool, amounted to more than \$400 million. Overall, agriculture brings in about \$2.5 billion a year in Montana, so \$1 out of every \$5 in the industry came through the farm program. As long as farmers cannot get the full target price on their product, he believes they will continue to get government payments.

The government is scheduled to review its farm program in 1995, and may adjust its target prices. The target price on wheat, for example, has been \$4 per bushel since 1985, while operating and living costs have increased. "It's anybody's guess whether Congress will raise the target price," Nelson said. "The urban Congress is going to have a hard time buying the argument that target prices should go up, which would raise the cost of the program while we're trying to balance the federal budget. But that's what rural America is up against."

ECONOMIC '95 CHALLENGE

"1995 could be the year when we finally realize our future depends on attaining a cooperative balance between environmental and economic concerns. Discouraging responsible development of our resources—be they timber, mining, farming, or ranching—will continue to be detrimental."

—Stan Stephens, former governor of Montana, Kalispell

beef products that consumers demand, from low-fat to extensively marbled meat. Giacometto said ranchers in the Billings area—in particular, outfits such as Midland Bull Test and the Leachman Cattle Company—are leaders in genetic engineering for specific beef grades and types. One of the state's stronger agriculture exports is genetically-engineered cattle semen.

Along with improvements in raising cattle, however, comes a general consternation about cattle's impact on natural resources. That worries Giacometto; as the nation's population becomes three and four generations away from living on the land, fewer and fewer people understand the intricacies of the industry. "When you look out on that prairie, you see shortgrass and sagebrush. There is nothing else besides cattle that without much input can convert that natural protein and natural feed into a protein for human consumption," Giacometto said. In other words, cattle harvest grass, and ranchers' livelihoods depend on the health and abundance of that natural resource.

Advanced technology, improved irrigation systems, and a better understanding of grazing practices and growing patterns enable ranchers to

better manage rangelands. Giacometto said some farmers use computer programs to calculate their crop cycles and determine the proper ratios of naturally-occurring grasses to those they want to add to the forage. Technological advances in plant breeding have made it possible for farmers to enhance the quality of their range grasses. Safer forms of fertilizer and pest control have reduced the risk of contamination to water systems.

Until the last decade, however,

the above-mentioned methods of range management were seldom practiced. Farmers were thus held responsible for damaging the environment, particularly for polluting water sources for both people and wildlife. Clayton Marlow, associate dean of the College of Agriculture at Montana State University (MSU) in Bozeman, said non-point source pollution, or sediment, has been the number one complaint regarding farming and agriculture. When the soil is stripped of vegetation and ex-

DIVERSIFYING INTO THE UNKNOWN

Montana's agricultural pioneers are responding as the global market opens. They are diversifying, exploring high-dollar commodities production that requires costly initial input but can yield bountiful returns.

Leo Giacometto, director of the Montana Department of Agriculture, said the tightened marketplace tests Montana agronomists' stamina and innovation and reveals their true grit and steel.

Agronomists like Brian Schweitzer of Whitefish will emerge as the heroes. Schweitzer, a state committeeperson for the Agricultural Stabilization and Conservation Service (ASCS), produces peppermint in the Flathead area. Two years ago he started a similar operation in Forsyth, where he also grows spearmint.

Schweitzer admitted his agricultural adventure is costly and risky. But he said he's successfully sold mint start-up roots and mint oil. Brokers sell the oil to toothpaste and chewing gum companies for flavoring.

Giacometto said farmers and ranchers are moving their operations east because non-agricultural persons are peppering property in western Montana with houses. The land in the east, on the other hand, is more expansive and less expensive. Delivery of water has been improved by using windmills, water lines, water tanks, and solar wells.

Other less common agricultural crops that are taking hold in western Montana are Christmas trees, wine grapes, squash, beans, seed potatoes, and cherries.

Montana ranks sixth in the nation in honey production, and eighth in the nation in sugar beet crops. There is also a growing breeder's market in ostriches, emus, and other such birds that have red meat and highly marketable feathers, hides, and lanolin-like oils contained in the layers of fat in their bodies.

Llamas were initially raised in Montana to protect sheep from coyotes, but are now being used in other ways. Llama hair is popular in clothing, and as the tourism industry has boomed llamas are viewed by many as ideal pack animals for hiking and camping excursions.

Although wheat, barley, and cattle will continue to lead Montana's agricultural economy, diversification has become a necessity for farmers and ranchers. "It all comes down to money," Giacometto said. "There is a market there [for these products], and agriculture is nothing more than a bunch of small businesses out there.

"When you find out about a new product, you're going to try it," he continued. "Montanans are well known for their willingness to try something, to take it on. Our ingenuity and resourcefulness are great."

ECONOMIC ⁹⁵ CHALLENGE

"Our challenge is first to better understand the competitive forces that impact our economy and then to design governmental policies and regulations, whether tax, environmental, permitting, safety, etc., that are fair to all stake holders—and supportive of the Montana business community.

"In addition, the state should encourage a broadened knowledge and application of new technological advancements such as in telecommunications and computers, both to support our traditional industries and to assist development of new technology-based industries."

—Bob Gannon, president and chief operating officer of Montana Power Company, Butte

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posed—either through tillage or cattle grazing—the soil is picked up by wind and rain and carried off to waterways. The sediment then causes myriad problems: clogging filters in city water systems, corroding power plant pipes, and filling reservoirs. Marlow said that a 1980 survey of Montana, Wyoming, North Dakota, South Dakota, Idaho and the eastern portions of Washington and Oregon indicated that a half billion dollars were spent to correct precisely those kinds of problems.

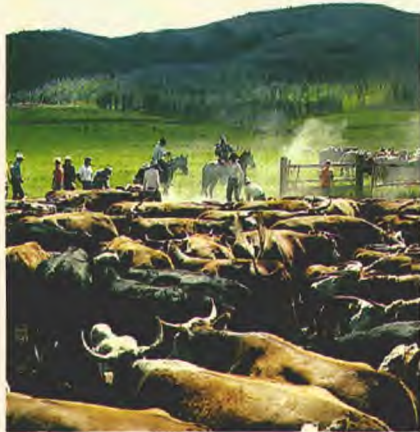
The Montana Agricultural Research Station at MSU-Bozeman has been working to create technologies and strategies that will prevent non-point source pollution. "We are developing better methods of managing cattle grazing so the volume of forage allocated to cattle is brought in line with what the plants can withstand and the time they need to rest and grow back," Marlow said. Green manure crops are also being used as substitutes for chemicals, to help restore nitrogen to fallow soil. Farmers plant green crops, such as clover, on their fields then plow the vegetation under to replenish the soil's nutrients. Farmers are beginning to use insects and plant pathogens instead of chemicals as pest-control agents.

John Gatchell, conservation director of the Montana Wilderness Association said that cattle have benefits for Montana's wilderness and wild-

ECONOMIC '95 CHALLENGE


"Adjusted for inflation, real wages for non-farm Montana workers have been declining since the late 1970s; in the past ten years non-farm private sector wages increased at only 50 percent of inflation while public sector wages increased at nearly 90 percent of inflation. When these factors are coupled with the well-documented increase in overall part-time employment, a decline in the standard of living of Montana workers—especially non-farm private sector workers—is inevitable."

—Ted Schwinden, former governor of Montana, Helena



GUS WOLFE/BILLINGS GAZETTE PHOTO

life. He said that the two entities are actually very good neighbors: "Wilderness protects the watersheds, grazing is allowed in the wilderness, and wilderness helps prevent the spread of noxious weeds. Wilderness is better off having ranches near its borders than subdivisions, because the animals are more able to adapt and cope with a ranch than several houses. Ranches anchor the wide open spaces that people in Montana love."

Although fears that the agricultural industry is destroying the environment might be unfounded, the message is getting harder and harder for farmers and ranchers to spread as their numbers diminish across the country, Giacometto said. "It used to be, if you had a cowboy hat on and boots and you walked into the Legislature, you had your way," Giacometto said. Not any more. Farmers and ranchers now account for less than one percent of Montana's population. They are losing political ground nationally, also, because their numbers have shrunk below two percent of the nation's population. Giacometto said the U.S. Census Bureau does not count segments of the population that fall below that level: "Because of our numbers, credibility is the only thing that will survive. We must educate the majority of the population" about the environmental and economic benefits of agriculture. He said farmers can educate others via agricultural organizations or by speaking at various functions or with the media. The state has developed an elementary school curriculum called "Ag in Montana Schools" that supplies books, pamphlets, and worksheets. There's plenty to learn. 

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LARRY JAVORSKY PHOTO

Left: Reclaiming the MacLaren Pit near Crown Butte in the Beartooth Mountains

Below: Westmoreland Resources' Sarpy Creek coal operation

MINING

Mining in Montana is the pits. Not only has the industry seen a number of setbacks in the past year, but mining pits forces from the environmental, industrial, and regulatory sides against each other, much of it focused on the condition of the pits from which the Treasure State's valuable minerals are extracted.

At the heart of the controversy is a struggle between perception and reality, not unlike the struggle to discern between gold and pyrite. No one has all the answers, and the future of mining in Montana stands on shaky ground. Generally speaking, low market prices, complicated permitting processes, increased opposition from environmental groups, and confusion over federal regulations (from both sides of the fence) have caused production to level off, jobs to disappear, and local tax bases to diminish.

GOING, GOING, GONE

The problem is not a matter of vanishing resources—there is still plenty of gold in them thar hills. Rather, it's a matter of depleted reserves. John Brower, professor of mineral economics at Montana Tech of the University of Montana (Butte), said many of the staple companies of Montana's mining

and energy industry have reached the maximum levels of their permit reserves: "If mining and production are going to increase in Montana, it means new mines...the deposits and potential are there." But the chances of that happening in the near future are slim. Brower continued, "People are not going to look for new deposits if they feel the tax climate and regulatory climate are not favorable."

The latest report from the Montana Bureau of Mining and Geology shows that exploration activity declined in 1993. Companies closed their sites, laid off employees, and left Montana, in some cases moving their operations to other countries. Among those companies was Pegasus Gold, which dropped four Montana projects in 1993 and is scheduled to close its Butte office by the spring of 1995. Eric Williams, a spokesperson for Pegasus Gold, said the company is planning to close its Beal Mountain Mine in a year and a half, and al-

though it is attempting to secure permits to extend the life of its Zortman-Landusky mine, the process "has been arduous at best." Williams said Pegasus is investigating the possibility of opening a small mine at Diamond Hill.

Other than Diamond Hill, Pegasus Gold has no other plans for development in Montana. Until two years ago, Pegasus Gold, one of the largest companies in the state, would ordinarily have had about five or six projects on its agenda, Williams said. Pegasus opted to pull out of Montana because of the state's prohibitive and time-consuming permitting process. He said Pegasus is not discouraged by strict environmental protection regula-

LARRY MAYER/BILLINGS GAZETTE PHOTO



tions, as environmentalists might otherwise believe: "Our attention to environmental protection will be consistent regardless of where we operate in the world."

Instead, it's the bureaucratic hoops through which mining companies must jump to secure their permits that deter them from staying in Montana. "The legislative bodies write laws, then they get into the hands of bureaucrats and then they get clamped down with different interpretations," Williams continued. "We can't have capital sitting around not producing while the bureaucrats debate their own rules."

Pegasus plans to take its business to Chile, Argentina, and Australia, where exploration is less risky because of less red tape. The company's pullout will mean the loss of a significant number of jobs in Montana, where in 1993 Pegasus employed 615 people and maintained a payroll of \$26.7 million.

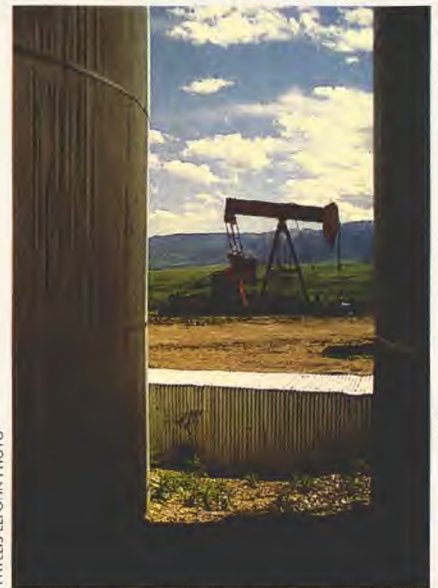
Some people are quite relieved to see Pegasus Gold and other large-scale operations go. Jim Jensen, director of the Montana Environmental Information Center (MEIC), said mining causes destruction of the land and contaminates surface water and groundwater with sulfuric acid and cyanide. He pointed to Pegasus Gold's Zortman-Landusky mine as an example. He said the company has not been able to acquire a permit for further mining because of findings that it violated the Water Quality Act.

Another example of poor mining management is Golden Sunlight at Whitehall, Jensen said, where operations have been delayed because the ground started to shift. A decision in the most recent court case concerning mining came down in September 1993, when District Judge Thomas Honzel ruled that a state law exempting open-pit mines from reclamation was unconstitutional. That case came about when MEIC and five other environmental groups sued the Montana Department of State Lands and Golden Sunlight in 1992, alleging the state agency granted the company a permit to expand its mine without doing an environmental impact statement. According to Montana's constitution, "All lands disturbed by the taking of natural resources shall be reclaimed." This requires filling

the mines and recontouring the land. An amendment to the constitution, however, excluded reclamation of pits that "may not be feasible to reclaim." Judge Honzel found that amendment unlawful.

Jensen said part of the problem with holding mining companies accountable for damage is that Montana still operates under the 1872 Mining Law that allows companies to patent claims and purchase federal land for as little as \$2.50 per acre and requires no royalty payments. Richard Parks, past chair of the Northern Plains Resource Council (NPRC) and current chair of the Western Organization of Resource Councils, said the 1872 law needs major revision: "We need to rewrite the federal mining law. As it is, the federal government has no authority to say no to the mining companies that want to patent land. The government has to let them do it once they stake a claim." He said the NPRC doesn't oppose mining as long as it is carried out responsibly and addresses the concerns of surrounding communities. That's what happened with the Jardine Joint Venture near Gardiner, and that's what he'd like to see as a routine process. "There is a future for mining in Montana, but the companies need to honestly sit down with the communities, be clear and up front about how they operate and the impacts they will have, and they need to present a plan to address those impacts," Parks said. He believes the mining companies need to scale back their operations and stretch them out beyond the typical 15 to 20 years if they sincerely plan to contribute to a community's economic sustenance.

Which is another point of contention. Tom Power, chair of the De-



PHYLLIS LEOHIN PHOTO

Oil well on a ranch near Absarokee

partment of Economics at the University of Montana, has closely studied the mining industry in the state for a number of years. He said mining's direct economic contribution to the state is actually very small; he cited statistics showing that in the last several years all of the metal, oil, and gas mines in Montana combined offered only 7,000 jobs out of the state's total 440,000 jobs. Mining's total economic impact accounts for less than two percent of Montana's economy, Power said. The salaries in mining are generally high, averaging about \$36,000 a year for laborers, but the money quickly flows out of local communities once the "come-and-go" mines stop operations and pull out. "Mining is a temporary event," Power said. "It's certainly not something that a community interested in stability ought to hook its horse to. Would you want to put a 30-year mortgage on a house when you have a job that will last only 20 years? I wouldn't."

Noting that the real clincher on the mining industry has been low market prices, Power conceded the state's permitting process is a bit lengthy. He contends that is because the state doesn't put enough money into its regulatory process: "The state puts so few resources into its regulatory agencies, we have overworked and underpaid staff who don't know what the laws mean." The courts then turn around and negate their interpretations, he said.

ECONOMIC '95 CHALLENGE

"Montana is becoming a minimum-wage state. Therefore the biggest economic challenge facing the state of Montana in 1995 is the creation of high paying jobs."

*—Thomas L. Judge,
former governor of Montana, Helena*

PERMITTING HEADACHES

Robin McCulloch, director of the Montana Bureau of Mining and Geology, said there are two main "hassles" connected with acquiring mining permits in Montana: As mining regulations evolve, the requirements for attaining a permit constantly change, making it almost impossible for companies to keep up. Second, up to a dozen different agencies must approve the permit applications. A process that once took as few as six months can now extend four years. "You're looking at seven years for permit-

ting and construction," McCulloch said. "And every time you need to change production or increase production, you must secure a permit."

Many major players have decided to forego the hassle. Sandi Olsen, chief of the Hard Rock Bureau at the Department of State Lands, said her staff tries to be as efficient and thorough as possible in granting permits. The size and complexity of mining projects have increased within the last decade, however, and a growing public awareness of the industry's environmental impacts has meant a demand for more

documentation. "In the future, the permitting process will get more complicated and the statutes will be passed with redundant and duplicative standards," Olsen said. "The companies have told us if the process gets worse, they will leave."

But there are some bright spots in the industry. With the exception of the closure of the ASARCO mine in Troy in 1993, copper mining and copper prices have held steady and are expected to increase, and the markets for industrial minerals like cement and talc have been healthy. Interest in sapphires increased in 1993 and the market for building stone expanded.

COAL

The future for Montana coal, on the other hand, is not rosy, McCulloch said. The core issue surrounding Montana coal is old-fashioned competition with other domestic markets. High production rates in the Powder River Basin in Wyoming, for example, dropped the price of coal from \$14 per ton in the mid-1970s to \$2.20 per ton today. According to Brower, another prob-



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ECONOMIC ⁹⁵ CHALLENGE

"We need to build an economy that both replenishes the environment and generates prosperity within the state, creating jobs without giving away our public assets. To do this will require changing old ways of thinking and realigning our resources with an eye on the future rather than on the past.

"We have to abandon the mistaken concept that the two goals—beauty and prosperity—are incompatible, or we will end up like West Virginia, with the worst of both worlds—poverty and pollution."

—Samantha Sanchez, project director of "Money in Western Politics," Western States Center, Helena

lem with Montana coal is its quality: "Our coal is not poor quality, but it's not real high quality. It holds a lot of structural water," which renders it heavier and more costly to ship. Brower said a few innovative approaches are underway to dry the coal and produce a fine material with a higher British Thermal Unit (BTU) rating and low sulfur—two key ingredients of good coal. Coal with a low sulfur content has an edge over coal with a higher sulfur content, like that from the eastern United States, because it is cleaner-burning.

OIL AND GAS

The oil industry in Montana seems to be following the same pattern as coal, said Gail Abercrombie, director of the Montana Petroleum Association. Natural gas, on the other hand, is enjoying healthy, growing production levels. Trends indicate a decline in oil production, with 19.9 million barrels in 1989 and 17.3 million barrels in 1993. Abercrombie said oil production is down because ex-

ploration levels have plunged along with the drop in market prices. Oil prices took a dive in November 1993, to \$10 per barrel from as much as \$16 per barrel. Although prices have again climbed to \$14 or \$15 per barrel, return rates haven't caught up and producers haven't been able to secure investors.

Because of extensive promotion of its cleaner-burning qualities, Montana's natural gas has experienced tremendous growth in popularity, Abercrombie said. Producers esti-

mate that at least six trillion cubic feet of reserves of natural gas remain untapped in the state. Natural gas can not only be used as heating fuel, but can power automobiles, run a turbine to generate electricity, and provide power to such structures as greenhouses.

Abercrombie said she expects implementation of the Clean Air Act of 1990 to enhance the production and sale of natural gas, a substance that has become the nation's "in" fuel. **[MBA]**



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WOOD PRODUCTS

It's not yet time to yell "Timber!" for the forest products industry in Montana. And it may never be. Yes, the U.S. Forest Service has cut back on the availability of timber on its lands; yes, major timber companies have sold out and moved, leaving 500 to 1,000 employees in the lurch within the last year.

But there is a quiet revolution taking place in the woods. Progressive loggers and timber companies have stepped back and started to see the forest for the trees—not just dollar signs. They've examined the effects of clearcutting and developed selective, environment-friendly approaches to logging.

The wood-products industry leaders have also branched out into markets that allow using lower-quality wood. They've invested in innovative operations that recover nearly 100 percent of the wood, thereby creating more jobs for the more labor-intensive processes involved.

Montana's timber industry has its faults, but it's also on the cutting edge of change, gradually moving away from an emphasis on boom-and-bust stockholdership to one of conscientious stewardship.

BIG CHANGES

Recently, trucks loaded with freshly cut logs have been traveling the highways near Billings and Hardin. Five years ago that would have been unheard of, said Cary Hegreberg, executive vice president of the Montana Wood Products Association.

Hegreberg said timber industries have shifted their operations to nonindustrial private lands in the eastern part of the state because the U.S. Forest Service has locked up federal lands in western Montana, where most logging has taken place. "We've seen a virtual free fall in the Forest Service timber sale program,"



Building a log home near Condon

MICHAEL JAVORKA PHOTO

through which the government sells public timber for loggers to harvest, Hegreberg said.

Ed Lieser, a silviculturist with the U.S. Forest Service, said concern about threatened and endangered species and the visual appeal of Montana's forests have forced the Forest Service to take a broader look at its system of management and cut back its sale program. Since the 1980s, in fact, the Forest Service has reduced the amount of public timber available for harvesting by 60 percent. "The way we are managing

the forest now is different. We are leaving so much more and trying to be conscious of what is valuable to wildlife and aesthetics," Lieser said. This new approach is a drastic switch from the Forest Service's old ways of management. Historically, the U.S. Forest Service followed a philosophy that the most cost-efficient method of harvesting was clearcutting. They would designate certain sections of public land that they thought needed harvesting, then solicit bids from timber companies to move in and fell the trees.

"From an ecological perspective, clearcutting was similar in some respects to natural forces like fire," Lieser said. "It would convert the stands back to sun-loving species, but the difference would be the removal of the biological mass," instead of leaving burned wood.

The Forest Service would then reseed or replant the clearcut sections with selected tree species that suited their management goals. In some cases, the Forest Service still does this, Lieser said.

Steve Thompson, a field representative of the Montana Wilderness Association (MWA), said the Forest Service's reseeded sections "might as well be cornfields in Illinois" because of their homogenous nature. "We want the wild stuff to still be there," Thompson said. "We want the harvesters to thin out the forest from below and take out the under-story. Our mantra is 'Leave the best, take out the rest'."

Thompson said MWA would also like to see no more roads constructed for the sole purpose of moving in timber harvest equipment. Lieser said the Forest Service is beginning to come around.

"Previously we were looking at a homogenous stand of trees, but today we no longer look at just the stand. We're looking at the landscape and drainage, the water that flows to a creek. We are looking at the smaller ecosystems within a stand" and trying to maintain their integrity, Thompson said.

SMALL OPERATIONS WITH MINIMUM IMPACT

Bob Love of Columbia Falls named his small logging operation Confluence Timber Company because of his proximity to the confluence of the North Fork and Middle Fork of the Flathead River. The name also symbolizes Love's belief that loggers, environmentalists, and communities need to come together and work toward compromise. He said he has been busy making community appearances, giving speeches, and approaching the U.S. Forest Service in an effort to educate people about conscientious logging.

Love, a logger since 1975, started his one-man company last spring with a John Deere bulldozer and his intuition. He had worked the woods for a number of other operations and decided it was time to break out on his own. He said he'd been experiencing a gradual trend toward questioning what he was doing and thought it important to take care of his livelihood—the forest. "The basic philosophy I operate on and what the people want is to leave the best trees on site and take the surplus," Love said. "I'm trying to encourage people to live on their interest and maintain their principle."

Love is not alone. Floyd Quiram, owner and operator of Quiram Logging in Whitefish, said he's always tried to perform minimum-impact harvesting. Quiram's business has four employees and has been in existence since 1979. "We try to leave things that look good in our minds. Other people might not think it looks good, but we try not to do anything real offensive," Quiram said.

For the last several years, Quiram has made a conscious effort to leave the big trees and retain the forest's three-layer canopy. Although his practice might mean taking the smaller trees, Quiram said innovations utilizing "junk" trees has made it possible for loggers to avoid cutting down old-growth trees.

"The environmental movement has been good for logging," Quiram said. "It has prodded us along into activities we probably would have gotten to, but not as quickly. Loggers get a bum rap. We want to preserve the forest just as much as anyone else."

Logging operation in the Bull Mountains



LARRY MAYER/BILLINGS GAZETTE PHOTO

ECONOMIC '95 CHALLENGE

"Montana's biggest economic challenge in 1995 is to continue closing the wage gap between Montana and the rest of the country; help create job opportunities by diversifying Montana's industries; train and educate for high wage and high skills jobs; and continue to enhance Montana's competitiveness in the global economy."

—Bob Rafferty, chief of the Research and Analysis Bureau, Montana Department of Labor & Industry, Helena

Society needs wood for houses, apartment buildings, office buildings and furniture. Charlie Grenier, executive vice president of Plum Creek Timber Company in Columbia Falls, is very familiar with the demand for wood, especially as a construction boom has hit the state and nation. Plum Creek, the largest timber industry employer in the state, owns more than 80 percent of Montana's private industrial lands and has been the subject of criticism over the years for poor harvesting methods. Until the late 1980s, Plum Creek clearcut at least

40 percent of its lands. In 1989 the company dramatically altered its approach to logging. Now it clearcuts less than 10 percent, Grenier said. The company worked with biologists, hydrologists, foresters, and consultants to devise a more ecologically-conscious means of harvesting. In 1991 it wrote company "Environmental Principles," to say in black and white its guidelines for conducting business as well as preserving the environment.

"What really motivated us is people don't like large clearcuts. So rather than someone forcing us to

change, we wanted to take that initiative," Grenier said. "Selective harvesting is good. It protects the wildlife, the erosion potential is less and the soil is kept intact. We feel particularly good about those resources. We feel better that we've protected wildlife and their resources."

Grenier said selective logging is more costly because it is less efficient and takes more time, but the company also does not have to pile up and dispose of its debris and it doesn't have to reseed the timber sections. Despite the changes it instituted, Plum Creek has still heard criticism from environmentalists. MWA's Thompson said Plum Creek may be being more selective, but it's selecting the older, larger, genetically stronger trees. "They leave the scrawny trees," Thompson said.

Grenier did not deny that. "We really analyze each stand separately, but in most cases we leave 15 to 20 percent of the merchantable timber standing," he said. "We disagree about the long-term value of big trees. The trees we leave behind are the ones we think will grow well and provide seed and cones for the next generation."

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ECONOMIC '95 CHALLENGE

"The key economic challenge confronting Montana is to steer economic development so that we can sustain not only jobs for ourselves and our children but the magnificent environment that kept and drew many of us to this special corner of God's good earth. Achieving that kind of delicate balance in such a diverse place requires each of us, individually and collectively, to emphasize from this moment on more about what unites us than what divides us. Our ability to construct and maintain such New Partnerships will determine history's judgment on this generation."

—Marc Racicot,
governor of Montana, Helena

Because the amount of public timber available for harvesting has decreased, private landowners have snatched the opportunity to sell their timber at high prices. That, in turn, has caused the price of logs to increase as well. While high prices have driven some smaller companies out of business, they have also created opportunities for strong sales and market expansion and diversification, said Chuck Keegan, director of forest-products industry research at the University of Montana's Bureau of Business and Economic Research.

Keegan reported that primary wood products from Montana (lumber, plywood, utility poles, pulp and paper, and particle board) showed record sales in 1993 of \$1.34 billion, an increase of 20 percent over 1992. Although employment leveled off at about 11,500 people, average earnings went up about eight percent to a collective \$367 million.

Keegan projected that in 1994 about 800 workers in the primary stage of the timber industry would lose their jobs as the availability of wood declines and prices continue to go up. But, he said, that should

be only a short-term result of the changing timber market.

Already, in fact, wood-products producers, like Louisiana-Pacific in Libby, are gluing together smaller scraps of lower-quality wood to create larger pieces of lumber. Residual chips taken to Stone Container in Missoula are converted into liner board for cardboard boxes. Sawdust shipped to Louisiana-Pacific in Missoula is turned into particle board, and the bark stripped from logs is

burned to fire the boilers at the mills.

All of these more labor-intensive methods of harvesting and manufacturing will eventually translate into jobs. "There is a great future for timber in our forests," Keegan said. "Timber will be much more valuable into the year 2000, so timber companies and mills will be able to afford to do things they couldn't do in the 1980s." **MBA**

Robinson Mountain in the Yaak



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Custer's Last Stand Re-enactment in Hardin

TOURISM

The tourism industry wears neither a white hat nor a black hat. It's not good or bad. It just needs to be well-managed," said Nancy Menning, director of the Institute of Tourism and Recreation Research (ITRR) at the University of Montana.

Consider the circumstances. Before 1987, the industry ranked fourth in economic impact. Since the installment of Montana's bed tax (accommodations tax) in 1987, tourism has grown an average 10 percent a year, putting the industry a close second behind agriculture in revenue contribution to the state.

According to an ITRR report released in August 1994, Montana hosted 7.4 million nonresident visitors in 1993. Those visitors spent \$1.1 billion and generated \$743 million in payroll for 61,000 jobs ranging from hotel managers to gas pump jockeys. The total economic impact of the 1993 tourism industry was \$2.4 billion, with about 28 percent of that money spent in retail outlets; 27 percent spent on food; 18 percent spent on lodging; and 18 percent spent on fuel.

It's hard to ignore those numbers. There has been a slight decline in

tourism's rate of growth, according to Menning, and tourism officials expect that trend to continue. After a growth spurt of 8.2 percent from 1991 to 1992, the industry grew only 1.1 percent into 1993. Bed-tax revenues—a reliable tourism barometer—were only two percent higher in 1994 (\$7.8 million) than in 1993 (\$7.7 million), a very small gain compared to the 10 percent jump between 1992 (\$7 million) and 1993. Until 1994, bed tax collections had been rising 10, 12, or 14 percent a year.

Menning said the decline in tourism could be related to inflation, bad weather, or a lower exchange rate in Canada. But it's more likely due to reduced advertising, she said. That seems to be the most quantifiable factor. Tourism advertising is administered through Travel Montana, the tourism division of the Montana Department of Commerce, which uses a percentage of the bed-tax funds for promotions. Matthew Cohn, director of Travel Montana, said the 1993 Legislature amended the bed tax law and appropriated 6.5 percent of its revenue for operating state parks. Travel Montana also scaled back its advertising in order to help small communities develop attractions. The goal is to spread out Montana's tourists across the state, rather than continue to have them concentrated in the west.

ARGUABLE BENEFITS

Overall, Travel Montana cut its promotional spending by about 12 percent in the last year, from approximately \$2.8 million to \$2.4 million, said Cohn. In order to develop tourism into a more sustainable, year-round activity that benefits all communities, Travel Montana has restructured its marketing strategy. Two years ago, Travel Montana shifted its promotional focus from Yellowstone National Park and the Rocky Mountains to

ECONOMIC '95 CHALLENGE

"Montana's biggest economic challenge is to raise its per capita income levels, which are among the lowest in the nation. This must be accomplished despite the different rates of population growth in the 56 counties. Forty counties, mostly in rural, agricultural, central and eastern Montana, lost population in the 1980s. The Buffalo Commons may happen by default."

*Harry W. Fritz, professor,
Department of History,
University of Montana*

Montana's eastern delights. Cohn said his agency has been promoting eastern Montana's recreational and shopping opportunities, the Native American cultures unique to the region, and landscape-related attractions such as the badlands.

"We can raise the question, 'Do we want tourism to keep going up?'," said Menning, referring to a growing attitude among many Montanans that enough is enough. Crit-



LARRY MASTERLEO PHOTO

Rafting the Middle Fork of the Flathead River

ics of the industry have said increased tourism has instigated the migration of more "transplants," caused property taxes to increase, and caused wear and tear to Montana's highway systems, natural resources, and municipal services and utilities. There are also those who doubt the industry's real impact on employment, since service sector jobs are generally lower-paying and often seasonal.

"It's ludicrous to use the bed tax to promote Montana," said Anne Hedges, an issues specialist with the Montana Environmental Information Center in Helena. "They [the tourists] already know about Montana...they've come and they've stayed." She believes that the bed tax money should go to developing land-use plans to help Montanans cope with the influx of new residents.

Conceding that tourism has its drawbacks, Menning said state officials should, and are, seriously examining the relationship between tourism and the environment and determining if a balance is attainable.

Stuart Doggett, executive director of the Montana Innkeepers Association, suggested that redirecting traffic

TOURIST TOWNS SINGIN' THE BLUES

Last summer, Alec Hansen saw a sign at a gas station in Missoula that read: *It's tourist season...Go Grizzlies!*

Maybe that's taking the anti-tourist sentiment a little far. But Hansen, a lobbyist for the Montana League of Cities and Towns, said Montanans are tired of footing the bill for tourism's increasing pressure on municipal services. Hansen said if the state wants tourists to visit Montana, then the state should provide the funds for more police and fire protection, health and emergency medical services, basic infrastructural needs, and water and sewer system improvements.

According to the law, 25 percent of the bed tax revenue is returned to the state's tourism regions in proportion to the money generated. Individual communities that generate more than \$150,000 in revenue also qualify for a direct return of some of their revenue. They are Great Falls, Billings, Kalispell, Whitefish, Missoula, Helena, Butte, Bozeman, and West Yellowstone. That money can be used only for regional promotion and advertising, not for infrastructure.

"We bring seven million people into Montana each year, so there is a problem with providing services," Hansen said. "We have been trying to convince the Legislature that if we're going to impose a hotel/motel tax, then give some of the money to local government."

Hansen said a study of property tax rates in Montana's communities indicated that communities with a higher rate of tourist activity incur greater taxes. "We can't continue to cast the cost of tourism off to the local property taxpayers," Hansen said. "[Residents] are paying for services they don't use."

The tourists use the services, he contends, so the tourists should pay the added costs. "We want to work out a balanced arrangement to pay for these services so cities can take advantage of the money," Hansen said. "We don't want to interfere with promotions, but we'd also like the government to provide more money for more police and fire and other services."

to parts of the state other than the west, for example, might delay deterioration of Montana's roads. That could be achieved through more diversified advertising. And although more people are moving to Mon-

tana and purchasing once-rural land, Doggett contends that a majority of those builders are Montanans. According to statistics from the Montana Realtors Association, at least 70 percent of the recent construction activity in Missoula County, for example, was propelled by Montanans changing their place of residence. The numbers for other counties were not readily available.

"Tourism is an industry where people come in to see the state, but they don't build something here," Doggett said. That's another issue altogether. Cohn said Montana needs to undergo a change of mind in preparation for the future of tourism. The industry has surpassed mining and logging as an economic factor and is creeping up on agriculture. Meanwhile, Montana's person-

Dirty Shame variety show at Pioneer Town in Scobey



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al property tax rates and population distribution make it costly for large-scale operations to locate in the state. "Montana's economy is changing [from extractive industry] to service," Cohn said. "They're not building Ford assembly plants; they're building hotels and shopping centers, and those mean jobs in the service sector.

"Service is lower paying, but it employs a heck of a lot of people," he continued. "Wishing, hoping, and dreaming is not going to bring mining jobs back, and our tax structure is prohibitive for other industries to move in. In Montana, we want it both ways. We want to have our cake and eat it, too, and we have a hard time coming to grips with that.

"People don't like change, but change is the norm and people need to accept it." **(MBA)**

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—Donald R. Judge,
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CONSTRUCTION

Drive past any of Montana's major cities and you're likely to see something being built or remodeled. Experts point to low interest rates as the driving force behind the 1993 and 1994 housing booms. In addition, renewed state building projects—particularly at the universities—and the influx of major retailers presented multimillion-dollar opportunities for general contractors. Road repair and upgrade projects accounted for about \$160 million in the construction economy.

Construction workers have been drawing average salaries of about \$30,000 a year, or \$10 to \$16 an hour with health care and retirement plans. For the first time in many years, labor unions and contractors have cooperated and no strikes have occurred.

Dean Swank, president of Swank Enterprises in Kalispell, said general construction increased 20 to 30 percent statewide over the last two years. Although that rate of growth is expected to level off in coming years, he speculated that the demand for office space will increase, and that there will still be a need for constructing and maintaining state buildings.

Figures from the Montana Building Industries Association (MBIA) indicate that the number of permits granted for single-family units increased 13 percent statewide from 1992 to 1993. The most permit activity for single-family units occurred in Billings (448), Missoula (446), Bozeman (275), Kalispell (207), Great Falls (107), and Helena (58). The number of permits granted for multi-family units jumped 145 percent in 1993, concentrating in Billings (234), Missoula (204), and Bozeman (134).

In autumn 1994, the MBIA showed a slight downturn in permit activity—a total of only 3,327 single-family units had been approved. In contrast, 1993 permits had reached 4,400 units. "We may not hit that [1993] total," said Chris Racicot, executive director of the MBIA. Racicot said the lower inter-



Building the Forest Park subdivision in Billings

STEVEN G. SMITH/BILLINGS GAZETTE PHOTO

"In the long run, we're concerned about continued strong funding of the state's infrastructure, such as the highways, state buildings, and municipal utilities." He said the state buildings in Helena, for example, are in need of repair, and smaller communities have trouble building sufficient water

and sewer facilities because they don't have an adequate tax base.

SURPRISING STATISTIC

Contrary to the common belief that out-of-state "transplants" contributed heavily to new home building, about 70 percent of the new home market in Missoula County was driven by Montanans.

Lance Clark, director of public relations for the Montana Realtors Association, agreed that although firm numbers are not available for the entire state, most housing construction has occurred in the western part of Montana. Racicot said that with the national economy rebounding, people anticipate rising interest rates that will cause a slowdown in housing construction.

One pocket of intense home building in the last year was Billings, where subdivisions stole the construction spotlight. John Hansen Jr., president of the Montana Contractors Association (MCA) and president of COP Construction in Billings, said the city's subdivision work kept his firm particularly busy. With the proliferation of subdivisions in Billings came the need for more water and sewer lines. Hansen said state highway repair and upgrade projects were also abundant in the summer, when several two-lane highways were widened to accommodate increased traffic.

MCA represents firms involved in highway construction, municipal utilities and building and heavy industrial construction. Although Hansen is optimistic about the future of construction and general contracting in Montana, he said he has some concerns about funding:

and sewer facilities because they don't have an adequate tax base.

Another concern is the cost of workers' compensation. In response to increasing insurance rates, MCA formed its own self-funded, multi-employer insurance plan called the Montana Contractors' Compensation Fund. The program started in January 1994, and Hansen said it is working. Instead of providing insurance through the Montana State Fund, MCA provides benefits through its own plan, which has generated more than \$5 million. Although the association has not yet been able to determine its members' exact savings, Hansen said it has been considerable.

Swank added that other concerns in the construction industry center around a "serious shortage of skilled craftsmen in every trade. There are not enough avenues available for apprentice programs, which should be implemented in the schools and vocational-technical centers."

Swank believes that injury-related litigation and a multitude of liability issues needs to be addressed by the Legislature. Racicot said that, in general, the future of construction in Montana depends on the Federal Reserve's ability to keep interest rates low.

"If the trend of interest rates going up is consistent, then it doesn't look good for construction," Racicot said. "Interest rates and taxes are directly related to the health of the economy, and housing is the primary industry that brings this country out of recession all the time, because so many other industries are tied into it. If interest rates go up, the recession might linger." **MBIA**

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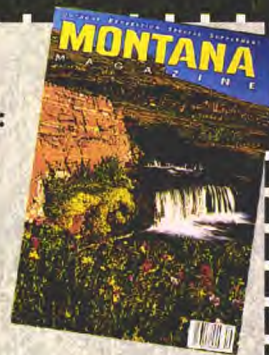
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SMALL BUSINESS

It's a scenario that's easy to visualize. It's about 9 P.M. on a week-night. The children are tucked into bed, the dinner dishes are washed, and a pot of coffee percolates in the kitchen. A tree groans intermittently in the howling winter wind, the person at the table occasionally groans while tapping the adding machine keys. When each calculation ends, the paper imprinted with tiny blue and red figures is ripped from its cartridge, checked against another receipt, and attached to a bank deposit slip.

A Montana business owner has completed another day's work of accounting and bookkeeping and has once again managed to break even, perhaps even inch into the black. (Okay, maybe the setting is a wood-paneled study with a personal computer...)

According to those who track business in Montana, this is the way business is conducted in the state at an ever-increasing rate. Businesses with one or two owners and often no support personnel are proliferating, currently making up more than 80 percent of the small business economy in Montana. Riley Johnson, a lobbyist for the National Federation of Independent Business (NFIB) said these businesses are owned and operated by couples or individuals who act as their own accountants, administrators, marketers, salespeople, and bookkeepers. Although no firm figures are available, it is estimated that about 80 percent of Montana's population is employed through small business. Of the estimated 65,000 small businesses in Montana—which make up about 90 percent of the state's business community—about 41,000 are owned by a single individual. These



Downtown Bozeman

MICHAEL JAVORKA PHOTO

small businesses are called "micro-businesses." Defined by the state's two-year-old Microbusiness Finance Program, a microbusiness hires fewer than 10 employees and makes less than \$500,000 in annual gross sales.

"I personally don't like the term 'microbusiness,' because it's misleading. It sounds diminutive and insignificant, and microbusinesses are very significant," said Lynn Robson, administrator of the Microbusiness Finance Program. The program is administered through the state Department of Commerce and is the largest state program, per capita, for microenterprise development. Robson said the finance program is designed to create jobs by providing capital, training, and technical assistance to new and expanding microenterprises. Examples are greenhouse-grown food crops, painting and paperhanging or masonry outfits, bakeries, jewelry making, cut-and-sew operations, coin-operated laundries, videotape rental outlets, dental clinics, and art galleries.

Robson said the Department of Commerce loans its microbusiness funds through 12 regional and certified Microbusiness Development Corporations (MBDCs) that are non-profit, community-supported organizations. By October of 1993, the 12 MBDCs had made 92 loans at a total value of \$1 million. By the following spring, they had made 138 loans totalling \$1.4 million. The loans, averaging about \$10,000 each, enabled the creation of about

ECONOMIC '95 CHALLENGE

"It would appear to me that the biggest challenge we have is to diversify our economy to expand beyond agriculture, tourism, and the service industries. We need to provide not only an atmosphere that will make these things come to pass, but we need to continue to work to establish our legislative agenda to encourage such diversity."

—Richard L. Larsen, mayor of Billings

"The state's greatest challenge now and in the foreseeable future is the creation of good paying jobs that will attract and retain our young people in Montana. The exodus of Montana's youth poses a major threat to the long-term economic health and vitality of our state. Our youth is truly our greatest resource."

—William Brodsky, president of Montana Rail Link, Inc., Missoula

260 jobs statewide. Of those 138 loans, only three had defaulted, according to Robson.

That's a pretty good record. Jon Noel, director of the Department of Commerce, said there has been a strong push in Montana to support its microbusinesses. Within just a few months last fall, in fact, the Small Business Administration (SBA) granted \$125,000 and the Montana Department of Labor granted \$300,000 to the Commerce Department to provide technical assistance to microbusinesses.

Noel said microbusinesses have emerged as the economy has shifted and larger companies have either downsized or sent their production operations overseas. "It is highly likely that a large number of small businesses are businesses in which people are working long hours for minimum wage," Noel said. "I don't think any of them are ever going to get rich, but they're working and taking care of their families."

For many, that's all they want. Riley Johnson, however, thinks there are other explanations for the increasing number of microbusinesses. As the rules, regulations, and paperwork involved with having a staff have mounted, employers have eliminated their employees and moved their businesses to their basements. "What businesses are being asked to do today is astronomical," he said, referring to workers' compensation insurance, health insurance, state and federal taxes and unemployment insurance. Any small-business owner is required to fill out a multitude of forms for every employee. If, for example, an employee makes \$20,000 a year with .002 percent deductions in taxes per paycheck, the employer will have carried out dozens of calculations each week for \$40 worth of taxes. In many cases, the process doesn't pay off, Johnson said. "Oh, the number of calculations is not much, it's just a little here and a little there," he said. "But you get litted to death, and if you don't do it right, you get fined."

"Where does it stop?" he asked. "The paperwork is incredible. Larger companies have accounting departments to deal with their payroll, but small-business owners are doing their own books late at night at the kitchen table. It's getting discourag-

ing." As a result, small businesses have decided to eliminate the hassle and pare down their personnel, Johnson said.

Even though worker's compensation rates are expected to stabilize and perhaps decrease in the next few years, there will still be health insurance, personal property taxes, and unemployment insurance. And Montana's personal property tax rates are at the center of an all-too-familiar debate. The Commerce Department's Noel knows that, and he sides with the small-business owners. "I am personally very vehemently opposed to the state's personal property tax rate if for no other reason than it's misnamed," Noel stated. "If a person were to indulge in a hobby and furnish his garage with a woodworking shop, for example, he would not have to pay any taxes on the equipment. But if he started using the equipment to make products that he sold, and then he hired a few people to help, then he would have to pay a tax."

The current average rate of personal property taxes in Montana hovers around 9 percent. Nonetheless, small business is growing and prospering and has a bright future

in Montana, said Jo Alice Mospan, director of the state SBA office in Helena. Mospan has hard evidence to back her theory. In 1994, the Montana SBA gave 113 new business loans totaling \$15.7 million. In 1993, it gave out only 72 new business loans collectively worth \$8.8 million.

The SBA also experienced a significant increase in the use of its special loan programs, such as the Women's Pre-Qualification Loan Program and programs geared to help minorities. Of the agency's loans issued in its last fiscal year, about 22 percent went to women in business; 17 percent went to veterans; 5 percent went to minorities; 5 percent went to businesses in international trade, and 4 percent went to building loans. Mospan said she thinks small businesses are starting up and turning profits because, "Montana's economy is just improving...and people want to stay in Montana." **MBR**

CHRISTINE LYALL is a part-time reporter for the Billings Gazette. From August through October, 1994, Lyall was interim editor at Western Business, a business-to-business publication circulated in Billings.

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FIGHTING WILDFIRES

by Sherry Devlin



MICHAEL CALLAGHER/MISSOULIAN PHOTO

Aerial drop of fire retardant on the Bond Creek fire

Prairie wildfire



CLIFF RIEDINGER PHOTO

You can measure the last fire season in acres burned (286,434). Or in total fires (4,507) and firefighters (25,000). Or in gallons of fire-eating retardant (1.2 million) dropped from slurry bombers.

Or you can count the new pickup trucks pulling out of the lot at Olson Ford in Harlem. "There are definitely a lot of dollars in town right now," Ford dealer Art Richman said soon after the mid-October end of fire season. "Everybody feels it." Olson responded by lowering prices on "some of this stuff that's been around too long," and by taking a few more used-car trades than usual, knowing that resell prospects were good. Olson said firefighters on the nearby Fort Belknap Reservation had an excellent summer, "and they'll pass those earnings around."

The 1994 fire season was a whopper in Montana and north Idaho, the area considered the Northern Region by the U.S. Forest Service. Firefighting agencies—federal, state, and local—reported 4,507 fires that burned 286,434 acres. To compare, in an average year the Northern Region has 1,371 fires on 145,018 acres. Firefighting costs exceeded \$100 million during the 1994 season. Some of that money went back home with firefighters; sizable sums also went to the local supermarkets, laundromats, and hardware stores that kept fire camps in provisions.

"When you're busy, like we were this summer, the first thing that happens is you can't spend the money you're making," said Missoula-based smokejumper Wayne Williams. "It gets saved, then spent after the season's over. You hear two things a lot: 'My car is paid off' and 'I made extra payments on my mortgage.' I imagine you'll also see some guys vacationing in warm places this winter."

Smokejumpers each put in 900 to 1,200 hours of overtime last summer, paid at time and a half, Williams estimated. In an average season, they'd work 300 to 500 hours extra. "For someone who worked 1,000 hours of overtime plus their 40-hour work weeks, that's like working a whole year in six months," he said.

Average smokejumper pay is about \$10 an hour. Seventy jumpers started the '94 season fighting fires out of Missoula's Aerial Fire Depot. By the end of October, they had parachuted to 165 fires for a total of 714 individual jumps.

OUTFITTING FIREFIGHTERS

How big is the business of fighting fire? Chuck Sundstrom's 41,000-square-foot warehouse is one indication. Sundstrom manages the Forest Service's fire cache in Missoula. At the height of the '94 fire season, Sundstrom presided over enough supplies and material to outfit 5,000 firefighters. Another seven semi-trailers were out back, each packed with gear for 250 firefighters. "They can't put out a fire without this cache," Sundstrom said one midsummer afternoon as his day-shift crew hustled to fill orders from fire camps in Montana, Idaho, and Washington. "We're running full throttle, 24 hours a day, every day of the week."

ECONOMIC '95 CHALLENGE

"Montana continues to discourage investment in equipment (such as computers) with a 9 percent business equipment/property tax. The growth of regulations regarding the environment, employment, safety, and other aspects of business forces business to make 'non-productive' investments which add to the challenge of staying in business and detract from investments that could lead to more jobs.

"Many of these regulations make sense—the challenge is achieving a balance that allows the economy to meet market demands in a safe and reasonable manner."

—David Owen, president of
Montana Chamber of Commerce,
Helena

In one 12-hour shift the last week of July, the Missoula cache shipped 26 tons of supplies. Sundstrom said he couldn't even guess exactly how many items are in the warehouse. But definitely a lot: 8,000 sleeping bags, 6,000 shovels, 6,000 pulaskis, 500 large water pumps, 500 chainsaws, 45,000 yellow fire shirts, 10,000 pairs of work gloves. There are blankets, Mr. Heaters, ice chests, water bottles, wash kits, valves, masks, axes, aprons, burlap bags, and a small room full of the paperwork needed by firefighters. There's enough synthetic fire hose in Sundstrom's bins to stretch from Missoula to North Dakota. The crew on one fire last summer asked for—and received—47 miles of collapsible garden hose. "When you see a firefighter on the line, he's wearing \$240 worth of equipment," Sundstrom said. The Northern Region cache, one of 11 government fire-supply warehouses in the country, is worth \$18 million.

COMMUNITY BENEFITS

Sundstrom's stash does not include food or perishables or any of the small-quantity incidentals needed at fire camps. Those goods are supplied on the run, from communities closest to the fires. That business

is a boost to many Montana towns: "We fill their orders, no matter what it takes," said Gerald Doty, manager of Tidyman's grocery in Missoula. "We know they have to have it right now. We know how important these orders are to the people on the line."

And Doty knows how important it is to his business. This past summer, with its unusually long spells of extra-hot weather, brought record orders for ice—block and cubed—from fire camps. The Forest Service hauled truckloads of bagged ice for its fire camp at Frenchtown High School. "We got into a partnership real quick with the ice people. We wanted to take care of the firefighters in the woods, but we didn't want to leave our customers without," Doty said. "We'd wheel entire racks right out into their trucks. It was incredible." At VW Ice in Missoula, workers put in 18-hour days. When orders outstripped production, owner Tom Vacura hauled in ice from Portland, Oregon, by the truckload. "This was one of our better summers for ice sales," he said. "We're good for a lot, and we still had to import."

Similar stories came from Hamilton, where the mid-August Ann fire off Skalkaho Pass sent fire-supply officers on a hunt for food, clothing, tents and even batteries. "I've

Chow line for firefighters



RUD JOURNEY PHOTO



JIM OLTENDORF PHOTO

Fighting a blaze

"Montana's nonprofit organizations are the hidden sector of the Montana economy. They include hospitals, research firms, social service agencies, arts and cultural organizations, educational institutions—to name a few—and they provide thousands of jobs and millions of dollars in payrolls.

"Besides being crucial parts of social infrastructure in every Montana community, nonprofits bring in millions and millions of dollars through grants, donations, and contracts. We need to examine the needs of this sector and develop an agenda to harness the non-profit economy as a tool to strengthen Montana's economy."

*—Michael D. Schechtman,
consultant, Eaglecliff Associates,
Helena*

crews arrived in the store en masse, unexpected, sending staff members running to fill requests. "Even tourists don't show up like that all at once," Witschen laughed.

UP, UP AND AWAY

When lightning ignited the Little Wolf fire west of Whitefish on August 15, 1994, the firefighting effort involved 2,000 people and the expenditure of \$9.69 million. Helicopters dropped more than 1.1 million gallons of water on the fire; air tankers added another 164,000 gallons of retardant.

Air support is one of the biggest costs of firefighting, particularly when the fires threaten homes and towns (the Little Wolf threatened the Star Meadow subdivision). Charlie Rodgers, logistics support coordinator at the Aerial Fire Depot, said the Missoula base provided 1.2 million gallons of retardant for fires during the 1994 season, probably five times the normal quantity. The retardant, called "mud" by Rodgers,

ordered extra, extra supplies," Subway owner Jean Lubke said at the season's height, noting that she had already provided 530 lunches for firefighters and overhead crews. She said the impact on her business was great.

Arloa McLean, manager of the Back Door Deli in Hamilton, got a last-minute call one weekend early in August to provide sack lunches when a fire caterer's truck broke down. She responded with foot-long deli sandwiches, chips, juice, fruit, monster cookies, and chewing gum.

Grocers, too, shared in the extra business. Tom Robinson, owner of the IGA in Hamilton, remembered a late-night scramble to find every AA and D battery in the store. Orders were brisk for PowerAde and small cans of fruit juice.

"The business is good for all of us," said Bob Sager of Super One in

Hamilton. "The Forest Service does an awful nice job of spreading it around." Sager's store supplied hundreds of sack lunches from its deli, non-melting granola bars and "lots of smokes."

Then there were the orders for building supplies and hardware. At UBC in Hamilton, manager Bob Carney's records tracked fire-camp purchases of shovels, nails, ladders, levels, peg board, hooks, even a toilet seat. At Northern Energy, workers filled orders for hot plates, propane cylinders, and portable heaters. Keeping fire crews clothed kept other businesses busy. At The General in Hamilton, manager George Witschen reported fire-related sales of webbed belts, bandanas, boots, wool socks, tank tops to wear under stiff fire shirts, as well as tents, stakes, and tarps. A few

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Aircraft also are supplied by contract, from various parts of the country and from local companies. Rodgers said personnel costs are the other biggie: "We moved about 25,000 people through this office this past summer—about 6,000 individual overhead and 920 crews. But there are a lot of other resources that don't move through this office."

At the Little Wolf fire, locals hired on to fill out firefighting crews. "The 'dozer operators made out like bandits. So did people with four-wheel-drive pickups," said J.D. Coleman, a public affairs officer who worked fire information for the Flathead National Forest. "There was a horde of people here at the supervisor's office, looking for work."

Coleman estimated a \$2 million benefit to the local economy. Among the locals hired was Shane Christianson, a Missoula fishing guide who rented out himself and his wife's Jeep Cherokee to shuttle firefighters to the fire front. "I didn't have a [fishing] trip booked for a couple of weeks," Christianson said, waiting for two firefighters to return from their assigned chores. He earned \$45 a day for the vehicle, 25¢ a mile and \$8.68 an hour for his time. "If my wife knew what her Jeep looked like right

now, though, she probably wouldn't have let me come up here," he laughed.

By the time the autumn rains came, fire dollars were in the tills of the most unexpected places. For example, when 1,400 firefighters came from all over the United States and Puerto Rico to fight a dozen fires in the Ninemile and Fish Creek drainages, the school district was the benefactor. The grounds around Frenchtown High School were polka-dotted with tents and tarps in mid-August, at a price of more than \$4,000 a day to rent the school and grounds. The firefighters stayed nine days and the school pocketed \$38,000 for use of its offices, showers, library, and land. "In negotiating with the Forest Service, we tried to be as reasonable as we could and still give the school district an opportunity to benefit," said superintendent Michael Nicolsia. "That money will go a long way."

The No Vacancy sign at many western Montana motels this past summer was testimony to the rooms needed to temporarily house fire officials, helicopter crews, and office workers brought in for extra duty.

NOT ALL ROSES

Words of caution came from Paul Polzin, head of the University of Montana's Bureau of Business and

Economic Research. Polzin studied the economic impacts of fires after the 1988 firestorm in Yellowstone National Park. He said that although there are benefits to local economies, wildfires also destroy valuable resources such as commercial timber, farm and ranch land, and occasionally homes. About two-thirds of the money expended by state and local fire agencies leaves Montana in the pockets of out-of-state firefighters and contractors.

Polzin's Yellowstone study, published in 1993 by the Forest Service's Intermountain Research Station, showed that Yellowstone, before the 1988 fire season, was headed for record attendance. Visitors likely would have increased from about 2.1 million in 1987 to 2.5 million in 1989. Instead, visitation dropped to 1.7 million in 1988 and rose only to 2.2 million by 1989. As a result, tourism-related spending was down about \$21 million in 1988 and \$26 million in 1990.

Firefighting expenditures helped offset the tourism losses, but of the \$33.1 million in fire-related expenditures, an estimated \$10.8 million

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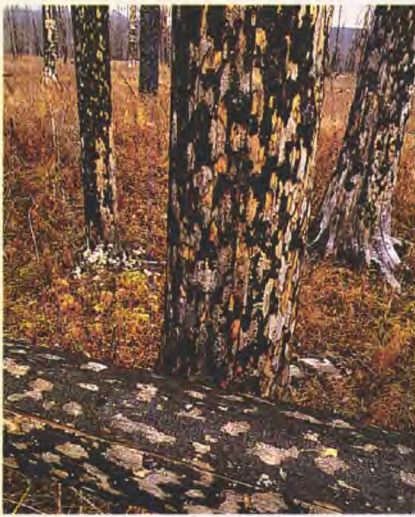


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ECONOMIC '95 CHALLENGE

"Montana's greatest economic challenge will continue to be the tax protest movement. This movement, fed by virulent antigovernment rhetoric from right-wing talk show hosts and others, is gathering steam in every state. We have already seen its impact in California, where it is crippling the public infrastructure that the economy relies on. Unchecked, this movement has the potential to do the same in Montana, unraveling the communities that our parents and grandparents worked so hard to build, including our roads, water systems, and most importantly, our public schools."

—Nancy Keenan,
State Superintendent of
Public Instruction, Helena.



Red Bench Burn area in Glacier National Park

DAVE SCHELSBEIN PHOTO

went to communities surrounding the park. The community receiving the most money from fire supply officers wasn't even a tourist town, Polzin added, noting that the Forest Service spent \$2.7 million in Fremont County (Ashton), Idaho. Fremont County has no direct access to the park and receives almost no tourist dollars. West Yellowstone, by comparison, received \$2.2 million in fire-supply money, about 27.2 percent of the total. Payments to Gardiner totaled \$1 million and to Cooke City-Silver Gate \$200,000. Nevertheless, Forest Service administrative officer Chuck Sorenson said fire money did help Yellowstone's neighboring communities survive the '88 disaster. Paychecks were earned and spent. Said Sorenson, "We saw it the next winter—new pickups, remodeled houses, and new school clothes for the kids."

Wildland firefighting, like any big business, will always have its pluses and minuses, costs and benefits. Timber may be lost to commodity production and tourists scared away, but firefighters are employed, supplies are hustled on site to feed, clothe, and equip firefighters, and aircraft and wildland fire engines are ordered and delivered.

It is big business, and Montana is right in the middle of it all. **MBR**

SHERRY DEVLIN is a reporter for the Missoulian. She covers environmental issues, including wildfires.



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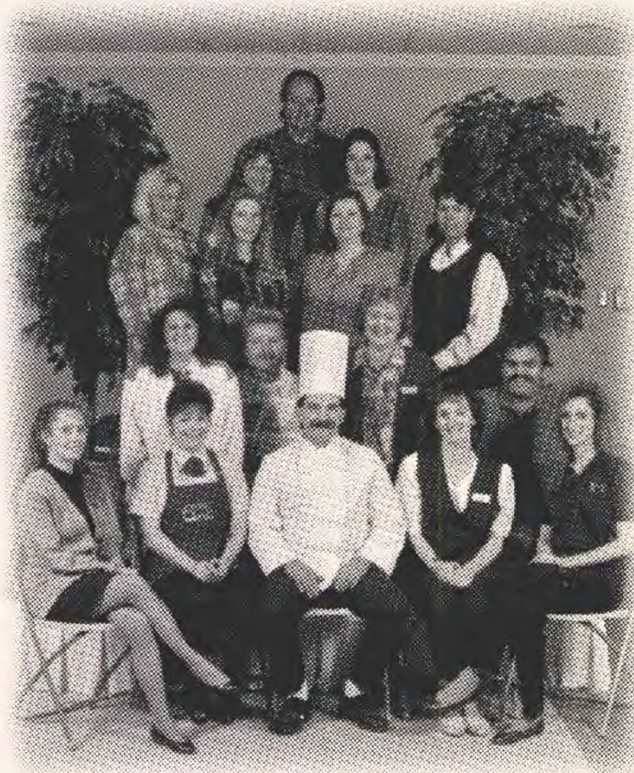
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