Twin Rivers Comments on OPEGA Evaluation of the Credit for Paper Manufacturing Facility Investment

October 16, 2024

Introduction and Historical Overview

Twin Rivers Paper Company (Twin Rivers) is headquartered in Madawaska, Maine, and currently employs 474 Mainers from Aroostook County and beyond. We are pleased to present these comments to the Government Oversight Committee in response to the recent Evaluation of the Credit for Paper Manufacturing Facility Investment (hereinafter referred to as the papermaking tax credit). Twin Rivers would like to begin by thanking the Office of Program Evaluation and Government Accountability (OPEGA) for its steadfast efforts in researching and reviewing the papermaking tax credit. Twin Rivers has been proud to serve as partner to the state in this effort to modernize and retain papermaking facilities in the state.

To provide a bit of historical context, the effort to establish the papermaking tax credit began in 2019. At that time, Twin Rivers in Madawaska and Pixelle in Jay were the only two papermaking manufacturers in the state not eligible for the state New Markets Capital Investment Program (hereinafter referred to as the NMCI credit). Recognizing the challenges of competing in a tight and ever-evolving market without equal access to state incentives, Senator Troy Jackson agreed to sponsor legislation to provide a refundable tax credit for investment in papermaking facilities not eligible for the NMCI credit. The Taxation Committee ultimately agreed with the need for a credit for those entities not eligible for NCMI, and recommended the legislature pass the legislation, and it was ultimately adopted into law.

As finally enacted into law, both Twin Rivers and Pixelle qualified as eligible entities. Ultimately, only Twin Rivers took advantage of the papermaking tax credit, as Pixelle subsequently closed its Jay facility. Therefore, while it is true that Twin Rivers is the only entity eligible for the credit today, that was not the case when it was enacted. Fortunately, Twin Rivers was able to take advantage of the papermaking credit to fill the financing gap left by the lack of eligibility for the NMCI. Twin Rivers has subsequently made significant investments in the Madawaska mill. This investment is thanks to the state's support through the papermaking tax credit, and we appreciate OPEGA's thorough review of the efficacy of this credit.

Twin Rivers' Utilization of the Papermaking Tax Credit

The adoption of the papermaking tax credit made it possible for Twin Rivers to move forward with modernizing investments at the Madawaska mill. As noted by OPEGA in its report on pg. 8, the papermaking tax credit helped fill a financing gap that made it possible to move forward with improvements and upgrades that will help maintain the longevity of the mill and Twin Rivers' long-term competitiveness in the papermaking market.

Backed by the papermaking tax credit, Twin Rivers has made $35 million dollars in total qualifying investments at the mill. As outlined in the report, these investments included upgrades and improvements to: productivity, infrastructure, obsolete or aged machinery, business continuity, mechanical and electrical restoration. Of that $35 million, Twin Rivers has only sought a certificate of completion for $23.7 million. This deferral of $11.3 million represents dollars already invested by Twin Rivers in equipment and machinery. However, for market condition reasons, Twin Rivers has not yet installed the new equipment and machinery, choosing to wait until market conditions are most advantageous to the installation.

These investments have allowed Twin Rivers to remain competitive at a time of market challenges for papermaking. As noted in the OPEGA report on pg. 13, the pulp and paper industry has shrunk faster in Maine than in the rest of the United States. Today, Twin's Madawaska mill is one of only five remaining mill facilities. The other facilities are: Woodland Pulp in Baileyville, Sappi in Somerset/Skowhegan, Sappi in Westbrook, and ND Paper in Rumford. In fact, since the papermaking tax credit was adopted, two more mills have closed in Maine – Pixelle in Jay and ND Paper in Old Town.

Twin Rivers appreciates that the papermaking tax credit has provided it the flexibility to invest substantial capital into the Madawaska mill over the past several years. Twin Rivers remains committed to innovating and staying ahead of market trends to ensure the longevity of the mill and the job security of our employees. We are grateful to the state for its foresight in enacting the papermaking tax credit to help put Twin on a level playing field and enable it to make modernizing investments. We look forward to continuing to work with the state to ensure the economic strength of the Madawaska region, and to helping continue bolster Maine's heritage papermaking industry.

Response to Report Findings

As a general matter, Twin Rivers supports the findings of the report and supports the recommendations made by OPEGA. While we take no position on the recommendation to avoid single-entity incentives, we wish to clarify that, taking into consideration the historical context discussed above, Twin Rivers was not the only entity eligible to receive the credit at the time it was enacted. Additionally, as a reminder, the purpose of this credit was to fill the eligibility gap for incentives caused by the lack of eligibility of all Maine papermakers for the NMCI. To that end, we agree with OPEGA's general findings that Maine's papermaking industry could stand to benefit from a robust incentive program aimed directly at the papermaking industry. This may be particularly true now that the state no longer has a NMCI credit program, and as the challenges in the papermaking industry continue to disproportionately impact Maine.

Additionally, Twin Rivers supports the recommendations related to the program administration and reporting. Twin Rivers was pleased to work with the Department of Economic and Community Development (DECD) in the certification process for this credit and continue to report to them annually. However, there is minimal reporting guidance in the statute, and it may be helpful for both the reporting entity and DECD to have a formal reporting process for tax credit expenditures in the future.

Conclusion and the Future of the Papermaking Tax Credit

Today, the period of qualified investment for the papermaking tax credit has expired. While Twin Rivers was grateful for the state's investment to help level the playing field and secure the future of the Madawaska mill, Twin Rivers does believe that additional incentive is necessary to bolster Maine's papermaking industry. As noted above, OPEGA's findings reveal the challenges in both effective tax rate and energy costs that drive expenses for Maine papermakers – this has made it a challenge for Maine to remain competitive in the national and international market. In fact, OPEGA's report findings on the challenges of our industry are some of the most timely and insightful of all recent reporting on the state of Maine papermaking. For this reason, Twin Rivers wants to thank OPEGA for its diligent research and evaluation of the economic challenges confronting Maine papermakers, and to take this opportunity to say on the record that we encourage the Maine legislature to take these findings to heart.

As this committee moves forward in applying best practices and ensuring transparency in tax and business incentive programs, we hope that you will consider sharing the general findings related to the need for a papermaking incentive with your colleagues in the legislature. Twin Rivers will certainly continue to work with the legislature to help find ways to ensure papermaking remains a vital part of the state's economic future.

Again, Twin Rivers thanks OPEGA and this committee for its time and commitment to establishing robust, transparent, and effective tax and business incentive programs. We are grateful for the state's partnership in ensuring the future of our Madawaska mill and we look forward to supporting public policy that will help all Maine papermakers and ensure the longevity of our industry.

Thank you for your time and attention to these comments.

Sincerely,

Tyler Rajeski

President and CFO

Twin Rivers Paper Company

Maine Forest Products Council

The voice of Maine's forest economy

Public comment on Report released by OPEGA "Evaluation of the Credit for Paper Manufacturing Facility Investment"

October 16, 2024

Patrick Strauch, Executive Director

Good morning, Senator Hickman, Representative Fay and members of the Government Oversight Committee. My name is Patrick Strauch. I am a resident of Exeter and am testifying today on behalf of the Maine Forest Products Council on the OPEGA tax credit for paper manufacturing facility investment report. The Maine Forest Products Council (the Council) is an organization representing more than 300 members from all facets of the forest products industry from the stump to the mill.

According to 2019 research by the Margaret Chase Smith Policy Center[1], the forest products industry contributes $8.1 billion annually to Maine's economy, providing 15,681 direct jobs. Roughly 1/3 of these jobs are in the pulp and paper sector. While we are in the process of updating these figures and expect that they have trended down due to post-COVID market conditions, we expect that the ratio of jobs in each sector of our industry remains similar.

Pulp and Paper sector crucial to entire forest products industry
While our members include Sappi, Nine Dragons, Woodland Pulp and St. Croix Tissue, we are testifying today on behalf of all of our members because the entire forest products industry, from our landowners and loggers to our sawmills, rely on a healthy pulp and paper sector. While loggers are harvesting in the woods, they need markets for all grades of wood to make ends meet, and honestly, in today's environment, that's still a tall order. The high-grade logs go to our sawmills, and some of the residuals from making structural timber, along with the lower grade wood from the point of the harvest, go to our pulp and paper mills to be chipped up and turned into the paper and tissue products that our society requires. Because of the nature of paper making, pulp and paper manufacturers have a larger multiplier effect than any other segment of our industry. It is the linchpin that is necessary for the entire industry work.

While it isn't news that this sector has lost ground in recent years, Maine's remaining mills are economic drivers in some of our most rural areas. Twin Rivers is the largest employer in Aroostook County with 471 employees. Woodland Pulp/St. Croix Tissue is the largest employer in Washington County with 450 employees. Sappi is the largest employer in Somerset County with 800 employees. Right down the road from there, Huhtamaki employs another 750 or so Mainers. ND Paper in Rumford employs another

[1] https://maineforest.org/wp-content/uploads/2022/08/2019-FP-Impact-Final-to-MFPC-Revised-Nov-2021.pdf

530 Mainers. And these jobs aren't limited to rural areas. Sappi also operates a mill and technology center in the Cumberland County city of Westbrook with another 160 employees.

Challenging global market conditions

Demand for pulp has weakened globally with elevated pulp inventories across most markets post COVID. Temporarily weakened demand, coupled with an influx of low-cost eucalyptus pulp from competing facilities in South America, has resulted in historically low pulp prices on the global market. Because of these challenging realities, mills that exclusively make pulp cannot compete any longer, and many mills across North America, including the ND Paper facility in Old Town, have recently closed.

Remaining mills continue to invest; remain strong

Now that's the bad news. The good news is that the pulp and paper mills that remain in Maine are making the investments that are necessary to increase efficiencies and to transition into value-added products, such as tissue paper and packaging, that are less volatile than the global pulp markets. Some of these investments, such as Sappi Somerset's $418 million project to upgrade the Skowhegan paper mill, are underway. Other projects are still in the planning stage and could most certainly benefit from access to a tax incentive program like this one.

The credit for paper manufacturing facility investment should be available to all mills with operations in Maine

Ongoing investments, while necessary to ensure long-term success, require sizeable commitments at a time that is quite challenging for pulp and paper manufacturers, worldwide. As the report shows, this tax incentive program can help by making Maine more competitive than other states with which we compete with regard to tax burden, and it provides a more meaningful benefit for facilities investing in their Maine facilities than the new Dirigo tax incentive program.

This is a beneficial program that the broad pulp and paper industry can benefit from. When companies operating pulp and paper facilities make investments to modernize their Maine facilities, everyone benefits.

For these reasons, **the Council thanks the Maine Legislature for supporting our industry through this paper manufacturing facility refundable tax credit, but we urge the committee to recommend that this program be made available to *all* facilities with operations in Maine.**

Thank you for your consideration. I would be happy to answer any questions that you may have.

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Public Comment re: OPEGA Review of the Credit for Paper Manufacturing Facility Investment

October 16, 2024

Senator Hickman, Representative Fay, and members of the Government Oversight Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We appreciate the opportunity to comment on OPEGA's review of the credit for paper manufacturing facility investment. We are grateful for the important work of OPEGA and the GOC to ensure accountability of business tax expenditure programs, and for this in-depth review.

In this review OPEGA made multiple recommendations we support and urge the Legislature to pursue. We believe these recommendations will not only improve oversight and accountability of tax expenditure programs, but will also improve transparency for Maine taxpayers.

We urge the next Government Oversight Committee to take action by introducing bills to address the following issue areas identified by OPEGA:

1) **We strongly support OPEGA's recommendation that Maine create a system to track business tax expenditures** such as the ones they cited in Tennessee and Iowa. Maine has no publicly accessible system that tracks information about tax expenditure programs. Mainers deserve more transparency about what tax breaks are going to whom, especially when businesses receive multiple subsidies or refundable tax breaks that reduce their tax liability below zero and thus receive checks of Maine taxpayer dollars. Without this information, both the public and the Legislature are in the dark about where these dollars are going and the impacts they may have.

2) **We also support OPEGA's recommendation that the Legislature consider alternate methods to single entity tax credits.** Alternatives such as grant programs allow greater targeting of benefits as well as greater oversight and accountability. When proposed programs involve tax breaks they can be given less scrutiny than those that require appropriations, although they both impact the state's bottom line. When so much public money is being given away, more oversight and accountability is warranted than can be accomplished through tax breaks.

3) **We agree with OPEGA's recommendation that DECD should improve oversight and information collection for this program, and others,** to ensure recipients are meeting statutory requirements. We believe by designating oversight tasks to a specific agency in the future the Legislature can ensure its wishes are followed.

Thank you for your time. I would be happy to answer questions should you have any.

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