



February 2018

A message from HMA's President

By Richard Wilkerson

My term as HMA President is coming to a close, and as you can imagine, I've been reminiscing. Years ago, I had a terrific conversation with Charlie Netterville, perhaps HMA's best ambassador, and that conversation has brought me to this point in my life.

Charlie called one day, and it was more than a friendly, Mississippi 'hey y'all.' He was calling to encourage me to consider being an HMA Officer. Back at that time, the HMA had two VP positions and a President, each serving terms of two years. So once you began in the 2nd VP position, you were expected to serve six years total. It was a serious commitment.

I had previously served on the HMA Board of Directors; hadn't gotten 'too involved;' and was about to complete my first year on the Executive Committee. But Charlie wanted more. In that inimitable Charlie Netterville way, he was calling me out for basically standing on the sidelines – paying dues on time and attending a few meetings.

His message was: **get involved** and you'll make friendships and connections that will serve you well for the rest of your career - friends, associates, even competitors that you will be able to call on for advice, support and information. I took his advice and well, here I am. I've gained so much more than I have given. Thank you, Charlie!

And so, I encourage you all, youngsters and oldsters, get more involved. Let HMA know – Linda, an Officer, a Board Member – if you are interested in serving on the Board, on the NextGen Leaders Council, hosting a tour, sponsoring a CEU event. HMA is strong, really strong, and we have you, our membership, to thank for that.

My personal 'thanks' to ...

During my six plus years, I've been fortunate to serve with some outstanding Officers and Board Members. And I owe much to my predecessors and mentors, Skipper Beal and Jack Shannon Jr.

Additionally, HMA is blessed with an amazing staff. Amanda Duchek, with us for little more than a year, has embraced the HMA, our traditions, and continues to grow in her position of support to the Association. And Darleen Licina-Tubbs, longtime assistant to Linda, now enjoying the good life of semi-retirement, continues to contribute to the 'messaging' of HMA. To both of you, my thanks for all you do and the support you've given me.

And finally, if you've attended any HMA event in the past two years, you no doubt have heard me sing the praises of HMA's beloved Executive Vice President, Linda Jovanovich. She is one of the true and brightest stars this industry has ever had! And I cannot thank Linda enough for all she's done for me, and the HMA.

Going forward ...

The future is bright. In March at HMA's National Conference and Expo, Bob Miller will take over as HMA President. Bob is a talented executive, and I look forward to his leadership. And remember, if Charlie Netterville gives **you** a call, pay close attention. His counsel to me was golden.

I consider all of you friends, and I thank you!



"Overflow" Hotel for NatCon Greenville

It seems that Greenville is a favorite springtime location, because HMA's room block at The Hyatt Regency Greenville is booked to capacity. But not to worry! The Aloft Greenville Downtown, at 5 N. Laurens St., Greenville, SC 29601 is just a few blocks away, and waiting to welcome you.

Reservations can be made by calling 864-297-6100 or online at <https://www.starwoodmeeting.com/Book/HardwoodManufacturersAssn>. Be sure to mention the **Hardwood Manufacturers Room Block** or **Booking Code HAC21A** to get the 'special' rate of \$199. And please, don't delay in finalizing your accommodations, as the negotiated, discounted room rate expires **Monday, February 19. THAT** Greenville is an absolute hot spot, and not just for the HMA.

2018 NatCon Roundup – "What's your ROR?"

If you are contemplating your ROR – Return on Relationships - then HMA's 2018 National Conference and Expo is the place to be! A host of on-point business sessions are in queue, and that includes some crucial information exchange during the **Industry Confab** on Thursday, March 22.

The afternoon '**Confab**,' always a favorite with HMA members, will serve as a fitting wrap-up of the day's business sessions. What should you expect? Two of the roundtable discussion topics will 'continue conversations' initiated by earlier presentations. And the third roundtable will broach a new topic. So take your pick of:

- **"Creating a Best Place to Work"** (Steve Nail, Anderson University)
- **"(Un)Conventional Problem Solving"** (Josh Green-Middle Tennessee Lumber Company, Wayne Law and David Bailey-New River Hardwoods, and Brian Schilling-Pike Lumber Company, Inc.)
- **"The latest on Thermally Modified Hardwoods"** (Patrick Donahue, University of Minnesota Duluth – Natural Resources Research Institute)

And the Conference agenda consists of much more. Noted economist and President of ITR Economics™, **Dr. Alan Beaulieu**, will be discussing both short and long-term economic forecasts in his presentation entitled, **"A Bend in the Road."** Industry analyst and editor/writer, **Dan Meyer**, Hardwood Publishing, will be providing a **"Hardwood Lumber Market Recap and Outlook in Light of Expanding Log Exports."** And you'll not want to miss the session regarding **"Hardwood Cross Laminated Timber (HCLT) – Making the Case for Industry-Wide Support."**

Other business session topics include **"Working Solutions – Little Things Make a Big Difference," "Hardwood Federation Update," "Protecting Your Operations:**

Cyber/Information Security & Physical Security,” and an HMA member panel discussing, “**(Un)Conventional Problem Solving.**”

So, don't miss this. [Register](#) to attend, today, because HMA's 2018 National Conference and Expo is where you want to be.

Recipient of Hendricks Scholarship announced

Congratulations to **Nate Chotlos**, a student in the Forestry program, **University of Wisconsin-Madison College of Agricultural and Life Sciences**, and the 2017-2018 recipient of the **Robert B. Hendricks Memorial / Hardwood Manufacturers Association Scholarship**.

In his thank you letter to the HMA, Nate said, “I grew up in Madison. Much of my childhood was spent outdoors exploring nature, so when I graduated High School, I decided to go to college and study Forestry. For the past several years, the UW Madison Forestry Club has been a huge part of my life. And I've recently been elected club President. Thank you for this scholarship. It feels good to have my hard work recognized.”

HMA also received a letter of gratitude from the College's Associate Dean for Academic Affairs, Sarah K.A. Pfatteicher, PhD. In her letter, Sarah said, “Your scholarship support sends a very powerful message that others care about our students and their education. We know that many students are motivated to work extra hard because of the support they receive. You are truly making a difference in their lives, and we thank you!”

Hardwood Federation Update

By Dana Lee Cole

Hardwood Federation Executive Director

Tax Reform...It Did Happen! In the waning days of 2017, the **Tax Cuts and Jobs Act** - legislation comprehensively revising the Internal Revenue Code - passed Congress and was signed by the President. The 600 page bill addresses a wide range of disparate issues. Below, we have attempted to describe the relevant provisions, and their potential effect, on our sector.

A word of caution—Because each company will be impacted in different ways, based on your unique circumstances, Hardwood Federation (HF) strongly urges you to consult with your tax planners and accountants as this new law moves into the implementation phase.

- **S Corporations and Pass Throughs:** The Tax Cuts and Jobs Act creates a 20 percent deduction for the non-wage portion of pass-through income, coupled with a lowering of the top individual rate to 37 percent. This blended approach creates an effective tax rate for these entities of 29.6 percent. While this rate is higher than what was promised when leadership and the Administration offered their tax reform blue print back in September, it is certainly an improvement over the current treatment of these tax structures. **One caveat**—service industries are not eligible for the deduction, but that restriction should not affect our hardwood manufacturing facilities.

The 20 percent deduction is limited to the greater of 50 percent of a business' W-2 wages, or 25 percent of a business' W-2 wages, plus 2.5 percent of the unadjusted basis, immediately after acquisition, of all qualified property held in the qualified business for taxpayers with income over \$315,000 (married) or \$157,500 (individuals). The limitation is phased in over the next \$100,000 (married) of taxable income and \$50,000(individuals).

- **Estate Tax:** The final bill maintains the estate, gift, and generation-skipping transfer taxes (currently at a 40-percent tax rate). For estates of decedents dying and gifts made after 2017, the new law doubles the exemption for all three taxes from \$5,600,000 to \$11,200,000 per person. The gift and estate tax exemptions would remain unified, so any use of the gift tax exemption during one's lifetime would decrease the estate tax exemption available at death.
- **Net Operating Losses (NOLs):** Current law generally permits a taxpayer to carry back an NOL two years and carry forward an NOL 20 years to offset taxable income. Effective for losses generated in tax years following 2017, the new law limits a taxpayer's ability to utilize its NOL deduction to 80 percent of taxable income (determined without regard to the deduction). Additionally, carrybacks of all NOLs arising in tax years after 2017 are eliminated and instead would permit all NOLs in this category to be carried forward indefinitely.
- **Expensing/cost recovery:** The new law allows for 100 percent (up from 50 percent in existing law) expensing for investments in new and used property made after Sept. 27, 2017 and before January 1, 2023. A five-year phase down of full expensing begins in 2023.
- **Sec. 179 Expensing Limits:** This benefit was made more robust by increasing the limit to \$1 million, with a phase-out beginning at \$20 million in total qualified property placed in service. The provision is expanded to include property used to furnish lodging, and improvements to nonresidential real property including roofs, heating, ventilation and air-conditioning property, fire protection and alarm systems, and security systems.
- **Business Interest Expense:** This new provision targets interest payments which companies have been able to deduct from taxation. Under the new law, the amount of interest expense companies can deduct from their taxes is limited to 30 percent of EBITDA, or earnings before interest, taxes, depreciation and amortization. This runs through 2021, after which the basis will be EBIT, or earnings before interest and taxes. EBIT is a more restrictive test and will likely increase taxes for companies with considerable depreciation or amortization.
- **State and Local Property Tax Deductions:** The new law allows individual taxpayers to deduct for tax years beginning after 2017 up to \$10,000 for any combination of state and local income taxes, property taxes, and sales taxes.
- **Corporate Tax Rate:** The final agreement settled on a 21 percent tax rate for C Corporations, a notch higher than the 20 percent rate in both the House and Senate-passed versions. The corporate alternative minimum tax, or AMT, is also repealed. Inclusion of AMT, at a 20 percent rate in the Senate version, threatened to undermine any benefits of a newly lowered 20 percent rate for C Corporations.

Also notable ...

Existing tax incentives for standing timber, and reimbursement for reforestation costs, were left alone by tax writers. Forest landowners were concerned that these incentives would be targeted to pay for comprehensive tax reform. This was an area that HF covered during our Fly-In, and we are pleased that Congress recognized the benefits of these incentives to maintain the viability of our nation's working forests

All of the renewable energy tax credits that made it into the House tax reform bill were stripped out in conference. Leadership has vowed to pursue a follow-up package of so-called "tax extenders" to address these credits. One of the proposals in the mix is the Biomass Thermal Utilization or BTU Act, which would provide an investment tax credit for installing residential and commercial biomass heating units that run on chips or pellets. The

Hardwood Federation has been advocating for this proposal as a means of addressing our residuals issues.

Going forward ...

In terms of follow-up legislative action to address the inevitable anomalies that will arise, given the speed with which this bill was fashioned, we were originally thinking that a so-called "technical corrections" bill or bills would be pursued this year. However, in talking with House and Senate staff, it appears that partisanship may preclude any technical corrections measures from proceeding through Congress.

This leaves the IRS in an interesting spot, where it will have to be creative in interpreting many of the new law's provisions without more specific direction from Congress. Again, it will be important to consult your accounting professionals regarding how the tax bill provisions impact you and your company, specifically.

As always, we will be providing updates as the 'nitty gritty' of implementing the **Tax Cuts and Jobs Act** begins.

Life Cycle Assessment Tool at your service

Did you know that "every two minutes, the U.S. Hardwood forest grows by the size of a football field?" And did you know that "it takes 0.57 seconds to grow 1m³ (35.3 cubic feet) of American red oak?" This isn't hype!

An online **Life Cycle Assessment** (LCA) tool from the American Hardwood Export Council (AHEC) now "shows the environmental impact of transporting all U.S. hardwood species, as well as calculating the rate of replenishment in the forest." The application calculates:

- "The environmental impact of delivering one cubic meter of kiln dried sawn lumber of the selected American hardwood species and thickness to the overseas customer using the specified transport route. (The data is derived from an ISO conformant LCA model prepared using GABI software by Thinkstep. The eight environmental impact categories shown are a selection of those used in EN15804-conformant Environmental Product Declarations (EPDs) of construction products and are also being pilot tested for the EU's Product Environmental Footprint (PEF) initiative.)
- The replacement rate is calculated from total U.S. annual increment of the specified hardwood species derived from the U.S. Forest Service Inventory and Analysis (FIA) program and assumes that 2 m³ of logs is harvested to produce 1 m³ of lumber (i.e. 50% conversion efficiency). The rapid rate of replacement is due to the very large volume of hardwood trees in U.S. forest."

More information about the [LCA tool](#), along with other AHEC promotional 'tools' such as the American Hardwood Environmental Profile (AHEP) and the interactive forest growth map, can be found by visiting www.americanhardwoods.org.

Hardwood CLT project *Conversation Plinth*

Boston-based architectural design firm **IKD** has collaborated with cross-laminated timber (CLT) specialists to develop CLT made from Indiana hardwood by-products. As a result, their unique project, ***Conversation Plinth***, has the potential to revolutionize "an industry that currently uses softwoods."

- "***Conversation Plinth*** is a demonstration of the value and potential applications of Indiana hardwood Cross Laminated Timber (CLT), which combines multiple species of

low-grade Indiana hardwood into an urban building material that is a fireproof, lightweight alternative to steel and concrete.

- The installation shows that by up-cycling low-value hardwood sawn logs, such as grade 3 common oak, maple and ash, a high-value hardwood CLT can be made, and subsequently used in commercial projects.”
- The project is “part of IKD's two year exploration of the potential development of the hardwood CLT industry in Indiana. And was made possible through a Wood Innovation Grant awarded by the United States Forest Service and supported by the Indiana Hardwood Lumberman’s Association, in partnership with the Indiana Department of Natural Resources,” Indiana hardwood sawmills, and U.S. CLT manufacturer, SmartLam.

“The inspiring project ultimately seeks to revolutionize the timber industry by demonstrating the viability, value and benefits of hardwood CLT.” Visit www.exhibitcolumbus.org to learn more.

Information sources: Exhibit Columbus and the American Hardwood Export Council

Robert Tucker’s “Four Modes of Thinking”

Hi there, this is your brain speaking. Just wondering which thinking mode you are operating in today? Seems simple, but it’s important to know what’s going on up there. Success in today’s hyper-competitive world depends on what’s happening upstairs in that frontal lobe of your brain where problem-solving, creativity and other cognitive functions take place.

Fortunately, doing a quick, unannounced spot check on your thinking mode couldn’t be easier. Use the list below to identify which of the four dominant thinking modes you are operating in right now.

Defeatist Mode

This mental state is dominated by worry, frustration, and fear of what might go wrong. We’re all thrust into this mode some of the time - rehashing painful past events and replaying tapes of personal setbacks and sadness. We dwell on things we “could have, should have, and would have” done. It’s an inescapable part of the human experience and a negative use of the imagination. Our “[idea factories](#)” are shut down, and our idea-producing performance is stalled.

Sustainer Mode

In this state of mind, we’re mostly “going through the motions,” sustaining the status quo. If an idea does happen to flutter into mind, we’re apt to ignore it or conjure reasons it will never work. Our voice of judgment, that inner critic we all have to deal with, is temporarily in charge. From a performance standpoint, this mode is also an inevitable part of life. Many jobs are primarily about execution and following established policies, procedures and protocols. The downside of spending long periods in this mode is that it can deaden and diminish creativity, rather than causing us to challenge the status quo with game changing ideas.

Dreamer Mode

If this is your mental state at present, give your brain a kiss! You’re on a performance path, at least as far as generating ideas is concerned. Something has stimulated these endorphins of possibility and it’s important to identify what. Perhaps you took a walk in nature, had a pleasant conversation with an old friend, or got some good news that set you off in a positive direction.

In Dreamer Mode, you come up with ideas easily —lots of them. Functional MRI brain scans show the brain’s pleasure centers lighting up when we’re in this state. We’re all here

occasionally, enjoying that dopamine rush of feelings that the future is bright, and all is right with the world, if only for a little while.

Opportunity Mode

Opportunity Mode is a confident, positive, glass-is-half-full, can-do state of mind. Our idea factories are operating at peak performance levels, plus there's an added element: an action-taking component. You are not content just to hatch ideas – you have intention to make those dreams a reality.

Your attitude is of unbridled enthusiasm; you're willing to try anything and everything until you succeed. Problems turn into opportunities. Obstacles are simply challenges to be overcome. The impossible just takes you a little longer. **Opportunity Mode is what you're in search of.** It's where productivity originates; performance is dramatically increased; and ideas flow like a mighty river.

Our research suggests that we need three to four times as many ideas every day to perform at peak levels in our work. Anything less than a constant flow of ideas won't be sufficient as we enter a future of constant change. Remember, innovation is not only coming up with ideas, but also bringing them to life.

Click [here](#) for Tucker on "How to shift modes and impact performance."

Robert B. Tucker is a "global futurist and an internationally recognized pioneer in the field of innovation." Learn more at www.innovationresource.com.

2018 Color of the Year

A press release recently issued by color giant Pantone announced **Ultra Violet** as its 2018 choice for 'Color of the Year.' Described as "inventive and imaginative, dramatically provocative and thoughtful," the purple shade was chosen because it conveys "originality, ingenuity, and visionary thinking that points us toward the future."

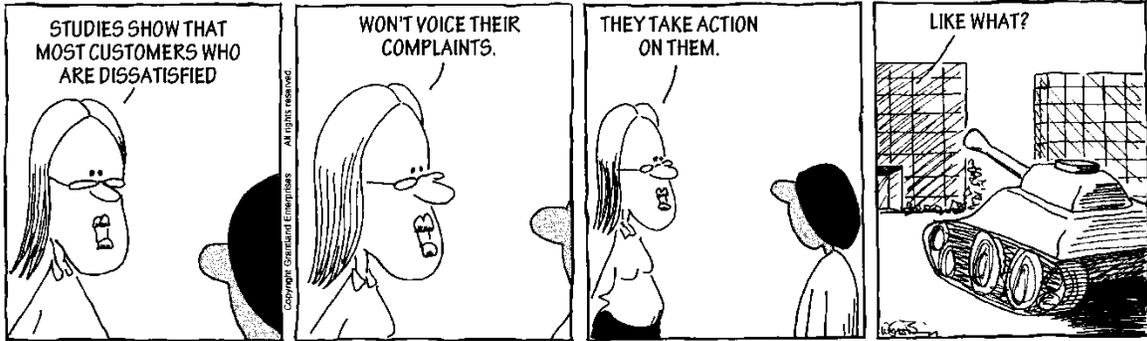
According to Laurie Pressman, Vice President of the Pantone Color Institute, "The Pantone Color of the Year has come to mean so much more than 'what's trending' in the world of design. It's truly a reflection of what's needed in our world today."

More about the color

- "Historically, there has been a mystical or spiritual quality attached to Ultra Violet. The color is often associated with mindfulness practices, which offer a higher ground to those seeking refuge from today's over-stimulated world.
- Complex and contemplative, Ultra Violet suggests the mysteries of the cosmos, the intrigue of what lies ahead, and the discoveries beyond where we are now.
- Nuanced and full of emotion, the depth of the shade symbolizes experimentation and non-conformity, spurring individuals to imagine their unique mark on the world, and push boundaries through creative outlets."

For more about color giant, Pantone, visit www.pantone.com

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