

COMMUNITY ECONOMIC DEVELOPMENT PROJECT

An Economic Stabilization Program

for

Vermont Asbestos Group, Inc.

Chris Page
5 Meadow Lane
Underhill, Vermont 05489

P R E F A C E

The following report provides specific detail of my community economic development project. Since late summer 1982, I have been intimately involved in efforts to stabilize a major employer in northern Vermont: Vermont Asbestos Group, Inc. (VAG). Well known to the development community since its ill-fated experiment in partial worker-ownership, the company has fallen on hard times during the last two years, and still faces serious operational problems.

My employer, the Economic Development Council of Northern Vermont, Inc. has contributed significant resources to an ongoing program aimed at the retention of the 175 jobs that VAG represents. Because of my direct and intense involvement in this effort, I chose to use VAG as my CED case study. A number of individuals and organizations provided assistance to this project, but Charles Carter of the Northeastern Vermont Development Association in St. Johnsbury should receive special acknowledgement for his tireless dedication to this cause.

Throughout this paper, reference is made to the "Council," for it was with the support and guidance of my Board of Directors and Executive Committee that I was able to proceed with the project. For purposes of assessment, however, I have included exhibits that typify the type of assistance that I personally provided to VAG. The majority of the many plans, applications and reports were under my authorship.



Chris Page
Underhill, Vermont
December 15, 1983

Project History

In 1974 after twenty years of ownership, the U.S. conglomerate GAF, Inc. announced its intention to cease operation of its Lowell, Vermont asbestos mining and milling facility. The proposed closing of the mine had a shattering effect upon the community since 90% of its commercial tax base and over one hundred jobs were inextricably linked to the company. Lowell lies in rural, isolated northeastern Vermont, some thirty miles south of the Canadian border. Handicapped by its size, location and lack of infrastructure, the community grew up around its natural resources: lumber and the highest grade of asbestos ore found in the continental U.S. During the twelve months following the GAF announcement, local, state and federal officials forged an alliance with local citizens and mine employees to salvage the operation. The result of this effort was the formation of the Vermont Asbestos Group, Inc. (VAG), a public company with 78% of the stock held by employees and 22% by concerned area citizens, and the purchase of the facility from GAF. By Spring 1975, VAG was in full production under employee ownership and management.

While the firm's productivity and profits remained high during the first two years under the new management, problems began to surface in 1977. The firm had begun an aggressive expansion program including research and development activities which drained VAG's capital. Employees, unhappy with their colleague's management began to divest themselves of stock, and by the 1978 annual meeting local entrepreneur Howard Manosh had acquired sufficient interest to be elected President. Manosh set about reorganizing VAG with a focus on developing markets and producing high grade fibers in demand by the chemical industry. He also initiated efforts to divest the company of its costly research and development subsidiary. As these plans began to take shape late in 1980, the asbestos market began a decline which reached serious international proportions in 1981. The automobile and construction industries previously had

consumed the majority of the lower grade asbestos removed in the production of the more expensive "Hooker-1" fiber. With drops in these industries, sales in a dramatic slump and sharp reductions in cash flow, VAG was unable to subsidize the removal of overburden necessary to reach the Hooker-1 which continued to experience strong market demand.

By December 1981 conditions had worsened to the point that VAG's management announced an "indefinite shut-down of operations." A skeleton crew of administrative personnel carried on the marketing of existing asbestos stockpiles, but the 175 mine and mill workers were laid off. Before the mine reopened in late June, most had exhausted their unemployment benefits and were without income. The adverse effect of sluggish sales, the subsidization of competition by the Canadian federal government and the accompanying favorable exchange rate and the firm's inability to invest in the development of its Hooker-1 ore beds left VAG in a precarious position. In July, the four small local banks participating in the company's financing instituted foreclosure proceedings.

For the second time in less than a decade, the Town of Lowell was faced with the potential loss of its total industrial base. The July 1982 foreclosure announcement took the community by surprise. It was generally known that the sales and productions levels at the mine were low, but few understood the extent to which the recession and adverse sentiment toward the product had damaged the company. In its effort to protect the firm, VAG filed countersuits against the banks charging them with conspiracy to obtain the company's assets. One hundred seventy-five jobs and a community's future hung in the balance. [Exhibit 1]

The Town of Lowell is a community of 575 people. Like many other small towns in northern Vermont, Lowell has experienced a steady decline in its population and tax

base since the turn of the century. In the period following World War II the community suffered its sharpest decline as residents sought employment in southern New England factories. Vermont Asbestos Group represents over 90% of Lowell's current commercial tax base. The loss of VAG will mean a direct cost to the Town of \$100,000 in annual property taxes; the company currently is paying only one-half its full rate under a tax abatement program designed to carry it through financial restructuring. The loss of 175 jobs will mean catastrophic losses of income among Lowell residents and those employees living in surrounding towns. In the past two years, many have reduced their standard of living because of the instability of VAG employment and the inability to find other suitable jobs within commuting distance of their homes. Much of the town's housing stock was built following the mine's discovery in the late 1800's and the average home age is 42.5 years. Many of these homes, in addition to the essential automobile, are commercially financed and will require continued payment with or without the owner's employment. Ironically, many of these residences and personal items are financed with the very banks which instituted foreclosure against VAG. Adjusted gross income in the community now stands at \$3,569 and approximately 62% of the local income tax returns report gross wages of less than \$10,000 per annum. Sixteen percent of the community's population receive food stamps. Even with the mine operating at full production levels, unemployment in the area averages 11.9% of the labor force.

The loss of VAG would strike a severe blow to the town; the company's \$2.5 million dollar payroll supports two local grocery stores and a gas station. A variety of other commercial services are available in nearby towns, and Morrisville, in particular, would be adversely impacted as the regional trading center for clothes, fuel, housewares, automobiles, hardware, building supplies and amusements. Since new tax burdens would fall on residential property with the closing of VAG, it is likely that spending for these items, insofar as possible, would be curtailed. Area

businesses have testified informally that a substantial downturn in retail sales is generally perceived 4-6 weeks following any VAG seasonal closing. In addition, local suppliers who serve the company directly with office supplies, tires and automotive parts, hardware and tools, mechanical repairs, fuels and numerous other items stand to lose nearly \$1.5 million in revenues with a shut-down.

Project Goals

Details of VAG's imminent closing were circulating in the financial and business communities by mid - summer 1982. At their September Board meeting the directors of the Economic Development Council (EDC) voted to offer their institutional services to assist the company in its effort to remain open. The Council's immediate goal in this action was to ensure continued employment for the VAG work force; as a longer range objective, the directors hoped to stabilize the company through a program of business assistance and financial restructuring. It was with this directive that the EDC staff initiated discussions with VAG President Manosh and a number of key management personnel and consultants. The result of these discussions was a multi-faceted development plan aimed at staving off potential action by creditors and at securing additional capital for the company. Five specific components were identified in the proposed plan:

1. Prevention of legal action against the company by its creditors.
2. Upgrading of the existing mining and milling equipment.
3. Trade assistance against low-priced imports.
4. Restructuring of the company's existing debt.
5. Employment diversification.

Methodology

The Economic Development Council sought and received the cooperation of several area organizations in implementing its plans for VAG. These included two regional planning commissions whose constituents would be affected by a potential closing and a local industrial development group consisting primarily of business representatives. [Exhibit 2] Unfortunately the Council's action, though responsive, was late. By the end of September, the local lending consortium was too deeply entrenched in foreclosure proceedings to respond to anything less than dramatic action by all parties. The action and resulting countersuit drew attention away from vitally needed long range planning and forced a focus on immediate (albeit temporary) solutions to prevailing problems. As the key components of the plan evolved, they were significantly affected by the looming possibility of immediate shutdown by either court action or failing cash flow.

Cessation of Foreclosure

All forms of assistance that the Council sought to provide VAG became contingent on the cessation of foreclosure action against the company. Thus, it became a number one priority to negotiate the withdrawal of action by the lending consortium. The Council played a significant part in opening discussions between the banks and VAG and often served in a mediating role as negotiations proceeded. While these negotiations were long and arduous, the time frame may well have been a controlling factor in their outcome. During those months, VAG's marketing firm stepped up its sales effort and dramatically increased exports. Cash flow improved, new accounts were developed and overhead costs were dramatically reduced. These positive indicators combined with the community interest expressed by the Council finally brought the

negotiations to a successful close after seven months. But even this victory was marred; one of the four participating lending institutions refused to sign the final agreement which would provide the lenders with all back interest payments and set forth a revised schedule for repayment of existing loans. The bank would settle for no less than full payment on its portion of VAG's loan. Without total agreement, the consortium had no choice but to return to the courts. The blow was devastating, and community groups pressed the "hold-out" bank for a reversal of its decision. A local religious leader used his live radio program and monthly newsletter as a forum for publicizing the action --- all to no avail. Anticipating a negative turn of events, the remaining lenders purchased the bank's share of the loan, and by July the agreement was in effect once again. [Exhibit 3]

Upgrading of Equipment

To improve the quality of its product and packaging, VAG's plan included the purchase and installation of \$1 million in new milling equipment. The Town of Lowell, (using Council staff assistance) applied for an Urban Development Action Grant (UDAG) from the U.S. Department of Housing and Urban Development. The proposed funds were then to be loaned to VAG at a below-market rate for the purchase of equipment. The UDAG funds were to be combined with loans from a quasi-public revolving loan fund, a state industrial development authority loan and an equity injection by a corporate interest. Projections developed by a business consultant familiar with mining operations indicated that the equipment installation could easily support its debt service without further drain on the company. Upgrading the mill equipment was expected to free existing cash flow for repayment of old debt and to develop new ore reserves at the Lowell mine making way for production of high-yield fibers.

[Exhibit 4]

Trade Assistance

One of the many problems faced by VAG was the importing of subsidized Canadian asbestos fiber. For many years the Canadian government has been providing grants and loans to its asbestos industry thereby allowing significant cost reductions in its final product. The Council instituted the process for having VAG certified by the U.S. government as a firm adversely impacted by foreign imports. Once certified (November 1982), the company became eligible for direct technical assistance, grants for engineering, research and development, and loan guarantees by the Department of Commerce. A diagnostic survey of the company, including marketing, finance, management and production, was begun in January 1983 by Commerce Department teams. The results of the survey form the basis for future public assistance. [Exhibits 5 and 6]

Debt Restructuring

VAG's debt structure was a component of the company's problems; a total lack of flexibility in its debt capital left the firm unable to respond to inevitable market irregularities or to increasing demand for improved product. The proposal to restructure debt was the single most encouraging sign for local lenders. The Council explored numerous avenues that included (1) loans and guarantees from the Department of Commerce, (2) integration of equipment financing with a UDAG, (3) the attraction of equity investments by both non-profit and for-profit firms and (4) the injection of low interest loans by a local revolving loan fund and the state's industrial development authority. This comprehensive financial review was designed in cooperation with the Trade Adjustment office and the lending consortium. [Exhibits 7 and 8]

Job Diversification

With the understanding that the physical life of the VAG ore reserves is finite, the proposed recovery program was designed to extend beyond the depletion of resources. Reliable estimates indicated that the ore reserves would carry VAG through the end of the century at extraction and sales rates projected by the financial consultants (roughly equal to present rates). In an effort to plan for eventual decline and closing, the community groups reviewed several mechanisms for creating a new job base in the Lowell area. These included targeting UDAG repayments toward the financing of new employment opportunities in the immediate area, establishing a local entrepreneurial program, providing employment re-training and investment in speculative development opportunities.

This plan of action formed the basic methodology under which the project was to proceed. It was, in principle, approved by the Vermont Asbestos Group directors, the Council's board and the lending institutions and seemed to offer a rational solution to a problem that consistently was at the center of controversy. [Exhibit 9]

Results

The success of the project have been clouded by recurring problems both within VAG and the asbestos industry. Despite fifteen months of concentrated effort, VAG's future is no more certain than it was last Fall. The integration of key program elements was such that problems with one nearly always affected the others; for example, the UDAG application has been withdrawn from consideration on three separate occasions. Each time, some other element of the project had encountered problems, and each time another cycle of funding (calendar quarter) was missed. Inevitably, when local financial commitments were in place, opportunities for public assistance had been missed -- or the reverse. The foreclosure negotiations cost the project considerable time and, quite likely, significant opportunities. The UDAG application was submitted for the final time in summer 1983 following the identification of a

private investor and completed the proposed package. At the same time, the lending consortium was attempting to resolve its internal foreclosure debate, and the Council was unable to certify to HUD that pending legal action would be dropped. VAG, pressed for cash, accepted the equity investment. When the foreclosure agreement was finally signed, clearing the way for yet another attempt at a UDAG, the company no longer could substantiate the needed private investment --- it already had been paid in and utilized. The inability to control outside forces proved to be a serious detriment to stabilizing the company. By July 1983 the Environmental Protection Agency announced that it was speeding up its issuance of regulations pertaining to worker exposure to asbestos fiber. While this ruling did not directly affect VAG's milling operation (the company is under the regulation of the Mine Safety and Health Act), it did severely affect VAG's industrial based clients. The issuance of the new regulations and speculation in financial markets about its effect were widely publicized. This virtually closed the door on any hope of restructuring the company's debt using traditional markets or public assistance. At the same time VAG was deep in negotiations with its employees' union over a new contract. Facing increasing pressure on its domestic sales, management proposed a three to four month winter shut-down (traditional) during which time the company would pay only one-half of the employee health benefit as a means of cutting operational costs. The union rejected the proposal and insisted on 75% company payment. When negotiations broke down in November and the workers went on strike, management responded by closing the mine and mill for the winter season. To date, no agreement has been reached, and strikers, ineligible for unemployment, are living on their own resources supplemented by union benefits of \$50 weekly. The strike and shut-down have effectively ended any possibility of achieving the project objectives in the near future. [Exhibits 10, 11 and 12]

Analysis

History does indeed repeat itself; five weeks ago Englehardt Minerals announced that it intends to close permanently its talc mining facility in Johnson, Vermont some fifteen miles from VAG. Once again, the community was stirred to action with extensive discussion of employee buy-out and public assistance. In this case 75 jobs are at stake. The experience at VAG has tempered the Council's response and likely will alter the final community reaction to this closing. Several very practical conclusions can be drawn from the VAG project:

Seek practical, obtainable objectives. The Council's effort to stabilize VAG, while valiant, was beyond the available resources. Staff time and expertise could not cope effectively with the myriad of problems that the company faced. More extensive outside assistance, particularly in addressing financial problems, should have been obtained.

Carefully assess external forces. There was within the project a failure to assess fully the forces that would impact its success. These ranged from gauging the local banking attitudes toward resolution of the problem (ie. reliance on a single lead bank for information and direction) to failure in determining the potential for regulatory intervention. The plan was drawn up with important objectives, but it lacked a clear, impartial review of obstacles.

Define organizational role. Because of the type of assistance provided to VAG, the Council became closely aligned with the company's management. However, no definitive roles were ever established within this relationship, and it was often jolted by the unilateral decisions that businesses make. Maintaining the balance between private enterprise and the public sector in a joint project is, at best, difficult. Under the conditions at VAG, decisions were made daily that affected

proposals before numerous agencies; without clear lines of authority, responsibility and communications, this often resulted in setbacks. Later, when the VAG employees called a strike, the Council could not effectively participate in any discussions, because it was viewed as an extension of the company management.

These concepts are now being applied to the Englehardt closing. The Council and other organizations are working with both the employees and the owners to find a reasonable solution, which in this case is recognized as one that may not include continued operation of the mining facility. In retrospect, the Council's efforts at VAG might better have been directed at a comprehensive assessment of employment needs in the Orleans/Lamoille county area; such a project could have produced substantive direction for encouraging, even creating, diversified employment opportunities within the region. Facing what now seems to be a slow down and ultimate closing of VAG, the community will need assistance in identifying alternative employment opportunities. It is not likely that this project will end here, for there is a continuing need in Northern Vermont for quality employment; the VAG project will serve as a springboard for an ongoing community economic development program in which the Economic Development Council will be an active partner.