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156

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

Bill No: HB 156 Date on Bill: 2/2/83
 Title: State Grain Reserve Prog
 Sponsor: Shultz
 Requestor: _____

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86
Capital				
Operating		67.6	52.6	53.6
Total		67.6	52.6	53.6

b. Revenues:

Revenue				
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2. Source of funds to offset fiscal impact of bill:

3. Assumptions:

As the official grain inspection agency in Alaska, the Division of Agriculture would be required by this bill to provide personnel and facilities to carry out the inspection function on a statewide basis as grain moves to and from the reserve. This fiscal note covers one grain inspector and equipment as listed on the attachment.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It therefore does not represent the final estimate of fiscal impact.

Prepared By: Ed Kern Phone: 376-2276
 Division: Agriculture Date: _____

Approved by Commissioner: Mary Jo Olden Date: 2/28/83
 Department: Natural Resources

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

2/15/83

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES - DIVISION OF AGRICULTURE

TO: Sharon Barton
Special Assistant

DATE: February 10, 1983

FILE NO:

TELEPHONE NO:

FROM: Ed Kero *EJK*
Development Specialist

SUBJECT: Grain Grading
Station Equipment

Carter Day Dockage Tester (FOB Minneapolis, Minn)	\$ 3,744.00
Barley riddle and sieves	216.00
Wheat riddle and sieves	152.00
Burrows (FOB Illinois)	
Boerner divider	595.00
Extension kit	119.00
Barley sieve kit	90.50
Filling hopper and stand	198.00
Boerner weight per bu apparatus (print-out)	1,750.00
Shadow graph scales	928.00
Armstrong scales	610.00
Gram scales	111.50
Laboratory torsion balance scale	470.00
Weight set	137.00
Sieve shaker	795.00
Motomco moisture meter	640.00
Barley pearler	350.00
Miscellaneous (piks, lights, pewter dishers, magnifying glass, etc.)	750.00
	<hr/>
Equipment costs	\$11,656.00
Set-up & freight estimate	3,344.00
	<hr/>
Total	\$15,000.00

DESIGNATION AS AN OFFICIAL AGENCY
FOR OFFICIAL INSPECTION
UNDER THE U.S. GRAIN STANDARDS ACT, AS AMENDED,
FROM THE FEDERAL GRAIN INSPECTION SERVICE
UNITED STATES DEPARTMENT OF AGRICULTURE
TO
ALASKA DEPARTMENT OF NATURAL RESOURCES,
DIVISION OF AGRICULTURE

This designation to perform official inspection functions, within the geographic area specified in Appendix A, is granted pursuant to the provisions of the U.S. Grain Standards Act, as amended (7 U.S.C. 71 et seq.) (Act) and the regulations under the Act (7 CFR 800 et seq.) (regulations).

The Agency shall perform all functions in accordance with and comply with all requirements of the Act, regulations, and Federal Grain Inspection Service (FGIS) instructions in effect at the time of designation or which may be promulgated subsequently.

The Agency and the officials specified in Appendix B shall be responsible for all official actions of the official inspection personnel employed by the Agency, for direct supervision of the daily official activities of such personnel, and for the conduct of official functions and related activities of the Agency.

Where feasible, the Agency shall rotate licensees among elevators and other locations so that no licensee is detailed at one location in excess of 6 months.

The Agency or personnel employed by the Agency shall not engage in any outside work or activity that consists in whole or in part of performing unofficially any function or related activity that the Agency has been designated to perform officially.

Section 7(j) of the Act requires the Agency to pay to FGIS such fees as established to cover the estimated cost to FGIS relating to supervision of the Agency and related administrative costs.

The Agency shall advise the Compliance Division, FGIS, immediately of any proposed change in name, ownership, officers or directors, or control of the Agency; and if a trust, any amendment to the trust agreement or of a change in the person of the trustee(s). The Agency also shall advise the Compliance Division, FGIS, in advance of any change in the specified service points listed in Appendix B.

The assigned geographic area specified in Appendix A may be amended upon request by the Agency if FGIS determines that such amendment is consistent with the provisions and objectives of the Act, regulations, and instructions. The Agency shall pay to FGIS the fee prescribed by the regulations for each amendment of this designation.

This designation shall terminate on the date herein stated and may be renewed in accordance with Section 7(g)(1) of the Act. The Agency may request that this designation be voluntarily canceled by giving 90 days written notice to FGIS. FGIS may revoke this designation in accordance with Section 7(g)(3) of the Act.

If the Agency is a trust or subsidiary established to address a conflict of interest prohibited by Section 11 of the Act, the designation shall terminate upon dissolution of the Agency and shall not revert to the trustees or the parent corporation.

The signatories certify that they have the authority to enter into said designation. This designation and the responsibilities thereunder are accepted for Alaska Department of Natural Resources, Division of Agriculture.

Thomas L. Carney
Signature

7/20/82
Date

Director
Title

This designation is approved by the Federal Grain Inspection Service. It is effective on June 1, 1982, and will terminate on May 31, 1985.

J. A. Shaker
Signature

July 15, 1982
Date

Director, Compliance Division
Title

APPENDIX A - DESIGNATED GEOGRAPHIC AREA

ALASKA DEPARTMENT OF NATURAL RESOURCES, DIVISION OF AGRICULTURE

Pursuant to Section 7(f)(2) of the U.S. Grain Standards Act, as amended, the following geographic area - the entire State of Alaska, excluding those export port locations within the State - is assigned to Alaska Department of Natural Resources, Division of Agriculture. This geographic area was assigned in the May 3, 1982, issue of the Federal Register (47 FR 18941).

Short Analysis of HB 156

This proposal would amend AS 44.33 (Alaska Agriculture Action Council statutes) to establish a grain reserve program. Under this program, a farmer could obtain a loan using stored grain as his collateral. The grain would have to be graded number 3 or better, would have to be stored in state-approved storage (whether on farm or not), and could not be removed by the farmer while the loan was outstanding.

The council would be authorized to make a loan based upon the USDA target price for the grain for 90 percent of the grain in storage. In other words, if a farmer put up 50,000 bushels of barley, and the target price for barley was \$2.20 per bushel, the council could loan him $\$2.20 \times 45,000$ or \$99,000. The farmer would then use that loan to capitalize his next year's crop.

After the loan had been made, the State and the farmer would try to find buyers for the collateral grain and once that had been done, and the grain was sold, the farmer's loan would fall due. The interest rate is set at 8 percent per year, and the program would apply to barley, wheat and oats.

There are three price support programs now being used by the USDA. A deficiency payment program; a loan rate program; and a grain reserve program.

The deficiency payment program is intended to compensate farmers for acreage they remove from production. The farmer establishes a production yield record over a three year period, and based upon that figure per acre, times the base number of acres (provided that he does not plant at least 15 percent of his acreage), times the difference between the target price for grain and the average selling price. In other words, if the farmer had 2000 acres of grain, but held 15 percent, or 300 acres out of production, his average yield was 40 bu/acre, the target price was \$2.60/bu and the average selling price was \$2.20/bu, then his benefit would be $2000 \text{ (acres)} \times 40 \text{ (bu/acre)} \times 40 \text{ cents} = \$32,000$. This program is aimed at keeping production low.

The loan rate program is intended to allow the farmer to delay putting his grain on the market. Because all the harvest comes in at the same time, after harvest at the end of summer, prices would be depressed if every farmer had to sell at that time. To counteract this, and give the farmers an economic bridge, we have the loan rate program. The loan rate is based upon the theoretical cost of production, which for barley in Alaska is set at \$2.38 per bushel. The farmer who participates in this program is guaranteed by the federal government that his grain will be sold for at least the cost of production. This program is closest to HB 156 as originally written.

The third federal program is a grain reserve program, which apparently has two purposes - to keep grain off the market, and to build a reserve. In this plan, the farmer can contract to store his grain for from 3 to 5 years and will get a loan, based upon the cost of production plus another variable - currently 19 cents/bu. The interest rate of 8 5/8 percent is charged only on the first year of the loan, and the government pays the farmer 26.5 cents per year per bushel for storage costs.

While some Alaskan farmers have participated in one or another of these programs, they don't have general applicability here because they are intended to keep production down. We want to encourage production.

There are some adaptations of the programs we could make. For example, we could use all three federal programs, and allow participation by farmers even though they would not qualify under fed because of the stipulation to reduce acreage. Otherwise, the plans would remain the same.

If we do set up these or similar programs, we may want to limit a farmer's participation to a certain percent of his crop, to encourage in-state use and the growth of the red meat industry.

We may want to set up quality incentives; that is, a higher allowance for number 1, less for number 2, and a bottom figure for number 3 grain.

Some potential problem program areas with HB 156

1. The federal programs are based upon number 2 barley, while HB 156 uses number 3. Due to growing conditions in Alaska, we may want to use the more liberal grade.
2. The Ag Council may be reorganized - maybe even dissolved. Should this bill anticipate that?
3. To fully implement the program, we will need a companion appropriation.
4. In the Alaska market, where local barley is selling for between \$3.60 and \$4.00 a bushel, how would this work as a price support, when the target price is only \$2.20 a bushel?
5. The bill makes no provision for storage fees. If it costs \$20/ton per year to store the grain, any grain left when the next harvest comes along would have a heavy liability, and would be at a disadvantage to compete in the market place.

MAR 2 1983

MEMORANDUM

State of Alaska

TO: John Manly
Professional Assistant
House Resources Committee
Alaska State Legislature

DATE: March 2, 1983

FILE NO:

TELEPHONE NO: 465-2400

RD Arnold
FROM: Robert D. Arnold
Deputy Commissioner
Department of Natural Resources

SUBJECT: HB 156 Comments

At yesterday's hearing on HB 156, I told the Committee that, in the event the Legislature decides to establish a grain reserve program such as that envisioned in the bill, some additional provisions should be considered. At the Committee's request, I am furnishing those suggestions.

- 1) A system for removing previous liens on grain offered;
- 2) A specific time period and price formula for release of grain from the storage reserve;
- 3) Definition of loan period and what happens to the grain at the end of the loan (as far as interest payments and ownership);
- 4) Identification of the bearer of costs while grain is in storage; and
- 5) Dollar limits to the program.

Jim LASLEY - Supports bill

1. puts in reserve program
2. target price is not inflated / avg. price
3. State mandates production
4. need market as expected
5. everything based on infrastructure
6. livestock industry needs processing plant
7. redment needs grain cheap and market
8. grain reserve program
9. land or grain State will own
10. demand vs supply 40, - 60,000 ton Delt
11. Voldez will ship outside

Bob Arnold - DUR

1. Suggestions / to locking
 - a) remove liens
 - b) price formula
 - c) specific loan period
 - d) who pays storage costs

Proposed amendment to HB 156

Page 1, line 21:

Delete [UNITED STATES TARGET]

Insert in its place:

F.O.B. Portland export

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

Bill No: HB 156 Date on Bill: 2/02/83
 Title: An Act relating to a state grain reserve program
 Sponsor: Shultz
 Requestor: _____

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86
Capital		1980.0	3960.0	5940.0
Operating		.4	.6	.7
Total		1980.4	3960.6	5940.7

b. Revenues:

Revenue		2138.4	4276.8	6415.2
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2. Source of funds to offset fiscal impact of bill:

Repayment of loans plus interest at 8% per annum.

3. Assumptions:

FY 84 - 20,000 tons of barley harvested and stored; 30 farms
 FY 85 - 40,000 tons of barley harvested and stored; 40 farms
 FY 86 - 60,000 tons of barley harvested and stored; 50 farms

Loan interest assumes term of one year.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It therefore does not represent the final estimate of fiscal impact.

Prepared By: Rep. Dick Shultz Phone: 465-4940
 Division: House Resources Date: 2/28/83

Approved by Commissioner: _____ Date: _____
 Department: _____

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
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2/15/83

HB 156 - Grain Reserve

	<u>Capital</u>	<u>Operating</u>	
FY 84	\$1,980,000	\$420	20,000 tons at \$110/ton; 90% Loan processing, 30 loans (ASDS \$10 application, plus \$4/bin, avg. 4 bins)
FY 85	\$3,960,000	\$560	40,000 tons at \$110/ton; 90% Loan processing, 40 loans
FY 86	\$5,940,000	\$700	60,000 tons at \$110/ton; 90% Loan processing; 50 loans

Revenues

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
FY 84	\$1,980,000	158,400	\$2,138,400
FY 85	\$3,960,000	316,800	\$4,276,800
FY 86	\$5,940,000	475,200	\$6,415,200