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156

Original sponsor: Shultz

1 IN THE HOUSE BY THE FINANCE COMMITTEE
2 CS FOR HOUSE BILL NO. 156 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - FIRST SESSION
5 A BILL
6 For an Act entitled: "An Act establishing the Alaska grain reserve program
7 and the Alaska grain reserve loan fund; and providing
8 for an effective date."
9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
10 * Section 1. AS 03 is amended by adding a new chapter to read:
11 CHAPTER 12. ALASKA GRAIN RESERVE PROGRAM.
12 Sec. 03.12.010. ALASKA GRAIN RESERVE PROGRAM ESTABLISHED. The
13 Alaska grain reserve program is established in the Department of
14 Natural Resources for the purpose of assisting state grain producers
15 to develop markets for their products by making loans secured by grain
16 reserves.
17 Sec. 03.12.020. DUTIES OF THE DEPARTMENT. In carrying out the
18 purposes of this chapter the department shall
19 (1) make loans to state grain producers under the con-
20 ditions set out in this chapter;
21 (2) administer and inspect stored grain held as collateral
22 for loans made under this chapter; and
23 (3) administer the Alaska grain reserve loan fund
24 (AS 03.12.040).
25 Sec. 03.12.030. CONDITIONS ON LOANS. (a) The department may
26 make a loan to a state grain producer secured by grain grown by that
27 producer in 1983 or 1984. Grain that is used as collateral for a loan
28 made under this chapter must be graded number four or better.
29 (b) The amount of a loan made under this chapter is determined

1 by multiplying 90 percent of the United States Department of Agricul-
2 ture target price per ton for the type and grade of grain offered as
3 collateral by the total tonnage of the collateral.

4 (c) The interest rate on a loan made under this chapter is equal
5 to the interest rate on a loan made under AS 03.10.030(a).

6 (d) Grain that is held as collateral for a loan made under this
7 chapter shall be stored in a storage facility approved by the depart-
8 ment. The borrower may provide storage for the grain if the depart-
9 ment determines that the storage provided by the borrower will ade-
10 quately protect the department's interest in the grain. The depart-
11 ment may inspect a storage facility provided by a borrower at any time
12 and shall adopt regulations setting standards for storage facilities.
13 Storage costs shall be paid to the borrower by the department during
14 the term of the loan at the United States Department of Agriculture
15 grain reserve loan storage rate.

16 (e) A borrower may not remove, sell, or otherwise dispose of
17 grain held as collateral for a loan under this chapter without the
18 consent of the department. All proceeds from the sale of collateral,
19 up to an amount equal to the value originally assigned to that col-
20 lateral under (b) of this section, plus accrued interest on the por-
21 tion of the loan secured by that collateral, shall be applied to the
22 outstanding balance of the loan.

23 (f) A loan made under this chapter shall be for a term that may
24 not exceed three years. The borrower shall make annual payments of
25 accrued interest during the term of the loan.

26 (g) In this section references to grain grading standards,
27 target prices, volume or weight calculations and inspection standards,
28 indicate standards, prices, or calculations that are in accordance
29 with applicable United States Department of Agriculture standards.

Not in Senate bill (SB 169)

1 (h) A loan may not be made under this chapter to a producer that
2 is eligible to participate in federal grain reserve loan programs.

3 Sec. 03.12.040. ALASKA GRAIN RESERVE LOAN FUND. The Alaska
4 grain reserve loan fund is established in the department for the
5 purpose of financing loans made under this chapter. The fund consists
6 of appropriations made to it by the legislature.

7 Sec. 03.12.050. ADMINISTRATION OF FUND. The commissioner shall
8 administer the fund in conjunction with the agricultural loan fund
9 board established under AS 03.10.050. A loan in excess of \$25,000 may
10 not be made by the commissioner without the approval of the board.

11 Sec. 03.12.060. REGULATIONS. The department shall adopt regula-
12 tions to carry out the purposes of this chapter.

13 Sec. 03.12.070. ADMINISTRATIVE PROCEDURE ACT. In carrying out
14 the provisions of this chapter the department is subject to the Admin-
15 istrative Procedure Act (AS 44.62).

16 Sec. 03.12.200. DEFINITIONS. In this chapter

17 (1) "commissioner" means the commissioner of natural re-
18 sources;

19 (2) "department" means the Department of Natural Resources;

20 (3) "fund" means the Alaska grain reserve loan fund; and

21 (4) "grain" means barley, wheat or oats.

22 * Sec. 2. AS 44.62.330(a) is amended by adding a new paragraph to read:

23 (52) Department of Natural Resources concerning the Alaska
24 grain reserve program (AS 03.12).

25 * Sec. 3. The Alaska grain reserve program and the Alaska grain reserve
26 loan fund established in sec. 1 of this Act terminate January 1, 1988. All
27 money and other assets of the Alaska grain reserve program and all money
28 and other assets in the Alaska grain reserve loan fund, as of January 1,
29 1988, shall be transferred to the general fund on that date. The

1 Department of Natural Resources shall collect loan payments on grain re-
2 serve loans that are outstanding on January 1, 1988 and shall transfer
3 those payments into the general fund.

4 * Sec. 4. AS 03.12 is repealed.

5 * Sec. 5. Section 4 of this Act takes effect January 1, 1988.

6 * Sec. 6. Sections 1 - 3 of this Act takes effect immediately in accor-
7 dance with AS 01.10.070(c).

<CS FOR HOUSE BILL NO. 156 (FIN)> by the Finance Committee, entitled:

"An Act establishing the Alaska grain reserve program and the Alaska grain reserve loan fund and providing for an effective date."

was read the first time and referred to the Resources Committee and the Finance Committee.

The Resources Committee considered <CS FOR HOUSE BILL NO. 156> <<FIN)> (Alaska grain reserve program and the Alaska grain reserve loan fund) and a majority of the committee recommended do pass. The report was signed by Senator Fahrenkamp, Chairman and concurred in by Senators Ziegler, Paul Fischer, Mulcahy and Sturgulewski. Senator Vic Fischer signed "no recommendation".

CS FOR HOUSE BILL NO. 156 (FIN) was referred to the Finance Committee.

Senator Bennett, Co-Chairman, moved and asked unanimous consent that the Finance Committee referral on HOUSE BILL NO. 156 (establishing the Alaska grain reserve program and the Alaska grain reserve loan fund) be waived. Without objection, it was so ordered.

HOUSE BILL NO. 156 was referred to the Rules Committee.

CSHB 156 (Fin)
ESTABLISHING THE ALASKA GRAIN RESERVE PROGRAM AND THE ALASKA
GRAIN RESERVE LOAN FUND.
SPONSOR: SHULTZ, LACHER

Identical to CSSB 169 (Res) with the addition of 03.12.010(h):

Loans may not be made under this chapter to a producer
that is eligible to participate in federal grain reserve
loan programs.

(Participation in federal programs requires a 3-year history.
Problem may arise, as federal program is a disincentive to
growing grain, and the State program is an incentive.)

Answers to Questions on Senate Bill 169 - Based on current market information supplied to Senator Moss' office on May 22, 1983.

(1) What is the possible effect of the State's discretionary powers over the reserve grain? Can they refuse to release the grain to small-scale consumers in order to accumulate enough for export or for sale to a large-scale consumer?

As the bill is presently worded, the Department of Natural Resources does have that discretion. An amendment could be introduced to address this potential problem by giving local livestock producers first option on the sale of any state-owned reserve grain.

(2) Why are we trying to produce and store grain when the Federal Government is paying farmers in the Lower 48 not to produce grain?

(a) If we are to have a viable red meat industry in this state, we must either raise or import our feed grain. The economics are as follows:

Feed grains imported from outside the state come either in bulk on railroad cars or bagged in 100# sacks. Current bulk barley price at the Port of Seattle is \$120/ton and bulk shipping costs are approximately \$60/ton. The total cost to land bulk barley is \$180/ton. Bagged barley costs approximately \$10/ton more than bulk barley, and the freight rate is approximately \$120/ton. Total cost to land bagged barley is approximately \$250/ton.

The cost of producing barley in Alaska is approximately \$110/ton. This price includes a return to the producer. Thus, there is a \$70 to \$140/ton saving to the Alaskan livestock producer using Alaskan barley. Transportation costs from Delta range for \$2 to \$15/ton depending upon distance and volume shipped. It should be noted here that most livestock producers are not willing to raise stock without the assurance of a reserve of cheaper Alaska barley on hand. If the industry experienced unprecedented growth in livestock numbers, or a crop failure, the livestock producers could fall back on the reserve rather than import more expensive grain from Seattle.

(b) Alaskan livestock producers cannot compete with Lower 48 livestock producers if the cost of feed barley is above \$110-\$125/ton, and as was shown above, barley cannot be imported and landed for less than \$180/ton, but can be raised in-state for the \$110 figure plus freight.

(c) Also, barley is not one of the grains included in the Federal feed grain reduction program. According to information supplied by Mr. Roy Kozart, Director of the Federal Reserve Program, during a teleconference on May 24, 1983, increased Alaskan feed grain production will not adversely affect the federal programs.

Basically, the argument is irrelevant because Alaskan grain producers are not being paid to not produce barley, and there is a need and a market for the cheaper Alaskan barley.

(3) Are the producers going to make money by letting the state have the grain at the end of three years because the interest payments are less than the storage payments?

Probably not. The grain producer will most likely sell his stored crop within the first year. The figures look like this: If the producer gets 90% of the target price (\$107), he will get \$96. He will then get \$11.07/ton/year for storage from the state. He also has to make an annual interest payment of \$7.70/ton/year. At the end of the first year, the most that the producer will get from his loan and storage payments after the annual interest payment is \$99.37, and at the end of the third year \$106.11. This is less than the grain producer could get from the livestock producers (\$110-\$125/ton), and is also less than the export price of \$120/ton.

(4) What would be the effect on the market if the state were to release all reserve grain at the end of three years?

The market price would of course be forced downward, benefiting the livestock producer and the consumer, but it should be noted that the state would not get less for the grain than what the livestock producers would pay for it on the open market.

Held over.

SB 169 ESTABLISHING THE ALASKA GRAIN RESERVE PROGRAM AND THE ALASKA GRAIN RESERVE LOAN FUND.

SPONSOR: MOSS. THERE IS A RESOURCES COMMITTEE SUBSTITUTE.

Establishes a grain reserve program in DNR to assist state grain producers by making loans secured by grain reserves. Alaska grain producers have no production history so are not eligible for Federal programs that aid grain producers in the Lower 48. SB 169 would give the Alaskan producer an incentive to produce grain by guaranteeing compensation. If the grain is not sold, a loan could be made to the producer against the value of the grain in storage. This would help establish a production record which would make the Alaskan producer eligible for the federal programs.

The Resources Committee substitute is supported by DNR. Major changes:

- The State would pay for storage of the grain to ensure quality storage facilities and to ensure that storage fees do not become a disincentive for program operation.
- The grain reserve fund program would be administered in conjunction with the Agricultural Loan Fund Board to ensure more efficient administration.
- Limits the loans for the 1983 and 1984 crop years and would terminate the program three years later, at the end of 1987 when the 3-year loan payment period expires.

A companion bill, which would appropriate \$1.65 million for the grain reserve loan program (SB 170) is still in Senate Finance