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Senator John B. (Jack) Coghill  
Alaska State Legislature

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M E M O R A N D U M

TO: Representative Dick Shultz  
FROM: Senator Coghill  
RE: Background information SB 349  
DATE: April 22, 1986

A handwritten signature in black ink, appearing to be "J. Coghill", with a long horizontal line extending to the right.

Attached you will find a set of figures that show what typical farmers debt load consists of. These figures are representative of Delta I and Delta II farms. I am also including a packet of pertinent information.

Senate Bill 349 will give the State an opportunity to start divesting itself from the Delta project. One thing that all parties will agree with is that the project should stand or fall on its own merits. There are two alternatives to a solution for the woes of the Delta project: one is to restructure the debt load in realistic terms of what can be produced considering the present in State market; the other is to devise a plan to dismantle the project. The years of toll that the farmers have put into the project cannot be disregarded by our lack of action.

When we talk about dismantling the Delta project, the amount of investment that has been made in infrastructures (about 26 million dollars) would be lost. The loss would be magnified because we are not likely to ever see the time again when the State can make those kinds of investments. Re-growth will mean that the time and money put into clearing vast amounts of land will all go to waste. This bill will put into motion a plan to salvage investment and minimize loss.

Rather than arguing about who is responsible for the problems of the past, this is a way for the State to recover investments made into the agriculture industry. This bill doesn't forgive debt but it does restructure the debt to reflect a manageable debt load that a "good" farmer could service.

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Dealing with this dilemma in realistic terms will mean that as the market increases the farmers will be able to expand on their own. The State market presently is between 13,000 and 17,000 tons per year. As this grows, grain production can expand spurred on by the law of supply and demand in the private sector, not by State involvement or direction. The whole picture of the Delta project can be brought into perspective in an analogy with any other business. You don't start out big and hope to create market with a minimal cash flow; you start out small and expand as you are able to.

The concept of how the reorganizational bill will work is that a farmer who has an unmanageable debt load will relinquish a percentage of his land back to the State and the State would then credit the land clearing loans the same percentage. Using an example of what a typical farmer can expect to gross between \$125,000 and \$150,000. After paying back operating loans at \$110,000, the farmer has \$15,000 to \$40,000 to service debt with. At the present time a farmer would need roughly \$96,000. By turning back 50% of his land and re-negotiating the chattel and farm development loans, the farmer would need \$49,000. This is close to what he could expect to service. The figures that I just mentioned don't reflect that the farmer and his family still have to eat. With a lower operating cost, a per acre production increase and production credits, the farmer could make it.

The Committee Substitute to SB 349 is intended to spell out how this restructuring process will work. A zero fiscal note would accompany this bill since there are no survey costs and no appraisals of land to be made.

Section 3 of SB 349 prohibits farmers from participating in federal programs that would provide monetary incentives for keeping agricultural land out of production. This just doesn't make sense. As I mentioned before the intent of this bill should be to get farmers out on their own. Being able to participate in a federal program that farmers across the country are taking advantage of puts these farmers closer to becoming self sufficient instead of being just components of a state agricultural project. The additional money that could be generated from participation in these programs could also help insure the return on the states investment in the project.

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Also attached is a description of federal programs that farmers in the state could participate in. The Commodity Price Support Program addresses the problems in a depressed market that have caused the price of grain to go down. The average number of acres that would be taken out of production would be 66. Because of the short planting window most farmers now can't plant their whole farm so this won't take land out of production but it will help to stabilize the situation. The Conservation Acreage Reserve Program only removes land that is highly erodible or poses an off-farm environmental hazard. This program at the most will only effect two farms in the Delta area and by the very nature of the program only takes land out of production for sound reasons.

I urge you to remove this section from the bill in the best interest of farming and the state.

Offered: 3/4/86  
Referred: Rules

Original sponsors: Coghill and  
Kerttula

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2

CS FOR SENATE BILL NO. 349 (Finance)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the reorganization of private  
7 debt at a Delta Project."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. LEGISLATIVE FINDINGS. The legislature finds that the  
10 large grain farms that were developed on state agricultural land in the  
11 Delta Projects are subject to a personal debt load that is unmanageable  
12 because of a coincidence of unique and unforeseen circumstances:

13 (1) the unforeseen difficulties with the limited growing seasons  
14 including the extremely short period in which the crops may be planted;

15 (2) conflicts with the herds of bison located in the area;

16 (3) the inadequate agricultural infrastructure in the area of  
17 the Delta Projects and in the state;

18 (4) the depressed grain prices nationwide;

19 (5) the unexpected problems with economic farm size.

20 \* Sec. 2. (a) The commissioner of natural resources shall, at the re-  
21 quest of an individual who holds agricultural rights to land purchased from  
22 the state in a Delta Project,

23 (1) accept the relinquishment of agricultural land purchased  
24 from the state in a Delta Project and credit the percentage of the debt  
25 owed to the state on land purchased and land clearing loans that equals the  
26 percentage of land relinquished under this section, either by acreage or by  
27 value, as determined by the commissioner;

28 (2) enter into an agreement with the individual for the lease  
29 for agricultural purposes only of a portion of or all of the land

1 relinquished for a term of 20 years at the full fair market value of the  
2 land; a survey under this paragraph, if required, shall be at the expense  
3 of the individual.

4 (b) If an individual who has relinquished land under this section  
5 applies before July 1, 1987 for a lease on all or part of the land relin-  
6 quished, the lease shall provide the lessee an option to purchase the land  
7 leased under sec. 2(a)(2) of this Act at full fair market value at the time  
8 of purchase without reduction to reflect the remaining lease term.

9 (c) The commissioner of natural resources in consultation with the  
10 Agricultural Revolving Loan Board may renegotiate with the individual loans  
11 for chattels or farm improvements located on the agricultural land in a  
12 Delta Project if the commissioner determines that renegotiation is neces-  
13 sary to minimize financial losses to the state and that it is in the best  
14 interest of the state.

15 \* Sec. 3. The provisions of this Act are not available to an individual  
16 participating in a federal farm program that provides monetary or other  
17 incentives for keeping agricultural land in a Delta Project out of produc-  
18 tion.

19 \* Sec. 4. This Act is repealed July 1, 1988.

ACTUAL DELTA I FARMER

<u>Loan Type</u>	<u>Total Loan</u>	<u>Annual Loan Payment</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
Land Purchase	\$ 0	\$ 0	\$ 0	\$ 0
Land Clearing	370,600	24,590	3,018	21,572
Chattel	300,000	57,621	45,741	11,879
Farm Development	154,000	15,685	4,578	11,106
Operating	<u>101,000</u>	<u>109,080</u>	<u>101,000</u>	<u>8,080</u>
TOTAL	\$925,600	\$206,976	\$154,337	\$52,637

ACTUAL DELTA II FARMER

Land Purchase	\$324,000	\$ 43,376	\$ 4,496	\$38,880
Land Clearing	307,000	25,745	1,612	24,132
Chattel	181,000	34,765	27,597	7,167
Farm Development	95,000	9,675	2,824	6,851
Operating	<u>117,000</u>	<u>126,360</u>	<u>117,000</u>	<u>9,360</u>
TOTAL	\$1,024,000	\$239,921	\$153,529	\$86,390

STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date : 2-4-86

REQUEST

Bill/Resolution No. : CSSB 349  
Title : Reorganization of Delta Debt

Sponsor : Sen. Cognill, Sen. Kerttula  
Requestor : Senate Resources Committee  
Date of Request : February 4, 1986

FISCAL DETAIL

Agency Affected : Natural Resources  
BRU: Land and Water Management  
Agricultural Management

Components : Public Use  
ARLF

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>

CAPITAL						
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REVENUE	**					
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**FUNDING : (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>	<b>- 0 -</b>

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

\*\*See attached explanation.

Prepared by : Carol Wilson  
Division : Commissioner's Office

Phone : 465-2400  
Date : 2-4-86

Approved by Commissioner : Thomas D. Kinnel, Deputy  
Agency : Natural Resources

Date : 2/4/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget

Analysis for Fiscal Note, Senate Bill 349  
Reorganization of Delta Agricultural Project Debt

Revenue

A paper loss of as much as \$14,800,000 could be realized if 37 parcels of 2000 acres each are relinquished to the State.

37 parcels x 2,000 acres per parcel x \$200 per acre =  
\$14,800,000.

However, since the clearing loans and land contract payments may not be collectable under current Delta financial conditions, and because the State would receive cleared land in lieu of land and loan payments under this bill, it could also be argued that no revenue loss would occur.

In addition, renegotiating ARLF chattel and farm improvement loans could result in reductions in loan principal and interest due the State. However, since foreclosure and resale of farm chattel and improvements could generate less income than could be realized from loan renegotiations, it could be argued that no revenue loss would occur.

## FEDERAL AGRICULTURAL PROGRAMS IN ALASKA

### 1. Commodity Price Support Programs

Administration of farm commodity programs is the responsibility of the Agricultural Stabilization and Conservation Service (ASCS), a part of the USDA. These farm commodity programs are generally price support programs that allow farmers to receive payments equal to the difference between current commodity prices and federally established target prices. These payments are called deficiency payments. In order to participate in deficiency payment programs, a farmer must have a history of farm production. Farmers do not receive payments for land that is not planted, although this is often the public's perception of deficiency payment programs. Participation in a particular program may, however, require the farmer to limit the total number of acres planted in order to reduce the amount of the commodity that is marketed.

Alaska farmers could participate in barley, oat, and wheat deficiency payment programs. In 1985, the only Alaska participation was in the barley program and twelve Delta farmers received approximately \$180,000 in deficiency payments. On a per bushel basis, the deficiency payment equaled 52¢ per bushel. The 12 farmers planted a total of 7,179 acres of barley in 1985, an average of 598 acres per

farm. In order to participate, these farmers had to reduce production from their previous two-year average by an average of 66 acres per farm.

The new federal farm bill has made some changes in the deficiency payment program for the period 1986-90. The acreage base for eligible farmers, (the maximum acres for which deficiency payments could be made), now equals the average of planted acres during the preceding five years. Previously, the base acreage average was determined by the preceding two years. The number of farmers from Delta participating in the program will now be reduced because most have not produced crops for the required five years. The yield for which a farmer can now receive deficiency payments is the average of the 1981-85 program yield minus the high and low years.

## 2. Conservation Acreage Reserve Program

The Conservation Acreage Reserve (CAS) program is new and was created by the 1985 farm bill. Its purpose is to remove from production land that is highly erodible, land that poses an off-farm environmental hazard, or land that should not be continually used because of soil salinity.

The CAS program allows the Secretary of Agriculture to contract with farmers to place highly erodible land in the

reserve for ten years. To be eligible for the reserve, the land must meet certain criteria. Farmers must submit bids for land eligible for the reserve and the Secretary accepts or rejects the bid. Generally, the lowest bids will be accepted first.

Land in the CAS must be planted with a vegetative cover, which can consist of permanent grasses, legumes, shrubs, trees, windbreaks, or shelterbelts. Land in the CAS cannot be used for grazing or harvested without approval of the Secretary, and approval will be granted only if a drought or similar emergency exists. There is a \$50,000 limit per year per person on CAS rental payments.

Only 25% of the cropland in a county may be in the CAS. The State of Alaska has been divided into two counties. Delta Junction is considered one county and the remainder of the state the other. Eleven farmers from Delta Junction have recently submitted bids for approximately 5,000 acres to be included in the CAS. However, only one bid has been accepted by the Secretary. One additional bid, that was rejected because it failed to meet land qualification criteria, has been appealed. If the appeal is successful, the land may be accepted into the CAS. At most, land from two Delta farms will be included in the CAS in 1986.

### 3. Marketing and Inspection Programs

A. Animal and Plant Health Inspection Services (APHIS) - This agency is primarily concerned with animal and plant disease, pest control, and animal welfare issues. APHIS is also responsible for plant and animal quarantines. In Alaska, APHIS has cooperated in the development of a plant quarantine station in southcentral Alaska. A federal APHIS veterinarian is stationed in Alaska to prevent importation of diseased animals.

B. Food Safety and Inspection Services (FSIS) - Under the 1967 U.S. Wholesome Meat Act, the federal government establishes minimum standards for meat that is processed for interstate and intrastate trade and also inspects the meat. State governments are permitted to maintain a state inspection service for meat that remains in the state, and the federal government pays part of the cost of the program. Alaska maintains a state meat inspection service.

~~-----~~C. ~~Agricultural Marketing Service~~ (AMS) - The AMS provides crop and livestock market news service to all states. The Alaska Division of Agriculture obtains information from this service. The AMS also has a state marketing grant program and the Division of Agriculture has been a recipient of its grants. The AMS provides terminal market inspections for fruits and vegetables. The Division of Agriculture has a

federally licensed inspector to provide this service in Alaska. Farms requesting an inspection are charged a fee for the service. The Division of Agriculture also conducts shell egg surveillance. This is a federal program for which the state is reimbursed.

4. Small Community and Rural Development Program

A. Farmers Home Administration (FmHA) - Farmers who cannot obtain credit from other organizations can be successful loan applicants with FmHA. Unfortunately, the FmHA has been reluctant to accept land as collateral if the land title is limited to only the agricultural interest. FmHA loans in Alaska currently total \$1,000,000. About 15 farmers have loans from the FmHA.

B. Federal Crop Insurance Corporation (FCIC) - Farmers may purchase crop insurance from the FCIC for their barley crops. Although the state pays a portion of the insurance premium, the insurance is expensive in Alaska and few, if any, farmers were covered in 1985.

5. Natural Resources, Research, and Education Programs

A. Agricultural Research Service (ARS) - This is the chief research agency of the USDA. In Alaska, it conducts research

on conservation tillage. There are two ARS staff in Alaska. Both are researchers and are stationed in Fairbanks.

B. Statistical Reporting Service (SRS) - SRS is responsible for providing data on U.S. agriculture. The SRS provides information on Alaska agriculture through the Alaska Crop and Livestock Reporting Service.

C. Cooperative State Research Service (CSRS) - Formula research funds are provided to state agricultural experiment stations from the CSRS. The Agricultural and Forestry Experiment Station, University of Alaska, administers these funds in Alaska.

D. Extension Service (ES) - This is the federal arm of the Cooperative Extension Service, University of Alaska (CES). The ES provides formula funding and technical support to CES.

E. Soil Conservation Service (SCS) - Nationwide, SCS conducts soil surveys and provides technical help for soil erosion problems. The SCS is the major source for technical services and soils information.