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# Alaska State Legislature

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## Senate Committee on Resources

M E M O R A N D U M

March 12, 1985

TO: All Members  
Senate Resources Committee

FROM: Staff *H*  
Senate Resources Committee

RE: SSSB 40 "An Act allowing agricultural production credits; and providing for an effective date."

Sponsor Substitute for Senate Bill 40 would establish a program of agricultural production credits to be applied against interest on agricultural land loans and interest on loans through the Alaska Revolving Loan Fund.

The credit applicable to the years 1984 - 1988 is 20% of the documented sales on IRS Schedule F (Form 1040). Beginning in 1989 the percentage of credit declines by 2% each year.

This credit would be repealed December 31, 198<sup>9</sup>4.

Included in this packet are:

1. A Bill Analysis from DNR;
2. A Fiscal Note from DNR which is zero;
3. Development of Agriculture in Alaska: Summary Section, DNR,
4. A letter from DNR discussing production credits and supporting the concept;
5. A Resolution from the Greater Fairbanks Chamber of Commerce supporting production credits; and
6. A letter from Karen O. Lee supporting production credits.

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M  
JUNEAU, ALASKA 99811  
PHONE: 907-465-2400

March 12, 1985

The Honorable Arliss Sturgulewski  
Chair, Senate Resources Committee  
Pouch V  
Juneau, AK 99811

Dear Senator Sturgulewski:

As you have requested, the Department of Natural Resources has reviewed the Sponsor Substitute for Senate Bill 40, the Committee Substitute for Senate Bill 120 (Resources) and the Committee Substitute for Senate Bill 57 (Resources). We offer our support for these three bills and are very pleased to note that they allow the department to undertake many of the actions we believe are necessary to assist farmers and promote the development of agriculture in Alaska.

Our recent report to the Governor on agriculture identified high debt levels and the difficulties associated with marketing farm products as major problems faced by Alaska's farmers. The solutions we have proposed include establishment of a production credit program, similar to the program described in SSSB 40; increasing the flexibility of the Agricultural Revolving Loan Fund (ARLF) to restructure loans, and assisting in the organization of commodity marketing associations, as outlined in CSSB 120; and encouraging the preferential use of Alaska agricultural products when state money is used for purchases, as described in CSSB 57.

We have enclosed specific information about each bill with this letter, and a summary of our report on agriculture in Alaska.

Please let us know if you need additional information about these bills or our agricultural programs.

Sincerely,



Esther C. Wunnick  
Commissioner

Enclosures

Analysis of the SS for SB 40

The SS for SB 40 establishes a system which encourages Alaska's farmers to increase farm production by awarding credits for the sale of farm products grown or raised in Alaska. These production credits would be based on 20 percent of the farm product sales listed on federal income tax Schedule F, and could be applied against interest due on state agricultural land purchases and loans.

The production credit program would end in 1994 and credits would decrease by two percent per year, for five years, beginning with 1989 sales. No additional appropriations are required.

**STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE**

Revision Date: \_\_\_\_\_

**REQUEST**

Bill/Resolution No.: SSSB 40  
 Title: Agricultural Production Credits  
 Sponsor: Sens. Kerttula & Coghill  
 Requestor: Senate Resources Comm.  
 Date of Request: 3/8/85

**FISCAL DETAIL**

Agency Affected: Natural Resources, Div. of Ag  
 Program Category Affected: NRMEC  
 BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

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

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<b>TOTAL OPERATING</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>CAPITAL</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>REVENUE</b>	-0-	-0-	-0-	-0-	-0-	-0-

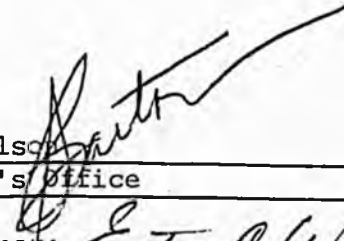
**FUNDING: (Thousands of Dollars)**

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

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** Attach a separate page if necessary

Prepared By: Carol Wilson  Phone: 465-2400  
 Division: Commissioner's Office Date: 3/11/85  
 Approved by Commissioner: Arthur C. Winnick Date: 3/12/85  
 Agency: Natural Resources

Distribution (by Agency preparing fiscal note):  
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 Impacted Agency(ies)

DEVELOPMENT OF AGRICULTURE IN ALASKA:  
A REVIEW OF PROGRESS AND PLANS

A Special Report to Governor Sheffield

Prepared by:  
State of Alaska  
Department of Natural Resources  
Esther C. Wunnicke, Commissioner  
Division of Agriculture  
Bill L. Heim, Director

March 1985

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## SUMMARY

This second report to Governor Sheffield on the Division of Agriculture's programs and plans for agricultural development describes actions taken since the last report, proposes new actions, and discusses the current industry situation.

### The Success of the Alaska Agriculture Community

Alaska's agricultural sector has grown by increasing margins in recent years, compared with a downward trend nationally. This is due chiefly to agricultural project developments at Delta and Point MacKenzie. Cash receipts for Alaska farm commodities grew by 10 percent between 1981 and 1982, and by 16 percent between 1982 and 1983. This upward trend may be even more dramatic when final 1984 figures are released.

Production highlights for 1984 include:

- o Crops

Barley harvest set an historical record with 525,000 bushels harvested, 156,000 bushels above the previous record. This reflects production increases primarily from the Delta agricultural project. Oat production increased by 200 percent over 1983. Lettuce acreage increased by 20 percent. The largest potato crop since 1967 was harvested.

- o Livestock

Dairying expanded as three new farms began operating at Point MacKenzie during 1984. Milk production increased three percent. A new milk-processing facility opened in Delta Junction. Milk production will grow at a faster pace in 1985 as 10 to 15 new dairy farms begin operation.

Meat marketing saw gains during 1984. The new meat-processing plant in Palmer had its first full year of operation in 1984 and Alaska-grown meat products became available in Anchorage in greater quantities. In Fairbanks, Alaska choice beef became available for the first time on a weekly basis, from animals fed in Delta Junction. A new livestock packing plant will open in Fairbanks in 1985, further stimulating interest in livestock production.

The primary opportunity for development of Alaska agriculture is to meet in-state needs since relatively large markets are available. In order to meet this market opportunity, the following objectives have been developed as the basis of programs and plans of the Division of Agriculture.

- o Encourage expanded production of competitively-priced farm products from existing agricultural lands in Alaska;
- o Increase the number of acres devoted to agricultural production in Alaska;

- o Preserve options to allow for increased production in Alaska to meet potential in-state market expansion and future export possibilities.

#### Accomplishments as a Result of the First Report

Much has been accomplished as a result of the State's undertaking most of the actions proposed in the 1983 report to the Governor on agriculture. These actions had a direct influence on the gains made in agriculture. Actions include:

- o Additional funding of the Agricultural Revolving Loan Fund;
- o Increased marketing service support programs;
- o Additional funding of the Grain Reserve program;
- o Support of Federal Crop Insurance;
- o Provision of electrical power to Point MacKenzie;
- o Construction of 20 miles of roads within small agricultural sales;
- o Sale of 4,500 acres of State land for agricultural development on 13 new farm parcels;
- o Providing 7,260 acres for agricultural homestead filing on 64 parcels.

## The Action Plan for Alaska Agriculture

In order to assist Alaska farmers and others involved in agribusinesses, the Division of Agriculture recently conducted a major review of state agricultural programs and problems. The objective was to review and critique prior actions and accomplishments, and consider new trends and responses which could benefit Alaska's agricultural economy. Because of limitations on State revenues, the review centered around the development of an action plan that would not require extensive State funding to complete. The review process has led to the identification of six issues of concern, and proposals for actions to help enhance the future of Alaska agriculture.

### 1. Issue -- Large debt of new farmers in Alaska

Action: Enact legislation to develop a production credit program available statewide.

Action: Investigate methods of restructuring farm debt through partial releases, reduced farm parcel size, and lease preferences on land returned to the state by current owners.

Action: Allow combining and splitting of agricultural tracts and providing for farmsteads on new tracts.

2. Issue -- Lack of market development

Action: Enact legislation to allow and fund commodity associations.

Action: Encourage preferential use of Alaska agricultural products by state agencies.

Action: Emphasize marketing assistance from Division of Agriculture personnel to farmers.

Action: Reactivate milk industry advisory board.

Action: Transfer state-owned railroad hopper cars from DNR to the Alaska Railroad.

Action: Write, review, and adopt fertilizer regulations.

Action: Enact enabling legislation for grain warehousing control.

3. Issue -- Confusion in land tenure requirements

Action: Draft new language for agricultural patents to conform to statutes.

Action: Draft new agricultural interest regulations to protect farmers from non-judicial foreclosure.

Action: Investigate alternative methods of financing farm home construction.

4. Issue -- Need for continued enhancement of the Agricultural Revolving Loan Fund

Action: Add two new board members to provide additional expertise and farmer representation.

Action: Increase ARLF capitalization to meet financing needs.

Action: Enact legislation to allow for land-clearing loan payments from Delta I, Delta II, and Point MacKenzie to return to the ARLF and not the general fund.

Action: Provide greater contact between loan examiners and borrowers.

Action: Increase loan board flexibility to meet modern farm development requirements.

5. Issue -- Lack of agency coordination

Action: Establish an Agricultural Advisory Board to the Department of Natural Resources.

Action: Examine the roles of the Department of Natural Resources and the Department of Environmental

Conservation in inspection and grading of agricultural products.

Action: Seek increased coordination among the Division of Agriculture, the Cooperative Extension Service, and the Agricultural Experiment Station.

6. Issue -- Lack of adequate federal involvement in Alaska agriculture

Action: Encourage Agriculture Research Service activity in Alaska through maintaining or expanding existing programs.

Action: Encourage the Farmers Home Administration to increase its lending to Alaskan farmers.

Action: Encourage the use of Alaska agricultural commodities by federal agencies in Alaska.

The Future of Alaska Agriculture

It is projected that receipts for selected agricultural sales in Alaska will grow to approximately \$60 million on an annual basis by 1990. This compares with about \$18 million in 1983. Additional State capital appropriations needed to accomplish these objectives amount to approximately \$28.5 million, mostly over the next two years. To the extent that declining revenues do not allow this level of funding, even

though the largest component is for loans, the appropriations would have to be made over succeeding years, delaying the anticipated benefits. Additional farm industry receipts during the period could total \$164 million.

In addition to providing expanded economic activity, an additional 1,800 jobs could be created by 1990 by achieving the projected level of production. This would give significant support to a diversified Alaskan economy.

The balance sheet for Alaska agriculture clearly shows an expanding agricultural sector. The number of producing farms in Alaska grew, by 100, from 360 in 1979 to 460 in 1983. Despite falling realty values, assets increased to \$185.8 million in 1983 compared with \$160.3 million in 1979. Equity was reported at \$140.5 million in 1983, whereas outstanding debt is reported at \$45.2 million.

It is clear that agriculture in Alaska is now at a critical juncture, as it is for the entire nation. Some industry gains have been made, and new economic activity has been generated by this growing sector of the State's economy. The results of previous State investment are well-demonstrated and will continue to accrue through time. With modest additional State investment plus regulatory and legislative solutions to current farm development and debt problems, projections of increased receipts and additional economic activity are achievable. This will assure a viable economic sector for Alaska agriculture into the next century.

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

Bill  
BILL SHEFFIELD, GOVERNOR

POUCH M  
JUNEAU, ALASKA 99811  
PHONE: 907-465-2400

February 13, 1985

The Honorable Jack Coghill  
Alaska State Senate  
Pouch V  
Juneau, AK 99811

Dear Senator Coghill:

As you have requested, the Department of Natural Resources has reviewed SB 40, SB 41, and SB 42, which provide Alaska's farmers with farm title and debt assistance. While the department supports the concept of farm debt relief and agrees that agricultural land title language should be clarified, we are proposing slightly different remedial actions than those provided for in these three bills.

We appreciate the opportunity to work with you to develop these proposals. The following information, comments and suggestions are specific to each bill, but represent only our preliminary views.

Senate Bill 40 establishes an agricultural products incentive program under Title 38. Section (a) credits State agricultural land purchasers for agricultural production of grains, dairy products and livestock on land purchased from the State.

While the department supports the concept of production credits as an incentive for farmers, we would prefer to see a broader-based program that applies to all Alaska farmers who have been encouraged through State agricultural programs, including land sales, Agricultural Revolving Loan Fund loans and land clearing loans.

Section (b) requires that production credits be based on the Seattle price of a product minus the freight cost to where it was produced. Because we desire to reduce program administration costs as much as possible, we favor a uniform program which would provide a credit equal to 20 percent of receipts from farm product sales (as identified on federal income tax Form F), on a declining schedule, for perhaps five or ten years.

February 13, 1985

Section (c) allows production credits to be applied only to the principal due on agricultural land payments to the State. We would prefer that credits apply only to interest accrued during that year or preceding years, but would allow that such credits be used for ARLF and clearing loan interest as well as land payment interest.

Enclosed for your information is a summary of the Division of Agriculture's proposed production credits program (which we are still reviewing), along with several examples of how the program would benefit individual farmers. We believe it may be preferable to locate the agricultural production credits program within Title 3 rather than Title 38, to allow administration by the Division of Agriculture. The Division of Land and Water Management would administer the program described in SB 40.

Senate Bill 41 extends the five-year land payment moratorium enacted last year to 10 years, and provides that interest does not accrue during this period. The department believes that a production credits program may, by itself, provide sufficient debt relief for farmers and, before additional relief measures are enacted, that the costs and benefits of the production credits program should be assessed.

Senate Bill 42 clarifies the extent of rights conveyed to a purchaser of State agricultural land. The department generally supports this bill but believes it may not be necessary because the department has developed new patent language for agricultural land titles that, when implemented, should address the concerns of farmers. For your information, a copy of the proposed new patent language is enclosed.

Section (a) allows a person to purchase not more than one parcel of land from the state under AS 44.33.475 (the former Agricultural Action Council statute) during any eight-year period.

Since the eight-year period limitation is covered in AS 38.05.057(b) (3) this section of SB 42 may not be needed.

Section (b) clarifies the rights conveyed in a disposal of agricultural land and is similar to wording in the department's proposed new patent language. This section also allows the Commissioner the right to reenter agricultural land after notice of violation of the contract is given, and the opportunity for a hearing is provided. The new patent language the department has developed requires judicial action to reenter the land after notice is given.

February 13, 1985

Section (c) describes actions that are generally required now. The word "farm" could be added to line 25 so that it reads "farm conservation plan", which is the currently used term for the required plan.

Section (d) allows the person purchasing agricultural land from the State to request that the Commissioner modify or remove conditions imposed in the land purchase agreement. This would allow approval of requests for changes in farm development schedules or percentages of clearing required on farm lands, changes in conditions, payments or interest for land purchases, and combining or splitting of agricultural parcels. While the department is interested in having the flexibility to make agricultural land contract changes that will benefit the development of agriculture in Alaska, we believe that a change should be explicitly conditioned upon the best interests of the State. Perhaps the addition of words to this effect to line 2, page 2 of the bill would clarify the conditions under which changes would be allowed.

Sections (e) and (f) are generally required now.

Section (g) removes a portion of Title 38 which states that the sale, lease or other disposal of State agricultural land transfers only rights for agricultural purposes. Rather than removing this section from Title 38, we suggest that a reference to the agricultural rights conveyed under AS 38.05.059 be added.

We look forward to working with you to assist Alaska's farmers. If we may provide additional information about our proposals or programs, please let me know.

Sincerely,

*Bob Arnold, Deputy*

*fr* Esther C. Wunnicke  
Commissioner

Enclosures

cc: Bill Heim, Director,  
Division of Agriculture

## PRODUCTION CREDITS

A credit will be received for the sale of agriculture products grown or raised in Alaska. This shall include livestock, livestock products, vegetables, grains, oilseeds, feed and food products - also receipts from Federal Crop Insurance and Grain Reserve.

The document to verify these sales or receipts would be Schedule "F" from the Department of Treasury, Internal Revenue Service (Farm Income Form) provided by the participating parties.

These credits could be used to reduce the interest owed to the State of Alaska for agriculture land sales, clearing loans and loans from ARLF. The preceeding year's Schedule "F" would pertain to the following year's interest ('84 Schedule "F" would be used to reduce interest due in '85).

This program would be a 10 year declining program. In 1985 the credit would equal 20% of receipts of farm products that qualify for credits. The credit would decline 2% every year until 1995 when there would be zero credits.

In case of verified fraud the participant would be barred from participating in the program for five years.

The Commissioner shall adopt regulations for this program.

The Agricultural Development Committee and the Board of Directors of the Greater Fairbanks Chamber of Commerce urges your support for the following legislation to encourage agricultural development in Interior and South Central Alaska.

1. Support is urged for SB39 to build the roads and bridges necessary to develop both the agricultural and mineral resources in the Totchaket area of Interior Alaska.
2. Support is urged for the concept of production credits, as outlined in SB40 and SB154, to assist Alaska's agricultural industry in its early stages of development.
3. Support is urged for SB41 to increase from five years to ten years, the moratorium on payments for the sale of state land for agricultural purposes. This bill will assist Alaskan farmers in adjusting to the new worldwide economic conditions in agriculture.
4. Support is urged for the concept of SB42 as it relates to the transfer of land title from state to private ownership. This concept will enhance the ability of Alaskan farmers to obtain financing from private sector sources for agricultural production.
5. Support is urged for SB57, which would require a clause be inserted in all state bids, requiring agricultural products originating in this state be used wherever competitively priced and available and of like quality as compared with agricultural products originating outside the state.
6. Support is urged for SB110 to increase the amounts of long term loans available from the State of Alaska to any one borrower for agricultural purposes. This legislation will increase the loan limits to be more in line with the economy of scale necessary for economically sound, modern farming and will enhance the ability of borrowers to repay.
7. Support is urged for the concept of SB155, relating to the splitting and combining of agricultural parcels, with the suggestion the bill be amended to allow the minimum parcel size be 320 acres. This legislation will permit increased flexibility in the development of economically sound full-time and part-time farming enterprises in Alaska.
8. Support is urged for SB120 to increase the limits of the Agricultural Revolving Loan Fund, to assist in the establishment of Commodity Marketing Associations, and to increase the number of members on the Agricultural Revolving Loan Fund Board.

FEB 27 1985

Karen O. Lee  
P.O. Box 871871  
Wasilla, Alaska 99687

Senator John B. Coghill  
Pouch V  
Juneau, Alaska 99811

Dear Senator John B. Coghill;

I would like to request your help in remedying some of the problems associated with the state's current attempt at agricultural development.

At present, there are some crucial, and sensible, measures addressing this problem which have been introduced this session. I would like to urge your positive consideration of SB 110, raising the Agricultural Revolving Loan Fund loan limit per unit to \$2 million; SB 154, establishing a system of production credits on agricultural sales to apply toward interest on state agriculture loans; and SB 155, allowing for adjustments in contractual requirements on agricultural interest parcels sold by the state.

Before discussing the merits of each bill, I should like to make a brief case for agriculture in Alaska, and for the state's having a role in the initial development of it.

Not least among the considerations is the fact that the State of Alaska has already decided to develop agriculture. Many Alaskans with belief in the good intentions of our state have been invited to participate. Once in the program, we have been forced to put up very large sums of our own money, work and hopes for the future in support of a joint vision, ours and the state's. I cannot believe that the purpose in all this was to convince a few people to put our whole hearts into the enterprise and then end it. It is one thing for the state to cut its own losses; it is another thing altogether for the state to decide prematurely to cut the losses of its individual citizens.

To reiterate the reasons for the state's original interest in the development of agriculture: it is a basic, job-creating, service-creating, renewable resource industry. It not only creates its own labor requirements; it creates a ripple effect throughout every community where it exists. For example, my farm creates employment for four families directly. Commodities are hauled in and milk is hauled out; truckers are employed at both ends. In Anchorage, the milk is processed by more employees, and distributed by still more. Another company manufactures plastic jugs for the milk. All this demonstrates the well-known economic fact that a dollar produced by a basic industry circulates many times more than a service or retail dollar does.

I grew up in Alaska, and I can attest to the accuracy of the economists' observations. There is one major difference between the Alaska of the 1950's and the Alaska of the present, and that is the general affluence. That affluence is due to the building up of a large public and service network based on another basic industry, resource extraction. Without that basic industry, there would be no affluence. Without the incentives, particularly those at the federal level, urging on the oil companies to explore and the mining companies to keep looking, there would be little but fishing in Alaska right now which could qualify as a basic industry.

The problem with resource extraction as the basic industry of choice, of course, is its volatility. The warnings on oil have been sounding for some time now.

I believe strongly that we must develop what other basic industries we are able to in the time remaining to us, with the funds from other extractive industries which we still have coming to us. Agriculture, mining, fishing and tourism thus become, as I see it, the major areas for expansion, rather than contraction, in state spending in the coming years of waning oil revenue. At some point, we are not only going to have to be weaned from oil, we are going to need some other basic to replace it. Otherwise, we will be stuck with a state of shopping centers and state and service employees, and no one to provide the basic dollar on which they all feed.

Agriculture has earned its place in the line-up of future basic industries supporting the state's economy, even though it is still barely half-way to its goal of self-sufficiency. It has persevered through decades of neglect, lack of infrastructure, lack of marketing cohesion, lack of fair labeling laws, lack of sufficient volume of either land or product, and lack of sufficient state encouragement. Even so, there are now farms which have been in existence since the 1930's and 1940's.

All statistics available indicate that a self-sufficient agriculture industry happens naturally when 500,000 acres are in production. We have a way to go to meet that goal, as outlined in the Governor's Agricultural Task Force Report of May 18, 1983. I believe that if the fundamental precepts outlined in that document and others preceding it are followed, and funding is kept at the levels recommended in that report, the success of agriculture in Alaska will be assured.

As to the specifics of the bills, SB 110 and SB 155, when considered together, actually constitute a cost-cutting device. In the case of the Point MacKenzie Agricultural Project, for example, the 19 dairies required in the original configuration would have been eligible for, and would have needed, \$1 million each, or a total of \$19 million. At that, many of the units would not have been of an efficient size, and those which were would have been grossly undercapitalized.

Should the bill allowing consolidation of units be approved, five consolidated farms and six single farms are likely to result at Point MacKenzie, making the total loan requirement \$16 million, a savings of \$3 million. (Five at \$2 million; six at \$1 million each.) Moreover, the total number of cows producing milk will actually be higher than in the original plan, a fact which is crucial to the survival of the finished product marketing arm, Matanuska Maid.

The original Point MacKenzie feasibility study was written seven years ago. Even then, the study clearly stated that the most efficient farm was the largest size studied (150 cows). Since that time, building costs have increased by huge increments. So have insurance, workmen's compensation, feed, labor, equipment, fertilizer, and so on.

In the past seven years, the industry as a whole has undergone a number of changes tending to force farms into larger sizes for efficiency of production. It is likely that this trend will increase, rather than subside, especially if President Reagan's proposed new farm policy is instituted nationally.

Consolidation and an increase in unit loan limits will insure that Point MacKenzie dairies come on line in configurations that will allow them to compete with shipboard milk. The ship milk is produced on farms being subjected to great national pressure to become larger and more efficient. If we are to compete, we too must become larger and more efficient. Building 19 units, many of which will be small expensive anachronisms on the day they open, does not make economic sense for the farmer, for the state, or for the consumer.

National statistics indicate that the farms now in trouble are those with between \$50,000 and \$500,000 in gross annual revenues. Adjusted for pricing differentials, the Alaskan figures would more likely be between \$60,000 and \$700,000. At present, only a few farms in Alaska exceed that volume. Anything under \$60,000 could be considered a hobby with the owner/operator making the main living elsewhere. To earn over \$700,000 a dairy farm would have to milk 240 cows, and milk them well. A 240-cow farm in Alaska costs a minimum of \$2.5 million to build, stock and plant.

With the recent loss of a significant percentage of its stability and pricing levels at the market, the dairy industry in Alaska is particularly vulnerable right now, and particularly in need of a mechanism for consolidating both land and debt to a point that will again allow them to operate with positive cash flows. Between them, SB 110 and SB 155, would be of immense help in preserving the gains that have been made in the dairy industry. And, as I mentioned earlier, they will save money in both the short and long runs.

Other areas of agriculture would be similarly benefitted by the measures. Delta would become more flexible in the handling of their lands; possibly converting some of the far into the part-time lower-gross category while still maintaining the same amount of planted acreage. Hog farms and beef feedlots are as capital-intensive as are dairy farms; with the rise of inflation over the past decade, it would not be possible to build either of these enterprises to an efficient level for the current loan limits. The state has invested significantly in the processing ends of both the meat and milk industries. It seems foolish to expect these investments to pay off if there are not to be any large hog farms, no big beef feedlots and no large dairy farms.

There has been much concern expressed over the delinquency rate of current ARLF loans. I think that is a problem that will take care of itself once farming has actually been developed, rather than developing. Once the industry has grown to the sufficient volume to be interrelated and profitable, the private financing industry will be only too glad to take over the responsibilities. For now, it must be remembered by policy makers that ARLF is in the business of developing a new basic industry, literally from the woods. They are not loaning to a new hamburger outlet for a simple return on invested capital. They are trying to get Alaskan agriculture to the point where we could sell our own hamburgers, not just eat the

ones that come in from Argentina. When reading the negative reports from Legislative Audit and the Budget Office, this ultimate larger purpose should be recalled.

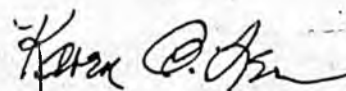
As for SB 154, dealing with production credits, I favor this mechanism simply because it promises some benefit to those who have been trying the hardest to make the agricultural system work. The way it is now, those of us who have been working hardest and longest, thus losing the most money, are the ones getting hurt. Those who have been planting for years at Delta, with only a modicum of state encouragement, or who began producing milk at Point MacKenzie before they absolutely had to, would at least get the benefit of some reduction in carryover interest debt. In the case of the Point MacKenzie farmers, the state in its capacity of creamery owner has held the price of milk down because of a state moratorium until late 1985 on state loan repayments. That sounds all right, until you remember that if the interest is not forgiven, it will have cost every farmer about \$80,000 for that moratorium. There is no way to recoup that loss without production credits.

To summarize, SB 110 and SB 155 will act quickly to maintain the dairy industry in Southcentral Alaska, and enable the other areas of agriculture to become more efficient and to develop according to the overall plan. SB 154 will not involve an appropriation, and will greatly aid those who have been the losers so far in the struggle to develop agriculture in Alaska.

I would be happy to supply more information, either general or specifically from my own Point MacKenzie operation, should you decide that that would help you in your deliberations.

Thank you for taking your time in a busy 120-day session to listen to these concerns.

Sincerely,



Karen O. Lee

Owner

Tract 30 Point MacKenzie

FISCAL NOTE FOR THE  
COMMITTEE SUBSTITUTE FOR SB 40

In 1984 there were an estimated \$20,000,000 in gross sales of agricultural commodities in Alaska. A 20% production credit has been authorized in this act and would amount to \$4,000,000 ( $\$20,000,000 \times 20\%$ ). Since approximately 25% of total gross sales is from farms with very little debt load (primarily producing potatoes and other vegetables), the State of Alaska can expect to have about \$3,000,000 worth of credits that could originate because of this legislation for the 1984 income tax year. This \$3,000,000 credit should allow between 1/3 to 1/2 of the farms (50 to 100 farms) that would not be able to service their debt to continue to farm without going into delinquency or in default. Thus, without this legislation, the State of Alaska will forego between \$1,500,000 and \$2,000,000 due to delinquency or default of the affected farmers.

How will farmers be able to make loan payments after the moratorium ends, given that the production credit program will begin to increase and eventually terminate?

For the following reasons, the department believes that farmers will be in a better financial position in the future if debt relief is provided now:

1. Per acre yields and livestock production will increase as farmers gain more knowledge about producing in Alaska. This is already occurring on individual farms.
2. Per acre yields will also increase as tilling of the new land increases.
3. Per farm production will increase as more land on individual farms becomes available for production following final clearing, berm removal, etc.
4. Expanded in-state markets can lead to increased per farm income.
5. Crop prices should generally increase over the next several years for two reasons: a) crop and livestock prices are probably at the low point in their cycles and, b) although inflation is low at the moment, it still exists and will lead to some overall price increases.
6. On-farm diversification, either through planting other crops such as rapeseed, or raising livestock, can lead to increased farm income.
7. By being relieved from debt now, farmers may be able to generate some savings for future loan payments.
8. As agriculture develops in Alaska, production costs should decrease relative to commodity prices due to increases in the scale of production in-state.
9. Allowing a farmer to return land to the State and then re-leasing it for farming purposes may assist farmers with insurmountable land debt problems.

FROM: MIKE CARLSON, P.O. BOX 953, DELTA JCT., AK 99737  
895-4849 W: 895-4697

SB 40

RE: SB 40

SHOULD HAVE HAD A POSITIVE EFFECT AND FISCAL NOTE. I JUST TALKED TO TWO SUCCESSFUL FARMERS WHO PROBABLY WILL FILE BANKRUPTCY. HOW IS THE STATE GOING TO DO ON TEN CENTS ON THE DOLLAR? THIS IS GOING TO COST THE STATE MONEY. IF POSSIBLE, PLEASE RECONSIDER.

Original sponsor: Coghill

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 40 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act allowing agricultural production credits; and  
7 providing for an effective date."

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

9 \* Section 1. AS 03.05 is amended by adding a new section to read:

10 Sec. 03.05.015. AGRICULTURAL PRODUCTION CREDITS. (a) The  
11 commissioner of natural resources shall establish a program of agri-  
12 cultural production credits to be applied against interest due on  
13 agricultural loans made under this title and AS 44 and interest due on  
14 the sale of agricultural land under AS 38.05. The credits shall be  
15 based on agricultural products grown or raised in the state.

16 (b) The annual credit for the years 1984 - 1988 is 20 percent of  
17 the total sales as documented by the farmer on Internal Revenue Ser-  
18 vice Schedule F (form 1040). The portion of total sales as documented  
19 by the farmer on Internal Revenue Service Schedule F (form 1040) that  
20 may be claimed as a credit under this section for 1989 and each subse-  
21 quent year shall decrease by two percentage points each year.

22 (c) A credit granted under this section may not be transferred.

23 \* Sec. 2. AS 03.05.015 is repealed December 31, 1994.

24 \* Sec. 3. This Act takes effect immediately in accordance with AS 01.-  
25 10.070(c).

26  
27  
28  
29

Senator John B. (Jack) Coghill  
Alaska State Legislature

Pouch V  
Juneau, Alaska 99811  
(907) 465-4745

Box 456  
Nenana, Alaska 99760  
(907) 852-5471



TO: All Members of the Committee on Resources

FROM: Senator Coghill

RE: SB 40, Production Credits

I have introduced a bill that I believe will create a glimmer of hope for our Alaskan farmers. It's not a give away, but a mechanism to reward those who are willing to produce. Those who are willing to continue their commitment and invest their own sweat equity into their land.

SB 40, which Senator Kerttula has co-sponsored, sets in place the means to assist those farmers who have been caught in the middle of a colossal change in agricultural policy; one previously based on an export market and now focused on in state production.

It will take time to achieve this changeover. But in the meantime, our farmers must contend with the accumulation of high land loan payments, the interest on which will be due as soon as the moratorium runs out. Unless we have a method of lowering this debt level our farmers will experience great difficulty in achieving a cash flow necessary to arrange private funding.

The sponsor substitute before the committee today will credit 20 percent of the receipts of farm products as found on the IRS farm income form. This form would be provided by the parties. The production credits would remain at 20 percent from the years 1984 to 1988 and then decrease two percent through 1994. The credits would apply to land purchase loans, clearing loans and all loans from the Agriculture Revolving Loan Fund.

Agriculture in our state continues to grow. In the last five years our total farm assets have grown by \$25 million dollars and with this growth have come new jobs, a use that is compatible with the environment and a method of keeping Alaskan dollars within the state.

I feel it is imperative that we implement a program that will allow breathing room for our farmers while the rest of the in-state market infrastructure grows to meet their production.

Glenn Briggs  
Box 770-517  
Eagle River, AK 99577

Ag

MAR 7 1985

SB40

Eagle River, Alaska  
March 4, 1985

Senator Arliss Sturgulewski, Chairman  
Committee on Resources  
Pouch V  
Juneau, Alaska 99811

Dear Arliss:

I appreciate your offer to delve into Alaska's agricultural projects particularly at a time when you are deeply involved in matters of greater concern to the general public.

The same pitch made to you was also made to the Senate and House Finance Committees and to Mitch Abood but after pressing the issue for four years with no response from legislators, I don't expect any this time around.

Once the 1986 budget is approved I will appreciate being advised of the amounts approved for agricultural programs.

Thanks for listening,


  
\_\_\_\_\_  
Glenn Briggs

TABLE 2  
 AGRICULTURAL PRODUCTS: PER CAPITA CIVILIAN CONSUMPTION  
 AND ESTIMATED MARKET SHARE FOR ALASKA'S PRODUCTS

Product	Per Capita Civilian Consumption (lbs) <sup>a</sup> 1981	Alaska Production Market Share		
		1983 (percentage)	1982 (percentage)	Projected 1990 (percentage)
Fluid milk & cream	222.0	17.6	20.0	75
Beef	104.3	2.3	1.7	25
Pork	69.9	3.7	2.8	40
Lamb and mutton	1.6	3.8	8.2	25
Poultry	62.8	.7	.9	25
Eggs <sup>b</sup>	33.6	17.6	10.7	60
Vegetables, Fresh				
potatoes	54.2 <sup>c</sup>	62.9	46.0	75
snap beans	1.4		N/A	10 <sup>e</sup>
broccoli	2.1		N/A	10 <sup>e</sup>
cabbage	8.6	23.9	22.6	25 <sup>f</sup>
carrots	6.5	15.5	15.1	25 <sup>f</sup>
lettuce	26.2	18.0	14.6	20 <sup>g</sup>
cauliflower	1.8		N/A	10 <sup>e</sup>
celery	7.7		N/A	20 <sup>h</sup>
Vegetables, Canned				
snap beans	6.63 <sup>d</sup>		0	25
carrots	.50 <sup>d</sup>		0	50
peas	3.75 <sup>d</sup>		0	50
sauerkraut	1.50 <sup>d</sup>		0	50
Vegetables, Frozen				
snap beans	1.38 <sup>d</sup>		0	50
carrots	1.25 <sup>d</sup>		0	50
peas	2.00 <sup>d</sup>		0	50
broccoli	1.88 <sup>d</sup>		0	50
cauliflower	.75 <sup>d</sup>		0	50
potatoes	148.80 <sup>d</sup>		0	50

a USDA Agricultural Statistics, 1982

b One case equals 30 dozen eggs (47 pounds)

c For 1980. Washington Agricultural Statistics, Washington Crop and Livestock Reporting Service (November 1982)

d Estimated farm weight by factors of 2.4 for potatoes and 1.25 for other vegetables ("Preliminary Report of Work in Progress, City of Nenana Project No. AG 103—Vegetable Industry Feasibility Study," Goldstream Associates).

e Assume 50 percent market share divided by six to represent a two month marketing period.

f Assume a 50 percent market share divided by two to represent a six month marketing season.

g Assume an 80 percent market share divided by four to represent a three month marketing season.

h Assume 50 percent market share divided by three to represent a four month marketing period.

Source: Department of Commerce and Economic Development. An Economic Assessment of Alaskan Agriculture. 1983

- 7 -

Railbelt Population:	1982	1983	1990
	306,543	345,580	371,539

Assumptions

1. 1500 acre farm
2. 1500 acres planted in barley
3. Production of 1 ton per acre - sells for \$125 per ton
4. Chattel loan of \$208,000 at 8%, first payment due in 1985.
5. Farm development loan of \$119,000 at 8% - first payment due in 1985
6. Land purchased for \$180 per acre at 12% interest - with moratorium, first payment due in 1989
7. Land clearing loan of \$300,000 at 8% interest - with moratorium, first payment due in 1989

**Table 1. THE AFFECT OF PRODUCTION CREDITS ON LOAN PAYMENTS - FARMER BROWN Sales- \$187,500/ year**

Year	Total Loan Payment <sup>3</sup>	Interest Portion of Loans <sup>4</sup>	Credits Available	%	Interest Payment Following Credit Deduction	Total Loan Payment Following Credit Deduction
1985	656,571	830,660	\$37,500	20	\$ 0	\$ 25,911
1986	56,571	28,586	37,500	20	0	27,985
1987	56,571	26,340	37,500	20	0	30,223
1988	56,571	23,929	37,500	20	0	32,642
1989 <sup>1</sup>	129,136	90,726	37,500	20	53,226	91,636
1990	129,136	86,655	33,750	18	52,905	95,386
1991 <sup>2</sup>	129,136	82,500	30,000	16	52,500	99,136
1992	89,185	77,992	26,250	14	51,742	62,935
1993	89,185	76,266	22,500	12	53,766	66,605
1994	89,185	74,382	18,750	10	55,602	70,435

- 1 Payments for land clearing and land purchase begin.
- 2 Chattel loan is paid-off in this year.
- 3 Does not include operating loan.
- 4 Includes annual operating loan interest of \$4,500.

Total interest forgiven \$278,273

Total Loans \$897,000 (principal)

**TABLE II**  
**LOAN PROGRAMS FY 81 - FY 86**  
**Interest Rates and Delinquency Rates \***

Program / Statute	Delinquency Rate (\$ 000)	Rate Pct	Interest Rate	
<b>Econ Development:</b>				
Agriculture Rev Loans	03.10	6,953.5	15.6	8.0
AIDA Enterprise Fund	44.88	15,270.2	4.7	varies
AIDA Eco Dev Fund	44.88	n/a	n/a	varies
Ak Resources Corp 1)	37.12	n/a	n/a	varies
Commercial Fishing	16.10	11,551.3	14.4	10.5
Fish Enhancement	16.10	.0	.0	9.5
Fish Mortgage & Note 2)	16.10	n/a	n/a	n/a
Grain Reserves Loans	03.12	.0	.0	8.0
Mining Loan Fund	27.09	10,621.0	55.9	10.0
Small Business	45.95	34,198.0	48.1	9.5
Tourism Rev Loans	45.90	1,034.0	16.3	9.5
<b>Education:</b>				
Scholarship Loans	14.43	12,470.1	6.7	5.0
Teacher Loans	14.43	n/a	n/a	5.0
<b>Energy:</b>				
Alternative Tech 3)	45.88	2,408.0	22.3	5.0/15.0
Residential Energy 4)	45.89	1,039.2	19.8	5.0
Rural Electrification	44.83	.0	.0	2.0
<b>Housing:</b>				
C&RA Housing Asst	44.47	1,977.2	2.0	varies
AHFC Programs	18.56	113,615.0	3.0	varies
<b>Medical &amp; Child Care:</b>				
Child Care Facility	44.33	103.0	15.4	7.0
Res Care Facility 2)	44.33	n/a	n/a	n/a
Med Malpractice 5)	21.88	.0	.0	6.0/7.0
<b>Municipal Assistance:</b>				
Bulk Fuels	45.87	148.0	.7	varies
Historical District	45.98	.0	.0	7.5

\* Delinquency rates are from State Loan Program: Quarterly Activity Report, Fourth Qtr FY 84; House Research Agency, October 1984.

- 1). Repealed effective July 1, 1989.
- 2). Repealed during 1982 session.
- 3). Interest rate is 5.0% on the first \$15,000 and 15% on the excess.
- 4). On loans made after 12-31/83 the interest rate is the average weekly municipal bond yield rates.
- 5). Interest rate is 6.0% if the borrower is unable to procure re-insurance from a private casualty insurer.

AGRICULTURAL REVOLVING LOAN FUND

December 31, 1984

Loans outstanding - \$ 48,454,644.47

Borrowers - 266

Loans - 759

Average loan size - \$ 60,850

Average borrower - \$ 173,630

Delinquency rate is three times more in the Delta area than in the Matanuska area -

15.52%	vs	47.92%
old farmers		new farmers

The delinquency rates are divided evenly between short term, chattel and development loans.

National level - Farmers Home Administration has a 35% delinquency rate.

Total ARLF is 68.5 million.

FISCAL NOTE FOR THE  
COMMITTEE SUBSTITUTE FOR SB 40

In 1984 there were an estimated \$20,000,000 in gross sales of agricultural commodities in Alaska. A 20% production credit has been authorized in this act and would amount to \$4,000,000 ( $\$20,000,000 \times 20\%$ ). Since approximately 25% of total gross sales is from farms with very little debt load (primarily producing potatoes and other vegetables), the State of Alaska can expect to have about \$3,000,000 worth of credits that could originate because of this legislation for the 1984 income tax year. This \$3,000,000 credit should allow between 1/3 to 1/2 of the farms (50 to 100 farms) that would not be able to service their debt to continue to farm without going into delinquency or in default. Thus, without this legislation, the State of Alaska will forego between \$1,500,000 and \$2,000,000 due to delinquency or default of the affected farmers.

*Revised  
fiscal  
note*

IN THE SENATE

BY COGHILL AND KERTTULA

*Comm*

~~SPONSOR~~ SUBSTITUTE FOR SENATE BILL NO. 40 *(Res)*

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act allowing agricultural production credits; and providing for an effective date."

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

\* Section 1. AS 03.05 is amended by adding a new section to read:

Sec. 03.05.015. AGRICULTURAL PRODUCTION CREDITS. (a) The commissioner of natural resources shall establish a program of agricultural production credits to be applied against interest due on agricultural loans made under this title and AS 44 and interest due on the sale of agricultural land under AS 38.05. The credits shall be based on agricultural products grown or raised in the state.

(b) The annual credit for the years 1984 - 1988 is 20 percent of the total sales as documented by the farmer on Internal Revenue Service Schedule F (form 1040). The portion of total sales as documented by the farmer on Internal Revenue Service Schedule F (form 1040) that may be claimed as a credit under this section for 1989 and each subsequent year shall decrease by two percentage points each year.

(c) A credit granted under this section may not be transferred.

\* Sec. 2. AS 03.05.015 is repealed December 31, 1994.

\* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

Senate Resources Committee 3/13/85, 1:40 pm  
" 3/15/85, 1:40 pm  
" 3/18/85, 1:00 pm

1 IN THE SENATE

BY COGHILL

2 SENATE BILL NO. 40

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing an agricultural product incen-  
7 tive program."

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

9 \* Section 1. AS 38.05 is amended by adding a new section to read:

10 Sec. 38.05.064. AGRICULTURAL PRODUCT INCENTIVE PROGRAM. (a)

11 The director shall establish an agricultural product incentive program  
12 to credit agricultural land purchasers on the basis of agricultural  
13 production. The credit may be based only on the production of grains,  
14 dairy products, and livestock on agricultural land purchased under  
15 this chapter.

16 (b) The amount of the credit shall be determined by the direc-  
17 tor, based on the Seattle price of the product credited, minus the  
18 freight cost to the production location.

19 (c) The credit may be applied only against principal due on a  
20 sale of agricultural land made under this chapter.

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