

SJR

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May, 1986

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Jeanie Henry

SENATE RESOURCES COMMITTEE, 5/3/85, 1:35

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA, 99811
(907) 465-4807

Senate Committee on Resources

MEMORANDUM

May 2, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *[Signature]*
Senate Resources Committee

RE: SJR 1 Proposing amendments to the Constitution of the State of Alaska relating to agricultural rights in state lands.

SJR 1 would amend the Constitution of the State of Alaska to provide for agricultural rights only on state land sales.

The amendment provides that when state land classified as agricultural land is sold or granted by the state, only the agricultural rights may be conveyed and all other interests remain with the state.

The language of the proposed new section 19 to the State Constitution is similar to the language of AS 38.05.321 (a) restricting the conveyance of state agricultural land for agricultural purposes only.

While restrictive language exists in statute, it can be amended by legislative action. A constitutional amendment would provide additional protection since a vote of the general public would be required to change state policy.

Enclosures:

1. Letter from Commissioner Wunnicke, DNR, stating no objection to SJR 1.
2. AS 38.05.321 Restriction on sale, lease or other disposal of agricultural land.
3. Excerpts from Agriculture published by the Matanuska-Susitna Borough discussing the Borough's agricultural policy of conveying only agricultural rights.
4. Letter from Alaska Association of Soil and Water Conservation Districts supporting SJR 1.
5. Letter from Salcha-Big Delta SWCD supporting SJR 1.
6. Resolution from Alaska Farmers and Stockgrowers Association supporting SJR 1.
7. Resolution from Greater Fairbanks Chamber of Commerce supporting land title to private ownerships.
8. Letter from Paul Huppert, Palmer farmer, supporting SJR 1.
9. Paper by Dr. Wayne C. Thomas, University of Alaska, supporting agricultural rights only (p. 2).
10. Testimony of Dr. James Drew on March 13, 1985 to the Senate Resources Committee discussing agricultural land title (p. 6).

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

MAY 02 1985
BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

May 1, 1985

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

Dear Senator *Arliss* Sturgulewski:

The Department of Natural Resources has no objections to Senate Joint Resolution No. 1, which proposes an amendment to the Constitution of the State of Alaska relating to agricultural rights in state lands.

The proposed amendment is in accordance with the agricultural rights statute, AS 38.05.321, which requires that only rights for agricultural purposes be disposed of on state land classified for agriculture.

If I may provide additional information, please let me know.

Sincerely,

Esther
Esther C. Wunnicke
Commissioner

cc: Members of the Senate Resources Committee
Senator Jalmar Kerttula

AGRICULTURE

Matanuska-Susitna Borough

SPRING 198

POLICIES TO ENCOURAGE AGRICULTURE

Public Attitudes

In 1980, the Matanuska-Susitna Borough commissioned an areawide survey to determine the kind of development residents would judge most beneficial for the area. Valley residents gave agricultural development the highest priority.

89.5 percent favored increased agricultural activity in general; 85.5 percent encourage an expanded red meat industry, and 83.4 percent would like to see more local milk production. Statewide, 75 percent of the respondents would like more agricultural resource development—an indication of the belief by the citizens of this state that more food should be produced for local consumption.

If there is a future for agriculture in Alaska, the Valley will play a key role in that future. If there is a constituency for agriculture in Alaska, the Valley will benefit from that constituency. If clear and practical goals are set, there should be public support in Alaska and in the Valley to realize those goals.

Gary Thurlow, Manager
Matanuska-Susitna Borough

Matanuska-Susitna Borough Policy

In 1975 the borough assembly adopted a policy of selling land with good agricultural soils for farm use only. Under the borough farm land ordinance, the Borough classifies as agricultural land any tract of 40 acres or more containing a minimum of 40 percent Class II and III soils, and will sell or lease "agricultural rights" only for these tracts unless there is some overriding consideration such as development of a port at Point MacKenzie.

The Borough Agricultural Advisory Committee, established by the Assembly in 1981, works with the Borough Land Management Division in identifying available land and recommending it for disposal as farms.

BOROUGH FARM LAND DISPOSAL — As of 1981, the Borough had disposed of approximately 46,000 acres of land, 19,000 of which contained Class II and III soils. Of these, 4,047 acres were restricted to agriculture use only. Of the 46,000 of

land sold, a total of 1,000 acres has been cleared and applied to agriculture. Due to the agricultural restrictions placed upon 4,047 acres, it is expected that most of this acreage will be cultivated according to farm plans.

Since less than one-fourth of these 4,047 acres were cleared, with less than one-eighth being under production, or being grazed, the Borough in 1982 decided on a stricter development schedule for future agricultural disposals to ensure production. Starting with the agriculture-rights-only sale in October of 1982, the Borough required both clearing and production.

As of October 16, 1982, the Borough has sold 7,357 acres of restricted farm land; 3,215 acres restricted farm land in 1977; 832 acres in the Point MacKenzie Agricultural Project in 1981; and 3,400 acres in scattered parcels at the October 1982 land sale.

Terms and Conditions for Matanuska-Susitna Borough Farm Land Sale October 16, 1982

The Matanuska-Susitna Borough wants to insure that farm land is actually applied to farm use. These are the rules for the borough's October 1982 auction of 3,400 acres of farm land:

1. The lands are sold as a basic lease with option to purchase. The land may be purchased at the end of the sixth year with no further payments due if 50 percent of the purchase amount has been paid and if the minimum required acreage (no less than 70 percent of Class II and III soils) is in production according to the Farm Plan. This is a forgiveness of the remaining balance due. It is a type of "farmsteading." The lease payments are applied to the financing terms. If these minimum conditions have been met prior to the end of the sixth year, then the purchase option may be exercised at such time.

2. The lease term is for twenty years.

3. The bid price is the purchase price.

4. The lease payment is 8 percent of the purchase price and is the annual payment.

5. If the Farm Plan is not followed or if the required amount of land has not been cleared and brought into production by the end of the sixth year, the option to purchase will expire.

6. No later than the end of the third year, a review of progress will be required.

7. No later than the end of the fifth year, a letter will be sent to the farmer indicating that a minimum of 70 percent Class II and III soils must be under production and indicating the terms and conditions for exercising the purchase option, including compliance with the farm plan. The letter will also inform the farmer of possible lease termination if the farm plan has not been followed.

8. The successful bidder has 30 days from notification to present an acceptable Farm Plan. If the Farm Plan is rejected by the Agricultural Advisory Board, the reason will be given and an additional 30 days will be allowed for resubmission and/or appeal to the Matanuska-Susitna Borough Assembly.

9. If unforeseen circumstances render the completion of a Farm Plan impossible and consequently the exercising of the option to purchase, the farmer will be allowed to request from the Assembly an extension of time, not to exceed one year, for completion of the Farm Plan. In so doing, the farmer must show reasonable cause for the delay and reasonable diligence in attempting to meet all of the requirements. The burden of the proof will be on the farmer.

10. The farmer may elect to remain on a lease basis for the 20-year lease period. However, in such cases, the land will be revalued at the end of the sixth year and the lease payments will be adjusted accordingly. The 20 year lease period is allowed for purposes of amortizing the costs of capital improvements constructed on the land and the amortization of any farm loan obtained during the first six years of the lease.

Any adjacent farmer has preference rights to match the high bid on an adjacent parcel.

The Farm Development Plan must include the following as a minimum requirement for approval:

1. No specific amount of clearing is required for the first year;

2. A minimum of 70 percent of estimated Class II and III soils and the percentage of Class IV soils, as may be indicated on the Farm Plan, must be cleared and in production by the end of the sixth year.

3. The type of production i.e. whether dairy farming, grain production, hay production, hog farming, should be identified.

Some of the particulars of the Farm Development Plan are:

LAND CLEARING — means removing trees, stumps, and other vegetation from wooded areas. Cleared land shall be left in a condition that will facilitate its planned use and treatment, as identified by the approved farm plan.

LAND BREAKING — means the tillage of lands, following clearing, that are cropland use (including hay and pasture). Following breaking, the land must be in a condition so that conventional farm equipment can be used to carry on normal farming operations for the given site.

IN PRODUCTION — means the application of cleared land into planting of crops using good agricultural practices, such as grains, oil seeds, vegetables or grasses of commercial value at seeding rates recommended for the area by the University of Alaska such that the crops will harvest an annual yield which can be reasonably expected, based on Matanuska Valley statistics as prepared by the US Department of Agriculture. The term can also mean the application of the cleared land in a manner so as to produce a yield in animal units or animal products of commercial value within a range which can be reasonably expected for the area. Reasonable harvested yields may be determined by referencing the US Department of Agriculture, State Division of Agriculture, the State Agriculture Action Council and the University of Alaska. Only acreage which has been cleared and prepared for agriculture through land breaking can be included within the acreage claimed as being "in production." The term "production" may be further defined in the farm plan so long as the above requirements are satisfied.

The property conveyed shall be used only for agricultural purposes. Standing and other timber may be cut and sold, or otherwise used or disposed of, only if the stumps and roots of the cleared area are placed in orderly piles, berms or wind rows, or otherwise disposed of within 18 months of the clearing, and provided further, only if the roots are grubbed, raked or otherwise removed from the cleared area so as to render the cleared area suitable for cultivation within 24 months of the cutting of the particular area cleared, or otherwise to prevent waste as set forth in the approved Farm Plan for the subject property. The removal of timber, without removal of stumps, limbs, roots and other debris, is specifically declared to be waste and such waste is hereby prohibited.

Only those buildings and improvements which are reasonably required for the development of the property for agricultural purposes are permitted. This includes one homestead, attached or detached garage for the homestead and similar residential outbuildings, such as an outdoor toilet, smokehouse, sauna, upon a parcel no greater than five acres within the subject property. The owner shall identify such parcel, with sufficient information, so that the parcel can be described in a separate deed of trust, suitable for recordation. Improvements which would ordinarily be classified as being required for agricultural development are barns, wells, septic tanks, fences, pens, silos, garage for storage of farm equipment, and field roads. Not permitted are buildings or yards for commercial sale, repair or storage of equipment or supplies, areas and buildings for retail sales, other than of agricultural products; sale of sand and gravel for use off the subject property, except as permitted under a finding of the Assembly that such sale will contribute to the development of agriculture in the area. Home occupations within the residence, such as bookkeeping are permitted.

Waste of the property, such as removal of topsoil, is prohibited.

Further subdivision of the property is prohibited, except where the owner applies to the Assembly for such subdivision and where the Assembly finds that such subdivision, if permitted, could reasonably be expected to increase the agricultural production to be realized from the new parcel to be generated by virtue of the fact that it will be added to an adjacent farm, or a similar circumstance favorably contributing to the economics of agricultural production.



AGRICULTURAL RESTRICTIONS — Both the State of Alaska and the Matanuska-Susitna Borough offer new lands for agricultural use only. The borough sells lands in sizes of 40 acres or more with more than 40 percent Class II and III soils for agricultural purposes only.

The lands are made available either through a state lottery, as in the case of Point MacKenzie, by state auction or by borough auction.

The state relies primarily upon farm plans to bring agricultural lands into cultivation.

At Point MacKenzie, 40 percent of the farm is to be cleared in three years after the sale, and 75 percent within 6 years.

The borough has also relied on farm plans. However, due to difficulties in enforcing farm plans the borough requires stricter stipulations, including an increase in payments in the event of inadequate development, farm plans and recorded conditions, covenants and agricultural land use restrictions.

PROPERTY TAX DEFERRAL — This is a state-funded and borough implemented program. The State of Alaska repays the Matanuska-Susitna Borough the difference between the taxes which would have been collected on land assessed at fair market value and the taxes that are collected on the land assessed for agricultural purposes only.

Most of the producing agricultural land in the Old Colony area is classified "agriculture." To obtain reduced property taxes, the farmer puts his land under the program, under which he pays taxes on his land based upon its agricultural value. He pays about one-fifth to one-tenth of the taxes he would have paid if the property were taxed at full value.

If the farmer later converts the land to non-farm purposes, generally through subdivision development, he is required to repay the State of Alaska all or a portion of the deferred taxes. Approximately 11,000 acres of land in the borough are covered by the farm tax deferral program. Cost to the state in FY 1981-82 was \$117,653 for lands in the borough.

The policy does not work well where the demand for new land development is strong or where the property taxes are low. With the sharp reduction in

borough property taxes in the past five years, down from 13 mills in 1977 to 4.9 mills areawide in 1982, the property tax deferral program has become a weak tool for farm preservation.

PURCHASE OF DEVELOPMENT RIGHTS. The only sure way of preserving farm land is by purchase of development rights. This is an approach used by King County in the State of Washington and in other parts of the United States.

Under the typical program:

1) The state or county establishes a farm land program under which the state or county stands ready to purchase development rights from farmers that wish to continue using their farm land as farm lands. Very often, the value of the development right exceeds the value of the remaining agricultural rights.

2) The program is voluntary and depends on the farmer seeking permanent agricultural status for his land.

3) The purchase price for development rights is the difference between the value of the land in its agricultural status and the fair market of the land at the time development rights are bought.

4) Since money for acquisition of development rights is always limited, the entity making the decision to buy these rights has to establish priority for the acquisition of rights. Highest priority almost always goes to the most productive farm lands, the farm lands that are likely to become developed the soonest if development rights are not obtained and the farm lands which add to the value and attractiveness of non-farm lands, and particularly residential areas.

In the Matanuska-Susitna Borough the areas that would have first call on any available state monies would be the Old Colony area. This is the area with the best soils and the area most susceptible to early subdivision development. It is also the area where agriculture is a tourism destination.

Not all farmers wish to sell their development rights, and not every farm merits purchase of development rights. If about half, or 5,000 acres of the Old Colony and Homestead area were to be put under such a preservation program, it would cost the state approximately \$15 million.

JUSTIFICATION FOR RETAINING FARM LANDS

Farms vs. Housing — The agricultural lands in the Old Colony area are in jeopardy. They are only 40-50 road miles from Anchorage and are inexpensive to develop. Large-lot, single detached residential land is nearly exhausted in Anchorage. The nearest source of additional land are the Old Colony farms.

The availability of new lands can cause a cavalier attitude toward existing farm land — if new farm land is available, then the reasons for preserving existing farm land disappear — or so it can be argued.

A state and borough policy to develop new farm lands in the Matanuska-Susitna Valley may accelerate the discontinuation of existing farms close to Palmer. The reason is that the existing farmer can sell his existing farm for development, take the capital gain, and invest it in a farm in a new area. He has the best of two worlds in that case—he has realized the full profit potential of the land he presently owns and he is better capitalized to start a fresh farming venture.

A shift from old to new lands, even though gradual, would irreparably damage existing agriculture and drive it out of the Palmer and Bodenbug Butte areas.

Once residential development takes hold on one farm, the farmer on the adjoining land would probably lose some of the land he leases, he may not be able to negotiate his equipment through subdivision roads or move irrigation pipe from one field to another.

It is also well known that once residential development takes place within a farming area, subdivision dwellers soon object to many of the sights, sounds and smells of farming. This leads to restrictions toward the farmer's operations, forcing him out of business eventually.

Soil Quality — The Old Colony soils are deeper and better than the relatively thin soils of Point MacKenzie. They are less acid and provide much better seed beds.

A higher yield can be obtained at lesser cost from Old Colony soils. Even if the soils were of comparable quality, it takes five to ten years working the soil until it is ready to yield commercial quantities of crops other than forage and grain. This investment in soils is lost once the land is converted to other uses.

Economics — The cost per acre to the state in farm subsidies for new land is generally much greater than commonly realized. Even though new farm land may sell at \$100 to \$300 per acre, the state investment in that same acreage through low interest, below-market agricultural loans can be as high as \$2,500 per acre. These loan monies are being recouped by the state in the form of principal payments, but a major part of it, represented by interest subsidy, would not be recovered.

In many cases the state can, for a given dollar amount, retain in production more high-quality existing farm land, than it can bring into existence through development of new farm lands.

Some cleared and producing farm land has recently been purchased by a local farmer for \$4,000 an acre. He figured that this was less than it would have cost him to bring new land into production. He also has the advantage of being close to transportation and market, and is not restricted to certain crops because the soils have been worked for a long time.

Tourism — The existing farms are a tourism destination. A major reason for visiting the Valley would be lost if the area around Palmer, Trunk Road and Bodenbug Butte took on the appearance of Fairview and Muldoon.

The answer to the question, "Can preservation of farm land be justified?" will probably follow the answer to, "Should agriculture be encouraged in Alaska?"

As long as there is justification for the State of Alaska to invest monies in new farms, there is an equal justification for investing state monies for retention of existing farm land.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

P.O. BOX 949
PALMER, ALASKA 99645-0949
PHONE: (907) 745-7200

DIVISION OF AGRICULTURE

April 11, 1985

Matt Fishel
Aide to Senator Kerttula
Pouch V
Juneau, Alaska 99811

Re: SJR 1

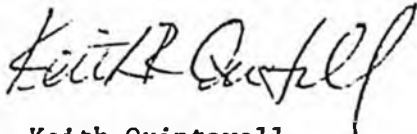
Dear Matt:

A February 27, 1985 letter from Senator Kerttula requested comments on SJR 1. Since then SJR 1 has been distributed to the nine soil and water conservation districts, and it was an item of discussion at the spring meeting of the Alaska Association of Soil and Water Conservation Districts.

At the meeting, resolution AASWCD 85-3 (copy enclosed) was proposed which would support altering the language of SJR 1. However, AASWCD 85-3 was defeated, with the AASWCD supporting SJR 1 as written. Therefore, be advised that the Alaska Association of Soil and Water Conservation Districts, as well as the nine local Soil and Water Conservation Districts through their representatives at the meeting, are in support of SJR 1 as written.

Sorry you weren't able to attend the meeting. The AASWCD appreciates all your efforts in their regard.

Sincerely,



Keith Quintavell
Conservation Coordinator

Enclosure

*Louis ons
Jenny & set up a file
ons J.P.*

SALCHU-BID DELTA SWCD

P.O. Box 947

Delta Junction, Alaska 99737

Wednesday January 23, 1965

Senator Ferris
Senator Coonill
Representative Snultz
Alaska State Legislature
Juneau, Alaska

Re: SB#1:SB 39,40,41,42; HB 33.

Gentlemen:

The Salchu-Bid Delta SWCD has spent considerable time reviewing the above listed legislation and as patent language.

Enclosed herewith for your information and possible use are responses and copies of our strong recommendations on these topics:

- 1) SB 39 - Money for Nonsna; support as is.
- 2) SB 40 - No Production/Loan Credit; support as revised.
- 3) SB 41 - Historium; support as is.
- 4) SB 42 - No Rights Law; we prefer HB 33 as we revised.
- 5) HB 33 - No Rights Law; support as revised.
- 6) SB#1 - Constitutional Amendment; support as revised.

We are prepared to utilize all appropriate channels to provide rationale for our versions and to support your efforts to pass legislation as we have proposed.

We will provide additional written commentary and testimony and upon request will make every effort to appear before legislative committees as appropriate.

We hope this positive spirit of our revision of our patent law will be a contribution towards the passage of our proposed legislation.

*Charles J. Ferris
Senator Ferris*

SIBDOW D supp to a
change

Introduced: 1/14/85
Referred: Resources, Judiciary
and Finance

1 IN THE SENATE

BY KERTTULA

2

SENATE JOINT RESOLUTION NO. 1

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IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

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Proposing amendments to the Constitution

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of the State of Alaska relating to

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agricultural rights in state lands.

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

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* Section 1. Article VIII, sec. 9, Constitution of the State of Alaska,

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is amended to read:

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SECTION 9. SALES AND GRANTS. Subject to the provisions of this

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section and Section 19 of this article, the legislature may provide

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for the sale or grant of state lands, or interests therein, and estab-

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lish sales procedures. All sales or grants shall contain such reser-

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vations to the State of all resources as may be required by Congress

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or the State and shall provide for access to these resources. Reser-

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vation of access shall not unnecessarily impair the owners' use,

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prevent the control of trespass, or preclude compensation for damages.

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* Sec. 2. Article VIII, Constitution of the State of Alaska, is amended

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by adding a new section to read:

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SECTION 19. AGRICULTURAL USES OF STATE LANDS. When state land

classified by the State as agricultural is conveyed, uses of the land

inconsistent with its agricultural potential remain with the State.

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* Sec. 3. The amendments proposed by this resolution shall be placed

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before the voters of the state at the next general election in conformity

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with art. XIII, sec. 1, Constitution of the State of Alaska, and the

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election laws of the State.

ALASKA FARMERS AND STOCKGROWERS ASSOCIATION, INC.

1985 Resolution Platform

The following resolutions were adopted by the General Assembly of the Alaska Farmers and Stockgrowers Association at its annual meeting, in Anchorage, on December 5, 1984:

- 1) Requesting the institution of a State Board of Agriculture, consisting of producers and a representative of the Governor's office, whose task is to act as a liaison between the industry, the Governor, and the Division of Agriculture.
- 2) Requesting that the State of Alaska put up at least two (2) storage bins in Seward for in-state storage and distribution of grain.
- 3) Supporting the establishment of favorable agricultural rates on the State ferry system and on the Alaska Railroad.
- 4) Requesting that in all instances where state institutions use or require agricultural products, they use Alaska-grown products when those products are in season, price competitive, and of a like quality.
- 5) Supporting right-to-farm legislation.
- 6) Endorsing the concept of a petition requesting a constitutional amendment which would protect agricultural rights on State lands.
- 7) Supporting the concept that all agricultural lands sold in the future be disposed of by lottery only, and that they include agricultural development credits.
- 8) Supporting disposal of agricultural lands under the Homestead Bill enacted in 1983 to include soils classified as II, III, IV, V, and VI, and to specify that the lands be sold with agricultural rights, only, forever.
- 9) Supporting the development of a policy which classifies as agricultural land those lands containing Class II and III soils which are suitable for grazing.
- 10) Encouraging the State to rework its land lease laws to better facilitate agricultural needs (including the incorporation of "option-to-renew" clauses.)
- 11) Requesting that duties related to the agricultural industry be transferred from the Department of Environmental Conservation to the Department of Natural Resources.
- 12) Requesting clarification of the conveyance of the agricultural rights title to guarantee the rights of the purchaser.

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.

May 2, 1985

The Honorable Arliss Sturgulewski
Chairman, Senate Resource Committee
Pouch /
Juneau, Alaska 99811

Dear Senator Sturgulewski:

I would like to support the passage of SJR 1, relating to agricultural rights in state lands, for the following reasons.

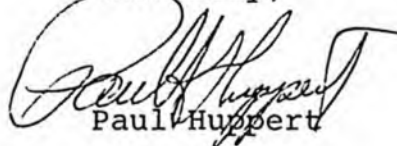
Land sold for agricultural use should be by agricultural rights only to guarantee that they will be preserved for now and future generations for food production.

Those lands sold for agricultural rights at the outset of a sale only reflect the value set for their agricultural use and if this was to change, those land owners would receive a free gift at the expense of the people of Alaska, an instant gift, which in some cases could be one-hundred fold of what was originally paid for the land.

If this legislation were to pass, it would give notice to anyone who had the intent of purchasing agricultural rights with the speculation of changing those rights to be fee simple.

Thank you for considering my views in this important matter.

Sincerely,



Paul Huppert

Alaska Agriculture Throughout the 1980s

Presented

To

The Senate Resources Committee

By

Wayne C. Thomas

Agricultural and Forestry Experiment Station

University of Alaska - Fairbanks

24 April 1985

Alaska Agriculture through the 1980s

Many people are asking how the State of Alaska should proceed in its efforts to promote agricultural development. Obviously, there are no easy answers as the issue is very complex. Its complexity stems, to a great extent, from the various, sometime conflicting, goals of the many participants. As an example, one group supports small farms, another large farms, others support export agriculture, and some can see no reason for exporting since we produce so little for the local market. Unlike any other state of the United States in the 1980s, agriculture in Alaska is trying to compress generations of work in farm development and marketing into a few short years.

The purpose of this paper is to identify possible courses of action (some of which have already taken) which the state government might wish to consider in order to manage Alaskan agriculture successfully. As troubling as it is to some, management by government is needed because private-sector forces are somewhat slow and even difficult to establish. The reasons are several: 1) the land supply is owned by government, thus private-sector land markets work with what government provides them; 2) private individuals wishing to farm agricultural land near large cities, the Matanuska-Susitna area for example, cannot compete with urban or suburban groups for the same land; 3) agricultural production for in-state markets generally requires some form of processing, and this generally takes more time to establish than the general public expects; and 4) the Alaska market is small, making it nearly impossible to establish some forms of agricultural processing. The point to remember, however, is that, even with its difficulties as a private-sector industry, Alaska agriculture exists, has existed for a long time, and has the potential to become much larger in the future.

So let us now return to the question, "Where do we go from here?" There are five areas which appear to be key to the agricultural-development process in Alaska and which can be incorporated into the state's management plans. These are: land title, farm development, loan-fund participation, development of new lands, and support for broadly based agriculture. Each of these will be considered in turn:

1. Land Title: There have been many discussions, both in and out of the media, over the meaning of the agricultural-rights-only title. Many factors are a part of this issue, and the arguments pertaining to it can become very emotional. The only thing that I am certain of is that, if the agricultural-rights-only title or some other title that does exactly the same thing is not continued in Alaska, commercial farming in the Matanuska-Susitna area will then very nearly cease to exist in the not-too-distant future.

I favor the agricultural-rights-only title now in use because it states clearly that, by law, land use is limited to agriculture. Even more to the point, such law is not administrative (regulation developed by bureaucracy), but legislative, and can only be changed by the legislature (unless it is found to be unconstitutional). Law enacted by legislation appears more permanent.

In other parts of Alaska, particularly Delta Junction and Nenana, agricultural-rights-only legislation is less important because there are few competing uses for the land. However, an agricultural-rights-only title indicates that agriculture is seen as an important land use in Alaska.

2. Farm Development. This may sound somewhat strange, but I believe the human element has, to some degree, been overlooked in the agricultural plans for Alaska. In the desire to "get modern farming established in Alaska," certain assumptions were made about how rapidly farmers could develop

raw land into highly productive farms. In retrospect, maybe too much was expected of them. It appears to have taken longer for certain lands to reach the productivity levels that we suggested in the various preliminary feasibility analyses.

Good farming takes much experience and judgement, and these are gained most effectively by "on-the-job-training." In some cases, as a farmer gains this experience, he also gains a high debt load. Many project farmers have recently been asking for some help in the form of moratoriums on land or land-clearing payments. These moratoriums do not remove the debt load, though they may lengthen the repayment period; however, full repayment is still required. A moratorium permits repayment to be postponed until farm price increases for crops currently under production or until crops with higher value, such as rapeseed, are tried. Thus, moratoriums give the farmer more time to farm and to learn how to do it successfully in Alaska. Another type of state help suggested recently is production credits. The major difference with production credits is that they can be used to reduce debt load and/or reduce amount of repayment on state loans. While this is more beneficial to the farmer, it is more expensive for the state. This type of policy has been used as a means of enhancing agriculture in Alaska (example, grain incentive program of the late 1960's). Presently, no such programs are available to farmers.

3. Loan-Fund Participation. There seems to be a continuing controversy about the Alaska Agricultural Revolving Loan Fund (ARLF) and its subsidized interest rate. Several things about this loan activity are evident.

There is no direct cost to the state because fund moneys come from direct appropriation, not from bonding as is the case with some of the other state loan programs. The interest rate is now approximately that paid by most money-market funds, 8 per cent, so the opportunity cost of state funds would

seem to be fairly low. A major concern about the loan fund is security of its principal or, stated another way, its number of bad loans. Agricultural loans in the country as a whole, as well as in Alaska, have higher delinquency rates than normal because of low market prices. I personally believe that this is a short-term problem. The state government must show some patience while weak market conditions improve, and the processing sector in Alaska becomes better established.

I also believe that the state legislature should encourage participation by non-ARLF lending groups. Established loan limits will do this as long as non-state lending groups will provide loan funds to agriculture. One such group, the Alaska Commercial Fisheries and Agricultural Bank (CFAB), might even be encouraged through a resolution passed by the legislature, as it was initiated with state funds. The Federal government can also become involved through its Farmers Home Administration. The legislature should make sure the regulations used in the administration of ARLF do not prevent joint participation by CFAB and FHA.

4. Development of New Lands: It may appear that, in times of apparent crisis in farming, support of further development of new land would seem "wrong headed." I propose this idea because at least one processing industry, that for milk, would benefit from more production than will be available from the Point MacKenzie Agricultural Project in southcentral Alaska. Therefore, I recommend that more agricultural land be transferred to private farmers in the Matanuska-Susitna area for dairy production. In a recent study, of which I was a coauthor, we showed that increased local milk production would make Alaska-produced milk very competitive with milk shipped into the state. Local milk has the potential to become the price leader in the Anchorage market if sufficient volume facilitates optimum, cost-effective processing and marketing.

A second area under consideration for land development is in the Nenana area. I believe that a measured development scenario would lead to viable agricultural production in the 1990s. Development could begin with construction of the transportation corridor. I am convinced that grain produced in Nenana will someday be shipped down the railroad to southcentral livestock producers and to export markets.

5. Support for Broadly Based Agriculture. I believe that a strong case can be made for a broadly based agriculture. We have recently learned just how large the greenhouse industry is in Alaska. In total sales, it nearly equals sales for all other segments of Alaskan agriculture. Other groups, such as fur farmers and even tree farmers, are also important to the agriculture milieu.

In trying to promote and assist Alaskan agriculture, these groups should not be discouraged from participating in the several government programs for agriculture. Such agriculture groups tend to support stronger social and economic bases of the society. However, these should be considered as business propositions and evaluated as such. In these times of reduced state revenue, commercial agriculture, be it fur farming, grain farming, or dairy farming, should take precedence over "hobby" farming, in terms of state support.

I have tried to give you some insight into ways to move agriculture along in Alaska. As you are aware, I have not put quantitative values on these suggestions. There has not been enough time to do so within the context of this legislative session. I do believe that well-thought-out plans, based at least in part on these ideas, would be cost effective. Most important, agriculture in Alaska should benefit significantly from a progressive program, proposed by the legislature, to aid this fledging industry.

TESTIMONY BY

James V. Drew

Before the Senate Committee on Resources

Juneau, Alaska

March 13, 1985

My name is James V. Drew. I live at 4725 Villanova Drive, Fairbanks, Alaska. I have been associated with agricultural development in Alaska during the last ten years as Director of the Agricultural and Forestry Experiment Station, University of Alaska-Fairbanks. I very much appreciate the opportunity to testify today before the Senate Committee on Resources during hearings on agricultural legislation.

My testimony rests on the premise that expanded agricultural development in Alaska is in the best, long-term interest of Alaskans. Sound development of an agricultural industry can provide cost-effective farm production and diversify Alaska's almost total economic dependence on petroleum prices. I believe that a number of bills under consideration this year are important in strengthening and expanding Alaska's agriculture.

I also recognize that current economic conditions in the agricultural industry nationally create a difficult environment for advocates of agricultural development in Alaska. During recent weeks the news media have carried stories about farm foreclosures across the U.S. These foreclosures reflect a U.S. farm credit crisis resulting from declining farmland prices, high interest rates, and low prices for agricultural commodities.

Why, in view of these difficult times for American farmers, should we continue agricultural development in Alaska? Three reasons are important.

1. Alaska has approximately three millions acres of potential agricultural land in state ownership near the existing road and rail belt. This land could be transferred from state to private ownership for farm development and long-term productivity. Top farmers in the Delta and Point MacKenzie areas and elsewhere in the state have demonstrated that crop and livestock products of high quality can be produced in Alaska when good management is used.
2. Agricultural development, in concert with other resource development including timber production and mining, can provide the economic productivity necessary to support and improve transportation on Alaska's existing road and rail system. It can create a desirable settlement pattern for adjacent land, particularly where other resource developments are unlikely. In the more remote areas of western Alaska, an expanded reindeer industry can provide economic productivity from the tundra rangeland. Unlike petroleum extraction, agricultural development will not provide massive amounts of revenue to state government; it will provide opportunities and jobs for people.

3. Additional sales of potential agricultural land will permit Alaska's agriculture to expand beyond the stage of an infant industry. As the volume of agricultural production increases, the costs of producing, processing, and marketing agricultural products will become competitive with those in other agricultural regions. Thus, subsidies necessary for the existing, infant, agricultural industry can be reduced and eventually eliminated.

It is unlikely that today's economic conditions in U.S. agriculture will persist in the long-term, although some restructuring of the industry will undoubtedly occur. Unfortunately, current economic conditions in the U.S. timber and mining industries are also substantially below previous levels. In the long run, however, the development of Alaska's agricultural industry will provide economic and social benefits, particularly in areas of the state where opportunities for the development of other resources are limited.

With these benefits in mind, and with 200 years of agricultural history in Alaska, why does the state not have a mature agricultural industry today? Why is it that annual cash receipts from farming total \$14.3 billion in California, \$6.7 billion in Minnesota, \$2.7 billion in North Dakota, but only \$16 million in Alaska, only half as much as Rhode Island's \$32 million.

A major reason is that virtually all of the potential agricultural land in Alaska was held by the state or federal government during the time agricultural development was occurring in other states. Unlike other resource industries, crop production agriculture cannot develop effectively in the U.S. on land owned by government. Because of limited acreage in private ownership, Alaska's farmers could not take advantage of economies of scale associated with farming elsewhere. In addition, Alaska's economic infrastructure, including the transportation system, did not facilitate supplying farms with needed materials or marketing agricultural products. Thus, the cost of producing and marketing agricultural products was high.

Now that agriculture is fully developed in California, Minnesota, and North Dakota, Alaskans who are not farmers tend to forget that hundreds of millions of dollars were spent by government in developing irrigation projects to make California's agriculture cost-effective. They forget that government spent hundreds of millions of dollars to provide inexpensive barge transportation on the Missouri and Mississippi Rivers to make agriculture in Minnesota and North Dakota cost-effective.

In short, agriculture did not develop unassisted elsewhere in the U.S. In all states, it took investments from government as well as the private sector. But these investments created new wealth from land resources that would not have been productive otherwise.

Several bills introduced in the Alaska State Legislature this year will assist in the development of a productive and cost-effective agricultural industry in Alaska.

SB 40 and SB 154

The concept of production credits outlined in SB 40 and SB 154 will provide incentives necessary for Alaska's agricultural industry during its current stage of development. Production credits are a means of reducing the debt load of farmers who purchased land from the state of Alaska in 1978 to 1982 when the farmland prices in the U.S. were higher than at any other time in the nation's history. These high prices tended to inflate the price of undeveloped agricultural land sold by the state. A system of production credits to reduce the farmer's debt load is a mechanism that government can use to increase farm production and enhance the economic viability of new farming enterprises in Alaska.

SB 41

Equally important in assisting Alaska farmers to succeed in difficult times for farmers nationally is SB 41, a bill to extend the moratorium on payments from 5 to 10 years. This will help farmers through the period of land clearing and farm development when productivity is low, and enhance the opportunity for successful farm development in the long-term.

SB 120

SB 120 is needed to authorize an increase in the capitalization of the agricultural revolving loan fund, to assist in the establishment of commodity marketing associations, and to

increase the number of members on the board of the agricultural revolving loan fund.

Land Title

Successful development of a long-term agricultural industry in Alaska requires that farmland remain available for crop production and not be shifted to other, irreversible uses. However, if the mechanism that accomplishes this prevents the use of the land as collateral in obtaining agricultural development or operating loans from private financial institutions, then successful agricultural production is unlikely to occur even though the land is protected for agricultural use. I strongly urge administrative or legislative measures, developed in concert with the private financial community, that will enable Alaskan farmers to retain land for agricultural use, but also permit them to have the same opportunities to obtain credit that are available to farmers in other states.

SB 57

SB 57 is designed to enhance the marketing of agricultural products produced in Alaska. It would provide a clause in all state bids to require the use of agricultural products originating in Alaska if these products are competitively priced and of like quality when compared to agricultural products originating outside the state.

SB 110 and SB 155

SB 110 to increase the amounts of agricultural loans available from the state of Alaska to any one borrower, and SB 155 relating to the splitting and combining of agricultural

parcels will provide flexibility for developing economically viable farm enterprises in Alaska. Farming has long been a capital intensive industry. The amounts of loans from private financial sources to U.S. farmers are based on the abilities of the farmers to repay the loans, and not on arbitrarily imposed limits. Loan limits may create failure in the very situation the loan was designed to assist by not providing sufficient capital to permit an economically successful farm enterprise. In the best case, there should be no loan limits; instead the amount of the loan should be granted on the basis of a thorough and professional examination of the proposed farming enterprise. Nevertheless, increasing the loan limits as provided by SB 110 will permit the loan fund to service modern agricultural development in Alaska more effectively.

SB 155 will permit the splitting or combining of agricultural parcels sold as part of an agricultural development project to assist in the development of economically sound, full-time and part-time farming enterprises. Farms of a certain minimum size, depending on the farming enterprise, are necessary to support successful, full-time farming businesses. Smaller farms may be satisfactory for part-time farms where other income is available off the farm.

There is a tendency in urban Alaska to perceive that agricultural development may take place successfully with only part-time farms. The argument is that off-farm employment can be used to subsidize the development of the farm. Two thoughts must be kept in mind. First, the part-time farmer requires employment

off the farm. Thus, the development of part-time farms is dependent on the successful development of other sectors of the economy near the farms to provide jobs for part-time farmers. Second, successful part-time and full-time farms require a well-developed, efficient infrastructure for supplying farm inputs and marketing farm outputs. The volume of purchases and production from full-time farms is necessary to support this essential infrastructure.

Financial differences between full-time and part-time farms are illustrated by national statistics. In 1981, U.S. farms that sold \$100,000 or more in farm products accounted for 68.4 percent of cash farm receipts and earned \$19.9 billion. At the other end of the spectrum, farms that sold less than \$20,000 each in products collectively accounted for 6.5 percent of cash farm receipts and lost \$1.6 billion on farming. Nevertheless, these small farms had family incomes above the U.S. average because their farming losses were offset by \$29 billion in nonfarm income.

SB 39

SB 39 will provide an appropriation for the roads and bridges necessary to develop the agricultural, mineral, and recreational resources in the Nenana-Totchaket area of interior Alaska. Expanding agricultural production in this area will increase the volume of agricultural commodities produced in Alaska. As in any other industry, increased volume will reduce the cost of agricultural production and marketing and increase the competitiveness of

Alaska's agricultural commodities. Moreover, expanding Alaska's grain and livestock production in the proposed Nenana-Totchaket project will insure against vagaries of weather or plant diseases that could reduce yields in existing agricultural areas. Reduced grain yields, in turn, could jeopardize livestock producers who need a reliable source of grain and processors of animal products who need a reliable source of animals. Consequently, it is desirable to produce grain and livestock in more than one area of Alaska. The Nenana-Totchaket will provide this option. Access roads and bridges provided by SB 39 are essential for the successful development of farmland in this area.

Agricultural Research and Education

Progress in agricultural development supported by the Alaska State Legislature during the last ten years includes the development of new lands for farming, the construction of essential access roads and electrical power to farms, and the construction of processing facilities for agricultural commodities. Modern commercial agriculture, however, is a high technology industry. Its ability to compete depends on the continuing development and application of new technologies for crop improvement, weed and disease control, livestock health and nutrition, fertilizer efficiency, and improvements for processing and marketing agricultural commodities.

All successful agricultural industries in the world have government-supported research and teaching programs to develop new technologies. These programs are supported by government because individual farmers, unlike large industries, cannot amass

sufficient capital individually to conduct essential research. In the U.S., agricultural research is done by the system of state agricultural experiment stations in land-grant universities.

Crop varieties used in Alaska were either developed by or tested by scientists at the Alaska Agricultural and Forestry Experiment Station which is administered by the University of Alaska-Fairbanks (UAF). Essentially all management practices for crops and livestock in Alaska that are recommended by the cooperative extension service or state agencies were developed by the experiment station.

Now, however, demands for improved crop varieties, fertilizer recommendations, disease and insect control, animal health, and farm management systems for new agricultural land exceed the resources and facilities of the experiment station. In recognition of UAF's role as a land-grant university to support research and teaching for agricultural development in Alaska, UAF included an increment package in its FY 86 budget request to support research and education for Alaska's agricultural development plan. I strongly recommend the increment package. Adequate research and education are essential for the development of a cost-effective agricultural industry. Lack of an effective program now will fail to provide competitive technologies for Alaska's farmers three to five years in the future.

Summary

The importance of agricultural development in Alaska was highlighted for me in a program presented last week in Fairbanks

by Dr. Theodore Malloch, an international economist with the U.S. Department of State. While discussing international trade, Dr. Malloch informed us about increases in exports from service and information industries in the U.S., and about our imports of resources and manufactured goods from overseas.

During the question period, I asked Dr. Malloch's advice and recommendation for economic development in Alaska as related to possible international trade. He responded that Alaska must diversify its economic base and that our only alternative for increased trade is to develop our basic resources of mining, agriculture, timber, and fisheries.

Agriculture has an important role in Alaska's future, particularly in areas where potential agricultural soils occur and other major resources are limited. In these areas, the development of cost-effective agriculture can provide economic opportunities for Alaskans, enhance communities, provide employment, and place relatively extensive areas of state-owned land in private ownership. It can help meet the policy established in Article III, Section I of Alaska's Constitution, "... to encourage the settlement of (Alaska's) land and the development of its resources by making them available for maximum use consistent with the public interest."