SENATE COMMITTEE REPORT

FURTHER

3/17/88 DATE TURNED INTO OFFICE 3/31/88

Mr. President:

Finance Committee considered SB 472

authorizing the commissioner of natural resources to transfer certain assets formerly owned by Matanuska Maid, Inc.

and recommended

[ ] replace with ___ CS ____________) [ ] same title
[✓] or adopt ______ CS SB 472 (Res)) [✓] new title

[ ] attached amendment(s) and

[✓] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to ____________

[ ] letter of intent adopted ____________

Committee [✓] attached or [ ] adopted fiscal note(s)
[✓] new [ ] updated or [ ] previous
[ ] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS
[signature]	[signature] (No Rec)
Paul Fischer	
[signature]	
[signature]	
[signature]	

Rick Halford do pass
Chairman signature and recommendation

[ ] Committee Backup attached

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION : CSSB 472 Resources
PUBLISH DATE :

FISCAL NOTE

REQUEST:

Revision Date: 3/31/88
Title : Transfer Matanuska Maid Assets

Sponsor : Sen. Resources Committee
Requestor : Senate Finance Committee

Agency Affected : Natural Resources
BRU : Agricultural Management

Components : ARLF

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	(3222.2)	(222.2)	(222.2)	(222.2)	(222.2)

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This fiscal note adjusts the revenue loss to the state related to transfer of the creamery to a dairy cooperative because the cash, accounts receivable, inventory and prepaid expenses will not be included in the transfer. (See attached explanation).

Prepared by : Hal Ward
Division : Division of Agriculture
Phone : 745-7200
Date : 3/31/88

Approved by Commissioner : L. Sonn
Agency : Natural Resources
Date : 3/31/88

Distribution (by preparer) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Explanation for Revised Fiscal Note

CSSB 472 (Resources)

FY 89		FY 90-93	
156.0	Lease Income	156.0	Lease Income
(148.2)	Loss of Opportunity for Sale	(148.2)	Loss of Opportunity
(230.0)	Depreciation	(230.0)	Depreciation
(3000.0)	Loss of Capital Improvements		
(3222.2)	Loss for FY 89	(222.2)	Loss per year FY 90-93

Lease payment income is projected to be $156,000 per year ($13,000 per month). The loss in income from immediate sale of the land and buildings in Anchorage over 20 years at 8% for the current tax value (March, 1988) is $1,475,500 ($148,200 per year). The loan fund would receive no repayment for the contribution of over $3,000,000 in operating capital and plant improvements during the last three years.

The recently incorporated cooperative that is seeking to lease/purchase the creamery has no assets and no financial capacity to provide operating capital or plant maintenance. The exposure to the State of Alaska as owner of the facility would include working capital of 3,000,000 and replacement of equipment based on depreciation of $230,000 per year for 15 years to offset obsolesence and provide for future expansion.

Offered: 3/17/88 5-1589L
Referred: Finance

Original sponsors: Josephson, Szymanski,
Halford, et al.

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 472 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the commissioner of natural resources to transfer the creamery formerly owned by Matanuska Maid, Inc."

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

* Section 1. LEGISLATIVE INTENT. It is the intent of the legislature that the authority granted by sec. 2 of this Act be exercised to

(1) promote development of a stable, profitable, and unsubsidized Alaskan dairy industry;

(2) encourage innovative and efficient management of dairy farms and processing facilities by the private sector;

(3) encourage production and marketing of competitively-priced Alaskan dairy products in lieu of imported products; and

(4) use past investments of public money in the dairy industry to further the objectives described in (1) - (3) of this section without depleting the agricultural revolving loan fund.

* Sec. 2. LEASE-PURCHASE AUTHORIZED. The commissioner of natural resources may enter into a one-year lease with a cooperative composed of Alaska dairy product producers for the management and operation of the former Matanuska Maid Creamery at 814 Northern Lights Boulevard, in Anchorage. The commissioner and the cooperative shall agree on the composition and membership of the board of directors that manages the Matanuska Maid Creamery unless the commissioner chooses not to retain veto authority over the composition and membership of the board. The lease is renewable annually for 14 years if the lessee has complied with health, product

quality, and other terms and conditions of the lease and has managed the former Matanuska Maid Creamery economically, profitably, and efficiently under the terms of the lease. The lease shall require the lessee to treat each producer of dairy products equally. The lease may be negotiated by the commissioner of natural resources at any time before July 1, 1989, but it is the intent of the legislature that the lease be in effect on July 1, 1989. The lease payment due from the lessee is an amount equal to $.50 per hundredweight of milk processed per month at the creamery or $13,000 per month, whichever is greater, and the lease payment shall be applied to the purchase price. If the cooperative composed of dairy product producers has continuously operated the former Matanuska Maid Creamery under a lease granted under this section through June 30, 1999, the commissioner of natural resources shall, at the request of the lessee at any time after June 30, 1999, but before June 30, 2004, transfer the creamery to the lessee. In valuing the assets of the former Matanuska Maid Creamery for the purposes of a transfer under this section, the building shall be valued at its fair market value at the initiation of the lease and the land shall be valued at its fair market value on the date of the request by the lessee for a transfer under this section.

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 472(Resources)
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date: 3/22/88
Title: Transfer Mat-Maid Assets

Sponsor: Resources Committee
Requestor: Senate Finance Committee

Agency Affected: Natural Resources
BRU: Agricultural Management

Components: ARLF

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	~~(5,757.4)~~ (3,015.0)	(222.2)	(222.2)	(222.2)	(222.2)

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill affects the financial condition of the Agricultural Revolving Loan Fund (ARLF) because it affects property held for sale by the loan fund as well as cash, accounts receivable, and inventory for the creamery. The changes in the bill have resulted in changes in the fiscal note. The current (contd.)

Prepared by: Hal Ward, D.of Ag., Janet Burleson, D. of L&W
Phone: 465-2400
Division: Agriculture, Land & Water Management
Date: 3/22/88

Approved by Commissioner: ky Tom Hawkins
Date: 3/22/88
Agency: Natural Resources

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

MAR 24 1988
LEGISLATIVE FINANCE

impacts of this bill are as follows:

Lease payment income is projected to be $156,000/year ($13,000/month). The loss in income from immediate sale of the land and buildings in Anchorage over 20 years at 8% for the current tax value (March, 1988) is $1.475,500 ($148,200 /year). The combined value of cash ($48,000), accounts receivable from milk sales ($1,770,000), inventory ($592,200), and prepaid expenses ($125,000) equals $2,535,600. The loan fund would receive no payment for this amount after contributing over $3,000,000 in operating capital and plant improvements over the last three years.

In addition, the recently incorporated cooperative that is seeking the creamery lease purchase has no assets and no financial capacity to provide operating capital or plant maintenance. The exposure to the State of Alaska as owner of the facility would include working capital of $3,000,000 and replacement of equipment based on depreciation of $230,000 per year for 15 years to offset obsolescence and provide for future expansion. The projected cost for lease/ sale to a cooperative without the financial capacity to provide capital for operations and expansion totals $8,868,600.

FY 89	
156.0	lease income
(148.2)	loss of opportunity for sale
(48.0)	loss of cash
(1770.0)	loss of accounts receivable
(592.2)	loss of inventory
(125.0)	loss of prepaid expenses
(230.0)	depreciation
(3000.0)	loss of capital improvements
(5757.4)	Loss for FY 89

FY 90-93 Per Year Loss	
156.0	lease income
(148.2)	loss of opportun.
(230.0)	depreciation
(222.2)	Loss per year

A/B

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 472 (Res)
PUBLISH DATE: Senate 3/17/88

FISCAL NOTE

REQUEST:

Revision Date: 3/11/88
Title: Transfer of Mat. Maid Assets

Sponsor: Sen. Josephson, Szymanski, et al
Requestor: Senate Resources Committee

Agency Affected: Natural Resources
BRU: Agricultural Management

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	*	*	*	*	*	*

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

*Over thirteen million dollars of state assets and income could be lost as a result of this bill, as described on the attached page 2.

Prepared by: Hal Ward, Mark Weaver
Division: Division of Agriculture
Phone: 465-2400
Date: 3/11/88

Approved by Commissioner: Judith M Brady
Agency: Natural Resources
Date:

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Senate Bill 472

Analysis Continued

This legislation financially affects the Agricultural Revolving Loan Fund because the value of the assets held for sale by the loan fund include the Matanuska Maid Inc. property located in Anchorage and Palmer. The assets also include equipment, accounts receivable, cash and inventory. Because of the nature of the assets it is difficult to lease cash, accounts receivable or inventory.

The estimated fair market value of the business based on an income approach is approximately $2,750,000. If the business is leased for $1.00 per year the financial impact is estimated as follows:

* 1.	Opportunity Income if Asset Sold at Fair Market Value	$ 5,524,200.00
2.	Working Capital Required as Co-op has 0 Assets	$ 3,000,000.00
3.	Replacement of Equipment Over 20 Years Based on Depreciation	$ 4,600,000.00
	Total	$13,124,200.00

* This sum represents the loss of revenue available if the assets were sold for current fair market value on a 20 year contract at 8% with the proceeds returning to the loan fund as partial recovery of the $5,900,000 investment made by the loan fund in support of the dairy industry. In addition, the working capital and equipment replacement costs are based on industry standards and are included because the Co-op has no assets available to operate the business.

Alaska State Legislature

Senate Resources Committee

Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Eliason

Box V
Juneau, Alaska 99811
(907) 465-4907

SB 472
SENATE LETTER OF INTENT

It is the intent of the Legislature that the Department of Natural Resources, when negotiating the lease/purchase of the Matanuska Maid Creamery, should zealously protect the liquid assets of the operation. This protection should take the form of stringent terms and conditions imposed on the cooperative i.e that the cooperative, on a regular payment schedule, return to the state generated revenues for the purpose of reimbursing the liquid assets. These payments do not apply to the purchase price. It is also the intent and understanding of the Legislature that AS 36.30, the state procurement code, does not apply to the lease/purchase.

SFC-88
3/24/88
pm

Intent Language

It is the intent of the legislature that the sale of business assets related to the operation of the creamery at 814 Northern Lights Blvd. shall be completed as soon as practicable under the following terms:

The sales price of the creamery shall be the value of business assets sold, less long-term debt assumed by the buyer.

The value of business assets sold are to be determined as follows:

Cash - Retained by the ARLF.

Trade receivables - At book value, less any uncollectible receivables. All trade receivables not collected within one year to revert back to the ARLF.

Note receivable - Retained by the ARLF.

Other receivables - Retained by the ARLF.

Inventories - At lower of cost or market. Based upon physical count at the date of sale.

Prepaid expenses - Based upon equitable proration.

Machinery, fixtures and equipment - At cost, less accumulated depreciation to date of sale, which sale shall take place concurrent with the sale of other operating assets mentioned above.

Current liabilities - Retained by ARLF.

Long-term debt - Assumed by the buyer and to be paid by buyers.

Intangibles - All intangibles such as goodwill and logos shall be transferred to buyer at date of sale for $1.00.

Other operating assets - All other operating assets not specifically mentioned above shall be transferred to buyer at date of sale for $1,000.00.

The ARLF shall receive a security interest in all assets which are sold in an amount equal to the value of that asset as determined above. The security interest shall not be released on any asset until the total amount due on that asset has been paid in full.

During each and every month, until paid in full, the buyer shall pay to the ARLF an amount equal to 50 cents per hundred weight of milk processed at the creamery, or $13,000.00 per month, whichever is greater. These payments shall apply toward the amounts owed the ARLF for the business assets acquired by the buyer. These sums paid by the buyer shall apply toward the business assets in the following order:

First: Prepaids
Second: Inventories
Third: Receivables
Fourth: Machinery, fixtures and equipment

JFC-88
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3-24-88
PER JOE CANGE

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offered; Josephson, Symanski,
Halford, et al.

IN THE SENATE

PROPOSED COMMITTEE SUBSTITUTE
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For An Act entitled: "An act directing the commissioner of natural resources to transfer the creamery formerly owned by Matanuska Maid, Inc."

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

*Section 1. The commissioner of natural resources shall enter into a one year lease with a cooperative composed of Alaska dairy product producers for the lease of the land and building located at 814 Northern Lights Blvd, in Anchorage. The lease is renewable annually for fifty-five years so long as the land and building are used as a creamery. This lease shall be for $1 per year for the term of the lease.

*Section 2. The commissioner of natural resources shall sell all of the operating assets of the Matanuska Maid Creamery to a cooperative composed of Alaska dairy product producers, except all receivables and cash shall remain with the Agricultural Revolving Loan Fund. The sales price of the operating assets shall be THE SUM OF 1) the cost of machinery, fixtures and equipment less accumulated depreciation to the date of sale, less any debt assumed by the buyers which is owed against these assets AND 2) THE VALUE OF INVENTORY AT DATE OF SALE. The net sales price shall be paid at the rate of $13,000 per month until paid in full.

*Section 3. The effective date of this lease-sale shall be January 1, 1989.

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SUM OF 1)

AND 2) INVENTORY AT DATE OF SALE

5-1589P
Bradley
3/29/88

Original sponsors: Josephson, Szymanski, Halford, et al.

IN THE SENATE

CS FOR SENATE BILL NO. 472 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act directing the commissioner of natural resources to lease the creamery formerly owned by Matanuska Maid, Inc., to a cooperative composed of Alaska dairy product producers; and providing for an effective date."

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

* Section 1. LEASE OF REAL PROPERTY AND FACILITIES. The commissioner of natural resources shall enter into a one-year lease with a cooperative composed of Alaska dairy product producers for the lease of the real property and facilities of the former Matanuska Maid Creamery, at 814 Northern Lights Boulevard, in Anchorage, for use as a creamery. The lease is renewable annually for so long as the real property and facilities continue to be used as a creamery but not to exceed 54 years. The lease payment shall be $1 a year for the term of the lease. If the lessee at any time ceases to use the real property and facilities as a creamery, the real property and facilities, with subsequent improvements, immediately revert to the state for disposal by auction.

* Sec. 2. SALE OF OPERATING ASSETS. (a) The commissioner of natural resources shall sell all of the operating assets of the Matanuska Maid Creamery, except all accounts receivable and cash, to a cooperative composed of Alaska dairy product producers. The sales price of the operating assets shall be the sum of

(1) the cost of machinery, fixtures, and equipment less accumulated depreciation to the date of sale, less any debt assumed by the

buyers that is owed against the assets; and

(2) the value of the inventory at the date of sale.

(b) The sales price shall be paid in full on the first day of the lease term under sec. 1 of this Act.

* Sec. 3. This Act takes effect January 1, 1989.

Background Information

Matanuska Maid

Until December 1985, the Matanuska Maid business, including the creamery and feed mill, was owned by Matanuska Maid, Inc., an agricultural cooperative.

In 1979, the cooperative borrowed $500,000 from the ARLF, secured by the Northern Lights Blvd. property on which the creamery is located. In 1980, the cooperative borrowed $100,000 from the ARLF, secured by creamery inventory and accounts receivable, and $300,000 from the ARLF secured by the real property on which the Palmer feed mill is located. Also in 1980, the cooperative borrowed $2 million from the ARLF, secured by the creamery and feed mill real property.

In 1983, the cooperative filed for bankruptcy under chapter 11 (reorganization), and the ARLF advanced the business an additional $450,000 to protect ARLF's considerable investment. The ARLF subsequently foreclosed on the creamery and feed mill and eventually purchased the real estate associated with the facilities at the foreclosure sale. The total ARLF investment in Matanuska Maid facilities is $5.9 million.

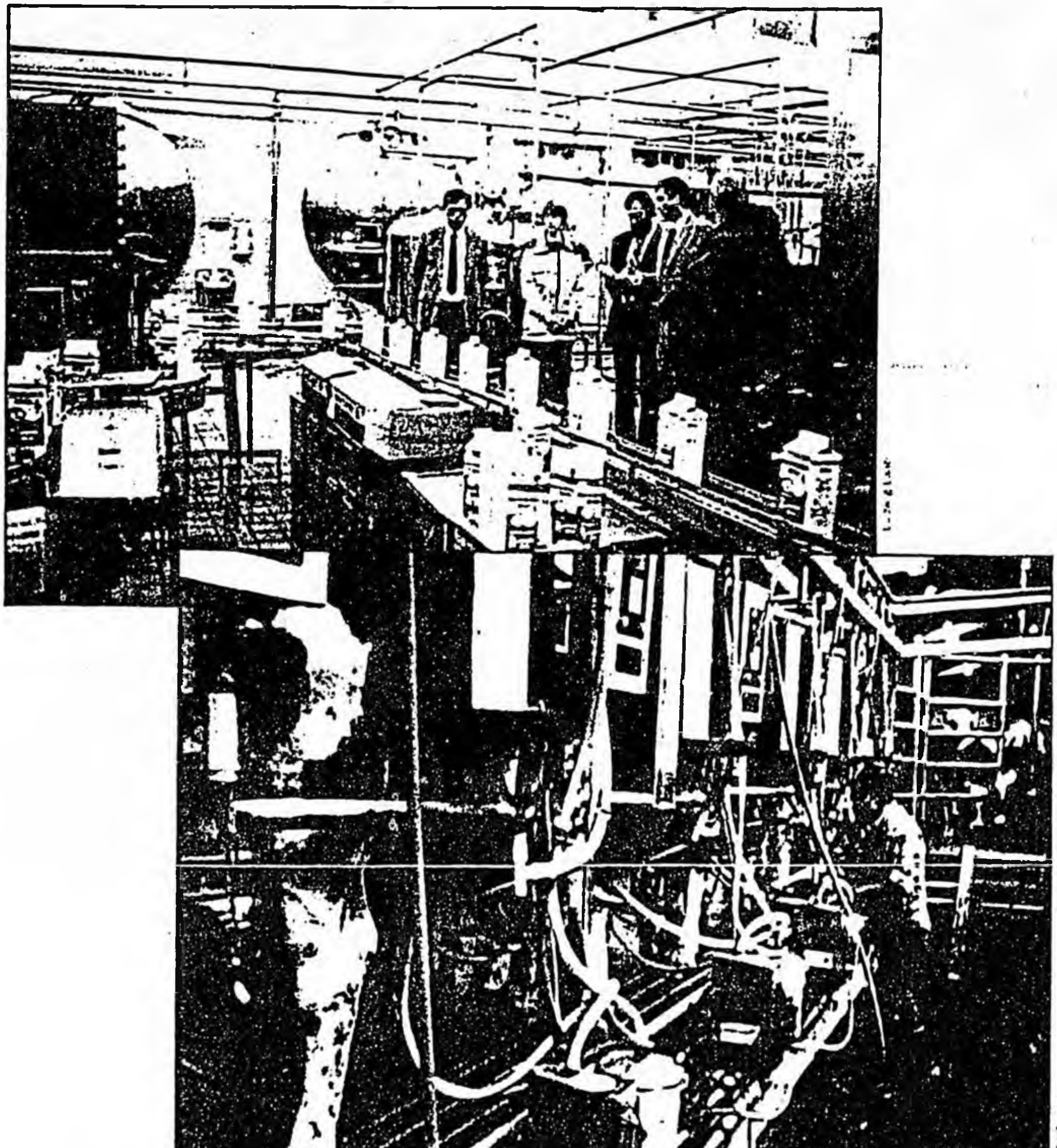
The ARLF hired a manager to operate the creamery on a day-to-day basis and unsuccessfully attempted to sell the creamery in 1986. The department hopes to lease and eventually sell the creamery and feed mill in the future, and believes that it will be more attractive to investors as its sales record continues to improve.

Currently, the ARLF Board plans to contract with Alaska Dairy, Inc. (a group of dairy product producers) to help manage the creamery, but no transfer of property or vesting in a property right will take place. If this group demonstrates ability to manage the creamery effectively, a long term lease or lease/purchase of the facility could be appropriate.

Reinforcing the weak link in Alaska's dairy chain

BY ROBERT DIXON

Alaskan milk production continues its record pace in 1986, but if farmers are to survive, they'll need a rebound in prices.



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DNR
3/24/88

THE DAIRY BUSINESS is the strongest complete food chain in Alaska's agricultural lineup. Ample raw product, relatively modern processing facilities and a nearby, built-in market large enough to consume all the available product and more have contributed to the apparent recent success of the dairy business in Southcentral Alaska.

Like any chain, the dairy business is only as strong as its weakest link. Even though milk production is once again at record levels, many farmers are not earning enough to retire debts incurred in the fast-track development of their Point MacKenzie farms.

Success of the Matanuska Maid creamery is critical to the future of the dairy business, too. Without the state-owned processing facility, dairy farmers in Southcentral Alaska would have no way to get their products to market.

Land for the controversial Point MacKenzie agriculture project was auctioned off in September 1982. Of the 29 parcels auctioned off, 17 were designated for dairy development. More than 10,000 entries were received in the lottery for tracts ranging from 302 to 632 acres.

Critics charge that many participants in the lottery were interested in land speculation rather than farm development. If a Knik Arm crossing is built, the Point MacKenzie farmlands will be less than a half hour's drive from downtown Anchorage. Several of the farms are being operated by tenant farmers for absentee owners.

The state built roads throughout the project area and lent money for farm development through the Alaska Agricultural Revolving Loan Fund. Nearly $15 million in state money has gone into Point MacKenzie so far, according to Department of Natural Resources Deputy Commissioner Jim Barnett. The state has invested nearly another $5 million in Matanuska Maid.

At least one of the Point MacKenzie dairy project goals has been met successfully. Milk production in Alaska has nearly doubled in the last year, from 13.9 million pounds in 1984 to an estimated 22 million pounds in 1985. At 1985 year-end levels of 2.2 million pounds per month, production should top 26 million pounds in 1986. But production is only one of three elements necessary to the dairy industry's success. Ability to compete in a crowded marketplace and adequate returns on farm investments are the other factors that complete a successful dairy cycle.

Production started to grow when Karen Lee became the first Point MacKenzie farmer to produce milk in October 1983, two years ahead of the November 1985 deadline. Eleven farms are producing milk now, and a couple more should join them this year. At last count, eight dairy farms were still in operation in the Palmer area.

The state estimates it will cost $1.3 million to develop a Point MacKenzie dairy and says total investment in the project presently exceeds $20 million. Some of the better-financed, better-run operations are model farms – modern, computerized operations that would be the pride of dairy farmers anywhere in the United States.

But like their Lower 48 counterparts, Alaskan dairy farmers are experiencing serious financial difficulties. State loan fund deadlines required clearing a certain amount of crop land for hay and other forage crops within three years of the lottery; the deadline for production was last November.

"It's like trying to do three decades of work in three years," Lee says. The deadlines stand irrespective of weather conditions, which last year slowed land clearing operations and shortened the growing season. They stand regardless of market conditions which dictate what price farmers will get for their milk, although moratoria have been granted to several farmers unable to meet loan payments.

The base price being paid to Southcentral farmers for their milk in January was $19.50 per 100 pounds of milk (cwt), with quality bonuses in effect which can push prices up another $1. When Lee's Dairy West farm began selling milk in late 1983, Matanuska Maid was paying $22.38 per cwt.

Most farmers won't even talk about their financial situations, fearing reprisal from the highly political operations of the state's revolving loan program for agriculture, or because of concerns over the status of their next pending loan applications or production deadlines.

But after several years as a dairy farmer in Palmer and now at Point MacKenzie, Lee is disillusioned. She believes the dairy industry will make it, but not until prices and state administration of the project improve.

The state controls all aspects of the business. It owns the processing plant, sells the land, sets land clearing and production deadlines, and decides who will and who won't get loans through ARRF. That is a key element, because ARRF is virtually the only entity that will finance Point MacKenzie dairies.

At least one former Delta farmer believes that politics play a heavy role in development of Alaska's farm industry. Jim Lasley says state officials would not even consider financing dairy operations in the Delta region because the emphasis was on development at Point MacKenzie.

Even so, a small creamery was started by Don Lintelman two years ago. The only private creamery in the state, Lintelman's Northern Lights Dairy sells milk products in the Fairbanks area and is planning to produce ice cream.

MILK PRICES ARE the real key to survival of the dairy industry – not just in Alaska, but nationwide. Farmers in Alaska were concerned that federal milk price supports would be cut further or dropped altogether when Congress passed the 1986 farm bill. The bill left supports intact and took a step that some observers believe will lead to higher milk prices toward the end of 1986 or early next year. That step is a program which offers to pay dairy farmers to get out of the dairy business. If the program scheduled to go into effect in July works, it should reduce production and thus increase prices.

Federal milk price supports don't affect Alaskan farmers directly. They do so through the pricing of milk brought into Alaska from the Lower 48 – currently about 70 percent of all milk consumed in Alaska. Last fall, dairy farmers in Washington were getting an average $11.90 per cwt for their milk, slightly more than half the prices paid here. That price was down 11 percent from October 1984 prices, according to *Marple's Business Newsletter*. When the federal government dairy farmers increased production to offset the loss in subsidy revenues. The result was lower prices.

Many, like Matanuska Maid general manager John Seawell, would like to see the federal government get out of the price support business altogether. The result, he says, would be a stronger industry in which only the best-run operators would survive.

How do farmers in Alaska get twice the price for their milk and still remain competitive? The answer lies in transportation costs. At least one farmer reports that it costs about $10 per cwt to ship milk from Seattle.

Matanuska Maid no longer imports milk from the Lower 48 to support its production, Seawell notes. In October of 1984, 47 percent of milk processed at the Anchorage creamery was imported. A year later, the plant's total output had increased slightly, to just above 2 million pounds per month, and it was all locally-produced milk.

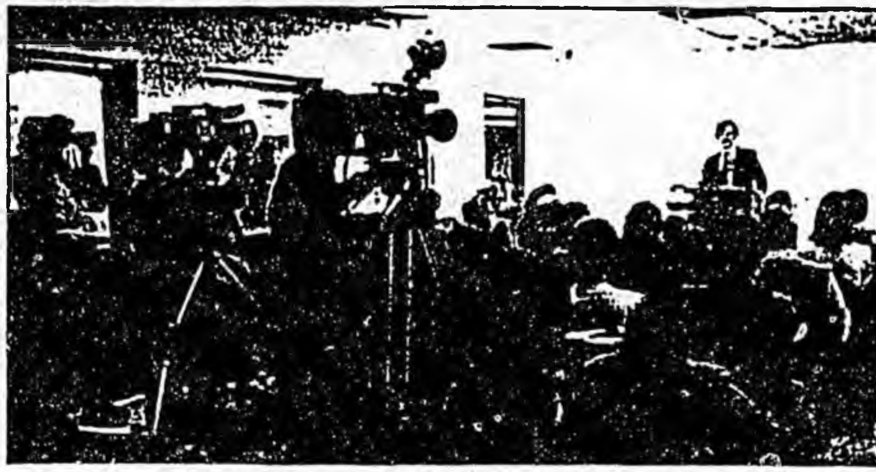
MARKETING PRESENTS an interesting paradox for the Anchorage dairy. "Our customers are also our primary competitors," Seawell says.

Carr's Quality Centers, the state's largest-volume grocers, has a long-standing agreement with Carnation for milk products which make up most of the grocery chain's dairy product sales. Matanuska Maid is carried, too, but because of the relationship with Carnation, Carr's does not actively market Matanuska Maid products beyond providing shelf space. Safeway, the other major grocery chain in Southcentral Alaska, owns the Lucerne dairy and aggressively markets those products.

It's a frustrating situation, DNR's Barnett complains. He says Matanuska Maid's products get 30 percent of the market but are allotted only 10 percent of the dairy case in the major supermarkets.

Because of those relationships, Barnett says, Matanuska Maid milk could be priced competitively with Outside milk by the major grocers, but is not. The DNR official says at least one grocery chain "sets the price of Matanuska Maid milk, and then they set their own 10 cents lower." By contrast at least one local convenience chain, Timesavers, pushes Matanuska Maid milk as a loss leader at $2.95 a gallon.

There has been no money to mount any kind of brand name advertising campaign for Matanuska Maid, Seawell says. The key advantages of Matanuska Maid, therefore, may be largely unknown by consumers. Although freshness should be obvious, it is not. Matanuska Maid milk often is on the shelves within 24 hours of leaving the farm; Outside milk spends three to five days on barges before arriving here. But pull-date stamping regulations are vague, and Barnett believes the Lower 48 dairies are dating their milk to give it the same pull dates as the local product.



Deputy Natural Resources Commissioner James Barnett discusses the state's role in Matanuska Maid operations at a December press conference.

MATANUSKA VALLEY Farmers Cooperative Association was formed in 1936 by dairy farmers who had "colonized" the Palmer area under FDR's New Deal program a year earlier. The cooperative was formed to advise Alaska Rural Rehabilitation Corp. which owned and operated the original grocery and mercantile store, auto service station, farm supply store, creamery and egg and produce marketing outlet. ARRC was the state entity charged with supervising the Matanuska Valley farm colony.

The Matanuska Maid creamery opened in 1936, offering butter, buttermilk, cottage cheese and eggs. Three years later, the farmers cooperative bought the operation for $500,000.

In 1940, Matanuska Maid introduced ice cream and fresh pasteurized milk into the market and purchased the Eastside Dairy in Anchorage. During the 1940s, dissension among farmers created problems for the cooperative. Some began to sell their products directly to grocers. Several sued the co-op over use of dairy profits to bolster losing operations.

In 1951 a new processing plant was opened in Palmer, and Matanuska Maid bottled milk on Fourth Avenue in Anchorage. The present plant was built on Anchorage's Northern Lights Blvd. in 1955. A year earlier, a processing plant was opened in Fairbanks primarily to make recombined milk under military contracts. The plant closed in 1961.

In the 1960s, the co-op officially became Matanuska Maid Inc., and unprofitable operations were cut back as the operation was streamlined.

Residential development of the Matanuska Valley and other economic factors brought on a gradual decline in the number of dairy farms and size of milking herds through the 1960s and 1970s. The cooperative began importing milk from Puget Sound dairies to maintain the visibility of the Matanuska Maid image. The decline in production meant less efficient operations for the creamery, and the cooperative soon found itself deep in debt.

The state does not want to be in the creamery business, Barnett says. It wasn't until the original co-op filed for protection from creditors under Chapter 11 in late 1983 that it became involved as more than a creditor. The dairy reported debts of $5.2 million; $2.9 million of that was owed to the state as a result of agriculture loans. As chief creditor, the state was permitted to take over and continue operations of the dairy in November 1984 while bankruptcy proceedings continued. A year later, ownership of the dairy was turned over to the Alaska Agriculture Revolving Loan Fund.

Businessman Seawell came out of retirement in November 1984 to manage the operation for the state. Under his guidance, and with some $1.4 million in cash from the state, the dairy was operating at or near breakeven at the end of 1985. The state spent $1.5 million to upgrade the plant. In January, sour cream and cottage cheese were added to Matanuska Maid's product line.

What the creamery needs to be profitable and to be more price-competitive with imported milk is more volume, Seawell says. Matanuska Maid currently is processing slightly more than 2 million pounds of milk per month; the plant has a single-shift capacity of 3 million pounds and could increase even further with six- or seven-day operation or even a second shift if demand and production justify it.

THE CREAMERY NEEDS to average 2.5 million pounds per month to service its debt, Seawell says. The state expects dairy production from Point MacKenzie to reach that level sometime this year, and the Division of Agriculture predicts that an estimated 2,436 milk cows will be producing just under 3 million pounds of milk per month by January 1987.

State officials have made it quite clear Matanuska Maid is for sale. Most believe the dairy once again should be operated by a farm cooperative, and they point to Darigold, the Puget Sound dairy cooperative, as an example of one that works very well.

Early in January, a farm cooperative was being formed to make an offer to take over Matanuska Maid. Seawell and Lee seem to agree that the creamery should be operated as a corporation, with the cooperative forming a board of directors to oversee the operation.

Observers were not optimistic about the prospects for a private firm to take over the dairy. "There isn't enough margin for two profits (one for the farmers and one for the creamery operators)," Seawell says. "The farmers have to be able to make enough money in order for this business to survive."

Lee recalls a farmer with a large family, 10 or 12 children, and none of the youngsters stayed with the family farm when they grew up.

"There's been a pattern in Alaska of keeping (farmers) going at a starvation level over the past 25 years. I don't think many farmers will go out of business – but a lot of them wish they could," she says.

"There comes a time when people have to stand back and ask themselves 'What are we doing this for?' Private companies don't have this ethic of doing something for nothing. If it's going to survive, farming has to be as profitable as any other business." □

March 23, 1988

The title of Senate Bill 472, "An Act Authorizing the Department of Natural Resources to Transfer the Creamery Formerly Owned by Matanuska Maid, Inc.", is a lot more than that.

1. IT IS A JOBS BILL because 125 Alaskans are directly employed by the dairy industry. When you add the multiplier effect, approximately 375 Alaskan jobs are dependent on the Alaska dairy industry.

2. IT IS THE LINCHPIN OF THE DAIRY FARMERS because the dairy farmer cannot survive long-term under state management and ownership. No business in fact could survive under state management on a substained basis.

3. IT IS SUPPORTIVE OF AN ALASKAN CO-OP Alaska Quality Dairy, Inc. is a farmer owned co-op, with equal vote for each member, large or small producer, poor or rich. It is the phoenix of the old Mat Maid co-op which was serving Alaskans since the 1930's. A co-op by its very structure is designed to serve all its members equally, both those of today and those of future generations. The farmers' co-op is no different than Chugach Electric, Matanuska Electric, or Homer Electric and the things that you do today as legislators benefit all co-op members both today and generations to come.

4. IT IS A CONSUMER BILL because it will contribute to lower milk prices and also help guarantee a reliable supply of milk for Alaskan consumers in the Railbelt. On two occasions this year container ship delays left the Railbelt with only Matanuska Maid to rely on for fresh milk.

5. IT IS PROTECTION FOR ARLF ASSETS because the only way the ARLF can ever realize a return of the $9,000,000 it has invested at Point Mackenzie, or a return on the $6,000,000 it has invested in the creamery and the feedmill, is for the creamery to be competitive and viable. The assets secured by ARLF loans are worthless except as operating businesses.

6. IT IS AN INVESTMENT IN ALASKA'S FUTURE because the potential for growth of Mat Maid under aggressive management is at least double the current 27% market share.

7. IT IS A BILL THAT GETS GOVERNMENT OUT OF BUSINESS and places the farmers in business, providing them with an ability to control their own destiny. Government lost $844,135 in 1987.

Halford
3/24/88

8. IT IS A BILL THAT STOPS THE CONTINUED DRAIN ON ARLF ASSETS so that future farmers will have a source of capital. During 1987 the ARLF advanced $1,043,990 to the creamery.

9. IT IS A BILL THAT REMOVES THE UNCERTAINTY OF THE CREAMERY'S CONTINUED OPERATION because it set forth a plan for 15 years. The current uncertainty reduces the farmers ability to plan his future and also restrict the retailers ability to rely upon Mat Maid for a guaranteed long-term source of milk.

10. IT IS A BILL THAT REMOVES POLITICS FROM THE CREAMERY because it eliminates the absolute control of the creamery by the whims of a politically appointed ARLF Board, Director of Agriculture and Commissioner of Natural Resources.

I think to understand the importance of this bill one should compare the lost interest income to the ARLF versus the benefits to the ARLF, both current and future, the benefits to Alaskans, both current and future, and the benefits to the dairy industry, both current and future.

The estimated fair market value of the creamery based upon an ongoing income approach is $2,750,000 according to DNR figures, therefore, the lost interest to the ARLF under the current bill would be:

1989	$220,000
1990	207,520
1991	195,040
1992	182,560
1993	170,080
TOTAL	$975,200

$975,200 divided by 5 = $195,040 average interest loss per year

The net loss to the ARLF if the sale were at fair market value and interest at 8% is an average of $195,040 per year over 5 years. To put this in perspective, that is about 10% of the Division of Agriculture's budget. One should ask the question which creates the greatest benefit for Alaska and for Alaska agriculture?

The benefits to the ARLF and Alaska are approximately as follows:

Elimination of losses \$844,135 x 5 x ½ =	\$ 2,110,000
Loans to ARLF to Point MacKenzie farmers which would be uncollected \$9,000,000 x ½ =	4,500,000
Loss in Alaska jobs direct and indirect 5 x \$25,000 x 375 =	46,875,000
Elimination of replacement costs of equipment per DNR figures ¼ x 4,600,000 =	1,150,000
TOTAL	\$54,635,000

\$54,635,000 divided by 5 years = \$10,927,000 per year benefit.

\$10,927,000	Benefit
195,040	Cost
\$10,731,960	Net gain per year

\$10,731,960 is my estimate of the minimal net gain because it takes into account no growth in market share. A normal state expenditure such as your jobs bill of \$75,000,000 will create less benefit to Alaskans than the \$195,040 that this bill costs the ARLF per year. The cost per job of the 195,040 is about 500.00 per job per year. To put it another way, the \$195,040 is about 25% of the ARLF's administrative costs per year. One should ask which creates the greatest benefit for Alaskans and for Alaska agriculture?

I would also tell you that I believe that dairy farming can work in Alaska and that I believe that long-term agriculture can play an important role in Alaska's future. I would like to end by asking your support for Senate Bill 472 and remind you that the spirit of assisting agriculture which I am asking you for today traces its ideology back to our country's formation when Washington said on December 6, 1796 in his final annual address to Congress:

> "... with reference either to individual or national welfare, agriculture is of primary importance. In proportion, as nations advance in population and other circumstances of maturity, this truth becomes more apparent, and renders the cultivation of the soil more and more an object of public patronage."

Sen. Joe Josephson
Senate Finance
March 24, 1988

SPONSOR STATEMENT ON CS SB 472 (Resources)

What would CSSB 472 do?

1. Directs DNR to enter into a one-year lease with a dairy producers' cooperative for management and operation of the Matanuska Maid Creamery.

2. Legislative intent is that a lease be in effect by July 1, 1989.

3. Monthly lease payment is equal to $.50 per hundredweight of milk processed or $13,000, whichever is greater.

4. Lease is renewable annually for 14 years, if lessee complies with health and quality standards as well as other terms of the lease, and has managed the Creamery economically, profitably and efficiently.

5. If Creamery is successfully operated for ten years, DNR shall offer to sell it to the lessee.

6. The lease payments shall be applied toward the purchase price.

7. Sale price for the building is set at fair market value at the time the lease is initiated; price for the land is set at the time sale is requested.

A Preliminary Audit has been conducted by Legislative Budget & Audit. After reviewing this confidential audit, I believe CSSB 472 is in concert with the audit recommendations. The Final Audit should be made public near the end of March.

Why is this bill necessary?

1. Many have asked why the State is is the dairy business. This bill develops a rational process to transfer it to private industry.

2. Since the State's purchase of the Creamery in 1984, the Agricultural Revolving Loan Fund in DNR has pumped $2,914,788 into the Creamery. The purpose of this bill is to remove that continuing financial drain.

3. DNR is currently working with Alaska Dairy Inc. (a subsidiary of the milk producers coop) to fashion a trial lease to manage the Creamery for one year. This trial, under DNR's watch, provides a smooth transition into the process set in motion by SB 472. This bill provides the needed incentive and stability for the private sector to enter into this enterprise.

DRAFT

AGREEMENT

This Agreement is made among Alaska Dairy, Inc. (hereafter "ADI"), the State of Alaska, Department of Natural Resources, Agricultural Revolving Loan Fund (hereafter "ARLF"), and the Alaska Quality Dairy Cooperative, Inc. to provide management oversight for the creamery located in Anchorage, Alaska, and the feedmill and store located in Palmer, Alaska, both formerly owned by Matanuska Maid, Inc. (hereafter "the creamery"), and other rights and duties.

RECITALS

1. ARLF commenced its operation of the creamery on November 16, 1984.
2. ARLF completed its acquisition of the creamery assets in December, 1985.
3. The Department of Natural Resources and ARLF have concluded that the creamery should receive management oversight from a corporation which has representation from the dairy farming community, the State of Alaska, and the Alaska business community.

TERMS

1. ARLF, with the consent of the Commissioner of the Department Natural Resources, ADI, and the Alaska Quality Dairy Cooperative, Inc. enter into this Agreement for ADI to provide management oversight for the creamery for the period January 1, 1988 to December 31, 1988, and other rights and duties. ARLF may extend this Agreement for one year.

2. ADI will receive no fee for its services under this Agreement. ADI is willing to enter into this contract because the members of its parent corporation are dairy farmers. The dairy farmers desire an agreement that allows the farmers to participate in the management oversight for the creamery, which is currently the only entity which will purchase the milk produced on their farms. ADI and Alaska Quality Dairy Cooperative, Inc. agree that the ability to participate in management oversight has economic value to them. The State agrees that participation from the farmers in management oversight has economic value to the State.

3. ADI agrees that it will at all times faithfully, industriously, and to the best of its ability, experience, and talents perform the oversight management for production, finance, and marketing in the ordinary course of business for the creamery as it existed on the date of this agreement, except when its oversight management authority is limited by other terms of this Agreement. Management decisions outside the ordinary course of business for the creamery as it existed on the date of this Agreement require ARLF Board approval.

The directors of ADI acknowledge they have a fiduciary duty to ARLF arising out of their responsibility to manage ARLF assets.

4. ADI agrees that in performing its duties under section 3 title 1 above that it will not permit any combination of past due payables ~~accounts~~ to exceed $5,000.00 for longer than 45 days,

5. The members of the Board of Directors of ADI are:

Thomas Tatka, an ARLF Board representative
Karen Lee
John Seawell
Paul Huppert
Joseph VanTreeck
John Cairns
Augie Heibert
Ron Bosi
Chris Swalling
Joseph C. Cange
Harvey Baskin
Robert Havemeister
Director of the Division of Agriculture or
his designee

The members of the executive committee of the Board of Directors are:

John L. Seawell
Thomas Tatka, an ARLF Board representative
Karen O. Lee
Joseph P. Cange
Paul Huppert
Director of the Division of Agriculture or
his designee

The Director of the Division of Agriculture will serve as a non-voting member of the executive committee; unless there is a tie vote among the executive committee members attending.

If the Director of the Division of Agriculture chooses to designate another state employee to act on his behalf, he shall do so in writing. Karen Lee will serve as President of ADI, Paul Huppert will serve as Vice-President of ADI, and Joseph P. Cange will serve as Treasurer of ADI. Any change in the members of board of directors or the executive committee requires ARLF Board approval.

6. ADI agrees to the terms of the ARLF professional services contract with Joe Van Treeck dated August 26, 1987. ADI may not alter or terminate the Van Treeck professional services contract without ARLF board approval.

7. The ARLF board may terminate this Agreement for cause, including but not limited to, breach of this Agreement, with 30-days written notice. The ARLF board may terminate this agreement on five days written notice in the event that there is $5,000.00 cumulative in any payable accounts more than 45 days past due. ADI and the Alaska Quality Dairy Cooperative, Inc. waiv damages arising out of termination.

8. As further consideration for the opportunity given to the dairy farmers to participate in the management oversight for the creamery, ADI and the Alaska Quality Dairy Cooperative, Inc. (hereafter in this section 8 referred to as "Indemnitors") agree to hold harmless and indemnify the State of Alaska, the directors of ADI, and the ARLF Board members (hereafter in this section 8 referred to as "Indemnitees") from any and all liability, damage, loss, cost and expense which may accrue to or be sustained by Indemnitees on account of any claim, action, complaint

and/or suit arising out of or related to the business of the creamery. Indemnitors agree that Indemnitees, in the sole discretion of Indemnitees, may hire attorneys to defend each of the Indemnitees. Indemnitors agree to pay directly to the attorneys the costs and expenses for attorney services as such costs and expenses are incurred. The obligations of Indemnitors continue after the termination of this Agreement as to any claim, action, complaint and/or suit arising out of or related to the business of the creamery during the term of this Agreement.

As further consideration for the opportunity given to the dairy farmers to participate in the management oversight for the creamery, ADI, the Alaska Quality Dairy Cooperative, Inc. and all directors of ADI who have an interest in a dairy farm, or an interest in a partnership or corporation which operates a dairy farm waive, for itself, themselves, and on behalf of any partnership or corporation in which they have an interest, all claims, actions, complaints and/or suits arising out of or related to the State's ownership, or operation of the creamery occurring during the term of this Agreement. The directors of ADI who have an interest in a dairy farm, or an interest in a partnership or corporation which operates a dairy farm warrant that they have the authority to bind the partnership or corporation.

9. Title to all real and personal property of the creamery remains in ARLF's name. ADI may not dispose of or in any way encumber property without ARLF Board approval.

   The ARLF board reserves the right to sell any real or personal property of the creamery that is not essential to the operation of the creamery. Without limiting the proceeding sentence, the ARLF Board reserves the right to change the product line of, sell, lease, or otherwise dispose of the feed mill and store provided the ARLF board makes a written decision of its intended action and notifies ADI by July 1, 1988.

10. ADI may not borrow money from any source for the operation of the creamery without ARLF approval, except ADI may allow the day-to-day creamery manager to bind the ARLF to trade credit terms that were in effect prior to the date of this agreement.

11. All profits and/or losses generated by the creamery operation belong to ARLF. Net profits may not be spent without ARLF Board approval. The ARLF Board will review the financial statements as of June 30, 1988 and December 31, 1988 to determine whether cumulative net profits for the prior six months exist. ARLF may withdraw cumulative net profits after the review of financial statements described in the preceding sentence, but may not withdraw cumulative

net profits more than once in a six-month period or withdraw cumulative net profits prior to the review of financial statements.

ARLF desires to limit monthly operating losses of the creamery. ARLF will provide up to a maximum of $60,000 a month for January 1988, February 1988, March 1988, April 1988, May 1988, and June 1988 to cover operating losses at the creamery upon written request by ADI. The money available for any month will not exceed the operating loss for the prior month and in any event will not exceed the amounts stated in the preceding sentence. The loan manager for ARLF is directed to disburse money consistent with this paragraph after receipt of the ADI written request. ADI may not increase the price of milk as it exists on November 1, 1987 paid to dairy farms if the creamery shows an operating loss. ADI may lower the price of milk paid to dairy farms at any time, however, ADI will lower the price of milk paid to dairy farms if the operating loss exceeds $60,000 in any one month during the period January 1, 1988 to June 30, 1988. After July 1, 1988, ADI will adjust the price of milk paid to dairy farms to prevent operating losses. If ADI fails to lower the price of milk paid to dairy farms as required in this paragraph, ARLF, at its option, may adjust the price of milk, terminate this Agreement, or take other action that ARLF deems appropriate.

12. ADI may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, or marital status, change in marital status, pregnancy or parenthood when the reasonable demands of the position do not require distinction on the basis of age, physical handicap, sex, or marital status, change in marital status, pregnancy, or parenthood. ADI shall take affirmative action to insure that the applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, ancestry, age, sex, or marital status. This action must include, but need not be limited to the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. ADI shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this paragraph.

ADI shall state, in all solicitations or advertisements for employees, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, or marital status.

ADI shall send to each labor union or representative of workers with which ADI has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' representative of ADI's commitments under this article and post copies of the notice in conspicuous places available to all employees and applicants for employment.

ADI shall include the provisions of this article in every contract, and shall require the inclusion of these provisions in every contract entered into by any of its subcontractors, so that those provisions will be binding upon each subcontractor. For the purpose of including those provisions in any construction, maintenance, or service contract or subcontract, as required by this contract, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.

ADI shall cooperate fully with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful discrimination, and with all other State efforts to guarantee fair employment practices under this contract, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.

Full cooperation in the preceding paragraph includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of ADI to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting in inspection of ADI's facilities; and promptly complying with all state directives considered essential by any office or agency of the State of Alaska to insure compliance with all federal and state laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.

13. ADI and the Alaska Quality Dairy Cooperative, Inc. agree that they will not discriminate between members and nonmembers in the purchase or sale by the creamery of raw material or products. Alaska Quality Dairy Cooperative,

Inc. will offer membership on equal terms to all dairy farmers whose farms are located south of the Alaska Range.

14. ADI, through the creamery employees, will provide quarterly financial reports and quarterly written narrative reports to the ARLF Board in a form determined by the ARLF Board, within 30 days after the end of the quarter. ADI, through the creamery employees, will prepare monthly financial reports of the creamery operation within 20 days of month end.

15. ADI may not arrange for or begin plant and/or equipment expansions without ARLF Board approval. ADI may not arrange for or perform repairs on the plant and/or equipment if the cost will exceed $30,000 except in an emergency.

16. ADI will arrange to add itself as a named insured to the following insurance policies and any successor policies:

    Industrial Indemnity
    Policy No. CN882-7673

    Insurance Co. of North America
    Policy No. D1416425A

    Chubb Group of Insurance Company
    Policy No. B78316110

    F.B. Beatties
    Policy No. FBB 3143

17. ADI agrees that any action of indulgence or delay, failure to act, or failure to exercise any right or remedy by ARLF shall not affect or impair the obligations of ADI, or be construed as a waiver by ARLF or, otherwise affect ARLF's rights under this Agreement.

18. ARLF may assign this agreement after written notice to ADI.

19. This agreement will be construed by the laws of the State of Alaska.

20. ADI and ARLF agree that if any of the provisions hereof should be invalid or unenforceable, such unenforceability or invalidity shall void this Agreement in its entirety.

21. The date of this Agreement is ____________________.

DATED: ______________________ ALASKA DAIRY INC.

By: ______________________

Its: ______________________

DATED: ______________________ ALASKA QUALITY DAIRY COOPERATIVE INC.

By: ______________________

Its: ______________________

DATED: ______________________ STATE OF ALASKA AGRICULTURAL REVOLVING LOAN FUND

By: ______________________

Its: ______________________

Consented To: ______________________
Commissioner of Natural Resources

JFC-88
3/24/88
pm

A SPECIAL REPORT ON THE
DEPARTMENT OF NATURAL RESOURCES
POINT MACKENZIE AGRICULTURE PROJECT
MATANUSKA MAID DAIRY

February 5, 1988

Audit Control Number

10-4293-88-S

Commissioner, Department of Natural Resources	Judith M. Brady
Deputy Commissioner, Department of Natural Resources	Lennie Boston-Gorsuch

STATE OF ALASKA

DIVISION OF LEGISLATIVE AUDIT

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

February 5, 1988

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE
DEPARTMENT OF NATURAL RESOURCES
POINT MACKENZIE AGRICULTURE PROJECT
MATANUSKA MAID DAIRY

February 5, 1988

Audit Control Number

10-4293-88-S

Randy S. Welker

Randy S. Welker, CPA
Acting Legislative Auditor
Division of Legislative Audit

TABLE OF CONTENTS

PURPOSE OF THE REPORT

In accordance with a Legislative Budget and Audit Committee request and Title 24 of the Alaska Statutes, this special report has been prepared to document Matanuska Maid Dairy's marketing effort and the State of Alaska's involvement in the Point MacKenzie agriculture project.

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AUDITOR'S CONCLUSION

In 1979 an administrative and legislative decision was made to salvage the dairy industry of southcentral Alaska through the development of a dairy project at Point MacKenzie. The economic feasibility of the project was based on assumptions developed from existing Matanuska-Susitna Valley dairy farms and a small test plot at Point MacKenzie. A plan was developed utilizing the small, family-run farm concept, state provision of infrastructure (roads, electricity, educational facilities), low interest loans, deferred payments, and land at less than market value. It was recognized at the time that the economic feasibility of the project was questionable. As stated in a 1980 study by the Office of Management and Budget: "Any combination of earlier interest payments, higher interest rates, higher construction costs and/or lower than required milk production will substantially alter the time required before operations are financially sound... The margin for costly mistakes is minimal."

As discussed in the following sections of this report, mistakes were made. The project has also been affected by circumstances unforeseen in 1980 such as technological innovations in shipping which allowed competitors to ship milk to Alaska faster and cheaper, the bankruptcy of the only creamery market for project milk -- Matanuska Maid and the subsequent reputation and market share loss resulting from that bankruptcy, and the decline in population in southcentral Alaska in recent years.

The result has been that of the original nineteen dairy parcels sold, eight are producing, all of which are currently delinquent on state loans. Those eight dairies are meeting the production expectations for the entire project; however, at current production levels and at current milk prices all farms are not yet economically viable. The Matanuska Maid creamery is in state ownership, run by contracted management. Although Matanuska Maid pays no debt service and sales in 1987 were in excess of $12,000,000, the dairy operated at a loss of $850,000, primarily due to state policy decisions to purchase more milk than demand required at a higher than market price.

These questions then arise: Can the dairy industry in southcentral Alaska be economically viable? If not, should the State continue to support the industry for other social and economic reasons? The answers to these questions depend on administrative and legislative policy decisions which need to be made. For all project farms to become viable, production levels and/or raw milk prices must increase. For Matanuska Maid dairy to become viable, prices paid to the producers must be modified based on market conditions. In brief, the road to economic viability in the current policy climate is increased demand or reduced number of suppliers.

An increased demand for local dairy products would greatly aid both the farmer's and the creamery's ability to prosper. As discussed in this report, Matanuska Maid is employing a number of marketing strategies aimed at increasing market share. There are also several pieces of legislation which have been or are currently being considered to encourage this to occur. The 1987 Legislative Session saw the passage of a bill giving a seven percent local bidders preference for agricultural products being purchased with State funds. This legislation should bring contracts with large purchasers of dairy products, such as school districts and Pioneer Homes, within Mat-Maid's reach. Legislation being considered includes SB 105 establishing a standardized method of date-labeling milk products which could also favorably impact demand.

If demand does not increase, the number of suppliers will decline. Inefficient or marginal dairy operations will declare bankruptcy or be foreclosed on by their primary creditor, the Agricultural Revolving Loan Fund (ARLF). The result will be a handful of large, well-managed dairy farms meeting demand. The State could then attempt to recapture investment through sale of the assets.

Should viability not occur as a result of these actions, policy makers also have the option to continue state support of the dairy industry in southcentral Alaska for other value received. Advocates of this view point to the following benefits: Alaskan self-sufficiency; pressure on competitors to provide better quality products at lower prices; jobs for approximately 150 Alaskans; access to fresh, quality produce; and investment protection. Several occurrences in 1987 lent credence to some of these arguments. In December of 1987 shipments of dairy products from the Washington area were interrupted which could have resulted in a shortage of fresh products to the consumer had Mat-Maid not been able to meet the increased demand. Division of Agriculture personnel also claimed that the introduction of Mat-Maid yogurt to the market resulted in a reduced price of competitive products by major retailers.

The State has an investment of approximately $20,000,000 in the dairy industry at Point MacKenzie. That investment is comprised of an investment in Matanuska Maid Dairy of $6,000,000, ($3,000,000 in loans prior to foreclosure and an equal amount in contributed capital and operating funds since that time); $11,000,000 in loans including land clearing, chattel, farm development and operating; $1,300,000 for road survey and construction; and $3,000,000 for electrification. Other indirect costs have been associated with the project in the form of loan moratoriums, investment in meat processing facilities to process cull cows and the sale of State land at less than market value.

Unless demand increases substantially, a decision to ensure profitability for all existing Point MacKenzie dairy farms will require continued subsidization. Those subsidies might be seen through price supports such as those which resulted in Matanuska Maid's $800,000 operating loss in 1987; production credits for dairy products as proposed in HB 415 which Division of Agriculture personnel predict would cost an average of $800,000 per year; or further postponement and/or restructuring of installment debt.

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HISTORY OF THE POINT MACKENZIE AGRICULTURE PROJECT

Concept Origination

The Point MacKenzie agriculture project materialized when two major economic situations coincided, the decline in the number of commercially operated Alaskan dairies and the implementation by the State of an aggressive agricultural development program.

The Matanuska Valley, the center of the state's dairy industry, had supported the production demands of the several small creameries from its development in the 1940s until the 1970s. By this time one creamery, Matanuska Maid, had expanded considerably and become the principal producer of Alaskan dairy products. However, although production capabilities had expanded, supply was dwindling. Population growth and development pressure in the Valley was resulting in many farms being sold for commercial, residential, and industrial development purposes.

Matanuska Maid Dairy management and ardent supporters of a local dairy industry turned to the State for assistance. The Department of Natural Resources had already embarked on an agricultural development program for the purpose of creating a renewable resource base. That program was inaugurated in 1978 with the Delta Barley Project. The concept of a state-sponsored dairy project was suggested and quickly gathered political support.

The Point MacKenzie area, then in Matanuska-Susitna Borough ownership, was recommended because of the size and location of the parcel and the feasibility of developing that particular area as recommended in a University of Alaska study entitled Potential Milk Production in the Pt. MacKenzie Area of Southcentral Alaska. Legislative action was taken in the form of creating the Agricultural Action Council within the Office of the Governor to coordinate the state's agricultural programs and funding for the implementation of the Point MacKenzie project.

Project Implementation

The planning phase began during the summer of 1980 and continued through the spring of 1981. The Matanuska-Susitna Borough relinquished land rights to the State. A number of state agencies were involved in the implementation phase including the Agricultural Action Council, the Attorney General's Office, and a number of divisions of the Department of Natural Resources including Forest, Land and Water Management, Agriculture and Technical Services.

Implementation was hampered somewhat by conflicts and confusion in the roles each of these agencies were to play. While planning oversight remained the responsibility of the Agricultural Action Council and project funding was controlled by that Council, it did not possess the statutory authority for carrying out the mandate. Coordination with appropriate state agencies, primarily the Department of Natural Resources, was envisioned. The conflict which resulted not only between the Council and the Department, but within divisions within the Department, contributed to complaints and problems with program implementation.

One such problem revolved around the issue of prequalification. While the Department recommended a streamlined prequalification plan, the Council opted for a more detailed regimen including training and education criteria and farm development plans. Another problem arose from the question of land clearing and timber utilization on the parcels being offered for lottery. The Division of Forest, Land and Water Management desired a two-year timber salvage program while the Council proceeded with an experimental land clearing technique, the chaining method. The Council's actions resulted in an attempt to stop the land disposal, both for the waste of the timber resource and the prequalification requirements.

The result was an out-of-court settlement regarding the timber and a temporary court order which allowed the lottery to happen as scheduled on March 6, 1981 conditional on no land exchanging hands. A final court order issued in May of that year voided the lottery on the basis the State exceeded its authority in prequalifying applicants by requiring farm development plans.

The decision was made by the Agricultural Action Council to proceed with a second lottery without prequalifying the applicants. That lottery was held on September 11, 1982. At that time agricultural interest in twenty-nine parcels was sold.

Project Statistics

The Point MacKenzie Agricultural Project consists of 31 parcels ranging in size from 301.26 acres to 634.03 and totaling 14,613.08 acres. Twenty nine of the parcels were offered for sale by the State of Alaska, while the remaining two were offered by the Matanuska-Susitna Borough. Nineteen of the parcels are designated as dairy parcels, while the remaining twelve are designated non-dairy. Title to all parcels limits use of the land to agricultural purposes only. Other restrictions include prohibitions against selling, leasing or otherwise assigning a part of the parcel without prior approval of the Director of Land and Water Management. No parcel of land less than 40 acres in size may be created by an assignment of interest.

Land Clearing and Farm Development

Each parcel owner submitted a Farm Conservation Plan shortly after the lottery for approval by the Division of Agriculture. That plan, along with a stocking rate schedule for dairy parcels, was approved by the Division and became part of the development contracts entered into with the Division of Land and Water Management. Those contracts additionally imposed a development schedule requiring the clearing of land and planting of the first crop on at least 40% of the class II and III soils within the first three years and clearing and planting of 75% of the class II and III soils within six years.

Land clearing financing was available from the Alaska Agricultural Action Council. The Council approved 31 clearing loans for Point MacKenzie totalling $3,200,000. Draws were taken against them which to date amount to $2,200,000. Terms for these notes were 8% interest, the majority maturing 2026, with payments beginning in 1986.

Land clearing did not proceed as smoothly as planned because of problems with the smoke produced from burning berm piles. The intense public reaction to the problem resulted in regulations being implemented prohibiting burning when weather conditions would worsen the harmful effects, and also limited the amount which could be burned at any given time. In recognition of an expected slowdown in clearing due to the regulations, the Division of Agriculture, which assumed the clearing loan management responsibilities of the Agricultural Action Council when it was terminated, extended the terms of the clearing loans two years in conformance with ch. 166, SLA 1984. Loan contracts now expire in 1990 with loan repayment to begin in 1988.

The farm development schedule required a minimum acreage of 40% (5300 acres) to be in production by September 11, 1985. An official inspection of progress on these contracts was performed by the Division of Agriculture at that time and found approximately 7,000 acres in production, putting the project, as a whole, ahead of schedule. The development schedule further requires a minimum of 75% (9450 acres) be in production by September 11, 1988. Division personnel estimate that at current the project is close to target at 8,000 to 9,000 acres, though progress on individual tracts varies greatly, either behind or ahead of schedule. Another inspection is scheduled for the summer of 1988.

The development schedule also set out minimum stocking rates for dairy parcels. The number of cows to be regularly milked by November 1, 1985 was 883, and when inspected at that time was found to be 1,061. Again, while project totals were ahead of schedule, individual tract schedules varied greatly. Ten farmers were behind the stocking and milking schedule; three corrected deficiencies within 60 days, two were in litigation and foreclosure proceedings were begun against the remaining five. The two in litigation were seeking to amend development requirements in the contracts to combine parcels and use one barn and one set of cows to meet the requirements of two separate contracts.

Four of the dairy owners in foreclosure sought an extension of the schedule. A one year extension was granted if the farmer would stipulate that at the end of the extension he would waive all defenses against the state if not in compliance at that time. Four parcel owners signed the stipulation and were granted extensions to the Fall of 1986. In September of that year the court decided the ongoing litigation by decreeing that the commissioner did not have the authority to waive or amend development requirements in contracts. Shortly thereafter another inspection was performed at Point MacKenzie and three of four farmers with extensions and the two previously in litigation were found to be in compliance. At present the State is in foreclosure proceedings against two dairy parcel owners who have not brought their parcels into compliance with contract terms.

The 1986 inspection revealed that some farmers who had been regularly milking in 1985 had ceased milking or were milking a reduced number of cows. Project farmers were notified that to ensure that the "regularly milking" requirement be met, the farm structures should be designed for and operated as a milking structure twelve months a year. It was advised by the Attorney General's Office that to comply with the contract, they must regularly milk the number of cows required by contract daily and continuously from the 1985 deadline at least until the contract has been satisfied and patent is issued. A recent policy issued by the Division of Agriculture, however, states that if the parcel was in compliance at the 1985 inspection or at the end of the stipulated extension the parcel is considered in compliance.

A final inspection is scheduled for September of 1988. Those farmers in compliance at that time and who have completed land purchase payments will be eligible to receive patent to their parcels. Development from that point on will be at the discretion of the owner provided it is consistent with the agricultural restrictions of the land title.

Development Costs: Estimated vs. Actual

Estimated development costs were developed and published in the project sale brochure using data developed by the University of Alaska in the 1980 feasibility study entitled Potential Milk Production in the Point MacKenzie Area of Southcentral Alaska. Assumptions made in that study to develop the estimated costs include the following:

1. Sufficient state land is available in the Point MacKenzie area for a dairy farm development project.

2. Land price is $100 per acre with a $50 homestead credit making the effective price $50 per acre to the farmers.

3. Land-clearing costs are $220 per acre for project farms.

4. The dairy farms will be designed for forage production in the form of silage and haylage; concentrate, hay, and straw requirements will be met by off-farm purchases.

5. Private slaughter facilities are currently available in the Matanuska Valley to handle cull cows and calves from project lands.

6. Electrical power hook-up will be provided each farm.

7. Roads to each farm will be constructed.

The Department envisioned a project of small family-run farms when putting the Point MacKenzie sale together. However, a number of factors contributed to driving the development costs beyond what could be recovered by small farm operations. The majority of these factors, such as the smoke from land clearing, problems associated with soil conditions and waste disposal were simply the result of developing farms in a previously unfarmed locale and learning to deal with the conditions endemic to that region. Historically, farm development in a previously undeveloped area would be a lengthy process of trial and error, but the Point MacKenzie land purchase contract placed a strict development schedule on the farmers. This necessitated additional expenditures to meet the development deadlines.

Although there is agreement that costs exceeded what was projected, there is disagreement between project farmers and Department of Natural Resources (DNR) personnel as to the extent the overages were necessary. State personnel contend that existing debt load is in part the result of bad management decisions by the farmers. It is acknowledged that the State's easy farm credit contributed to the bad management. Project farmers contend that development contracts were based on unrealistic assumptions, and that state management of those contracts has not been sufficiently flexible in times of economic change.

The result of the high development costs coupled with a declining demand for milk resulting from declining population has been an inability for some project farmers to meet their debt obligation to the Agricultural Revolving Loan

Fund (ARLF). The Department, utilizing its authority granted at AS 03.10.020(4), placed the loans in moratorium. That moratorium was ended December of 1986.

Although loan repayment was postponed and all milk produced has been purchased at a subsidized rate, all farms are currently delinquent on loan repayment. Review of dairy financial statements by ARLF personnel during recent applications for loan restructuring indicated not all delinquencies were the result of inability to pay, however. Some, in fact, could be attributed to a lax enforcement policy of the Division as documented in previous financial audits of the Loan Fund by the Division of Legislative Audit.

MATANUSKA MAID DAIRY

Background

The Matanuska Maid Dairy is comprised of a creamery in Anchorage and a feed mill and wholesale/retail store located in Palmer. Until the business was acquired at foreclosure sale by ARLF in November of 1985, it was operated by Matanuska Maid, Inc. an agricultural cooperative corporation.

The same economic factors which lead to the initiation of the Pt. MacKenzie Dairy Project, namely an increased demand for dairy products, a reduction in number of producing dairy farms in southcentral Alaska and improved shipping technology from competitive markets, caused financial problems for Matanuska Maid. The creamery expanded its plant to meet the growing demand but found itself with a declining inventory of milk to process. During the period September 1979 through October 1980 Matanuska Maid received four loans from ARLF totalling $2,900,000 secured by real property, inventory and accounts receivable. A chapter 11 reorganization petition was filed in bankruptcy court by the Corporation in November of 1983 with ARLF receiving permission to foreclose. Through a series of settlement proceedings, title to inventory was obtained, culminating in the purchase at foreclosure sale in 1985 by offset bid from ARLF.

During this period a contract was let with the Small Business Development Center of Washington State University (WSU) to study the feasibility of successfully reorganizing Matanuska Maid Inc. That study, released July 1984, concluded that "With strong fiscal and management control and the assumption of a aggressive marketing posture, reorganization of Matanuska Maid is feasible." That study made recommendations such as waiver of past due interest and principal and a moratorium of future interest and principal against state debts for both the creamery and producers for a period of at least three years. It also recommended consideration of legislation which would limit the shelf life for milk produced in the lower 48 states and transported to Alaska.

The ARLF Board of Directors assumed directorship of Matanuska Maid after foreclosure. Recognizing their lack of expertise in the creamery business, a management contract was let for the day to day management of the creamery. The directorship of the creamery proved to be very time consuming for the ARLF Board. The Board decided that retention of the creamery in state ownership was not in the best interest of the state. Offers to purchase were requested during the spring of 1986 but all were found to be unacceptable.

A new strategy for moving Matanuska Maid from state to private ownership was born in 1987. The incorporation of an entity named Alaska Dairy, Inc. (ADI) has been proposed to provide oversight management for Matanuska Maid. The ADI board would consist of an ARLF Board representative, four dairy farmers, the director of the Division of Agriculture, the manager of Matanuska Maid and six public representatives. The ADI Board was to assume directorship in January 1988 under a one-year agreement. The agreement specifies that payable accounts will be kept current, the management contract would be honored, and that all profits and/or losses generated by the creamery operation would belong to ARLF. ARLF will provide up to a maximum of $60,000 a month for the initial six months to cover operating losses. If losses exceed this ceiling milk prices paid to dairy farms must be adjusted accordingly.

The primary motivation in the new strategy is to allow the dairy farmers ". . . to participate in the management oversight for the creamery, which is currently the only entity which will purchase the milk produced on their farms."

<u>Milk Pricing: The Double Edged Sword</u>

The price of milk paid to the producers has been the basis of a difficult policy dilemma. The ability of Pt. MacKenzie dairy farmers to produce adequate income to cover operating costs and cover debt incurred, primarily to ARLF, is predominantly effected by the price they receive for milk produced. The ability of Matanuska Maid to be economically viable also depends on that entity's ability to adjust the price of milk paid to producers. As concluded in the 1984 WSU study: "Crucial to the future survival of Mat-Maid are strong controls and a rethinking of the relationship between producers and the creamery. Price paid to producers should be adjusted and modified based upon market conditions and the ability to compete effectively as the creamery is the market extension of the producers rather than a buyer of raw milk at producer-directed prices."

Although Alaska is exempt from federal milk price controls which effectively place both ceiling and floor on the price paid to producers, it competes with producers from the Puget Sound area which are controlled. The Puget Sound area produces one of the largest milk surpluses nationally and Alaska has traditionally been a primary market for that surplus. Thus, prices paid to local producers must be maintained sufficiently low so when added to production and delivery costs the final price to distributors competes with delivered cost of Puget Sound surplus milk. Ironically, the Puget Sound area is also the market for Alaskan surplus, which results in an extremely low price being received for Alaskan milk shipped to that market.

The Division of Agriculture, an advocate for agricultural interests in the state, and the ARLF Board have had to balance the needs of the dairy farmers with the need to cover operating costs of the creamery. As previously discussed, a number of debt relief methods had been implemented to assist Pt. MacKenzie farmers. The policy decision of the Division of Agriculture in 1987 to not reduce the price of milk to producers when market forces (i.e. increased production from Pt. MacKenzie and decreased market demand due to shrinking population) necessitated it then became, in essence, another form of state support of the Alaska dairy industry. This action resulted in operating losses for Mat-Maid which were covered by ARLF in 1987 in the amount of $800,000.

The proposed contract between ARLF and ADI would limit the amount of operating losses which will be covered by ARLF to $60,000 per month. It also includes the following language regarding pricing. "ADI may not increase the price of milk as it exists on November 1, 1987 paid to dairy farms if the creamery shows an operating loss. ADI may lower the price of milk paid to dairy farms at any time; however, ADI will lower the price of milk paid to dairy farms if the operating loss exceeds $60,000 in any one month during the period January 1, 1988 to June 30, 1988." If this agreement is entered into it will reflect a change in policy for the Division of Agriculture from subsidizing the dairy industry through price supports towards creating a more open market system where price is determined by supply and demand.

Marketing: Problems and Strategy

The need for a more aggressive marketing posture by Matanuska Maid was discussed in the 1984 WSU study and has continued to be a source of criticism of the creamery by Alaskan dairy farmers. Since the State assumed ownership in 1984 Matanuska Maid management has been making a significant effort to address this problem. From a virtually non-existent advertising budget, the creamery began spending between $5,000 to $10,000 a month in 1986, predominantly in radio and television spots and a total of $218,000 in 1987.

The creamery has also increased its product lines by 40 items, including introducing two new products in 1986, another two in 1987 with plans for two more in 1988. The new items which have been added are cottage cheese, sour cream, ice cream base which is sold to an independent producer, and yogurt. These products have done well and yield a higher profit margin to the creamery than does the sale of bottled milk.

Plans for 1988 include the introduction of cheese which, for the first time in Mat-Maid history will give the creamery a way of utilizing surplus milk. Other methods of using surplus milk, namely converting it to powdered milk or to butter have not been used because of the high capitalization cost for producing powdered milk and insufficient fat content to produce butter. The inability to utilize surplus milk lead to the situation in 1987 whereby surplus milk was purchased by Mat-Maid then dumped or exported to Seattle. Once cheese production begins that situation should not occur again.

An additional benefit to cheese production is that it should allow Mat-Maid to participate in a Federal program which will purchase and store the cheese produced in excess of local demand. Although this situation will allow purchase of virtually all milk produced in state, a new pricing structure for price paid to producers will have to be implemented. It is a common industry practice that milk purchased as surplus milk for conversion to a product with a long shelf life is purchased at a lower price than that purchased for conversion to bottled milk.

The most difficult marketing challenge has been the general public which Mat-Maid is attempting to win through advertising, promoting the benefits of locally produced products. They have seen results in the form of increased market share only to have those results reversed by pricing strategies of retail distributors. Though Mat-Maid has attempted to produce a competitively priced product, they cannot control the price charged to the consumer by the retail distributor.

The majority of dairy products sold in southcentral Alaska are sold by the two major retail grocery chains. Both chains distribute Mat-Maid as a secondary product line, utilizing various techniques such as pricing and shelf space allotted to encourage the primary line be sold first. Pull-dating procedures by competitive producers also effects consumer interest. There is currently no governmentally imposed standards for what date appears on the product thus identically dated milk may differ significantly in age. Mat-Maid has adopted a conservative dating policy in an effort to develop and maintain a reputation for quality. Mat-Maid also guarantees repurchase of past-dated products where the primary product line may not. To woo the general public, therefore, Mat-Maid must not only create a public awareness of its product, but demonstrate a superiority of a locally produced product which justifies the price differential charged by retail distributors.

Matanuska Maid continues efforts to become a primary product line with the major retailers while exploring other avenues of distributing its product lines. The corporation has worked with private distributors offering home delivery which has seen a resurgence in popularity recently as well as distributors for restaurants and small stores. The number of small retail operations is limited, however, because of the declining economic condition of the State combined with a Mat-Maid policy of discontinuing service to retailers whose delinquent accounts exceed 60 days.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400

March 17, 1988

Mr. Randy S. Welker, CPA
Acting Legislative Auditor
Division of Legislative Audit
P.O. Box W
Juneau, Alaska 99811-3300

Dear Mr. Welker:

I appreciate the opportunity to comment on the preliminary report for the Point MacKenzie Agricultural Project. I compliment you on a thorough effort, and believe that you have provided an accurate perspective on the history of the project and on the new direction being adopted by the Division of Agriculture.

You may wish to consider the following comments and observations:

1) The continued evolution of the Point MacKenzie project is likely to result in the failure of some of the farms, as well as successes for others. Critical factors in this evolution include not only future milk prices and state subsidies (or lack thereof), but also the management ability of individual producers, the amount of private capital available to producers, and the implementation of a restructuring program for existing debt.

A restructuring program has been developed for ARLF borrowers. It effectively reduces debt service on ARLF loans for those who cannot meet original loan terms by providing for repayment at reduced rates of interest over a longer period of years.

2) You note in the third paragraph of page three ("Auditor's Conclusion") that at current production levels and at current milk prices, all farms are not yet economically viable. This statement is true. It is also true that the use of loan funds and personal funds varied considerably among producers. Some undoubtedly made excessive

the private sector, and are trying to do so without exposing the state or the industry to undue risk from unqualified management or to an ownership group lacking the assets to operate the business.

I hope these comments prove helpful.

Sincerely,

Judith M. Brady

Judith M. Brady
Commissioner

COMPANY NO: 001

RUN

MATANUSKA MAID DAIRY
BALANCE SHEET
DECEMBER 31, 1987

ASSETS

Current assets		
Cash		47,441.60
Receivables:		
Trade	1,549,860.69	
Notes receivable	382,376.89	
Other Receivables	343,818.13	
	-------------- 1,200 collectable recievables	
	2,276,055.71	
Less allowance for doubtful account	(202,523.00)	
Net receivables		2,073,532.71
Due from Matanuska Maid, Inc.		7,400.02
Inventories		592,182.24 400 creamery
Prepaid expenses		125,391.63

Total current assets		2,845,948.20
Property plant and equipment		
Land		2,360,000.00
Buildings and improvements	316,388.45	
Machinery and equipment	663,051.26	
Office furniture and fixtures	2,000.00	
Office equipment	7,793.40	
Automotive equipment	236,319.93	
Computer equipment	34,570.00	

	1,260,123.04	
Less accumulated depreciation	(497,296.63)	
		762,826.41

Total property plant & equip		3,122,826.41

		5,968,774.61
		==============

Note to current assets

The amount indicated in "Due from Matanuska Maid, Inc." consists of labor, supplies and other costs incurred in the administration of the bankrupt estate.

MATANUSKA MAID DAIRY
BALANCE SHEET

DECEMBER 31, 1987

LIABILITIES AND EQUITY

Current liabilities		
Producers payable		241,034.78
Accounts payable		338,071.89
Due to Matanuska Maid, Inc.		25.00
Current portion long term debt		196,680.58
Accrued liabilities		
Salaries and benefits	106,628.75	
Taxes other than income	(1,183.30)	
Insurance		
Interest		
Other expenses	755.23	
Total accrued liabilities		106,200.68
Income taxes		

Total current liabilities		882,012.93
Long term debt less current portion		129,520.62
Stockholders equity		
Common stock		
Paid in capital	5,837,565.00	
Retained earnings	(880,323.94)	
Total equity		4,957,241.06

Total liabilities and equity		5,968,774.61
		=============

Introduced: 2/16/88 5-1589A
Referred: Resources and Finance

IN THE SENATE BY JOSEPHSON, SZYMANSKI, HALFORD, FAIKS AND KELLY

SENATE BILL NO. 472

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the commissioner of natural resources to transfer certain assets formerly owned by Matanuska Maid, Inc."

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

* Section 1. The commissioner of natural resources may enter into a one-year lease with a cooperative composed of dairy product producers for the management and operation of the former Matanuska Maid Creamery at 814 Northern Lights Boulevard, in Anchorage. The lease is renewable annually for 19 years if the lessee has complied with health and product quality provisions of the lease. The lease may be negotiated by the commissioner of natural resources at any time before January 1, 1989, but it is the intent of the legislature that the lease be in effect on January 1, 1989. The lease payment due from the lessee for each annual lease is $1. If the cooperative composed of dairy product producers has continuously operated the former Matanuska Maid Creamery under a lease granted under this section through December 31, 1998, the commissioner of natural resources shall, at the request of the lessee at any time after December 31, 1998, but before December 31, 2008, transfer the creamery to the lessee for its fair market value on the effective date of this Act.

* Sec. 2. The commissioner of natural resources may enter into a one-year lease with a cooperative composed of agricultural producers and buyers for the management and operation of the former Matanuska Maid feed mill and associated property, in Palmer. The lease is renewable annually for 19 years if the lessee has complied with health and product quality provisions

of the lease. The lease may be negotiated by the commissioner of natural resources at any time before January 1, 1990, but it is the intent of the legislature that the lease be in effect on January 1, 1990. The lease payment due from the lessee for each annual lease is $1. If the cooperative composed of agricultural producers and buyers has continuously operated the former Matanuska Maid feed mill and associated property under a lease granted under this section through December 31, 1999, the commissioner of natural resources shall, at the request of the lessee at any time after December 31, 1999, but before December 31, 2009, transfer the feed mill and associated property to the lessee for the fair market value of the property on the effective date of this Act.

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 3-10 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED ______ **
IN ACCORDANCE WITH AS 24.08.035
(see below)

2/16/88
Mr. President:

DATE TURNED INTO OFFICE ____________

Resources Committee considered SB 472

authorizing the commissioner of natural resources to transfer certain assets formerly owned by Matanuska Maid, Inc.

and recommended:

[✓] replace with CS SB 472 Res and reports as back as follows [ ] same title [✓] new title

[ ] attached amendment(s) and

[ ] do pass

[ ] do not pass

[ ] no recommendation

[✓] individual recommendations

[ ] further referral to ____________

[✓] letter of intent adopted and attached

** Committee [✓] attached or [ ] adopted fiscal note(s)
[✓] zero [ ] fiscal impact

ØFN

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS
1 V. Fanning	3 McGlaun no rec.
2 Arliss Sturgulewski with additional information	3 Fred F. Zharoff No Rec
	3 Jim Duncan No Rec
	3 Paul Fischer (...) No Rec

[✓] Committee Backup Attached

[signature] Do Pass
Chairman signature and recommendation