

SB

192



STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

REQUEST: \_\_\_\_\_ Bill Version: SB 192  
 \_\_\_\_\_ Publish Date: \_\_\_\_\_  
 Revision Date: \_\_\_\_\_ Agency Affected: Natural Resources  
 Title: Membership of ARLF Board BRU: Agriculture  
 \_\_\_\_\_  
 Sponsor: Senator Kerttula Components: \_\_\_\_\_  
 Requestor: Senate Resources \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
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	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

\*Board members receive no salary but receive per diem and travel funds from the ARLF. This totals approximately \$4,000 per year per member. Adding 2 members to the board could result in an additional \$8,000 expenditure from the ARLF.

Prepared by: Carol Wilson Phone: 465-2400  
 Division: Commissioner's Office Date: \_\_\_\_\_  
 Approved by Commissioner: Lenni Boston Jones Date: 4/2/87  
 Agency: Natural Resources

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary



Official Business

# Alaska State Legislature

## Senate

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

*EZ*  
*FYI*  
*V*

DATE: January 18, 1988

TO: Senator Jack Coghill, Chairman  
Senate Rules Committee

FROM: *Handwritten* Senator Jay Kerttula

RE: SB 192

At your ~~earliest~~ *earliest* convenience, please schedule SB 192, an act relating to the Agricultural Revolving Loan Fund Board, for hearing before the Senate Resources Committee.

Please contact me if you have any questions.

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

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

OFFICE OF THE COMMISSIONER

March 2, 1988

The Honorable Jack Coghill  
Chairman, Senate Resources Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator Coghill:

Subject: Senate Bill 192, which would increase the membership of the Agricultural Revolving Loan Fund (ARLF) Board from five to seven persons.

Position: The Department of Natural Resources believes that the existing ARLF Board is working well but would benefit from additional expertise. However, adding members at this time, in the midst of complicated loan restructuring and asset management activities, would be difficult. We support the general concept of this bill but are concerned about the timing.

It should be noted that there is always difficulty in selecting ARLF Board members with agricultural experience, especially at a time when numerous borrowers are having loans reviewed and the potential for conflict of interest is high. Problems in this area have occurred in the past when producers with substantial involvement in the agricultural industry were appointed to the Board.

Please let me know if I may provide additional information about this matter.

Sincerely,

  
Judith M. Brady  
Commissioner

cc: Senate Resource Committee Members  
Senator Kerttula, Sponsor  
Rod Swope  
Bob Evans  
Mark Weaver  
Chuck Forck

FISCAL NOTE

REQUEST:

Revision Date: March 1, 1988  
Title: Membership of ARLF Board  
Sponsor: Senator Kerttula  
Requestor: Senate Resources Committee

Agency Affected: Department of 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)

- \* Board members receive no salary but receive per diem and travel funds from the ARLF. This totals approximately \$4,000 per year per member. Adding 2 members to the Board could result in an additional \$8,000 expenditure from the ARLF each year.

Prepared by: Carol Wilson Phone: 465-2400  
Division: Commissioner's Office Date: 3/1/88

Approved by Commissioner: *William B. Berry* Date: \_\_\_\_\_  
Agency: Natural Resources

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

# 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

April 2, 1987

The Honorable Jack Coghill  
Chairman, Senate Resources Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Coghill:

Subject: Senate Bill 192, which would increase the membership of the Agricultural Revolving Loan Fund (ARLF) Board from five to seven persons.

Position: The Department of Natural Resources is unable to support this bill at this time. We are currently preparing to implement major ARLF policy changes that will result in a more structured loan program. Increasing the size of the ARLF Board now could unnecessarily complicate this process.

Recommendation: Postpone action on this bill until the new ARLF guidelines are in place and the need for additional ARLF Board members can be reassessed.

Please let me know if you would like additional information about the ARLF.

Sincerely,

*Judith M. Brady*  
for Judith M. Brady  
Commissioner

cc: Committee Members  
Bill Sponsors  
Rod Swope  
George Sullivan



Official Business

# Alaska State Legislature

## Senate

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

TO: Senator Jack Coghill, Chairman Senate Resources

FROM: Senator Jay Kerttula *J.K.*

RE: SB-192, "An Act relating to the membership of the agricultural revolving loan fund board."

DATE: February 25, 1988

### SPONSOR STATEMENT

SB-192, relating to the agricultural loan fund (ARLF) board, would make a small but important change in the composition of the board.

Presently, the board includes five members. SB-192 would change the board so that there would be seven total members and two of them would be required to be presently operating producing farms and to have been doing so for at least five years.

It is critical to the future of Alaskan agriculture that we have farmers involved in the decision-making that the ARLF board does. Without requiring that producing farmers be on the board we effectively cut out the most important and knowledgeable group of people from participation.

A broad geographic representation is also necessary for a properly operating board. This is difficult with only five members. A seven-member board will help us achieve a much broader perspective on the board.

As the Director of Agriculture says in the attached article, farmers need "a banker who knows farming and who knows a potentially profitable operation from a losing one." Without farmers on the ARLF board the state is not taking advantage of a wealth of knowledge it could be utilizing.

Thank you for your consideration of SB-192.

as class III or under the land reservation Ser-

establish other the provisions is under (a)(4)

es; and cultural enter- am § 1 ch 41 1967; am § 1 SLA 1975; am § 1-3 ch 7 SLA 1983)

ge, or both. Loans chattel mortgage irrigation systems for terms as deter- oner" and "Farm loans for irriga- r terms as deter- oner"; substituted "in two places in "may assess" for and sentence, both ed the language ined delinquency e third sentence of ed "\$250,000" for it subsection (f); less than eight eight percent" in bsubsection (f); and ad (h). nt in paragraph ge beginning with bsection (c) substi- 00,000" and added ng with "except

reports. — For 967 (HB 274), see . 513-514.

m land. (a) A r sell, lease or red by a mort- ent, chattel, or orrower either

(1) pays the outstanding balance of the loan in a lump sum or under other terms agreed to by the commissioner which accelerate payment of the loan; or

(2) pays the outstanding principal balance for the remaining term of the loan at the prevailing rate of interest which is charged by commercial banks in the state during the calendar quarter in which the department receives notice of the change of use, sale, lease or other disposal of the farm land.

(b) In this section, "non-farm use" means a use of land other than for the production of domesticated plants and animals useful to humans, including forage and sod crops, grain and feed crops, fruits, vegetables and livestock. (§ 5 ch 50 SLA 1979)

Sec. 03.10.040. Creation of fund. There is an agricultural revolving loan fund which shall not exceed \$75,000,000 to carry out the purpose of this chapter. (§ 5 ch 122 SLA 1953; am § 2 ch 41 SLA 1961; am § 1 ch 81 SLA 1970; am § 6 ch 50 SLA 1979; am § 4 ch 7 SLA 1982)

Effect of amendments. — The 1979 amendment substituted "\$20,000,000" for "\$5,000,000." The 1982 amendment substituted "\$75,000,000" for "\$20,000,000."

Sec. 03.10.050. Administration of fund. (a) The commissioner shall administer the loan fund in conjunction with the agricultural revolving loan fund board. No loan in excess of \$25,000 may be made by the commissioner without the approval of a majority of the board.

(b) The board is composed of five members appointed by the governor and confirmed by the legislature in joint session. Three members shall be persons with background and experience in Alaska agriculture. Members of the board serve for overlapping three-year terms. Members of the board are not entitled to receive compensation for their services, but shall receive the same travel pay and per diem as provided by law for boards and commissions.

(c) A meeting of the agricultural revolving loan fund board to act on applications for loans is exempt from the public meeting requirements of AS 44.62.310. (§ 6 ch 122 SLA 1953; am § 1 ch 119 SLA 1976; am § 6 ch 113 SLA 1982)

Revisor's notes. — Section 5, ch. 7, SLA 1982 added a subsection (c) to this section but the provisions of that subsection have been transferred to AS 03.10.052. Consequently, the subsection added by § 6, ch. 113, SLA 1982, has been redesignated "(c)." Effect of amendments. — The 1982 amendment added subsection (c).

Sec. 03.10.052. Limitation on board members. A member of the agricultural revolving loan fund board may not, during the member's term of office or within one year after ceasing to be a member of the board, obtain a loan under this chapter other than a short-term loan under AS 03.10.030(c). (§ 5 ch 7 SLA 1982)

Title 4  
Alcoholic Beverages

Amusements and Sports

# The state must view agriculture as a business

BY MARK WEAVER

Does Alaska have an agricultural policy?

When money was easy, we had agricultural policies by the dozen. We had a policy to promote the grain industry; we had a policy to promote dairying; we had a policy of promoting a whole slew of agricultural commodities by lending money to people who had little capital of their own and little history of management.

As long as money was easy, the wisdom of these policies was not tested. Now the well is drying up. Their legacies are coming to haunt us: Delinquent farm debt. Processing facilities that are empty or unprofitable. Angry farmers. A disenchanting public.

Where do we go from here? Some say, "Do nothing." In fact, doing nothing will cause more waste.

I propose a different strategy. The first step is to recognize the valuable lessons that Delta, Point Mackenzie and



other recent experiences can teach us.

• Lesson No. 1: Easy farm credit too often rewards bad management. It does not produce private sector growth that is sustainable and unsubsidized.

• Lesson No. 2: To encourage agricultural production for its own sake is foolishness. Supply must be driven by demand.

• Lesson No. 3: Farmers must be required to bear the ordinary risks of doing business. Farming may be different from other businesses, but it is not special.

In every sector of the agriculture industry in Alaska there are successful farmers — those who profitably grow and market their crops and are in control of their debt. Horticultural crops — vegetables and potatoes from tradi-

tional farms, bedding plants, shrubs and other ornamentals from nursery and greenhouse producers — accounted for \$17 million in gross sales last year, along with 1,500 jobs. But even in depressed sectors such as livestock and grain there are producers who are making it — without need of a bailout. There is nothing wrong with agriculture in this state, only with what we have tried to do to it.

What is the future of farming in Alaska? What role should state government play?

To my way of thinking, government involvement of any kind is inappropriate, unless basic criteria are met:

Can government provide a service that the private sector cannot provide? Is there a public interest at stake that justifies expenditure of public funds?

If the answer to either of these queries is "No," then government probably should stay out!

I can identify only four kinds of government services to agriculture that seem to meet this test. They are:

• Inspection of food and farm products destined for public use or consumption. A quality inspection program is the key that opens the door to the market place for the local farmer. It is mandated by federal law in some instances, and helps to promote a healthy competition for product quality. At the same time it protects retailers and the public from those who would use Alaska as a dumping ground for poor quality import.

• Research. Innovation on the farm depends upon scientific research applied to real world problems. Our farmers sacrifice time and money in an effort to identify new crops or methods that can give Alaska a competitive advantage. They cannot do this efficiently, nor take advantage of what they learn without scientific support. Gov-

ernment should fill this void.

• Credit. Private banks do not like to deal with agriculture, here or anywhere. Farmers do not need free money. They do need a bank they can rely on and, this is most important, a banker who knows farming and who knows a potentially profitable operation from a losing one. Nobody deserves a loan just because he is a farmer. But farmers, like other businessmen, deserve loans when their credit is good.

• Access to Land. In virtually every state, local governments have acted to protect their best agricultural lands from erosion and incompatible development. For this reason, the Hammond administration initiated an agricultural title system that offered farmers ownership, subject to a condition that the land not be abused nor diverted to uses inconsistent with agriculture. This system is without doubt the most valuable legacy of the big project

era. It is the tool that preserves the raw material of the farmer's trade at a price compatible with the long term nature of his investment.

Inspection, research, credit and land access pass the acid test for government involvement in agriculture. With few exceptions, if a service is outside the scope of these four areas, the government of this state probably should not be providing it.

When money was easy, we could afford to pursue agriculture as one more Alaskan lifestyle. Now we have no choice but to view agriculture as a business. If we stick to basics, it will grow at its own pace, and require no subsidy. It will provide jobs, and quality produce for all of us. And, by the way, those who succeed in it will enjoy a rewarding lifestyle.

□ Mark Weaver is Director of the Division of Agriculture.

State of Alaska  
Agricultural Revolving Loan Fund Board  
P. O. Box 2470  
Palmer, Alaska 99645

February 12, 1988

Curt Menard  
Alaska House of Representatives  
P. O. Box V (MS 3100)  
Juneau, Alaska 99811

FEB 16 1988

RE: Teleconference - Tuesday, February 9, 1988 with  
ARLF Board

Dear Mr. Menard:

This letter is the promised follow-up to our teleconference.

You inquired regarding the Board's reaction to a cash production credit payment to all agricultural producers. The Board is opposed to any disbursement of loan fund money to producers who are not borrowers.

We followed this with comments on three other pieces of legislation:

SB 353 Extension of Production Credits. First we point out that Loan Fund assets have already been reduced by production credits as follows: 1986 - \$346,000, 1987 - \$540,000, and to date in 1988 - \$322,000. These amounts have simply been wiped from our loanable funds under current legislation in force. If this legislation is extended this massive drain will continue.

The Board, in consultation with the Loan Fund Manager and the Director of Agriculture, offer this counter proposal for any renewal of production credits:

1. Limit production credits to borrowers in good standing, to borrowers who are current in their payments. Exclude restructured borrowers since they have already received substantial benefit in interest relief.

2. Limit the credit to only a portion of the interest so that the entire interest payment is not excused.

The thinking that goes into this counter proposal is that production credit then becomes an incentive to good borrowers by reducing their interest due. It is not a debt write-off as is the current legislation. It does not apply to restructures, they have already received substantial relief. This proposal is in the best interest of the State because it rewards borrowers in good standing with a reduced interest and an incentive to remain in good standing, and thus to keep funds revolving back into the Loan Fund.

Curt Menard  
February 12, 1988  
Page Two

HB 415 Retroactive Production Credit to Dairy Producers. The Board opposes this legislation. It is not in the best interest of the State. It is a debt relief program which rewards production without regard to efficiency and provides no payback to the loan fund. I am attaching "an analysis of the financial effect" on the Fund prepared by the Loan Fund Manager. Please be specifically aware that the Fund currently has loanable funds of about \$7 million. This proposal would wipe out almost \$2 million of that working balance.

SB 192 Expansion of the Loan Board from five to seven members. The Board is opposed to this legislation for the following reasons:

1. A seven member board increases from three to four the number of members that must be present for a working meeting.

2. Both of the added members must be producers. a) It is very difficult to find producers who do not have a disabling conflict of interest, i.e., a loan with the loan fund, or a financial interest that precludes them from acting on a particular loan application. b) This takes us back to the problem of a quorum on a particular application; and further c) the failure to fill these positions would leave us with a quorum requirement of four and less likelihood of meeting it.

3. An increase in the number of board members requires more preparation on the part of an already overburdened loan fund staff, lengthier meetings and more staff time spent on meetings, and a general increase in the cumbersomeness of the process.

4. Additional cost to the fund for per diem, travel expenses and other related costs, all of which must come from a shrinking operating budget.

The Board feels the current staff and board are dealing as efficiently as possible with the loan fund workload. Adding two functioning producer board members would be difficult to achieve and would reduce the efficiency and effectiveness of the process at this time. SB 192 is not in the best interests of the State.

Thank you for alerting us to the proposed legislation. We hope our comments on it and other ag legislation is understood to come from a group who have particular familiarity with the issues and their resolution in the best interest of the State.

Sincerely,



CHARLES G. FORCK, Chairman  
Agriculture Revolving Loan Fund