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FISCAL NOTE

REQUEST:

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

Agency Affected: Natural Resources
BRU: Agricultural Management

Sponsor: Sen. Resources Committee
Requestor: Senate Finance Committee

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 Phone: 745-7200
Division: Division of Agriculture Date: 3/31/88

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

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

Explanation for Revised Fiscal Note

CSSB 472 (Resources)

<u>FY 89</u>		<u>FY 90-93</u>
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	
<hr/>		
(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 obsolescence and provide for future expansion.

5-1589X
Bradley
3/16/88

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

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 472 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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

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

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

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

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

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

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

21 * Sec. 2. LEASE-PURCHASE AUTHORIZED. The commissioner of natural
22 resources may enter into a one-year lease with a cooperative composed of
23 Alaska dairy product producers for the management and operation of the
24 former Matanuska Maid Creamery at 814 Northern Lights Boulevard, in
25 Anchorage. The commissioner and the cooperative shall agree on the compo-
26 sition and membership of the board of directors that manages the Matanuska
27 Maid Creamery. The lease is renewable annually for 14 years if the lessee
28 has complied with health, product quality, ~~and other terms and conditions~~

29 ~~and~~ and has managed the former Matanuska Maid Creamery

1 economically, profitably, and efficiently under the terms of the lease.
 2 The lease shall require the lessee to treat each producer of dairy products
 3 equally. The lease ~~may~~ ^{shall} be negotiated by the commissioner of natural re-
 4 sources at any time before July 1, 1989, but ~~it is the intent of the legis-~~
 5 ~~lature that~~ the lease ^{must} be in effect on July 1, 1989. The lease payment due
 6 from the lessee is an amount equal to \$.50 per hundredweight of milk pro-
 7 cessed per month at the creamery ~~or \$13,000 per month, whichever is~~
 8 ~~greater,~~ and the lease payment shall be applied to the purchase price. If
 9 the cooperative composed of dairy product producers has continuously op-
 10 erated the former Matanuska Maid Creamery under a lease granted under this
 11 section through June 30, 1999, the commissioner of natural resources shall,
 12 at the request of the lessee at any time after June 30, 1999, but before
 13 June 30, 2004, [transfer the creamery to the lessee for its fair market
 14 value on the effective date of this Act.]

15
 16
 17 *intent day*
 18 *- letter*
 19 *balance sheet*

15
 16
 17 *After the intent of the lessee*
 18 *must requests be completed*
 19 *by July 1, 1989.*

5-1589L

Bradley
3/16/88

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

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 472 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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26 ~~sition and membership of the board of directors that manages the Matanuska~~
27 ~~Maid Creamery.~~ The lease is renewable annually for 14 years if the lessee
28 has complied with health and product quality provisions of the lease and
29 has managed the former Matanuska Maid Creamery economically, profitably,

1 and efficiently under the terms of the lease. The lease shall require the
2 lessee to treat each producer of dairy products equally. The lease may be
3 negotiated by the commissioner of natural resources at any time before
4 July 1, 1989, but it is the intent of the legislature that the lease be in
5 effect on July 1, 1989. The lease payment due from the lessee is an amount
6 equal to \$.50 per hundredweight of milk processed per month at the
7 creamery, and the lease payment shall be applied to the purchase price. If
8 the cooperative composed of dairy product producers has continuously op-
9 erated the former Matanuska Maid Creamery under a lease granted under this
10 section through June 30, 1999, the commissioner of natural resources shall,
11 at the request of the lessee at any time after June 30, 1999, but before
12 June 30, 2004, transfer the creamery to the lessee. (In valuing the assets
13 of the former Matanuska Maid Creamery for the purposes of a transfer under
14 this section, the building shall be valued at its fair market value at the
15 initiation of the lease and the land shall be valued at its fair market
16 value on the date of the request by the lessee for a transfer under this
17 section.

Don Chemical Co., Inc.

Alaska Mill & Feed Co.

114 North Orca · P.O. Box 1246 · Anchorage, Alaska 99510 · Telephone (907) 279-4519

March 9, 1988

*AB 472
Sen Res
Sen 7*

Alaska State Legislature
Senate Resource Committee
P.O. Box V
Juneau, Alaska 99811

Re: Senate Bill No. 472, Section 2

Dear Committee Members:

We are opposed to the passage of Senate Bill No. 472. Specifically, we are opposed to Section 2 of Senate Bill No. 472.

There is no justifiable reason to lease the Matanuska Maid Feed Mill to a farmer's cooperative when there are existing facilities in the private sector to handle the feed needs of the McKenzie Point farmers. If the State of Alaska is intent on leasing or selling the feed mill, why charge only \$1.00 per year? Such a low lease rate represents an unfair advantage for the cooperative.

Why does the State of Alaska want to give back the feed mill to a cooperative in the first place? Wasn't the original Matanuska Maid a failing cooperative when the State was forced to take it over? Historically, cooperatives seem to have difficulty surviving.

What specific group mentioned in Senate Bill No. 472 is going to run the feed mill? Although the lease rate is only \$1.00 per year, it still takes a great deal of money to operate such a facility. Where is the cooperative going to get the needed money? Has a cash flow analysis been done? Hopefully, financial statements have been secured from the members of the proposed cooperative. If the cooperative members are not financially sound, the operation is doomed from the start.

We would assume that the State of Alaska would not take existing loan monies that are already in tight supply and loan them to the cooperative. If the State's true intent in Senate Bill No. 472 is to get out of the feed business and minimize their investment (loss), surely the State of Alaska wouldn't want to loan more money to a new cooperative! Realistically, it is going to take a substantial amount of money to operate the feed mill. The building and equipment are old. The production capabilities of the plant are limited. Should the facilities even be kept open?

Don Chemical Co., Inc.

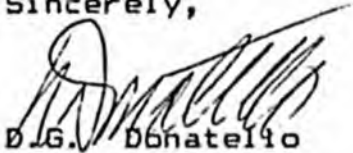
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The agricultural community in Alaska is struggling. The State of Alaska has put millions of dollars in agriculture to stimulate jobs and development in the State. Throwing dollars at problems doesn't seem to be the answer. Maybe the dairy farmers should pay closer attention to their specific operations. Farms are businesses. They have to be run efficiently and competitively. If they are not competitive, they will not survive. In the long run, more State subsidies won't make them competitive. A temporary bail out for a small group is not in the best interests of Alaskan agriculture.

We are opposed to Senate Bill No. 492. It doesn't make good economic sense, it does nothing to support existing private business, and it caters unfairly to a small group of people. We urge you not to pass this bill.

Sincerely,



D.G. Donatello
President

DD/cj

cc: Rick Halford
Jan Faiks
Joe Josephson
Mike Szymanski
Tim Kelly
Arliss Sturgulewski

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 sustained 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.

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	<u>170,080</u>
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 ½ x 4,600,000 =	1,150,000
TOTAL	<u>\$54,635,000</u>

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

\$10,927,000	Benefit
<u>195,040</u>	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."

5-1589L
Bradley
3/14/88

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

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 472 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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11 at the request of the lessee at any time after June 30, 1999, but before
12 June 30, 2004, transfer the creamery to the lessee for its fair market
13 value on the effective date of this Act.

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15 present value of buildy
16 form of land at date of sale
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STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 472 (Resources)
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: 3/22/88

Agency Affected: Natural Resources

Title: Transfer Mat-Maid Assets

BRU: Agricultural Management

Sponsor: Resources Committee

Components: ARLF

Requestor: Senate Finance Committee

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-
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REVENUE	-0-	(5,757.4)	(222.2)	(222.2)	(222.2)	(222.2)
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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 I.&W. Phone: 465-2400

Division: Agriculture, Land & Water Management Date: 3/22/88

Approved by Commissioner by Tom Haukuiz Date: 3/22/88

Agency: Natural Resources

Distribution (by preparer):

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

Analysis for CSSB 472(Resources) Fiscal Note contd.

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.

<u>FY 89</u>		<u>FY 90-93 Per Year Loss</u>
156.0	lease income	156.0 lease income
(148.2)	loss of opportunity for sale	(148.2) loss of opportun.
(48.0)	loss of cash	(230.0) depreciation
(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	
<hr/>		<hr/>
(5757.4)	Loss for FY 89	(222.2) Loss per year

ALASKA STATE SENATE

JOE P. JOSEPHSON
DISTRICT H ANCHORAGE
3111 C STREET, SUITE 550
ANCHORAGE, ALASKA 99503
(907)561-7611



WHILE IN JUNEAU
P.O. BOX V
JUNEAU, ALASKA 99811
(907)465-4925

Senate Resources
March 14, 1988

SPONSOR STATEMENT ON SB 472

● What would SB 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 lease be in effect by January 1, 1989.
3. Lease is renewable annually for 19 years, if lessee complies with health and quality standards.
4. Annual lease payment is \$1.
5. If Creamery is successfully operated for ten years, DNR shall offer to sell it to the lessee.
6. Sale price is set at 1988 fair market value.
7. Section 2 creates same, but separate process for the Feed Mill in Palmer, with date changed to have lease in effect by January 1, 1990 rather than a year earlier as with the Creamery.

● A Preliminary Audit has been conducted by Legislative Budget & Audit. After reviewing this confidential audit, I believe SB 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 in 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.

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 11, 1988

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

Dear Senator Coghill:

Subject: Senate Bill 472, which would authorize the commissioner of natural resources to transfer certain assets formerly owned by Matanuska Maid, Inc.

Position: The Department of Natural Resources supports the concept of returning the Matanuska Maid creamery and feed mill to the private sector, but is unable to support this bill for a number of reasons:

- o This bill requires the department to enter a lease/purchase contract with a cooperative of dairy producers but makes no provision for protecting state, ARLF, or non-dairy farm public interests, or the interests of dairy producers who are not in control of the cooperative. The department and the Agricultural Revolving Loan Fund (ARLF) Board currently have the authority and the responsibility to sell or lease the Matanuska Maid Creamery and feed mill under terms and conditions that are in the best interests of the state, the ARLF and the agricultural community.
- o The \$1 per year lease/purchase option established by this bill makes no provision for a share of any revenue from the creamery or feed mill to be returned to the ARLF.
- o The contract required by this bill would prevent other interested parties from purchasing the creamery for a period of twenty years, with no guarantee that the dairy cooperative would purchase the facilities during that time.

c The contract required by this bill includes no provisions for assuring that the creamery and feed mill are managed economically, and no mechanism for terminating a lease or denying its renewal because of mismanagement. Yet the bill requires the state to lease to a cooperative regardless of its ability to manage.

o The bill does not clearly state which Matanuska Maid, Inc. assets will be transferred to a cooperative; will the real property, facilities, equipment, accounts receivable, cash and inventory all be transferred to the lessee for \$1 per year? If so, how does one lease cash, accounts receivable and inventory?

o There is no existing cooperative eligible to lease the feed mill. This bill invites the hasty organization of groups that have no management experience but are eager to take advantage of the \$1 per year lease/purchase terms.

As you know, the state would like to sell the creamery and feed mill to a buyer who will continue the operations. But the terms of sale should be in the public's best interest as well as the purchaser's and protect the interests of all producers who may wish to have milk processed at the creamery.

Recommendation: If the Legislature determines that requiring the department to lease the creamery and feed mill (with a 20 year purchase option at 1988 prices) to one particular group is in the best interests of the people of Alaska, we recommend that additional conditions be placed in the lease agreement to ensure that the creamery and feed mill are economically managed and that public funds invested in the facilities and property are regularly returned to the ARLF.

We also recommend that if a purchase option is exercised by the lessee, the purchase price be the fair market value at the time of sale. Alternatively, the facility could be sold subject to the condition that it be used for processing dairy products. This would help protect the integrity of the ARLF and the dairy industry by ensuring that the purchaser is interested in continuing creamery operations and developing a viable business rather than speculating on downtown Anchorage and Palmer real estate.

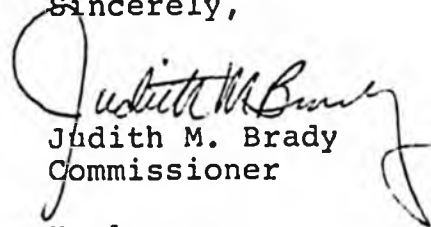
Senator Coghill

-3-

March 11, 1988

I have enclosed background information about the state's assumption of the former Matanuska Maid, Inc. business. Please let me know if I may provide additional information about this matter.

Sincerely,



Judith M. Brady
Commissioner

Enclosure

cc: Sponsors
Bob Evans
Rod Swope
Mark Weaver

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.

FISCAL NOTE

REQUEST:

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

Agency Affected: Natural Resources
BRU: Agricultural Management

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

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 Phone: 465-2400
Division: Division of Agriculture Date: 3/11/88

Approved by Commissioner: [Signature] Date: _____
Agency: Natural Resources

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 Mataruska 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	<hr/> \$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.

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	
	<u>2,276,055.71</u>	
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
Prepaid expenses		125,391.63
		<u>2,845,948.20</u>
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	
	<u>1,260,123.04</u>	
Less accumulated depreciation	(497,296.63)	
		<u>762,826.41</u>
Total property plant & equip		<u>3,122,826.41</u>
		<u>5,968,774.61</u>

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

RUN D

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		127,520.62
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