

HB

207

<TARGET><BILL>HB 207</BILL><SUBJECT>HB
207</SUBJECT><COMM>HRES28</COMM></TARGET>

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 207(), Draft Version "R"

*statute
only operate kill
& floor and blue
processing*

1 Page 1, following line 5:

2 Insert a new bill section to read:

3 **"* Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
4 to read:

5 LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

6 (1) the Board of Agriculture and Conservation has the powers granted in
7 AS 03.10.020; those powers do not include the power to operate a state processing facility;
8 and

9 (2) using funds in the agricultural revolving loan fund to operate a state
10 processing facility is not authorized by statute.

11 (b) It is the intent of the legislature that

12 (1) the Board of Agriculture and Conservation close or dispose of Mt.
13 McKinley Meat and Sausage;

14 (2) the Board of Agriculture and Conservation develop a plan to create a
15 facility in the Matanuska-Susitna Borough suitable to be operated as a United States
16 Department of Agriculture approved slaughter facility;

17 (3) no appropriations be made in fiscal year 2015 to operate Mt. McKinley
18 Meat and Sausage; and

19 (4) money from the agricultural revolving loan fund not be used to operate Mt.
20 McKinley Meat and Sausage after June 30, ~~2014~~.

2015

22 Page 1, line 6:

23 Delete "**Section 1**"

1 Insert "Sec. 2"

2

3 Renumber the following bill sections accordingly.

4

5 Page 12, line 7:

6 Delete "Sections 26(b) and 27"

7 Insert "Sections 27(b) and 28"

8

9 Page 12, line 8:

10 Delete "sec. 28"

11 Insert "sec. 29"

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSHB 207(), Draft Version "R"

1 Page 1, line 1, following "Act":

2 Insert "**relating to the powers of the commissioner of natural resources to operate**
3 **a facility that processes meat into individual cuts;**"

4

5 Page 1, line 4, following "fund":

6 Insert "**; prohibiting use of funds from the agricultural revolving loan fund for**
7 **operation of a facility that processes meat into individual cuts"**

8

9 Page 1, following line 5:

10 Insert a new bill section to read:

11 "*** Section 1.** AS 03.05.010 is amended by adding a new subsection to read:

12 (c) The commissioner of natural resources may not use state funds to operate a
13 facility that processes meat into individual cuts."

14

15 Page 1, line 6:

16 Delete "**Section 1**"

17 Insert "**Sec. 2**"

18

19 Renumber the following bill sections accordingly.

20

21 Page 10, following line 17:

22 Insert a new bill section to read:

23 "*** Sec. 23.** AS 03.10.040 is amended by adding a new subsection to read:

1 (c) The board may not use money in the fund to operate a facility that
2 processes meat into individual cuts."
3

4 Renumber the following bill sections accordingly.
5

6 Page 12, line 7:

7 Delete "Sections 26(b) and 27"

8 Insert "Sections 28(b) and 29"
9

10 Page 12, following line 7:

11 Insert a new bill section to read:

12 **"* Sec. 31.** Sections 1 and 23 of this Act take effect July 1, 2015."
13

14 Renumber the following bill section accordingly.
15

16 Page 12, line 8:

17 Delete "sec. 28"

18 Insert "secs. 30 and 31"

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 207(), Draft Version "R"

1 Page 1, line 1, following "Act":

2 Insert "**relating to the powers of the commissioner of natural resources to operate**
3 **a facility that processes meat or bones into individual cuts;**"

4

5 Page 1, line 4, following "fund":

6 Insert "**; prohibiting use of funds from the agricultural revolving loan fund for**
7 **operation of a facility that processes meat or bones into individual cuts"**

8

9 Page 1, following line 5:

10 Insert a new bill section to read:

11 **"* Section 1.** AS 03.05.010 is amended by adding a new subsection to read:

12 (c) The commissioner of natural resources may not use state funds to operate a
13 facility that processes meat or bones into individual cuts."

14

15 Page 1, line 6:

16 Delete "**Section 1**"

17 Insert "**Sec. 2**"

18

19 Renumber the following bill sections accordingly.

20

21 Page 10, following line 17:

22 Insert a new bill section to read:

23 **"* Sec. 23.** AS 03.10.040 is amended by adding a new subsection to read:

1 (c) The board may not use money in the fund to operate a facility that
2 processes meat or bones into individual cuts."

3

4 Renumber the following bill sections accordingly.

5

6 Page 12, line 7:

7 Delete "Sections 26(b) and 27"

8 Insert "Sections 28(b) and 29"

9

10 Page 12, following line 7:

11 Insert a new bill section to read:

12 "* **Sec. 31.** Sections 1 and 23 of this Act take effect July 1, 2015."

13

14 Renumber the following bill section accordingly.

15

16 Page 12, line 8:

17 Delete "sec. 28"

18 Insert "secs. 30 and 31"

HB 207

“An Act establishing the Board of Agriculture, Conservation, and Development; transferring the powers and duties of the Board of Agriculture and Conservation and the Natural Resource Conservation and Development Board to the Board of Agriculture, Conservation, and Development; transferring to the Department of Commerce, Community, and Economic Development the authority to approve loans from the agricultural revolving loan fund; terminating the Board of Agriculture and Conservation; terminating the Natural Resource Conservation and Development Board and repealing statutes relating to the board; relating to loans from the agricultural revolving loan fund; and providing for an effective date.”

Why HB 207?

Concerns Expressed

- ❖ Lack of formal communication between agricultural industry and state government
- ❖ Composition of Board of Agriculture and Conservation is limited to those farmers not applying for or modifying loans
- ❖ Potential loan applicants don't want to share personal financial information with friends or business competitors on board
- ❖ Lack of oversight for soil and water conservation districts
- ❖ Legislative audit concerns with Agriculture Revolving Loan Fund
- ❖ Depletion of ARLF principal

What HB 207 Will Do

Combine the BAC and NRCDB into a single board

Call it the Board of Agricultural, Conservation, and Development (BACD)

New board provides input to state agencies on agriculture, conservation, food production, and land use, and oversees soil and water conservation districts

Moves Agriculture Revolving Loan Fund loan approval to the Dept. of Commerce with an appeal process to the BACD and Commissioner of DNR

Authorizes BACD to oversee soil and water districts

Current Board Composition

❖ Board of Agriculture and Conservation

- Four engaged in commercial production agriculture (from four different agricultural enterprises)
- One member of a soil and water conservation district engaged in commercial production agriculture
- One member of a statewide agricultural promotion organization
- One member with general business or financial experience

❖ Natural Resources Conservation Development Board

- Five resident bona fide users of land from the five major land areas of the state (subject to confirmation)
- Commissioner of DNR (Director of Agriculture in commissioners absence) – non voting

New Board Composition

❖ 12 Voting Members

- Five engaged in commercial production agriculture (at least one from each of the four judicial districts)
- Five land users of a soil and water conservation district
- One member with general business or financial experience and not involved in commercial production agriculture
- One member with experience in preparation, storage, processing, handling, sale, or marketing of food products and not involved in commercial production agriculture

❖ 3 Nonvoting Members

- Commissioner of DNR or designee
- Commissioner of DEC or designee
- Chancellor of UAF or designee from Cooperative Extension Service or School of Natural Resources and Agricultural Sciences

Current BAC Duties

1. Administer and make loans from the ARLF
2. Adopt regulations to carry out the board's function
3. Enter into agreements to carry out the board's duties
4. Recommend land be classified as agricultural and offered for sale

Current NRCDB Duties

1. Advise the commissioner of DNR in the exercise of powers, duties, and functions of the commissioner
2. Receive and review reports concerning the use of soil resources and hold public hearings and meetings to determine if land is being used in a manner consistent with sound soil and water conservation practices and advise on the review of conservation plans for agricultural land sales
3. Recommend action to provide for effective and orderly development of agricultural, forest, and grazing land
4. Review appeals regarding a sale/lease of agricultural/grazing land
5. Advise soil and water conservation districts in the state
6. Serves as the Board of Supervisors for the Alaska District
 - Review conservation plans in the Alaska District

BACD Duties

1. Advise the commissioner of DNR, DEC, and ADF&G in the exercise of powers, duties, and functions of the commissioner
2. Receive and review reports concerning the use of soil resources and hold public hearings and meetings to determine if land is being used in a manner consistent with sound soil and water conservation practices and advise on the review of conservation plans for agricultural land sales
3. Recommend action to provide for effective and orderly development of agricultural, forest, and grazing land
4. Review appeals regarding a sale/lease of agricultural/grazing land
5. Advise and supervise the soil and water conservation districts in the state
6. Serves as the Board of Supervisors for the Alaska District
 - Review conservation plans in the Alaska District

BACD Duties

1. Administer the ARLF and review loan denial appeals
2. Adopt regulations to carry out the board's function, including guidelines for loan approvals from the ARLF
3. Enter into agreements to carry out the board's duties
4. Recommend land be classified as agricultural and offered for sale
5. Make recommendations to the University of Alaska Cooperative Extension Service or School of Natural Resources and Agricultural Sciences for programs and activities that will further the promotion, regulation, and protection of the agricultural and food industry, broaden the economic base of the state, and protect consumers

BACD Duties

1. Advises the commissioner of natural resources, environmental conservation, and fish and game on
 - (A) promotion, regulation, and protection of the agricultural and food industry to broaden the economic base of the state and to protect consumers;
 - (B) policy relating to
 - (i) agriculture;
 - (ii) land use;
 - (iii) resource conservation;
 - (iv) food safety and security;
 - (v) pesticides and herbicides;
 - (vi) noxious and invasive plants;
 - (vii) animals and pests;
 - (viii) animal care;
 - (ix) forestry; and
 - (x) mariculture;

Fiscal Notes

	FY16	FY17	
DEC	\$ 0	\$ 0	
CCED	0	0	
DNR 2633	(116,500)	(116,500)	← Not reflected in fiscal note.
DNR 2235	<u>173,800</u>	<u>156,500</u>	
	\$57,300	\$40,000	

Includes \$17,300 for writing new regulations.

Cost of loan approval. Based upon number of loans and services provided – Should be reduced by CS.

Advantages

The new Board of Agriculture, Conservation, and Development provides an efficient and formal avenue for communication between farmers/land users and the administration.

Farmers and land users will have more input into administration policy.

Loan approvals for the ARLF can be handled faster and with more efficiency and with common underwriting requirements.

Less meetings will allow improved efficiencies within the administration and realize modest cost savings.

Less funds should be removed from the ARLF for administrative purposes, retaining more of the ARLF's capital

ALASKA STATE LEGISLATURE

House District 6
Co-Chair House Resources Committee
Transportation Committee
Fisheries Committee
Joint Armed Services Committee



State Capitol Room 126
Juneau, Alaska 99801-1182
(907) 465-4859
Fax (907) 465-3799
1-888-465-4859

REPRESENTATIVE ERIC A. FEIGE

HB 207 Sponsor Statement

"An Act establishing the Board of Agriculture, Conservation, and Development; transferring the powers and duties of the Natural Resource Conservation and Development Board to the Board of Agriculture, Conservation, and Development; transferring to the Department of Commerce, Community, and Economic Development the authority to approve loans from the agricultural revolving loan fund; terminating the Natural Resource Conservation and Development Board; and providing for an effective date."

It is not often that we have an opportunity to reduce the size of state government and improve efficiency. Two boards currently housed within the Department of Natural Resources, the Board of Agriculture and Conservation and the Natural Resources Conservation Board, work independently of each other, but impact a similar group of people – agricultural producers and land users.

The Board of Agriculture and Conservation (BAC) approves loans and oversees the Agriculture Revolving Loan Fund (ARLF), which has provided significant funding assistance to agricultural producers in Alaska. In addition, the board makes recommendations concerning agricultural land sales.

The Natural Resources Conservation Development Board (NRCDB) works in an advisory capacity to the local soil and water conservation districts, which work closely with agricultural producers. The board serves as the board of supervisors for the Alaska District. It also makes recommendations on soil resources, conservation practices, and effective and orderly development of agricultural, forest, and grazing land in the state.

Under HB207, a new board will be created to assume most of the purposes of the NRCDB and the BAC. The new board's function will also be expanded to add more advisory capacity to the board for agricultural, food, and land uses in Alaska. To help eliminate conflicts between board members and loan processing, approval for ARLF loans will be moved to the Department of Commerce, Community, and Economic Development.

In addition to continuing to set the policies for the Agricultural Revolving Loan Fund, the new board will advise the Commissioners of Natural Resources, Environmental Conservation, and Fish and Game on policy relating to agriculture, land use, resource conservation, food safety and security, pesticides, noxious and invasive plants, animals and pests, and animal care.

28-LS0675\C
Martin
1/22/14

CS FOR HOUSE BILL NO. 207()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE FEIGE

A BILL
FOR AN ACT ENTITLED

1 **"An Act establishing the Board of Agriculture, Conservation, and Development;**
2 **transferring the powers and duties of the Board of Agriculture and Conservation and**
3 **the Natural Resource Conservation and Development Board to the Board of**
4 **Agriculture, Conservation, and Development; transferring to the Department of**
5 **Commerce, Community, and Economic Development the authority to approve loans**
6 **from the agricultural revolving loan fund; terminating the Board of Agriculture and**
7 **Conservation; terminating the Natural Resource Conservation and Development Board**
8 **and repealing statutes relating to the board; relating to loans from the agricultural**
9 **revolving loan fund; and providing for an effective date."**

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

11 *** Section 1. AS 03.09.010(a) is repealed and reenacted to read:**
12 **(a) The Board of Agriculture, Conservation, and Development is established**

1 in the department. The board is composed of 15 members as follows:

2 (1) 12 voting members appointed by the governor and subject to
3 confirmation by the legislature in joint session as follows:

4 (A) five members who are engaged in commercial production
5 agriculture, including at least one member from each of the four judicial
6 districts in the state;

7 (B) five members who are land users of a soil and water
8 conservation district established under AS 41.10.130(a); in this subparagraph,
9 "land user" has the meaning given in AS 41.10.140;

10 (C) one member who has general business or financial
11 experience who is not engaged in commercial production agriculture; and

12 (D) one member who has experience in the preparation,
13 storage, processing, handling, sale, or marketing of food products in a
14 wholesale or retail environment and is not engaged in commercial production
15 agriculture;

16 (2) three ex officio nonvoting members as follows:

17 (A) the commissioner or the commissioner's designee;

18 (B) the commissioner of environmental conservation or the
19 commissioner of environmental conservation's designee; and

20 (C) the chancellor of the University of Alaska Fairbanks or the
21 chancellor's designee from the Cooperative Extension Service or the School of
22 Natural Resources and Agricultural Sciences.

23 * **Sec. 2.** AS 03.09.010(d) is repealed and reenacted to read:

24 (d) Notwithstanding AS 39.52.150(a), a person with a lease, permit,
25 installment contract, or loan under AS 03.10 or AS 38.05, or who has an immediate
26 family member or owns a business with a lease, permit, installment contract, or loan
27 under AS 03.10 or AS 38.05, may be appointed to the board. Notwithstanding
28 AS 39.52.150(a), a board member may apply for and receive a lease, permit,
29 installment contract, or loan under AS 03.10 or AS 38.05. However, that person may
30 not take or withhold any official action that affects the lease, permit, installment
31 contract, or loan of that person or an immediate family member who shares the same

1 household and financial resources with that person. A person with a lease, permit,
 2 installment contract, or loan under AS 03.10 or AS 38.05, or who has an immediate
 3 family member who shares the same household and financial resources with the
 4 person or owns a business with a lease, permit, installment contract, or loan under
 5 AS 03.10 or AS 38.05, may not be appointed to the board and may be removed from
 6 the board if the person, or the person's immediate family member who shares the same
 7 household and financial resources of the person, or business, is in violation of the
 8 terms and conditions of the lease, permit, installation contract, or loan. In this section,
 9 "immediate family member" and "official action" have the meanings given in
 10 AS 39.52.960.

11 * **Sec. 3.** AS 03.09.010 is amended by adding new subsections to read:

12 (f) The board shall meet at least four times a year, with at least one meeting
 13 held in the state capital during the legislative session. Not more than two meetings
 14 may be held in the same judicial district in a calendar year. The chair of the board may
 15 call additional meetings as necessary.

16 (g) In this section, "commercial production agriculture" means agriculture
 17 engaged in with the intent to sell agricultural products with a value of \$5,000 or
 18 greater a year.

19 * **Sec. 4.** AS 03.09 is amended by adding a new section to read:

20 **Sec. 03.09.015. Powers of the board.** (a) The board shall

21 (1) advise the commissioner, the commissioner of environmental
 22 conservation, and the commissioner of fish and game on

23 (A) promotion, regulation, and protection of the agricultural
 24 and food industry to broaden the economic base of the state and to protect
 25 consumers;

26 (B) policy relating to

27 (i) agriculture;

28 (ii) land use;

29 (iii) resource conservation;

30 (iv) food safety and security;

31 (v) pesticides and herbicides;

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

- (vi) noxious and invasive plants;
- (vii) animals and pests;
- (viii) animal care;
- (ix) forestry; and
- (x) mariculture;

(2) at the request of an applicant for a loan under this chapter, review a loan request denied by the Department of Commerce, Community, and Economic Development; if the board determines that it is in the best interest of agricultural development in the state to approve the loan, and the loan does not unnecessarily place the assets of the agricultural revolving loan fund at risk, the board shall recommend to the commissioner that the loan be approved;

(3) consult with the director of the division of lands on modification to contracts for the sale or lease of agricultural land including waiving, postponing, or otherwise modifying the development requirements of a contract for the sale or lease of agricultural land if

- (A) the land is inaccessible by road; or
- (B) transportation, marketing, and development costs render

the required development uneconomic;

(4) ensure the wise use of the state's natural resources through conservation of its soil and water;

(5) at the request of the commissioner, meet and advise the commissioner in the exercise of the powers, duties, and functions of the commissioner;

(6) receive and review reports concerning the use of soil resources of the state;

(7) hold public hearings and meetings to determine whether land in the state is being used in a manner consistent with sound soil and water conservation practices;

(8) recommend specific action necessary to provide for the effective and orderly development of agricultural, forest, and grazing land in the state;

(9) review an appeal by an applicant or lessee from a decision of the

1 director of the division of lands concerning a sale or lease of state agricultural or
2 grazing land and submit the board's recommendations to the commissioner or hearing
3 officer;

4 (10) advise and regulate the soil and water conservation districts in the
5 state;

6 (11) act in an advisory capacity to the commissioner and director of the
7 division of the department with responsibility for agriculture in the review of farm
8 conservation plans for all state agricultural land sales in the state;

9 (12) enter into agreements with private lending institutions, other state
10 agencies or agencies of the federal government, to carry out the purposes of this
11 chapter;

12 (13) collect the fees and collection charges established under this
13 chapter;

14 (14) recommend to the University of Alaska Cooperative Extension
15 Service or School of Natural Resources and Agricultural Sciences programs and
16 activities that will further the promotion, regulation, and protection of the agricultural
17 and food industry, broaden the economic base of the state, and protect consumers; and

18 (15) adopt regulations
19 (A) establishing guidelines for approval of loans made under
20 AS 03.10;

21 (B) establishing guidelines for approval of emergency loans in
22 an amount not to exceed \$50,000; and

23 (C) outlining the process for foreclosure on a loan, and
24 collecting on liens against security for the loan; the regulations must include a
25 requirement that any security collected shall become property of the
26 agricultural revolving loan fund (AS 03.10.040) and be disposed of by the
27 board.

28 * **Sec. 5.** AS 03.09.020(a) is amended to read:

29 (a) The director of the division of the department with responsibility for
30 agriculture shall serve as the director of the board [BOARD OF AGRICULTURE
31 AND CONSERVATION]. The director may employ staff and, as directed by the

1 board, is responsible for the overall management and policy [DAILY
2 OPERATIONS] of the agricultural revolving loan fund (AS 03.10.040).

3 * **Sec. 6.** AS 03.09.030 is amended to read:

4 **Sec. 03.09.030. Quorum.** Five voting members of the board [BOARD OF
5 AGRICULTURE AND CONSERVATION] constitute a quorum for the transaction of
6 business [OR THE EXERCISE OF A POWER OR FUNCTION AT A MEETING OF
7 THE BOARD].

8 * **Sec. 7.** AS 03.09.040(a) is amended to read:

9 (a) The board [BOARD OF AGRICULTURE AND CONSERVATION] may
10 adopt regulations under AS 44.62 (Administrative Procedure Act) to carry out its
11 duties, including regulations to establish reasonable fees for services provided and
12 charges for collecting the fees.

13 * **Sec. 8.** AS 03.09.050 is amended to read:

14 **Sec. 03.09.050. Agricultural land.** The board [BOARD OF AGRICULTURE
15 AND CONSERVATION] may recommend to the commissioner that land in the land
16 disposal bank established under AS 38.04.020 be classified as suitable for agriculture.
17 The board may identify state land for agricultural disposal and request the
18 commissioner to provide for the survey and disposal of the land.

19 * **Sec. 9.** AS 03.09 is amended by adding a new section to read:

20 **Sec. 03.09.090. Definitions.** In this chapter,

21 (1) "agriculture" includes farming, ranching, grazing, and storage or
22 control of crops or livestock, but does not include fishing, rearing of fish, or fisheries
23 products;

24 (2) "board" means the Board of Agriculture, Conservation, and
25 Development.

26 * **Sec. 10.** AS 03.10 is amended by adding a new section to read:

27 **Sec. 03.10.025. Loans.** (a) The department shall approve loans made from the
28 agricultural revolving loan fund (AS 03.10.040).

29 (b) The department may approve a loan according to regulations adopted by
30 the board to an individual state resident farmer, homesteader, or a partnership or
31 corporation composed of farmers and homesteaders for

- 1 (1) clearing land for agricultural purposes;
- 2 (2) development of farms;
- 3 (3) storage and processing of farm products;
- 4 (4) the purchase of livestock or machinery;
- 5 (5) storage and processing plants for agricultural products;
- 6 (6) the commercial production or processing of horticultural products
- 7 in the state;
- 8 (7) the commercial production or processing of animal feed in the
- 9 state;
- 10 (8) the raising or care of animals in the state for the purpose of
- 11 marketing their fur;
- 12 (9) the commercial production or processing of lime products, or other
- 13 minerals products if at least 50 percent of the production or process is for agricultural
- 14 use; and
- 15 (10) the supply, sale, manufacture, or repair of equipment, if at least 50
- 16 percent of the supply, sale, manufacture, or repair of equipment is for agricultural use.

17 (c) In this section, "horticultural products" means vegetables, fruit plants,
 18 grass seed, sod, tree seedlings, ornamental plants, foliage, or flowering plants, grown
 19 in a greenhouse or nursery.

20 * **Sec. 11.** AS 03.10.030(a) is amended to read:

21 (a) A [THE] farm development, chattel, or irrigation loan made under this
 22 chapter

23 (1) may not exceed a term of 30 years, except that a chattel loan may
 24 not exceed a term of seven years;

25 (2) may not, when added to the outstanding balance of other loans
 26 made under this chapter, exceed a total outstanding balance of \$1,000,000; **and**

27 (3) shall be secured by a real estate or chattel mortgage of any priority,
 28 except that the portion of a loan that exceeds \$500,000, when added to prior
 29 indebtedness that is secured by the same property, must be secured by a first mortgage
 30 [;

31 (4) SHALL BEAR INTEREST AT A FIXED RATE COMPARABLE

1 TO THAT CHARGED BY OTHER AGRICULTURAL LENDING INSTITUTIONS
2 IN THE STATE FOR LOANS SIMILAR TO THOSE REFERRED TO IN THIS
3 SUBSECTION].

4 * **Sec. 12.** AS 03.10.030(c) is amended to read:

5 (c) A short-term loan, to be amortized within one year, not to exceed \$350,000
6 to any one borrower may be made for operating purposes, except that a loan made
7 under this subsection may not exceed \$200,000 unless the loan is made to a borrower
8 in a farm disaster area declared under AS 03.10.058. The loan shall bear interest at a
9 fixed rate comparable to that charged by other agricultural lending institutions in the
10 state for loans similar to those referred to in this subsection. An applicant for a short-
11 term loan may be required to purchase insurance through the Federal Crop Insurance
12 Act (7 U.S.C. 1501 - 1520) as a condition of the loan. The term of a loan made under
13 this subsection may be extended for up to three years by the **department** [BOARD
14 OF AGRICULTURE AND CONSERVATION], in the discretion of the **department**
15 [BOARD], upon application by the borrower.

16 * **Sec. 13.** AS 03.10.030(e) is amended to read:

17 (e) An installment payment is delinquent unless it is received by the
18 **Department of Natural Resources** [BOARD OF AGRICULTURE AND
19 CONSERVATION OR THE DIRECTOR OF THE BOARD] on or before the 30th
20 day after the date specified for payment in the loan agreement. If an installment
21 payment is delinquent, the **Department of Natural Resources** [DIRECTOR OF THE
22 BOARD] may assess a delinquency penalty **as established by the board.**

23 * **Sec. 14.** AS 03.10.030(f) is amended to read:

24 (f) A farm product processing loan may not exceed \$250,000. A mortgage that
25 secures a farm product processing loan may be of any priority if the total indebtedness
26 on the real estate, including the secured farm product processing loan, does not exceed
27 \$250,000. A farm product processing loan that, if made, would raise the existing
28 indebtedness on the real estate securing the loan above \$250,000, or a farm product
29 processing loan on real estate that has a prior indebtedness of \$250,000 or more, may
30 be made only if all prior mortgagees agree to subordinate their mortgages to that of the
31 state for the amount of the farm product processing loan that exceeds the \$250,000

1 indebtedness limit on the real estate. A farm product processing loan may not exceed a
2 term of 30 years [OR BEAR INTEREST AT A RATE THAT IS LESS THAN A
3 FIXED RATE COMPARABLE TO THAT CHARGED BY OTHER
4 AGRICULTURAL LENDING INSTITUTIONS IN THE STATE FOR SIMILAR
5 LOANS,] and shall be secured by a real estate or chattel mortgage or both.

6 * **Sec. 15.** AS 03.10.030(h) is amended to read:

7 (h) The **board** [BOARD OF AGRICULTURE AND CONSERVATION]
8 shall adopt regulations to establish other terms for loans made under this chapter,
9 consistent with the provisions of this section, and may establish interest rates for loans
10 under **AS 03.10.050(h)** [(a)(4) OF THIS SECTION THAT

11 (1) ENCOURAGE AGRICULTURAL DEVELOPMENT;

12 (2) DO NOT SUBSIDIZE NONVIABLE AGRICULTURAL
13 ENTERPRISES; AND

14 (3) DO NOT DISCRIMINATE AGAINST VIABLE EXISTING
15 AGRICULTURAL ENTERPRISES].

16 * **Sec. 16.** AS 03.10.033(a) is amended to read:

17 (a) To increase the return to the state, the **department** [BOARD OF
18 AGRICULTURE AND CONSERVATION] may restructure loans (1) in existence on
19 January 1, 1987, made by the former Agricultural Revolving Loan Fund Board or by
20 the former Alaska Agricultural Action Council based **on** [UPON] guidelines approved
21 by the **board** [BOARD OF AGRICULTURE AND CONSERVATION]; (2) of a
22 borrower in an area that has been declared a farm disaster area under AS 03.10.058; or
23 (3) of a borrower who has experienced an agricultural disaster based **on** [UPON]
24 regulations adopted by the **board** [BOARD OF AGRICULTURE AND
25 CONSERVATION]. Notwithstanding any other provision of law that relates to loan
26 terms, the restructuring may only include reduction of interest to a fixed rate not **more**
27 **than one percent less than the current rate for similar loans made from the**
28 **agricultural revolving loan fund** [LESS THAN FIVE PERCENT A YEAR], an
29 extension of the term of the loan, and an improvement to the security interest of the
30 state. It may not reduce the amount of principal and interest owed before the loan is
31 restructured.

1 * **Sec. 17.** AS 03.10.033(c) is amended to read:

2 (c) Notwithstanding any other provision of this section, the **department**
3 [BOARD OF AGRICULTURE AND CONSERVATION] may approve an application
4 for restructuring under this section only upon

5 (1) the applicant's written release of the state, including the University
6 of Alaska, from all potential liability for actions and omissions occurring before the
7 date of restructuring that relate in any way to a state farm project, land sale, land sale
8 relinquishment, farm loan, or loan application or loan modification application,
9 whether granted or denied by the state; and

10 (2) assignment by the applicant to the **state** [BOARD] of the proceeds
11 from the federal government under 7 U.S.C. 1442 (Conservation Reserve Program)
12 and P.L. 88-26 (Feed Grain Act of 1963), as amended, **and other farm programs;**
13 **the proceeds collected under this paragraph shall be deposited in the agricultural**
14 **revolving loan fund (AS 03.10.040).**

15 * **Sec. 18.** AS 03.10.033(d) is repealed and reenacted to read:

16 (d) If the proceeds received under (c)(2) of this section exceed the amount
17 owed and credited to the loan during the year, the extra proceeds shall be refunded to
18 the applicant from the agricultural revolving loan fund (AS 03.10.040).

19 * **Sec. 19.** AS 03.10.035(a) is amended to read:

20 (a) A borrower may not use farm land for a nonfarm use or sell, lease, or
21 otherwise dispose of farm land if that land is encumbered by a mortgage given to
22 secure the payment of a loan under this chapter unless the borrower either

23 (1) pays the outstanding balance of the loan in a lump sum or under
24 other terms agreed to by the **department** [BOARD OF AGRICULTURE AND
25 CONSERVATION] that accelerate payment of the loan; or

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

30 * **Sec. 20.** AS 03.10.035(b) is amended to read:

31 (b) In this section, "nonfarm use" means a use of land other than for

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

agricultural or related activities [THE PRODUCTION OF DOMESTICATED PLANTS AND ANIMALS USEFUL TO HUMANS], including production of forage and sod crops, grain and feed crops, fruits, vegetables, [AND] livestock, and related activities.

* **Sec. 21.** AS 03.10.040(b) is amended to read:

(b) Money in the fund may be appropriated [USED] by the legislature [TO MAKE APPROPRIATIONS] for costs of administering this chapter [AND FOR OPERATIONS OF THE BOARD OF AGRICULTURE AND CONSERVATION].

* **Sec. 22.** AS 03.10.050(a) is amended to read:

(a) The board [BOARD OF AGRICULTURE AND CONSERVATION] shall administer the agricultural revolving loan fund. [A LOAN MAY NOT BE MADE WITHOUT THE APPROVAL OF A MAJORITY OF THE BOARD, EXCEPT THAT EMERGENCY LOANS BASED UPON REGULATIONS ADOPTED BY THE BOARD AND NOT TO EXCEED \$50,000 MAY BE MADE UPON THE APPROVAL, BY MAJORITY VOTE, OF A COMMITTEE COMPOSED OF THE CHAIR OF THE BOARD, ANOTHER BOARD MEMBER, AND THE DIRECTOR OF THE BOARD.]

* **Sec. 23.** AS 03.10.050 is amended by adding new subsections to read:

(h) The board shall set interest rates on loans from the agricultural revolving loan fund established in AS 03.10.040. The interest rates must be set at fixed levels that

- (1) encourage agricultural development;
- (2) do not subsidize nonviable agricultural enterprises;
- (3) do not discriminate against viable existing agricultural enterprises;
- (4) are comparable to the rates charged by other agricultural lending

institutions in the state for similar loans.

(i) Notwithstanding (h) of this section, the board may set an interest rate at a rate lower than the rates charged by other agricultural lending institutions if the loan

- (1) has been denied by other lenders;
- (2) falls within a particular geographic area; or
- (3) is for an activity that is established by the board as a priority.

1 * **Sec. 24.** AS 03.10 is amended by adding a new section to read:

2 **Sec. 03.10.090. Definitions.** In this chapter,

3 (1) "agricultural" has the meaning given in AS 03.09.090;

4 (2) "board" has the meaning given in AS 03.09.090; and

5 (3) "department," notwithstanding AS 03.90.010, means the
6 Department of Commerce, Community, and Economic Development.

7 * **Sec. 25.** AS 38.04.020(g) is amended to read:

8 (g) After July 1 of each year, the commissioner shall direct the expenditure of
9 money appropriated for the disposal of land in response to requests made under (e)
10 and (f) of this section for the following:

11 (1) land designated as suitable for homestead disposal shall be
12 classified and surveyed under this chapter and AS 38.05 and made available for
13 staking and lease under AS 38.09;

14 (2) land designated as suitable for subdivision and homesite disposal
15 shall be surveyed, subdivided, classified, and disposed of under this chapter,
16 AS 38.05, and AS 38.08;

17 (3) land designated commercial, industrial, or suitable for other
18 disposal shall be sold under AS 38.05.055 or 38.05.057;

19 (4) land designated agricultural shall be disposed of under
20 AS 38.05.055 - 38.05.065, except the Board of Agriculture, [AND] Conservation, and
21 Development (AS 03.09.010) shall receive notice of each proposed disposal and be
22 given an opportunity to comment before the final disposal decision is made.

23 * **Sec. 26.** AS 38.04.030 is amended to read:

24 **Sec. 38.04.030. Land availability programs.** Programs that may be used by
25 the director to make the state's land surface available for private use under
26 AS 38.04.020 - 38.04.055 include sale of whole or partial rights to the fee simple
27 estate, including conveyance of agricultural use rights; leasing; open-to-entry;
28 homesiting; homesteading; permitting for construction and occupation of cabins in
29 isolated locations on land retained in state ownership; and other methods as provided
30 by law. However, agricultural use rights may be conveyed only after consulting with
31 the Board of Agriculture, [AND] Conservation, and Development.

1 * **Sec. 27.** AS 38.05.020(b) is amended to read:

2 (b) The commissioner may

3 (1) establish reasonable procedures and adopt reasonable regulations
4 necessary to carry out this chapter and, whenever necessary, issue directives or orders
5 to the director to carry out specific functions and duties; regulations adopted by the
6 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
7 orders by the commissioner classifying land, issued after January 3, 1959, are not
8 required to be adopted under AS 44.62 (Administrative Procedure Act);

9 (2) enter into agreements considered necessary to carry out the
10 purposes of this chapter, including agreements with federal and state agencies;

11 (3) review any order or action of the director;

12 (4) exercise the powers and do the acts necessary to carry out the
13 provisions and objectives of this chapter;

14 (5) notwithstanding the provisions of any other section of this chapter,
15 grant an extension of the time within which payments due on any exploration license,
16 lease, or sale of state land, minerals, or materials may be made, including payment of
17 rental and royalties, on a finding that compliance with the requirements is or was
18 prevented by reason of war, riots, or acts of God;

19 (6) classify tracts for agricultural uses;

20 (7) after consulting with the Board of Agriculture, [AND]
21 Conservation, and Development (AS 03.09.010), waive, postpone, or otherwise
22 modify the development requirements of a contract for the sale of agricultural land if

23 (A) the land is inaccessible by road; or

24 (B) transportation, marketing, and development costs render
25 the required development uneconomic;

26 (8) reconvey or relinquish land or an interest in land to the federal
27 government if

28 (A) the land is described in an amended application for an
29 allotment under 43 U.S.C. 1617; and

30 (B) the reconveyance or relinquishment is

31 (i) for the purposes provided in 43 U.S.C. 1617; and

1 (ii) in the best interests of the state;

2 (9) lead and coordinate all matters relating to the state's review and
3 authorization of resource development projects;

4 (10) exercise the powers and do the acts necessary to carry out the
5 provisions and objectives of AS 43.90 that relate to this chapter.

6 * **Sec. 28.** AS 38.05.035(b) is amended to read:

7 (b) The director may

8 (1) delegate the administrative duties, functions, or powers imposed on
9 [UPON] the director to a responsible employee in the division;

10 (2) grant preference rights for the lease or purchase of state land
11 without competitive bid in order to correct errors or omissions of a state or federal
12 administrative agency when inequitable detriment would otherwise result to a diligent
13 claimant or applicant due to situations over which the claimant or applicant had no
14 control; the exercise of this discretionary power operates only to divest the state of its
15 title to or interests in land and may be exercised only

16 (A) with the express approval of the commissioner; and

17 (B) if the application for the preference right is filed with the
18 director within three years from

19 (i) the occurrence of the error or omission;

20 (ii) the date of acquisition by the state of the land; or

21 (iii) the date of a court decision or settlement nullifying

22 a disposal of state land;

23 (3) grant a preference right to a claimant who shows bona fide
24 improvement of state land or of federal land subsequently acquired by the state and
25 who has in good faith sought to obtain title to the land but who, through error or
26 omission of others occurring within the three years before (A) the application for the
27 preference right, (B) the date of acquisition by the state of the land, or (C) the date of a
28 court decision or settlement nullifying a disposal of state land, has been denied title to
29 it; upon a showing satisfactory to the commissioner, the claimant may lease or
30 purchase the land at the price set on the date of original entry on the land or, if a price
31 was not set at that time at a price determined by the director to fairly represent the

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

value of unimproved land at the time the claim was established, but in no event less than the cost of administration including survey; the error or omission of a predecessor in interest or an agent, administrator, or executor that has clearly prejudiced the claimant may be the basis for granting a preference right;

(4) sell land by lottery for less than the appraised value when, in the judgment of the director, past scarcity of land suitable for private ownership in any particular area has resulted in unrealistic land values;

(5) when the director determines it is in the best interest of the state and will avoid injustice to a person or the heirs or devisees of a person, dispose of land, by direct negotiation to that person who presently uses and who used and made improvements to that land before January 3, 1959, or to the heirs or devisees of the person; the amount paid for the land shall be its fair market value on the date that the person first entered the land, as determined by the director; a parcel of land disposed of under this paragraph shall be of a size consistent with the person's prior use, but may not exceed five acres;

(6) after consulting with the Board of Agriculture, [AND] Conservation, and Development (AS 03.09.010), dispose of an interest in land limited to use for agricultural purposes by lottery;

(7) convey to an adjoining landowner for its fair market value a remnant of land that the director considers unmanageable or a parcel of land created by a highway right-of-way alignment or realignment, or a parcel created by the vacation of a state-owned right-of-way if

(A) the director determines that it is in the best interests of the state;

(B) the parcel

(i) does not exceed the minimum lot size under an applicable zoning code; or

(ii) is smaller than 20 acres and is completely enclosed by property owned by the adjacent landowner; and

(C) the director and the platting authority having land use planning jurisdiction agree that conveyance of the parcel to the adjoining

1 landowner will result in boundaries that are convenient for the use of the land
2 by the landowner and compatible with municipal land use plans;

3 (8) for good cause extend for up to 90 days the time for rental or
4 installment payments by a lessee or purchaser of state land under this chapter if
5 reasonable penalties and interest set by the director are paid;

6 (9) quitclaim land or an interest in land to the federal government on a
7 determination that the land or the interest in land was wrongfully or erroneously
8 conveyed by the federal government to the state;

9 (10) negotiate the sale or lease of state land at fair market value to a
10 person who acquired by contract, purchase, or lease rights to improvements on the
11 land from another state agency or who leased the land from another state agency.

12 * **Sec. 29.** AS 38.05.057(c) is amended to read:

13 (c) The commissioner, after consulting with the Board of Agriculture, [AND]
14 Conservation, and Development (AS 03.09.010), may adopt regulations under
15 AS 44.62 (Administrative Procedure Act) [THE ADMINISTRATIVE
16 PROCEDURE ACT (AS 44.62)] that specify qualifications for lottery participants
17 different from those specified in (b) of this section if

18 (1) an interest in land limited to agricultural purposes is to be sold
19 under (a) of this section;

20 (2) the sale is a part of a program to develop agricultural land as a
21 renewable resource of the state; and

22 (3) the regulations include residency, skill, experience, and financial
23 requirements necessary to qualify persons who are competent and financially able to
24 develop the land as a successful agricultural enterprise.

25 * **Sec. 30.** AS 38.05.059 is amended to read:

26 **Sec. 38.05.059. Sale of agricultural land.** The commissioner, after consulting
27 with the Board of Agriculture, [AND] Conservation, and Development
28 (AS 03.09.010), may provide for the sale of land classified under AS 38.05.020(b)(6)
29 for agricultural uses in parcels or tracts described by aliquot parts. The parcels or tracts
30 are subject to state subdivision requirements and municipal ordinances. Money from a
31 sale of agricultural land shall be separately accounted for and may be appropriated to

1 the agricultural revolving loan fund (AS 03.10.040).

2 * **Sec. 31.** AS 38.05.065(h) is amended to read:

3 (h) The commissioner, after consulting with the Board of Agriculture, [AND]
4 Conservation, and Development (AS 03.09.010),

5 (1) shall provide that, notwithstanding (a) and (b) of this section, in a
6 contract for the sale of land classified under AS 38.05.020(b)(6) for agricultural uses,
7 the interest rate to be charged on installment payments may not exceed 9.5 percent;
8 and

9 (2) may declare a moratorium of up to five years on payments on land
10 sold under this section for land classified under AS 38.05.020(b)(6) for agricultural
11 uses if

12 (A) the commissioner determines that the moratorium is in the
13 best interest of the state;

14 (B) the commissioner certifies and the contract purchaser
15 agrees to perform farm development, crop production, and harvesting, not
16 including land clearing or related activity, requiring the expenditure of
17 amounts equivalent to the payments that would otherwise be made during the
18 moratorium;

19 (C) the sale of the agricultural land takes place after July 1,
20 1979; and

21 (D) the contract purchaser is in compliance with the
22 development plan specified in the purchase contract at the time the purchaser
23 applies for a moratorium under this paragraph and remains in compliance with
24 the development plan during the moratorium; for the payments subject to the
25 moratorium declared under this paragraph, interest payments are subject to the
26 moratorium but interest continues to accrue during the moratorium.

27 * **Sec. 32.** AS 38.05.069(a) is amended to read:

28 (a) After consulting with the Board of Agriculture, [AND] Conservation, and
29 Development (AS 03.09.010), on a determination that the highest and best use of
30 unoccupied land is for agricultural purposes and that it is in the best interests of the
31 state to sell or lease the land, the commissioner shall grant to an Alaska resident

1 owning and using or leasing and using land for agricultural purposes a first option to
2 purchase or lease the unoccupied land situated adjacent to land presently held by the
3 Alaska resident for the amount of the high bid received at public auction or by sealed
4 bid. If more than one Alaska resident qualifies for a first option under this section,
5 eligibility for the first option shall be determined by lot, and the option must be
6 exercised on the conclusion of the public auction or opening of sealed bids. A parcel
7 of agricultural land sold under this section may not be less than 20 acres, and a parcel
8 of agricultural land that is acquired by exercise of the option granted in this subsection
9 may not exceed 320 acres. Agricultural land that is acquired under this section must be
10 used for agricultural purposes as required by law.

11 * **Sec. 33.** AS 38.09.010(a) is amended to read:

12 (a) The commissioner shall designate and make available for homestead entry
13 state land, including, after consulting with the Board of Agriculture, [AND]
14 Conservation, and Development (AS 03.09.010), land classified for agricultural use.
15 State land made available for homestead entry under this chapter shall be distributed
16 throughout the state.

17 * **Sec. 34.** AS 39.50.200(b)(56) is amended to read:

18 (56) Board of Agriculture, [AND] Conservation, and Development
19 (AS 03.09.010);

20 * **Sec. 35.** AS 41.10.140(1) is amended to read:

21 (1) "board" means the Board of Agriculture, Conservation, and
22 Development established under AS 03.09.010 [ALASKA NATURAL RESOURCE
23 CONSERVATION AND DEVELOPMENT BOARD];

24 * **Sec. 36.** AS 03.10.020, 03.10.050(b); AS 41.10.040, 41.10.045, 41.10.050, 41.10.060,
25 41.10.065, 41.10.070, 41.10.075, 41.10.080, 41.10.090, and 41.10.100 are repealed.

26 * **Sec. 37.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 TRANSITION: TERMS AND INITIAL APPOINTMENTS. (a) Notwithstanding
29 AS 03.09.010(a), the terms of the current members of the Board of Agriculture and
30 Conservation expire on January 31, 2015. A person whose term expires on January 31, 2015,
31 is eligible for appointment under AS 03.09.010(a) to a term beginning February 1, 2015.

1 Notwithstanding AS 03.09.010(b), a member of the Board of Agriculture and Conservation
2 whose term expires on January 31, 2015, and who is appointed under this subsection may
3 serve two successive terms on the Board of Agriculture, Conservation, and Development.

4 (b) A member of the Natural Resource Conservation and Development Board on
5 January 31, 2015, is eligible for appointment to the Board of Agriculture, Conservation, and
6 Development if the member otherwise meets the requirements of AS 03.09.010(a). A member
7 who is appointed to the board under this subsection may serve two successive terms on the
8 Board of Agriculture, Conservation, and Development.

9 (c) The governor may make the initial appointments to the Board of Agriculture,
10 Conservation, and Development immediately, but a member appointed under this subsection
11 may not take office until February 1, 2015.

12 (d) Notwithstanding AS 03.09.010(b), the terms of the members of the Board of
13 Agriculture, Conservation, and Development whose terms begin on February 1, 2015, are as
14 follows:

- 15 (1) three members serve for three years;
16 (2) three members serve for two years; and
17 (3) three members serve for one year.

18 * **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 **TRANSITION: REGULATIONS.** The Department of Commerce, Community, and
21 Economic Development and the Department of Natural Resources may adopt regulations
22 necessary to implement the changes made by this Act. The regulations take effect under
23 AS 44.62 (Administrative Procedure Act), but not before January 31, 2015.

24 * **Sec. 39.** Sections 37(d) and 38 of this Act take effect immediately under AS 01.10.070(c).

25 * **Sec. 40.** Except as provided in sec. 39 of this Act, this Act takes effect January 31, 2015.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

January 27, 2014

SUBJECT: Sectional Summary of CSHB 207()
(Work Order No. 28-LS0675\C)

TO: Representative Eric Feige
Attn: Michael Paschall

FROM: Hilary Martin
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill - the bill itself is the best statement of its contents.

Section 1. Repeals and reenacts AS 03.09.010(a). Establishes the Board of Agriculture, Conservation, and Development in the Department of Natural Resources. The board consists of fifteen members, including three ex officio nonvoting members.

Section 2. Repeals and reenacts AS 03.09.010(d). Allows a person with a lease, permit, installment contract, or loan under AS 03.10 or AS 38.05 to be appointed to the board. However, that person may not take official action that affects their own lease, permit, installment contract, or loan. Permits a person to be removed from the board for violating the terms of a lease, permit, installment contract, or loan.

Section 3. Requires the board to meet at least four times a year, and defines "commercial production agriculture" with regard to certain members of the board.

Section 4. Adds a new section, AS 03.09.015 that sets out the powers of the board, including advising the commissioner on agricultural policy, consulting with the director of the division of lands regarding agricultural lands, and adopting regulations.

Section 5. Makes the director of the division of the Department of Natural Resources, with responsibility for agriculture, responsible for the overall management and policy of the agricultural revolving loan fund.

Section 6. Requires five voting members of the board for a quorum.

Section 7. Allows the board to adopt regulations to carry out its duties, including establishing fees for services provided.

Section 8. Makes a conforming amendment for a reference to the board.

Section 9. Defines "agriculture" and "board."

Section 10. Adds a new section, AS 03.10.025, regarding loans from the agricultural revolving loan fund. Requires the Department of Commerce, Community, and Economic Development to approve loans from the fund and sets out the types of loans that may be approved.

Section 11. Removes a reference to the fixed rate of interest for a farm development, chattel, or irrigation loan in AS 03.10.030(a).

Section 12. Changes a reference from the board to the Department of Commerce, Community, and Economic Development.

Section 13. Changes the references from the board to the Department of Natural Resources.

Section 14. Removes a reference to fixed rate of interest for farm processing loans.

Section 15. Deletes language regarding parameters for interest rates on loans.

Section 16. Allows the Department of Commerce, Community, and Economic Development to restructure certain loans under guidelines approved by the board. Restructured loans must have an interest rate not more than one percent less than the current rate for similar loans made from the agricultural revolving loan fund.

Section 17. Requires funds from assignments of proceeds under this section to be deposited in the agricultural revolving loan fund.

Section 18. Repeals and reenacts AS 03.10.033(d) and requires that excess proceeds collection from an assignment to be refunded to the applicant.

Section 19. Changes a reference from the board to the Department of Commerce, Community, and Economic Development.

Section 20. Amends the definition of "nonfarm use."

Section 21. Allows the legislature to appropriate money from the fund for the costs of administering AS 03.10.

Section 22. Requires the board to administer the agricultural revolving loan fund.

Section 23. Adds new subsections to AS 03.10.050 regarding interest rates set by the board on loans from the agricultural revolving loan fund. Allows the board to set a lower interest rate under certain circumstances.

Section 24. Defines "agricultural," "board," and "department."

Sections 25 - 34. Updates the name of the board from the Board of Agriculture and Conservation to the Board of Agriculture, Conservation, and Development.

Section 35. Changes the definition of "board" to the Board of Agriculture, Conservation, and Development.

Section 36. Repeals statutes.

Section 37. Provides a transitional section that terminates the terms of the current members of the Board of Agriculture and Conservation and the Natural Resource Conservation and Development Board; allows former members of the board to be eligible for reappointment; and sets out the terms for the members of the Board of Agriculture, Conservation, and Development.

Section 38. Provides a transitional provision to allow the Department of Commerce, Community, and Economic Development to adopt regulations prior to January 31, 2015.

Section 39. Sets out an immediate effective date for sections 37(d) and 38.

Section 40. Provides that the effective date for the Act is January 31, 2015.

28-LS0675\R
Martin
3/7/14

CS FOR HOUSE BILL NO. 207()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE FEIGE

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to the Board of Agriculture and Conservation; transferring to the**
2 **Department of Commerce, Community, and Economic Development the authority to**
3 **approve loans from the agricultural revolving loan fund; relating to loans from the**
4 **agricultural revolving loan fund; and providing for an effective date."**

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

6 *** Section 1.** AS 03.09.010(a) is repealed and reenacted to read:

7 (a) The Board of Agriculture and Conservation is established in the
8 department. The board is composed of 10 members as follows:

9 (1) seven voting members appointed by the governor and subject to
10 confirmation by the legislature in joint session as follows:

11 (A) four members who are engaged in commercial production
12 agriculture, including at least one member from each of the four judicial
13 districts in the state;

14 (B) one member who is a land user of a soil and water

1 conservation district established under AS 41.10.130(a) and who is engaged in
2 commercial production agriculture; in this subparagraph, "land user" has the
3 meaning given in AS 41.10.140;

4 (C) one member who has general business or financial
5 experience who is not engaged in commercial production agriculture; and

6 (D) one member who has experience in the preparation,
7 storage, processing, handling, sale, or marketing of food products in a
8 wholesale or retail environment and is not engaged in commercial production
9 agriculture;

10 (2) three ex officio nonvoting members as follows:

11 (A) the commissioner or the commissioner's designee;

12 (B) the commissioner of environmental conservation or the
13 commissioner of environmental conservation's designee; and

14 (C) the chancellor of the University of Alaska Fairbanks or the
15 chancellor's designee from the Cooperative Extension Service or the School of
16 Natural Resources and Extension.

17 * **Sec. 2.** AS 03.09.010(d) is repealed and reenacted to read:

18 (d) Notwithstanding AS 39.52.150(a), a person with a lease, permit,
19 installment contract, or loan under AS 03.10 or AS 38.05, or who has an immediate
20 family member or owns a business with a lease, permit, installment contract, or loan
21 under AS 03.10 or AS 38.05, may be appointed to the board. Notwithstanding
22 AS 39.52.150(a), a board member may apply for and receive a lease, permit,
23 installment contract, or loan under AS 03.10 or AS 38.05. However, that person may
24 not take or withhold any official action that affects the lease, permit, installment
25 contract, or loan of that person or an immediate family member who shares the same
26 household and financial resources with that person. A person with a lease, permit,
27 installment contract, or loan under AS 03.10 or AS 38.05, or who has an immediate
28 family member who shares the same household and financial resources with the
29 person or owns a business with a lease, permit, installment contract, or loan under
30 AS 03.10 or AS 38.05, may not be appointed to the board and may be removed from
31 the board if the person, or the person's immediate family member who shares the same

1 household and financial resources of the person, or business, is in violation of the
 2 terms and conditions of the lease, permit, installation contract, or loan. In this section,
 3 "immediate family member" and "official action" have the meanings given in
 4 AS 39.52.960.

5 * **Sec. 3.** AS 03.09.010 is amended by adding new subsections to read:

6 (f) The board shall meet at least four times a year, with at least one meeting
 7 held in the state capital during the legislative session. Not more than two meetings
 8 may be held in the same judicial district in a calendar year. Board members may
 9 attend meetings by teleconference. The chair of the board may call additional meetings
 10 as necessary.

11 (g) In this section, "commercial production agriculture" means agriculture
 12 engaged in with the intent to sell agricultural products with a value of \$5,000 or
 13 greater a year.

14 * **Sec. 4.** AS 03.09 is amended by adding a new section to read:

15 **Sec. 03.09.015. Powers of the board.** (a) The board shall

16 (1) advise the commissioner, the commissioner of environmental
 17 conservation, and the commissioner of fish and game on

18 (A) promotion, regulation, and protection of the agricultural
 19 and food industry to broaden the economic base of the state and to protect
 20 consumers;

21 (B) policy relating to

- 22 (i) agriculture;
- 23 (ii) land use;
- 24 (iii) resource conservation;
- 25 (iv) food safety and security;
- 26 (v) pesticides and broadcast chemicals;
- 27 (vi) noxious and invasive plants;
- 28 (vii) animals and pests;
- 29 (viii) animal care;
- 30 (ix) forestry; and
- 31 (x) mariculture;

1 (2) at the request of an applicant for a loan under this chapter, review a
2 loan request denied by the Department of Commerce, Community, and Economic
3 Development; if the board determines that it is in the best interest of agricultural
4 development in the state to approve the loan, and the loan does not unnecessarily place
5 the assets of the agricultural revolving loan fund at risk, the board shall recommend to
6 the commissioner that the loan be approved;

7 (3) consult with the director of the division of lands on modification to
8 contracts for the sale or lease of agricultural land including waiving, postponing, or
9 otherwise modifying the development requirements of a contract for the sale or lease
10 of agricultural land if

11 (A) the land is inaccessible by road; or

12 (B) transportation, marketing, and development costs render
13 the required development uneconomic;

14 (4) ensure the wise use of the state's natural resources through
15 conservation of its soil and water;

16 (5) enter into agreements with private lending institutions, other state
17 agencies or agencies of the federal government, to carry out the purposes of this
18 chapter;

19 (6) collect the fees and collection charges established under this
20 chapter;

21 (7) recommend to the University of Alaska Cooperative Extension
22 Service or School of Natural Resources and Extension programs and activities that
23 will further the promotion, regulation, and protection of the agricultural and food
24 industry, broaden the economic base of the state, and protect consumers; and

25 (8) adopt regulations

26 (A) establishing guidelines for approval of loans made under
27 AS 03.10;

28 (B) establishing guidelines for approval of emergency loans in
29 an amount not to exceed \$50,000; and

30 (C) outlining the process for foreclosure on a loan, and
31 collecting on liens against security for the loan; the regulations must include a

1 requirement that any security collected shall become property of the
2 agricultural revolving loan fund (AS 03.10.040) and be disposed of by the
3 board.

4 * **Sec. 5.** AS 03.09.020(a) is amended to read:

5 (a) The director of the division of the department with responsibility for
6 agriculture shall serve as the director of the **board** [BOARD OF AGRICULTURE
7 AND CONSERVATION]. The director may employ staff and, as directed by the
8 board, is responsible for the **overall management and policy** [DAILY
9 OPERATIONS] of the agricultural revolving loan fund (AS 03.10.040).

10 * **Sec. 6.** AS 03.09.030 is amended to read:

11 **Sec. 03.09.030. Quorum.** Five **voting** members of the **board** [BOARD OF
12 AGRICULTURE AND CONSERVATION] constitute a quorum for the transaction of
13 business. **Action may be taken only upon the affirmative vote of a majority of the**
14 **full voting membership of the board. Board members may vote in person or by**
15 **teleconference** [OR THE EXERCISE OF A POWER OR FUNCTION AT A
16 MEETING OF THE BOARD].

17 * **Sec. 7.** AS 03.09.040(a) is amended to read:

18 (a) The **board** [BOARD OF AGRICULTURE AND CONSERVATION] may
19 adopt regulations under AS 44.62 (Administrative Procedure Act) to carry out its
20 duties, **including regulations to establish reasonable fees for services provided and**
21 **charges for collecting the fees.**

22 * **Sec. 8.** AS 03.09.050 is amended to read:

23 **Sec. 03.09.050. Agricultural land.** The **board** [BOARD OF AGRICULTURE
24 AND CONSERVATION] may recommend to the commissioner that land in the land
25 disposal bank established under AS 38.04.020 be classified as suitable for agriculture.
26 The board may identify state land for agricultural disposal and request the
27 commissioner to provide for the survey and disposal of the land.

28 * **Sec. 9.** AS 03.09 is amended by adding a new section to read:

29 **Sec. 03.09.090. Definitions.** In this chapter,
30 (1) "agriculture" includes farming, ranching, grazing, mariculture, and
31 storage or control of crops or livestock, but does not include fishing, rearing of fish, or

1 fisheries products;

2 (2) "board" means the Board of Agriculture and Conservation.

3 * **Sec. 10.** AS 03.10 is amended by adding a new section to read:

4 **Sec. 03.10.025. Loans.** (a) The department shall approve loans made from the
5 agricultural revolving loan fund (AS 03.10.040).

6 (b) The department may approve a loan according to regulations adopted by
7 the board to an individual state resident farmer, homesteader, or a partnership or
8 corporation composed of farmers and homesteaders for

9 (1) clearing land for agricultural purposes;

10 (2) development of farms, including mariculture farms;

11 (3) storage and processing of farm products;

12 (4) the purchase of livestock or machinery;

13 (5) storage and processing plants for agricultural products;

14 (6) the commercial production or processing of horticultural products
15 in the state;

16 (7) the commercial production or processing of animal feed in the
17 state;

18 (8) the raising or care of animals in the state for the purpose of
19 marketing their fur;

20 (9) the commercial production or processing of lime products, or other
21 minerals products if at least 50 percent of the production or process is for agricultural
22 use; and

23 (10) the supply, sale, manufacture, or repair of equipment, if at least 50
24 percent of the supply, sale, manufacture, or repair of equipment is for agricultural use.

25 (c) In this section, "horticultural products" means vegetables, fruit plants,
26 grass seed, sod, tree seedlings, ornamental plants, foliage, or flowering plants, grown
27 in a greenhouse or nursery.

28 * **Sec. 11.** AS 03.10.030(a) is amended to read:

29 (a) A [THE] farm development, chattel, or irrigation loan made under this
30 chapter

31 (1) may not exceed a term of 30 years, except that a chattel loan may

1 not exceed a term of seven years;

2 (2) may not, when added to the outstanding balance of other loans
3 made under this chapter, exceed a total outstanding balance of \$1,000,000; and

4 (3) shall be secured by a real estate or chattel mortgage of any priority,
5 except that the portion of a loan that exceeds \$500,000, when added to prior
6 indebtedness that is secured by the same property, must be secured by a first mortgage
7 [;

8 (4) SHALL BEAR INTEREST AT A FIXED RATE COMPARABLE
9 TO THAT CHARGED BY OTHER AGRICULTURAL LENDING INSTITUTIONS
10 IN THE STATE FOR LOANS SIMILAR TO THOSE REFERRED TO IN THIS
11 SUBSECTION].

12 * **Sec. 12.** AS 03.10.030(c) is amended to read:

13 (c) A short-term loan, to be amortized within one year, not to exceed \$350,000
14 to any one borrower may be made for operating purposes, except that a loan made
15 under this subsection may not exceed \$200,000 unless the loan is made to a borrower
16 in a farm disaster area declared under AS 03.10.058. The loan shall bear interest at a
17 fixed rate comparable to that charged by other agricultural lending institutions in the
18 state for loans similar to those referred to in this subsection, but the rate may not be
19 less than three percent. An applicant for a short-term loan may be required to
20 purchase insurance through the Federal Crop Insurance Act (7 U.S.C. 1501 - 1520) as
21 a condition of the loan. The term of a loan made under this subsection may be
22 extended for up to three years by the department [BOARD OF AGRICULTURE
23 AND CONSERVATION], in the discretion of the department [BOARD], upon
24 application by the borrower.

25 * **Sec. 13.** AS 03.10.030(e) is amended to read:

26 (e) An installment payment is delinquent unless it is received by the
27 Department of Natural Resources [BOARD OF AGRICULTURE AND
28 CONSERVATION OR THE DIRECTOR OF THE BOARD] on or before the 30th
29 day after the date specified for payment in the loan agreement. If an installment
30 payment is delinquent, the Department of Natural Resources [DIRECTOR OF THE
31 BOARD] may assess a delinquency penalty as established by the board.

1 * **Sec. 14.** AS 03.10.030(f) is amended to read:

2 (f) A farm product processing loan may not exceed \$250,000. A mortgage that
3 secures a farm product processing loan may be of any priority if the total indebtedness
4 on the real estate, including the secured farm product processing loan, does not exceed
5 \$250,000. A farm product processing loan that, if made, would raise the existing
6 indebtedness on the real estate securing the loan above \$250,000, or a farm product
7 processing loan on real estate that has a prior indebtedness of \$250,000 or more, may
8 be made only if all prior mortgagees agree to subordinate their mortgages to that of the
9 state for the amount of the farm product processing loan that exceeds the \$250,000
10 indebtedness limit on the real estate. A farm product processing loan may not exceed a
11 term of 30 years [OR BEAR INTEREST AT A RATE THAT IS LESS THAN A
12 FIXED RATE COMPARABLE TO THAT CHARGED BY OTHER
13 AGRICULTURAL LENDING INSTITUTIONS IN THE STATE FOR SIMILAR
14 LOANS,] and shall be secured by a real estate or chattel mortgage or both.

15 * **Sec. 15.** AS 03.10.030(h) is amended to read:

16 (h) The **board** [BOARD OF AGRICULTURE AND CONSERVATION]
17 shall adopt regulations to establish other terms for loans made under this chapter,
18 consistent with the provisions of this section, and may establish interest rates for loans
19 under **AS 03.10.050(h)** [(a)(4) OF THIS SECTION THAT

20 (1) ENCOURAGE AGRICULTURAL DEVELOPMENT;

21 (2) DO NOT SUBSIDIZE NONVIABLE AGRICULTURAL
22 ENTERPRISES; AND

23 (3) DO NOT DISCRIMINATE AGAINST VIABLE EXISTING
24 AGRICULTURAL ENTERPRISES].

25 * **Sec. 16.** AS 03.10.033(a) is amended to read:

26 (a) To increase the return to the state, the **department** [BOARD OF
27 AGRICULTURE AND CONSERVATION] may restructure loans (1) in existence on
28 January 1, 1987, made by the former Agricultural Revolving Loan Fund Board or by
29 the former Alaska Agricultural Action Council based **on** [UPON] guidelines approved
30 by the **board** [BOARD OF AGRICULTURE AND CONSERVATION]; (2) of a
31 borrower in an area that has been declared a farm disaster area under AS 03.10.058; or

1 (3) of a borrower who has experienced an agricultural disaster based on [UPON]
2 regulations adopted by the board [BOARD OF AGRICULTURE AND
3 CONSERVATION]. Notwithstanding any other provision of law that relates to loan
4 terms, the restructuring may only include reduction of interest to a fixed rate not more
5 than one percent less than the current rate for similar loans made from the
6 agricultural revolving loan fund but not less than three percent [LESS THAN
7 FIVE PERCENT A YEAR], an extension of the term of the loan, and an improvement
8 to the security interest of the state. It may not reduce the amount of principal and
9 interest owed before the loan is restructured.

10 * **Sec. 17.** AS 03.10.033(c) is amended to read:

11 (c) Notwithstanding any other provision of this section, the department
12 [BOARD OF AGRICULTURE AND CONSERVATION] may approve an application
13 for restructuring under this section only upon

14 (1) the applicant's written release of the state, including the University
15 of Alaska, from all potential liability for actions and omissions occurring before the
16 date of restructuring that relate in any way to a state farm project, land sale, land sale
17 relinquishment, farm loan, or loan application or loan modification application,
18 whether granted or denied by the state; and

19 (2) assignment by the applicant to the state [BOARD] of the proceeds
20 from the federal government under 7 U.S.C. 1442 (Conservation Reserve Program)
21 and P.L. 88-26 (Feed Grain Act of 1963), as amended, and other farm programs;
22 the proceeds collected under this paragraph shall be deposited in the agricultural
23 revolving loan fund (AS 03.10.040).

24 * **Sec. 18.** AS 03.10.033(d) is repealed and reenacted to read:

25 (d) If the proceeds received under (c)(2) of this section exceed the amount
26 owed and credited to the loan during the year, the extra proceeds shall be refunded to
27 the applicant from the agricultural revolving loan fund (AS 03.10.040).

28 * **Sec. 19.** AS 03.10.035(a) is amended to read:

29 (a) A borrower may not use farm land for a nonfarm use or sell, lease, or
30 otherwise dispose of farm land if that land is encumbered by a mortgage given to
31 secure the payment of a loan under this chapter unless the borrower either

1 (1) pays the outstanding balance of the loan in a lump sum or under
 2 other terms agreed to by the department [BOARD OF AGRICULTURE AND
 3 CONSERVATION] that accelerate payment of the loan; or

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

8 * **Sec. 20.** AS 03.10.035(b) is amended to read:

9 (b) In this section, "nonfarm use" means a use of land other than for
 10 agricultural or related activities [THE PRODUCTION OF DOMESTICATED
 11 PLANTS AND ANIMALS USEFUL TO HUMANS], including production of forage
 12 and sod crops, grain and feed crops, fruits, vegetables, [AND] livestock, and related
 13 activities.

14 * **Sec. 21.** AS 03.10.040(b) is amended to read:

15 (b) Money in the fund may be appropriated [USED] by the legislature [TO
 16 MAKE APPROPRIATIONS] for costs of administering this chapter [AND FOR
 17 OPERATIONS OF THE BOARD OF AGRICULTURE AND CONSERVATION].

18 * **Sec. 22.** AS 03.10.050(a) is amended to read:

19 (a) The board [BOARD OF AGRICULTURE AND CONSERVATION]
 20 shall administer the agricultural revolving loan fund. [A LOAN MAY NOT BE
 21 MADE WITHOUT THE APPROVAL OF A MAJORITY OF THE BOARD,
 22 EXCEPT THAT EMERGENCY LOANS BASED UPON REGULATIONS
 23 ADOPTED BY THE BOARD AND NOT TO EXCEED \$50,000 MAY BE MADE
 24 UPON THE APPROVAL, BY MAJORITY VOTE, OF A COMMITTEE
 25 COMPOSED OF THE CHAIR OF THE BOARD, ANOTHER BOARD MEMBER,
 26 AND THE DIRECTOR OF THE BOARD.]

27 * **Sec. 23.** AS 03.10.050 is amended by adding new subsections to read:

28 (h) The board shall set interest rates on loans from the agricultural revolving
 29 loan fund established in AS 03.10.040. The interest rates must be set at fixed levels
 30 that

31 (1) encourage agricultural development;

- 1 (2) do not subsidize nonviable agricultural enterprises;
- 2 (3) do not discriminate against viable existing agricultural enterprises;
- 3 (4) are comparable to the rates charged by other agricultural lending
- 4 institutions in the state for similar loans, but are at a rate of not less than three percent.
- 5 (i) Notwithstanding (h) of this section, the board may set an interest rate at a
- 6 rate lower than the rates charged by other agricultural lending institutions if the loan
- 7 (1) has been denied by other lenders;
- 8 (2) falls within a particular geographic area; or
- 9 (3) is for an activity that is established by the board as a priority.

10 * **Sec. 24.** AS 03.10 is amended by adding a new section to read:

11 **Sec. 03.10.090. Definitions.** In this chapter,

- 12 (1) "agricultural" has the meaning given to "agriculture" in
- 13 AS 03.09.090;
- 14 (2) "board" has the meaning given in AS 03.09.090; and
- 15 (3) "department," notwithstanding AS 03.90.010, means the
- 16 Department of Commerce, Community, and Economic Development.

17 * **Sec. 25.** AS 03.10.020 and 03.10.050(b) are repealed.

18 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 TRANSITION: TERMS AND INITIAL APPOINTMENTS. (a) Notwithstanding
21 AS 03.09.010(a), the terms of the current members of the Board of Agriculture and
22 Conservation expire on January 31, 2015. A person whose term expires on January 31, 2015,
23 is eligible for appointment under AS 03.09.010(a) to a term beginning February 1, 2015.

24 (b) The governor may make the initial appointments to the Board of Agriculture and
25 Conservation immediately, but a member appointed under this subsection may not take office
26 until February 1, 2015.

27 (c) Notwithstanding AS 03.09.010(b), the terms of the members of the Board of
28 Agriculture and Conservation whose terms begin on February 1, 2015, are as follows:

- 29 (1) three members serve for three years;
- 30 (2) two members serve for two years; and
- 31 (3) two members serve for one year.

1 * **Sec. 27.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 **TRANSITION: REGULATIONS.** The Department of Commerce, Community, and
4 Economic Development and the Department of Natural Resources may adopt regulations
5 necessary to implement the changes made by this Act. The regulations take effect under
6 AS 44.62 (Administrative Procedure Act), but not before January 31, 2015.

7 * **Sec. 28.** Sections 26(b) and 27 of this Act take effect immediately under AS 01.10.070(c).

8 * **Sec. 29.** Except as provided in sec. 28 of this Act, this Act takes effect January 31, 2015.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 13, 2014

SUBJECT: Sectional Summary of CSHB 207()
(Work Order No. 28-LS0675\R)

TO: Representative Eric Feige
Attn: Michael Paschall

FROM: Hilary Martin 
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill -- the bill itself is the best statement of its contents.

This version of the bill does not repeal the Natural Resource Conservation and Development Board and no longer transfers the board's functions and duties.

Section 1. Repeals and reenacts AS 03.09.010(a). Establishes the Board of Agriculture and Conservation (board) in the Department of Natural Resources. The board consists of 10 members, including three ex officio nonvoting members.

Section 2. Repeals and reenacts AS 03.09.010(d). Allows a person with a lease, permit, installment contract, or loan under AS 03.10 or AS 38.05 to be appointed to the board. However, that person may not take official action that affects their own lease, permit, installment contract, or loan. Permits a person to be removed from the board for violating the terms of a lease, permit, installment contract, or loan.

Section 3. Requires the board to meet at least four times a year, and defines "commercial production agriculture" with regard to certain members of the board.

Section 4. Adds a new section, AS 03.09.015, that sets out the powers of the board, including advising the commissioner on agricultural policy, consulting with the director of the division of lands regarding agricultural lands, and adopting regulations.

Section 5. Makes the director of the division of the Department of Natural Resources, who is responsible for agriculture, responsible for the overall management and policy of the agricultural revolving loan fund.

Section 6. Requires five voting members of the board for a quorum.

Representative Eric Feige

March 13, 2014

Page 2

Section 7. Allows the board to adopt regulations to carry out its duties, including establishing fees for services provided.

Section 8. Makes a conforming amendment for a reference to the board.

Section 9. Defines "agriculture" and "board."

Section 10. Adds a new section, AS 03.10.025, regarding loans from the agricultural revolving loan fund. Requires the Department of Commerce, Community, and Economic Development to approve loans from the fund and sets out the types of loans that may be approved.

Section 11. Removes a reference to the fixed rate of interest for a farm development, chattel, or irrigation loan in AS 03.10.030(a).

Section 12. Changes a reference from the board to the Department of Commerce, Community, and Economic Development. States that the interest rates for loans may not be less than three percent.

Section 13. Changes the references from the board to the Department of Natural Resources.

Section 14. Removes a reference to fixed rate of interest for farm processing loans.

Section 15. Deletes language regarding parameters for interest rates on loans.

Section 16. Allows the Department of Commerce, Community, and Economic Development to restructure certain loans under guidelines approved by the board. Restructured loans must have an interest rate not more than one percent less than the current rate for similar loans made from the agricultural revolving loan fund, but the interest rate may not be less than three percent.

Section 17. Requires funds from assignments of proceeds under this section to be deposited in the agricultural revolving loan fund.

Section 18. Repeals and reenacts AS 03.10.033(d) and requires that excess proceeds collection from an assignment to be refunded to the applicant.

Section 19. Changes a reference from the board to the Department of Commerce, Community, and Economic Development.

Section 20. Amends the definition of "nonfarm use."

Section 21. Allows the legislature to appropriate money from the fund for the costs of administering AS 03.10.

Representative Eric Feige

March 13, 2014

Page 3

Section 22. Requires the board to administer the agricultural revolving loan fund.

Section 23. Adds new subsections to AS 03.10.050 regarding interest rates set by the board on loans from the agricultural revolving loan fund. Allows the board to set a lower interest rate under certain circumstances.

Section 24. Defines "agricultural," "board," and "department."

Section 25. Repeals statutes.

Section 26. Provides a transitional section that terminates the terms of the current members of the Board of Agriculture and Conservation; allows former members of the board to be eligible for reappointment; and sets out the terms for the newly appointed members of the Board of Agriculture and Conservation.

Section 27. Provides a transitional provision to allow the Department of Commerce, Community, and Economic Development to adopt regulations prior to January 31, 2015.

Section 28. Sets out an immediate effective date for sections 27(d) and 28.

Section 29. Provides that the effective date for the Act is January 31, 2015.

HVM:lnd
14-119.lnd

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 207
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB207-DNR-CDB-2-3-14
Title: AGRICULTURE; AGRICULTURAL LOANS
Sponsor: FEIGE
Requester: House Resources Committee

Department: Department of Natural Resources
Appropriation: Administration & Support Services
Allocation: Conservation & Development Board
OMB Component Number: 2633

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015					
Personal Services	(17.9)	43.0					
Travel	(5.7)	13.7					
Services	(25.1)	58.6					
Commodities	(0.5)	1.2					
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	(49.2)	116.5	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	(49.2)	116.5					
Total	(49.2)	116.5	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
---------------------------	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Initial Version

Prepared By: <u>Shana Joy</u>	Phone: <u>(907)269-5007</u>
Division: <u>Conservation & Development Board</u>	Date: <u>02/03/2014 12:00 PM</u>
Approved By: <u>Joe Balash, Commissioner</u>	Date: <u>02/03/14</u>
Agency: <u>Department of Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB207

Analysis

HB 207 repeals AS 41.10.040, which established the Alaska Natural Resource Conservation and Development Board (NRCDB). The bill also repeals certain sections of AS 41.10 related to the executive director of the NRCDB, the appointment process for the board, qualifications and terms of board members, meetings, vacancies, compensation and per diem, and duties.

HB 207 creates a new Board of Agriculture, Conservation, and Development (BACD) under AS 03.09.010 and transfers responsibility for soil and water conservation districts from the NRCDB to the new BACD.

HB 207 is effective January 31, 2015. Expenses for the first seven months of the fiscal year (July 2014 - January 2015) in the amount of \$67.3 will be required to continue operations under the current statutes, and to prepare for the transition to the new structure proposed in this legislation. Approximately five months of expenses (February 2015 through June 2015) for the Natural Resource Conservation and Development Board (NRCDB) in the amount of \$49.2 could be deleted from the FY2015 operating budget.

Expenses anticipated for travel, services and commodities under the current statutes in the first seven months of FY2015 include one in-person meeting of the NRCDB, registration for and participation in the Alaska Association of Conservation Districts' fall conference, and support of the soil and water conservation districts' operations (\$2.5 for each of the 12 districts for operations expended at the beginning of the fiscal year). The personal services in the FY2015 Governor's budget funds approximately four months of a shared Project Assistant position that serves as the Executive Director of the NRCDB. The remainder of the NRCDB operating budget component (\$67.3) could be deleted in FY2016.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 207
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB207-DEC-CO-01-31-14
Title: AGRICULTURE; AGRICULTURAL LOANS
Sponsor: FEIGE
Requester: House Resources Committee

Department: Department of Environmental Conservation
Appropriation: Administration
Allocation: Office of the Commissioner
OMB Component Number: 633

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
---------------------------	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: Tom Cherian, Director
Division: Administrative Services
Approved By: Lynn Kent, Deputy Commissioner
Agency: Department of Environmental Conservation

Phone: (907)465-5871
Date: 01/31/2014 03:23 PM
Date: 01/31/14

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 207

Analysis

Analysis/Assumptions:

This bill names the Commissioner of the Department of Environmental Conservation, or their designee, as a member of the Board of Agriculture, Conservation, and Development. The bill would expand the powers of the Board of Agriculture and Conservation to include advising the Commissioners of the Department of Natural Resources (DNR), Fish and Game (F&G), and Environmental Conservation (DEC) on the promotion, regulation, and protection of the agricultural and food industry to broaden economic base of the state and to protect consumers.

All necessary travel costs associated with the Commissioner's or designee's participation on this board will be budgeted and paid for by the Department of Natural Resources.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 207
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB207-DNR-ARLF-2-01-14
Title: AGRICULTURE; AGRICULTURAL LOANS
Sponsor: FEIGE
Requester: House Resources Committee

Department: Department of Natural Resources
Appropriation: Agriculture
Allocation: Agriculture Revolving Loan Program
Administration
OMB Component Number: 2235

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services	17.9		43.0	43.0	43.0	43.0	43.0	43.0
Travel	5.7		13.7	13.7	13.7	13.7	13.7	13.7
Services	62.3		115.9	98.6	98.6	98.6	98.6	98.6
Commodities	0.5		1.2	1.2	1.2	1.2	1.2	1.2
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	86.4	0.0	173.8	156.5	156.5	156.5	156.5	156.5

Fund Source (Operating Only)

1004 Gen Fund	86.4		173.8	156.5	156.5	156.5	156.5
Total	86.4	0.0	173.8	156.5	156.5	156.5	156.5

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
---------------------------	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/16

Why this fiscal note differs from previous version:

Initial Version

Prepared By:	Franci Havemeister, Director	Phone:	(907)761-3876
Division:	Division of Agriculture	Date:	02/01/2014 08:00 PM
Approved By:	Joe Balash, Commissioner	Date:	02/01/14
Agency:	Department of Natural Resources		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB207

Analysis

HB 207 creates a new 12 member Board of Agriculture, Conservation, and Development (BACD) under AS 03.09.010, effective January 31, 2015. The Board consists of three ex-officio nonvoting members: the commissioners of the Department of Natural Resources (DNR) and Department of Environmental Conservation (DEC) and the chancellor of the University of Alaska Fairbanks or their designees. The board also consists of nine, Governor-appointed members subject to legislative approval:

Six members engaged in commercial production agriculture representing the four judicial districts of the state

- One member with general business or financial experience
- One member who is a district supervisor of a soil and water conservation district who is also engaged in commercial production agriculture
- One member with experience in the preparation, storage, processing, or handling of food products.

HB207 terminates the Natural Resource Conservation and Development Board and transfers those powers and duties to the newly created BACD.

Section 6 creates the newly created BACD as an advisory board with specific powers established in AS 03.09.015. These powers include, but are not limited to, advising the commissioners of DNR, DEC and the Alaska Department of Fish & Game on issues related to agriculture, land use, food safety, pesticides, invasive plants, animal care, and others. The BACD also is given powers to advise and regulate the soil and water conservations districts.

The BACD shall administer the Agriculture Revolving Loan Fund (ARLF) per Section 20 and set the interest rates for loans per Section 22. Section 6 also allows the BACD to establish regulations to carry out its duties, including establishing fees for services provided and charges for collecting fees. Section 13 requires the BACD to adopt regulations to establish other terms for loans and may establish interest rates to encourage agricultural development, do not subsidize nonviable agricultural enterprises, and do not discriminate against viable existing agricultural enterprises.

Section 4 gives the Division of Agriculture responsibility for the overall management and policy of the ARLF, while Section 9 gives authority for approving ARLF loans to the Department of Commerce, Community and Economic Development (DCCED). The Division of Agriculture maintains the duty to provide the loan services for applicants including preparing loan documents for review by DCCED.

Changes in Cost:

The new board would be appointed February 1, 2015. Therefore, the additional funds will be required for five months of operation in FY2015 and 12 months of funding in FY2016 and beyond.

The NRCDB and its \$116.5 budget are deleted on a separate fiscal note. This fiscal note reflects the \$116.5 as increased costs in the Agriculture Revolving Loan Fund component budget, as the powers and duties of the two boards are combined under this component. FY2015 reflects \$49.2 for the five months the new structure is in place, with FY2016 reflecting the full \$116.5. This is a net zero change to state funds as a result of this legislation.

Additional costs for legal services for assistance in writing regulation packages and other legal advice related to the creation of the new BACD are included in the amount of \$7.2 in FY2015 and \$17.3 in FY2016. These estimates are based on similar regulation development experience. These funds are not necessary in FY2017 and beyond.

The FY2015 budget also reflects the increased cost of \$30.0 for an RSA to DCCED to administer the ARLF loan approvals as identified in their fiscal note. An amount of \$40.0 is reflected in the FY2016 budget and beyond for the same purpose.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 207
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB207-DCCED-INV-01-28-14
Title: AGRICULTURE; AGRICULTURAL LOANS
Sponsor: FEIGE
Requester: House Resources

Department: Department of Commerce, Community and
Economic Development
Appropriation: Investments
Allocation: Investments
OMB Component Number: 383

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1007 I/A Rcpts	30.0		40.0	40.0	40.0	40.0	40.0	40.0
1178 temp code	(30.0)		(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
---------------------------	--	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/14

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	Joseph Jacobson, Division Director	Phone:	(907)465-2625
Division:	Economic Development	Date:	02/04/2014 02:56 PM
Approved By:	Jeanne Mungle, Director	Date:	02/04/14
Agency:	Administrative Services		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB207

Analysis

This bill transfers the authority to approve loans from the Agriculture Revolving Loan Fund from the Department of Natural Resources (DNR) to the Department of Commerce, Community, and Economic Development. The Loan Fund would remain in DNR, who would continue to manage the Fund.

Under this bill the Division of Economic Development (DED), which manages the Investments component, would approve new loans and provide loan fund servicing for the Agriculture Revolving Loan Fund. DED has the capacity to service these loans but will require interagency receipt authority to bill for these services. DED will not need additional staff or resources to approve loans, and will reduce existing loan funds that will result in a net zero change in total receipts.

Initial program costs are estimated to be \$30.0 for a partial fiscal year beginning January 1, 2015, and include \$20.0 for program costs and \$10.0 for regulations review and implementation. Subsequent fiscal year program costs are estimated at \$40.0. The following fund sources will be reduced by the amounts shown in FY2015 and FY2016 to offset increased inter-agency receipts.

FY2015

1036 Commercial Fishing Loan Fund	\$24.4
1070 Fisheries Enhancement Revolving Loan Fund	\$ 3.5
1074 Bulk Fuel Revolving Loan Fund	\$ 0.3
1164 Rural Development Initiative Fund	\$ 0.3
1170 Small Business Economic Development Revolving Loan Fund	\$ 0.3
1209 AK Capstone Avionics Revolving Loan Fund	\$ 0.7
1223 Commercial Charter Fisheries Loan Fund	\$ 0.1
1224 Mariculture Revolving Loan Fund	\$ 0.1
1225 Community Quota Entry Revolving Loan Fund	\$ 0.2
<u>1227 AK Microloan Revolving Loan Fund</u>	<u>\$ 0.1</u>
TOTAL	\$30.0

FY2016 -FY2020

1036 Commercial Fishing Loan Fund	\$32.6
1070 Fisheries Enhancement Revolving Loan Fund	\$ 4.6
1074 Bulk Fuel Revolving Loan Fund	\$ 0.4
1164 Rural Development Initiative Fund	\$ 0.4
1170 Small Business Economic Development Revolving Loan Fund	\$ 0.4
1209 AK Capstone Avionics Revolving Loan Fund	\$ 1.0
1223 Commercial Charter Fisheries Loan Fund	\$ 0.1
1224 Mariculture Revolving Loan Fund	\$ 0.1
1225 Community Quota Entry Revolving Loan Fund	\$ 0.3
<u>1227 AK Microloan Revolving Loan Fund</u>	<u>\$ 0.1</u>
TOTAL	\$40.0

Boards & Commissions Factsheets

NATURAL RESOURCES CONSERVATION & DEVELOPMENT

Board: Natural Resources Conservation and Development Board
Board Identification number: 097

Department: DEPARTMENT OF NATURAL RESOURCES

Authority: AS 41.10.040

Status: Active

Sunset date:

Requirements: No Legislative Confirmation or Financial Disclosure required

Prohibitions: Members must be bona fide users of land selected from the five major land areas of the state.

Term: 3 years

Description: The board consists of 6 members, 5 of which are appointed by Governor: resident bona fide users of land (producers of renewable resources) selected from the five major land areas of the state: Arctic and northwest AK, Yukon and Tanana Valleys, southwest AK and Kenai Peninsula, southcentral AK, and southeast AK. In addition, the Commissioner of Natural Resources or, in Commissioner's absence, the Director of the Division of Agriculture, serves ex-officio but without a vote.

Function: The board meets and advises commissioner in the exercise of powers, duties, functions of the commissioner. The board also receives and reviews reports regarding the use of soil resources and holds public hearings and meetings to determine if land is being used in a manner consistent with sound soil and water conservation practices. Additionally, the board recommends action to provide for the effective and orderly development of agricultural, forest, and grazing land. The board also reviews appeals by an applicant/lessee from decisions of directors of other Dept. of Natural Resources divisions regarding a sale/lease of agricultural/grazing land and submits recommendations to the commissioner/hearing officer. The board serves in advisory capacity to the soil and water conservation districts. The board also advises the Commissioner of Natural Resources and Director of Div. of Agriculture in review of farm conservation plans for all agricultural land sales in the Alaska District. Additionally, the board represents state of Alaska in local, federal, and state soil and water conservation programs for sound resource development and conservation of resources. The board also serves as the Alaska District Soil & Conservation Board.

Chair: No provision.

Special facts:

Compensation: Standard Travel and Per Diem.

Meetings: 1 regular meeting annually at state capital; approximately 4 times per year (usually quarterly) plus special meetings.

For further information and to reach individual members, contact:

Ms. Shana Joy
Executive Director
AK Natural Resources Conservation & Dev. Board
701 W. 8th Avenue, Suite 400
Anchorage, AK 99501
Phone: (907) 269-5007, FAX: (907) 269-5605

Natural Resources Conservation & Development Roster

Go to the Natural Resources Conservation & Development Home page

We appreciate your interest in Boards and Commissions. For further information contact the Boards and Commissions staff at (907) 465-3500 or at boards@alaska.gov.

State of Alaska © 2013 |



Boards & Commissions Roster

NATURAL RESOURCES CONSERVATION & DEVELOPMENT (097)

Member	Date Appointed	Reappointed	Term Expires
Ina L Jones SW/Kenai Peninsula	4/22/2013		3/1/2016
Bernie C. Karl Yukon/Tanana	12/15/2005	4/15/2011	3/1/2014
Carol L. Kenley Southcentral	11/17/2008	4/15/2011	3/1/2014
Daniel S. Sullivan Commissioner/Natural Resources/Designee	11/18/2010		
Cheryl K Thompson NW/Arctic	12/26/2007	4/22/2013	3/1/2016
George S. Woodbury Southeast	3/17/2005	5/1/2012	3/1/2015

[Return to the fact sheet](#)

We appreciate your interest in Boards and Commissions. For further information contact the Boards and Commissions staff at (907) 465-3500 or at boards@alaska.gov.

State of Alaska © 2013 |



Alaska Department of Natural Resources Natural Resource Conservation & Development Board

Soil & Water Conservation Districts

The Natural Resource Conservation and Development Board (NRCDB) serves as an advisory board to the DNR Commissioner and Alaska's Soil and Water Conservation Districts on matters relating to conservation and development of the state's non-game natural resources. The NRCDB also oversees the portions of Alaska not otherwise included in an established soil and water conservation district. At the present time there are twelve local districts in Alaska each operated by a board of five supervisors elected from their memberships in annual elections conducted by the NRCDB Executive Director.

SOIL & WATER CONSERVATION DISTRICTS

The Soil & Water Conservation program traces its roots to the great dust bowl era of the 1930s. In 1937, President Roosevelt wrote each state recommending the legislation that led to the State Soil & Water conservation programs. The Alaska Soil Conservation District Law was passed in 1947 during our territorial days. Please see AS 41.10.130 for details.

The districts represent local land users in a grass roots partnership of land users, state, federal, and non-profit agencies that work together to manage, conserve and develop natural resources. The districts provide a volunteer expertise of 60 supervisors averaging 15 hours a month. This amounts to 10,800 volunteer hours annually.

The services provided by the soil and water conservation districts include land conservation plans requested by local land owners, erosion control projects, water quality projects, implementation of best management practices, educational programs in local schools, resource development expertise and the synergy that results when all those holding a responsibility for Alaska's resources work together for the common good.

Soil and water conservation programs provide an effective and results-oriented way to promote local conservation and wise development of our renewable natural resources. As provided by AS 41.10.130 the Commissioner of Natural Resources is authorized to "Create Soil and Water Conservation Districts in the state. . . ." and " . . . delegate to the district supervisors

- Anchorage**
- Fairbanks**
- Homer**
- Kenai**
- Kenny Lake**
- Kodiak**
- Mid Yukon-Kuskokwim**
- Palmer**
- Salcha-Delta**
- Southeast**
- Upper Susitna**
- Wasilla**



powers as the commissioner considers necessary to accomplish the purposes of this chapter within district boundaries.”

Natural Resource Conservation & Development Board
701 W. 8th Avenue, Suite 400, Anchorage, AK 99501
Phone: (907) 269-5007 Fax: (907) 269-5605
State of Alaska © 2013 Webmaster

Boards & Commissions Factsheets

AGRICULTURE AND CONSERVATION

Board: Board of Agriculture and Conservation
Board identification number: 002

Department: DEPARTMENT OF NATURAL RESOURCES

Authority: AS 03.09.010

Status: Active

Sunset date:

Requirements: Financial Disclosure

Prohibitions: While serving on this board, a board member, or an immediate family member of the board member who shares the same household and financial resources with that board member, may not obtain a lease, permit, installment contract, or loan or purchase land under AS 03.10 or under AS 38.05, or have an existing lease, permit, installment contract, or loan under AS 03.10 or under AS 38.05 modified or restructured. Notwithstanding AS 39.52.150(a), an immediate family member who does not share the same household and financial resources with the board member may obtain a lease, permit, installment contract, or loan or purchase land under AS 03.10 or under AS 38.05 or have an existing lease, permit, installment contract, or loan under AS 03.10 or under AS 38.05 modified or restructured. Notwithstanding AS 39.52.150(a), a person may be appointed to the board even though, at the time of appointment, that person, or an immediate family member, has a lease, permit, installment contract, or loan under AS 03.10 or AS 38.05. However, that person may not take or withhold any official action that affects the lease, permit, installment contract, or loan of that person or an immediate family member who shares the same household and financial resources with that person. If a person with a lease, permit, installment contract, or loan under AS 03.10 or AS 38.05 is appointed by the board, failure by that person to abide by all the terms and conditions of the lease, permit, installment contract, or loan may be a basis for removal.

Term: 3 years

Description: The board consists of seven members appointed by Governor. One member must have general business or financial experience, one member must be a member of a statewide agricultural promotion organization, and one member of a soil and water conservation district who is also engaged in commercial production agriculture. Four of the members must be engaged in commercial production agriculture, each representing a different agricultural enterprise from the others, such as: livestock production, dairy, vegetable production, grain production, horticultural production, and greenhouse and hydroponic production.

Function: Board duties include: authorizing the disposal of agricultural land acquired by the agricultural revolving loan fund; approving and administering agricultural loans; adopting regulations; consulting with the Commissioner of the Department of Natural Resources about the classification and disposal of agricultural lands; and submitting recommendations for the appointment of a director of agriculture to the Commissioner.

Chair: Elected by board

Special facts: Members of the board serve at the pleasure of the Governor, and may be removed by the Governor with written explanation to the member that is available to the public. The board, formerly known as the Agricultural Revolving Loan Fund Board, was restructured through Chapter 81, SLA 2000.

Compensation: Standard Travel and Per Diem.

Meetings: Minimum of 8 official meetings per year; at the call of the chair; no specific schedule.

For further information and to reach individual members, contact:

Ms. Franci Havemelster

Director

DNR, Division of Agriculture

1800 Glenn Highway, Suite 12

Palmer, AK 99645

Phone: (907) 745-7200, FAX: (907) 745-7112

Agriculture and Conservation Roster

[Go to the Agriculture and Conservation Home page](#)

We appreciate your interest in Boards and Commissions. For further information contact the Boards and Commissions staff at (907) 465-3500 or at boards@alaska.gov.

State of Alaska © 2013 |



Boards & Commissions Roster

AGRICULTURE AND CONSERVATION (002)

Member	Date Appointed	Reappointed	Term Expires
Deldre R. Berberich General Business/Financial Experience	12/7/2010	10/1/2012	9/1/2015
Stuart M. Davies Commercial Agriculture Production Rep. (Grain)	4/15/2009	12/7/2010	9/1/2013
Christopher J. Flickinger Commercial Agriculture Production Rep. (Livestock)	9/22/2009	10/1/2012	9/1/2015
Al Poindexter Commercial Agriculture Production Rep. (Greenhouse)	6/27/2008	12/7/2010	9/1/2013
John Schirack Soil/Water Conservation & Commercial Agriculture Rep.	6/18/2007	9/1/2011	9/1/2014
Troy D. Shelden Statewide Agriculture Promotion Organization Rep.	6/20/2011	10/1/2012	9/1/2015
Ben VanderWeele Commercial Agriculture Production Rep. (Produce)	6/18/2007	9/1/2011	9/1/2014

Return to the fact sheet

We appreciate your interest in Boards and Commissions. For further information contact the Boards and Commissions staff at (907) 465-3500 or at boards@alaska.gov.

State of Alaska © 2013 |



ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Special Report on the Department of Natural Resources, Agriculture Revolving Loan Fund, Selected Issues, June 24, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Agriculture Revolving Loan Fund (fund or ARLF). The purpose of this audit is to examine the fund's performance and administration and compare fund administration to other loan programs and industry best practices. The goal of the evaluation is to identify how the fund's performance could be improved and how efficiencies could be gained with an emphasis on whether the fund should be administered by a different state agency.

REPORT CONCLUSIONS

We conclude that ARLF's fiscal condition is the result of agricultural policy decisions made over the past 30 years by executive and legislative branches of government. Many lending and management decisions were made in favor of supporting the agricultural industry over maintaining the fund's fiscal health. Since inception, ARLF's fund equity has declined by 69 percent, and it annually loses over \$118,000 from operating Mount McKinley Meat and Sausage Company (MMM&S).

Although ARLF's default rate was found to be reasonable at the program level when compared to other agricultural loan programs, the audit identified numerous administrative deficiencies that, if not corrected, will likely contribute to future losses. Examples of deficiencies include ineffective and inefficient processes for loan evaluation and approval, property management, and loan management. Additionally, this audit found regulations do not promote fiscally responsible decisions on a consistent basis.

Our review of comparable loan programs found that boards similar to the Board of Agriculture and Conservation (BAC) are not commonly used for lending decisions. It is more common for lending decisions to be made by professional lending staff or by a committee with lending expertise. Based on administrative deficiencies and opportunities for increased efficiency, we conclude that moving ARLF administration and loan decisions to the Division of Economic Development may improve the loan program's efficiency and effectiveness, and help ensure the fund's future solvency.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The legislature should consider moving the ARLF administration to the Department of Commerce, Community, and Economic Development's Division of Economic Development.

Report conclusions outline examples of deficiencies in the Division of Agriculture's processes for evaluating and approving loans, managing property, and managing loans. Decisions to promote agriculture and support Alaskan farmers through the use of ARLF assets have not always been fiscally prudent. While BAC diligently works to serve the agricultural industry, improvements have not effectively eliminated the types of deficiencies noted in the audit.

Recommendation No. 2

ARLF administrators should revise ARLF's regulations to promote industry best practices.

ARLF's regulations do not promote consistent fiscally responsible decisions. Specifically, regulations do not include criteria for approving loans and do not provide sufficient guidelines for evaluating collateral.

Recommendation No. 3

ARLF administrators should pursue disposal of business properties and revise property leasing rates to provide a return on ARLF assets.

ARLF currently owns two active business properties, the MMM&S and the Alaska Farm Cooperative (cooperative). Operating businesses such as the MMM&S and the cooperative is not within ARLF's statutory authority. ARLF's statutory purpose is to promote more rapid development of agriculture as an industry by means of long-term low-interest loans.

Trevor Fulton

-----Original Message-----

From: todd Pettit [<mailto:trpettit@icloud.com>]

Sent: Friday, February 28, 2014 10:47 AM

To: Rep. Bill Stoltze

Cc: Rep. Eric Feige

Subject: HB207 Hearings

Mr. Stolze,

My name is Todd Pettit. I am a third generation farmer/rancher in the MatsuValley. I also chair the Palmer Soil and Water District.

I have a very good understanding of the devastation this bill will create, both from the side of a Ag producer and also from the view of the soil and water districts.

HB 207, no matter how many times it is written, is bad legislation.

It is being forced down the throats of producers and cooperators as a "Trust us, we're the government. We know what's good for you."

1. To combine NRCDB into this board completely dissolves the statute 41.10 that has been in place for almost fifty years and is a protector of the rights of soil and water districts. We as districts will loose our sovereign rights as we know them, to provide the services of land owners, the ability to bring state, fed, and local community together for very little money and get great pro development of our natural resources projects done in a conservative manner.

The dismantling of 41.10, will allow the AGs office to rewrite our statute and make us another beaurocratic agency.

HB207 has been lauded by its writers as a way to limit government.

In reality it creates more government and beaurocracy. It will by default, take away the non-profit status of AACD and will put the districts under state employ status, and turn us into another state agency.

This is wrong Mr. Stolze. This is not how our soil and water districts were meant to preform and operate.

2. Pulling the ARLF Loan program from BAC, and dissolving the BAC, is a travesty. The ARLF was set up by the farmers for the farmers. It is managed with the utmost transparency, professionalism, and the expediency of being able to institute a loan is what makes it so successful.

Sir, I ask you this, by taking the decisions of a very competent Board that understands the needs of the farmer, that can provide low interest loans and is completely self sufficient that needs no government intervention. But then to hand it over to someone in Commerce, allowing a government agency that is already overburdened and understaffed and expect them to be efficient and understanding of a farmers needs and provide a loan in an expedient manner?

Mr. Feige's bill is asking government to intervene and "fix" something that is certainly not broken.

Limiting government by creating more government, and layers upon layers of beaurocracy, is ludicrous Mr. Stolze.

The republican caucus should be ashamed of the reality of this bill presented by Mr. Fiege.

Mr. Stolze, you have been agriculture and soil and water districts biggest ally, you are a voice of reason for our industry.

Mr. Stolze I ask you to go to your caucus and get this bill killed once and for all. No more rewrites, no more shady political shenanigans that has surrounded this bill. It needs to be killed.

Thank you for your time, and thank you for your tireless service and support for agriculture and soil and water districts.

Mr. Stolze we need your help on this one.

Thank you,

Todd Pettit

Pitchfork Ranch

Chair of PSWCD

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

August 19, 2013

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF NATURAL RESOURCES AGRICULTURE REVOLVING LOAN FUND SELECTED ISSUES

June 24, 2013

Audit Control Number
10-30071-13

This performance audit examines the administration and performance of the Agriculture Revolving Loan Fund (fund). The audit identifies how the fund's performance could be improved and how efficiencies could be gained with an emphasis on whether the fund should be administered by a different state agency.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the conclusions, findings, and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in black ink, appearing to read "K. Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology	1
Organization and Function	5
Background Information.....	7
Report Conclusions.....	13
Findings and Recommendations.....	23
Appendices	
Appendix A - Number of Delinquent, and Defaulted ARLF Loans	27
Appendix B - Duties Performed by State Employees in Administering ARLF	29
Appendix C- Time Incurred and Charged to ARLF	
by State Employees	31
Appendix D - Comparison of ARLF to In-State Lending Programs	33
Appendix E - Comparison of ARLF to Out-of State Lending Programs.....	35
Agency Responses	
Department of Natural Resources	37
Department of Commerce, Community , and Economic Development	50
Board of Agriculture and Conservation	51
Legislative Auditor's Additional Comments	57

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Department of Natural Resources (DNR), Division of Agriculture's (DoAg) Agriculture Revolving Loan Fund (fund or ARLF).

Objectives

The primary audit objectives were:

- Evaluate ARLF's performance.
- Identify ARLF loan types and the degree to which each loan type is performing.
- Identify the duties performed by DNR employees in administering ARLF.
- Identify areas where efficiencies could be gained to improve ARLF administration.
- Compare ARLF's program structure, including the Board of Agriculture's (BAC) involvement in lending decisions, to other Alaskan and non-Alaskan governmental lending programs.
- Identify potential changes that could improve the program.
- Determine whether there are inherent conflicts with respect to BAC members approving ARLF loans.
- Determine whether DNR should continue to administer ARLF or whether all or part of ARLF's administration should be carried out by a different state department, agency or private entity to improve performance, reduce costs, or both.

Scope

The audit reviewed ARLF's administration and decision-making processes from FY 09 through February 2013. The audit evaluated fund performance over the fund's life, 1953 to February 2013. The audit also reviewed the current lending practices employed by comparable loan programs.

Methodology

ARLF's program structure was compared to Alaskan and non-Alaskan lending programs to identify industry best practices and potential changes that could improve the program. When selecting lending programs for comparison, in-state programs that offered a majority of agricultural loans in Alaska were selected. These included the Alaska Rural Rehabilitation Corporation and the United States Department of Agriculture's Farm Service Agency. One State of Alaska lending program, the Commercial Fishing Revolving Loan Fund, was selected as a means of comparing ARLF to a different state-administered loan program. Comparable non-Alaskan lending programs were selected based on traits similar to Alaska in terms of total agricultural receipts, size and number of farms, climate, or remoteness, and the existence of an agricultural state loan program. Hawaii,¹ Maine,² and Connecticut³ were selected.

Representatives from comparable Alaskan and non-Alaskan lending programs were interviewed to gain an understanding of the programs. Pertinent program statutes, regulations, and policy and procedure manuals were reviewed for industry best practices and as a basis for comparison.

To evaluate ARLF's performance:

- ARLF capitalizations and fund changes were identified through inquiry with DNR and DoAg staff and examining agency and state accounting records. The validity of DNR financial and loan records were assessed by tracing accounts receivable from the state accounting system to DNR's receipting system and by tracing the monthly payment information from DoAg loan files to DNR's receipting system.
- Each loan type's delinquency and default rates for the last five years were computed and compared to rates reported by comparable loan programs. *Delinquency* is defined as a loan with no payments over 90 days. To identify these loans, copies of delinquency notices sent to ARLF borrowers and maintained in DNR's financial records were examined. *Default* is defined as a loan forwarded to the assistant attorney general for collection. To identify these loans, a list of loans sent for collection from the assistant attorney general was requested and validated by confirming the information with DNR's accountant.

¹The selection of Hawaii was based on the low dollar amount of agricultural receipts. Also, the remoteness of farms (located on different islands) creates challenges with loan servicing similar to Alaska. Finally, as with ARLF loans, the majority of loans issued by the State of Hawaii were given to small farming businesses.

²The selection of Maine was based on the similarity of the state's agricultural industry and climate to Alaska. The majority of Maine's agricultural loans were given to small farming businesses: dairy businesses in the Northern region and potato farmers in the Western region.

³The selection of Connecticut was based on its relatively small agricultural industry primarily comprised of family farmers.

To identify duties performed by DNR employees in administrating ARLF, the department's organization chart was examined, and job descriptions were obtained and evaluated. Additionally, significant and direct employees involved in ARLF administration were identified and interviewed regarding their duties and the percentage of time incurred on ARLF administration.

To identify areas where efficiencies could be gained to improve ARLF administration:

- ARLF personal service expenditures for the last five years were computed using state accounting and state payroll systems' records to identify the total personal service expenditures for administrating the fund, including personnel spending time administering ARLF but not recording costs to ARLF.
- Twenty-two⁴ loan files were examined to determine whether ARLF loans were made in accordance with statutes, regulations, policies and procedures, and industry best practices described by representatives of comparable Alaskan and non-Alaskan lending programs.
- ARLF regulations were evaluated for compliance with laws and industry best practices of comparable Alaskan and non-Alaskan lending programs.
- ARLF asset management practices were reviewed by examining DNR's asset and property documentation for five ARLF assets and inquiring with DNR and Department of Law employees regarding the status and management of the assets.

To determine whether there are inherent conflicts with respect to BAC members approving ARLF loans:

- BAC's composition was analyzed in conjunction with Alaska Statutes and regulations describing BAC authority.
- Interviews with DNR and Department of Law employees were conducted; board meeting minutes and ethics and conflicts of interest disclosure forms from FY 09 through December 2012 were examined; and four BAC meetings were attended to evaluate whether BAC members recused themselves from voting and discussing matters that could lead to conflicts of interest.

To determine whether ARLF administration should be carried out by a different state department, the results of the audit work performed to address other audit objectives were evaluated, including audit work on fund performance, asset management practices, loan

⁴Out of 88 outstanding loans files as of February 2013, eight random and 11 judgmentally selected files were tested. Additionally, three judgmentally selected closed loan files were tested.

program inefficiencies, decision-making process, conflicts of interest, and regulations. Additionally, the following was performed.

- Other state departments with loan programs were evaluated to determine if ARLF administration could be carried out by another state department.
- Department of Commerce, Community, and Economic Development (DCCED) representatives were interviewed, and pertinent Alaska Statutes and regulations were reviewed to gain an understanding of DCCED's administration of state lending programs.
- DNR, DCCED, DoAg, and BAC representatives were interviewed to gain an understanding of potential benefits and challenges of retaining or moving ARLF to another department.

Additional audit procedures necessary to address the audit objectives included:

- Interviewing Department of Corrections representatives to gain an understanding of their role in administering the Mount McKinley Meat and Sausage Company.
- Gaining an understanding of DNR's receipting system to determine how it is used for ARLF administration.
- Reviewing results of prior legislative audits and other ARLF related studies.
- Assessing internal control procedures related to various audit objectives including controls that ensured the following:
 - ✓ Completeness and validity of DNR financial records maintained in DNR's receipting system and in the state accounting system;
 - ✓ Compliance with Alaska Statutes and regulations in the loan evaluation and approval processes;
 - ✓ An accurate description of DNR employee job duties matched the job description and duties performed were not duplicated; and
 - ✓ BAC members recused themselves from voting and discussing topics that might lead to potential conflicts of interest.

ORGANIZATION AND FUNCTION

The Department of Natural Resources' (DNR) mission is to responsibly develop Alaska's resources by making them available for maximum use and benefit consistent with the public's interest. The Division of Agriculture (DoAg) is organized within DNR. DoAg promotes and encourages development of the agricultural industry in the State.

The Board of Agriculture and Conservation (board or BAC) is responsible for administering the Agriculture Revolving Loan Fund (ARLF), approving and administering agricultural loans, adopting regulations, and authorizing the disposal of agricultural land acquired by ARLF. In exercising its duties, BAC encourages and promotes development of the agricultural industry throughout the State. DoAg staff processes and services loans approved by BAC. The board holds at least eight official meetings per year.

BAC is composed of seven public members appointed by the governor and confirmed by the legislature in joint session. Board members serve staggered three-year terms. The board is required to be comprised of:

- One member having general business or financial experience;
- One member who is part of a statewide agriculture promotion organization;
- One member who is part of a soil and water conservation district and engaged in commercial production agriculture; and
- Four members engaged in commercial production agriculture, representing different agricultural enterprises.

(Intentionally left blank)

BACKGROUND INFORMATION

Alaska's Unique Agriculture

Alaskan agriculture is unique when compared to other states. The long daylight hours and short growing season produce certain crops that grow to enormous size. Alaskan farmers sell the least amount of agricultural products in the United States, despite Alaska being the largest state, and supply less than two percent of food consumed in the State.

According to the United States Department of Agriculture⁵ (USDA), of 686 Alaskan farms, over 80 percent sell less than \$50,000 in products; livestock sales account for 57 percent, and crop sales account for 43 percent. Families or individuals operate 80 percent of farms. The majority of farm land is used as pastures.

Agricultural Loan Programs in Alaska

Agricultural credit options in Alaska are limited to four entities: Alaska Rural Rehabilitation Corporation, USDA's Farm Service Agency, Alaska Commercial Fishing and Agriculture Bank, and the Agriculture Revolving Loan Fund (fund or ARLF).

1. *Alaska Rural Rehabilitation Corporation (corporation)*

The corporation is a nonprofit organization dedicated to permanent development of the Alaskan agricultural industry. Originally created to support the 1935 Matanuska Valley colonization project, it now provides financing for Alaskan agricultural producers. The corporation is governed by a seven-member board comprised of agricultural industry representatives and other business professionals. The corporation's one office is located in Palmer.

2. *United States Department of Agriculture's Farm Service Agency (FSA)*

FSA's mission is to equitably serve all farmers, ranchers, and agricultural partners by delivering effective, efficient agricultural programs to all Americans. FSA's organizational structure is determined by Congress and overseen by the secretary of agriculture. FSA is funded by federal appropriations.

FSA makes and guarantees loans to farmers and ranchers to promote, build, and sustain family farms to support an agricultural economy. FSA headquarters are maintained in Washington, D.C. with offices located in each state. There are two Alaskan offices: one in Palmer and one in Delta Junction.

⁵Alaskan agricultural statistics were obtained from the USDA Census of Agriculture statistics (2007).

FSA has historically been considered the lender of “*last resort*,” but recently rebranded itself as the lender of “*first opportunity*” which provides loans to individuals ineligible for loans from other sources. FSA’s loan programs are intended to graduate its borrowers to commercial credit.

3. *Alaska Commercial Fishing and Agriculture Bank (bank or CFAB)*

CFAB’s vision is to be the premier lender to Alaskan commercial fishing, agricultural, timber, tourism, and resource based industries and to provide prompt, courteous service and financing customized to meet specific borrower needs. The bank was modeled after the Federal Farm Credit System and is organized as a cooperative owned by its customers. The bank is governed by a seven-member board of directors that hires professional management and staff to operate the program. CFAB’s one office is located in Anchorage.

While CFAB offers agricultural loans, agricultural loans do not constitute a significant part of its portfolio due to competition from public lenders such as ARLF and FSA that offer lower interest rates. Interest rates offered by the bank vary depending on a borrower’s risk and the “*base rate*” established annually by the board.

4. *Agriculture Revolving Loan Fund*

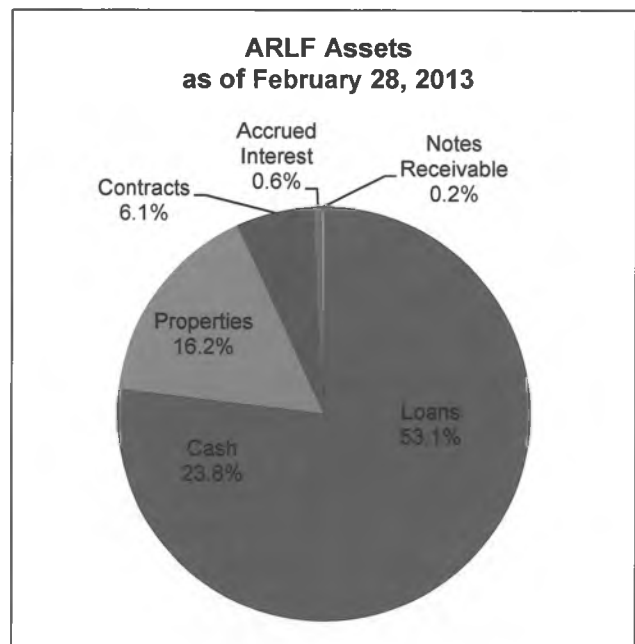
ARLF is a State of Alaska sponsored loan fund whose objective is to promote the rapid development of agriculture as an industry throughout the State by means of long-term low-interest loans. ARLF is administered out of the Division of Agriculture’s (DoAg) Palmer office by the Board of Agriculture and Conservation (BAC). BAC is composed of seven public members.

Exhibit 1

ARLF was established by the territorial legislature in 1953. The fund’s enabling legislation is codified in AS 03.10. ARLF’s objective is to promote more rapid development of agriculture as an industry throughout the State by means of long-term low-interest loans. ARLF is administered out of DoAg’s Palmer office.

ARLF Assets

As shown in Exhibit 1, ARLF assets, totaling approximately \$22 million, consist of loans, properties, contracts, notes receivable, cash, and accrued interest. A detailed description of each asset type follows.



Loans (\$11,560,000 or 53.1 percent)

ARLF offers six types of agricultural loans.

- Short term – loans to finance annual operating expenses such as seed, feed, fertilizer, harvesting, or planting activities.
- Chattel – loans to purchase equipment or livestock.
- Farm development – loans to purchase real property and construct non-residential improvements for agricultural purposes.
- Irrigation – loans to purchase and install irrigation systems.
- Product processing – loans to build and equip facilities to process Alaskan agricultural products.
- Clearing – loans to clear land.

Exhibit 2 lists the number of ARLF loans approved each fiscal year. Excluding 2003, BAC approved an average of 21 loans per year between FY 01 and FY 12. According to DoAg management, mining, land, and water loans were allowed to be refinanced by ARLF in 2003 because of ARLF's low interest rates.

The average number of outstanding loans for the last five years was 97. Farm development loans comprise the largest number and amount of total outstanding loans. In 2013, there were 61 outstanding farm development loans totaling almost \$11 million.

Properties (\$3,540,000 or 16.2 percent)

ARLF owns five properties that were generally acquired as a result of borrowers' defaulting on loans or contracts. Exhibit 3 reports the properties' estimated market values as of February 28, 2013.

Exhibit 2

Number of Approved ARLF Loans by Fiscal Year		
Fiscal Year	Number of Loans Issued	Total Amount of Loans Issued
2001	36	\$ 2,961,100
2002	22	1,637,760
2003	69	11,370,586
2004	19	2,544,500
2005	14	1,014,400
2006	13	1,108,500
2007	11	834,500
2008	11	1,147,600
2009	28	4,393,800
2010	33	5,710,650
2011	19	2,460,750
2012	20	2,495,546

Source: DNR financial documents.

Exhibit 3

**ARLF Properties
Market Value Estimates
As of February 28, 2013
(Unaudited)**

Property Description	Market Value Estimate ⁶
Alaska Farm Cooperative – preferred stock	\$ 1,742,732
Alaska Farm Cooperative – land	883,680
Mount McKinley Meat and Sausage Company – land and business	429,200
Palmer Feed Mill - land, building, and equipment	401,600
Umnak Slaughter Facility - building	50,000
Kenai Peninsula Land	32,600
	\$ 3,539,812

Source: DNR Support Services staff.

1. Alaska Farm Cooperative (cooperative)

According to DoAg staff, a group of Delta Junction farmers formed the cooperative, and in 1981, built a 400,000-bushel grain facility. Today, the cooperative includes farmer-members who use the facility to store crops.

The cooperative obtained multiple ARLF and general fund loans. In the early 1990's, the cooperative defaulted on eight of these loans, totaling approximately \$6.5 million. Despite the defaults, ARLF administrators determined it was in the State's best interest to keep the cooperative operational. The loan amounts were forgiven in exchange for three parcels of land and shares of non-voting preferred stock. One parcel was sold, and the two remaining were leased to the cooperative for \$1 a year for 25 years with an option to renew. The lease term ends in 2018 and is subject to termination if the cooperative ceases to operate.

2. Mount McKinley Meat and Sausage Company (MMM&S)

The MMM&S is one of six USDA inspected slaughtering facilities in Alaska⁷ and the only facility in the Matanuska Valley. The MMM&S was constructed in the early 1980s by a private party with a \$2 million General Fund loan. In the mid-1980s, the MMM&S owner went into default, and ARLF, being in second position to the private lender, had no rights to the collateral. However, ARLF purchased the meat plant in a foreclosure sale for \$740,840 for the benefit of the agricultural industry.

⁶Properties are based on market value estimates and do not consider depreciation. Estimates provided DNR Support Services staff.

⁷The other five USDA inspected slaughter facilities are located at Sitkinak Island near Kodiak Island (Sitkinak Cattle Range), Delta Junction (Delta Meat and Sausage), North Pole (Mid State Meats), Umnak Island (Umnak Slaughter Facility), and Mekoryuk on Nunivak Island (Nuniwarmiut Reindeer and Seafood).

The MMM&S was reopened in the late 1980's under a memorandum of agreement between DNR and the Department of Corrections (DOC). DOC managed the plant for DoAg, using it as a training program for inmates, while continuing to provide slaughter services to farmers.

In FY 03, plant management was transferred from DOC to DoAg; however, inmates continue to work in the facility. DoAg manages the facility using ARLF funds to pay all MMM&S operating expenditures. MMM&S operating expenditures include wages for three correctional industries production manager positions; wages of DOC inmates working in the facility; costs for transporting inmates to and from prison; and costs of capital improvements necessary to keep the plant running. DOC is the primary MMM&S customer purchasing 60 to 70 percent of total MMM&S products at market rates.⁸

Due to ongoing operating losses, several unsuccessful attempts were made to sell the MMM&S. During the last attempt in 2006, the request for proposal required bidders to keep the slaughter facility open and to accept all healthy Alaskan livestock for slaughtering regardless of quality. There were no responsive bidders.

3. Palmer Feed Mill

In the 1980's, ARLF acquired the Palmer Feed Mill property as a result of the Matanuska Maid bankruptcy. Several attempts were made to sell the property. In August 2012, BAC entered into an agreement to sell the Palmer Feed Mill property to the City of Palmer. The sale is still pending due to potential asbestos contamination.

4. Umnak Slaughter Facility

The Umnak Slaughter Facility is a USDA-inspected slaughter facility on Umnak Island. In the 1970's, ARLF received the slaughter facility as a result of a loan default. The facility is situated on 6,598 acres of land owned by Department of Transportation and Public Facilities. ARLF has a perpetual agreement for use of the land. Both the facility and the land were leased to several private parties between 1982 and 2008 under different lease term agreements. In September 2008, BAC signed a new lease agreement for 25 years at \$3,926 per year with a possible lease adjustment every five years.

5. Kenai Peninsula Land

Due to a loan default, ARLF acquired two parcels of land on the Kenai Peninsula: one with improvements and another without. The land with improvements was sold.

⁸Based on the estimate from the MMM&S plant processing manager.

DoAg staff attempted to dispose of the second parcel; however, no offers were received. As of February 2013, the land was posted for sale on DNR's website.

Contracts (\$1,326,000 or 6.1 percent) and Notes Receivable (\$48,000 or 0.2 percent)

As of February 28, 2013, ARLF had four contracts and two notes receivable. Contracts were comprised of leases converted to sales or financed repossessed property sales. Notes receivable were comprised of two special financing agreements for land sales.

Cash (\$5,194,000 or 23.8 percent) and Accrued Interest (\$121,000 or 0.6 percent)

As of February 28, 2013, ARLF's cash balance comprised almost a quarter of its assets. The cash allows ARLF to continue issuing low-interest loans to promote and grow the agricultural industry. The interest accrued on loans, contracts, and notes receivable represents interests earned but not received.

The State of Alaska Loan Programs

In addition to ARLF, the State administers at least 17 other loan programs.⁹ These programs are structured under four state departments: Department of Revenue; Department of Education and Early Development; Department of Environmental Conservation; and Department of Commerce, Community, and Economic Development (DCCED).

Thirteen state loan programs are administered by DCCED. The Financing Section of DCCED's Division of Economic Development (DED) is responsible for administering the diverse loan programs. Examples of DED loan programs include: Capstone Avionics, Commercial Charter Fisheries, Commercial Fishing, Fisheries Enhancement, Mariculture, Microloan, and Small Business Economic Development.

⁹The number of state loan programs was determined by reviewing the state website and *Alaska State Legislature 2013 Standards of Conduct Handbook*, Appendix C: State Benefit and Loan Program Disclosures under AS 24.60.050(c).

REPORT CONCLUSIONS

This audit examines the Agriculture Revolving Loan Fund's (fund or ARLF) performance and administration and compares fund administration to other loan programs and industry best practices. The goal of the evaluation is to identify how the fund's performance could be improved and how efficiencies could be gained with an emphasis on whether the fund should be administered by a different state agency.

We conclude that ARLF's fiscal condition is the result of agricultural policy decisions made over the past 30 years by executive and legislative branches of government. Many lending and management decisions were made in favor of supporting the agricultural industry over maintaining the fund's fiscal health. Since inception, ARLF's fund equity has declined by 69 percent, and it annually loses over \$118,000 from operating Mount McKinley Meat and Sausage Company (MMM&S).

Although ARLF's default rate was found to be reasonable at the program level when compared to other agricultural loan programs, the audit identified numerous administrative deficiencies that, if not corrected, will likely contribute to future losses. Examples of deficiencies include ineffective and inefficient processes for loan evaluation and approval, property management, and loan management. Additionally, the audit found regulations do not promote fiscally responsible decisions on a consistent basis.

Our review of comparable loan programs found that boards similar to the Board of Agriculture and Conservation (BAC) are not commonly used for lending decisions. It is more common for lending decisions to be made by professional lending staff or by a committee with lending expertise. Based on administrative deficiencies and opportunities for increased efficiency, we conclude that moving ARLF administration and loan decisions to the Division of Economic Development (DED) may improve the loan program's efficiency and effectiveness, and help ensure the fund's future solvency.

Detailed conclusions are presented below.

ARLF's equity has declined 69 percent over the life of the fund.

Since creation in 1953, ARLF has been capitalized with over \$71 million.¹⁰ The last significant capitalization of \$2.5 million occurred in 1986. As of February 2013, fund equity totaled approximately \$22 million. The primary reasons for the decrease in ARLF's balance are:

- Twenty-nine million dollars in defaulted loans and contracts were written off. Division of Agriculture (DoAg) staff reported that of this amount, \$18 million were

¹⁰Based on the DoAg financial records.

associated with the rapid development of agricultural projects in Delta Junction and Point McKenzie areas in the 1970s and 1980s.

- Thirteen million dollars were used to fund DoAg administrative expenditures between FY 89 and FY 08.
- Ten million dollars were appropriated back to the General Fund between FY 87 and FY 89 as an additional General Fund revenue source.
- Three and a half million dollars were used to purchase the MMM&S and fund its operating losses and improvements between 1981 and 2013.

ARLF's default rates were similar to other lending programs.

Over the past five years, ARLF's average default rate of approximately two percent was similar to other agriculture lending programs that reported rates ranging from zero to 2.5 percent. ARLF's delinquency rate ranged from one percent to 9.2 percent over the same time period. Delinquency rates could not be compared to other agricultural loan programs because programs did not consistently report delinquency rates. For review purposes, a *delinquent loan* is defined as a loan with payments not made for over 90 days. A *defaulted loan* is defined as a loan sent to the assistant attorney general for collection.

Three types of ARLF loans were in delinquent and in default status – farm development, short term, and chattel. At the loan type level, delinquency and default rates were as high as 28.6 percent for short term loans. However, short term loans represent only 8 percent of total loans outstanding as of February 28, 2013.

Appendix A provides additional details on ARLF delinquency and default rates by loan type and fiscal year.

Deficiencies were found in ARLF administration.

In analyzing ARLF assets and evaluating loan processes and procedures,¹¹ several administrative deficiencies were identified that negatively impact fund performance. If not corrected, the deficiencies will jeopardize the fund's fiscal health. Deficiencies primarily resulted from not using industry best practices in asset and loan management. Deficiencies identified in the loan evaluation and approval processes, and property and loan management are described below.

Loan Evaluation and Approval Processes

- Loan collateral values were not independently verified prior to approving loans.

¹¹Twenty-two loans, two contracts, and five property assets were reviewed.

- Personal property was accepted as loan collateral.
- Corporate and limited liability company borrowers were not consistently required to provide personal guarantees as individual loan co-signers.
- One restructured loan amount increased beyond the amount allowed by regulations.
- Additional loans were given to borrowers who experienced substantial financial losses and had difficulty meeting prior loan obligations.
- New loans were given to borrowers without prudent consideration of prior ARLF loan defaults.
- Short-term loans were restructured into new short-term loans to inappropriately extend loan terms beyond the statutory time limit.

Property Management

- Assets and loan collateral were not regularly inspected.
- One repossessed property was not properly maintained which resulted in unnecessary and preventable property deterioration.
- Business properties lacked sufficient oversight.
- Lease rates provided little return on investment.
- Real estate property and cash were given to a contractor with no oversight over contract performance which resulted in a loss to the fund in property and cash.
- The financial status of one significant ARLF asset was unknown because neither financial nor operating information about the business property asset was requested by DoAg or BAC in the last five years.

Loan Management

- The required property insurance for collateral on two loans expired and no follow up was performed by DoAg.
- Loan collateral was sold by a borrower without BAC approval and no follow up was performed by DoAg staff for five years.

To improve the fund's asset and loan administration, we recommend the legislature consider moving ARLF administration to the Department of Commerce, Community, and Economic Development (DCCED) as discussed in Recommendation No. 1.

ARLF annually loses approximately \$118,000 from its MMM&S investment.

As described in the Background Information section, the MMM&S is a meat slaughtering facility acquired by ARLF and managed for the benefit of Alaskan farmers.

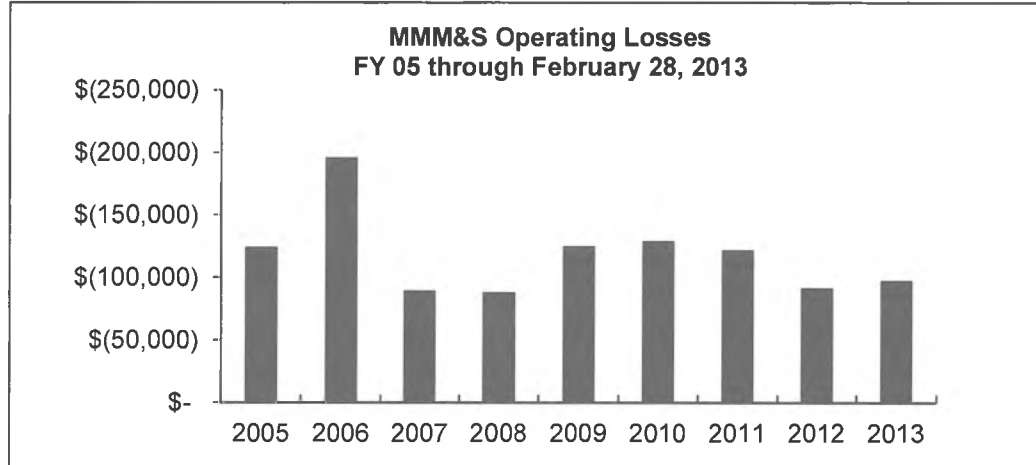
Although operated for the benefit of Alaskan farmers, only 20 percent of meat processed in the facility comes from Alaskan grown animals. The remaining 80 percent is purchased from local wholesalers in the form of boxed meats. Boxed meats are cuts of meat in sub-primal

form shipped from areas outside Alaska to the MMM&S in Palmer for further processing and packaging.

The MMM&S was designed to slaughter 100 hogs per day or 50 head of cattle; however, capacity cannot be reached due to design flaws. As of February 2013, the slaughter facility operated at approximately five percent of capacity.¹² The MMM&S is an old facility with deteriorating equipment. Despite multiple attempts to improve MMM&S efficiency and cost cutting measures,¹³ the plant continues to incur losses.

Since 1981, building and operating the MMM&S has resulted in state losses of approximately \$3.5 million from ARLF and \$2 million from the General Fund. ARLF currently incurs an average loss of approximately \$118,000 a year¹⁴ from MMM&S operations. Exhibit 4 shows MMM&S operating losses reported since FY 05. (See Recommendation No. 3.)

Exhibit 4



Personal services for ARLF administration were not fully recorded as ARLF expenditures.

Nine state positions collectively administer ARLF (six DoAg staff, two Department of Natural Resources (DNR) Administrative Services staff, and one Department of Law employee). Appendix B summarizes the job duties for each of the nine positions.

There is a discrepancy between personal services recorded as ARLF expenditures by six of the nine positions and time actually spent by these employees on ARLF administration. Over the last five years, ARLF-related personal services recorded as General Fund expenditures

¹²There were a total of 626 animals slaughtered between July 1, 2012, and February 28, 2013.

¹³The improvement measures reported by the plant processing manager included operating four days a week, 10 hours a day; discontinuation of paying for inmate meals; and reducing the temperature of the slaughter facility to decrease heating costs.

¹⁴Losses were estimated based on financial information recorded in the state accounting system.

totaled approximately \$171,000. Appendix C shows the estimated percentages of employees' time administering ARLF and the percentages charged to ARLF.

Inefficiencies were identified in ARLF's administration.

Analysis of ARLF's administration identified the following inefficiencies.

- The \$50 application fee charged to ARLF borrowers is not sufficient to cover the costs associated with processing and closing loans even though regulations require borrowers pay all costs for loan processing and closing.
- ARLF administrators do not use an automated lending system for loan processing, monitoring, and reporting. The current loan filing and reporting system is archaic and inefficient. Loan files lacked documentation to adequately support the loan application evaluation process. Furthermore, DNR's payment receipting system cannot readily provide historical default and delinquency data.
- Duties are not properly segregated in ARLF's payment receipt process.
- ARLF administrators have not obtained the United States Department of Agriculture's (USDA) Farm Service Agency (FSA) loan guarantees for ARLF loans to mitigate potential loan losses. In accordance with the federal regulation,¹⁵ ARLF is eligible for USDA FSA loan guarantees.

To gain efficiencies, we recommend ARLF administration be transferred to DCCED as discussed in Recommendation No. 1.

ARLF regulations contribute to poor fund administration.

When compared to other loan programs, ARLF's regulations do not promote consistent fiscally responsible decisions. Specifically, ARLF's regulations do not include criteria for approving loans and do not provide sufficient guidelines for evaluating collateral. Additionally, regulations do not describe leasing requirements and do not provide guidance for setting lease rates on properties to ensure appropriate returns on investments. Appendices D and E provide examples of the evaluation and approval process for comparable loan programs.

Below are examples of regulations that should be clarified to better enforce ARLF-related statutes.

- Alaska Statute 03.10.030(a)(2) states that total loans issued by ARLF may not exceed \$1 million. However, because there is no guidance in regulations, BAC does not apply this statute to contracts. A single borrower may have a contract in excess of

¹⁵Title 7 of the Code of Federal Regulations, Section 762, Subsection 105.

\$1 million and loans up to \$1 million. Thus, the total ARLF risk of loss to a single borrower may exceed \$2 million or nine percent of ARLF's total assets for FY 13. One borrower has \$1.8 million in total ARLF debt including a contract issued by ARLF.

- Alaska Statute 03.10.033(a) allows BAC to restructure loans made after 1987 only if a borrower was affected by declared agricultural or farm disasters. However, 11 AAC 39.660 is more inclusive and includes factors that are broader than statutory requirements. The regulation allows BAC to approve loan restructuring if the borrower cannot repay the loan according to its existing terms from agricultural and non-agricultural income and liquidation of assets if the board determines that, based on the financial information, (a) the borrower can repay the loan if restructured and (b) restructuring the loan is expected to increase the State's return.
- Alaska Statute 03.10.030(c) states that BAC may extend the term of a short-term loan for up to three years. However, lack of clear regulatory guidance allows BAC to restructure a short-term loan into another short-term loan that, in effect, permits the term to be extended beyond three years.
- Alaska Statute 03.10.020 specifies the type of loans that can be offered by BAC. Only four of seven types are covered in ARLF regulations.

To improve ARLF administration, we recommend ARLF regulations be revised to promote industry best practices and better support statutory compliance as discussed in Recommendation No. 2.

There are inherent conflicts with respect to BAC members approving loans.

Alaska Statutes require one of seven BAC members to have general business or financial experience; one member to be from a statewide agricultural promotion organization; one member to be from a soil and water conservation district and engaged in commercial production agriculture; and four members to represent different agricultural enterprises. Because statutes require the majority of the board to be involved in agriculture, there will always be an inherent conflict of interest with respect to board members approving ARLF loans. The small size of Alaska's agricultural community further contributes to conflicts of interests.

Review of board meeting minutes showed board members and DoAg's director routinely recused themselves from voting on loans and, in some cases, recused themselves from loan discussions in their agricultural areas of expertise due to potential conflicts of interest.

Boards similar to BAC are not commonly utilized for approving loans.

Analysis of six comparable loan programs found boards such as BAC are not commonly used to approve loans. Only two of six programs use boards for loan approval: the Alaska Rural Rehabilitation Corporation (corporation) and the State of Hawaii agricultural loan programs. Furthermore, the two programs differ from BAC by having a more balanced membership. The corporation includes non-agriculture business professionals, and the Hawaiian board is not required to be comprised of agricultural industry representatives.

The other four comparable loan programs use different administrative mechanisms for making lending decisions. The descriptions of these mechanisms and different program structures are summarized below. A more detailed description of the six comparable loan programs is included as Appendices D and E of this report.

1. *State of Maine.* Loans are approved by the Maine Department of Agriculture commissioner based on the recommendation from an eight-member loan evaluation committee. The loan evaluation committee is appointed by the commissioner and is comprised of bankers and financial experts with lending and agricultural experience. The loan evaluation committee bases its recommendations on the credit risk evaluation performed by credit officers from the Financial Authority of Maine.
2. *State of Connecticut.* Connecticut Department of Economic and Community Development staff is responsible for loan decision-making. The decision-making process is comprised of three steps. First, a project manager determines that an applicant meets basic program eligibility requirements. Second, loan processing staff performs due diligence reviews by verifying applicable licenses; reviewing credit histories, financials, and business plans; calculating financial ratios; and assessing cash flows. Third, if approved, the information is forwarded to the department's attorney for legal review and closing.
3. *USDA FSA.* Loan approvals lie with the loan officers. Each loan officer is delegated approval authority up to a certain threshold based on pay grade and experience. If a loan exceeds the threshold, the loan officer submits the reviewed loan application with a recommendation to another loan officer with the appropriate approval authority. The state FSA director has the highest loan approval authority.
4. *DCCED Commercial Fishing Revolving Loan Program.* Loan requests are approved, denied, and modified by a loan committee. The loan committee is comprised of senior loan officers. Decisions are made based on application evaluations and recommendations provided by a loan officer.

Transferring ARLF administration to DCCED's DED may improve efficiency and effectiveness.

Many of the administrative deficiencies and inefficiencies noted in this audit have been reported previously as part of prior Division of Legislative Audit reports. In a 2002 audit report,¹⁶ it was recommended that ARLF loan approval and servicing as well as ARLF fund management and custody be reassigned to DCCED (formerly known as the Department of Commerce and Economic Development). Based on the results of the current audit, we again recommend the legislature consider moving ARLF administration to DCCED as discussed in Recommendation No. 1.

Transferring ARLF administration to DED may benefit the fund in the following ways:

1. DED already administers 13 state loan programs. ARLF would benefit from economies of scale¹⁷ offered by DED which could improve the efficiency of lending and collections. While it is difficult to estimate the actual costs associated with transferring ARLF, the incremental costs of adding ARLF to other DED lending programs would likely be less than the annual administrative costs of approximately \$385,000¹⁸ incurred by DoAg.
2. DED uses an automated loan program for loan accounting and servicing that may improve ARLF's operational efficiency.
3. ARLF would benefit from DED's lending expertise including uniform loan evaluations and processing procedures that may result in less defaults and write-offs as well as potentially decrease the severity of loan losses.

Transferring administration from DoAg may include the following challenges.

1. DED does not have experience with agricultural loans. However, agriculture-related questions can be directed to DoAg similarly to how DED administers its other lending programs. Furthermore, DED loan and collection officers are accustomed to working with specialized loan programs experiencing wide economic fluctuations and secured by atypical collateral.
2. DED currently does not have an office in the Matanuska Valley where 60 percent¹⁹ of current ARLF borrowers are located. Thus, new loan applicants and existing

¹⁶Special Audit of Division of Agriculture, Selected Issues, November 29, 2002, audit control no. 10-30017-03 .

¹⁷*Economies of scale* are the cost advantages obtained from DED's processing and servicing a larger number of loans which should in turn, reduce per loan cost by spreading total costs over the increased number of loans administered by DED.

¹⁸Administrative costs include personal services, travel, and contractual services charged to ARLF and the General Fund; however, the costs do not include the MMM&S and loan losses.

¹⁹As of March 29, 2013, per DNR financial documents.

borrowers would have to become familiar with different personnel, lending practices, and office locations.

3. DED does not manage businesses. An analysis of the cost versus benefit of retaining or disposing the two ARLF business properties (the MMM&S and the cooperative) would be necessary.

(Intentionally left blank)

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The legislature should consider moving the Agriculture Revolving Loan Fund's (fund or ARLF) administration to the Department of Commerce, Community, and Economic Development's (DCCED) Division of Economic Development (DED).

Report conclusions outline deficiencies in the Division of Agriculture's (DoAg) processes for evaluating and approving loans, managing property, and managing loans. The Division of Legislative Audit (DLA) has issued numerous recommendations over the past 20 years to improve the fund's administration. Many of the prior recommendations have not been addressed and are still applicable.²⁰

The deficiencies can be partially attributed to the competing priorities of assisting Alaska's agricultural industry and maintaining the fund's fiscal health. Alaska Statute 03.10.010 requires the Board of Agriculture and Conservation (BAC) to promote more rapid development of agriculture as an industry throughout the State by means of long-term low-interest loans. Decisions to promote agriculture and support Alaskan farmers through the use of ARLF assets have not always been fiscally prudent. While BAC diligently works to serve the agricultural industry, improvements have not effectively eliminated the types of administrative deficiencies noted in this report.

If the deficiencies described in this report persist, ARLF's equity may continue to decline, and the fund's ability to promote agricultural development through long-term low-interest loans may diminish.

We recommend the legislature consider transferring ARLF's administration and lending decisions to DCCED's DED. ARLF's small number of loans would be more efficiently administered by DED who has existing expertise in lending and loan servicing. Furthermore, the transfer to DED may reduce ARLF administrative costs. ARLF performance would also benefit from DED's automated system that may help improve the effectiveness and efficiency of administration.

²⁰For example, the conclusion about ARLF not adequately managing its properties appears in the DLA March 1998 (audit control number 10-4557-98) and December 2002 (audit control number 10-30017-03) reports. The conclusions about DoAg's noncompliance with statutes and regulations for the loan evaluation and incomplete documentation in the loan files appear in DLA's February 1984 (audit control number 10-4170-84-S), November 1988 (audit control number 10-1303-89-R), and January 1991 (audit control number 10-4359-91) reports.

Recommendation No. 2

ARLF administrators should revise ARLF's regulations to promote industry best practices.

ARLF's regulations do not promote consistent fiscally responsible decisions. Specifically, regulations do not include criteria for approving loans and do not provide sufficient guidelines for evaluating collateral. Below are specific examples of industry best practices included in comparable loan programs, but not in ARLF regulations:

- Borrower's eligibility evaluation;
- Independent verification of collateral value and acceptable collateral types;
- Borrower's credit history evaluation;
- Loan feasibility analysis;
- Borrower's repayment ability analysis; and
- Asset leasing requirements.

Current ARLF regulations were adopted to give BAC and DoAg staff broad latitude and substantial discretion for evaluating and approving loans. However, the broad regulations do not encourage consistent loan decisions and prudent fiscal management practices which contribute to poor fund performance. For example, BAC relied on collateral values reported by borrowers as opposed to independent verifications in over half of the loans reviewed.

Alaska Statute 03.09.040(a) allows BAC to adopt regulations to carry out its duties. Regulations should utilize industry best practices to ensure the fund's future solvency.

We recommend ARLF administrators revise ARLF's regulations to ensure industry best practices are applied in the administration of ARLF.

Recommendation No. 3

ARLF administrators should pursue disposal of business properties and revise property leasing rates to provide a return on ARLF assets.

ARLF currently owns two active business properties, the Mount McKinley Meat and Sausage Company (MMM&S) and the Alaska Farm Cooperative (cooperative). Operating businesses such as the MMM&S and the cooperative is not within ARLF's statutory authority. ARLF's statutory objective is to promote the more rapid development of agriculture as an industry by means of long-term low-interest loans.

Alaska Statute 03.10.050 states that the property acquired by ARLF through foreclosure, default or other action should be disposed of to maximize the State's return. Instead of pursuing disposal of the MMM&S and the cooperative, which could have adverse affects on

the agricultural industry,²¹ policy decisions continue to be made to operate or maintain ownership of these businesses. The MMM&S continues to incur annual losses to the fund, and the cooperative provides no financial return. The cumulative effect is a reduction of ARLF assets.

We recommend ARLF administrators pursue disposal of business properties and revise leasing rates to provide an adequate return on ARLF assets.

²¹In 2002, BAC adopted regulation (11 AAC 39.700(b)) which requires the board before the disposal of the property to hold public hearings and address public comments if disposal could have a significant effect on the agricultural industry.

(Intentionally left blank)

Appendix A

**Number of Delinquent and Defaulted ARLF Loans
As of February 28, 2013**

<i>Number of Outstanding Loans at Fiscal Year-End</i>							
Fiscal Year	Farm Development	Short Term	Chattel	Land Clearing	Irrigation	Product Processing	Total
2009	59	10	20	3	-	3	95
2010	63	12	20	2	-	5	102
2011	59	13	22	-	-	4	98
2012	61	14	19	-	-	5	99
2013 ²²	61	7	16	-	-	4	88

Fiscal Year	<i>Number of Delinquent Loans</i>				<i>Percentage of Delinquent Loans to Total Number of Outstanding Loans per Category</i>			<i>Delinquency Percentage to Outstanding Loans</i>
	Farm Development	Short Term	Chattel	Total	Farm Development	Short Term	Chattel	
2009	3	-	-	3	5.1%	-	-	3.2%
2010	1	-	-	1	1.6%	-	-	1.0%
2011	5	2	2	9	8.5%	15.4%	-	9.2%
2012	3	4	1	8	4.9%	28.6%	5.3%	8.1%
2013 ²²	2	1	1	4	3.3%	14.3%	6.3%	4.5%
Total	14	7	4	25				

Fiscal Year	<i>Number of Defaulted Loans</i>				<i>Percentage of Defaulted Loans to Total Number of Outstanding Loans per Category</i>			<i>Default Percentage to Outstanding Loans</i>
	Farm Development	Short Term	Chattel	Total	Farm Development	Short Term	Chattel	
2009	-	-	-	-	-	-	-	-
2010	1	-	-	1	1.6%	-	-	1.0%
2011	-	-	-	-	-	-	-	-
2012	1	1	-	2	1.6%	7.1%	-	2.0%
2013 ²²	1	2	2	5	1.6%	28.6%	12.5%	5.7%
Total	3	3	2	8				

²²As of February 28, 2013.

(Intentionally left blank)

Appendix B

Duties Performed by State Employees In Administering ARLF

Position Title	Description of ARLF Duties
<i>Department of Natural Resources, Division of Agriculture</i>	
Director	<ul style="list-style-type: none"> • Oversees BAC • Ensures compliance with BAC-related statutes and regulations • Provides leadership and management for ARLF support services • Presents and monitors ARLF's budget • Supervises all division staff, including the loan/collection officer • Reviews loan applications for completeness • Attends BAC meetings
Administrative Officer II	<ul style="list-style-type: none"> • Acting director when director may have a conflict or when not present • Prepares budget for BAC review • Approves leave, timesheets, and travel • Oversees major purchases and contracts
Administrative Officer I	<ul style="list-style-type: none"> • Annually updates some ARLF budget components • Coordinates travel and BAC meetings • Records, transcribes, and publishes board meeting minutes • Notarizes BAC disclosures • Performs human resource management • Trains division staff • Monitors expenditures
Loan/Collection Officer I	<ul style="list-style-type: none"> • Assists applicants in applying for loans and reviews applications • Denies applications that do not meet requirements • Performs reference, credit, and lien checks • Obtains appraisals on collateral • Prepares BAC reports on each loan applicant with specific recommendations • Prepares BAC reports on loan collectability and delinquencies • Prepares annual interest rate analysis • Contacts borrowers about delinquencies • Manages and protects ARLF's assets from deterioration and prepares sales • Assists the Attorney IV with collateral liquidation and legal documentation
Office Assistant II	<ul style="list-style-type: none"> • Helps prepare BAC packets • Receives and processes ARLF payments
Administrative Assistant I	<ul style="list-style-type: none"> • Receives and processes ARLF and MMM&S payments
<i>Department of Natural Resources, Division of Support Services</i>	
Accountant III	<ul style="list-style-type: none"> • Sets up loans in DNR's revenue and billing system • Processes borrowers' loan disbursements • Monitors payments received from customers • Generates and mails out default notices • Prepares annual financial statements and other financial reports • Attends BAC meetings • Supervises the Accounting Technician I • Certifies and reviews the Accounting Technician I's work
Accounting Technician I	<ul style="list-style-type: none"> • Receives and processes ARLF payments
<i>Department of Law</i>	
Attorney IV	<ul style="list-style-type: none"> • Provides legal advice to BAC and DoAg regarding ARLF administration • Attends all BAC meetings • Facilitates the liquidation process and negotiates with delinquent and default borrowers

(Intentionally left blank)

Appendix C

**Time Incurred and Charged to ARLF
by State Employees**

<u>Title</u>	<u>Percentage of Employee Time Working on ARLF</u>	<u>Percentage of Employee Time Charged to ARLF</u>
<i>Department of Natural Resources, Division of Agriculture</i>		
Director	5-10%	0%
Administrative Officer II	5-10%	0%
Administrative Officer I	30-40%	0%
Loan/Collection Officer I	100%	100%
Office Assistant II	75%	100%
Administrative Assistant I	5%	0%
<i>Department of Natural Resources, Division of Support Services</i>		
Accountant III	30-40%	50%
Accounting Technician I	20%	20%
<i>Department of Law</i>		
Attorney IV	40%	40%

(Intentionally left blank)

Appendix D

Comparison of ARLF to Instate Lending Programs

	ARLF	Commercial Fishing Revolving Loan	Alaska Rural Rehabilitation Corporation	Farm Service Agency
Loan Program Description	A state fund that promotes the development of the agricultural industry throughout the State by means of low interest rate loans	A state fund that promotes fisheries rehabilitation, resident fisheries development, and fishing gear and vessel maintenance through-term low interest loans	A private nonprofit organization that offers loans to farmers and others involved in agricultural pursuits	A federal agency that serves farmers, ranchers, and agricultural partners by delivering effective and efficient agricultural programs
Number of Employees Involved in Processing an Application	1 loan officer	8 to 9 employees (including clerical staff and loan officers)	1 loan manager 1 administrative staff	1 loan officer 1 program technician
Number of Loans Issued Per Year	25	215	18	40 to 45
Loan Types	<ul style="list-style-type: none"> • Short term • Chattel • Farm development • Irrigation • Product processing • Land clearing 	<ul style="list-style-type: none"> • For purchasing limited entry permits, quota shares, vessels, or gear 	<ul style="list-style-type: none"> • Chattel • Real estate • Future farmers assistance • Line of credit 	<ul style="list-style-type: none"> • Farm ownership • Operations • Emergencies • Conservation • Land
Interest Rates	3% to 4.5%	5.25%	5 to 9%	1.375% to 8%
Loan Approvers	Board of Agriculture and Conservation	Loan committee	Loan manager and board	Loan officer
Loan Evaluating Factors Per Regulations	<ul style="list-style-type: none"> • Collateral <p>(credit, agricultural experience, financial statements, and expenditure projections are part of the ARLF policy and procedure manual)</p>	<ul style="list-style-type: none"> • Eligibility • Collateral • Credit • Financial history • Operating plan • Repayment ability 	<ul style="list-style-type: none"> • Collateral • Credit • Bankruptcy • Financial statements • Agricultural experience • Business/marketing plan • Repayment ability 	<ul style="list-style-type: none"> • Eligibility • Collateral • Credit • Bankruptcy • Financial statements • Agricultural experience • Managerial ability • Education/training • Repayment ability
Collateral Requirements	<ul style="list-style-type: none"> • 75% loan to collateral ratio, minus any lien • Loans exceeding \$500,000 must be secured by first mortgage 	<ul style="list-style-type: none"> • 100% loan to collateral ratio for entry permit loans, minus any lien • 80% loan to collateral ratio for all other loans, minus any lien • Mortgage or other security instrument • Vessels must be inspected to be accepted • First lien position 	<ul style="list-style-type: none"> • 70% loan to collateral ratio, minus any lien • First lien position • Insurance for real property • No livestock, crops, or produce 	<ul style="list-style-type: none"> • 67% to 100% loan to collateral ratio • Certified appraisals for real property, all other collateral valued at current market value • No tide land leases, reindeer, or personal items

Attachment D
(Continued)

**Comparison of ARLF
to Instate Lending Programs**

	ARLF	Commercial Fishing Revolving Loan	Alaska Rural Rehabilitation Corporation	USDA FSA
Collateral Inspections	Performed based on the loan officer availability	Performed in the event of a default or other problems	Performed annually	Performed on 40% of all properties each year
Collateral Value Assessment	Relies on borrowers' reported value or internal evaluations	Relies on independent appraisals	Relies on internal evaluations and outside appraisals	Relies on independent appraisals
Personal Guarantees or Co-signers	At the discretion of the Board of Agriculture and Conservation	Required for all loans	Required for all loans	Required for all loans
Loan Processing Costs	\$50 application fee and some direct costs	1% of loan value	\$100 application fee and some direct costs	Direct costs (i.e. credit report, closing agent, and UCC filings)
Average Default Rate	1.8%	1.5% to 2.5%	0%	0% ²³
Lending Software	No	Yes	No	Yes

²³FSA has a primary loan servicing program that delinquent borrowers can apply for. If the borrower is eligible for this program, FSA uses loan restructuring, loan reamortization, deferrals, and debt write-down to assist the borrower in bringing the account current.

Appendix E

Comparison of ARLF to Out-of-State Lending Programs

	ARLF	Hawaii	Maine	Connecticut
Loan Program Description	A state fund that promotes the development of the agricultural industry throughout the State by means of low interest rate loans	State funds that promote agricultural development by providing credit at reasonable rates; a program that is the last resort for borrowers	State funds that promote innovative technologies and processes to improve and expand the manufacturing, marketability, and production of agricultural products through low interest loans	A state fund that promotes the dairy industry by providing grants, loans and access to credit to offset costs incurred by federal price controls and high energy costs
Number of Employees Involved in Processing an Application	1 loan officer	4 loan officers	15 employees, including credit officers, loan officers, and assistants	7 employees, including program manager, loan manager, staff, and attorney
Number of Loans Issued Per Year	25	30 to 35	3 to 12	9 loans issued in total since 2006
Loan Types	<ul style="list-style-type: none"> • Short term • Chattel • Farm development; • Irrigation • Product processing • Land Clearing 	<ul style="list-style-type: none"> • Emergency • Farmer ownership • Operating • Facility • Farm operation 	<ul style="list-style-type: none"> • Agricultural assistance • Storage retrofit • New facilities 	<ul style="list-style-type: none"> • Studies/appraisals • Purchases/leases • Construction • Business support • Working capital
Interest Rates	3% to 4.5%	3.375% to 5%	5%	3%
Loan Approvers	Board of Agriculture and Conservation	Board of Agriculture	Commissioner of Department of Agriculture	Loan staff
Loan Evaluating Factors Per Regulations	<ul style="list-style-type: none"> • Collateral <p>(credit, agricultural experience, financial statements, and expenditure projections are part of the ARLF policy and procedure manual)</p>	<ul style="list-style-type: none"> • Eligibility • Collateral • Credit • Management ability • Financial position • Agricultural experience • Repayment ability • Past performance 	<ul style="list-style-type: none"> • Eligibility • Collateral • Credit • Management experience • Sufficient resources • Financial position • Financial projection • Business plan • Shared risk • Project feasibility • Repayment ability 	<ul style="list-style-type: none"> • Eligibility • Collateral • Credit • Financial condition • Business plan • Cash flow

Appendix E
(Continued)

**Comparison of ARLF
to Out-of-State Lending Programs**

	ARLF	Hawaii	Maine	Connecticut
Collateral Requirements	<ul style="list-style-type: none"> • 75% loan to collateral ratio, minus any lien • Loans exceeding \$500,000 must be secured by first mortgage 	<ul style="list-style-type: none"> • 85% loan to collateral ratio • Independent appraisal of real estate • 3rd or 4th mortgage as primary security for assets with limited life 	<ul style="list-style-type: none"> • 91% to 100% loan to collateral ratio • Mortgage or security interest in real estate, building, or personal property of business • Loans exceeding \$250,000 need real estate evaluation • Loans exceeding \$1 million must have independent appraisal on real estate • Registered with the state • Owned by borrower 	<ul style="list-style-type: none"> • 80% loan to collateral ratio • No livestock or personal items • First lien position or personal real estate guarantee with second position
Collateral Inspections	Performed based on the loan officer availability	Properties inspected twice a year	Performed if a problem arises	None performed; however, all farms go through state agricultural inspections
Collateral Value Assessment	Relies on borrowers' reported value or internal evaluations	Internal evaluations and independent appraisals	Internal evaluations and independent appraisals	Independent appraisals
Personal Guarantees or Co-signers	At the discretion of the Board of Agriculture and Conservation	Required for individuals and shareholders with 25% or more ownership	Required for: <ul style="list-style-type: none"> • Individuals and shareholders with more than 20% ownership • Shareholders with 5% ownership receiving a regular annual salary 	Required for individuals and shareholders with 10% or more ownership
Loan Processing Costs	\$50 application fee and some direct costs	\$100 for legal fees and direct appraisal costs	1% origination fee	\$2,000 to \$3,000 for legal closing costs
Average Default Rate	1.8%	1%	1%	1 of 9 loans in default
Lending Software	No	No	Yes	Yes



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner

550 West 7th Avenue, Suite 1400

Anchorage, Alaska, 99501-3650

Phone: 907.269.8431

Fax: 907.269.8918

September 11, 2013

Ms. Kris Curtis, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED

SEP 12 2013

LEGISLATIVE AUDIT

Dear Ms. Curtis:

The Department of Natural Resources (DNR) received your preliminary report regarding the Agricultural Revolving Loan Fund (ARLF) and appreciates the opportunity to provide comments. The following provides background information regarding how and why the Board of Agriculture & Conservation (BAC) performs their functions. You will also find DNR's comments in relation to the preliminary report's Conclusions, Findings and Recommendations.

In summary, we disagree with the report's fundamental conclusion that current administrative practices will necessarily harm the health of the ARLF. While it is true that the fund's value has decreased significantly since its inception, we believe that the fund has performed well over the last five years. Our records show that the ARLF net balance (fund equity) has seen steady growth over the past 5 years, from a balance of \$21,598,249 on June 30th, 2008, to \$22,864,474 on June 30th, 2012—an increase of \$1,254,187 to the fund or 5.7% growth.

The report identifies a number of areas where improvements can be made to the administration of ARLF, and we agree with most of those recommendations. But we caution that to simply move ARLF to another agency will not by itself cause all the stated shortcomings of the ARLF's administration to be cured. We believe that most of those improvements to ARLF can be made regardless of which agency is responsible for its administration. Further, it is important to note that many findings related to administrative deficiencies occurred well in the past and not within the 5 year period as outlined in the scope of the audit—*"ARLF's administration and decision making processes from FY09 through February 2013."*

The other fundamental finding in the report is that the Board of Agriculture and Conservation is not the appropriate mechanism to make loan decisions, and to ultimately control the ARLF. This is, in our view, the single biggest issue raised by this report, and will need careful deliberation by Alaska's agricultural industry, the administration, and the legislature. The current structure of the BAC and its management of the ARLF is perhaps unique in Alaska, and maybe the nation, but it was designed so for a purpose—to promote the more rapid development of agriculture as an industry throughout the state. We should

exercise caution before making significant changes to this system, especially as we believe that the ARLF has been performing well in recent history.

Background:

The purpose of the audit was to evaluate the performance of the ARLF's loan portfolio, identify the duties performed by DNR employees in the administration of the ARLF, identify areas for efficiencies, determine whether DNR should continue to administer ARLF, compare ARLF's program structure to other Alaska and non-Alaska governmental lending programs, and whether inherent conflicts with respect to the board exist. The audit evaluated fund performance over the fund's life, from ARLF's inception in 1953 to present. During this timeframe, fifteen administrations have come in and out of office (20 Directors or Acting Directors), each of which placed different priorities on the importance of agriculture in Alaska.

During the Jay Hammond administration, much focus was placed on agriculture and the Alaska Agricultural Action Council (AAAC) was created by Chapter 75, SLA 1979, First Session, and Eleventh Alaska Legislature. The effective life of the council was from July 1, 1979 to July 1, 1984. Alaska Statute 44.33 was amended to reflect the legislation, which mandated the council report to the legislature before January 15th of each year per AS 44.33.425(a). The report was to contain recommendations for the development of agriculture in the state during the next fiscal year. The council was composed of three state and two private sector members, each appointed by the Governor. The council was chaired by the Special Projects Coordinator in the Office of the Governor, located within but independent of the Department of Commerce and Economic Development (DCED). The AAAC's powers were broad, but in effect, became the agency for new, large-scale agricultural development and innovative technology. The AAAC oversaw the development of the large scale agriculture projects – Pt. MacKenzie, Delta I and Delta II. When projects faced substantial financial difficulties, the agriculture loans were moved from AAAC/DCED to the Division of Agriculture (DoAg), ARLF. ARLF was left with contractual and financial commitments including collection, write-off and general management of those loans.

In 1998, the legislature once again took a renewed interest in the operations and budget of the DoAg and mandated a shift in focus. From 1998-2000, DNR worked with the Legislature to establish the Board of Agriculture and Conservation (BAC) (AS 03.09.010). From the implementation of BAC in 2000 through 2002, DNR assisted the newly appointed BAC to become fully functioning as directed by the Legislature.¹ The responsibility of the BAC is to "*Promote the more rapid development of agriculture as an industry throughout the state by means of long-term low-interest loans* (AS 03.10.010)."

Over the past five years, Alaska has followed the national trend and seen an increased interest in local agriculture. Farmers Markets have blossomed throughout the state, as consumers have an increased interest in knowing where and who produces their food. This interest has been seen in the legislature as well. Several bills relating to agriculture were introduced early in the 2013 legislative session, including HB40, which allows municipalities to exempt qualifying food storage or processing structures to facilitate reduction of operational costs for farmers, and HCR1, which calls on the Governor to establish a state food resource development working group to bring together representatives from state departments to set

¹ DNR Response to Legislation Audit Control #10-30017-03 dated January 8, 2003

policies to build a strong, sustainable and local healthy food system; both were passed and signed by the Governor on June 28, 2013. Late in the 2013 legislative session, HB 207 was also introduced, which merges the responsibilities and functions of two existing boards—the BAC and the Natural Resources Conservation and Development Board (NRCDB)—into a new Board of Agriculture, Conservation and Development and transfers to the Department of Commerce, Community, and Economic Development the authority to approve loans from the ARLF.

DNR Response to Report Conclusions:

ARLF's fiscal condition is the result of agricultural policy decisions made over the past years by executive and legislative branches of government. Many lending and management decisions were made in favor of supporting the agricultural industry over maintaining the fund's fiscal health.

DNR agrees that there have been decisions made over the lifetime of the fund that did negatively affect the overall fiscal health of ARLF, and as the report recognizes, some decisions were beyond the control of DNR or even the BAC.

The Board's statutory directive is to promote the more rapid development of agriculture as an industry in Alaska by means of long-term low-interest loans, which is fundamentally different from the directive of other lending institutions. The BAC, consisting of industry representatives and financial experts,² understands the importance of a healthy loan fund and its importance to the agriculture community. It is important to note that ARLF continues to revolve with no additional capitalization since 1986, and DNR maintains that over the past few years, ARLF has been managed more effectively. DNR understands and agrees that there may be administrative processes that can be improved but would also like to point out that the ARLF is unique in that it was established for use to promote agriculture as an industry. Therefore, the legislature and the executive branch need to carefully deliberate over the BAC and its management of the ARLF and how moving management of the ARLF will impact the development of agriculture as an industry throughout the state.

ARLF's equity has declined 69 percent over the life of the fund.

DNR agrees that ARLF's equity has declined 69 percent over the life of the fund. As the audit noted, ARLF has been funded with approximately \$71 million since its creation in 1953. Certain actions, outside of ARLF's control pulled \$41 million from the fund between 1980 and 2007, which contributed to the large equity decline. However, we believe that the fund equity has seen a steady increase in value over the past 5 years and the fund has continued its ability to revolve with no additional capitalization since 1986.

ARLF default rates were similar to other lending programs.

DNR agrees with this conclusion.

² The current board membership includes two members with finance backgrounds who provide additional financial assistance in loan decisions. The member having general business or financial experience has an accounting background and the member who is part of a statewide agriculture promotion organization is in the banking industry and also has an accounting background. Both are also active in the farming community.

Deficiencies were found in ARLF administration.

We address the specific points below.

Loan Evaluation and Approval Processes

Loan collateral values were not independently verified prior to approving loans.

DNR recognizes that there is some benefit in having collateral verified, and agrees that past loan files did not have adequate documentation and that better file documentation showing an independent verification of collateral values by the loan officer was needed. We have corrected this issue, and we maintain that the current ARLF loan officer has the expertise and tools available to verify loan collateral values.

Current statutes and regulations do not require a third party appraisal unless a borrower is requesting a loan to purchase property. Third party appraisals are generally not required because there are very few appraisers who have expertise in farm equipment or farm property. Collateral values are independently verified by the ARLF loan officer using researched comparables on source materials for farm equipment found both online and in book editions (also used by the Farm Service Agency), borough tax assessments, invoices, and Broker's Opinions of values. In the past, staff expertise has also been used to evaluate collateral.

Personal property was accepted as loan collateral.

The use of personal property is allowed by regulation. The applicant needs to provide on the application, per 11 AAC 39.101 (a)(5), a list of collateral intended to secure the loan.

In conversations with Division of Legislative Audit, it is our understanding that this finding is a result of a single case where an applicant listed a personal computer as collateral. Over the past five years, DNR and the board have worked to better provide the ARLF loan staff with guidelines on collateral. However, DNR recognizes that improvements may be made and that collection of collateral should be enforced.

Corporate and limited liability company borrowers were not consistently required to provide personal guarantees as individual loan co-signers.

The regulations do not require personal guarantees; however, the regulations give the board discretion to require a personal guarantee. See 11 AAC 39.231 (e). The notion of requiring a personal guarantee was discussed at a previous BAC meeting; however, after advisement from the Assistant Attorney General at the Department of Law, it was determined to be in ARLF's best interest to continue allowing the board discretion as to when a personal guarantee is required because not every loan requires a personal guarantee. Some basic parameters for when the BAC would want to require personal guarantees have also been discussed in the past and both DNR and the BAC have discussed the need for regulation updates; however, both also recognize the need to allow the Board some flexibility in its determinations in order to fulfill its mission.

The restructured loan amount increased beyond the amount allowed by regulations.

DNR believes this is in reference to one loan, in which a loan was refinanced in 2009 at a lower interest rate for an amount greater than the loan balance. This is not a typical event and we agree that there is no documentation in the file for why this occurred. DNR recognizes that there may be some improvement in its internal processes and has undergone an effort to provide better documentation in existing and future case files.

However, the BAC is allowed to approve loans if restructuring the loan is expected to increase return to the state (AS 03.10.033 and 11 AAC 39.660 (b)(3)). It is general lending practice by financial institutions to consider the value of the collateral at the time of restructure or refinance, and the BAC follows this practice to the best of its ability.

Additional loans were given to borrowers who experienced substantial financial losses and had difficulty meeting prior loan obligations.

DNR agrees with the conclusion that additional loans were given despite difficulty meeting prior loan obligations, but board minutes reflect that the board found reasonable cause for approving the loan, which is allowed in regulation (11 AAC 39.940). In this one case, existing dairy farmers were in a position to dump milk, and providing a loan to Valley Dairy appeared to be the only viable option.

New loans were given to borrowers without consideration of prior ARLF loan defaults.

DNR disagrees with this conclusion. The BAC does in fact consider prior ARLF history in making their decisions, but often they must also take into account broader issues related to the overall health of the agricultural industry. For example, in 2007, Governor Palin gave the BAC the mandate to assist the struggling dairy industry. The new board, tasked with a difficult job, followed all statutes and regulations and approved loans that may have helped prevent the total collapse of the dairy industry. A Department of Law attorney attended all meetings and provided legal advice to the board.

Short term loans were restructured into new short term loans to inappropriately extend loan terms beyond the statutory time limit.

The BAC relied on the legal advice provided by the Department of Law attorney. The statute authorizing short term loan extensions (AS 03.10.030) appears to allow these extensions. However, after the extensions were authorized, the attorney researched the legislative history and provided the board with a memo discouraging such restructuring in the future except in exceptional circumstances.

Property Management

Asset & loan collateral was not regularly inspected.

ARLF's collateral inspection is similar to other state loan programs (e.g., Commercial Fishing Revolving Loan), in that an inspection is performed in the case of default or if another problem

arises. Although assets are not inspected regularly due to limited resources, farm visits are performed when staff is in the area and assets and loan collateral are then inspected.

Repossessed property was not properly maintained which resulted in unnecessary and preventable property deterioration.

DNR disagrees with the generality of this statement and is aware of only one property in which this occurred. This incident occurred well outside the timeline of the scope of the audit as the property was sold in 2006.

Business properties lacked sufficient oversight.

DNR disagrees with the generality of this statement. The DoAg continues to actively manage Mt. McKinley Meat & Sausage (MMM&S). DoAg provides a Production Manager at the facility, who reports on inventory, animals processed, and prices set for product on a monthly basis. In addition, DNR's Support Services Division (SSD) also provides monthly financial reports on the ARLF and updates the BAC at each meeting.

Although the Alaska Farm Cooperative (AFC) is an asset of ARLF, neither the BAC nor DNR is responsible for its day-to-day business operations. In 1993, a bankruptcy reorganization plan was submitted and approved in bankruptcy court, which established the lease amount and terms of the lease. Continued operation was a stipulation of the approved plan and subsequent lease, and if operations cease the lease agreement becomes void at the end of the calendar year.

The lease terms for the Umnak slaughter facility are also reviewed by the board every five years.

Lease rates provided little return on investment.

Again, this statement appears to apply to only one situation—the AFC. DNR agrees that the rental of the AFC brings minimal yearly return to the state, but the rental contract was the result of a settlement of state court litigation (Case No. 4FA-91-956 Civil) and a Chapter 11 bankruptcy workout between the debtor and the Department of Law (Case No. 92-00878). The terms of the settlement were submitted to the bankruptcy court for approval and the debtor's bankruptcy reorganization plan was approved on June 16, 1993. The settlement resulted in resolution of the state court action, and enabled the debtor to remain in business so that it could continue to provide goods and services to agricultural businesses in the Fairbanks area.

Real Estate property and cash were given to a contractor with no oversight over contract performance which resulted in a loss to the fund in property and cash.

We believe this is in reference to the historic Matanuska Maid cannery/creamery, whose disposal resulted from an agreement that was worked through the Department of Law. We have limited information on this transaction as it happened prior to the tenure of the current Director of DoAg. It was determined to be in the best interest of the state to transfer the property to a party who would restore and preserve it, due to its historical significance. The cash payment was to mitigate potential contamination issues of the property.

The financial status of one significant ARLF asset was unknown because neither financial nor operating information about the business property asset was requested by DoAg or BAC in the last five years.

DNR believes this statement is in regards to the AFC. There is no reason for either the DoAg or the BAC to request this financial information from the AFC. As stated earlier, a bankruptcy reorganization plan established the lease amount and terms of the lease and so long as AFC remained in operation, the lease agreement stands. The AFC has continued to operate for the past 20 years.

Loan Management

The required property insurance for collateral expired and no follow up was performed by DoAg.

DNR agrees that insurance had expired on collateral in one file and has corrected the deficiency. DoAg is looking to develop a tickler system to assure appropriate checks are in place in an attempt to keep track of property insurance for collateral.

Loan collateral was sold by a borrower without BAC approval and no follow up was performed by DoAg staff for five years.

The property in question was never sold but was in an Owner Finance Agreement which was relinquished. The loan officer did inform the borrower that he could not sell his property without paying off his loan with ARLF and that it would be a violation of loan terms to enter into a contract for sale or lease with option to purchase at an interest rate and payment amount higher than their ARLF loan. Although there was no follow up throughout the five year period, the borrower continued to make direct payments on their loan and therefore it did not become an issue. However, once the loan officer realized that they were in default of their loan due to a "Contract Sale Agreement" and "Memorandum of Grant of Right to Purchase," the loan officer contacted both the borrower and the buyer to remedy the situation. As a result, the buyer recorded a Quit Claim Deed which released his interest in the property.

ARLF annually loses approximately \$118,000 from its Mt. McKinley Meat & Sausage (MMM&S) investment.

DNR agrees with this statement, but believes the continued operation and state subsidy of MMM&S provides benefits to the agricultural industry that must be taken into account. Even with the \$118,000 annual subsidy to MMM&S, the ARLF has been able to maintain itself and increase its value over the last several years.

After multiple meetings with industry, DNR and the BAC determined it an important asset of the agriculture industry and continues to subsidize the loss through the ARLF. With only 3 USDA slaughter facilities on the road system in Alaska, MMM&S provides a vital service to livestock producers in south central Alaska and serves industry from Homer, to Kenny Lake to Talkeetna. USDA slaughter facilities provide the necessary USDA stamp to move quality product into commerce and there are only three USDA slaughter facilities on the road system in Alaska. This facility serves: 4-H/FFA students who raise

project animals each year that are then sold at local fairs, small scale producers as well as Alaskan residents who raise their own animals for family consumption.

This slaughter facility also serves as a training opportunity for inmates, teaching skills from meat cutting, inventory tracking, to basic job skills. Boxed meats are purchased by this facility and processed to provide additional training opportunities to inmates, meet demand of institutional orders, and help reduce losses. Inmates are provided letters of reference upon release, if they have learned and/or demonstrated positive job skills.

We continue to look for efficiencies to minimize the cost to the ARLF and the BAC, DoAg, DNR and members of the agricultural industry have discussed the future of MMM&S at length on many occasions and how to minimize negative impacts on the agricultural industry. DoAg has initiated three Requests for Proposals (RFP's) in 2000, 2002 and 2006 to facilitate transferring the facility from State ownership to private or Cooperative ownership. Each of these disposal attempts required the new owner(s) to keep the kill floor open and accept all healthy Alaskan livestock for slaughter. Past disposal offerings have included purchase, lease or lease to purchase options. No acceptable offers have been tendered to the BAC with such use conditions. Subsequent to the 2006 RFP offering, the BAC reiterated its open door policy to proposals offered for management and/or purchase of MMM&S.

Personal services for ARLF administration were not fully recorded as ARLF expenditures.

DNR agrees with this conclusion but believes that the Administrative Officer I position only spends 5-10% of their time on ARLF duties and not the 30-40% as reported in Attachment C.

Staff from both the DoAg and the Support Services Division work on a variety of programs within their divisions that experience duty overlap, and DNR does not believe it would be cost effective or efficient to separate out time spent when duties overlap from program to program in this situation. There are other personnel that are not listed in Attachment C who also support ARLF but absorb that as part of their regular duties. For example, there are additional personnel in the Support Services Section of DNR who work on financial statements and revenue and billing accounts' management reconciliation for the entire department, which include ARLF accounts. The time spent on these activities is not tracked separately and it would likely cost more to determine how much time was actually spent on particular activities than the cost of providing that support.

Inefficiencies were identified in ARLF's administration.

The \$50 application fee charged to ARLF borrowers is not sufficient to cover the cost associated with processing and closing loans even though regulations require borrowers pay all costs for processing and closing loans.

DNR agrees that the \$50 application fee does not cover the cost of personnel, although borrowers do pay any additional costs associated with closing a loan. The application fee is outlined in regulation and a fee increase would require a regulation change.

ARLF administrators do not use an automated lending system for loan processing, monitoring and reporting. The current loan filing and reporting system is archaic and inefficient. Files

lacked documentation to adequately support the loan application evaluation process. Furthermore, DNR's payment receipting system cannot provide historical default and delinquency data.

DNR does not use an automated lending system for loan processing, monitoring, and reporting and we recognize that some loan files have lacked appropriate documentation in the past. DNR implemented an online application system in 2008 to better facilitate proper documentation. DNR has also implemented new policies, has seen an improvement in files, and continues to look for ways to improve.

DNR's payment receipting system does have the ability to provide historical default and delinquency data, with additional programming. DNR is looking at potential methods for improving and better integrating internal processes.

Duties are not properly segregated in ARLF's payment receipt process.

Due to the size of the division, complete segregation to separate employees of payment receipt and depositing duties within the DoAg is difficult, although policies are in place to provide as much segregation as possible. We are taking this recommendation under advisement.

ARLF administrators have not obtained USDA FSA loan guarantees for ARLF loans to mitigate potential loan losses. In accordance with the federal regulation, ARLF is eligible for USDA FSA loan guarantees.

DNR agrees that that the BAC has not obtained FSA loan guarantees on any ARLF loans to date. ARLF is an approved lender eligible for loan guarantees; however, to the best of our knowledge, attempts to apply for a loan guarantee have been unsuccessful. Although FSA loan guarantees will guarantee up to 90% of eligible loans, this is contingent on federal funds being available and the guarantee is limited and not all borrowers qualify. In addition, short term loans and processors or processing facilities are not eligible for the loan guarantee program. We agree that mitigation of potential loan losses is something that may need to be further explored and we will continue to explore FSA loan guarantee options; however, loan guarantees are not currently required either in statute or regulation.

ARLF regulations contribute to poor performance.

DNR disagrees with this conclusion. The audit concluded in the middle of page 14, that the ARLF's default rates over the past five years were reasonable when compared to other agricultural loan programs. Further, the past 5 years have seen an increase in the fund portfolio.

DNR does agree that the ARLF regulations should be revised to promote industry best practices, but still allow the board the needed flexibility to serve the agriculture industry.

There are inherent conflicts with respect to BAC members approving loans.

DNR agrees with this conclusion but believes the current structure of the board provides benefit to the agriculture industry. The seven member board, comprised of 4 agriculture producers, 1 soil and water conservation district member, 1 business or financial person, and 1 state-wide agriculture promotion seat is laid out in statute (AS 03.10.050(b)). Although the board structure may be somewhat unique, it was

designed for the purpose of promoting the more rapid development of agriculture as an industry throughout the state.

Auditors did note that Board members have appropriately recused themselves when a conflict did arise. The Department of Law also has an attorney attend each meeting.

Boards similar to BAC are not commonly utilized for approving loans.

DNR agrees with this conclusion but it is more important to note that two of the six agricultural lenders, against which the ARLF was compared, have similarly structured boards—the Alaska Rural Rehabilitation Corporation (ARRC) and the State of Hawaii agricultural loan program. Although the audit states that the two programs differ from BAC by having a more balanced membership, we believe that board members with agricultural expertise benefit both the agriculture community and the loan programs with their personal knowledge of markets, production, and costs.

Transferring ARLF administration to DCCED's DED may improve efficiency and effectiveness.

DNR believes that improvements to ARLF can be made regardless of which agency is responsible for its administration; however, we again caution that to simply move ARLF to another agency will not by itself fix all the stated shortcomings of the ARLF's administration. DNR is interested in improving efficiency and effectiveness of the ARLF for the benefit of the agriculture community and will use this audit's recommendations.

DED already administers 13 state loan programs. ARLF would benefit from economies of scale offered by DED which could improve the efficiency of lending and collections. While it is difficult to estimate the actual costs associated with transferring ARLF, the incremental costs of adding ARLF to other DED lending programs would likely be less than the annual administrative costs of approximately \$385,000 incurred by DoAg.

DNR understands that a detailed comparison between the two agencies has not been studied. The ARLF has five employees in the component; DCCED's loan programs have 41. It should be noted that the lion's share of the administrative costs incurred by DoAg are operational costs necessary to keep the MMM&S open, which is a vital service to the agriculture industry.

DED uses an automated loan program for loan accounting and servicing that may improve ARLF's operation and efficiency.

DNR agrees that an automated system would benefit loan fund administrators and may be beneficial to some of our borrowers and we do provide application forms that can be filed electronically. This is an area where there is an opportunity for DNR to improve its internal processes to improve ARLF's operation and efficiency.

ARLF would benefit from DED's lending expertise including uniform loan evaluations and processing procedures that may result in less defaults and write-offs as well as potentially decrease the severity of loan losses.

DNR agrees that ARLF may benefit from DED's lending expertise. However, the preliminary report recognizes that "ARLF's default rates for the last five years are reasonable when compared

to other agricultural loan programs" and also identifies a number of areas where improvements can be made in administering ARLF. We believe that many of the improvements to ARLF can be made regardless of which agency is responsible for the administration.

Transferring administration from DoAg may include the following challenges.

DED does not have experience with agriculture. However, agriculture related questions can be directed to DoAg similarly to DED administers its other lending programs. Furthermore, DED loans and collections officers are accustomed to working with specialized loan programs experiencing wide economic fluctuations and secured by atypical collateral.

DNR agrees with this conclusion. However, the BAC has experience that is not replicated in the Division of Agriculture. The BAC is comprised of producers actively involved in Alaskan agriculture and who have direct knowledge of how farms operate and the risks associated with the many variables. While the Division of Agriculture works closely with the agriculture community, staff is not involved in the day-to-day business of production agriculture.

DED currently does not have an office in the Matanuska Valley where 60 percent of the current ARLF borrowers are located. Thus, new loan applicants and existing borrowers would have to become familiar with different personnel, lending practices, and office locations.

DNR agrees with this conclusion.

DNR Response to Findings and Recommendations:

Recommendation No. 1: The legislature should consider moving ARLF's administration to DCCED's DED.

DNR believes that most of the recommendations to improve ARLF's performance and administration can be realized no matter which agency is responsible for the administration of ARLF. But the fundamental issue here is the unique role of the BAC in providing loan support to the state's agricultural industry. The BAC's directive of promoting and encouraging Alaska's agricultural industry, while maintaining the fund's fiscal health, is challenging.

Decisions to subsidize MMM&S and maintain the lease with AFC may not bring immediate return to the ARLF but provide long term benefit to the state including increased food security, social benefits provided by working farms, and economic benefit to communities in which they are located.

DNR disagrees with the following assertion on page 23 that "*if the deficiencies described in this report persist, ARLF's equity may continue to decline, and the fund's ability to promote agricultural development through long-term low-interest loans may diminish.*" Over the past five years, DNR and the board have worked diligently to implement policies that incorporate best practices and have provided the ARLF loan staff with guidelines on collateral verification. The board structure currently includes two members with finance backgrounds (accountant & banker), who provide additional financial expertise. The remaining five members have specific farm sector involvement and commercial agriculture production experience. The current ARLF loan officer also brings years of private sector loan experience.

All of the above have played a fundamental role in the current health of the ARLF program. During this time frame, the ARLF net balance has seen steady growth, from a balance of \$21,598,249 on June 30, 2008, to \$22,864,474 on June 30, 2012; showing an increase of \$1,254,187 to the fund. In addition, we recognize many of the deficiencies outlined in this report, and have worked, or are working to correct them to further improve ARLF's performance.

Recommendation No. 2: ARLF administrators should revise ARLF's regulations to promote industry best practices.

DNR agrees that the ARLF regulations should be revised to promote industry best practices, but still provide the board with the needed flexibility to serve the agriculture industry as mandated in statute. DNR and the BAC have been discussing potential changes to regulations that may help improve management of the ARLF.

Recommendation No. 3: ARLF administrators should pursue the disposal of business properties and revise property leasing rates to provide a return on ARLF assets.

DNR agrees with the recommendation to pursue disposal of business properties. But as discussed earlier in this letter, disposal of these properties is easier said than done, and could have severe ramifications on the agriculture industry.

DNR Comments to Attachments A – E:

Attachment A

The information provided for FY13 is only through February 18, 2013, as noted in the footnote. As of June 30, 2013, the number of delinquent loans is 2 – (1 short term and 1 Farm development) and the defaulted loan status is 4 (1 short term, 2 chattel, and 1 farm development).

Attachment B

DNR agrees with attachment

Attachment C

DNR understands that the percentage of employee time spent working on ARLF is based on conversations with staff and assessment of duties according to the job description. However, the Division asserts that the Administrative Officer I position only spends 5-10% of time working on ARLF.

Attachment D and E

DNR would like to clarify the information presented in this attachment.

- *Collateral Requirements* under ARLF regulations allow the use of tax assessment statements or appraisals for real estate.
- *Collateral Inspections* are performed in case of default or other significant problem, not only based on loan officer availability.

- *Collateral Value Assessment* is based on internal evaluations, borrower's evaluations, and independent appraisals.
- *Personal Guarantees* are not required per regulation.

DNR would like to reiterate that the Board's statutory directive is to encourage and promote agriculture in Alaska by means of long-term low-interest loans, which is fundamentally different from the directive of other lending institutions. The BAC, whose current membership consists of industry representatives and financial experts, understands the importance of a healthy loan fund and its importance to the agriculture community. We would like to reiterate that ARLF continues to revolve with no additional capitalization since 1986 and DNR maintains that over the past few years, ARLF has been managed more effectively. DNR understands that there may be administrative processes that can be improved but would like to point out that ARLF is unique in that it was established specifically to promote agriculture as an industry.

DNR appreciates the opportunity to respond and looks forward to working on implementation of the improvements suggested in this report.

Sincerely,



Ed Fogels
Deputy Commissioner

CC: Franci Havemeister, Director, Division of Agriculture
Ben VanderWheele, Chair, Board of Agriculture and Conservation

(Intentionally left blank)



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

OFFICE OF THE COMMISSIONER

P.O. Box 110800
Juneau, Alaska 99811-0800
Main: 907.465.2500
Programs fax: 907.465.5442

September 11, 2013

RECEIVED

SEP 11 2013

LEGISLATIVE AUDIT

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RE: Preliminary Audit Report, Department of Natural Resources (DNR), Agriculture
Revolving Loan Fund (ARLF) Selected Issues, June 24, 2013

Dear Ms. Curtis:

Thank you for the opportunity to respond to the auditor's conclusion and recommendation issued in the preliminary audit report regarding administration of the Agricultural Revolving Loan Fund managed by DNR. Our response to the one recommendation related to the Department of Commerce, Community, and Economic Development (DCCED) is below.

Recommendation No. 1

The Legislature should consider moving ARLF's administration to DCCED's Division of Economic Development (DED).

Although this audit recommendation is directed at the legislature, DCCED appreciates the opportunity to preview the recommendation that may affect the department. DCCED concurs that the DED has existing expertise in lending and loan servicing, and appreciates the audit comments noting the operational efficiency and effectiveness of the DED loan procedures. In addition, administering a larger number of loans has provided economies of scale benefits for the DED programs.

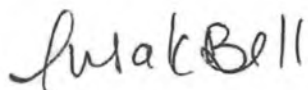
Also as noted in the report, DCCED does not have experience with agricultural loans, does not have an office in Matanuska Valley where 60 percent of the current ARLF borrowers are located, and does not manage businesses.

DCCED remains open to cooperative review of any options proposed by the legislative and executive branches that will benefit the state.

Ms. Kris Curtis, CPA, CISA
September 11, 2013
Page 2

Again, thank you for the opportunity to respond to the preliminary audit report recommendation. If you have any additional questions, please contact me at 907-465-2500.

Regards,

A handwritten signature in black ink that reads "Susan K. Bell". The signature is written in a cursive style with a large, prominent "S" and "B".

Susan K. Bell
Commissioner

cc: Jo Ellen Hanrahan, Director ASD



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources
Division of Agriculture

BOARD OF AGRICULTURE & CONSERVATION
Ben VanderWeele, Chair

1800 Glenn Hwy, Suite 12
Palmer, Alaska 99645
Main: 907.745.7200
Fax: 907.745.7112

September 10, 2013

RECEIVED

SEP 10 2013

LEGISLATIVE AUDIT

Kris Curtis, CPA, CISA
Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Curtis:

RE: Board of Agriculture and Conservation Response to Preliminary Audit Report,
DNR, DoAg, ARLF, dated June 24, 2013

The Board of Agriculture and Conservation (Board) is in receipt of the above referenced report and while we appreciate your conclusions and recommendations regarding the ARLF, we respectfully present the following in response.

As referenced in your report (pg. 8) and in Alaska Administrative Code (11 AAC 39.011) the duty of the Board is to "encourage and promote the development of agriculture as an industry throughout the state." Unlike for-profit banks or lending institutions, the Board is driven by the directive to encourage and promote agriculture in Alaska. This creates several anomalies when comparing ARLF history to other agriculture lenders and industry standards.

First, in order to encourage and promote agriculture we rely heavily on the experience and expertise of agriculture producers to evaluate the feasibility of loan applications. The five producers on the ARLF Board contribute a wide breadth of experience to assist applicants with suggestions and tools for success. Inherent in this board composition is the inevitable conflict of interest possibility. Unfortunately, it is often this very conflict in which the board needs the expertise of the excused member the most.

Additionally, although overlooked in the letter, the board also has a board member in the finance seat, as required, and the state wide member of an agriculture organization is filled by a local lender. These two members bring accounting and finance expertise that the Board has not previously experienced.

All the decisions the Board makes are driven by the mission to encourage agriculture. We work diligently to support the individuals who are working to enhance agriculture in Alaska. Further, as established by state law, this Board does not operate solely at its own discretion.

ARLF Equity Decline

Several points in the letter indicate that the ARLF has had reasonable default and delinquency rates over the past 5 years. Nevertheless, the Board must operate under State of Alaska Executive and Legislative prerogatives. The Board cannot be held responsible for decisions made by past administrations and outside normal operating functions such as loans that were approved by the Alaska Agriculture Action Council, funds that were used to cover operating expenses of the division or funds appropriated back to the general fund. Fund equity has indeed declined 69% over the life of the fund but not because of poor loan administration. Although the fund has seen a decline in the past, the last five years have seen a steady growth in the fund.

Deficiencies in administration

The board concurs that many processes regarding loan management were deficient in the past. We have worked diligently to correct many of these issues. We have made needed changes in personnel and improved the application of consistent board policies. We have worked to improve loan collateral deficiencies, moved several loans to the AAG office for collection, tightened repayment schedules, and required better initial financial information on loan applications prior to board review. The auditor has indicated that the loan files for the past two years have improved. Again, the board should not be held responsible for previous actions taken.

Personnel Services not recorded

ARLF accounting is done by DNR accountants – the same ones who do the State’s oil and gas accounting.

ARLF board members do not have access to detailed information regarding charges made to the fund and don’t receive backup documentation. Although there is no direct billing to ARLF by the Director’s office, it seems appropriate that a program housed within a division would require oversight and time from the Director. This is another area beyond the control of board members.

Inefficiencies in ARLF administration

The board will address the four points made in the letter. We are uncertain why these 4 inefficiencies warrant transferring ARLF administration to DCCED.

ARLF regulations

As stated earlier, the board has worked to apply consistent policies to like situations that come before the board. This audit attempts to “examine the fund’s performance and administration and compare fund administration to other loan programs and industry best practices.” (p. 13) as page 17 & 18 of the letter indicates there are a number of regulations that need clarification and interpretation. The board is trapped between complying with regulations, fulfilling our mission, and establishing appropriate policies.

Recommendation No. 1

While several of the audit findings merit changes in the way the fund operates, the board strongly disagrees with the conclusion that the fund administration should be moved to DCCED's DED. As indicated in the letter, "the deficiencies can be partially attributed to the competing priorities ..." (p.23). Further, we disagree with the conclusion that "ARLF equity will continue to decline and the fund's ability to promote agricultural development through long-term low-interest loans will diminish." The fund has seen steady growth over the last 5 years so this appears to be conjecture on the part of the auditors. The fund's senior accountant, Cristin Cowles-Brunton has stated that the fund is solvent and revolving properly. Taken collectively, the perceived deficiencies alone will not cause losses and reduction of equity to occur.

If the systems noted in the audit are currently available at other state agencies, what is prohibiting the ARLF from utilizing those systems to improve fund performance and assist our loan officer? Transferring lending duties to a department unfamiliar with agricultural lending or processes is not in the best interest of the agricultural industry.

Moving the fund will not insulate it from administrative actions that have had such a negative impact on fund equity. Further, we are uncertain how transferring the fund will reduce expenses to either the fund or the state.

Recommendation No. 2

The board concurs that ARLF regulations should be reviewed and revised. The goal of promoting agriculture and implementing industry best practices are often at odds. The board needs the flexibility to structure loans to meet borrower's needs while still protecting the assets of the fund and the interest of the State.

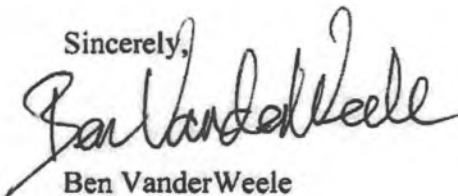
Recommendation No. 3

The board concurs with the recommendation to dispose of foreclosed assets as long as it is in the best interest of the agricultural industry in Alaska. The entire board would like to see MMM&S operated privately and continues to seek private buyers. However, if such a sale does not result in a USDA certified slaughter facility for south central Alaska, not only is the agricultural industry not being helped neither are area residents, 4-H and FFA members who require slaughter services.

We concur that lease rates should be reviewed to provide an appropriate return.

The Board of Agriculture and Conservation members take their responsibility very seriously and work to promote agriculture by offering low-cost loans to residents engaged in viable agriculture ventures. The fund should be evaluated based on its purpose, not according to industry lending standards and financial return to the State of Alaska. The ARLF provides a critical link in the promotion of agriculture, expansion of self-sufficiency, and food safety for Alaskans.

Sincerely,



Ben VanderWeele
Chair

Board of Agriculture and Conservation

(Intentionally left blank)

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

October 4, 2013

Members of the Legislative Budget
and Audit Committee:

We have reviewed the Department of Natural Resources (DNR) and the Board of Agriculture and Conservation (BAC) managements' responses to the audit report. Nothing contained in the responses causes us to revise or reconsider the report conclusions and recommendations. However, there are points raised in DNR's response that we wish to clarify or address.

In DNR's response, DNR states that ARLF's fund equity has "*seen steady growth*" over the past five years, and the growth indicates good fund performance. We disagree. While the fund equity did increase from FY 08 to FY 12, the cause of the increase was a recovery of the fund's investment in the Matanuska Maid Dairy which resulted in an increase in fund equity of approximately \$2.2 million in FY 10. Excluding the recovery in FY 10, fund equity decreased over the five-year period.

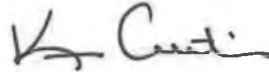
DNR's response states that regulations do not allow for certain fiscal improvements. We note that DNR is the entity responsible for changing regulations. Again, we emphasize that ARLF regulations should be changed to incorporate industry best practices in a number of areas including the following.

- Regulations do not address the types of personal property that may be accepted as collateral, nor do regulations require verification of collateral values offered by borrowers.
- ARLF regulations do not provide guidance as to whether loans should be made to borrowers with poor credit history. Regulations should provide clear and basic guidance regarding the process of approving or denying loans. Additionally, the loan documents should require an evaluation of a borrower's credit history including past loans with ARLF.
- ARLF regulations do not provide guidance for establishing lease rates and terms which would help ensure a return on investments.

We also emphasize that ARLF does not have statutory authority to own business properties such as the Mount McKinley Meat and Sausage Company and the Alaska Farm Cooperative. Regardless of whether operating the businesses supports the agricultural industry, ARLF lacks statutory authority to own the businesses. Disposal of these business properties should be actively pursued.

In summary, we reaffirm the audit report conclusions and recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Curtis". The signature is written in a cursive style with a large initial "K".

Kris Curtis, CPA, CISA
Legislative Auditor



FAIRBANKS SOIL & WATER
CONSERVATION DISTRICT

January 31, 2014

The Honorable Representative Feige

Dear Representative Feige:

The Fairbanks Soil and Water Conservation District appreciates your interest in assisting agriculture and natural resources in Alaska. Thank-you for your efforts to try and improve the agricultural industry and for your support of Alaska's soil and water districts. However, the FSWCD board of supervisors cannot accept or support HB 207 as it is written at this time.

FSWCD represents over 350 cooperators (members) and countless numbers of other private landowners and users within our district which stretches from Ft. Yukon to Ruby to Central and south to the border of the Salcha/Delta soil and water district. It is our mission to serve as a grassroots organization representing the will and direction of the people as it relates to natural resources and private land.

Our major concern when this bill was presented to us at the AACD fall meeting was the section that states that the districts will be regulated by the new board. Although we expressed our concern at the time, this portion of the bill has not been changed. We also are aware that the Farm Bureau did not vote to support this bill as written. Many of the landowners we serve are in the Alaska agricultural industry and members of the Alaska Farm Bureau.

HB 207, as it is written, would dilute the desires of those we serve and radically change the mission and the operation of soil and water districts across the state.

FSWCD looks forward to working with you to change HB 207 to a bill that is acceptable to our constituency and that would improve the services that we provide them.

Sincerely,

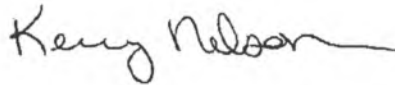
Randolf Scharfenberg FSWCD chair

Date: Feb. 4, 2014

To: House Resource Committee:

Rep. Eric Feige, Co-Chair
Rep. Dan Saddler, Co-Chair
Rep. Peggy Wilson, Vice Chair
Rep. Mike Hawker
Rep. Craig Johnson
Rep. Kurt Olson
Rep. Paul Seaton
Rep. Scott Kawasaki
Rep. Geran Tarr

From: Kerry Nelson, Board of Supervisors Chair
Kenai Soil & Water Conservation District



Re: Comments on CS HB 207

- 1) Under the current board structure, the DNR employee who serves as the NRCDB Executive Director provides essential services to Soil & Water Conservation Districts (SWCDs). As the NRCDB Executive Director, Shana Joy administers nominations and elections of District Supervisors, provides necessary training and mentoring for District staff and supervisors, helps new Districts get organized, holds Districts accountable for their responsibilities under the Cooperative Agreement with DNR including annual work plans, inventory and reports of accomplishments, serves as a liaison and advocate on behalf of Districts with DNR and other state agencies, and generally helps to increase the quality and consistency of District operations. It is our understanding that if the NRCDB Board is dissolved Shana Joy's position in the DNR Commissioner's office will remain, as she has other responsibilities entirely unrelated to the NRCDB. **It is essential that HB207 be amended to provide that DNR continue to have a staff member designated to carry out the oversight and accountability functions that have been the responsibility of the NRCDB Executive Director.**

- 2) HB207, as currently written, provides that five out of twelve voting members will be "land users of a soil and water conservation district" where land user is defined by AS 41.10.140 ("a producer of renewable resources...(who) has a current cooperative agreement with a soil and water conservation district") In Rep. Feige's presentations to the Alaska Association of Conservation Districts in October and to the Alaska Farm Bureau in November, he stated that the board would be composed of nine voting members, of which five would be SWCD cooperators. Please recognize that not all cooperators work closely with their local Districts nor are they necessarily well-informed about District needs or the needs of other cooperators. **If the legislature's intent is to create a board that is sufficiently well-informed that it can advise**

SWCDs, we would strongly recommend that HB 207 be amended to reflect that, in addition to the requirement that a majority of voting members (5 out of 9, or 7 out of 12) of the proposed Board of Agriculture, Conservation and Development (BACD) be SWCD cooperators, those cooperators must be either nominated or approved by their local SWCD in order to serve on the board. In addition, the quorum should be at least a majority of voting members. As currently written, HB 207 defines the quorum as 5 of 12 voting members.

- 3) We understand that one goal of HB207 is to improve communication between the agricultural industry and state government. We applaud that goal and would very much like to see a unified voice for agriculture that results in meaningful interaction with and support from state agencies. SWCDs are an integral part of Alaska's agricultural community, and therefore it makes sense that District cooperators should play a significant role on the new board. Given the general approach to defining the new board's responsibilities in HB207, i.e. assigning responsibilities of two boards to one, we find it perplexing and concerning that the new board might be given new, ill-defined powers over SWCDs by means of the phrase "advise and regulate" in Section 4, subsection 10. To our knowledge, no one has made a case as to why or how a volunteer board would be in a position to create regulations for SWCDs or how that would be an improvement over the current situation. **We would respectfully submit that the role of the proposed board should not be to "advise and regulate" SWCDs but to "advise and assist" them, in keeping with the current NRCDB duties as described in AS 41.10.100.**
- 4) HB 207, as currently written, moves loan approval authority for the Agricultural Revolving Loan Fund (ARLF) from the Board of Agriculture and Conservation to the Department of Commerce. While we understand the intent of this proposal, we are concerned that it will not "shrink government" if Commerce must hire additional staff. More importantly, we feel it is essential that someone with working knowledge of agriculture, agricultural markets and trends, and Alaska's relatively small agricultural community is involved in making decisions on ARLF loans. We suggest that the loan approval board at Commercial Fishing and Ag Bank (CFAB) already has expertise in this area and might be a more appropriate and cost-effective partner for the proposed BACD in managing the ARLF.
- 5) Lastly, we note that the list of activities for which ARLF loans may be granted (Section 10) includes "commercial production or processing of lime products, or other mineral products" but does not include composting or production of fish-based fertilizers. **As compost (fish-based or otherwise) and fish-based fertilizers are important agricultural inputs, please amend HB 207, Section 10 to include these activities.**



Kenai Soil & Water Conservation District

"Nurturing sustainable agriculture for the Kenai Peninsula"

110 Trading Bay, Suite 160, Kenai, AK 99611

(907) 283-8732 x 108 kenaiswcd@gmail.com www.kenaisoilandwater.org

Trevor Fulton

From: Upper Su Conservation District <usswcd@mtaonline.net>
Sent: Monday, February 03, 2014 4:56 PM
To: Rep. Dan Saddler
Subject: HB 207

Dear Representative Saddler,

The Board of Directors of the Upper Susitna Soil and Water Conservation District are not in favor of the house bill 207. They believe it is not the right direction to take and instead prefer to leave things the way they currently are. Thank you for taking the time to consider our option.

Sincerely,

Laura Allen, District Manager

Laura Allen
USSWCD District Manager
HC 89 Box 8461
Talkeetna, Alaska 99676
Phone: 907-733-7923
Fax: 907-373-7928
www.usswcd.org

Trevor Fulton

From: chuck kaucic <distmgr@wasillaswcd.org>
Sent: Monday, February 03, 2014 4:57 PM
To: Rep. Dan Saddler
Cc: schak@mtaonline.net; spuds1@mtaonline.net; vwbrost@mtaonline.net; John_W-McNeal@yahoo.com; lmenard@mtaonline.net; aacd@mtaonline.net; 'Joy, Shana M (DNR)'
Subject: FW: HB 207 - NO support

Rep. Saddler ,

Kindly be informed that at the Wasilla Soil & Water Conservation District Board of Supervisors Jan 23rd meeting, HB 207 was listed under Old Business & discussed. The decision was unanimous NOT to support HB 207 in its current form.

A quorum existed. This was an advertised, public meeting.

Please ensure that the Boards action be entered into the public record.

We respectfully request that your office keeps us informed of all future actions.

TX.

On behalf of the Board,

CK

Chuck Kaucic, District Manager

Wasilla Soil & Water Conservation District

Trevor Fulton

From: john schirack <schak@mtaonline.net>
Sent: Thursday, February 27, 2014 11:46 PM
To: Rep. Dan Saddler; Rep. Eric Feige; Rep. Peggy Wilson; Rep. Mike Hawker; Rep. Craig Johnson; Rep. Kurt Olson; Rep. Paul Seaton; Rep. Scott Kawasaki; Rep. Geran Tarr
Subject: HB 207
Categories: NON-Constituent

Hello,

My name is John Schirack and I am writing this letter in regards to HB 207.

I find myself wearing multiple hats in the Alaska agriculture community. I'm a producer, Soil District Chairperson and a BAC board member. In all three of these areas I DO NOT support this bill.

I'm in a quandry as to why there is such an attempt for it to be moved forward when those people that it would greatly impact have all voted against it. The State Farm Bureau AND the State Farmers Union both voted against it at their respective State Conventions in the last few months. In addition to this, at least seven Soil Districts and the NRCDB voted against it as well. I would question why the bill sponsors wish to move the ARLF loans disbursements to the Dept of Commerce when HB 342 is asking to move multiple loans currently overseen by Dept of Commerce to AIDEA. I also believe that having less than 24 hours to review both of the re-writes on this bill is not a significant amount of time for anyone to make an educated response. It would appear to me that the people sponsoring it are trying to ramrod it through the process.

In closing, I feel there are many faults with this bill that need to be addressed and I would very strongly urge NO SUPPORT if it comes to a vote. I can be reached at 907-315-2010 or by email at schak@mtaonline.net. I would welcome further discussion regarding this measure.

Thank you for your consideration.

Sincerely,

John Schirack

Trevor Fulton

From: Kenneth Marsh [<mailto:trappercreekmuseum@yahoo.com>]

Sent: Friday, February 28, 2014 6:05 PM

To: Rep. Bill Stoltze

Cc: Rep. Eric Feige

Subject: HB207

Mr. Stolze,

I have thought long and hard before writing to you on HB207, but feel it is the right time to do so at this time. My name is Kenneth Marsh and I am a small farm producer in the Upper Susitna Valley. I am also chairperson of the Upper Susitna Soil and Water Conservation District Board of Directors.

As a group, my district board has decided to not support HB207. We have studied this bill and tried to take in all the possible good points it might have for aiding our districts work and how it might possibly aid agriculture in Alaska. We could find nothing that would seem to jump out at us for doing either of these things, but we have kept waiting for a rewrite that kept being promised. Finally, yesterday, the day before a supposed hearing on this bill was announced, one was produced. The hearing that many folks were notified about, and that was to be held today on this re-write, just never took place. So, now for this reason, it was decided that I needed to appeal to you now, and to alert you that we need your support in halting this bill.

After looking this belated rewrite over we could still find little that made us feel that this bill would do anything but do harm to our great independent programs we have going on at the present time under statute 41.10. Under this bill we would no longer have this statute to allow us the latitude to operate under as independent units, and still follow the guidance of state statutes. All it seems to do is shake up things that we have been working well under for many, many years. There is nothing in this bill that would add a sustainable funding program for districts. There is nothing that would allow us to operate in the same unencumbered fashion as we now operate under. All this bill would do is put more bureaucracy on us under a large board that mixes up agriculture and conservation with other concerns that might hinder our efforts. We can see nothing about this bill that we can support. We also see no value to the change in the loan program that is suggested in this bill.

We do not think that someone in Commerce would know how to handle a farmer's needs for a loan as well as the present system does.

In short we do not want to become another state agency which will only seem to take away our ability to forge ahead with on our much needed projects. More over-sight by a large mixed board is not what is needed.

We have always felt that we could count on your support in the past, Mr. Stoltze and we are asking for it once more with halting this un-needed and possibly wasteful bill. If a new bill that reflects what all districts need and desire comes before us we will support it, but this one does not accomplish any of this in our opinion.

Sincerely,
Ken Marsh-



Kodiak Soil & Water Conservation District

518 West Marine Way, Suite 206, Kodiak, Alaska 99615

Phone: (907) 486-5574 Fax (907) 486-5586

February 4, 2014

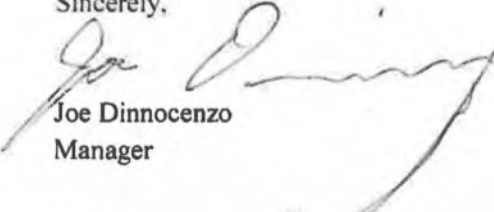
Representative Feige
Representative Sadler
Co-chairpersons House Resource Standing Committee

Dear Sirs,

The Kodiak Soil and Water Conservation District Board of Supervisors have studied House Bill 207 and find that they cannot support it. Although they found some merit in a few of the provisions of the bill, and hoped that the bill would get modified for the better during the deliberative process, the current version is unacceptable to the board and would interfere with agriculture business and the function of soil and water districts in Alaska.

Should you need further information on this matter you may contact us for more information.

Sincerely,


Joe Dinnocenzo
Manager

Cc; Board members, Representative Austerman, Senator Stevens

Trevor Fulton

-----Original Message-----

From: todd Pettit [mailto:trpettit@icloud.com]

Sent: Friday, February 28, 2014 10:47 AM

To: Rep. Bill Stoltze

Cc: Rep. Eric Feige

Subject: HB207 Hearings

Mr. Stolze,

My name is Todd Pettit. I am a third generation farmer/rancher in the MatsuValley. I also chair the Palmer Soil and Water District.

I have a very good understanding of the devastation this bill will create, both from the side of a Ag producer and also from the view of the soil and water districts.

HB 207, no matter how many times it is written, is bad legislation.

It is being forced down the throats of producers and cooperators as a "Trust us, we're the government. We know what's good for you."

1. To combine NRCDB into this board completely dissolves the statute 41.10 that has been in place for almost fifty years and is a protector of the rights of soil and water districts. We as districts will loose our sovereign rights as we know them, to provide the services of land owners, the ability to bring state, fed, and local community together for very little money and get great pro development of our natural resources projects done in a conservative manner.

The dismantling of 41.10, will allow the AGs office to rewrite our statute and make us another beaurocratic agency.

HB207 has been lauded by its writers as a way to limit government.

In reality it creates more government and beaurocracy. It will by default, take away the non-profit status of AACD and will put the districts under state employ status, and turn us into another state agency.

This is wrong Mr. Stolze. This is not how our soil and water districts were meant to preform and operate.

2. Pulling the ARLF Loan program from BAC, and dissolving the BAC, is a travesty. The ARLF was set up by the farmers for the farmers. It is managed with the utmost transparency, professionalism, and the expediency of being able to institute a loan is what makes it so successful.

Sir, I ask you this, by taking the decisions of a very competent Board that understands the needs of the farmer, that can provide low interest loans and is completely self sufficient that needs no government intervention. But then to hand it over to someone in Commerce, allowing a government agency that is already overburdened and understaffed and expect them to be efficient and understanding of a farmers needs and provide a loan in an expedient manner?

Mr. Feige's bill is asking government to intervene and "fix" something that is certainly not broken.

Limiting government by creating more government, and layers upon layers of beaurocracy, is ludicrous Mr. Stolze.

The republican caucus should be ashamed of the reality of this bill presented by Mr. Fiege.

Mr. Stolze, you have been agriculture and soil and water districts biggest ally, you are a voice of reason for our industry.

Mr. Stolze I ask you to go to your caucus and get this bill killed once and for all. No more rewrites, no more shady political shenanigans that has surrounded this bill. It needs to be killed.

Thank you for your time, and thank you for your tireless service and support for agriculture and soil and water districts.

Mr. Stolze we need your help on this one.

Thank you,

Todd Pettit

Pitchfork Ranch

Chair of PSWCD

Trevor Fulton

From: VanderWeele <vdweele@mtaonline.net>
Sent: Thursday, March 13, 2014 10:05 PM
To: Rep. Dan Saddler; Rep. Eric Feige; Rep. Peggy Wilson; Rep. Mike Hawker; Rep. Craig Johnson; Rep. Kurt Olson; Rep. Paul Seaton; Rep. Scott Kawasaki; Rep. Geran Tarr; Rep. Bill Stoltze
Subject: HB207

House Resources Committee

My name is Ben VanderWeele. I immigrated from the Netherlands in 1967 to Palmer, Alaska.

Since 1967 I have been a vegetable farmer in the Palmer area, growing potatoes, carrots, lettuce, cabbage, broccoli cauliflower, etc. etc.

Carrs/Safeway and Fred Meyer have told me that VanderWeele Farms, LLC is a very important Alaska vegetable farm, because of quality and quantity.

I have never been involved in politics until in 2008 Governor Sarah Palin asked if I would volunteer to serve on the Board of Agriculture and Conservation(BAC)..

I accepted and the last two years the other board members elected me as their chairman.

The current board is the most efficient board in charge of the Agricultural Revolving Loan Fund(ARLF).

Our board members represent:

- the greenhouse industry
- Livestock
- Hay farming plus soil and water conservation
- Financial and accounting
- Agronomy and horticulture

Geographically the members live in the Mat-Su Valley, Kenai Peninsula, Kodiak and currently there is an opening for a board member to represent the Fairbanks/Delta area.

By statute we must meet 8 times a year, which means there is never a backlog of loan applications.

The ARLF has one fulltime loan officer.

All board members are volunteers.

The rewritten HB207 makes the process of applying for an agricultural loan much more cumbersome.

It creates more government, meaning more expenses.

Currently the ARLF is self sufficient, mainly due to a very efficient and competent board with minimal government intervention.

By taking ARLF out of the Division of Agriculture and putting it under the Department of Commerce will result in more government, more bureaucracy, more expenses.

On November 15, 2013 during the Annual Meeting of the Alaska Farm Bureau, HB207 was discussed and the membership decided not to support it.

I firmly believe that the current BAC has the support of the majority of Alaska Agriculture Producers.

Sincerely,

Ben VanderWeele

Alaska State House Representative:

Mr Feige:

As per our conversation, the other day, and viewing the e-mail that was forwarded to me by Jim Clark, owner of Echo Lake Meats, I would like to put in writing my thoughts of the future of Mt. McKinley Meats.

As we all know the state run slaughterhouse in Palmer has cost the state millions of dollars over the years to keep running. Some would say that it is a necessary function that must be continued for the ability of processors and private individuals to have a USDA stamp attached to meat raised and slaughtered in state used for resale. This is the only argument I agree on in relation to the reasons that we must keep it open.

There are arguments that producers will not have anywhere to get there animals processed. That is false. There are plenty of options, however private industry cannot compete on the same level, offer the same services, or customer service that the slaughterhouse can at the prices they charge, and for good reason. The total payroll for the entire inmate crew is most likely less than what I pay for one general labor worker, adding in workers comp, liability insurance, unemployment insurance, and payroll taxes. I'm pretty sure that the slaughter house doesn't have to contend with property taxes, accounting fees, ect. My point is that in business, your biggest controllable expense is labor. They have plenty of that at nil for expense! If I had that, and was operating continually at a loss, I would have to raise my prices. Also, other services are given to customers for no charge (storing of finished product for no fee). I cannot compete with an entity that can do the service at a price that results in a loss.

This will lead to the next argument that the slaughterhouse operates at a loss because it is so big, and was not designed for the small amount of animals that are going through it. I would contend that the management engages in "busywork". Activities that generate nothing but sales that produce no margin to keep the inmates busy. This "busywork" has an associated cost attached to it (gas, electricity, fuel for vehicles, supplies, etc. By just "doing something", it creates work for the inmates, but the busywork has created a clientele that expects these items year around. When the busy season rolls around (August – January), the place is booked for 3 months out. I contend that if the justification for keeping the place open and losing money in the process is to provide the slaughter of animals under USDA inspections, then slaughter the animals. There is no reason that a plant that was designed to slaughter 30,000 animals a year, and is doing 600-1000, at a justified loss, should not have a 3 month waiting period, especially when they have a nearly free labor pool.

And this leads me to another familiar argument. We are giving inmates a valuable trade, and it justifies the cost. I personally do not know any meat cutters that have graduated from there working in the industry. That is not to say there isn't. I would venture to say that it is in the fraction of a percent range for those using the skills they learn in future employment. By the way, kill floor wages are usually in the

minimum wage category. They may learn the fundamentals of meat cutting, but it will not land them a good paying job.

This may seem a harsh criticism of the operations, without solutions. I don't claim to have any silver bullet to resolve the problem. In the defense of management at the slaughterhouse, they are not allowed to do the things that could make the operations profitable due to the fact that they would be infringing on private business opportunities. I know what I would do if I ran it. Some of these things I could do now if I had USDA inspection. There is a disincentive to move in that direction, because I cannot compete with the prices the slaughterhouse charges to do the same work. Additionally, I cannot buy local animals for the price that the slaughterhouse pays for them. The system in place simply decides the winners and losers in what should be a free market.

I would support the curtailing of operations at the slaughterhouse to that of simply killing and hanging under USDA inspection. This would open up some more of the market that would inevitably be filled by private industry, and move closer to the point of private industry taking over the slaughtering operations as well. There has already been some talk of a processor cooperative forming to handle the unique needs of our industry. This cooperative may be interested in taking on the slaughter operations in the future.

There will be considerable pushback by some people, but I guarantee that those are who currently are getting a sweetheart deal on processing, packaging, labelling, and storing of their products.

In conclusion, I would like to say that Mat Valley Meats, for the past many years has endeavored to promote local raised livestock and livestock products to the Anchorage and Matanuska-Susitna Valley consumers. There is a real desire to buy local these days. In order for this to happen, a consistent flow of livestock has to be raised and slaughtered. I was surprised to find out that only 600 animals were slaughtered at Mt. McKinley last year. If that is true, about ¼ of those animals made it into my building. It would have most likely been more if they didn't charge so much less to process than I do. Additionally, it would have been more if we could have gotten the animals in to slaughter when the waiting list was 2-3 months out. I lost a lot of sales because of that. When people are ready to buy, they do not wait 2-3 months. They just go to Costco. So, you see, I have a vested interest in the decisions that will be made in regards to the future of the meat plant. My business is not contingent the USDA slaughter, for I can easily source meat from out of state. However, I do think the State of Alaska should be in the business of finding ways to produce its own food, and the current system is really not helping that situation. I do know that it cannot continue on with the status quo. It only really benefits a select few.

Regards

Nate Burris

Owner, Mat Valley Meats

Feb. 27, 2014

Rep. Feige,

First, allow me to indulge you with my own experience. I was brought up in Northern Canada. I spent the first six years of my life on a trap line where I learned the value of our land and that which it provides. After completing high school, I joined the Hudson's Bay Company (HBC) where I was employed for 34 years. I started as a grocery clerk, trained as a meat cutter and worked my way up to Managing Director in charge of 82 Northern Stores. When HBC sold off their Northern Stores Division, we became known as The North West Company and went public.

I was promoted to Managing Director of Corporate Development to explore growth opportunities. That brought me to Alaska in where I toured the State and completed the due diligence to enter this market. We then purchased Alaska Commercial Company (AC) in 1992. AC continues to grow and be a significant asset to and corporate citizen of the many bush Alaska villages.

I left AC and purchased Echo Lake Meats in Soldotna in 2001, where we have an "old fashioned" meat market. We produce a variety of value added smoked meat and fish products and process fish and wild game. We purchased the Ninilchik General Store last year and will be opening a seasonal operation on Homer Spit, in May, offering our value added ready to eat products. During the last twelve years, I have seen a growing consumer desire for free range meat and poultry products and specifically Alaska grown. Yes, the cost of raising this product in Alaska is high but this can be somewhat offset by the 16 to 20 cents a pound for refrigerated freight to Alaska. Alaska can consume a lot more of locally raised animals if there was an efficient operating system from the farm to the consumer.

As I understood the purpose of MMMS, it was to be a slaughter operation, a USDA inspected facility where locally raised animals could enter the market. MMMS has Strayed from this original intention by taking the processing and value added steps that can be more efficiently handled by the private sector. In some cases MMMS has Competed with the private sector offering lower priced product directly to the consumer. They should not be doing this especially since their operating costs are highly subsidized. In the twelve years as a meat processor, I have not once been contacted by MMMS to sell me product. I have bought animals directly from the pig, elk and cattle farmers Where they paid MMMS an inexpensive slaughter fee.

A facility such as MMMSW is a definite need to provide an inspected ag product and support the Alaska AG producers. The processing could be and should be handled by the private sector. It is unlikely, at least to start with, that product would be sold to the larger super markets. However, there are many small Alaska operations such as ours that would take advantage of a consistent supply from an efficient source. A spoke with a number of these operators last fall advocating that we should form a meat processors Co-OP to improve our product and freight costs.

There was general interest, even to the point of looking at the State owned plant in Palmer. There was general concern about the condition and operating efficiency of the plant that would require

a valuation process, perhaps even a shared facility. Nate Burris of Mat Valley Meats is more familiar with MMMS than I am and I have asked him to forward his comments to you as well.

I hope this commentary is of some insight and value to assist in resolving a perennial dilemma with MMMS. If you have any questions feel free to call me on my cel 398-4166

Regards,

James (Jim) Clark

February 4, 2014

Dear Representative Feige,

The Board of Supervisors of the Palmer Soil and Water Conservation District (SWCD) requests that you vote against HB 207 (consolidating the Board of Agriculture and Conservation with the Natural Resource Conservation Board) as it is currently written for a number of reasons.

1. In the HB 207 Sponsor Statement the idea is given that consolidating the two boards will improve efficiency and reduce the size of government. Since the members of both boards are primarily unpaid volunteers this doesn't really influence the size and efficiency of state government.
2. We are very concerned with redistributing the management of the Agriculture Revolving Loan Fund from the Division of Agriculture to the Commerce Department. Agricultural opportunities require a significant knowledge of the biology driving the system. It is questionable that the appropriate level of agricultural insight is present within the Commerce Department.
3. While the mission of the Soil and Water Conservation Districts somewhat overlaps the mission of the Board of Agriculture the broad mission to conserve water and soil resources causes the conservation districts to work with many non-agricultural partners. For example, the Palmer SWCD works with the US Fish and Wildlife Service to identify and characterize regions of salmon streams that need to be improved and we are in the proposal stage with the Department of Environmental Conservation to monitor water quality in several impaired rivers. We are also discussing with Department of Transportation how our unique knowledge base can provide unique solutions for some of their roadside management issues. These are just several examples of projects that are appropriate to the Soil and Water Conservation District's mission but would not take a high priority on a combined board that focused on agricultural issues.
4. Some of the Soil and Water Districts work on local conservation issues despite their being almost no commercial agriculture in their district. The Yukon-Kuskokwim district and the Southeast district come to mind. The Southeast District works with the local shellfish industry and the department of Fish and Game more than they work with agriculture.
5. While the Soil and Water Conservation Districts actively seek agricultural opportunities the brutal facts of funding availability dictate that we receive far more funds for accomplishing non-agricultural projects than we do for actual agricultural projects. The proposed Board of Agriculture, Conservation and Development would likely give these important non-agriculture projects the short end of the stick.

It is far better to keep the current structure of the Natural Resource Conservation Development Board and the separate Board of Agriculture and Conservation than the combined board that HB 207 would create.

Please vote against the proposed version of HB 207 !

Sincerely,

The Board of Supervisors
Palmer Soil and Water Conservation District

Todd Pettit
Bruce Bush
Don Berberich
Doug Warner
Arthur Keyes

Chairman
Vice-chairman
Treasurer
Member at Large
Member at Large

Trevor Fulton

From: Alison Arians <alisonarians@gmail.com>
Sent: Friday, March 14, 2014 12:43 PM
To: Rep. Eric Feige; Rep. Dan Saddler; Rep. Peggy Wilson; Rep. Mike Hawker; Rep. Craig Johnson; Rep. Kurt Olson; Rep. Paul Seaton; Rep. Scott Kawasaki; Rep. Geran Tarr; Rep. Bill Stoltze; Rep. Mark Neuman
Cc: 'Arthur Keyes'; secretarymb@hotmail.com; trpettit@mtaonline.net; agman@mtaonline.net
Subject: HB 207

Dear Representative Feige, Representative Saddler, Representative Wilson, Representative Hawker, Representative Johnson, Representative Olson, Representative Seaton, Representative Kawasaki, Representative Tarr, Representative Stoltze, and Representative Neuman,

I am writing today to express my concern about HB 207. I am not a farmer, but I own a small bakery in Anchorage, and I sell my bread at the South Anchorage Farmers Market. I have worked closely with many farmers over the six years I have sold my bread there. I have developed friendships and working relationships with many farmers during the development of our farmers market website, and when I was writing weekly email newsletters about the happenings at our market. I also co-owned the Glacier Valley Farm CSA (Community Supported Agriculture) business for three years.

My concern is that many of my farmer friends and associates do not support HB 207, because it has the potential to create a conflict of interest around the Agricultural Revolving Loan Fund. The farmers I have spoken with are happy with the way the Board of Agriculture, the Alaska Association of Conservation Districts, and the Natural Resource Conservation and Development Board operate now. Currently these boards are run on an all-volunteer basis and there is minimal cost to the state for their operation.

If there is to be a change to the way these boards are run, please make sure to get the input from as many farmers as possible before making any decisions. The farmers I work with at the South Anchorage Farmers Market are making a living from farming by selling fruits, plants, and vegetables to consumers. Our ability to Eat Local has grown dramatically in the last few years, thanks in large part to these dedicated farmers. I have the greatest respect for these men and women who are providing Alaskans with fresh, locally-grown produce.

Please, make sure that they continue to get the support they need in Juneau, by working with as many of them as possible to develop any kind of change in the system that they feel is serving them well now. I've cc:d several of my Palmer farmer friends who I feel would be excellent to discuss these issues with: Arthur Keyes, Carol Kenley, Todd Pettit, and Don Berberich.

Respectfully,

Alison Arians

12900 Badger Lane

Anchorage, AK 99516

(907) 748-3712



ALASKA FARM BUREAU, INC.

Bryce Wrigley, President
bjwrigley@gmail.com

Jane Hamilton, Executive Director
janehamilton99737@yahoo.com

March 25, 2014

Dear House Resource Committee Members:

At the Annual Meeting in November 2013, the membership of the Alaska Farm Bureau voted down a motion to support HB 207. After the meeting, most members who commented on the vote indicated that they didn't have a very good understanding of the bill's impact on agriculture.

The ensuing weeks have seen one chapter maintain a position adamantly opposed to the bill and another chapter vote to support it. The divisive issue seems to center on whether to preserve the status quo with respect to loan approval authority or to move the approval authority to the Department of Community, Commerce, and Economic Development.

Moving the loan approval authority would create a larger pool of farmers from which to appoint members for the advisory board. Maintaining the current structure prohibits any board member from applying for or restructuring a loan with the Agricultural Revolving Loan Fund (ARLF).

At the Board of Directors meeting held in February 2014, a motion was made to oppose HB 207, which passed. The vote clarifies Alaska Farm Bureau's position on HB 207. During the discussion, the directors expressed concern that HB 207 would result in the closure of Mt. McKinley Meat and Sausage, a critical part of infrastructure for ranchers and dairymen. There was also dissatisfaction that while HB 207 made some improvements, it didn't create a Department of Agriculture, which most farmers support.

Three amendments were submitted at the close of the House Resource Committee hearing held on March 14, 2014, that require the closure or disposal of Mt. McKinley Meats and Sausage (MMM&S) because of a stated competition with private industry. Past attempts to dispose of MMM&S have been unsuccessful.

The Alaska Farm Bureau agrees that private ownership of meat packing is the preferred option, but in the absence of a privately-owned facility with the necessary capacity, Alaska Farm Bureau supports the continued operation of

PO Box 760 Delta Junction, Alaska 99737 Telephone: (907) 803-4752

MMM&S. The premature closure of the plant would severely impact not only meat production in Alaska, but many upstream farmers raising hay and grain for livestock.

Mt. McKinley Meat and Sausage has been for sale for several years, with no takers. We question how the BAC is to develop a plan to create such a facility. If there are private operations that are willing to step up and provide a USDA inspected kill floor and meat cutting facility, it seems logical to encourage them to open a plant before shutting down MMM&S so that there is minimal impact on the livestock operations and the farmers who grow their feed.

In the meantime, the Department of Corrections, receives a valuable service for the inmate meat cutting training program at no cost. Surely, it is not asking too much that DOC pay for the value of the training program, which should more than cover the \$100K deficit that MMM&S incurs each year.

While there is disagreement among Farm Bureau Members regarding HB 207, we are united in opposing a bill that would result in the closure of MMM&S without a viable alternative in place.

Thank you,



Bryce Whigley
President, Alaska Farm Bureau

Trevor Fulton

From: Bryce Wrigley <bjwrigley@gmail.com>
Sent: Tuesday, March 25, 2014 2:05 PM
To: Rep. Eric Feige; Rep. Dan Saddler; Rep. Peggy Wilson; Rep. Paul Seaton; Rep. Mike Hawker; Rep. Craig Johnson; Rep. Kurt Olson; Rep. Geran Tarr; Rep. Chris Tuck
Cc: Jane Hamilton; Havemeister, Franci A (DNR)
Subject: HB 207 and proposed amendments 1-3
Attachments: HB 207 letter.pdf

Dear House Resource Committee Members.

Alaska Farm Bureau is the premier agricultural advocacy organization in the state. We organized the first coordinated meetings from which have sprung the current food security efforts in Alaska.

HB 207 has generated a lot of discussion among the farmers and ranchers we support. Some favor the bill and some oppose it. However, the proposed amendments to close or dispose of Mt. McKinley Meat and Sausage (MMM&S) by a date certain without a viable alternative in place is universally opposed by our membership.

MMM&S fills a crucial role in the livestock operations in Alaska, which at the present time, is not able to be filled by anyone else. We have discussed this with Delta Meat and Sausage in Delta, and Midstate Meats in North Pole, which are the only other road accessible kill floors in the state. Both of those private operations agree that MMM&S should not be shuttered at this time.

The Alaska Farm Bureau supports the continued operation of MMM&S until such time that the slaughter and meat packing roles it performs can be assumed by a viable private operation.

Amendment 1 requires that the Board of Agriculture and Conservation develop a plan to create a facility in the Mat-Su area suitable to be operated as a USDA approved slaughter facility, while at the same time preventing further funding of MMM&S for FY2015.

The attached letter states our position on HB 207 and the proposed amendments.

Thank you,
Bryce Wrigley,
Alaska Farm Bureau

LAW OFFICES

WILLIAM R. SATTERBERG, JR.

FAX (907) 452-3988

ATTORNEY AT LAW
709 FOURTH AVENUE
FAIRBANKS, ALASKA 99701
(907) 452-4454

March 20, 2014

Representative Eric Feige
House Resources Committee
State Capitol Building, Room 126
Juneau, AK 99801

Representative Dan Saddler
House Resources Committee
State Capitol Building, Room 104
Juneau, AK 99801

Dear Representatives:

This letter is to submit written testimony with respect to House Bill 207 currently under consideration by the legislature. The bill pertains to agriculture.

My concern with respect to the bill is the definition section with respect to defining commercial agriculture.

Specifically, Section 03.09.010(g) of the bill indicates that commercial agriculture exists where \$5,000 per year is spent with the intent to engage in farming. The section is unfortunately a ripe field for litigation.

Intention is always a factual based question and can be defined with different approaches. For example, I was recently involved in a piece of litigation where the court ruled that a person did not "intend" to engage in farming, but simply "hoped" to engage in farming, notwithstanding the fact that this person spent well in excess of \$5,000 per year in agriculture. Much of litigation unfortunately centers around defining terms.

The federal definition for farming has been in existence for several years and defines a farm as "a tract or tracts of land, improvements, and other appurtenances that are used or will be used in the production of crops, livestock, or aquaculture products for sale in sufficient quantities so that the property is recognized as a farm rather than a rural residence." 7 CFR 761.2. The USDA defines a farm as "any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the census year." If the State of Alaska enacts a contrary definition of commercial agriculture, there will be a significant potential for disputes between federal programs and state programs simply because one program defines agriculture differently from the other.

Secondly, as indicated, whether or not a person "intends" to engage in farming will be a ripe battleground for litigation.

In the event that the legislature is welded to the theory that \$5,000 should be the amount of money to be spent, I would respectfully recommend that the approach be dealt with similar to mining where, if an individual can demonstrate that they have spent \$5,000 a year toward agriculturally-related purposes, they will be defined as having engaged in commercial agriculture. As we are aware, there are many times when a farmer will have no production over a period of time, either due to crop failures, or land development. Crop failures are common. To the same degree, many farms, such as even peony farms in Alaska, take several years to develop before any results are obtained.


I furthermore would submit that legislature should also establish that, in the event that a parcel of land has an approved agricultural plan by the Department of Agriculture, the presumption is that it is a farm. Agricultural plans are difficult to obtain and take a considerable amount of work before approved. In the event that the individual has gone to the extent of having an approved agricultural plan, this should be taken into consideration.

On another note, your consideration is respectfully requested to try to decipher that provision of Section 20 of the Act, which seems to be contradictory in nature and which discusses "nonfarm use." I have read this section several times, and cannot understand whether or not the section is intended to exclude or include the items listed in the final clause.

Of final note, the word "farm" has yet to be defined anywhere in the Alaska Statutes. It would seem, however, that this is probably the most important definition to be made in the area of agricultural work, since "farm" is a term which is a relatively common usage, but has yet to be defined, and, as such, needs to be. Specifically, what is a farm, and who is a farmer?

Thank you very much for your kind consideration of this written testimony.

Sincerely,



William R. Satterberg, Jr.

WRS:akw/mrb