

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

HB 415 thru HB 416-S 363

HB

415

**HOUSE COMMITTEE REPORT**

(11)

Date referred: 3/23/88

FURTHER REFERRALS:

DATE: 4-13-88

The Finance Committee has considered HB 415

"An Act relating to agricultural industry production credits for dairy products; and providing for an effective date."

**RECOMMENDS:**

- replace with CS HB 415 (Finance)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

Larson Ronald L. Larson

Frank [Signature]

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\_\_\_\_\_

\_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

Adams Al Adams - Do NOT PASS

Parnoch Pat Parnoch NO REC

Swack [Signature] NR

Boyer [Signature] NR

Rieger [Signature] No Recommendation

Wallis Kay Wallis DO NOT PASS

Brown Tay Brown DO NOT PASS

Davis Mike Davis NO REC

Al Adams  
Chairman's signature

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: CS HB 415 (Finance)  
PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: 7/28/88  
Title: Dairy Production Credits  
Sponsor: House Finance Committee  
Requestor: House Finance Committee

Agency Affected: Natural Resources  
BRU: Agricultural Management  
Components: ARLF

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES		-0-				
TRAVEL		-0-				
CONTRACTUAL		32.0				
SUPPLIES		-0-				
EQUIPMENT		-0-				
LAND & STRUCTURES		0				
GRANTS, CLAIMS		-0-				
MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	32.0	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	(1,991.0)	(157.6)	(157.6)	(156.7)	(156.7)

FUNDING: (Thousands of Dollars)

GENERAL FUND		32.0				
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	32.0	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This fiscal note reflects the effects of a dairy production credit program for the years 1985-1987, with credits applied only to ARLF loans under Title 3. The negative revenues are the result of loans which will not be recovered because of the credits allowed under this bill,

Prepared by: Hal Ward  
Division: Division of Agriculture

Phone: 745-7200  
Date: 5/28/88

Approved by Commissioner: [Signature]  
Agency: Natural Resources

Date: \_\_\_\_\_

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

Original sponsors: Larson and Menard

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 415 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to agricultural industry production  
7 credits for dairy products; and providing for an  
8 effective date."

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

10 \* Section 1. PURPOSE. The purpose of this Act is to permit dairy  
11 farmers in the state to achieve parity with milk producers who are located  
12 outside the state and to reward those dairy farmers in the state who are  
13 productive and who are making a sincere effort to compete on equal terms  
14 with milk producers located outside the state.

15 \* Sec. 2. AS 03.05 is amended by adding a new section to read:

16 Sec. 03.05.017. AGRICULTURAL PRODUCTION CREDITS FOR DAIRY PROD-  
17 UCTS. (a) In addition to the production credits authorized under  
18 AS 03.05.015, the commissioner shall establish a program of agricul-  
19 tural production credits for dairy products. Credits under this  
20 section shall be applied against amounts due on agricultural loans  
21 made under this title. The credits shall be based on dairy products  
22 produced in the state.

23 (b) The annual credit for the years 1985 - 1987 is \$2.68 per  
24 hundredweight of dairy products as shown on documents acceptable to  
25 the commissioner. The credit shall be applied to the principal on the  
26 debts described in (a) of this section. The credits available under  
27 this section and AS 03.05.015 are limited to 25 percent of the princi-  
28 pal debt incurred.

29 (c) A credit granted under this section may not be transferred.

1 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).  
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5-1731L ✓  
Bradley  
3/28/80

Original sponsors: Larson and Menard

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 415 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

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18 AS 03.05.015, the commissioner shall establish a program of agricul-  
19 tural production credits for dairy products. Credits under this  
20 section shall be applied against amounts due on agricultural loans  
21 made under this title. <sup>[And AS 44 + amounts due on the sale</sup>  
22 <sup>of agricultural land under AS 38.05]</sup> The credits shall be based on dairy products  
produced in the state.

23 (b) The annual credit for the years 1985 - 1987 is \$2.68 per  
24 hundredweight of dairy products as shown on documents acceptable to  
25 the commissioner. The credit shall be applied to the principal on the  
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\* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

REQUEST:

Revision Date: 3/28/88  
Title: Dairy Production Credits  
Sponsor: House Labor & Commerce  
Requestor: House Finance Committee

Agency Affected: Natural Resources  
BRU: Agricultural Management  
Land & Water  
Components: ABLE  
Public Use

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES		38.4				
TRAVEL		-0-				
CONTRACTUAL		35.0				
SUPPLIES		1.0				
EQUIPMENT		-0-				
LAND & STRUCTURES		-0-				
GRANTS, CLAIMS		-0-				
MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	74.4	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	(1991.0)	(157.6)	(157.6)	(157.6)	(157.6)	(157.6)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	74.4	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	74.4	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME		1				
PART-TIME						
TEMPORARY						

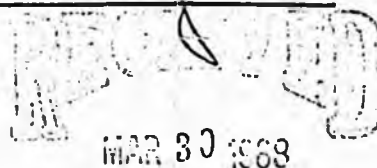
ANALYSIS : (Attach a separate page if necessary)

This fiscal note reflects the effects of this program for the years 1985-1987 at \$2.68 per cwt of milk produced. The negative revenues are the result of loans which will not be recovered due to the dairy credits allowed under this bill. (Costs based on assumption that application for credits would not be allowed after 12/88.) Continued on Page 2

Prepared by: Hal Ward Dick LeFebvre Phone: 465-2400  
Division: Agriculture Land & Water Date: 3/28/88

Approved by Commissioner: [Signature] Date: 3/29/88  
Agency: Natural Resources

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



F I S C A L   N O T E

A N A L Y S I S

CONTINUED

CS HOUSE BILL 415 (L&C)

The revenue projections for the loan fund for FY 89 and future years will decrease by the amounts shown because the principal balance due on dairy loans will decrease by approximately 20%.

Operating costs for FY 89 to calculate and apply the retroactive production credits on ARLF loans and agricultural land contracts are as follows:

100 -	38.4	1 Natural Resource Officer I, Range 14A (Division of Land and Water Management)
200 -	-0-	
300 -	30.0	Contracting for special accounting for credits and audit of milk processing records to ensure compliance with this bill. (Division of Agriculture)
-	5.0	Certified mail, public notices, tele- phone charge associated with land contract and loan credit applications. (3.0 Division of Land and Water Manage- ment, 2.0 Division of Agriculture)
400 -	1.0	Commodities for 1 Natural Resource Officer I (Division of Land and Water Management)

Position Title <b>Natural Resource Officer I</b>			No. of Positions 1	Range/Step 14A	Barg. Unit GGU
Time Status PFT	Staff Months 12		Location Anchorage		Election District 7
			Justification		
Type of Expenditure			Amount		
1	2	3			
Salary	28,236				
Benefits	10,137				
Premium Pay					
Other					
Total Personal Services		38,373			
Travel					
Contractual			35,000		
Commodities			1,000		
Equipment					
Other					
Total Cost		74,373			
Funding Source for Total Cost					
Federal Receipts	1002				
G. F. Match	1003				
General Fund	1004	74,373			
GF Program Receipts	1005				
Other					

This position will be responsible for contracting for special accounting for credits and audit of milk processing records to ensure compliance with this bill.

**Request For  
New Position**

Agency Natural Resources  
 BRU Land and Water Management  
 Component Land and Water Public Use

Page 1 of  
 Revised Date

**FY 89**

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

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

March 29, 1988

The Honorable Albert Adams  
Chair, House Finance Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Representative Adams:

Subject: The House Labor and Commerce Committee Substitute for House Bill 415, which relates to Agricultural production credits for dairy products.

Position: Although the committee substitute for this bill has reduced its impact by establishing a dairy production credit program for only three years (1985-1987), the Department of Natural Resources cannot support this bill.

The loss of loan principal payments resulting from CSHB 415 could be disastrous to the Agricultural Revolving Loan Fund (ARLF), especially when considered in conjunction with the numerous other agricultural loan reduction bills introduced this year. In addition, this bill subsidizes the dairy industry by writing down loans for dairy farmers, regardless of whether they have financial problems.

Background: The original production credit program under AS 03.05.015 (which ends after this tax year) was designed to encourage farmers to finish clearing their land and bring their farms into full production. Dairy and other farmers have benefitted from the original program which reduced the interest due on agricultural loans in proportion to the value of farm products sold. This new program does not encourage farm development or sales, but instead provides dairy farmers with a retroactive credit towards ARLF loan or land contract principal equal to \$2.68 per CWT for dairy products produced.

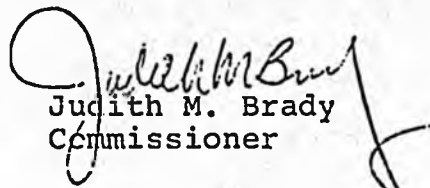
Representative Adams

-2-

March 29, 1988

Recommendation: Allow dairy farmers in need of debt relief to restructure troubled debt through the existing ARLF program. Allow the existing production credit program to terminate after this tax year and refrain from establishing the new program described in this bill.

Sincerely,

  
Judith M. Brady  
Commissioner

cc: Committee Members  
Bill Sponsors  
Bob Evans  
Rod Swope

FISCAL NOTE

REQUEST:

Revision Date: 3/22/88 Agency Affected: Natural Resources  
 Title: Dairy Production Credits BRU: Agricultural Management  
Land & Water  
 Sponsor: Labor & Commerce Committee Components: ARLF  
 Requestor: House Labor & Commerce Comm Public Use

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES		84.0				
TRAVEL		-0-				
CONTRACTUAL		35.0				
SUPPLIES		2.0				
EQUIPMENT		-0-				
LAND & STRUCTURES		-0-				
GRANTS, CLAIMS		-0-				
MISCELLANEOUS		-0-				
TOTAL OPERATING		121.0	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE		(1,991.0)	(157.6)	(157.6)	(156.7)	(156.7)
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FUNDING: (Thousands of Dollars)

GENERAL FUND		121.0				
FEDERAL FUNDS						
OTHER						
TOTAL		121.0	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME		2				
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This fiscal note reflects the changes in this bill and includes the fiscal effects of this program for the years 1985-1987 at \$2.68 per cwt of milk produced. The negative revenues are the result of production loans which will not be recovered due to the dairy credits allowed under this bill. (Contd.)

Prepared by: Hal Ward Phone: 745-7200  
 Division: Division of Agriculture Date: 3/22/88

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

Agency: Natural Resources

Distribution (by preparer):

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

MAR 24 1988

Fiscal Note Analysis CS HB 415 (L&C) contd.

The revenue projections for the loan fund for FY 89 and future years will decrease because the principal balance due on dairy loans will decrease by approximately 20%.

The operating costs are as follows:

100 -- 1 Natural Resource Manager I Range 18 A	50.0	(DL&WM)
1 Natural Resource Technician II Range 12 A	34.0	(DL&WM)
200 -- -0-	-0-	
300 -- Contracting for special accounting of credits and audit of milk processing records to ensure compliance with this bill.	30.0	(D of Ag)
Certified mail, public notice and telephone charges associated with land contract credit applications under this program.	5.0	(3.0 L&W) (2.0 D. Ag)
400 -- Commodities for 2 new positions	1.0	(L&WM)

Position Title <b>Natural Resource Manager I</b>		No. of Positions <b>1</b>	Range/Step <b>18A</b>	Barg. Unit <b>GGU</b>
Time Status <b>PFT</b>	Staff Months <b>12</b>	Location <b>Anchorage</b>		Election District
Type of Expenditure		Amount		
<b>1</b>	<b>2</b>	<b>3</b>		
Salary	37,600			
Benefits	12,400			
Premium Pay				
Other				
<b>Total Personal Services</b>		<b>50,000</b>		
Travel				
Contractual		3,000		
Commodities		500		
Equipment				
Other				
<b>Total Cost</b>		<b>53,500</b>		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	53,500		
GF Program Receipts	1005			
Other				
<b>Justification</b> This position will supervise a NRT II. The team will be responsible for calculating credits pursuant to HB 415				

**Request For  
New Position**

Agency Natural Resources  
 BRU Land and Water  
 Component Public Use

Page 3 of 4  
 Revised Date

**FY 89**

Position Title <b>Natural Resource Technician II</b>			No. of Positions <b>1</b>	Range/Step <b>12A</b>	Barg. Unit <b>GGU</b>
Time Status <b>PFT</b>	Staff Months <b>12</b>		Location <b>Anchorage</b>		Election District
			Justification This position will work under a project leader. Will be involved in recalculating credits for current dairy contracts.		
Type of Expenditure		Amount			
<b>1</b>	<b>2</b>	<b>3</b>			
Salary	24,800				
Benefits	9,200				
Premium Pay					
Other					
Total Personal Services		34,000			
Travel					
Contractual		2,000			
Commodities		500			
Equipment					
Other					
Total Cost		36,500			
Funding Source for Total Cost					
Federal Receipts	1002				
G. F. Match	1003				
General Fund	1004	36,500			
GF Program Receipts	1005				
Other					

**Request For  
New Position**

Agency Natural Resources  
 BRU Land and Water  
 Component Public Use

Page 4 of 4  
 Revised Date \_\_\_\_\_

**FY 89**

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.  
JUNEAU, ALASKA 99801-1798  
PHONE: (907) 485-2400

March 29, 1988

The Honorable Albert Adams  
Chair, House Finance Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Representative Adams:

Subject: The House Labor and Commerce Committee Substitute for House Bill 415, which relates to Agricultural production credits for dairy products.

Position: Although the committee substitute for this bill has reduced its impact by establishing a dairy production credit program for only three years (1985-1987), the Department of Natural Resources cannot support this bill.

The loss of loan principal payments resulting from CSHB 415 could be disastrous to the Agricultural Revolving Loan Fund (ARLF), especially when considered in conjunction with the numerous other agricultural loan reduction bills introduced this year. In addition, this bill subsidizes the dairy industry by writing down loans for dairy farmers, regardless of whether they have financial problems.

Background: The original production credit program under AS 03.05.015 (which ends after this tax year) was designed to encourage farmers to finish clearing their land and bring their farms into full production. Dairy and other farmers have benefitted from the original program which reduced the interest due on agricultural loans in proportion to the value of farm products sold. This new program does not encourage farm development or sales, but instead provides dairy farmers with a retroactive credit towards ARLF loan or land contract principal equal to \$2.68 per CWT for dairy products produced.

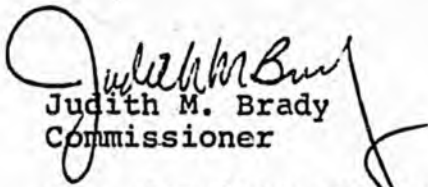
Representative Adams

-2-

March 29, 1988

Recommendation: Allow dairy farmers in need of debt relief to restructure troubled debt through the existing ARLF program. Allow the existing production credit program to terminate after this tax year and refrain from establishing the new program described in this bill.

Sincerely,

  
Judith M. Brady  
Commissioner

cc: Committee Members  
Bill Sponsors  
Bob Evans  
Rod Swope

# Alaska State Legislature



Session Address:  
STATE CAPITOL BUILDING  
BOX V  
JUNEAU, ALASKA 99811  
(907) 485-3727

Interim Address:  
BOX 53  
PALMER, ALASKA 99845  
(907) 745-3826 - Palmer  
(907) 378-8628 - Wasilla

Representative Ronald L. Larson  
District 16B

TO: Representative Al Adams  
Chairman, House Finance

FROM: Representative Ron Larson *R.L.*

SUBJECT: CSHB 415 (Finance)

DATE: March 29, 1988

CSHB 415 (Finance), An Act relating to Agricultural Industry Projection Credits for Dairy Products is before our committee for consideration.

This bill was developed to assist productive dairy farmers in the reduction of their debt load. Many of the farmers have made sincere efforts to create viable dairy farms. Those honest efforts have been supplemented by private monetary investments equaling approximately 12 million dollars.

The bill seeks to reward the producing farmers--as determined by their past production records.

The Finance CS made the following change to the Labor and Commerce CS. In lines 21 and 22 of the first page the words "and AS 44 and amounts due on the sale of agriculture land under AS 38.05" were eliminated. The sentence now reads, "Credits under this section shall be applied against amounts due on agricultural loans made under this title."

The effect of that change will allow for the dairy farmers to be rewarded, in terms of production credits, on their agricultural loans only. In the previous CS production credits applied to both agricultural loans and payments on agricultural land. This modification reduces the fiscal note by eliminating the Division of Land and Water Management's participation in the production credit program.

According to the Department of Natural Resources' fiscal analysis for CSHB 415 (Labor & Commerce) the amendment would result in the following reductions:

84.0	Personal Services
3.0	L&W Noticing
<u>1.0</u>	Commodities
88.0	

Alaska Quality Dairy Cooperative, Inc.  
P.O. Box 872346  
Wasilla, Alaska 99687

Rep. Dave Donnelly  
Chairman, House Labor & Commerce Committee  
Juneau, Alaska 99811

Dear Rep. Donnelly,

This letter is in support of the proposed legislation now before your committee in regard to production credits for the Alaskan dairy industry.

The legislation calls for a forgiveness of a portion of the debt owed the State of Alaska Agricultural Revolving Loan Fund by commercial dairy farmers throughout the state.

The bill calls for no "new" money to be expended by the fund. It would reduce by a small percentage the total amount of money which would have eventually been due from the farmers in the form of principal payments over the next 20 or 30 years. The annual effect on the fund would thus be very small. But the positive effects on the cash flows and financial positions of the state's dairy farmers would be very large.

The amount of the credit is equal to the amount by which the State of Alaska reduced the price of milk when it took over the Hatanuska Maid creamery. All the new dairies received loans from the ARLF based upon the higher price of milk, and the state's reduction in the price has had severe impacts on each of our cash flows and abilities to survive.

Another important effect the principal reduction would have is to bring the total outstanding loans of the dairies under the statutory per-farm-unit limit of \$1,000,000. In this way, some of the farms which need expansion or operating capital in order to be more efficient would have the needed lending source again available to them. The State of Alaska, in insisting on limits in the land titles and in holding first mortgages on all the farms, has placed itself in the position of being the only lender available to the farms.

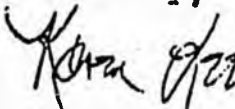
A summary of the production credit reasoning follows.

1. The dairy industry has been severely impacted by the failure of the Hatanuska Maid creamery, and by continuing market difficulties.

2. The severe problems were noted by the ARLF when it assumed ownership of the creamery in November, 1984, and made the crucial decision to lower the price of milk below that which the new farms at Point MacKenzie had planned for.
3. A moratorium was granted due to these dislocations. However, moratoriums postpone problems rather than solve them. Interest continued to accrue, worsening the cash flows and financial positions of those farms which continued to produce milk during this period. The activation of a one-time-only principal credit equal to the amount of money lost because of the different milk price would solve a problem the moratoriums only put off.
4. Dairy farms have a very large start-up cost, commensurate with their ability to produce very large on-going benefits in the form of jobs and economic stimulation. The \$1 million ARLF lending limit has caused a hardship on all the farms now operating, in their inability to obtain adequate operating capital, or where necessary, capital for expansion. This credit would lower the outstanding debt to ARLF sufficiently to allow farms to qualify for needed capital. ARLF is the only lender able to lend to the farms at present, both because of the weakened state of the farms, the weakened state of prospective lenders, and because of the nature of the land title.
5. The reduction in debt would improve the financial positions of the dairies, making them more attractive to other private lenders in the future.
6. The principal reduction production credit has the added advantage of acting to reward only those farms which persevered through the difficult times.

We hope this helps in your deliberations. We are aware of the large number of bills competing for your attention and endorsement. This, we believe, is one that for no further expenditure and relatively little reduction in future receipts, would have a dramatic stabilizing effect on a jobs-intensive industry. If we can answer further questions, please call. Thank you.

Sincerely,

  
Karen Lee  
Secretary  
Alaska Quality Dairy Cooperative, Inc.  
(376-0790)



# Snowcrest Farms, Inc.

P.O. Box 872406, Wasilla, AK 99687 • 376-3546

Representative Curt Menard  
Alaska State Legislature  
P.O. Box V (MS 3100)  
Juneau, Alaska 99811

March 4, 1988

Dear Curt,

Thankyou for sending me copies of HB 400, 415, 456, and SB 23 and for your request for my opinion

I strongly favor passage of all four pieces of legislation as each is an important piece of the larger puzzle which hopefully will yield success for the agricultural industry and the dairy industry.

Please note that contrary to Mr. Chuck Forch's letter, dated February 12, 1988, to you that HB 415 will not reduce the current funds of the ARLF by 2 million dollars. It will reduce yearly the amount returning to ARLF.

We are concerned about the survival of the ARLF, as are they, but the board must remember that if the demands for repayment are to high and unrealistic that money will not revolve back anyway and if they are so concerned about the funds being bleed out maybe they ought to look at the 1.1 million it took to run the fund in 1986 and that near amount again in 1987 with a greater amount anticipated in 1988. The fund that was established to " establish and promote Agriculture in Alaska" is being bled dry to the tune of 1 million per year by the bureaucracy and they have the audacity to critique us in our desire to survive and be productive. I also find it very interesting that that the Loan Board encouraged us to take our plight to the legislature and are now opposing us after having done so.

I appreciate your efforts in helping us resolve these issues and I am certainly willing to provide you with any information needed to support these pieces of legislation.

Sincerely,

  
H. Ray Hendershot

POA

## AGRICULTURAL REVOLVING LOAN FUND

Through the history of the State of Alaska Department of Agriculture the main focus of policy has been the facilitation of the development of agriculture as a renewable resource. A continuing problem has always been that there is little or no financing available for agricultural ventures in what is an essentially agricultural frontier in the continental United States. Private financial institutions have not had the experience in financing agricultural crops and growth, semi-private corporations have not had the financial depth to meet the needs of the agricultural community and personal assets have been rather limited in this state to allow the development of this agricultural base.

The Agricultural Revolving Loan Fund was established by the State of Alaska because of the above problems and with the recognition that in order to develop the many facets of agriculture, as a renewable resource, that it would in some fashion also have to serve as a capital source. The evolution of the Agricultural Revolving Loan Fund has been tied hand in hand with the evolution and implementation of agricultural policy by the various administrations of this state.

We believe it is extremely important that the Agricultural Revolving Loan Fund be left in the Department of Agriculture as it is the only way that agricultural planning and policy can be implemented in this evolving industry. Without the Agricultural Revolving Loan Fund the Dept. of Agriculture is essentially emasculated as a functioning agency. We are all aware of the difference in personalities on the board and in the Dept. of Agriculture which have limited its effectiveness, however, the basic concepts are still valid in its conceptualization and implementation.

We understand that a move is afoot to place the Agricultural Revolving Loan Fund into the Dept. of Commerce. We believe this would be a tragic mistake in administrative policy and would essentially hamstring future policy implementation in this very basic industry.

We believe this administration has a unique opportunity to re-establish credible agricultural policies for the next 8 to 10 years in the State of Alaska. Without the unique combination of the Dept. of Agriculture and its mechanisms of implementing this policy history will only repeat itself as to how the state has left this total industry in disarray.

J. Michael James, M.D.  
James Farms, SR Box 5497-S, Wasilla, AK 99687

SUMMARY OF DELINQUENCY AND DEFAULT  
STATE LOAN PROGRAMS  
4TH QUARTER, FY 87

LOCAL PROGRAM	--DELINQUENT LOANS--		--LOANS IN DEFAULT--	
	\$ Amount	Percent	\$ Amount	Percent
<b>Indirect Lenders (Bond Sales)</b>				
Alaska Housing Finance Corporation (All Programs)	\$831,028,385	19.516%	\$129,345,072	3.038%
Alaska Industrial Development Authority				
AIDA Purchased	50,020,603	19.715%	23,769,309	9.368%
Appropriated to AIDA	8,642,046	11.469%	2,585,041	3.431%
Alaska Medical Facility Authority	0	0.000%	0	0.000%
Alaska Municipal Bond Bank	0	0.000%	0	0.000%
<b>Direct Lenders (Appropriations)</b>				
Agriculture Revolving Loan Fund	18,176,063	45.907%	4,792,353	12.104%
Alaska Power Authority				
Power Project Fund	0	0.000%	0	0.000%
Rural Elect. Revolving Loan Fund	0	0.000%	0	0.000%
Alaska Resources Corporation	652,136	7.791%	7,718,760	92.209%
Alternate Tech. Revolving Loan Fund	903,000	8.891%	474,000	4.667%
Bulk Fuel Revolving Loan Fund	169,000	50.659%	4,000	1.199%
Child Care Facility Revolving Loan Fund	146,000	11.281%	184,000	14.217%
Commercial Fishing Revolving Loan Fund	5,646,000	7.385%	3,104,000	4.060%
Fisheries Enhancement Revolving Loan Fund	61,400	0.119%	1,553,900	3.003%
Grain Reserve Loan Fund	1,187	0.262%	33,802	7.474%
Historical District Revolving Loan Fund	86,000	7.998%	0	0.000%
Housing Assistance Loan Fund	5,045,270	3.678%	4,875,346	3.554%
Med. Malpractice Liability Loan Fund	0	0.000%	0	0.000%
Mining Loan Fund	3,778,000	30.754%	3,877,000	31.560%
Power Development Revolving Loan Fund	0	0.000%	0	0.000%
Residential Energy Conservation Fund	339,000	11.806%	118,000	4.109%
Scholarship Revolving Loan Fund	28,275,939	7.723%	49,275,864	13.459%
Small Business Revolving Loan Fund	2,963,000	15.187%	4,343,000	22.261%
Teacher Scholarship Loan Fund	0	0.000%	0	0.000%
Tourism Revolving Loan Fund	102,000	5.196%	108,000	5.502%
Veterans Revolving Loan Fund	7,459,000	11.001%	1,353,000	1.995%
Water Resources Revolving Loan Fund	0	0.000%	0	0.000%

1. Delinquency includes all loans that are more than one day past due at the end of the quarter; the exceptions are the Agriculture Revolving Loan Fund, AIDA and the Scholarship Loan Fund.
2. Loans in default are defined as delinquent loans that have been turned over to counsel for legal action. Scholarship loans are considered to be default if more than 120 days past due.
3. Housing Assistance Loan Fund data includes all Nonconforming Housing Loans and loans from the Rural Owner-Occupied and Rural Non-Owner Occupied programs purchased since the start of FY 83. Mortgages made by the two rural loan programs before July 1, 1982 and mortgages recently transferred to AHFC are included in AHFC delinquency and default data.

Director

FILE NO:

TELEPHONE NO:

745-7200

THRU:

SUBJECT:

UE 415

FROM:

Mal K. Ward // —  
Loan Manager

An analysis of the financial effect on the ARLF as a result of the subject legislation is as follows:

1985.....\$511,241.28

1986.....\$636,047.83

1987.....\$823,626.61

Total retroactive loss \$1,970,917.72.

Assuming the milk production from Point Mackenzie remains stable with increase of 5% per year through the effective end of the bill as proposed, the cost would increase to a total amount of \$5,698,351. This represents over one half of the \$10,681,815 investment in current loan balances for ARLF and Land Clearing loans for the dairy farm parcels on Point Mackenzie.

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

February 5, 1988

Audit Control Number

10-4293-88-S

Commissioner, Department of  
Natural Resources

Judith M. Brady

Deputy Commissioner, Department  
of Natural Resources

Lennie Boston-Gorsuch

# STATE OF ALASKA

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

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

February 5, 1988

Members of the Legislative Budget  
and Audit Committee:

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

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

February 5, 1988

Audit Control Number

10-4293-88-S

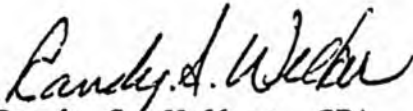
  
Randy S. Welker, CPA  
Acting Legislative Auditor  
Division of Legislative Audit

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PURPOSE OF THE REPORT

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

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## AUDITOR'S CONCLUSION

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

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

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

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

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

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

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

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

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

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## HISTORY OF THE POINT MACKENZIE AGRICULTURE PROJECT

### Concept Origination

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

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

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

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

### Project Implementation

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

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

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

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

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

#### Project Statistics

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

## Land Clearing and Farm Development

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

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

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

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

The development schedule also set out minimum stocking rates for dairy parcels. The number of cows to be regularly milked by November 1, 1985 was 883, and when inspected at that time was found to be 1,061. Again, while project totals were ahead of schedule, individual tract schedules varied greatly. Ten farmers were behind the stocking and

milking schedule; three corrected deficiencies within 60 days, two were in litigation and foreclosure proceedings were begun against the remaining five. The two in litigation were seeking to amend development requirements in the contracts to combine parcels and use one barn and one set of cows to meet the requirements of two separate contracts.

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

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

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

#### Development Costs: Estimated vs. Actual

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

1. Sufficient state land is available in the Point MacKenzie area for a dairy farm development project.
2. Land price is \$100 per acre with a \$50 homestead credit making the effective price \$50 per acre to the farmers.
3. Land-clearing costs are \$220 per acre for project farms.
4. The dairy farms will be designed for forage production in the form of silage and haylage; concentrate, hay, and straw requirements will be met by off-farm purchases.
5. Private slaughter facilities are currently available in the Matanuska Valley to handle cull cows and calves from project lands.
6. Electrical power hook-up will be provided each farm.
7. Roads to each farm will be constructed.

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

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

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

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

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

## MATANUSKA MAID DAIRY

### Background

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

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

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

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

A new strategy for moving Matanuska Maid from state to private ownership was born in 1987. The incorporation of an

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

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

#### Milk Pricing: The Double Edged Sword

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

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

The Division of Agriculture, an advocate for agricultural interests in the state, and the ARLF Board have had to

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

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

#### Marketing: Problems and Strategy

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

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

Plans for 1988 include the introduction of cheese which, for the first time in Mat-Maid history will give the creamery a way of utilizing surplus milk. Other methods of using surplus milk, namely converting it to powdered milk or to butter have not been used because of the high capitalization

cost for producing powdered milk and insufficient fat content to produce butter. The inability to utilize surplus milk lead to the situation in 1987 whereby surplus milk was purchased by Mat-Maid then dumped or exported to Seattle. Once cheese production begins that situation should not occur again.

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

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

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

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

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

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

OFFICE OF THE COMMISSIONER

March 17, 1988

RECEIVED

MAR 22 1988

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

LEGISLATIVE  
AUDIT

Dear Mr. Welker:

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

You may wish to consider the following comments and observations:

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

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

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

expenditures for non income producing assets (e.g. homes and unnecessary equipment) while others used a higher percentage of funds for milk cows and other necessary assets -- resulting in higher income potential for the invested dollar. Thus, the fact that a farm is not economically viable may be the result of management strategies that were not as efficient as they could have been.

3) The statement in the third paragraph that Matanuska Maid loans are "in moratorium" probably should be modified. The Matanuska Maid real estate was purchased at a foreclosure sale by offset bid on November 29, 1985. The state now owns the business and assets, and the loans receivable were converted to assets at cost. New funds advanced are considered as investment in the asset, not as loans to a business.

4) With respect to the fourth paragraph of page three, I have already noted that the department believes that it is not likely that all of the operating dairies on the project will prove viable under existing management. Again, this is because of inevitable differences in financial strength and management abilities of the operators, and forces of competition that we believe to be healthy and necessary if efficient farming is to be encouraged.

5) The department disagrees with the statement on page 12 that a lax enforcement policy on loan collections is the reason for the delinquency rate on Point MacKenzie farms. The department has worked for over 14 months to develop and implement a trouble debt restructure program. This was initiated immediately after the period during which Point MacKenzie loans were in legal moratorium, as soon as it became clear that some, if not all, of the Point MacKenzie farmers were financially distressed and unable to make payments. The intent of the department was to develop a program to handle this troubled debt and to minimize financial losses to the ARLF, and we are now both restructuring debt and collecting on loans made to borrowers who do not qualify for restructuring. We will continue this policy and program for all borrowers, including those at Point MacKenzie.

6) Finally, it may be helpful to note that we are continuing to pursue options to place the creamery operation into

Mr. Randy S. Welker

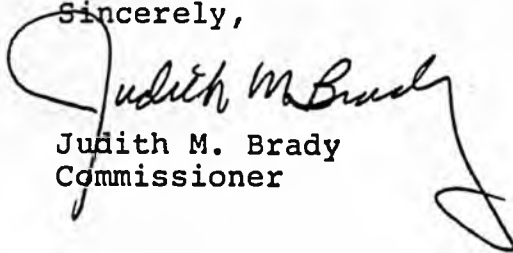
-3-

March 17, 1988

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

I hope these comments prove helpful.

Sincerely,

A handwritten signature in cursive script that reads "Judith M. Brady". The signature is written in dark ink and is positioned to the right of the typed name and title.

Judith M. Brady  
Commissioner

Original sponsors: Larson and Menard

1 IN THE HOUSE BY THE LABOR AND  
COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 415 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to agricultural industry production  
7 credits for dairy products; and providing for an  
8 effective date."

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

10 \* Section 1. PURPOSE. The purpose of this Act is to permit dairy  
11 farmers in the state to achieve parity with milk producers who are located  
12 outside the state and to reward those dairy farmers in the state who are  
13 productive and who are making a sincere effort to compete on equal terms  
14 with milk producers located outside the state.

15 \* Sec. 2. AS 03.05 is amended by adding a new section to read:

16 Sec. 03.05.017. AGRICULTURAL PRODUCTION CREDITS FOR DAIRY PROD-  
17 UCTS. (a) In addition to the production credits authorized under  
18 AS 03.05.015, the commissioner shall establish a program of agricul-  
19 tural production credits for dairy products. Credits under this  
20 section shall be applied against amounts due on agricultural loans  
21 made under this title and AS 44 and amounts due on the sale of agri-  
22 cultural land under AS 38.05. The credits shall be based on dairy  
23 products produced in the state.

24 (b) The annual credit for the years 1985 - 1987 is \$2.68 per  
25 hundredweight of dairy products as shown on documents acceptable to  
26 the commissioner. The credit shall be applied to the principal on the  
27 debts described in (a) of this section. The credits available under  
28 this section and AS 03.05.015 are limited to 25 percent of the princi-  
29 pal debt incurred.

1           (c) A credit granted under this section may not be transferred.

2       \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

3

1 IN THE HOUSE

BY LARSON AND MENARD

2

HOUSE BILL NO. 415

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to agricultural industry production credits for dairy products; and providing for an effective date."

7

8

9

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

10

\* Section 1. PURPOSE. The purpose of this Act is to permit dairy farmers in the state to achieve parity with milk producers who are located outside the state and to reward those dairy farmers in the state who are productive and who are making a sincere effort to compete on equal terms with milk producers located outside the state.

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\* Sec. 2. AS 03.05 is amended by adding a new section to read:

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21

made under this title and AS 44 and amounts due on the sale of agri-

22

cultural land under AS 38.05. The credits shall be based on dairy

23

products produced in the state.

24

(b) The annual credit for the years 1985 - 1991 is \$2.63 per

25

hundredweight of dairy products as shown on documents acceptable to

26

the commissioner. The credit shall be applied to the principal on the

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debts described in (a) of this section. The credits available under

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this section and AS 03.05.015 are limited to 50 percent of the

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principal debt incurred.

1           (c) A credit granted under this section may not be transferred.

2       \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

3

HB

416

(11)

Date referred: 3/11/88

FURTHER REFERRALS:

DATE: 3-21-88

The Finance Committee has considered HB 416

"An Act relating to Alaska National Guard and Alaska Naval Militia retirement benefits; and providing for an effective date."

**RECOMMENDS:**

- replace with \_\_\_\_\_  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published 1/29/88 (2)
- zero with analysis

**SIGNING DO PASS:**

Adams [Signature]

Pourchat [Signature]

Larson [Signature]

Swack [Signature]

Boyer [Signature]

Rieger [Signature]

Wallis [Signature]

[Signature]

FRANK [Signature]

**SIGNING OTHER RECOMMENDATIONS:**

Goll [Signature] N.P.

Brown [Signature] No Rec

Davis [Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]  
Chairman's signature

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 416  
PUBLISH DATE: HOUSE 1/29/88

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: AK Nat'l Guard Naval Militia  
Retirement Benefits  
Sponsor: Rules  
Requestor: Governor

Agency Affected: Administration  
BRU: Retirement & Benefits  
Components: Retirement and Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

See attached

*Robert F. Stalnaker*

Prepared by: Robert F. Stalnaker, Acting Director Phone: 465-4470  
Division: Retirement and Benefits Date: 1-18-88

Approved by Commissioner: John M. Andrews Date: 1/26/88  
Agency: Department of Administration

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

POSITION PAPER  
National Guard Bill

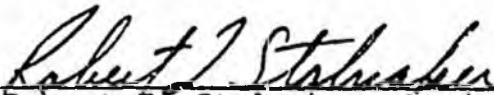
This bill would add two (2) additional benefit payment options for the members retiring under the Alaska Guard and Naval Militia Retirement System (NGNMRS). Currently, a retiring member has only one payment option for their retirement benefit. The member receives \$100 per month for the same number of months that the member participated satisfactorily in the Guard, Air Guard, or the Naval Militia. If the retiree dies before receiving the entire benefit, the balance is paid in a lump sum to a surviving spouse or other beneficiary named by the retiree if there is no surviving spouse.

This amendment would provide a choice of one of three different payment plans to allow more flexibility for the retiring member:

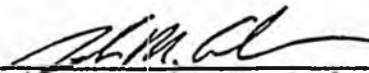
- 1) a lump sum pension which is the actuarially equivalent of the total pension due the member;
- 2) a monthly benefit actuarially calculated so that the entire pension is paid to the member by his or her 72nd birthday; or
- 3) \$100 per month for the same number of months served by the member (the current plan.)

It may be more advantageous for an older retiring member to elect a lump sum or an actuarially calculated monthly benefit to ensure that the entire benefit is received during the member's life time.

The department supports this bill.

  
\_\_\_\_\_  
Robert F. Stalnaker, Acting Director  
Division of Retirement & Benefits

1/26/88  
Date

  
\_\_\_\_\_  
Commissioner John M. Andrews  
Department of Administration

1/26/88  
Date

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 416  
PUBLISH DATE: HOUSE 1/29/88

FISCAL NOTE

REQUEST:

Revision Date: January 19, 1988  
Title: An Act relating to Alaska  
National Guard Retirement Benefits  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: Military & Veterans Affairs  
BRU: Alaska National Guard Benefits

Components: Retirement Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This bill adds two payout options to the existing Alaska National Guard and Naval Militia retirement system. No fiscal impact will occur.

Prepared by: Jeff Morrison *Morrison* Phone: 465-4600  
Division: Administrative & Support Services, DMVA Date: 1/19/88

Approved by Commissioner: MG John W. Schaeffer *Schaeffer* Date: 1/19/88  
Agency: Department of Military & Veterans Affairs

Distribution (by preparer):

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

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO.416

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to Alaska National Guard and Alaska  
7 Naval Militia retirement benefits; and providing for  
8 an effective date."

9

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

10

\* Section 1. AS 26.05.224(b) is amended to read:

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(b) The retirement pension is \$100 a month, payable for the same  
number of months that the member participated satisfactorily in the  
Alaska National Guard or Alaska Naval Militia. The member may instead  
elect to receive the retirement pension (1) in a lump sum that is  
actuarially determined to be equal to the value, at the time of re-  
tirement, of the entire pension due, or (2) in a monthly amount that  
will result in payment by the member's 72nd birthday of an amount that  
is determined to be the actuarial equivalent of the entire pension due  
at the time of retirement.

20

\* Sec. 2. AS 26.05.224(c) is amended to read:

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(c) An eligible member or former member may elect to receive the  
retirement pension beginning on the first day of the month in which  
the member or former member becomes eligible for retirement, or the  
member or former member may elect to defer payment to a later date.  
Payment of a deferred retirement benefit may not begin until applica-  
tion for the benefit is filed with and approved by the Department of  
Military and Veterans' Affairs. Deferred retirement payments must be  
made monthly at the rate of \$100, unless the member elects another  
form of payment under (b) of this section.

1 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 416  
PUBLISH DATE: HOUSE 1/29/88

## FISCAL NOTE

## REQUEST:

Revision Date: \_\_\_\_\_  
Title: AK Nat'l Guard Naval Militia  
Retirement Benefits

Agency Affected: Administration  
BRU: Retirement & Benefits

Sponsor: Rules  
Requestor: Governor

Components: Retirement and Benefits

## EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

## FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

## POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

## ANALYSIS : (Attach a separate page if necessary)

See attached

Prepared by: Robert F. Stalnaker, Acting Director Phone: 465-4470  
Division: Retirement and Benefits Date: 1-18-88

Approved by Commissioner: John M. Andrews Date: 1/26/88  
Agency: Department of Administration

## Distribution (by preparer):

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

POSITION PAPER  
National Guard Bill

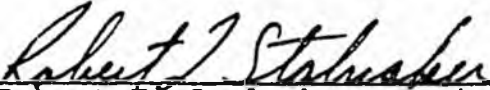
This bill would add two (2) additional benefit payment options for the members retiring under the Alaska Guard and Naval Militia Retirement System (NGNMRS). Currently, a retiring member has only one payment option for their retirement benefit. The member receives \$100 per month for the same number of months that the member participated satisfactorily in the Guard, Air Guard, or the Naval Militia. If the retiree dies before receiving the entire benefit, the balance is paid in a lump sum to a surviving spouse or other beneficiary named by the retiree if there is no surviving spouse.

This amendment would provide a choice of one of three different payment plans to allow more flexibility for the retiring member:

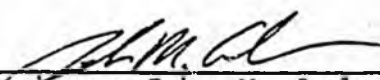
- 1) a lump sum pension which is the actuarially equivalent of the total pension due the member;
- 2) a monthly benefit actuarially calculated so that the entire pension is paid to the member by his or her 72nd birthday; or
- 3) \$100 per month for the same number of months served by the member (the current plan.)

It may be more advantageous for an older retiring member to elect a lump sum or an actuarially calculated monthly benefit to ensure that the entire benefit is received during the member's life time.

The department supports this bill.

  
\_\_\_\_\_  
Robert F. Stalnaker, Acting Director  
Division of Retirement & Benefits

1/26/88  
Date

  
\_\_\_\_\_  
Commissioner John M. Andrews  
Department of Administration

1/26/88  
Date



Official Business

# Alaska State Legislature

## House

COMMITTEE ON STATE AFFAIRS

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

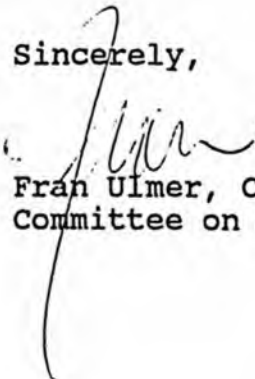
February 26, 1988

Major General John W. Schaeffer  
The Adjutant General  
Department of Military and Veterans Affairs  
Frontier Building  
3601 C Street  
Suite 620  
Anchorage, AK 99503-5989

Dear Major General Schaeffer:

Thank you for your letter of February 16, 1988. Because of the additional information you have provided, I have tentatively rescheduled House Bill 416 for Wednesday, March 9, for the State Affairs Committee. A copy of your letter will be provided to each committee member for their consideration.

Sincerely,

  
Fran Ulmer, Chair  
Committee on State Affairs

DEPARTMENT OF MILITARY  
AND VETERANS AFFAIRS

OFFICE OF THE ADJUTANT GENERAL

Administrative & Support  
Services Division  
P.O. Box L  
Juneau, AK 99811

March 1, 1988

Representative Fran Ulmer  
Chairman, House State Affairs Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Ulmer,

On February 10, your committee heard HB416 for the first time, concerning changes desired in the National Guard Retirement System (NGRS). Because of questions the committee had concerning this bill, you asked that I provide you with additional information. This letter will provide the requested information.

After reflecting on the testimony offered in support of this bill, it became apparent that neither I nor Bob Stalnaker of the Division of Retirement and Benefits effectively communicated the basic purpose of the NGRS, and the reasons why it is different from other retirement systems administered by the state. When this is understood by the committee, we believe that there will be support for the changes proposed by this bill.

The main purpose of the NGRS is to supplement the existing federal retirement system. No National Guard member can receive the NGRS benefits until and unless they are also eligible to receive the federal retirement benefit. In A.S. 26.05.224(a), the eligibility of members to receive the NGRS benefit is defined. With the exception of forced early retirement due to fiscal constraints, a member must have served a total of 20 years in the armed forces of the United States, at least five years of which must have been with the National Guard or Naval Militia. These are the same standards which qualify a member to receive the federal retirement benefit.

The amount of the federal retirement benefit varies depending on the rank at retirement, the number of years served, and the number of retirement points earned. Retirement points are earned for basic service in the guard, for annual training and any active duty served, and for special schools or training completed. An enclosure to this letter is a table from the National Guard Almanac which shows the amount of the monthly federal retirement benefit paid to recipients based on the variables just mentioned.

These federal benefits are payable once the eligible member reaches 60 years old, and are paid for the remainder of the member's lifetime. The minimum amount that a member can realistically expect to receive from the federal retirement system is about \$200 per month. Most retired guardsmen and women in fact receive more than that amount. This federal system is administered entirely by the Department of Defense and the National Guard Bureau.

The state-administered NGRS system is not a retirement system per se, but is in fact a supplemental benefits system to augment the federal national guard retirement system. Its purpose is to provide additional incentive to National Guard and Naval Militia members to remain active, and to supplement their federal retirement system. Because of this, it is more appropriate to compare the NGRS to the existing state employee Supplemental Benefits System (SBS) rather than to the Public Employee Retirement System (PERS) or to the Teachers Retirement System (TRS). There are two significant similarities between the SBS and the NGRS system:

1. Both the NGRS and the SBS supplement an existing retirement system. The SBS supplements the PERS and TRS systems for employees of the State of Alaska and other employers who have chosen to belong to the SBS. The NGRS supplements the federal National Guard Retirement System.
2. Both the NGRS and the SBS provide annuities based on a fixed dollar amount which is customized for each individual. The SBS annuity is based on the contributions made by each individual member over the period of time they participated in SBS. The NGRS annuity is based on the number of months that each individual member participated satisfactorily in the Alaska National Guard or Alaska Naval Militia.

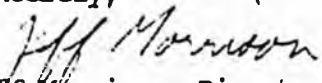
There is one significant difference between the NGRS and the SBS, however. The SBS currently allows eight different options for payout of the annuity amount, including a lump sum payout. Enclosed with this letter is a copy of the pages from the SBS information booklet which describe the annuity payout options. The NGRS currently allows only one option. The proposed legislation would add two options to the NGRS, to provide a total of three options. This is still significantly less than the options available to participants in the SBS, but would at least provide a choice to men and women of the National Guard and Naval Militia which they do not have now.

We agree with the committee's concern that National Guard members should not have benefits in their retirement system that are not also available to members of the PERS and TRS retirement system. The basic federal retirement system available to members of the National Guard and Naval Militia is essentially comparable in intent and purpose to PERS and TRS. A lump sum option is not available in the federal National Guard retirement system, and the benefits are payable for life.

We also believe, however, that members of the National Guard and Naval Militia should have the same variety of options available to state employees in the payout of their supplemental benefits. The SBS system currently allows lump sum payout of the annuity benefit, along with seven other options. The NGRS system, if HB416 is enacted, would allow a lump sum payout and two other options. We request that the State Affairs Committee concur in the desire to provide equity with state employees in the forms of payout options available to their annuity benefits system which supplements their regular retirement system, and pass out HB416 with a "Do Pass" recommendation.

I am available to meet with you or the committee at your convenience to discuss this issue further. Thank you for your consideration.

Sincerely,

  
Jeff Morrison, Director  
Administrative and Support Services

cc: House State Affairs Committee Members  
MG John W. Schaeffer, The Adjutant General  
Bob Stalnaker, Acting Director, Division of Retirement and Benefits, DOA

NATIONAL GUARD ALMANAC

**TABLE A**  
MONTHLY AMOUNT OF GUARD RETIREMENT PAY—  
OVER 20 YEARS SERVICE FOR BASE PAY  
1 JANUARY 1987

Highest Grade Held	Value of Each Point	Retirement Points					
		100	2000	2500	3000	3500	4000
<b>COMMISSIONED OFFICERS</b>							
O-8	.40146	\$40.15	\$802	\$1003	\$1204	\$1405	\$1605
O-7 M	.36304	36.30	728	907	1089	1270	1452
O-6	.27798	27.80	555	694	833	972	1111
O-5	.25148	25.15	502	628	754	880	1005
O-4 M	.21763	21.76	435	544	652	761	870
O-3 M	.18821	18.82	376	470	564	658	752
O-2 M	.13967	13.97	279	349	419	488	558
O-1 M	.11017	11.02	220	275	330	385	440
<b>COMMISSIONED OFFICERS WITH MORE THAN 4 YEARS ACTIVE SERVICE AS AN ENLISTED MEMBER</b>							
O-3E M	.19102	19.10	382	477	573	668	764
O-2E M	.16169	16.17	323	404	485	565	646
O-1E M	.13679	13.68	273	341	410	478	547
<b>WARRANT OFFICERS</b>							
W-4	.18069	18.07	361	451	542	632	722
W-3	.15892	15.89	317	397	476	556	635
W-2	.14263	14.26	285	356	427	499	570
W-1	.13233	13.23	264	330	396	463	529
<b>ENLISTED MEMBERS</b>							
E-9	.15283	15.28	305	382	458	534	611
E-8	.13396	13.40	267	334	401	468	535
E-7	.11821	11.82	236	295	354	413	472
E-6 M	.10354	10.35	207	258	310	362	414
E-5 M	.08786	8.79	175	219	263	307	351

M = Maximum point value—the same for "over 20", "over 22", or "over 26" years service for pay. However, total retirement points may be increased by additional years of service. See Tables B and C following for applicable "over 22" and "over 26" years service.

\*These values are subject to change with any change in base pay, and periodic increases after retirement due to CPI adjustments.

NATIONAL GUARD ALMANAC

**TABLE B**  
MONTHLY AMOUNT OF GUARD RETIREMENT PAY—  
OVER 22 YEARS SERVICE FOR BASE PAY  
1 JANUARY 1987

Highest Grade Held	Value of Each Point	Retirement Points					
		100	2000	2500	3000	3500	4000
<b>COMMISSIONED OFFICERS</b>							
O-8 M	.41756	\$41.76	\$815	\$1043	\$1252	\$1481	\$1870
O-6	.29410	29.41	588	735	882	1029	1176
O-5 M	.26025	26.02	520	650	780	910	1041
<b>WARRANT OFFICERS</b>							
W-4	.18673	18.67	373	466	560	635	748
W-3	.16468	16.47	329	411	494	578	658
W-2 M	.14838	14.84	296	370	445	519	593
<b>ENLISTED MEMBERS</b>							
E-9	.16088	16.09	321	402	482	563	643
E-8	.14183	14.18	283	354	425	496	567
E-7	.12615	12.61	252	315	378	441	504

M = Maximum point value—the same for "over 20", "over 22", or "over 26" years service for pay. However, total retirement points may be increased by additional years of service. See Tables B and C following for applicable "over 22" and "over 26" years service.

\*These values are subject to change with any change in base pay, and periodic increases after retirement due to CPI adjustments.

**TABLE C**  
MONTHLY AMOUNT OF GUARD RETIREMENT PAY—  
OVER 26 YEARS SERVICE FOR BASE PAY  
1 JANUARY 1987

Highest Grade Held	Value of Each Point	Retirement Points					
		100	2000	2500	3000	3500	4000
<b>COMMISSIONED OFFICERS</b>							
O-6 M	.31898	\$31.90	\$637	\$797	\$956	\$1116	\$1275
<b>WARRANT OFFICERS</b>							
W-4 M	.20127	20.13	402	503	603	704	805
W-3 M	.17046	17.05	340	426	511	596	681
<b>ENLISTED MEMBERS</b>							
E-9 M	.17652	17.65	353	441	529	617	706
E-8 M	.15765	15.76	315	394	472	551	630
E-7 M	.14183	14.18	283	354	425	496	567

M = Maximum point value—the same for "over 20", "over 22", or "over 26" years service for pay. However, total retirement points may be increased by additional years of service. See Tables B and C following for applicable "over 22" and "over 26" years service.

\*These values are subject to change with any change in base pay, and periodic increases after retirement due to CPI adjustments.

## ANNUITY BENEFITS

### YOUR ACCOUNT

The Supplemental Annuity Plan will set up an account in your name. Any money you have left after payment of administrative fees and insurance premiums will be deposited in your account.

### YOUR RIGHT TO BENEFITS

You have a vested right to deposits made to your annuity account. Regardless of your period of employment, you or your beneficiary will receive the full value of your account under the terms of the Supplemental Annuity Plan.

### INTEREST EARNED

Contributions to your Supplemental Annuity account are deposited with the Annuity Carrier. In 1986 annuity accounts will be credited with interest at a rate decreasing from 11.87% to 11.54% during the course of the year.

Each year the Annuity Carrier will declare a new interest rate. That rate may increase or decrease. It will be determined by the actual investment performance and expenses of the plan. During the open enrollment period each year, you will be informed of the next year's estimated net interest rate.

The following table illustrates the recent interest rates credited to annuity accounts:

Year	Net Annual Interest Rate
1980	10.40%
1981	10.75%
1982	12.35%
1983	12.55%
1984	12.00% - 12.04%
1985	11.80% - 11.97%
1986	11.87% - 11.54%

### FORMS OF PAYMENT

The Supplemental Annuity Plan contains provisions under which you may elect a form of payment (please refer to Article V of the Plan Document beginning on page 76). Your choice of payment should be indicated on an "Annuity Benefit Election Form" (02-210). Once payments begin, you may not change the form of payment. Below is an explanation of forms of payment currently available.

Form of Payment	Payments Are Made For
Lump Sum	Total account value, one payment
Five Year Certain	Five years only
Ten Year Certain	Ten years only
Fifteen Year Certain	Fifteen years only
Single Life Annuity	Your lifetime only
Life with Ten Years Certain	Your lifetime, with ten years guaranteed
Life with Fifteen Years Certain	Your lifetime, with fifteen years guaranteed
Joint & Survivor Annuity (50% or 100%)	Your or your beneficiary's lifetime, whichever is longer

- Lump Sum**  
With this form you receive one payment in complete settlement of your account. It will include all contributions to your annuity account plus interest earned until the date of payment.
- Five Year Certain**  
With this form, monthly payments will be made for exactly 5 years, no more, no less. If you die before receiving payments for 5 full years, your beneficiary will receive payments until the 5 years are over.
- Ten Year Certain**  
With this form, monthly payments will be made for exactly 10 years, no more, no less. If you die before receiving payments for 10 full years, your beneficiary will receive payments until the 10 years are over.
- Fifteen Year Certain**  
With this form, monthly payments will be made for exactly 15 years, no more, no less. If you die before receiving payments for 15 full years, your beneficiary will receive payments until the 15 years are over.

- **Single Life Annuity**  
With this form you receive monthly payments for as long as you live. No payments are made after your death.
- **Life with 10 Years Certain**  
With this form, you receive monthly payments as long as you live. If you die before receiving payments for 10 full years, your beneficiary will receive payments until the 10 years are over.
- **Life with 15 Years Certain**  
With this form, you receive monthly payments as long as you live. If you die before receiving payments for 15 full years, your beneficiary will receive payments until the 15 years are over.
- **Joint and Survivor Annuity**  
With this form you receive monthly payments as long as you live. If you have elected a 50% Joint and Survivor Annuity, your survivor receives lifetime payments equal to 1/2 of the amount you were receiving. If you have elected a 100% Joint and Survivor Annuity, your survivor receives lifetime payments for the same amount you were receiving. Since the joint and survivor annuity involves payment for the longer of two lives, your monthly benefit will necessarily be less than under the other forms of payment. See page 71 regarding a restriction on this form of payment.

The Federal Retirement Equity Act of 1984 requires that a married participant select a Joint & Survivor payment unless the participant and his or her spouse waive this requirement. Please see the Plan Document for specific requirements. Questions regarding this requirement should be directed to the SBS staff or to your accountant or attorney for possible tax implications.

If you have selected one of the life annuities or a joint and survivor annuity, proof of your birthdate will be required. Proof of your spouse's birthdate will also be required if you select a joint and survivor annuity. Acceptable evidence of birthdate includes a birth certificate, baptismal record, military discharge or passport. In unusual circumstances, other evidence may be accepted.

### SAMPLE BENEFITS

Let's look at an example which estimates how much would be paid under the various forms available. These amounts are based on the 1986 annuity purchase rates, which are subject to change each year. In this case, the retiree and beneficiary are both 55 years old, with an annuity account balance of \$30,000.

Form of Payments	Retiree gets monthly	Beneficiary gets monthly
Five Year Certain	\$605.72 for 5 years	<ul style="list-style-type: none"> <li>• If 60 payments were made, the beneficiary gets \$0</li> <li>• If less than 60 payments were made, the beneficiary gets the balance of the payments.</li> </ul>
Ten Year Certain	\$367.09 for 10 years	<ul style="list-style-type: none"> <li>• If 120 payments were made, the beneficiary gets \$0</li> <li>• If less than 120 payments were made, the beneficiary gets the balance of the payments</li> </ul>
Fifteen Year Certain	\$292.29 for 15 years	<ul style="list-style-type: none"> <li>• If 180 payments were made, the beneficiary gets \$0</li> <li>• If less than 180 payments were made, the beneficiary gets the balance of the payments</li> </ul>
Single Life Annuity	\$257.51 for life	<ul style="list-style-type: none"> <li>• \$0 (0)</li> </ul>
Life with Ten Years Certain	\$251.03 for life	<ul style="list-style-type: none"> <li>• If 120 payments were made, the beneficiary gets \$0</li> <li>• If less than 120 payments were made, the beneficiary gets the balance of the payment.</li> </ul>
Life with Fifteen Years Certain	\$245.12 for life	<ul style="list-style-type: none"> <li>• If 180 payments were made, the beneficiary gets \$0.</li> <li>• If less than 180 payments were made, the beneficiary gets the balance of the payment</li> </ul>
50% Joint & Survivor	\$242.89 for life	<ul style="list-style-type: none"> <li>• \$121.44 for life</li> </ul>
100% Joint & Survivor	\$230.11 for life	<ul style="list-style-type: none"> <li>• \$230.11 for life</li> </ul>

**DEPARTMENT OF ADMINISTRATION**

**DIVISION OF RETIREMENT & BENEFITS**

PLEASE REPLY TO:

P.O. BOX CR  
JUNEAU, ALASKA 99811-0203  
PHONE: (907)465-4460

2600 DENALI ST. SUITE 401  
ANCHORAGE, ALASKA 99503-2740  
PHONE: (907) 277-7504

**STEVE COWPER, GOVERNOR**

February 10, 1988

The Honorable Fran Ulmer  
Chairman, House State Affairs  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Ulmer:

Re: House Bill 416

In accordance with AS 24.08.036, I am providing the analysis below on House Bill 416. The analysis includes the long-term and short-term impact to the state if the bill is adopted and the impact the bill will have on the actuarial soundness of the National Guard and Naval Militia Retirement System (NGNMRS) funds.

This bill would add two (2) additional benefit payment options for the members retiring under the Alaska Guard and Naval Militia Retirement System (NGNMRS). Currently, a retiring member receives \$100 per month for the same number of months of satisfactory service in the National Guard, the Air Guard, or the Naval Militia. If the retiree dies before receiving the entire benefit, the balance is paid in a lump sum to a surviving spouse or other beneficiary named by the retiree if there is no surviving spouse.

This amendment would provide a choice of one of three different payment plans to allow more flexibility for the retiring member:

- 1) a lump sum which is the actuarially equivalent of the total pension due the member;
- 2) a monthly benefit actuarially calculated so that the entire pension is paid to the member by his or 72nd birthday; or
- 3) \$100 per month for the same number of months served by the member (the current payment plan).

It may be more advantageous for an older retiring member to elect a lump sum or an actuarially calculated monthly benefit to ensure that the entire benefit is received during the member's life time. There would be no long range fiscal impact of this legislation on state government nor any impact

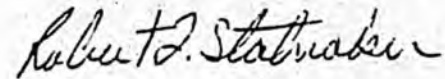
Representative Fran Ulmer

-2-

February 10, 1988

on the fund. There may be a "cash flow" problem if a sizeable number of the retirees elect to receive a lump sum benefit rather than monthly amounts.

Sincerely,



Robert F. Stalnaker  
Acting Director

RFS/DS/bb/7

HB

416-S

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO.416

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to Alaska National Guard and Alaska  
7 Naval Militia retirement benefits; and providing for  
8 an effective date."

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

10 \* Section 1. AS 26.05.224(b) is amended to read:

11 (b) The retirement pension is \$100 a month, payable for the same  
12 number of months that the member participated satisfactorily in the  
13 Alaska National Guard or Alaska Naval Militia. The member may instead  
14 elect to receive the retirement pension (1) in a lump sum that is  
15 actuarially determined to be equal to the value, at the time of re-  
16 irement, of the entire pension due, or (2) in a monthly amount that  
17 will result in payment by the member's 72nd birthday of an amount that  
18 is determined to be the actuarial equivalent of the entire pension due  
19 at the time of retirement.

20 \* Sec. 2. AS 26.05.224(c) is amended to read:

21 (c) An eligible member or former member may elect to receive the  
22 retirement pension beginning on the first day of the month in which  
23 the member or former member becomes eligible for retirement, or the  
24 member or former member may elect to defer payment to a later date.  
25 Payment of a deferred retirement benefit may not begin until applica-  
26 tion for the benefit is filed with and approved by the Department of  
27 Military and Veterans' Affairs. Deferred retirement payments must be  
28 made monthly at the rate of \$100, unless the member elects another  
29 form of payment under (b) of this section.

1 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 416  
PUBLISH DATE: HOUSE 1/29/88

FISCAL NOTE

REQUEST:

Revision Date: January 19, 1988  
Title: An Act relating to Alaska National Guard Retirement Benefits  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: Military & Veterans Affairs  
BRU: Alaska National Guard Benefits  
Components: Retirement Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This bill adds two payout options to the existing Alaska National Guard and Naval Militia retirement system. No fiscal impact will occur.

Prepared by: Jeff Morrison *Morrison* Phone: 465-4600  
Division: Administrative & Support Services, DMVA Date: 1/19/88

Approved by Commissioner: MG John W. Schaeffer *Schaeffer* Date: 1/19/88  
Agency: Department of Military & Veterans Affairs

Distribution (by preparer):

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

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 416  
PUBLISH DATE: HOUSE 1/29/88

## FISCAL NOTE

## REQUEST:

Revision Date: \_\_\_\_\_  
Title: AK Nat'l Guard Naval Militia  
Retirement Benefits

Agency Affected: Administration  
BRU: Retirement & Benefits

Sponsor: Rules

Components: Retirement and Benefits

Requestor: Governor

## EXPENDITURES/REVENUES: (Thousands of Dollars)

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

## FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

## POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

## ANALYSIS : (Attach a separate page if necessary)

See attached

Prepared by: Robert F. Stalnaker, Acting Director Phone: 465-4470  
Division: Retirement and Benefits Date: 1-18-88

Approved by Commissioner: John M. Andrews Date: 1/26/88  
Agency: Department of Administration

## Distribution (by preparer):

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

POSITION PAPER  
National Guard Bill

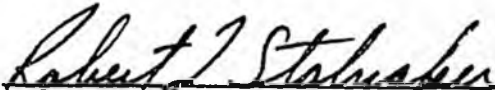
This bill would add two (2) additional benefit payment options for the members retiring under the Alaska Guard and Naval Militia Retirement System (NGNMRS). Currently, a retiring member has only one payment option for their retirement benefit. The member receives \$100 per month for the same number of months that the member participated satisfactorily in the Guard, Air Guard, or the Naval Militia. If the retiree dies before receiving the entire benefit, the balance is paid in a lump sum to a surviving spouse or other beneficiary named by the retiree if there is no surviving spouse.

This amendment would provide a choice of one of three different payment plans to allow more flexibility for the retiring member:

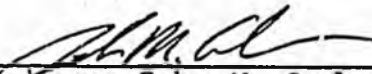
- 1) a lump sum pension which is the actuarially equivalent of the total pension due the member;
- 2) a monthly benefit actuarially calculated so that the entire pension is paid to the member by his or her 72nd birthday; or
- 3) \$100 per month for the same number of months served by the member (the current plan.)

It may be more advantageous for an older retiring member to elect a lump sum or an actuarially calculated monthly benefit to ensure that the entire benefit is received during the member's life time.

The department supports this bill.

  
\_\_\_\_\_  
Robert F. Stalnaker, Acting Director  
Division of Retirement & Benefits

1/26/88  
Date

  
\_\_\_\_\_  
Commissioner John M. Andrews  
Department of Administration

1/26/88  
Date

SENATE COMMITTEE REPORT

FURTHER

FINANCE  
4-11-88

3/29/88

DATE TURNED INTO OFFICE

Mr. President:

STATE AFFAIRS

Committee considered HB 416

Alaska National Guard and Alaska Naval Militia retirement benefits; efd

and recommended

[ ] replace with \_\_\_\_\_ CS \_\_\_\_\_ ) [ ] same title  
[ ] or adopt \_\_\_\_\_ CS \_\_\_\_\_ ) [ ] new title

[ ] attached amendment(s) and

*Morgan*  
[X] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to \_\_\_\_\_

[ ] letter of intent adopted \_\_\_\_\_

Committee [X] attached or [ ] adopted fiscal note(s)

[ ] new [ ] updated or [X] previous *NO*

[X] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

*Rich [unclear]*  
*W. [unclear]*  
*Joe Josephson*

\_\_\_\_\_

*Don [unclear]*  
Chairman signature and recommendation

[ ] Committee Backup attached

Senate S.A. Report

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 29, 1988

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

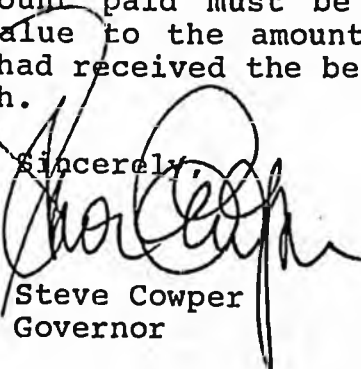
Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to Alaska National Guard and Alaska Naval Militia (NGNM) retirement benefits. The bill adds two forms of payment of NGNM retirement benefits that may be elected by members.

Under current law, an eligible member of the Alaska National Guard or Alaska Naval Militia is entitled to receive \$100 per month, payable for the same number of months that the member satisfactorily participated in the Guard or Militia. If the member dies before receiving the benefit for the entire number of months, the remaining amount due is paid to the member's beneficiary in a lump sum. The Department of Military and Veterans' Affairs reports that many Guard and Militia retirees do not live long enough to draw all of the benefits due them, and that current members desire an option to draw the entire amount of their benefits during their lifetimes.

The two new options for payment of NGNM retirement benefits added by this bill allow a member to elect to receive the benefit in a lump sum or in a monthly amount that results in payment of the entire benefit by the member's 72nd birthday. Under either option, the amount paid must be actuarially determined to be equal in value to the amount that would have been paid if the member had received the benefit at the regular rate of \$100 per month.

Sincerely,



Steve Cowper  
Governor

*Governor's Letter*